Year ended 31 March 2015

Xero Limited annual report 2015

Geoff Tippett and Ana Schwarz, Island Gelato // Xero customers

What did people do before @Xero? I actually can't fathom it.

TOM HARDING
@tgpHarding

Annual Report 2015

Performance highlights

NZ$123.9M

Total operating revenue, year ended 31 March 2015 // 77% growth. Total subscription revenue // 81% growth

NZ$268.9M

Cash and cash equivalents and short-term deposits at 31 March 2015

NZ$69.5M

Net loss after tax, year ended 31 March 2015

475,000

Paying customers at 31 March 2015

NZ$159.3M

Annualised committed monthly revenue at 31 March 2015

Chairman and Chief Executive's Report

Dear shareholder

It has been another year of positive momentum for Xero. The Company delivered strong revenue and customer growth in all markets during the 2015 financial year, while it invested significantly in building operational capability and capacity for global growth at scale. We recruited and onboarded 403 new Xeros, resulting in 1,161 staff in 20 offices globally at 31 March 2015.

The Company's global profile grew significantly. Forbes ranked Xero as Number 1 on its list of the World's Most Innovative Growth Companies for both 2014 and 2015, and in October 2014, BRW named us the most innovative company in Australia. The Company was also recently awarded the 2015 Hi-Tech Company of the Year at the New Zealand Hi-Tech Awards.

Highlights

Xero generated operating revenue of $123.9 million, up 77% on the previous year, and grew subscription revenue by 81% to $120.9 million. Xero is used in over 180 countries by more than 475,000 customers. Last year more than $300 billion in transactions was processed by businesses on Xero. We believe that these results make Xero one of the fastest-growing software as a service (SaaS) companies in the world.

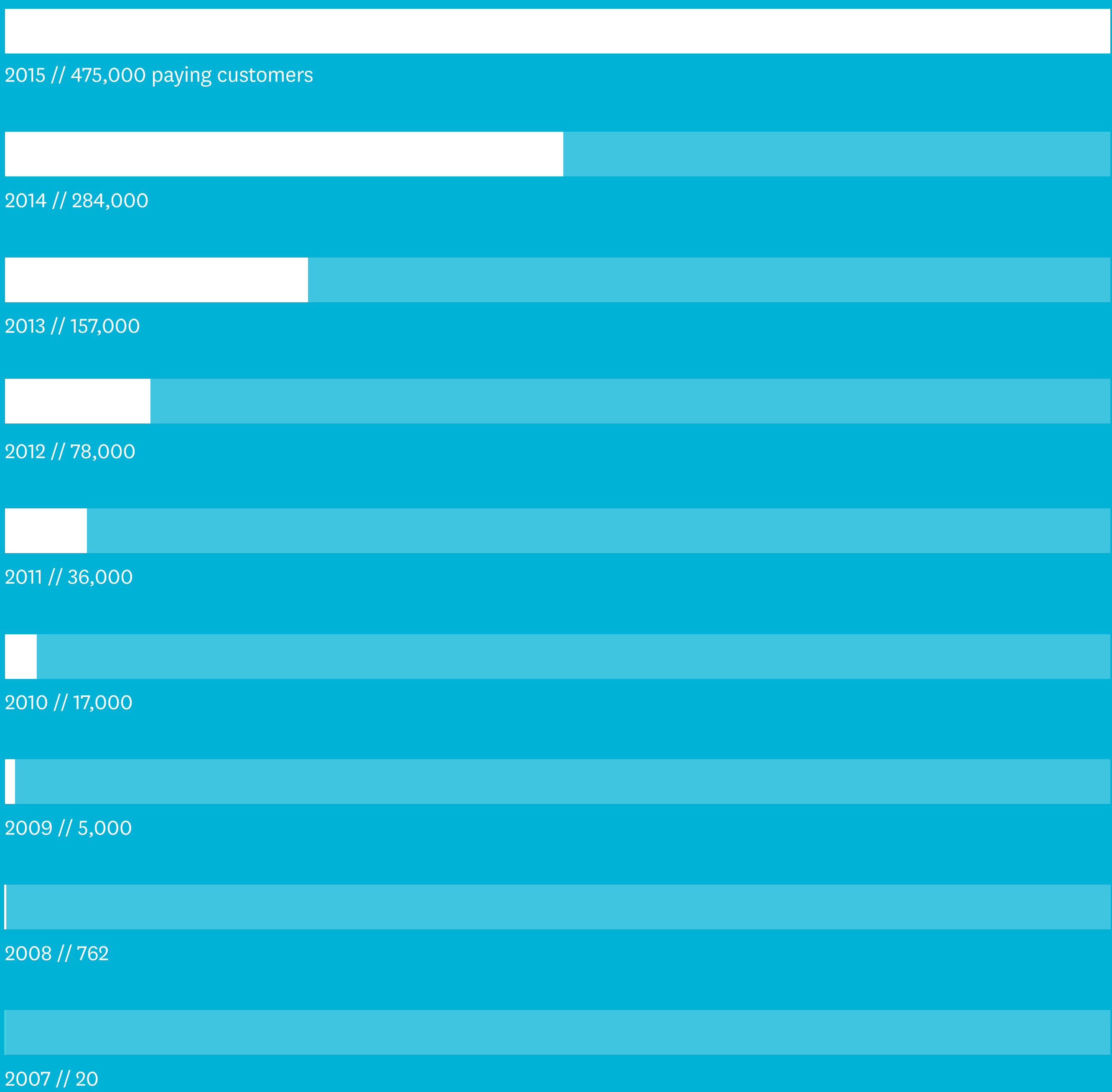
We'll soon mark another Xero milestone as we pass 500,000 customers, so we are well on our way to our vision of enabling millions of small businesses worldwide to thrive on beautiful software.

Xero is the leading accounting software provider in its initial market of New Zealand. We have demonstrated the ability to scale in this market by growing to more than 138,000 customers, which represents a significant proportion of all businesses in New Zealand. Large enterprises and Government are now connecting to the Xero platform. Xero is the leading online accounting software in the very competitive Australian and United Kingdom markets. Our newest geography, the United States, is now experiencing growth consistent with our expectations. In March 2015, Xero's global growth potential attracted significant funding from venture capital investors.

The Company made global executive and regional management appointments to execute its growth strategy, and a highly experienced SaaS finance and technology executive joined the Board. Xero expanded its strategic partnerships, including being selected as the strategic small business accounting platform by 'Big Four' and other large global accounting brands in countries outside Xero's primary regions.

Xero is the first comprehensive global cloud accounting solution to exceed the breadth of functions offered by traditional packaged small business desktop software. Xero has proven its calibre as a global player in its three initial markets, and independent product reviews and awards continue to place Xero strongly against all competitors. In the past year Xero has delivered more than 500 product updates at a rate of innovation that is difficult for current and future rivals to match.

Operating revenue growth of 77% in the 2015 financial year, with 475,000 paying customers around the world at 31 March 2015.



Investment and growth

Investing for growth

We are pursuing a growth agenda to become the long-term global leader in small business software and achieve our vision of millions of small businesses growing on Xero. To progress this goal, the Company has focused investment on its internal infrastructure, software, automation, and sales and marketing capabilities.

We invested to expand Xero's services to existing customers, delivering payroll services in our four major markets. This included the acquisition of Seattle-based online payroll company Monchilla to accelerate state filings in the U.S.

Xero's growth model is typical of most successful global SaaS companies. Significant early investment is required for customer acquisition and product development to receive valuable, long-term, future revenue from our customers. Xero has already demonstrated the potential of these returns through the continued rapid growth in recurring revenues and a positive margin contribution in our more mature New Zealand and Australian markets. Our investment in infrastructure and capability will allow us to grow and scale the business to support millions of customers globally, and create long-term shareholder value.

People

The Board welcomed San Francisco based technology finance executive, Graham Smith, as an independent non-executive Director. Graham, previously the CFO of Salesforce, adds further experience in scaling global SaaS businesses.

Xero strengthened its global leadership and U.S. management teams, and increased its product development and sales and marketing capabilities. As a fast-growing company with an increasing profile Xero continues to attract top talent throughout the business.

The global leadership team was boosted with the appointment of Andy Lark, Chief Marketing Officer, to drive global online, digital and marketing performance. Angus Norton joined as Chief Product Officer, to lead the distributed product design and development teams in Auckland, Wellington, Melbourne, Canberra, San Francisco, and New York.

Our new U.S. President, Russell Fujioka, brings a wealth of experience in the US technology sector, in particular in digital marketing and operational management of high-growth businesses, and is complemented by a world-class U.S. management team to scale operations and sales.

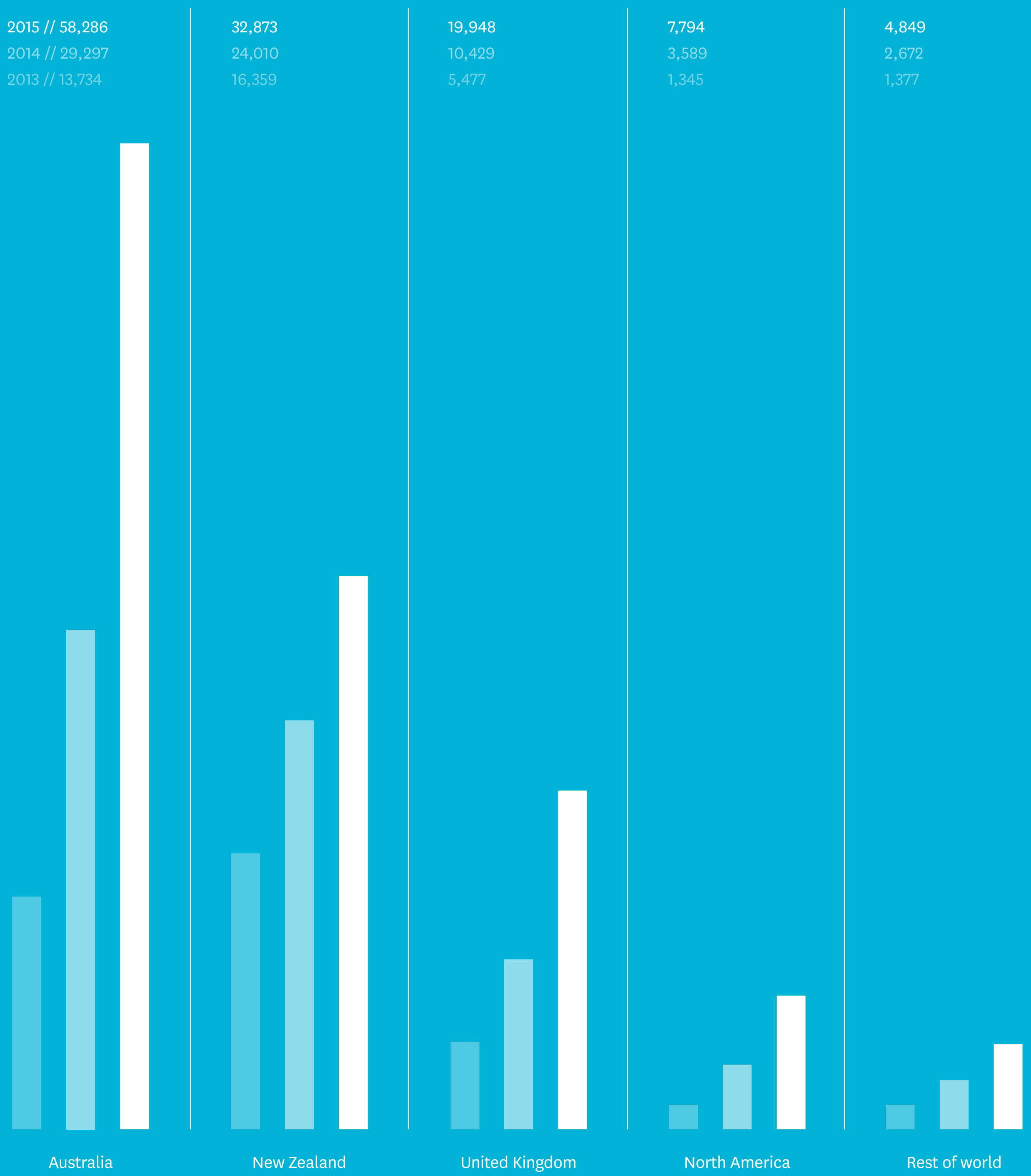
The global Xero team grew to 1,161, adding 403 employees to build critical mass around the globe. Xero anticipates a slower rate of employee growth in FY2016.

Winning global firms

Xero values local partners in all its markets and has more than 16,000 accounting and bookkeeping firms using Xero. Xero is working with global accounting practices in each of its current markets. We have seen an acceleration of winning global firm deals, including KPMG UK and KPMG NZ in 2014. In April 2015, KPMG Singapore also became a platinum partner, signalling potential growth in the Asia Pacific region. In May 2015, Xero announced a partnership with BDO in South Africa assisted by the work done with BDO across Australia and New Zealand.

This is a clear signal of the globalisation of accounting and the superiority of the Xero offering compared with desktop based incumbents.

Regional operating revenue (NZ$000s)



Strategic alliances

Xero continues to enter strategic alliances with financial institutions that serve small businesses, accountants and bookkeepers. These relationships streamline the flow of data, enhancing productivity and lowering costs to business owners.

In New Zealand, the Xero Business Connect programme has many of the largest enterprises, connecting their customer systems to Xero to streamline transactions from transferring invoices to insurance assessments, and allowing them to build stronger digital relationships with their customers through Xero. Small business accounting is becoming the platform for Electronic Data Interchange at scale.

One of Xero's key competitive advantages is the vast ecosystem of third-party solutions that seamlessly integrate with the Xero platform, allowing small businesses to adopt an integrated business solution tailored for their industries. Xero continues to work closely with an ecosystem of partners such as Square, Vend, ReceiptBank and ZenPayroll; there are now more than 400 ecosystem applications, up from 300 at 31 March 2014. Over 20% of our Business Edition customers use these add-on applications, and in our premium products the attach rate is 40%.

Product development and customer support

Xero's availability is best in class, with an uptime of 99.99%. Xero continues to deliver features at a cadence unmatched by other accounting software companies and is the first global cloud accounting platform experience widely loved by small businesses. This year Xero delivered more than 500 product updates and enhancements to benefit small businesses, accountants, and bookkeepers, and also improved small business productivity and cash flow management through the delivery of payroll, inventory, invoicing and quotes. Accountants and bookkeepers gained new tools, such as sophisticated Practice-wide Reports and Tax in Australia.

Xero's beautiful interface and features, coupled with mobility on all devices, place Xero ahead of legacy accounting software solutions. Product development teams are now able to focus on delivering breakaway functionality that will put Xero at the centre of the emerging financial web for small businesses.

The Company believes small business, financial advisory, and ecosystem partners are at the centre of our continued success. Our point of difference is actively engaging with and listening to feedback from our customers, and supporting them through our innovative award-winning service and support model. This enables Xero to provide beautiful, innovative solutions that Xero customers need and love.

Capital raised

In March Xero's global growth potential attracted a further $147.2 million in funding from venture capital investor Accel Partners, and existing shareholder Matrix Capital Management. Xero is well positioned to accelerate growth and deliver at scale in the U.S., and is working hard to address the vast market unserved by any solution, as well as those dissatisfied with legacy software.

