

**XERO LIMITED  
CONDENSED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009  
(Unaudited)**

**XERO LIMITED**  
**CONSOLIDATED INCOME STATEMENT**  
**FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009**

	6 months Unaudited Group 2009 (\$000s)	6 months Unaudited Group 2008 (\$000s)	12 months Audited Group 31 March 2009 (\$000s)
<b>Operating revenue and other income</b>	1,350	421	1,119
<b>Operating expenses</b>	(5,020)	(3,845)	(7,491)
<b>Depreciation &amp; amortisation</b>	(638)	(376)	(873)
<b>Operating deficit</b>	(4,308)	(3,800)	(7,245)
<b><i>Interest</i></b>			
Interest income	496	337	497
Interest expense	(1)	(2)	(3)
<b>Net (loss) before tax</b>	(3,813)	(3,465)	(6,751)
Income tax	-	-	-
<b>Net (loss) after tax</b>	(3,813)	(3,465)	(6,751)
<b>Earnings per share</b>			
Basic earnings per share (dollars)	(0.05)	(0.06)	(0.12)
Diluted earnings per share (dollars)	(0.05)	(0.06)	(0.12)

**XERO LIMITED**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009**

	<b>6 months Unaudited Group 2009 (\$000s)</b>	<b>6 months Unaudited Group 2008 (\$000s)</b>	<b>12 months Audited Group 31 March 2009 (\$000s)</b>
Net loss after tax for the period	(3,813)	(3,465)	(6,751)
<b>Other comprehensive income</b>			
Exchange difference on translation of international subsidiaries	(28)	2	(10)
<b>Other comprehensive income for the period, net of tax</b>	<u>(28)</u>	<u>2</u>	<u>(10)</u>
<b>Total comprehensive loss for the period</b>	<u><u>(3,841)</u></u>	<u><u>(3,463)</u></u>	<u><u>(6,761)</u></u>

**XERO LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009**

	Share capital (\$000s)	Retained earnings (\$000s)	Foreign currency translation reserve (\$000s)	Total equity (\$000s)
<b>Group (unaudited 30 September 2009)</b>				
Balance at 31 March 2009	17,130	(12,110)	-	5,020
Net (loss) after tax	-	(3,813)	-	(3,813)
Currency translation movements	-	-	(28)	(28)
Total comprehensive income	-	(3,813)	(28)	(3,841)
Issue of shares	29,046			29,046
Cost of issue	(975)			(975)
Treasury stock	(759)			(759)
Balance at 30 September 2009	<b>44,442</b>	<b>(15,923)</b>	<b>(28)</b>	<b>28,491</b>
<b>Group (unaudited 30 September 2008)</b>				
Balance at 31 March 2008	16,670	(5,359)	10	11,321
Net (loss) after tax	-	(3,465)	-	(3,465)
Currency translation movements	-	-	2	2
Total comprehensive income	-	(3,465)	2	(3,463)
Compensation under share plan	163	-	-	163
Balance at 30 September 2008	<b>16,833</b>	<b>(8,824)</b>	<b>12</b>	<b>8,021</b>
<b>Group (audited 31 March 2009)</b>				
Balance at 31 March 2008	16,670	(5,359)	10	11,321
Net (loss) after tax	-	(6,751)	-	(6,751)
Currency translation movements	-	-	(10)	(10)
Total comprehensive income	-	(6,751)	(10)	(6,761)
Issue of ordinary shares	460	-	-	460
Balance at 31 March 2009	<b>17,130</b>	<b>(12,110)</b>	<b>-</b>	<b>5,020</b>