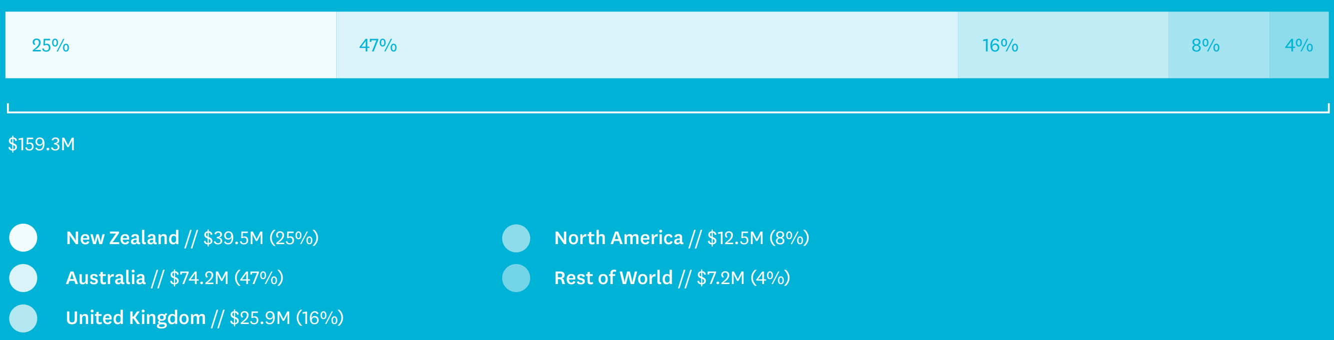
Subscription and operating revenue

In line with expectations, the Company increased its subscription revenue for the year to 31 March 2015 from $66.9 million to $120.9 million, equating to 81% growth, and constant currency subscription revenue of $122.5 million, up 83%. Operating revenue increased 77% from $70.1 million to $123.9 million. Paying customers reached 475,000 at 31 March 2015, up 67% from 31 March 2014. The Company's full-year loss grew to $69.5 million; largely as a result of increased investment to acquire customers and build capability upfront for future growth, which is typical of global SaaS companies in Xero's stage of growth.

With a recurring revenue model, the Company begins FY2016 strongly with $159.3 million in annualised committed monthly revenue, up from $93.0 million at 31 March 2014.

Xero's revenue is increasingly geographically diverse. At the end of March 2015, committed monthly revenue by region was New Zealand – 25%, Australia – 47%, UK – 16%, North America – 8% and the Rest of the World – 4%.

Annualised Committed Monthly Revenue



Closing comments

Xero's shareholders can have confidence in the progress of the business, the growing capability of its people, and consistency in positive revenue and customer growth. Xero expects to continue to grow strongly for many more years. The Company is focused on delivering best-in-class SaaS metrics and with a talented team in place is investing strongly in automation across the business, which we believe will deliver a high-margin business model in the future.

Growth strategy

Industry analysts acknowledge that adoption to the cloud is accelerating and that the global small business segment remains underserved. The U.S. remains a significant and addressable opportunity, with the majority of small businesses unserved by cloud accounting software. Xero is well positioned to meet this need through its complete small business accounting solution, purpose-built for cloud and mobile devices.

Xero's strategic priorities are to:

- continue high growth in our primary regions through increased online engagement and an expansion of channels
- outpace the market through product innovation, continuous improvement, and a strong customer service model
- continue to evolve our technology platform, extending our core accounting offering to meet the full needs of small businesses and place Xero at the centre of the collaborative financial web
- grow our ecosystem of partners and alliances with global brands to create new value for both Xero and its customers.

We're pleased to be making substantial progress towards our vision and beyond. Xero had $268.9 million cash at 31 March 2015 to support its growth strategy.

Our platform provides the core accounting features to fully support small businesses; we are ready to widen the gap between Xero's cloud platform and incumbents' cloud software solutions through a new wave of experiences to help small businesses succeed and grow. The platform's powerful data collection and connections between businesses, financial advisors and financial institutions also present a significant future opportunity to expand from a small business platform to broader financial web services.

As we create one job at Xero, we hope to create thousands of jobs across the small business economy by enabling those small businesses to thrive through beautiful software, advice and connections.

Acknowledgements

Xero has built an industry-leading platform and a strong foundation from which to realise its growth potential at scale. At this very exciting time in Xero's growth phase, the support and direction of the Board during the past year are acknowledged.

The Board is very pleased with progress of the Company to date, and has confidence in the growth opportunities that lie ahead.

On behalf of the Board and the Global Leadership Team, we wish to express our sincere thanks to our customers and partners for their inspiration, to all our dedicated Xeros, and to you, our shareholders, for your continued support.

Chris Liddell
Chairman

Rod Drury
Chief Executive

Management Commentary

You should read the following commentary with the consolidated financial statements and the related notes in this report. Some of the information contained in this commentary includes information with respect to the plans and strategy for the business, and includes 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 the following commentary. All numbers are presented in New Zealand dollars, except where indicated.

COMPONENTS OF RESULTS

Subscription and Other Operating Revenue

Xero's main revenue source is recurring monthly fees from customers who subscribe to its online accounting software services. Within a subscription, customers also receive support services, data backup and recovery, and system upgrades.

The quantum of subscription revenue is driven by the number of customers and the services subscribed which determine the monthly amount payable by the customer. A range of online accounting software services can be accessed through the partner channel (accountants, bookkeepers and similar) or directly from the online channel, with pricing dependent on the functionality required.

Operating revenue also includes other operating revenue from related services such as education and the implementation of online accounting software services, along with conference income. However, subscription revenue comprises around 98% of operating revenue.

Overhead Allocation

The costs associated with Xero's facilities, internal information technology and non-product-related depreciation and amortisation are allocated to the cost of revenues, sales and marketing, product design and development, and general and administration based on headcount. Recruitment costs are allocated based on the number of employees hired during the year.

Cost of Revenues

Cost of revenues consists of expenses directly associated with securely hosting Xero's services, sourcing relevant customer data from banks and providing support to customers. The costs include hosting and content distribution costs, bank feed costs, personnel and related expenses (including salaries, benefits, bonuses and share-based compensation) directly associated with cloud infrastructure and customer support, contracted third-party-vendor costs, related depreciation and amortisation, and allocated overheads.

Sales and Marketing

Sales and marketing expenses consist of personnel and related expenses (including salaries, benefits, bonuses, commissions and share-based compensation) directly associated with sales and marketing teams, the cost of educating and onboarding both partners and small business customers, and costs in the implementation of our subscription services. Other costs included are external advertising, marketing costs and promotional events, including Xerocon conferences and roadshows, as well as allocated overheads.

Product Design and Development

Product design and development expenses consist primarily of personnel and related expenses (including salaries, benefits, bonuses and share-based compensation) directly associated with our product design and development employees, as well as allocated overheads.

Under New Zealand equivalents to International Financial Reporting Standards, the proportion of product design and development expenses that creates a benefit in future years 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 is included as a product design and development expense.

General and Administration

General and administration expenses consist of personnel and related expenses (including salaries, benefits, bonuses and share-based compensation) for our executive, finance, billing, legal, human resources and administrative employees. It also includes legal, accounting and other professional services fees, insurance premiums, other corporate expenses and allocated overheads.

HEADCOUNT

Headcount at 31 March 2015 and 2014 is summarised as follows:

At 31 March	2015	% of total headcount	2014	% of total headcount	% change
Cost of revenues	204	18%	182	24%	12%
Sales and marketing	321	28%	222	29%	45%
Product design and development	463	40%	236	31%	96%
General and administration	83	7%	59	8%	41%
Overhead	90	7%	59	8%	53%
Total	**1,161**	**100%**	**758**	**100%**	**53%**

In the year to 31 March 2015 the headcount increased by 403, or 53%, taking the total headcount to 1,161. The largest increase was in product design and development, which grew by 96% to 463, representing 40% of total headcount.

BUSINESS RESULTS

The consolidated performance of Xero Limited for the year ended 31 March 2015 and 2014 is summarised as follows:

Year ended 31 March	2015 ($000s)	2014 ($000s)	% change
Subscription revenue	120,928	66,853	81%
Other operating revenue	2,922	3,238	-10%
Total operating revenue	**123,850**	**70,091**	**77%**
Other income	3,369	1,383	144%
Total revenue and other income	**127,219**	**71,474**	**78%**
Cost of revenues	37,403	24,516	53%
Gross profit	**89,816**	**46,958**	**91%**
Percentage of operating revenue	*73%*	*67%*	
Total operating expenses	**166,985**	**85,230**	**96%**
Percentage of operating revenue	*135%*	*122%*	
Operating deficit	**(77,169)**	**(38,272)**	**102%**
Percentage of operating revenue	*-62%*	*-55%*	
Net loss after tax	**(69,534)**	**(35,546)**	**96%**
Percentage of operating revenue	*-56%*	*-51%*	

The strong growth in operating revenue has been driven by customer growth in all markets. The total operating expenses and the net loss after tax have increased as Xero has continued to invest in scaling its global business and delivering significant revenue growth.

The net cash outflow from operating and investing activities for the year was $88.4 million. In a SaaS business like Xero a significant portion of the cash outflow during a year will drive revenue in future years. In particular, the sales and marketing costs of $93.5 million will deliver subscription revenue over the life of each customer, which is currently around seven years.

OPERATING REVENUE

Year ended 31 March	2015 ($000s)	2014 ($000s)	% change
Subscription revenue	120,928	66,853	81%
Other operating revenue	2,922	3,238	-10%
Total operating revenue	**123,850**	**70,091**	**77%**

The 81% increase in subscription revenue during the year was primarily driven by the increase in customers from 284,000 to 475,000 at 31 March 2015, an increase of 67%.

The increase in the average revenue per user (ARPU) was a lesser factor in subscription revenue growth. Despite a strengthened New Zealand dollar compared with the previous year, ARPU increased due to strength in the online channel (which has a higher ARPU than the partner channel) and the full-year impact of price changes effective partway through the prior year.

Other operating revenue decreased by 10% due to reduced conference revenue (a Xerocon event was not held in New Zealand during the financial year) and a deliberate shift from offering paid training courses to providing online content via 'Xero U' and 'Xero TV'. This approach provides broader access to training while also increasing efficiency in the education function.

With a market share of 10% or less in the major markets outside New Zealand, Xero expects strong revenue growth to continue for the foreseeable future.

OPERATING REVENUE – CONSTANT CURRENCY

As more than 70% of Xero's operating revenue is denominated in foreign currencies, the relatively strong New Zealand dollar during the year adversely affected reported revenue. On a constant currency basis, Xero grew operating revenue by 79% and subscription revenue by 83% during the year.

Year ended 31 March	2015 ($000s)	2014 ($000s)	% change
Subscription revenue – constant currency	122,461	66,853	83%
Operating revenue – constant currency	125,453	70,091	79%

This analysis is a non-GAAP financial measure, which has been provided to assist in understanding and assessing Xero's financial performance during the year, excluding the impact of foreign currency fluctuations. The constant dollar revenue translates revenue for the year ended 31 March 2015 at the effective exchange rates used for the year ended 31 March 2014.

CUSTOMER NUMBERS

At 31 March	2015	2014	% change
Australia	203,000	109,000	86%
New Zealand	138,000	102,000	35%
United Kingdom	83,000	47,000	77%
North America	35,000	18,000	94%
Rest of World	16,000	8,000	100%
Total paying customers	**475,000**	**284,000**	**67%**

The total customers at 31 March 2015 has grown by 191,000 or 67% to 475,000 with nearly 50% of the growth in Australia. This strong performance was complemented by 77% growth in the UK and 35% growth in New Zealand. North America grew by 94%, with 13,000 customers or 72% of the year's growth added in the second six months of the financial year.

PARTNER NUMBERS

At 31 March	2015	2014	% change
Australia	7,400	5,300	40%
New Zealand	3,000	2,700	11%
United Kingdom	3,000	1,800	67%
North America	2,100	1,500	40%
Rest of World	500	300	67%
Total partners	**16,000**	**11,600**	**38%**

Accounting and bookkeeping firms with customers using Xero at 31 March 2015 grew by 4,400 or 38% to 16,000. Similar to customer numbers, a large proportion of the growth is from Australia with good growth also achieved in the other markets. The focus has shifted during the year from new partner acquisition to revenue growth from existing partners.

ANNUALISED COMMITTED MONTHLY REVENUE AND ARPU

Annualised committed monthly revenue (ACMR) represents monthly recurring revenue at 31 March, multiplied by 12. Accordingly, it provides a 12 month forward view of revenue, assuming that any promotions have ended and other factors such as customers, pricing and foreign exchange remain unchanged during the year.

At 31 March	2015 ACMR ($000s)	2015 ARPU actual* ($)	2015 ARPU constant FX** ($)	2014 ACMR ($000s)	2014 ARPU actual* ($)	ACMR % change
Australia	74,244	30.5	32.0	40,600	31.0	83%
New Zealand	39,510	23.9	23.9	28,600	23.4	38%
United Kingdom	25,924	26.0	25.3	14,200	25.2	83%
North America	12,463	29.7	25.7	6,200	28.7	101%
Rest of World	7,197	37.5	32.5	3,400	35.4	112%
Total	**159,338**	**28.0**	**28.0**	**93,000**	**27.3**	**71%**

** ARPU based on annualised committed monthly revenue and closing customers.*
***ARPU applying foreign exchange rates applicable in the calculation of ARPU at 31 March 2014 has been provided to assist comparability.*

The strong growth in ACMR across all regions is, as previously outlined, largely driven by customer growth with a higher ARPU having a positive effect. The following is noted when comparing 'ARPU constant FX' at 31 March 2015 with ARPU at 31 March 2014:

- ARPU for Australia has increased due to a strong performance in the online channel (which has a higher ARPU than the partner channel).
- ARPU for New Zealand has increased slightly due to some shift to higher ARPU products.
- ARPU for the UK has remained relatively flat during the year with no material changes in the product mix.
- ARPU for North America has decreased due to lower ARPU products forming a greater proportion of total subscriptions.
- ARPU for Rest of World has decreased due to lower ARPU products forming a greater proportion of total subscriptions (e.g. KPMG Singapore added lower ARPU subscriptions).

The overriding factors affecting ARPU are the channel and product mix and stage of market, with prices generally lower in early-stage markets. As Xero's product offering broadens, delivering greater value, it is expected that ARPU will increase, particularly in markets where Xero is more established.

COST OF REVENUES

Year ended 31 March	2015 ($000s)	2014 ($000s)	% change
Cost of revenues	37,403	24,516	53%
Percentage of operating revenue	30%	35%	-5%

At 31 March	2015	2014	% change
Headcount	204	182	12%

Cost of revenues has increased by $12.9 million or 53% to $37.4 million for the year ended 31 March 2015. This increase is driven by customer growth which generates additional hosting costs, headcount requirements and bank feed costs. Incremental hosting costs of $3.3 million were also incurred during the year upon implementing a significantly enhanced data-protection system.

When measured as a percentage of operating revenue, the cost of revenues has decreased compared with the previous year despite the incremental data-protection costs. Of note, headcount growth has slowed, partly due to efficiencies derived from the previous investment in this area and a reduction in bank feed costs per customer.

A number of work programmes have been initiated to drive efficiencies in this area, while continuing to increase service robustness and performance. It is expected that the cost of revenues will continue to reduce as a percentage of operating revenue, thereby increasing the gross margin.

The aspirational target for the gross margin is 80% or greater.

SALES AND MARKETING

Year ended 31 March	2015 ($000s)	2014 ($000s)	% change
Sales and marketing	93,478	55,105	70%
Percentage of operating revenue	75%	79%	-4%

At 31 March	2015	2014	% change
Headcount	321	222	45%

Sales and marketing costs increased by $38.4 million or 70% to $93.5 million for the year ended 31 March 2015. The increase is partly related to employee costs increasing by $17.5 million from the previous year due to increased headcount. The remaining increase was due to incremental marketing activity in all segments compared with the previous year, particularly in North America, Australia and the UK.

Sales and marketing costs will increase in absolute terms as Xero continues its growth agenda. However, these costs are expected to decrease as a percentage of operating revenue in future years.

PRODUCT DESIGN AND DEVELOPMENT

Year ended 31 March	2015 ($000s)	2014 ($000s)	% change
Total Product design and development costs (including capitalised development costs)	67,469	34,089	98%
Percentage of operating revenue	54%	49%	5%
Less capitalised development costs	(30,256)	(20,899)	45%
Product design and development expense excluding amortisation of capitalised development costs	37,213	13,190	182%
Add amortisation of capitalised development costs	11,746	5,219	125%
Product design and development expense	**48,959**	**18,409**	**166%**
Percentage of operating revenue	40%	26%	14%

At 31 March	2015	2014	% change
Headcount	463	236	96%

The total product design and development expenses were $67.5 million for the year ended 31 March 2015, $33.4 million higher than the previous year. Of this, $30.3 million was capitalised, with the balance of $37.2 million included as an expense in the Income Statement. The amortisation of product design and development expenditure capitalised in prior years of $11.7 million was also included as an expense in the Income Statement, giving a total expense for the year of $49.0 million.

The increase in total costs was driven by a 96% growth in the product design and development headcount, increasing personnel expenditure by $25.5 million to $48.1 million and resulting in an increase in allocated overheads. This reflects the continued commitment to product innovation. A decrease in the capitalisation rate for product costs also resulted in an increase in the Income Statement expense thereby, contributing to the increase as a percentage of operating revenue.

Product design and development costs will increase in absolute dollar terms as Xero continues to deliver innovation. However, they are expected to reduce as a percentage of operating revenue.

GENERAL AND ADMINISTRATION

Year ended 31 March	2015 ($000s)	2014 ($000s)	% change
General and administration	24,548	11,716	110%
Percentage of operating revenue	20%	17%	3%

At 31 March	2015	2014	% change
Headcount	83	59	41%

General and administration costs were $24.5 million for the year ended 31 March 2015, $12.8 million higher than in the previous year. This was partly due to an increase in personnel-related expenses of $6.8 million which included a $3.4 million increase in share-based compensation. Other general costs also increased which reflects the significant investment required to drive automation projects through the business and to prepare Xero for a US listing when deemed appropriate.

General and administration costs will increase in absolute dollar terms, but are expected to decline as a percentage of operating revenue as efficiencies are achieved from scale and upgrades to systems become effective.

OTHER INCOME AND INTEREST INCOME

Year ended 31 March	2015 ($000s)	2014 ($000s)	% change
Government grants	2,946	1,257	134%
Rental income	423	126	236%
Total other income	**3,369**	**1,383**	**144%**
Interest income	**7,713**	**5,062**	**52%**

Government grants are from Callaghan Innovation relating to Xero's research and development investment. Grant income for the year ended 31 March 2015 was $2.9 million, which was 134% higher than in the previous year due to an increase in qualifying costs incurred during the year.

Interest income for the year ended 31 March 2015 was $7.7 million, an increase of $2.7 million or 52% on the previous year due to higher cash and short-term deposit balances during the year than in the prior year.

SEGMENT INFORMATION

Year ended 31 March 2015	Australia ($000s)	New Zealand ($000s)	United Kingdom ($000s)	North America ($000s)	Rest of World ($000s)	Corporate ($000s)	Total ($000s)
Total revenue, other income and interest income	58,286	32,873	19,948	8,217	4,849	10,759	134,932
Cost of revenues	(17,954)	(10,374)	(5,581)	(2,343)	(1,151)	–	(37,403)
Sales and marketing	(31,232)	(9,167)	(20,474)	(31,487)	(1,118)	–	(93,478)
Other expenses	–	–	–	–	–	(73,507)	(73,507)
Interest expense	–	–	–	–	–	(25)	(25)
Foreign exchange gains	–	–	–	–	–	2,025	2,025
Segment contribution	**9,100**	**13,332**	**(6,107)**	**(25,613)**	**2,580**	**(60,748)**	**(67,456)**
Year ended 31 March 2014							
Total revenue, other income and interest income	29,298	24,010	10,429	3,714	2,672	6,413	76,536
Cost of revenues	(10,183)	(8,540)	(3,613)	(1,206)	(974)	–	(24,516)
Sales and marketing	(21,080)	(5,443)	(7,418)	(20,383)	(781)	–	(55,105)
Other expenses	–	–	–	–	–	(30,125)	(30,125)
Foreign exchange losses	–	–	–	–	–	(690)	(690)
Segment contribution	**(1,965)**	**10,027**	**(602)**	**(17,875)**	**917**	**(24,402)**	**(33,900)**

Subscription and other revenue is allocated to each region based on where paying customers reside. The cost of revenues and sales and marketing costs include direct in-country costs along with an allocation of centrally managed costs and overheads.

Revenue for Corporate comprises interest and grant income. All costs related to product design and development and general and administration costs are recognised in Corporate.

KEY SaaS METRICS

The table below outlines key metrics across the five markets Xero operates.

	Australia	New Zealand	United Kingdom	North America	Rest of World	Total
31 March 2015						
ARPU ($)	30.5	23.9	26.0	29.7	37.5	28.0
CAC months	8.7	7.8	16.7	42.5	2.9	13.5
Customer churn (monthly)	1.1%	0.9%	1.3%	3.1%	2.1%	1.2%
Lifetime value ($)	2,008	1,818	1,418	662	1,387	1,622
Lifetime value/CAC	7.6	9.8	3.3	0.5	12.6	4.3
31 March 2014						
ARPU ($)	31.0	23.4	25.2	28.7	35.4	27.3
CAC months	9.1	5.3	9.6	42.3	3.1	11.8
Customer churn (monthly)	1.5%	1.2%	1.4%	5.0%	2.2%	1.6%
Lifetime value ($)	1,322	1,299	1,158	384	1,040	1,133
Lifetime value/CAC	4.7	10.6	4.8	0.3	9.4	3.5

ARPU is, as previously outlined, calculated as annualised committed monthly revenue at 31 March divided by customers at that time (and divided by 12 to get a monthly view).

CAC months represent the number of months of revenue required to recover the cost of acquiring each new customer. The calculation is sales and marketing costs for the twelve month period to 31 March less conference revenue (such as Xerocon) divided by new customers added during the same period, divided by monthly ARPU.

Customer churn is the number of customers who leave Xero in a month as a percentage of the total customers at the start of that month. The percentage provided is the average of the monthly churn for the twelve months to 31 March for each year.

Lifetime value is the gross margin expected from a customer over the lifetime of that customer. This is calculated by taking the average customer lifetime (1 divided by customer churn) multiplied by ARPU multiplied by the gross margin percentage.

Lifetime value/CAC is the ratio between the LTV (described above) and the cost to acquire that customer, e.g. the gross margin derived from a customer in New Zealand is currently on average 9.8 times the cost of acquiring that customer. This is an additional measure of sales and marketing efficiency, with industry commentators suggesting that a ratio of over 3 is satisfactory.

SEGMENT COMMENTARY

Australia – Customer growth of 86% was the key driver for the 99% increase in total revenue (or 104% for subscription revenue). This is against a 48% increase in sales and marketing costs which totalled $31.2 million for the year. The improved contribution along with the reduction in CAC months reflects increasing efficiency in the "go to market" model.

Improved churn is a key driver in the higher LTV which, along with the reduction in CAC months, has led to a stronger LTV/CAC ratio. The economics in this market make it compelling to continue to invest and increase our leadership position.

New Zealand – Reflects an improved contribution in absolute terms although it reduced slightly as a percentage of total revenue. This is largely due to sales and marketing costs increasing by 68% as activity was undertaken to further develop future revenue streams via connections to enterprise and Government.

Although reduced churn has led to a higher LTV, the higher cost of customer acquisition resulted in a lower LTV/CAC ratio. While the trends in the metrics were not all positive, the economics remain positive and justify continued investment in this market.

United Kingdom – The increased investment in sales and marketing activities reflects the focus on further accelerating subscription revenue growth as Xero takes advantage of its online accounting leadership position in this market. This investment not only supported the significant revenue growth during the current year but it will continue to drive improved contributions in future years.

Although reduced churn has led to a higher LTV, the higher cost of customer acquisition resulted in a lower LTV/CAC ratio.

North America – Key leadership changes were made in the region which saw a much improved performance during the second half of the financial year. The high level of investment reflects the very early stage of Xero's entry into the market.

Metrics such as CAC months are not considered as relevant in the North American market as Xero continues to apply appropriate resources to build the platform toward future growth. The comparatively high churn rate in North America is not unexpected given the stage of the market and is trending in line with other markets at the same stage of growth.

Rest of World – A strong contribution based on 81% revenue growth and the relatively low investment required.

Independent Auditors' Report to the Shareholders of Xero Limited

REPORT ON THE FINANCIAL STATEMENTS

We have audited the Group financial statements of Xero Limited ("the Company") on pages 19 to 43, which comprise the statement of financial position as at 31 March 2015, the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for the Group. The Group comprises the Company and the entities it controlled at 31 March 2015 or from time to time during the financial year.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

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

We are independent of the Group. Our firm carries out other services for the Group in the areas of other assurance services, tax advisory services pertaining to the Group's share schemes, services relating to global mobility, and other services in respect of IT change management and disaster recovery advice. These services have not impaired our independence.

OPINION

In our opinion, the financial statements on pages 19 to 43 present fairly, in all material respects, the financial position of the Group as at 31 March 2015, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

RESTRICTION ON USE OF OUR REPORT

This report is made solely to the Company's shareholders, as a body, in accordance with the Companies Act 1993. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants
Wellington, New Zealand
21 May 2015

pwc

Financial Statements

Income statement

	Notes	Year ended 31 March 2015 ($000s)	2014 ($000s)
Subscription revenue	4	120,928	66,853
Other operating revenue	4	2,922	3,238
Total operating revenue		**123,850**	**70,091**
Other income	4	3,369	1,383
Total revenue and other income		**127,219**	**71,474**
Cost of revenues	5	37,403	24,516
Gross profit		**89,816**	**46,958**
Operating expenses			
Sales and marketing		93,478	55,105
Product design and development		48,959	18,409
General and administration		24,548	11,716
Total operating expenses	5	**166,985**	**85,230**
Operating deficit		**(77,169)**	**(38,272)**
Interest income	4	7,713	5,062
Interest expense	14	(25)	–
Foreign exchange gains/(losses)		2,025	(690)
Net loss before tax		**(67,456)**	**(33,900)**
Income tax expense	6	(2,078)	(808)
Net loss from continuing operations		**(69,534)**	**(34,708)**
Net loss from discontinued operations	7	–	(838)
Net loss after tax attributable to shareholders of the Company		**(69,534)**	**(35,546)**
Earnings per share			
Basic and diluted loss per share	8	($0.55)	($0.29)

Statement of comprehensive income

	Note	Year ended 31 March 2015 ($000s)	2014 ($000s)
Net loss after tax		(69,534)	(35,546)
Other comprehensive income*			
Movement in cash flow hedges (net of tax)	19	2,175	–
Exchange difference on translation of international subsidiaries		(646)	(40)
Total other comprehensive income/(loss) for the year, net of tax		**1,529**	**(40)**
Total comprehensive loss attributable to the shareholders of the Company		**(68,005)**	**(35,586)**

**Items in other comprehensive income may be reclassified to the Income Statement.*

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

Statement of changes in equity

	Notes	Share capital ($000s)	Treasury stock ($000s)	Share based payment reserve ($000s)	Accumulated losses ($000s)	Foreign currency translation reserve ($000s)	Cash flow hedge reserve ($000s)	Total equity ($000s)
Balance at 1 April 2014		**341,436**	**(5,128)**	**4,682**	**(85,940)**	**(112)**	**–**	**254,938**
Net loss after tax		–	–	–	(69,534)	–	–	(69,534)
Other comprehensive income		–	–	–	–	(646)	2,175	1,529
Total comprehensive loss		**–**	**–**	**–**	**(69,534)**	**(646)**	**2,175**	**(68,005)**
Transactions with owners:								
Issue of shares (net of issue costs)	15	144,275	–	–	–	–	–	144,275
Issue of shares – share schemes	22	13,033	(13,033)	–	–	–	–	–
Accrual – share schemes	22	–	–	11,158	–	–	–	11,158
Vesting – share schemes	22	1,804	5,825	(7,246)	–	–	–	383
Issue of shares – Directors' fees	15	35	–	–	–	–	–	35
Issue of shares – purchase of Monchilla, Inc.	20	3,987	(1,993)	–	–	–	–	1,994
Accrual for equity portion of purchase of Monchilla, Inc.	20	–	–	421	–	–	–	421
Accrual for equity portion of purchase of Max Solutions Holdings Limited	15	–	–	382	–	–	–	382
Vesting of shares – purchase of Max Solutions Holdings Limited	15	–	1,333	(1,333)	–	–	–	–
Accrual for equity portion of purchase of Paycycle assets	15	–	–	72	–	–	–	72
Vesting of shares – purchase of Paycycle assets	15	–	431	(431)	–	–	–	–
Balance at 31 March 2015		**504,570**	**(12,565)**	**7,705**	**(155,474)**	**(758)**	**2,175**	**345,653**
Balance at 1 April 2013		**155,551**	**(5,529)**	**3,096**	**(50,394)**	**(72)**	**–**	**102,652**
Net loss after tax		–	–	–	(35,546)	–	–	(35,546)
Other comprehensive loss		–	–	–	–	(40)	–	(40)
Total comprehensive loss		**–**	**–**	**–**	**(35,546)**	**(40)**	**–**	**(35,586)**
Transactions with owners:								
Issue of shares (net of issue costs)	15	179,562	–	–	–	–	–	179,562
Issue of shares – key management personnel	17	1,550	–	–	–	–	–	1,550
Issue of shares – share schemes	22	3,792	(3,792)	–	–	–	–	–
Accrual – share schemes	22	–	–	4,689	–	–	–	4,689
Vesting – share schemes	22	611	2,429	(2,548)	–	–	–	492
Accrual for equity portion of purchase of Max Solutions Holdings Limited	15	–	–	1,000	–	–	–	1,000
Vesting of shares – purchase of Max Solutions Holdings Limited	15	–	1,333	(1,333)	–	–	–	–
Accrual for equity portion of purchase of Paycycle assets	15	–	–	209	–	–	–	209
Vesting of shares – purchase of Paycycle assets	15	–	431	(431)	–	–	–	–
Issue of shares – software development	15	370	–	–	–	–	–	370
Balance at 31 March 2014		**341,436**	**(5,128)**	**4,682**	**(85,940)**	**(112)**	**–**	**254,938**

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

Statement of financial position

	Notes	At 31 March 2015 ($000s)	2014 ($000s)
Assets			
Current assets			
Cash and cash equivalents	9	58,866	14,886
Short-term deposits	9	210,000	195,000
Trade and other receivables	10	21,499	14,374
Short-term derivative assets	19	3,151	–
Total current assets		**293,516**	**224,260**
Non-current assets			
Property, plant and equipment	11	16,631	9,856
Intangible assets	12	65,112	34,828
Deferred tax asset	6	1,427	486
Other receivables	10	1,712	2,371
Total non-current assets		**84,882**	**47,541**
Total assets		**378,398**	**271,801**
Liabilities			
Current liabilities			
Trade and other payables	13	14,050	7,048
Employee entitlements		14,040	9,026
Income tax payable	6	2,218	732
Short-term provisions	14	26	–
Short-term derivative liabilities	19	130	–
Total current liabilities		**30,464**	**16,806**
Non-current liabilities			
Deferred tax liability	6	1,453	–
Long-term provisions	14	828	57
Total non-current liabilities		**2,281**	**57**
Total liabilities		**32,745**	**16,863**
Equity			
Share capital	15	492,005	336,308
Share-based payment reserve	22	7,705	4,682
Accumulated losses		(155,474)	(85,940)
Foreign currency translation reserve		(758)	(112)
Cash flow hedge reserve	19	2,175	–
Total equity		**345,653**	**254,938**
Total liabilities and shareholders' equity		**378,398**	**271,801**

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

Statement of cash flows

	Notes	Year ended 31 March 2015 ($000s)	2014 ($000s)
Operating activities			
Cash was provided from/(applied to):			
Receipts from customers		119,566	67,136
Other income		2,580	1,086
Interest received		7,950	2,613
Payments to suppliers and employees		(166,724)	(91,175)
Income tax paid		(1,995)	(679)
Net cash flows used in operating activities	**16**	**(38,623)**	**(21,019)**
Investing activities			
Cash was applied to:			
Purchase of property, plant and equipment		(10,315)	(5,150)
Capitalised development costs		(32,994)	(21,540)
Business acquisitions	20	(5,349)	–
Other intangible assets		(174)	(63)
Rental bonds		(926)	(627)
Net cash flows used in investing activities		**(49,758)**	**(27,380)**
Financing activities			
Cash was provided from/(applied to):			
Employees exercising options		709	492
Share issue		147,200	180,000
Repayment of management loan		2,090	–
Cost of share issue		(2,845)	(438)
Payments for short-term deposits		(418,000)	(256,300)
Proceeds from short-term deposits		403,000	133,425
Net cash flows from financing activities		**132,154**	**57,179**
Net increase in cash and cash equivalents		**43,773**	**8,780**
Foreign currency translation adjustment		207	(13)
Cash and cash equivalents at beginning of the year		**14,886**	**6,119**
Cash and cash equivalents at end of the year	**9**	**58,866**	**14,886**

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

Notes to the financial statements

1. REPORTING ENTITY AND STATUTORY BASE

Xero Limited is a company registered under the Companies Act 1993 and is listed on the New Zealand Stock Exchange (NZX) and the Australian Securities Exchange (ASX). The Company is an FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013. The financial statements of the Group have been prepared in accordance with the requirements of Part 7 of the Financial Markets Conduct Act 2013 and the NZX Main Board Listing Rules. In accordance with the Financial Markets Conduct Act 2013, because Group financial statements are prepared and presented for Xero Limited and its subsidiaries, separate financial statements for Xero Limited are no longer required to be prepared and presented.