**XERO LIMITED**  
**CONSOLIDATED BALANCE SHEET**  
**AS AT 30 SEPTEMBER 2009**

	6 months Unaudited Group 2009 (\$000s)	6 months Unaudited Group 2008 (\$000s)	12 months Audited Group 31 March 2009 (\$000s)
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant & equipment	397	464	375
Intangible assets	2,371	1,474	2,029
Other non-current assets	496	387	504
<b>Total non-current assets</b>	<u>3,264</u>	<u>2,325</u>	<u>2,908</u>
<b>Current assets</b>			
Cash & cash equivalents	25,996	6,280	3,807
Current tax receivable	9	33	12
Trade receivables & other assets	970	196	390
<b>Total current assets</b>	<u>26,975</u>	<u>6,509</u>	<u>4,209</u>
<b>Total assets</b>	<u>30,239</u>	<u>8,834</u>	<u>7,117</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade payables & other liabilities	1,748	789	2,077
Finance lease	-	7	6
<b>Total current liabilities</b>	<u>1,748</u>	<u>796</u>	<u>2,083</u>
<b>Non current liabilities</b>			
Finance lease	-	17	14
<b>Total non-current liabilities</b>	<u>-</u>	<u>17</u>	<u>14</u>
<b>Total liabilities</b>	<u>1,748</u>	<u>813</u>	<u>2,097</u>
<b>Net assets</b>	<u>28,491</u>	<u>8,021</u>	<u>5,020</u>
<b>Equity</b>			
Share capital	44,442	16,833	17,130
Retained earnings	(15,923)	(8,824)	(12,110)
Foreign currency translation reserve	(28)	12	-
	<u>28,491</u>	<u>8,021</u>	<u>5,020</u>

**XERO LIMITED**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009**

	6 months Unaudited Group 2009 (\$000s)	6 months Unaudited Group 2008 (\$000s)	12 months Audited Group 31 March 2009 (\$000s)
<b>Operating activities</b>			
<i>Cash was provided from</i>			
Receipts from customers	1,437	388	925
GST received	48	177	282
Income tax received (RWT)	-	-	210
Interest received & other income	262	441	611
	<u>1,747</u>	<u>1,006</u>	<u>2,028</u>
<i>Cash was applied to</i>			
Payments to suppliers & employees	(5,056)	(3,678)	(7,172)
GST paid	(1)	-	-
Income tax paid (RWT)	-	211	-
	<u>(5,057)</u>	<u>(3,467)</u>	<u>(7,172)</u>
<b>Net cash flows from operating activities</b>	<b><u>(3,310)</u></b>	<b><u>(2,461)</u></b>	<b><u>(5,144)</u></b>
<b>Investing activities</b>			
<i>Cash was applied to</i>			
Purchase of property, plant & equipment	(117)	(114)	(126)
Capitalised development costs	(711)	(673)	(1,397)
Intangible assets	-	-	(1)
Sale of other assets	13	-	-
	<u>(815)</u>	<u>(787)</u>	<u>(1,524)</u>
<b>Net cash flows from investing activities</b>	<b><u>(815)</u></b>	<b><u>(787)</u></b>	<b><u>(1,524)</u></b>
<b>Financing activities</b>			
<i>Cash was provided from</i>			
Net private placement funds received in advance	-	-	954
Issue of ordinary shares	28,050	-	-
	<u>28,050</u>	<u>-</u>	<u>954</u>
<i>Cash was applied to</i>			
Cost of share issue	(944)	-	-
Share Buy Back	(744)	-	-
Finance lease repayments	(20)	(3)	(6)
	<u>(1,708)</u>	<u>(3)</u>	<u>(6)</u>
<b>Net cash flows from financing activities</b>	<b><u>26,342</u></b>	<b><u>(3)</u></b>	<b><u>948</u></b>
<b>Net increase / (decrease) in cash held</b>	<b><u>22,217</u></b>	<b><u>(3,251)</u></b>	<b><u>(5,720)</u></b>
Foreign currency translation adjustment	(28)	14	10
Cash and cash equivalents at beginning of the period	3,807	9,517	9,517
<b>Cash &amp; cash equivalents at end of period</b>	<b><u>25,996</u></b>	<b><u>6,280</u></b>	<b><u>3,807</u></b>

**XERO LIMITED**  
**NOTES TO THE CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009**

**1. BASIS OF PRESENTATION & ACCOUNTING POLICIES**

These unaudited consolidated condensed interim financial statements of Xero Limited (the Company) and its subsidiaries (together "the Group") have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting and with New Zealand Equivalent to International Accounting Standard (IAS) 34 Interim Financial Reporting issued by the New Zealand Institute of Chartered Accountants. The Company and Group are profit oriented entities.