The consolidated financial statements of the Group for the year ended 31 March 2015 were authorised for issue in accordance with a resolution of the Directors on 21 May 2015.

The Group's principal activity is the provision of a platform for online accounting and business services to small businesses and their advisors.

2. BASIS OF ACCOUNTING

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

The consolidated financial statements have been prepared using the historical cost convention.

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

Transactions denominated in a foreign currency are converted at the functional currency exchange rates at the dates of the transactions. Foreign currency receivables and payables at balance date are translated at exchange rates existing at balance date. Exchange differences arising on the translation of monetary assets and liabilities, including foreign currency accounts payable and receivable, are recognised in the Income Statement.

(b) Changes in accounting policies and disclosures Apart from the changes noted below, the accounting policies adopted are consistent with those of the previous year.

Xero has elected to change the definition of cash and cash equivalents to include bank account balances and term deposits with original maturities of 90 days or less. Term deposits with original maturities of greater than 90 days that mature within one year are presented in the Statement of Financial Position as short-term deposits.

The comparative Statement of Financial Position has been re-presented, with $195.0 million at 31 March 2014 reclassified from cash and cash equivalents to short-term deposits. The comparative Statement of Cash Flows has also been re-presented to reflect this change.

Revenue from providing bank feeds that was previously included in other operating revenue is now presented in the Income Statement as subscription revenue. For consistency, revenue of $302,000 for the year ended 31 March 2014 was reclassified from other operating revenue to subscription revenue.

Foreign exchange gains and losses that were previously included in general and administration expenses are now presented in the Income Statement within foreign exchange gains/(losses). For consistency, a loss of $690,000 for the year ended 31 March 2014 was reclassified from general and administration to foreign exchange gains/(losses).

(c) Standards or interpretations issued but not yet effective and relevant to the Group There are no standards or amendments that have been issued but are not yet effective, that are expected to have a significant impact on the Group.

The Company and Group have not adopted, and currently do not anticipate adopting, any standards prior to their effective dates.

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

The significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below.

Deferred tax The Group recognises a deferred tax asset in relation to tax losses, only to the extent of the Group's deferred tax liabilities. The Group has not recognised a deferred tax asset in respect of losses and other temporary differences given the uncertainty of the timing of profitability and the requirement for ownership continuity. Deferred tax assets and deferred tax liabilities are recognised in the subsidiaries in respect of temporary differences to the extent that it is probable the assets will be utilised or the liabilities will be settled by future taxable profits.

Capitalised development costs The Group capitalises a proportion of employee costs related to software development. The Group regularly reviews the carrying value of capitalised development costs to ensure they are not impaired. The development costs are amortised over five years, the expected useful life of the assets, with limited exceptions to this for assets specifically identified as having shorter useful lives.

At 31 March 2015, assuming all other variables remain constant, a reduction or increase in the capitalisation rate of 10% would result in an increase in operating expenses of $6.7 million or a decrease in operating expenses of $6.7 million respectively.

A reduction in the useful life of capitalised development costs from five to four years would have resulted in an increase in the amortisation expense of $3.0 million in the year ended 31 March 2015.

3. SEGMENT INFORMATION

The Group operates in one business segment, providing online solutions for small businesses and their advisors.

Xero has five operating segments based on geographical locations. These segments have been determined based on reports reviewed by the Global Executive team (the chief operating decision-maker).

Segment operating expenses represent sales and marketing costs and service delivery costs, including both in-country and an allocation of centrally managed costs. Operating expenses for the Corporate segment represent all product design and development and general and administration expenses.

	Australia ($000s)	New Zealand ($000s)	United Kingdom ($000s)	North America ($000s)	Rest of World ($000s)	Corporate ($000s)	Total ($000s)
Year ended 31 March 2015							
Subscription revenue	56,503	32,585	19,358	7,654	4,828	–	120,928
Other operating revenue	1,783	288	590	140	21	100	2,922
Other income	–	–	–	423	–	2,946	3,369
Foreign exchange gains	–	–	–	–	–	2,025	2,025
Interest income	–	–	–	–	–	7,713	7,713
Subtotal	**58,286**	**32,873**	**19,948**	**8,217**	**4,849**	**12,784**	**136,957**
Cost of revenues	(17,954)	(10,374)	(5,581)	(2,343)	(1,151)	–	(37,403)
Sales and marketing	(31,232)	(9,167)	(20,474)	(31,487)	(1,118)	–	(93,478)
Product design and development	–	–	–	–	–	(48,959)	(48,959)
General and administration	–	–	–	–	–	(24,548)	(24,548)
Interest expense	–	–	–	–	–	(25)	(25)
Subtotal	**(49,186)**	**(19,541)**	**(26,055)**	**(33,830)**	**(2,269)**	**(73,532)**	**(204,413)**
Segment contribution	**9,100**	**13,332**	**(6,107)**	**(25,613)**	**2,580**	**(60,748)**	**(67,456)**
Year ended 31 March 2014							
Subscription revenue	27,642	23,183	10,109	3,274	2,645	–	66,853
Other operating revenue	1,655	827	320	315	27	94	3,238
Other income	1	–	–	125	–	1,257	1,383
Interest income	–	–	–	–	–	5,062	5,062
Subtotal	**29,298**	**24,010**	**10,429**	**3,714**	**2,672**	**6,413**	**76,536**
Cost of revenues	(10,183)	(8,540)	(3,613)	(1,206)	(974)	–	(24,516)
Sales and marketing	(21,080)	(5,443)	(7,418)	(20,383)	(781)	–	(55,105)
Product design and development	–	–	–	–	–	(18,409)	(18,409)
General and administration	–	–	–	–	–	(11,716)	(11,716)
Foreign exchange losses	–	–	–	–	–	(690)	(690)
Subtotal	**(31,263)**	**(13,983)**	**(11,031)**	**(21,589)**	**(1,755)**	**(30,815)**	**(110,436)**
Segment contribution	**(1,965)**	**10,027**	**(602)**	**(17,875)**	**917**	**(24,402)**	**(33,900)**

At 31 March 2015, $71.7 million of the Group's property, plant and equipment and intangible assets was domiciled in New Zealand (2014: $40.7 million).

Depreciation and amortisation by segment

Year ended 31 March	2015 ($000s)	2014 ($000s)
Australia	1,124	902
New Zealand	543	624
United Kingdom	558	374
North America	484	331
Rest of World	94	79
Corporate	15,187	6,610
Total	**17,990**	**8,920**

4. REVENUE AND INCOME

Subscription revenue Subscription revenue comprises the recurring monthly fees from customers who subscribe to Xero's online accounting software services. Customers are invoiced monthly in arrears, with no set contractual term. Revenue is recognised as the services are provided to the customers. Unbilled revenue at year end is recognised in the Statement of Financial Position as accrued income and included within trade and other receivables.

Other operating revenue Other operating revenue comprises revenue from related services such as education and the implementation of the online accounting software services, along with conference income. Revenue is recognised as the services are provided to the customers.

Government grants Government grants are recognised at their fair value where there is reasonable assurance that the grants will be received and all attaching conditions have been complied with.

Interest Interest income is recognised using the effective interest method.

Year ended 31 March	2015 ($000s)	2014 ($000s)
Operating revenue		
Subscription revenue	120,928	66,853
Other operating revenue	2,922	3,238
Total operating revenue	**123,850**	**70,091**
Other income		
Government grants	2,946	1,257
Rental income	423	126
Total other income	**3,369**	**1,383**
Interest income		
Interest income – bank	7,616	4,974
Interest income – loans to key management personnel	97	88
Total interest income	**7,713**	**5,062**

5. EXPENSES

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

Overhead allocation The presentation of the Income Statement by function requires certain overhead costs to be allocated to functions. These allocations require management to apply judgement. Facilities, internal information technology costs and depreciation and amortisation not relating to product software development have been allocated to each function on a headcount basis. Recruitment costs have been allocated according to the number of employees hired in each function during the period. The amortisation of product-related software development is included in product design and development.

Year ended 31 March	2015 ($000s)	2014 ($000s)
Cost of revenues and operating expenses		
Employee entitlements	108,393	60,388
Employee entitlements – share-based payments	15,263	8,497
Employee entitlements capitalised	(28,504)	(19,787)
IT infrastructure costs	18,450	10,510
Advertising and marketing	30,027	16,232
Consulting and subcontracting	7,231	4,353
Lease/rental	7,544	4,481
Travel related	5,945	3,537
Communication and office administration	3,629	2,788
Staff recruitment	2,605	1,843
Superannuation costs	3,843	1,759
Computer equipment and software	2,983	1,947
Directors' fees	515	280
Auditor's remuneration	627	206
Other operating expenses	7,847	3,792
Total cost of revenues and operating expenses excluding depreciation and amortisation	**186,398**	**100,826**
Depreciation and amortisation		
Relating to:		
Amortisation of development costs	12,947	6,412
Amortisation of other intangible assets	346	214
Depreciation of property, plant and equipment	4,697	2,294
Total depreciation and amortisation	**17,990**	**8,920**
Total cost of revenues and operating expenses	**204,388**	**109,746**
Depreciation and amortisation included in function expenses as follows:		
Cost of revenues	1,279	1,515
Sales and marketing expenses	1,982	1,036
Product design and development expenses	14,284	6,143
General and administration expenses	445	226
Total depreciation and amortisation	**17,990**	**8,920**

Auditor's remuneration

Year ended 31 March	2015 ($000s)	2014 ($000s)
Audit of financial statements	180	124
Other assurance services*	354	23
Review of interim financial statements	25	24
Taxation services	27	35
Other services**	41	–
Total fees paid to auditor	**627**	**206**

** Services relate to assurance services in relation to the preparation of US GAAP compliant Financial Statements, audit of the Company's share register and compliance engagement in respect of a grant application.*
*** Services relating to global mobility, and other services in respect of IT change management and disaster recovery advice.*

6. CURRENT AND DEFERRED INCOME TAX

Tax expense comprises current and deferred tax. Income tax is recognised in the Income Statement except when it relates to items recognised directly in other comprehensive income, in which case the income tax is recognised in other comprehensive income. Income tax is based on tax rates and regulation enacted in the jurisdictions in which the entities operate.

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

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

Current income tax

The tax on the Group's loss before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the profits or loss of the consolidated entities as follows:

Year ended 31 March	Note	2015 ($000s)	2014 ($000s)
Accounting loss before income tax		(67,456)	(33,900)
At the statutory income tax rate of 28%		(18,888)	(9,492)
Non-deductible expenditure		723	386
Prior period adjustment		467	225
Tax rate variance of subsidiaries		416	136
Total tax losses not recognised		19,360	9,553
Income tax expense reported in Income Statement		**2,078**	**808**
Comprising:			
Income tax payable from continuing operations		3,589	1,155
Income tax payable from discontinued operations	7	–	47
Prior period adjustment		467	–
Deferred tax		(1,132)	(347)
Tax losses utilised		(846)	–
Income tax expense (including discontinued operation)		**2,078**	**855**

Income tax payable

At 31 March	2015 ($000s)	2014 ($000s)
Opening balance	732	209
Prior period adjustment	(209)	–
Income tax liability for the year	3,589	1,202
Income tax paid	(1,995)	(679)
Effects of changes in foreign currency	101	–
Current tax payable	**2,218**	**732**

Deferred income tax

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	Note	Derivatives ($000s)	Provisions and employee entitlements ($000s)	Tax depreciation ($000s)	Tax losses ($000s)	Total ($000s)
Year ended 31 March 2015						
Deferred tax asset balances:						
Balance at 1 April 2014		–	1,089	(1,497)	894	486
Prior period adjustment		–	(301)	(98)	(217)	(616)
Charged to Income Statement		–	460	1,774	(677)	1,557
Foreign currency adjustment		–	(1)	1	–	–
Balance at 31 March 2015		**–**	**1,247**	**180**	**–**	**1,427**
Deferred tax liability balances:						
Balance at 1 April 2014		–	–	–	–	–
Charged to Income Statement		–	1,514	(3,445)	1,506	(425)
Charged to other comprehensive income		(846)	–	–	–	(846)
Tax losses utilised		–	–	–	846	846
Acquisition of Monchilla, Inc.	20	–	–	(1,056)	–	(1,056)
Foreign currency adjustment		–	177	(149)	–	28
Balance at 31 March 2015		**(846)**	**1,691**	**(4,650)**	**2,352**	**(1,453)**
Year ended 31 March 2014						
Deferred tax asset balances:						
Balance at 1 April 2013		–	385	(1,133)	850	102
Prior period adjustment		–	(13)	–	13	–
Charged to Income Statement		–	717	(364)	(6)	347
Foreign currency adjustment		–	–	–	37	37
Balance at 31 March 2014		**–**	**1,089**	**(1,497)**	**894**	**486**

The Group's deferred tax asset and deferred tax liability are expected to be recovered by $1.1 million and $0.1 million respectively within the next 12 months. Deferred tax assets and liabilities have been offset where the balances are due to/receivable from the same counterparties. Deferred income tax assets are recognised for carried forward tax losses to the extent of the Company's deferred tax liabilities. The Company has unrecognised New Zealand tax losses available to carry forward of $144,945,000 (2014: $78,490,000) subject to shareholder continuity being maintained as required by New Zealand tax legislation.

7. DISCONTINUED OPERATION

On 28 August 2013 the Group announced that it would discontinue the Xero Personal service on 30 November 2014 and has accounted for it as a discontinued operation.

The impact on the Income Statement for the year ended 31 March 2014 relating to the discontinued operation is set out below. Apart from software development assets written off, there are no significant assets or liabilities relating to discontinued operation. The impact on the Statement of Cash Flows is not materially different from the revenue and operating expense amounts set out below.

Year ended 31 March	2014 ($000s)
Operating revenue	377
Operating expenses	(293)
Amortisation	(133)
Software development intangible asset write-off	(742)
Income tax expense relating to discontinued operation	(47)
Net loss from discontinued operation	**(838)**

8. EARNINGS PER SHARE

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

Basic EPS is calculated by dividing the Group profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares on issue during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares on issue for the effects of all dilutive potential ordinary shares, which comprise treasury stock, options and Restricted Stock Units (RSUs) granted to employees and Directors. Potential ordinary shares are treated as dilutive when, and only when, their conversion to ordinary shares would decrease EPS or increase the loss per share from continuing operations.

Year ended 31 March	2015 (000s)*	2014 (000s)*
Weighted average number of issued ordinary shares	127,323	120,533
Net loss after tax for continuing operations	($69,534)	($34,708)
Basic and diluted loss per share for continuing operations (in New Zealand dollars)	($0.55)	($0.29)
Net loss after tax	($69,534)	($35,546)
Basic and diluted loss per share (in New Zealand dollars)	**($0.55)**	**($0.29)**

**Except for per share amounts.*

9. CASH AND SHORT-TERM DEPOSITS

Cash and cash equivalents comprise cash in hand, deposits held at call with banks, other short-term and highly liquid investments with original maturities of 90 days or less.

At 31 March	2015 ($000s)	2014 ($000s)
Cash and cash equivalents	58,866	14,886
Short-term deposits	210,000	195,000
Total cash and short-term deposits	**268,866**	**209,886**

10. TRADE AND OTHER RECEIVABLES

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

At 31 March	Note	2015 ($000s)	2014 ($000s)
Current assets			
Trade receivables		5,723	3,722
Provision for doubtful debts		(117)	(30)
Accrued income		5,526	3,250
Prepayments		5,752	2,658
Interest receivable		2,919	3,107
Government grant receivable		836	337
Rental bonds and other deposits		248	149
Loans to key management	17	612	1,181
Total current trade and other receivables		**21,499**	**14,374**
Non-current assets			
Rental bonds and other deposits		1,712	776
Loans to key management	17	–	1,595
Total non-current other receivables		**1,712**	**2,371**

Trade receivables are related primarily to the monthly subscriptions charged for the Xero service. Subscriptions are charged monthly in arrears and paid by direct debit. At 31 March 2015 trade receivables of the Group of $137,000 were past due and are considered partially impaired (2014: $116,000).

11. PROPERTY, PLANT AND EQUIPMENT

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

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

Leasehold improvements	Term of lease
Motor vehicles	5 years
Computer equipment	2-3 years
Furniture and equipment	2-7 years

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each balance date. If an asset's carrying amount is greater than its estimated recoverable amount, the carrying amount is written down immediately to its recoverable amount.

	Leasehold improvements ($000s)	Motor vehicles ($000s)	Computer equipment ($000s)	Furniture and equipment ($000s)	Total ($000s)
Year ended 31 March 2015					
Cost					
Balance at 1 April 2014	5,739	187	3,395	3,922	13,243
Additions	4,530	25	3,038	3,874	11,467
Disposals	(540)	–	(233)	(23)	(796)
Foreign exchange adjustment	9	–	86	126	221
Balance at 31 March 2015	**9,738**	**212**	**6,286**	**7,899**	**24,135**
Depreciation					
Balance at 1 April 2014	1,224	84	1,295	784	3,387
Depreciation expense	1,675	34	1,866	1,122	4,697
Disposals	(351)	–	(228)	(18)	(597)
Foreign exchange adjustment	(7)	–	17	7	17
Balance at 31 March 2015	**2,541**	**118**	**2,950**	**1,895**	**7,504**
Net carrying amount	**7,197**	**94**	**3,336**	**6,004**	**16,631**
Year ended 31 March 2014					
Cost					
Balance at 1 April 2013	4,897	176	2,091	1,651	8,815
Additions	1,100	27	1,734	2,340	5,201
Disposals	–	(16)	(363)	(8)	(387)
Foreign exchange adjustment	(258)	–	(67)	(61)	(386)
Balance at 31 March 2014	**5,739**	**187**	**3,395**	**3,922**	**13,243**
Depreciation					
Balance at 1 April 2013	411	54	771	305	1,541
Depreciation expense	842	42	910	500	2,294
Disposals	–	(12)	(356)	(8)	(376)
Foreign exchange adjustment	(29)	–	(30)	(13)	(72)
Balance at 31 March 2014	**1,224**	**84**	**1,295**	**784**	**3,387**
Net carrying amount	**4,515**	**103**	**2,100**	**3,138**	**9,856**

12. INTANGIBLE ASSETS

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

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

Software development employee costs are capitalised. Other development expenditure that does not meet the above criteria is recognised as an expense as incurred. Development costs previously recognised as expenses are not recognised as assets in a subsequent period. Computer software development costs recognised as assets are amortised over their estimated useful lives.

Other intangible assets acquired are initially measured at cost. Internally generated assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the Income Statement in the year in which the expenditure is incurred.

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

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

Capitalised software development costs	5 years
Software licence costs	2-3 years
Patents, domains and trademark costs	10 years

Research costs and costs associated with maintenance are recognised as an expense as incurred.

Goodwill Goodwill represents the excess of purchase consideration over the fair value of net assets acquired at the time of acquisition of a business or shares in a subsidiary. Goodwill is allocated to cash-generating units (CGUs), which are the lowest level of assets for which separately identifiable cash flows can be attributed.

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

The recoverable amount is the greater of fair value less costs to sell or the asset's value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

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

If the recoverable amount of the CGU is less than the carrying amount of the CGU, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets. Impairment losses recognised for goodwill are not reversed in a subsequent period.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate.

	Notes	Software development* ($000s)	Software licences ($000s)	Other intangible assets ($000s)	Goodwill ($000s)	Total ($000s)
Year ended 31 March 2015						
Cost						
Balance at 1 April 2014		48,443	276	204	–	48,923
Additions**		34,883	168	158	–	35,209
Acquisitions	20	2,592	–	454	5,352	8,398
Disposals		–	(94)	–	–	(94)
Balance at 31 March 2015		**85,918**	**350**	**816**	**5,352**	**92,436**
Amortisation and impairment						
Balance at 1 April 2014		13,874	158	63	–	14,095
Amortisation		12,947	129	217	–	13,293
Disposals		–	(64)	–	–	(64)
Balance at 31 March 2015		**26,821**	**223**	**280**	**–**	**27,324**
Net carrying amount		**59,097**	**127**	**536**	**5,352**	**65,112**
Year ended 31 March 2014						
Cost						
Balance at 1 April 2013		25,455	–	142	–	25,597
Additions**		24,366	316	62	–	24,744
Written off as a discontinued operation	7	(1,378)	–	–	–	(1,378)
Disposals		–	(40)	–	–	(40)
Balance at 31 March 2014		**48,443**	**276**	**204**	**–**	**48,923**
Amortisation and impairment						
Balance at 1 April 2013		7,965	–	47	–	8,012
Amortisation***		6,545	198	16	–	6,759
Written off as a discontinued operation	7	(636)	–	–	–	(636)
Disposals		–	(40)	–	–	(40)
Balance at 31 March 2014		**13,874**	**158**	**63**	**–**	**14,095**
Net carrying amount		**34,569**	**118**	**141**	**–**	**34,828**

** Included in software development are projects in progress with a year end balance of $4.16 million (2014: $2.95 million).*

*** Includes $6.4 million of externally purchased assets (2014: $4.7 million).*

**** Includes amortisation attributable to discontinued operation.*

Goodwill impairment testing The recoverable amount of the North America market, the only CGU to which goodwill is recognised at 31 March 2015, was calculated on the basis of value in use using a discounted cash flow model.

Future cash flows were projected for three years, based on Board-approved business plans, with key assumptions being CGU earnings and capital expenditure for the CGU based on the market's forecasts of expected performance.

Terminal growth of 3% was applied and a pre-tax discount rate of 20% (31 March 2014: n/a) was utilised. The terminal growth rate is determined based on the long-term anticipated growth rate of the business. The forecast financial information is based on both past experience and future expectations of CGU performance. The major inputs and assumptions used in performing an impairment assessment that require judgement include revenue forecasts, operating cost projections, customer numbers and customer churn, discount rates, growth rates and future technology paths.

During the year ended 31 March 2015 no impairment arose as a result of the review of goodwill. The recoverable amount of the North American CGU is greater than the carrying amount and, based on sensitivity analysis performed, no foreseeable changes in the assumptions would cause the carrying amount of the CGU to exceed its recoverable amount.

13. TRADE AND OTHER PAYABLES

The Group recognises trade and other payables initially at fair value and subsequently at amortised cost using the effective interest method. The amounts are unsecured, non-interest bearing and usually paid within 45 days of recognition.

At 31 March	2015 ($000s)	2014 ($000s)
Trade payables	5,700	3,561
Accrued expenses	6,527	2,131
Income in advance	965	212
Sales tax payable	858	1,144
Total trade and other payables	**14,050**	**7,048**

14. PROVISIONS

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

Provisions relate to make-good obligations relating to leases of office space. The non-current portion will be utilised by 2034.

	($000s)
Balance at 1 April 2014	**57**
Provisions made during the year	772
Unwinding of discount	25
Balance at 31 March 2015	**854**
Current	26
Non-current	828

15. SHARE CAPITAL

At 31 March	Notes	2015 (000s)	2014 (000s)
Balance at beginning of year		127,610	117,219
Issue of ordinary shares – capital raise		7,359	9,917
Issue of ordinary shares – acquisition of Monchilla, Inc.	20	238	–
Issue of ordinary shares – Employee Restricted Share Plan	22	592	225
Issue of ordinary shares – exercising of employee options	22	71	109
Issue of ordinary shares – Director exercising options	17	67	33
Issue of ordinary shares – Director fees and key management	17	22	–
Issue of ordinary shares – RSU schemes	22	49	–
Issue of ordinary shares – Spotlight Workpapers software		–	10
Issue of ordinary shares – loans to key management		–	97
Ordinary shares on issue at the end of the year		**136,008**	**127,610**
Treasury stock	22	(735)	(1,009)
Ordinary shares on issue at the end of the year		**135,273**	**126,601**

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

In March 2015 the Company raised $147.2 million of capital by issuing 7.36 million ordinary shares. Transaction costs of $2.8 million have been netted off the amount recognised in equity.

During the period the Company issued 592,000 shares under the Employee Restricted Share Plan (RSP), at an average price of $21.48 (2014: 225,000 at an average price of $16.85).

On 6 November 2014, 238,490 shares were issued as part of the acquisition of Monchilla, Inc. (note 20).

During the period the Company issued 2,173 shares at a price of $16.10 to Lee Hatton in lieu of cash payment for Directors' fees and 20,000 shares to a member of key management at a price of $16.81.

During the period a Director exercised 67,000 stock options under the US Equity Incentive Scheme in his capacity as an advisor, with an average exercise price of $4.97.

During the period employees exercised 71,000 stock options under the US Equity Incentive Scheme, with an average exercise price of $5.37 (2014: 142,000 at an average price of $3.47).

The Company issued 49,000 shares upon vesting of RSUs granted to employees under the US RSU scheme, the Australia RSU scheme and the New Zealand RSU scheme, with an average price of $18.27. Payroll tax of $372,000 was net-settled against the RSUs (2014: Nil).

Treasury stock includes unvested RSP shares and unvested shares issued in relation to Monchilla, Inc.

16. RECONCILIATION OF OPERATING CASH FLOWS

Year ended 31 March	2015 ($000s)	2014 ($000s)
Net loss after tax	(69,534)	(35,546)
Adjustments:		
Depreciation	4,697	2,294
Amortisation	13,293	6,626
Deferred tax	(1,132)	(347)
Tax losses utilised	(846)	–
(Gain)/loss on foreign exchange transactions	(2,025)	690
Loss on disposal of property, plant and equipment	239	11
Share-based payments	9,172	6,971
Non-employee share-based payments	1,346	–
Bad debts	347	125
Discontinued operations	–	875
Changes in working capital items:		
Increase in trade receivables and prepayments	(7,534)	(4,825)
(Increase)/decrease in interest receivable	188	(2,450)
Increase in trade payables and accruals	6,032	403
Increase in current tax payable	1,471	523
Increase in employee entitlements	4,915	3,578
Increase in income in advance	748	53
Net cash flows used in operating activities	**(38,623)**	**(21,019)**

17. RELATED PARTIES

The following transactions were carried out with related parties:

Loans to key management

Year ended 31 March	2015 ($000s)	2014 ($000s)
Opening balance	2,776	1,138
Loans issued to key management	–	1,550
Loans repaid in the period	(2,261)	–
Interest charged on loans	97	88
Closing balance	**612**	**2,776**

Secured loans have been issued to key management to purchase shares in the Company at market price. Simple interest is accrued at a rate of 4% per annum, with the loans and interest being repayable three years from the date of issue. The fair value of the loans does not materially differ from the carrying value.

Key management personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, and include the Directors, the Chief Executive, his direct reports and the country managers. The following table summarises remuneration paid to key management personnel.

Year ended 31 March	2015 ($000s)	2014 ($000s)
Short-term employee benefits	4,878	2,781
Directors' fees	515	280
Options (under the Employee Share Options Scheme)	139	313
Restricted stock units	998	80
Share-based payments (under Employee Restricted Share Plan)	1,744	805

The above table excludes expenses of $1,086,000 paid to Directors in strategic advisory fees, outside their capacity as Directors (2014: $252,000). Superannuation of $145,000 (2014: $50,000) was also earned by key management.

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. A number of those entities subscribe to the Xero services provided by the Group. None of these related party transactions are significant to either party.

No amounts with any related parties have been written off or foregone during the year ended 31 March 2015 (2014: Nil).

18. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES

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

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Financial assets are impaired when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The carrying amount of an asset is reduced through the use of a provision account, and the amount of the loss is recognised in the Income Statement. When a receivable is uncollectible, it is written off against the provision account for receivables. Subsequent recoveries of amounts previously written off are credited against the Income Statement.

Capital management The capital structure of the Group consists of equity raised by the issue of ordinary shares in the Parent. The Group manages its capital to ensure that entities in the Group are able to continue as going concerns. The Group is not subject to any externally imposed capital requirements.

Classification and fair values Xero has carried out a fair value assessment of its financial assets and liabilities at 31 March 2015 in accordance with NZ IFRS 13 Fair Value Measurement.

The Group's hedging derivatives are recognised at fair value. Fair values are calculated using forward exchange rates that are quoted in an active market (level 2 on the fair value hierarchy).

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

Financial instruments by category

	Loans and receivables ($000s)	Hedging instruments at fair value ($000s)	Financial liabilities at amortised cost ($000s)	Total carrying value ($000s)
At 31 March 2015				
Assets				
Cash and cash equivalents	58,866	–	–	58,866
Short-term deposits	210,000	–	–	210,000
Trade and other receivables	16,847	–	–	16,847
Loans to key management	612	–	–	612
Short-term derivative assets	–	3,151	–	3,151
Total financial assets	**286,325**	**3,151**	**–**	**289,476**
Liabilities				
Trade and other payables	–	–	12,227	12,227
Employee entitlements	–	–	14,040	14,040
Short-term derivative liabilities	–	130	–	130
Total financial liabilities	**–**	**130**	**26,267**	**26,397**
At 31 March 2014				
Assets				
Cash and cash equivalents	14,886	–	–	14,886
Short-term deposits	195,000			195,000
Trade and other receivables	11,311	–	–	11,311
Loans to key management	2,776	–	–	2,776
Total financial assets	**223,973**	**–**	**–**	**223,973**
Liabilities				
Trade and other payables	–	–	5,663	5,663
Employee entitlements	–	–	9,026	9,026
Total financial liabilities	**–**	**–**	**14,689**	**14,689**

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, credit risk and foreign currency risk.

Interest rate risk The Group's interest rate risk arises from its cash and short-term deposit balances. These are placed on short-term deposit at fixed rates. The repricing of these exposes the Group to cash flow interest rate risk. The Group does not enter into interest rate hedges.

Management regularly reviews its banking arrangements to ensure that it achieves the best returns on its funds while maintaining access to necessary liquidity levels to service the Group's day-to-day activities.

The interest rate repricing profiles of the Group's financial assets and liabilities subject to interest rate risk are:

	Carrying value ($000s)	3 months or less ($000s)	3-6 months ($000s)	6-12 months ($000s)	Greater than 12 months ($000s)
At 31 March 2015					
Financial assets					
Cash and cash equivalents	58,866	58,866	–	–	–
Short-term deposits	210,000	41,000	71,000	98,000	–
Loans to key management	612	–	612	–	–
Total	**269,478**	**99,866**	**71,612**	**98,000**	–
At 31 March 2014					
Financial assets					
Cash and cash equivalents	14,886	14,886	–	–	–
Short-term deposits	195,000	175,000	20,000	–	–
Loans to key management	2,776	–	–	1,181	1,595
Total	**212,662**	**189,886**	**20,000**	**1,181**	**1,595**

At 31 March 2015 if interest rates had been 1.0% higher/lower with all other variables held constant, the impact on the interest income, net loss and accumulated losses of the Group would have been $2,251,000 lower/higher (2014: $1,951,000). This analysis assumes that the cash and cash equivalents and short-term deposits balance was consistent with the year end balance throughout the year.

Liquidity risk Liquidity risk is the risk that the Group cannot pay contractual liabilities as they fall due. At 31 March 2015 the Group held cash and cash equivalents of $58.9 million and term deposits of $210 million. The Group has sufficient liquidity to meet its cash flow requirements in the foreseeable future. The Group has no debt.

The undiscounted contractual cash flows of the Group's non-derivative financial liabilities are equal to the carrying value and are due within six months or less. The Group's exposure to undiscounted gross cash flows from derivative financial liabilities are:

At 31 March 2015	Carrying amount ($000s)	Contractual cash flows ($000s)	0-6 months ($000s)	6-12 months ($000s)
Forward exchange contracts	130			
Inflows		10,357	1,865	8,492
Outflows		(10,705)	(1,887)	(8,818)
Total	**130**	**(348)**	**(22)**	**(326)**

Credit risk Where the Group has a receivable from another party, there is a credit risk in the event of non-performance by that other party. Financial instruments that potentially subject the Group to credit risk principally consist of cash and cash equivalents, short-term deposits, derivatives and receivables.