The Company is an issuer for the purposes of the New Zealand Financial Reporting Act 1993.

The unaudited consolidated condensed interim financial statements of the Group for the six months ended 30 September 2009 have been prepared using the same accounting policies and methods of computation as, and should be read in conjunction with, the financial statements and related notes included in the Group's Annual Report for the year ended 31 March 2009.

The same significant judgements, estimates and assumptions included in the notes to the financial statements in the Group's Annual Report for the year ended 31 March 2009 have been applied to these interim financial statements.

The Group has adopted the following new and amended IFRS as of 1 April 2009:

- IAS 1 (Revised), 'Presentation of Financial Statements' - effective 1 January 2009. The revised standard requires the presentation of non-owner changes in equity to be disclosed as part of the income and expenses rather than in Statement of Changes in Equity. As a result the Group has presented a Consolidated Statement of Comprehensive Income. Comparative information has also been re-presented to comply with these disclosure requirements.

- IFRS8, 'Operating Segments' - effective 1 January 2009. IFRS 8 requires the presentation of segmental information as used by the Chief Operating Decision Maker of the Group to allocate resources and make strategic decisions. The Group has applied the new standard (replacing IAS 14: Segment Reporting) within these financial statements. There has been no significant change in disclosures from those presented under IAS 14.

	<b>6 months Unaudited Group 2009 (\$000s)</b>	<b>6 months Unaudited Group 2008 (\$000s)</b>	<b>12 months Audited Group 31 March 2009 (\$000s)</b>
<b>Operating revenue</b>	1,271	333	959
<b>Other income</b>			
Government grants	69	76	125
Rent received	10	12	35
	<u>79</u>	<u>88</u>	<u>160</u>
<b>Total revenue and other income</b>	<u><b>1,350</b></u>	<u><b>421</b></u>	<u><b>1,119</b></u>
<b>Acquisition &amp; disposal of assets</b>			
Property, plant & equipment			
- Acquisitions	128	90	126
- Disposals	(21)	(3)	(25)
Intangibles			
- Acquisitions (capitalised development costs)	<u>876</u>	<u>680</u>	<u>1,625</u>
<b>Net tangible assets per share (dollars)</b>	<u>0.30</u>	<u>0.12</u>	<u>0.05</u>

**XERO LIMITED**  
**NOTES TO THE CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009**

	6 months Unaudited Group 2009 (\$'000s)	6 months Unaudited Group 2008 (\$'000s)	12 months Audited Group 31 March 2009 (\$'000s)
<b>3. SHARE CAPITAL</b>			
Opening balance	17,130	16,670	16,670
Share placement	23,200	-	460
Share purchase plan	5,846	-	-
Treasury stock	(759)	163	-
Cost of issue	(975)	-	-
	<u>44,442</u>	<u>16,833</u>	<u>17,130</u>
	Shares ('000s)	Shares ('000s)	Shares ('000s)
Opening balance	55,460	55,000	55,000
Share placement	25,778	460	460
Share purchase plan	6,495	-	-
Treasury stock	(515)	-	-
	<u>87,218</u>	<u>55,460</u>	<u>55,460</u>

During the period the Company undertook a share placement programme whereby a total of 25.8 million new shares were issued at \$0.90 cents. In May 2009 a share purchase plan was completed with a total of 6.5 million new shares being issued at \$0.90 cents to existing shareholders.

Included in treasury stock is a share buy back that was completed in August 2009 which resulted in the purchase of 500,000 shares at an average price of \$1.49.

**4. TRADE RECEIVABLES & OTHER ASSETS**

Trade receivables	138	48	100
Prepayments	179	86	74
Interest receivable	366	48	58
Employee loans	111	-	122
Other accrued income	176	14	36
	<u>970</u>	<u>196</u>	<u>390</u>

**5. TRADE PAYABLES & OTHER LIABILITIES**

Trade payables	332	156	221
Income in advance	215	68	85
Employee entitlements	869	160	692
Other payables & accrued expenses	332	405	125
Net private placement funds received in advance	-	-	954
	<u>1,748</u>	<u>789</u>	<u>2,077</u>