The Group manages credit risk by placing its cash and short-term deposits with high credit quality financial institutions with Standard & Poor's A band credit ratings. The credit risk associated with trade receivables is small because of the inherently low individual transaction value and the spread over many customers.

Maximum exposure to credit risk at balance date

At 31 March	2015 ($000s)	2014 ($000s)
Cash and cash equivalents	58,866	14,886
Short-term deposits	210,000	195,000
Trade and other receivables	15,747	11,716
Derivative financial assets	3,151	–
Non-current receivables	1,712	2,371
Total	**289,476**	**223,973**

Foreign currency risk The Group faces the risk of movements in foreign currency exchange rates in relation to the New Zealand dollar (NZD). The Group operates in three other currencies, being Great British pound (GBP), Australian dollar (AUD), and United States dollar (USD). As a result the Group's Income Statement and Statement of Financial Position can be affected by movements in exchange rates.

The Group's exposure to monetary foreign currency financial instruments is outlined below in New Zealand dollars:

	AUD ($000s)	USD ($000s)	GBP ($000s)
At 31 March 2015			
Exposures			
Cash and cash equivalents	3,039	28,229	1,477
Trade and other receivables	5,262	2,480	2,747
Trade and other payables	(3,058)	(4,005)	(2,771)
Employee entitlements	(2,688)	(2,190)	(1,219)
Forward exchange contracts	(16,152)	33,751	–
Total foreign currency exposure from financial instruments	**(13,597)**	**58,265**	**234**
At 31 March 2014			
Exposures			
Cash and cash equivalents	2,984	2,771	2,459
Trade and other receivables	3,487	1,272	1,370
Trade and other payables	(2,022)	(2,269)	(871)
Employee entitlements	(1,709)	(985)	(655)
Total foreign currency exposure from financial instruments	**2,740**	**789**	**2,303**

The Group is exposed to currency risk from the operations of foreign subsidiaries and foreign currency denominated expenses in the Parent company. The significant exposure is United States dollar denominated operating expenses and Australian dollar denominated revenue. The Group's Treasury policy requires a portion of the next 12 months cash flows to be hedged with forward exchange contracts, to reduce the impacts of short-term movements in the exchange rate.

At 31 March a movement of 10% in the New Zealand dollar would affect the Income Statement and Statement of Changes in Equity (after hedging) as detailed in the table below:

	10% decrease		10% increase	
	2015 ($000s)	2014 ($000s)	2015 ($000s)	2014 ($000s)
Impact on:				
Net earnings before income tax	6,042	(122)	(4,934)	100
Equity (before income tax)	9,512	114	(7,773)	(93)

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

19. HEDGE ACCOUNTING

The Group uses derivatives in the form of forward exchange contracts (FECs) to reduce the risk that movements in the exchange rate will affect the Group's New Zealand dollar cash flows. These hedges have been designated as a hedge of a highly probable forecast transaction (a cash flow hedge under NZ IAS 39: Financial instruments recognition and measurement). The Group's policy is to hedge a portion of the next 12 months forecasted cash flows.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement. Amounts accumulated in equity are reclassified to the Income Statement in the periods when the hedged transaction affects profit and loss.

During the period, hedging gains of $5,057,000 (before taxation) were recognised in other comprehensive income. During the year, a gain of $2,036,000 (before taxation) was reclassified out of other comprehensive income to the Income Statement. The remaining balance will be reclassified to the Income Statement in the 12 months following 31 March 2015.

Hedge position

At 31 March 2015	Fair value ($000s)	Notional amount hedged (NZ$000s)
Short-term derivative assets		
Buy USD – Sell NZD	2,348	35,715
Buy NZD – Sell AUD	803	15,486
Total	**3,151**	
Short-term derivative liabilities		
Buy USD – Sell NZD	(126)	9,346
Buy NZD – Sell AUD	(4)	1,021
Total	**(130)**	

20. BUSINESS COMBINATIONS

On 6 November 2014 Xero acquired 100% of the ordinary shares in online payroll company Monchilla, Inc. for consideration of $5,349,000 cash and 238,490 ordinary shares of Xero Limited.

50%, or 119,245 of the shares vested on 6 November 2014 and have a fair value $1,993,000. The remaining 50% of each owner's shares will vest on 6 November 2016, if each owner of Monchilla remains an employee of the Group at that date. As continued employment is required for the shares to vest, the costs are recognised as consideration for post-acquisition services and are excluded from the business combination.

Goodwill of $5.4 million has been recognised because Monchilla's payroll expertise and technology will enable the Group to rapidly accelerate the extension of its payroll offering across the United States.

The following values are recognised in the financial statements in respect of the Monchilla acquisition:

	6 November 2014 ($000s)
Consideration paid	
Cash	5,349
Shares issued	1,993
Total consideration	**7,342**
Net assets acquired and liabilities assumed	
Software development asset	2,592
Other intangible assets	454
Deferred tax liability	(1,056)
Total identifiable net assets	**1,990**
Goodwill	5,352
Total	**7,342**

21. CONTINGENCIES

There were no contingent liabilities at 31 March 2015 (2014: Nil).

22. SHARE-BASED PAYMENTS

The Group operates equity-settled, share-based compensation plans, under which employees provide services in exchange for non-transferable options, Restricted Stock Units (RSUs) or shares. The value of the employee services rendered for the grant of non-transferable options, RSUs and 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 shares granted.

Employee Restricted Share Plan The Xero Limited Employee Restricted Share Plan (RSP) was introduced for selected executives and employees of the Group. Under the RSP, ordinary shares in Xero Limited are issued to a trustee, Xero Trustee Limited, a wholly owned subsidiary, and allocated to participants, on grant date, using funds lent to them by the Company.

The price for each share issued during the year under the RSP is the higher of the market price of the share on the date on which the shares are allocated or the invitation price.

Under the RSP, shares are beneficially owned by the participants. The length of retention period before the shares vest is between one and three years. If the individual is still employed by the Group at the end of this specific period, the employee is given a cash bonus that must be used to repay the loan and shares are then transferred to the employee. The number of shares awarded is determined by the Remuneration Committee of the Board of Directors. The weighted average grant date fair value of restricted shares issued during the year was $21.32 (2014: $16.85) and was determined by the share price on grant date. Shares with a grant date fair value of $5,825,000 vested during the year (2014: $2,429,000). The Group has no legal or constructive obligation to repurchase the shares or settle the RSP for cash.

	2015 Number of shares (000s)	2014 Number of shares (000s)
Unvested shares at 1 April	377	587
Granted	644	282
Forfeited	(52)	(58)
Vested	(362)	(434)
Unvested shares at 31 March – allocated to employees	**607**	**377**
Forfeited shares not yet reallocated – held by trustee	9	9
Total	**616**	**386**
Percentage of total ordinary shares	0.5%	0.3%
Ageing of unvested shares		
Vest within one year	267	240
Vest after one year	340	137
Total	**607**	**377**

The number of shares awarded pursuant to the RSP does not equal the number of shares created for the scheme, as forfeited shares are held in the trust and reissued.

Options Scheme Options are granted to selected employees, Directors and service providers. The exercise price of the granted options is equal to the market price of the shares on the date of the grant.

Options are conditional on the completing of the necessary years' service (the vesting period) as appropriate to that tranche. The options' tranches are exercisable over one to five years from the grant date. No options can be exercised later than the second anniversary of the final vesting date (a total of four to six years from the grant date). The cost of stock options recognised in the Income Statement for the year ended 31 March 2015 is $1,721,000 (2014: $1,250,000). There were 70 holders of options at 31 March 2015.

The Group has no legal or constructive obligation to repurchase or settle the options in cash.

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

	2015 Weighted average exercise price ($)	2015 Options (000s)	2014 Weighted average exercise price ($)	2014 Options (000s)
Outstanding at 1 April	18.57	936	4.08	585
Granted	16.22	323	30.73	521
Forfeited	32.30	(207)	18.15	(28)
Exercised	5.32	(138)	3.47	(142)
Expired	22.99	(13)	–	–
Outstanding at 31 March	16.52	901	18.57	936
Exercisable at 31 March	16.71	193	5.22	63

Options outstanding at the end of the year have the following expiry dates and exercise prices:

Grant-vest	Expiry date	Exercise price ($)	2015 Options (000s)	2014 Options (000s)
2012-13	2017-18	2.75	120	120
2012-13	2016-17	3.82	47	93
2012-13	2016-17	5.31	94	122
2012-13	2016-17	4.97	33	100
2012-13	2016-17	7.70	4	7
2013-14	2017-18	17.40	98	146
2013-14	2017-18	32.17	42	59
2013-14	2017-18	38.24	140	164
2013-14	2018-19	38.24	–	125
2014-15	2018-19	16.81	40	–
2014-15	2018-19	16.14	58	–
2014-15	2019-20	16.05	200	–
2014-15	2019-20	16.85	25	–
Total			**901**	**936**

The weighted average fair value of options granted during the year, determined using the Black-Scholes valuation model, was $7.14 per option (2014: $13.16).

The significant inputs into the model were the market share price at grant date, the exercise price shown above, the expected annualised volatility of between 30% and 53%, a dividend yield of 0%, an expected option life of between one and six years and an annual risk-free interest rate of between 2.6% and 4.1%.

The volatility measured is the standard deviation of continuously compounded share returns and is based on a statistical analysis of daily share prices in the past one to six years.

Restricted Stock Units No cash consideration is required to be paid to exercise the RSUs. The fair value of RSUs granted in the year ended 31 March 2015 was $10,938,000 (2014: $785,000) as determined by the market value of the shares on grant date. The RSUs are conditional on the employees completing up to three years' service (the vesting period) and are exercisable in equal amounts over the vesting period. There are performance conditions on some RSUs granted to senior executives. The cost of the RSUs recognised in the Income Statement to 31 March 2015 is $1,597,000 (2014: $80,000).

	2015 Weighted average exercise price ($)	2015 RSUs (000s)	2014 Weighted average exercise price ($)	2014 RSUs (000s)
Outstanding at 1 April	38.24	21	–	–
Granted	18.22	600	38.24	21
Forfeited	35.59	(33)	–	–
Converted to shares	19.26	(49)	–	–
Surrendered to pay payroll tax	27.65	(8)	–	–
Outstanding at 31 March	17.68	531	38.24	21

23. COMMITMENTS

Operating lease commitments The Group leases offices and motor vehicles under non-cancellable operating lease agreements. The lease terms are between 1 and 12 years. A number of lease agreements are renewable at the end of the lease periods at a market rate.

The future minimum lease payments under non-cancellable operating leases are as follows:

At 31 March	2015 ($000s)	2014 ($000s)
Within one year	6,791	4,525
After one year but not more than five years	24,506	11,481
More than five years	22,490	2,503
Total	**53,787**	**18,509**

Xero leases two properties that have been sublet due to being surplus to requirements. The lease and sublease are on equivalent terms.

The total future minimum sublease payments expected to be received under non-cancellable subleases for office space at the balance date are $530,000 (2014: $666,000).

Capital commitments Capital commitments of $1,496,000 for building fitouts were contracted for at 31 March but not yet incurred (2014: $158,000).

24. GROUP ENTITIES

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

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

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

	Principal activity	Country of incorporation	Balance date	Interest 2015 (%)	Interest 2014 (%)
Xero (NZ) Limited	Limited risk distributor	New Zealand	31 March	100	100
Xero (UK) Limited	Limited risk distributor	United Kingdom	31 March	100	100
Xero Australia Pty Limited	Limited risk distributor	Australia	31 March	100	100
Xero, Inc.	Limited risk distributor	United States	31 March	100	100
Monchilla, Inc.	Payroll software	United States	31 December	100	–
Xero Trustee Limited	Trustee	New Zealand	31 March	100	100

25. EVENTS AFTER THE BALANCE SHEET DATE

On 24 April 2015 Douglas Jeffries resigned from his role as Chief Financial Officer of Xero Limited. Ross Jenkins, Chief Operating Officer, has acted as interim CFO from that date.

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

Directors' Responsibilities Statement

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

The Directors consider these financial statements have been prepared using accounting policies suitable to the Group's circumstances, which have been consistently applied and supported by reasonable judgements and estimates, and that all relevant financial reporting and accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy, at any time, the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1993. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board of Directors of the Company authorised these financial statements for issue on 21 May 2015.

For and on behalf of the Board of Directors

Chris Liddell
Chairman
Xero Limited
21 May 2015

Graham Shaw
Director
Xero Limited
21 May 2015

Corporate Governance

The Board recognises the importance of good corporate governance, particularly its role in delivering improved corporate performance and protecting the interests of all stakeholders.

The Board is responsible for establishing and implementing the Company's corporate governance frameworks, and is committed to fulfilling this role in accordance with best practice while observing applicable laws, the NZX Corporate Governance Best Practice Code (NZX Code), and the Corporate Governance Principles and Recommendations (2nd Edition) issued by the ASX Corporate Governance Council (ASX recommendations). The Company will report against the 3rd Edition of the ASX recommendations for the Company's financial year ended 31 March 2016.

This section sets out the Company's commitment to good corporate governance and addresses the Company's compliance with the eight fundamental principles of the ASX recommendations. In doing so, the Company's compliance with the NZX Code is also addressed.

PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Companies should establish and disclose the respective roles and responsibilities of the Board and management

The Board is the overall and final body responsible for all decision-making within the Company, having a core objective to effectively represent and promote the interests of shareholders with a view to adding long-term value to the Company.

The Board Charter describes the Board's role and responsibilities and regulates internal Board procedures; a copy of this document is available in the Investors section on the Company's website. The Board has the responsibility to work to enhance the value of the Company in the interests of the Company and the shareholders.

The Board directs, and supervises the management of, the business and affairs of the Company including, in particular:

- ensuring that the Company's goals are clearly established, and that strategies are in place for achieving them;
- ensuring that there is an ongoing review of performance against the Company's strategic objectives;
- approving transactions relating to acquisitions and divestments and capital expenditure above delegated authority limits;
- ensuring that there is an ongoing assessment of business risks and that there are appropriate control and accountability systems in place to manage them;
- establishing policies aimed at strengthening the performance of the Company, including ensuring that management is proactively seeking to build the business through innovation, initiative, technology, new products and the development of its business capital;
- monitoring the performance of management;
- appointing the Chief Executive, setting the terms of their employment and, where necessary, terminating their employment; and
- approving and monitoring the Company's financial and other reporting and ensuring the Company's financial statements represent a true and fair view.

Delegation To enhance efficiency, the Board has delegated some of its powers to Board Committees and other powers to the Chief Executive. The terms of the delegation by the Board to the Chief Executive are documented in the Board Charter and more clearly set out in the Company's Delegated Authority Framework. This framework also establishes the authority levels for decision-making within the Company's management team.

Performance management Formal procedures are in place to evaluate the performance of all of the Company's employees. This process is managed by the Head of People, in liaison with the Chief Executive and the Chief Executive's direct reports as appropriate. This process was completed during the financial year.

Evaluations of the Chief Executive and the senior management team are based on a more involved set of criteria, including the performance of the business, the accomplishment of long-term strategic objectives and other non-quantitative objectives. During the financial year, performance evaluations of the Chief Executive and senior management team were completed as planned.

The People and Remuneration Committee has responsibilities that include reviewing and evaluating the performance of the Chief Executive against key performance objectives, reviewing the corresponding performance objectives for the Chief Executive for the following year, and monitoring the performance of each of the Chief Executive's direct reports.

PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE

Companies should have a Board of an effective composition, size and commitment to adequately discharge its responsibilities and duties

During the financial year, the Company was pleased to welcome Lee Hatton and Graham Smith to the Board.

Lee was appointed by the Board as an additional Director on 10 April 2014, was elected by shareholders at the Company's Annual Meeting on 23 July 2014, and brings extensive international banking and finance experience to the Board. Graham was appointed as an additional Director on 25 February 2015, and brings significant additional financial knowledge and experience scaling global SaaS businesses to the Board.

Composition of the Board

The Board is composed of experienced executives based in New Zealand, Australia, and the United States, with a broad and diverse range of technology, financial, sales, and general business experience. At 31 March 2015 the Board comprised nine Directors, as follows:

- Chris Liddell (Non-Executive Chair)
- Rod Drury (Executive Director)
- Craig Elliott (Non-Executive Director)
- Lee Hatton (Non-Executive Director)
- Sam Morgan (Non-Executive Director)
- Graham Shaw (Non-Executive Director)
- Graham Smith (Non-Executive Director)
- Bill Veghte (Non-Executive Director)
- Craig Winkler (Non-Executive Director)

A short biography of each Director is available at www.xero.com/about/board.

Selection and role of Chairman The Chairman of the Board is elected by the non-executive Directors. The Board supports the separation of the roles of Chairman of the Board and the Chief Executive. The Chairman's role is to manage the Board effectively, to provide leadership to the Board, and to facilitate the Board's interface with the Chief Executive.

Chris Liddell, the current Chairman of the Board, was elected to that role upon his appointment to the Board in February 2014. The Board has determined that Chris Liddell is an Independent Director.

Director independence The Board Charter requires that a minimum of two Directors be "independent".

The Board takes into account the guidance provided under the NZX Listing Rules, the ASX Listing Rules and the ASX Recommendations, in determining the independence of Directors.

The Board will review any determination it makes as to a Director's independence on becoming aware of any information that may have an impact on the independence of the Director. For this purpose, Directors are required to ensure that they immediately advise the Board of any relevant new or changed relationships to enable the Board to consider and determine the materiality of the relationships. An interests register is maintained to record these relationships.

As at 31 March 2015, the Board considers that Chris Liddell, Craig Elliott, Lee Hatton, Sam Morgan, Graham Shaw, Graham Smith and Bill Veghte are Independent Directors. The Board has determined that Rod Drury is not an Independent Director because of his executive responsibilities and substantial shareholding, and that Craig Winkler is not an Independent Director because of his substantial shareholding.

Conflicts of interest The Board Charter outlines the Board's policy on conflicts of interest. Where conflicts of interest do exist, Directors do not exercise their right to vote in respect of such matters. An interests register is maintained to record any interests that have been disclosed by Directors.

Nomination and appointment The procedures for the appointment and removal of Directors are ultimately governed by the Company's Constitution.

In accordance with ASX and NZX Listing Rules, the Company communicates through the ASX and NZX markets announcements platforms, that it accepts nominations for Directors, with such nominations to be considered by shareholders at the Company's Annual Meeting.

The Board has established a Nominations Committee whose role is to identify and recommend to the Board individuals for nomination as members of the Board and its Committees, taking into account such factors as it deems appropriate, including experience, qualifications, judgement and the ability to work with other Directors.

Directors receive formal letters of appointment setting out the arrangements relating to their appointments.

Board Committees The Board operates three Committees: the Audit and Risk Management Committee, the People and Remuneration Committee, and the Nominations Committee. The Charter of each Committee is in the Investors section on the Company's website.

The membership of each Committee at 31 March 2015 was:

1. Audit and Risk Management Committee – Graham Shaw (Chair), Chris Liddell, Craig Winkler, Lee Hatton
2. People and Remuneration Committee – Sam Morgan (Chair), Chris Liddell, Craig Elliott, Bill Veghte, Lee Hatton
3. Nominations Committee – Chris Liddell (Chair), Sam Morgan, Craig Winkler

Retirement and re-election The Board acknowledges and observes the relevant Director rotation/retirement rules under the Company's Constitution, the NZX Listing Rules and the ASX Listing Rules, meaning that the prescribed number of Directors, at a minimum, retire at the Company's Annual Meeting. These individuals typically offer themselves for re-election as Directors at the Annual Meeting.

Director remuneration Directors' fees are currently set at a maximum of $850,000 for the non-executive Directors. The actual amount of fees paid to the Directors (whether in cash, shares, or options) in the financial year was $515,000; further detail on remuneration paid to Directors is set out in the Disclosures section of this Report.

Board access to information and advice Directors have unrestricted ability to access Group records and information required to fulfill their roles as Directors. All Directors have access to the senior management team, including the Company Secretary, to discuss issues or obtain information on specific areas in relation to items to be considered at Board meetings or other areas as they consider appropriate.

The Company Secretary is responsible for supporting the effectiveness of the Board by ensuring that policies and procedures are followed and co-ordinating the completion and dispatch of the Board agendas and papers.

The Board, the Board Committees and each Director have the right, subject to the approval of the Chairman, to seek independent professional advice at the Company's expense to assist them to carry out their responsibilities. Further, the Board and Board Committees have the authority to secure the attendance at meetings of outsiders with relevant experience and expertise.

Director education All Directors are responsible for ensuring they remain current in understanding their duties as Directors.

Directors' share ownership Directors are encouraged to hold shares in the Company. All Directors and employees are required to comply with the Company's Securities Trading Policy and Guidelines in undertaking any trading in the Company's shares. A copy of this Policy can be found in the Investors section on the Company's website. The table of Directors' equity holdings in the Company is included in the Disclosures section of this Annual Report.

Indemnities and insurance Deeds of Indemnity have been granted by the Company in favour of the Directors in relation to potential liabilities and costs they may incur for acts or omissions in their capacity as Directors.

The Directors' and Officers' Liability insurance covers risks normally covered by such policies arising out of acts or omissions of Directors and employees in their capacity as such.

Board meetings The Board met for seven regularly scheduled meetings during the financial year, where key financial and operational matters were considered as well as matters of strategic importance. Additional ad-hoc Board meetings were held as appropriate, such as to approve the entering into Subscription Agreements in connection with the capital raise that was completed in March 2015. The Board also approve certain matters by way of circular resolution, such as relating to issues of equity under the Company's Long Term Incentive Schemes.

Executives regularly attend Board meetings and are also available to be contacted by Directors between meetings.

There were also separate meetings of the Board Committees during the year as necessary. Directors who are not members of the Committees may attend the Committee meetings.

The Board has a formal review of its performance and areas of focus on an annual basis.

Feedback on relevant Board performance factors is provided by executive members to enhance the working relationship between the Board and management.

Company subsidiaries The Company has six wholly owned subsidiaries, consisting of a wholly owned operating subsidiary in each of the Company's four core markets (being Australia, New Zealand, the United Kingdom, and the United States); Monchilla, Inc. (acquired by the Company in November 2014); and a wholly owned subsidiary that acts as trustee in relation to the Company's long-term incentive scheme available to employees.

PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Companies should actively promote ethical and responsible decision-making

The Board maintains high standards of ethical conduct and the Chief Executive and broader management team are responsible for ensuring that high standards of conduct are maintained by all staff. Employees are made aware of, and required to comply with, the Company's "Code of Conduct".

The Code of Conduct is available in the Investors section of the Company's website, and covers the practices necessary to maintain confidence in the Company's integrity; the practices necessary to take into account the Company's legal obligations and reasonable expectations of its stakeholders; and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

A copy of the Company's Diversity Policy is available in the Investors section on the Company's website.

The Company recognises the importance of diversity in the workplace and its positive impact on the work environment and culture. The Board has approved measurable objectives for achieving diversity in the workplace. These are set out below, along with the Company's progress towards achieving them.

a. *Objective:* Ensure that all recruitment campaigns generate a diverse pool of talent and that all hiring decisions are based on merit, taking into account the relevant skills, qualifications, and experience of all applicants and recognising the importance of diversity in the workforce.

   Progress: The Company carries out the bulk of its recruiting efforts using its internal recruiting function. A diverse range of recruitment tools, job boards, social media channels and sourcing methods are used with the aim to maximise the reach and breadth of talent sourcing and therefore maximise the diversity of the recruitment pool from which employees are selected. Selection processes are rigorous, involving appropriate screening, interviewing, competency based testing and reference checking to ensure all hiring decisions are made on merit, taking into account relevant hiring considerations. The importance of diversity is reinforced to, and well understood by, the hiring managers and internal recruitment team, both through recruitment related training and communication of the Company's core values. A number of the Company's recruitment campaigns are aimed at increasing diversity in the workplace, such as sponsorship of and attendance at events like "Geek Girl" dinners, Women in Tech events, graduate recruitment campaigns, the Company's intern programme, and publishing case studies that represent the Company's diverse workforce. The Company is particularly focussed on programs to promote women in technology.

b. *Objective:* Ensure that appropriate internal policies supporting and promoting diversity have been adopted and are well communicated to all employees.

   Progress: The Company has adopted and communicated a Diversity Policy and a Code of Conduct, both of which support diversity in the workplace. Copies of the Company's Diversity Policy and Code of Conduct are made available to all staff on the Company's intranet, and are also available in the Investors and careers sections of the Company's website. The Company has also implemented and communicated favourable parental leave and flexi-leave arrangements.

c. *Objective:* Ensure that no impediments exist that restrict the ability to maintain a diverse workforce.

   Progress: The Company's HR function actively ensures that there are no impediments that restrict the Company from maintaining a diverse workforce. The Company provides management training to its current and potential leaders, which includes training on being a successful leader and fostering a healthy and inclusive work environment. The Company provides numerous forums to its employees (including in an annual anonymous employee survey) to enable and encourage its employees to raise any concerns that they may have in relation to their work environment.

d. *Objective:* Continually review and monitor parity of working conditions and pay across the workforce.

   Progress: The Company continually reviews the working conditions of all of its employees and reviews remuneration to ensure that it is merit-based and adequately reflects the responsibilities of the position. The Company conducts annual performance and salary reviews which provide visibility to management in relation to parity of working conditions and pay across its workforce. There are numerous ways in which employees can raise concerns about working conditions within the Company, and these are regularly communicated to staff.

e. *Objective:* Reinforce internally and externally that Xero is an equal opportunity employer that does not discriminate on any of the prohibited grounds of discrimination, including gender; family status; sexual orientation; religious, ethical or political beliefs; ethnicity; disability; and age.

   Progress: The composition of the Company's workforce demonstrates that it is an equal opportunity employer that does not discriminate on any of the prohibited grounds of discrimination. As discussed above, the Company takes active steps to monitor and encourage diversity in the workforce.

Gender Diversity At 31 March 2015, the proportion of females employed by the Company (and its wholly owned subsidiaries) was as follows: 37% in all positions; 11% in senior executive positions (being five C-level executives and four "Country Managers"); and 11% on the Board. The respective figures as at 31 March 2014 were: 40% in all positions; 12.5% in senior executive positions (being four C-level executives and four "Country Managers"); and 0% on the Board. These figures include permanent full time, permanent part time, and fixed term employees, but not contractors.

PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Companies should have a structure to independently verify and safeguard the integrity of their financial reporting

The Board is committed to a transparent system for auditing and reporting of the Company's financial performance. The Board has established an Audit and Risk Management Committee, which performs a central role in achieving this goal.

The Audit and Risk Management Committee's principal functions are:

- to assist the Board in ensuring that appropriate accounting policies and internal controls are established and followed;
- to assist the Board in producing accurate financial statements in compliance with all applicable legal requirements and accounting standards; and
- to ensure the efficient and effective management of business risks.

One of the main purposes of the Audit and Risk Management Committee is to ensure the quality and independence of the audit process. The Chairman of the Audit and Risk Management Committee and the Chief Financial Officer work with the external auditors to plan the audit approach. All aspects of the audit are reported back to the Audit and Risk Management Committee and the auditors are given the opportunity at Audit and Risk Management Committee meetings to meet with the Committee, including without the Company's management being present.

The Audit and Risk Management Committee has adopted a formal Charter, a copy of which is available in the Investors section on the Company's website.

PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE

Companies should promote timely and balanced disclosure of all material matters concerning the company

A copy of the Company's Market Disclosure and Communications Policy is available in the Investors section on the Company's website. The Policy has been communicated internally to ensure that it is strictly adhered to by the Board and the Company's employees.

The Company complies with its continuous disclosure obligations under the NZX Listing Rules, the Financial Markets Conduct Act 2013, and the ASX Listing Rules.

PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS

Companies should respect the rights of shareholders and facilitate the effective exercise of those rights

During the time that the Company has been listed on the NZX and the ASX, it has built a reputation of openness and has encouraged a high level of communication with shareholders and the market generally. It does this through numerous forms of communication including formal communication, social media, blogs, press releases and road-shows.

The Board encourages active participation by shareholders at the Annual Meeting of the Company, and allows shareholders to submit questions to the Board prior to or at the Annual Meeting, to be answered by the Board at the Annual Meeting.

PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

Companies should establish a sound system of risk oversight and management and internal control

The Company's senior management maintain a Risk Register which is reviewed at each Audit and Risk Management Committee, with certain aspects escalated to the Board as appropriate by the Audit and Risk Management Committee.

As a New Zealand company, section 295A of the Australian Corporations Act is not applicable to the Company. However, the Company's Chief Executive and Chief Financial Officer provide equivalent assurances to the Board as part of the annual external audit process.

PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY

Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear

The Board has a People and Remuneration Committee whose principal function is to oversee the Company's strategies and policies relating to organisational structure, culture, employee performance and development, succession planning, growth, and remuneration.

A key component to the Company's remuneration framework is the Company's Long Term Incentive Schemes, which are generally available to all employees. These schemes allow employees to be granted shares in the Company, which aligns the interests of those employees with the interests of shareholders and rewards participating employees for the creation of shareholder wealth.

Senior management participate in a Short Term Incentive Program, with remuneration under this Program determined by the achievement of key performance indicators that are individually set for the participants in the Program.

The Company distinguishes the structure of non-executive Directors' remuneration from that of its executive Director. Please see "Principle 1" above for further detail in relation to performance management of the Chief Executive and the senior management team.

The People and Remuneration Committee is governed by a formal charter, a copy of which is available in the Investors section on the Company's website.

Disclosures

ENTRIES RECORDED IN THE INTERESTS REGISTER

The Company maintains an Interests Register in accordance with the Companies Act 1993 and the Financial Markets Conduct Act 2013. The following are particulars of entries made in the Interests Register for the period 1 April 2014 to 31 March 2015.

Directors' interests Directors disclosed interests, or cessations of interest, in the following entities pursuant to section 140 of the Companies Act 1993 during the year ended 31 March 2015.

Director/Entity	Relationship
Graham Shaw	
Jeff Gray European Limited	Ceased to be a Director
Spotlight Reporting Limited	Investor, Advisor
Optimal Usability Limited	Ceased to be a Director
Craig Winkler	
Unleashed Software Limited	Investor
Spotlight Reporting Limited	Investor
Tyro Payments Limited	Minority Shareholder
Ingogo Pty Ltd	Minority Shareholder
Aconex Ltd	Minority Shareholder
Lee Hatton	
National Australia Bank	General Manager
BNZ Investment Services Limited	Director
UBank, backed by National Australia Bank	CEO
Graham Smith	
MINDBODY, Inc.	Director
Splunk, Inc.	Director
Good Technology, Inc.	Director

Share dealings of Directors Directors disclosed the following acquisitions of relevant interests in Xero shares during the year ended 31 March 2015. There were no disposals of relevant interests in Xero shares during the year ended 31 March 2015 (other than the exercise of options as detailed below).