**6. RECONCILIATION OF OPERATING CASH FLOWS**

**Reconciliation from the net loss after tax to the net cash flows from operations**

Net (loss) after tax	(3,813)	(3,465)	(6,751)
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*Adjustments for:*

- Depreciation	103	105	212
- Amortisation	535	271	661
- Net loss on disposal of property, plant & equipment	2	3	7
- Translation of foreign operations	(28)	(4)	(10)
- Deferred compensation	136	163	406
- Interest on loans to directors	-	-	(12)

*Changes in working capital items*

(Increase)/decrease in trade receivables & other assets	(568)	32	(88)
Increase/(decrease) in trade payables & other liabilities	111	257	(8)
Decrease in GST receivable	3	-	103
Decrease in tax receivable	-	177	210
Increase in employee entitlements	79	-	75
Increase in income in advance	130	-	51

Net cash flow from operating activities	<u>(3,310)</u>	<u>(2,461)</u>	<u>(5,144)</u>
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**XERO LIMITED**  
**NOTES TO THE CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009**

**7. SEGMENT INFORMATION**

Operating segments are determined on geographical location. The Group measures the operating segments based on profit before tax. Each segment derives its revenue from the sale of online accounting and business services to small enterprises. Inter-segment eliminations relate to intercompany balances.

For the period ended 30 September 2009 there were three segments - New Zealand, United Kingdom and Australia.

For the period ended 30 September 2008 there were two segments - New Zealand and United Kingdom.

For the year ended 31 March 2009 there were three segments - New Zealand, United Kingdom and Australia.

	New Zealand \$000s	United Kingdom \$000s	Australia \$000s	Inter-segment eliminations \$000s	Total \$000s
<b>2009</b>					
<b>Group (unaudited)</b>					
<b>For the period ended 30 September 2009</b>					
Total segment revenue	1,693	1,462	444	-	3,599
Inter-segment revenue	(636)	(1,319)	(373)	-	(2,328)
Revenue from external customers	1,057	143	71	-	1,271
Depreciation & amortisation	(633)	(4)	(1)	-	(638)
Interest	495	-	-	-	495
Segment net (loss) / profit before tax	(3,830)	18	(1)	-	(3,813)
Non-current asset additions	981	9	14	-	1,004
Segment assets	30,918	817	338	(1,834)	30,239
<b>2008</b>					
<b>Group (unaudited)</b>					
<b>For the period ended 30 September 2008</b>					
Total segment revenue	344	39	-	-	383
Inter-segment revenue	(50)	-	-	-	(50)
Revenue from external customers	294	39	-	-	333
Depreciation & amortisation	(372)	(4)	-	-	(376)
Interest	335	-	-	-	335
Segment net (loss) / profit before tax	(2,674)	(791)	-	-	(3,465)
Non-current asset additions	761	9	-	-	770
Segment assets	9,357	46	-	(569)	8,834
<b>2009</b>					
<b>Group (audited)</b>					
<b>For the year ended 31 March 2009</b>					
Total segment revenue	1,089	1,808	175	-	3,072
Inter-segment revenue	(304)	(1,649)	(160)	-	(2,113)
Revenue from external customers	785	159	15	-	959
Depreciation & amortisation	(865)	(7)	(1)	-	(873)
Interest	494	-	-	-	494
Segment net (loss) / profit before tax	(6,757)	6	-	-	(6,751)
Non-current asset additions	1,738	9	4	-	1,751
Segment assets	6,979	262	86	(210)	7,117

**8. RELATED PARTIES TRANSACTIONS**

There have been no movements in the Directors Loans in the current period.

All transactions with other related parties are priced on an arms length basis and are settled in cash under normal commercial terms. None of the balances are secured.

**9. EVENTS AFTER THE BALANCE SHEET DATE**

On 12 October 2009, Xero Live Pty Limited the Group's wholly owned Australian subsidiary changed its name to Xero Pty Limited.

The Directors are not aware of any matter or circumstance since the end of the period that may significantly affect the operations or carrying value of the assets of the Group.

**10. COMMITMENTS & CONTINGENCIES**

There were no capital commitments or contingent liabilities as at 30 September 2009, 30 September 2008 or 31 March 2009.