Shares	Date of acquisition	Consideration per share	Number of shares acquired
Chris Liddell	24 July 2014	$24.37	5,000
Chris Liddell	21 November 2014	$17.01	10,000
Bill Veghte	24 July 2014	$24.37	5,000
Bill Veghte	27 November 2014	$17.11	21,000
Craig Elliott*	1 August 2014	$4.97	33,333
Craig Elliott*	31 March 2015	$4.97	33,333
Lee Hatton**	30 January 2015	$16.10	2,173

**The shares acquired by Craig Elliott on 1 August 2014 and 31 March 2015 were issued upon exercise of an equivalent number of options. Each option had an exercise price of $4.97.*

*** The shares were issued to Lee Hatton as remuneration for her role as Director.*

Share options	Date of grant	Exercise price	Number of options granted
Chris Liddell*	12 February 2015	$16.14	32,163
Bill Veghte**	12 February 2015	$16.14	25,730

**The options were granted to Chris Liddell as remuneration for his role as Director.*
***The options were granted to Bill Veghte as remuneration for his role as Director.*

Holdings of shares and options by Directors at 31 March 2015

	2015 Number of shares	2015 Number of options	2014 Number of shares	2014 Number of options
Rod Drury	21,719,779	–	21,719,779	–
Craig Elliott	66,666	33,334	–	100,000
Sam Morgan	5,122,609	–	5,122,609	–
Graham Shaw	1,336,010	–	1,336,010	–
Craig Winkler (two holdings)	18,475,990	–	18,475,990	–
Chris Liddell*	15,000	110,644	–	78,481
Bill Veghte**	26,000	88,515	–	62,785
Lee Hatton***	2,173	–	–	–
Graham Smith	–	–	–	–

**26,160 of the options granted to Chris Liddell vested (meaning that they were capable of being exercised) on 12 February 2015 but have not been exercised as at 8 May 2015. The 15,000 shares are held by FNZ Custodians Limited on behalf of Chris Liddell.*

*** 20,928 of the options granted to Bill Veghte vested (meaning that they were capable of being exercised) on 12 February 2015 but have not been exercised as at 8 May 2015. The 26,000 shares are held by FNZ Custodians Limited on behalf of Bean Brook Farm 2013 Annuity Trust (the Trust). Bill Veghte is the trustee of the Trust and his immediate family are the beneficiaries.*

**** Lee Hatton was issued shares in lieu of cash, as remuneration for her role as Director for the preceding six month period, to a value of $35,000. In addition to the 2,173 shares held by Lee Hatton (as noted above) 200 shares are held by Lee Hatton's spouse.*

Remuneration of Directors Details of the total remuneration of, and the value of other benefits received by, each Director of Xero during the financial year ended 31 March 2015 are as follows:

	2015 Fees ($000s)	2015 Remuneration ($000s)	2014 Fees ($000s)	2014 Remuneration ($000s)
Rod Drury*	–	567	–	395
Craig Elliott	40	–	40	–
Sam Morgan	40	–	40	–
Graham Shaw**	50	–	50	–
Craig Winkler	40	–	40	–
Chris Liddell***	145	–	23	–
Bill Veghte****	116	–	18	–
Lee Hatton*****	68	–	–	–
Graham Smith******	16	–	–	–
Sam Knowles *******	–	–	69	–
	515	**567**	**280**	**395**

**Rod Drury is an executive Director and receives remuneration from Xero in the form of a salary and short-term incentives. He does not participate in the Xero Employee Restricted Share Plan or receive remuneration in his capacity as Director.*

*** Graham Shaw was paid $40,000 for his role as Director and $10,000 for his role as Chair of the Audit and Risk Management Committee.*

**** The 2015 figure represents the accounting expense that has been recognised for the financial year ended 31 March 2015 in respect of the options granted to Chris Liddell in his capacity as Director. The actual value of the options granted to Chris Liddell in the financial year ended 31 March 2015, at the time of grant, was $220,000.*

***** The 2015 figure represents the accounting expense that has been recognised for the financial year ended 31 March 2015 in respect of the options granted to Bill Veghte in his capacity as Director. The actual value of the options granted to Bill Veghte in the financial year ended 31 March 2015, at the time of grant, was $176,000.*

****** Lee Hatton was issued $35,000 worth of shares on 30 January 2015 in lieu of cash, as remuneration for her role as Director for the six month period prior to the issue date.*

******* Graham Smith became a Director on 25 February 2015.*

******** Sam Knowles ceased to be a Director on 12 February 2014.*

Employee remuneration The following table shows the number of employees (including employees holding office as Directors of subsidiaries) whose remuneration and benefits for the year ended 31 March 2015 were within the specified bands above $100,000. The remuneration figures shown in the table include all monetary payments actually paid during the course of the year ended 31 March 2015. They also include bonuses paid in respect of the Group's Share Schemes. The table does not include amounts paid post 31 March 2015 that related to the year ended 31 March 2015, such as the short-term incentive scheme bonus. The table below includes the remuneration of Rod Drury ($567,000). No Director of a subsidiary receives or retains any remuneration or other benefits from Xero for acting as such.

Remuneration including equity based compensation	2015 Number of employees	2015 Number of employees acting as Directors of subsidiaries	2014 Number of employees	2014 Number of employees acting as Directors of subsidiaries
100,000 to 109,999	77	–	37	–
110,000 to 119,999	66	–	33	–
120,000 to 129,999	60	–	30	–
130,000 to 139,999	32	–	21	–
140,000 to 149,999	43	–	14	–
150,000 to 159,999	27	–	8	–
160,000 to 169,999	15	–	9	–
170,000 to 179,999	11	–	13	–
180,000 to 189,999	12	–	2	–
190,000 to 199,999	12	–	1	–
200,000 to 209,999	6	–	1	–
210,000 to 219,999	8	–	1	–
220,000 to 229,999	1	–	4	–
230,000 to 239,999	2	–	2	–
240,000 to 249,999	2	–	3	–
250,000 to 259,999	2	–	3	–
260,000 to 269,999	3	–	–	–
270,000 to 279,999	3	–	–	–
280,000 to 289,999	4	–	3	–
300,000 to 309,999	1	–	1	–
310,000 to 319,999	1	–	–	–
320,000 to 329,999	2	–	1	–
340,000 to 349,999	–	–	1	–
370,000 to 379,000	3	1	–	–
380,000 to 389,000	1	–	–	–
390,000 to 399,999	–	–	1	1
400,000 to 409,999	–	–	1	1
410,000 to 419,999	1	1	–	–
430,000 to 439,999	–	–	1	–
460,000 to 469,000	–	–	1	–
500,000 to 509,000	1	–	1	1
540,000 to 549,000	1	1	–	–
560,000 to 569,000	1	1	1	–
890,000 – 899,999	1	–	–	–
900,000 – 909,999	1	–	–	–
1,000,000 – 1,009,999	1	–	–	–
1,570,000 – 1,579,999	1	–	–	–
	402	4	194	3

Analysis of shareholding at 8 May 2015

	Number of holders	Number of shares	% of issued capital
1 to 1,000	10,658	3,197,333	2.35
1,001 to 5,000	1,891	4,273,551	3.14
5,001 to 10,000	341	2,468,138	1.81
10,001 to 100,000	332	7,712,935	5.67
100,001 and over	47	118,455,907	87.03
Grand Total	**13,269**	**136,107,864**	**100.00**

There were 713 shareholders holding less than a marketable parcel of shares (defined in the ASX Listing Rules as a parcel of not less than AU$500), based on the closing price of Xero's shares on the ASX on 8 May 2015, being AU$18.20.

Twenty largest shareholders at 8 May 2015

Shareholder rank and name	Holding	% of total shares on issue
1. New Zealand Central Securities Depository Limited	39,032,878	28.68
2. Anna Drury and Kenneth Drury (Rod Drury)	21,719,779	15.96
3. Givia Pty Limited (Craig Winkler)	18,454,545	13.56
4. AP Investments (Hk) Limited	6,643,636	4.88
5. Jasmine Investment Holdings Limited (Sam Morgan)	5,122,609	3.76
6. Valar Ventures LP (Peter Thiel)	4,135,870	3.04
7. VV Xero Holdings LLC (Peter Thiel)	4,062,068	2.98
8. Hamish Edwards and Tineke Edwards and Andrew Finch	3,989,000	2.93
9. Credit Suisse Securities (Europe) Limited	1,652,893	1.21
10. Nicola Wilson and David Wilson	1,565,399	1.15
11. Graham Shaw and Delwyn Shaw	1,336,010	0.98
12. Nelson Nien Sheng Wang & Pei Chun Ko	1,087,588	0.80
13. W5 Limited	728,180	0.54
14. Craig Walker and Catherine Walker	663,898	0.49
15. Xero Limited (Employee Restricted Share Plan)	606,918	0.45
16. Anna Grigg and Alastair Grigg and Claymore Trustees Limited	551,776	0.41
17. JBWERE (NZ) Nominees Limited	545,008	0.40
18. Blackrock International Opportunities Portfolio	540,000	0.40
19. Fletcher Brown and Karen Oakley-Harness	464,000	0.34
20. FNZ Custodians Limited	455,730	0.33

Substantial product holders According to notices given under the Financial Markets Conduct Act 2013, the following persons were substantial product holders in Xero Limited at 31 March 2015 (and, with respect to ASX Listing Rule 4.10.4, at 8 May 2015) in respect of the number of quoted voting products set opposite their names:

Substantial product holder	Quoted voting products in the Company in which a relevant interest is held
1. Anna Drury and Kenneth Drury (Rod Drury)	21,719,779
2. Givia Pty Limited (Craig Winkler)	18,454,545
3. Matrix Capital Management Company, LLC; Matrix Capital Management Master Fund, LP and Matrix Capital Management Fund II, LP (Matrix Capital Management)*	13,197,103
4. Valar Ventures LP; Valar Global Principals Fund I LP; Valar Global Fund I LP and VV Xero Holdings LLC (Peter Thiel)	8,528,516

** On 30 November 2012, Matrix Capital Management Company, LLC and Matrix Capital Management Master Fund, LP filed a Substantial Security Holder Notice disclosing a total interest of 11,489,934 ordinary shares in Xero Limited. On 16 October 2013, Xero Limited issued a further 991,736 ordinary shares to parties named in the Substantial Security Holder Notice dated 30 November 2012. On 13 March 2015, Xero Limited issued a further 715,433 ordinary shares to Matrix Capital Management Master Fund, LP and Matrix Capital Management Fund II, LP*

The total number of issued voting shares in Xero Limited at 31 March 2015 was 136,008,741 and the total number of issued voting shares of Xero Limited at 8 May 2015 was 136,107,864. Where voting at a meeting of shareholders is by voice or a show of hands, every shareholder present in person, or by representative, has one vote, and on a poll, every shareholder present in person, or by representative, has one vote for each fully paid ordinary share in the Company. There is, at the date of this Report (21 May 2015), no on-market buy-back for Xero's shares.

Restricted Securities The following shares are restricted securities or securities subject to voluntary escrow under ASX listing rule 4.10.14.

All 7,359,069 shares issued by the Company in March 2015 in connection with a capital raise by the Company are subject to certain restrictions on sale (with customary exceptions) until 11 June 2015.

119,245 shares in the Company that were issued in connection with the acquisition of 100% of the shares in Monchilla, Inc. in November 2014 are restricted securities until 6 November 2016, subject to the continued employment of Jack Couch and Nanjuan Shi respectively, with the Group.

606,918 shares are held on a restricted basis in connection with Xero's Employee Restricted Share Plan.

Options There were 68 individuals holding a total of 609,939 options at 8 May 2015.

Restricted Stock Units (RSUs) There were 180 individuals holding a total of 370,368 RSUs at 8 May 2015. RSUs are a conditional contractual right to be issued an equivalent number of ordinary shares in Xero.

Waivers During the 12 months to 31 March 2015, Xero was granted various waivers from the NZX and ASX Listing Rules to allow the Directors to be remunerated in the form of equity securities (including both shares and options). More information on these waivers is set out below, and in the announcements posted on both the NZX and ASX on 3 July 2014.

Waivers (NZX) In July 2014, NZX Regulation granted the Company (1) a waiver from NZX Listing Rule 3.5.1 to allow the Company, subject to certain conditions, to remunerate the Directors, in their capacities as Directors, either in part or in whole by way of an issue of options, which would, upon exercise of such options, result in the issue of shares in the Company; and (2) a waiver from NZX Listing Rule 6.2.2, subject to certain conditions, with the effect that the Company is not required to prepare an Appraisal Report to accompany a Notice of Meeting provided to shareholders in reliance on the waiver granted in (1) that contains a resolution for the issue of options to Directors as remuneration.

Waivers (ASX) In July 2014, ASX granted the Company (1) a waiver from ASX Listing Rules 10.13.3 and 10.13.5, subject to certain conditions, to the extent necessary to permit the Company's 2014 Notice of Meeting to contain a resolution seeking approval for the issue of a maximum of NZ$70,000 worth of shares to Lee Hatton as remuneration for her role as Director, in lieu of cash; and (2) a waiver from ASX Listing Rule 10.13.3, subject to certain conditions, to the extent necessary to permit the Company's 2014 Notice of Meeting to contain a resolution seeking approval for the grant of a maximum of NZ$220,000 worth of options to Chris Liddell and a maximum of NZ$176,000 worth of options to Bill Veghte, in their roles as Directors, in each case, in lieu of cash.

In addition to the waivers listed above, Xero has also been granted waivers from the ASX which are standard for a New Zealand company listed on the ASX including confirmation that ASX will accept financial statements denominated in New Zealand dollars and prepared and audited in accordance with New Zealand Generally Accepted Accounting Principles and Auditing Standards.

Subsidiary Company Directors The following people held office as Directors of subsidiary companies at 31 March 2015:

Xero (UK) Limited – Rod Drury, Gary Turner
Xero Australia Pty Limited – Rod Drury, Chris Ridd
Xero (NZ) Limited – Rod Drury, Victoria Crone
Xero, Inc. – Rod Drury
Xero Trustee Limited – Rod Drury, Graham Shaw
Monchilla, Inc. – Rod Drury

Annual Meeting Xero's Annual Meeting of shareholders will be held in Wellington on Wednesday 22 July 2015 at 4pm. A Notice of Annual Meeting and Proxy Form will be circulated to shareholders in June 2015.

REGISTERED OFFICES:

NEW ZEALAND

3 MARKET LANE
PO BOX 24 537
WELLINGTON 6142
NEW ZEALAND

TELEPHONE: +64 4 819 4800
FACSIMILE: +64 4 819 4801

AUSTRALIA

UNIT 1, 6 ELIZABETH STREET
HAWTHORN, VIC 3122
AUSTRALIA

TELEPHONE: +61 3 9981 0408

COMPANY NUMBERS:

183 0488 (NEW ZEALAND)
160 661 183 AUSTRALIAN REGISTERED BODY NUMBER (ARBN) (AUSTRALIA)

WEB ADDRESS:

WWW.XERO.COM

DIRECTORS:

CHRIS LIDDELL
CHAIRMAN

ROD DRURY

CRAIG ELLIOTT

LEE HATTON

SAM MORGAN

GRAHAM SHAW

GRAHAM SMITH

BILL VEGHTE

CRAIG WINKLER

LEADERSHIP TEAM:

ROD DRURY
(CHIEF EXECUTIVE, CO-FOUNDER)

ROSS JENKINS
(INTERIM CHIEF FINANCIAL OFFICER, CHIEF OPERATING OFFICER)

DUNCAN RITCHIE
(CHIEF PLATFORM OFFICER)

ANGUS NORTON
(CHIEF PRODUCT OFFICER)

ANDY LARK
(CHIEF MARKETING OFFICER)

RUSS FUJIOKA
(US PRESIDENT)

CHRIS RIDD
(MANAGING DIRECTOR, AUS)

VICTORIA CRONE
(MANAGING DIRECTOR, NZ)

GARY TURNER
(MANAGING DIRECTOR, UK)

COMPANY SECRETARY:
MATT VAUGHAN

AUDITOR:

PRICEWATERHOUSECOOPERS

LEGAL ADVISOR:

BELL GULLY

BANKERS:

ASB BANK LIMITED

BANK OF NEW ZEALAND LIMITED

HSBC LIMITED

NATIONAL AUSTRALIA BANK LIMITED

SILICON VALLEY BANK

STOCK EXCHANGES:

THE COMPANY'S ORDINARY SHARES ARE LISTED ON THE NZX MAIN BOARD AND THE ASX

SHARE REGISTRAR:

NEW ZEALAND

LINK MARKET SERVICES LIMITED
LEVEL 7, ZURICH HOUSE
21 QUEEN STREET
PO BOX 91 976, AUCKLAND 1142

TELEPHONE: +64 9 375 5998
FACSIMILE: +64 9 375 5990

AUSTRALIA

LINK MARKET SERVICES LIMITED
LEVEL 12, 680 GEORGE STREET
LOCKED BAG A14
SYDNEY SOUTH, NSW 1235

TELEPHONE: +61 1300 554 474
FACSIMILE: +61 2 9287 0303

ANNUAL MEETING:

DATE: 22 JULY 2015

TIME: 4PM (NEW ZEALAND TIME)

PLACE: VISA PLATINUM GALLERY, TE PAPA, 55 CABLE STREET, WELLINGTON, NZ

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