



Interim Report for the six months ended 30 September 2009

XERO LIMITED

Results for Announcement to the Market

Reporting Period	6 months to 30 September 2009	
Previous Reporting Period	6 months to 30 September 2008	
	<i>Amount (000s)</i>	<i>Percentage Change</i>
Revenues from Ordinary Activities	\$NZ 1,271	282%
Profit / (Loss) from Ordinary Activities after Tax attributable to Security Holder	\$NZ (3,813)	10%
Net Profit / (Loss) attributable to Security Holder	\$NZ (3,813)	10%
<i>Interim / Final Dividend</i>	<i>Amount per Security</i>	<i>Imputed Amount per Security</i>
No dividend is proposed.	Not applicable	Not applicable
Record Date	Not applicable	
Dividend Payment Date	Not applicable	

Performance Highlights for the Half-Year ended 30 September 2009

- Operating revenues from customers of \$1.3m, up 282% on the same period last year.
- Operating costs of \$5.0m, up 31%. This reflects investment in upgrading Xero's hosting capacity; enhancing the infrastructure for software delivery and online customer support; increasing sales capability in the UK and establishing a sales base in Australia.
- Net loss for the period of \$3.8m - an increase of 10%.
- Cash and bank balances of \$26.0m as at 30 September 2009.
- 12,000 paying customers as at 30 September 2009. This reflects growth of 445% compared to 30 September 2008 and is double the customer count at 31 March 2009. Customer growth is now in excess of 1,000 per month.
- 73 employees at period end.

Capital Raising and Share Buyback

- Xero raised a total of \$29 million in two parts:
 1. A strategic capital raising of NZ\$23.2 million including NZ\$18.0 million from Craig Winkler, a founder and former CEO and major shareholder of Australian based accounting software company, MYOB.
 2. Xero Share Purchase Plan raised \$5.8 million with a 70 per cent take-up among existing investors.
- Share buyback of 500,000 shares completed at a cost of \$744,085. This was for allocation to staff under Xero's employee restricted share plan.

Operational Highlights

- Continued and regular release of quality software, adding significant functionality for small business owners. Xero's feature set is now comparable with existing desktop software. These features include multi-currency with exchange rate feeds on the hour, and a sophisticated programmers' interface that makes it easier for other solution providers to interoperate with Xero.
- Introduction of two additional price tiers for small business owners. This broadens Xero's reach within the SME market.
- Delivered a set of accountant facing features that allow accounting practices to effectively manage their growing base of Xero customers.
- Investment in a major upgrade of the hosting environment, followed by seamless integration. This enables further capacity to scale and grow internationally.
- Marketing partnerships entered into with British Telecom in the UK and Telstra in Australia. These relationships expose Xero to a collective 2.4 million small business customers. Initial joint marketing initiatives are underway.
- Country managers appointed for each key geographical region and sales and customer care staff appointed in Sydney and Melbourne to support the next phase of expansion into the Australian market.
- Data feed agreement concluded with HSBC in the UK. This followed agreements with Australian banks NAB, ANZ and Commonwealth Bank in the prior half.
- Two international Webbys (the "Oscars of the Internet") awarded to Xero in recognition of its design and usability.
- Development of a new service, Xero Personal, which is being piloted in conjunction with BNZ.

Commentary

Strong progress was made in the period. The Company completed a very successful capital raising and drove revenue growth whilst investing in its platform and team.

The capital raising has reduced much of the risk faced by a young listed company. It provides a sound financial base for future growth and building an international business that's scalable.

For the six months to 30 September 2009 total revenue grew by 282%. The result was driven by a strong performance in New Zealand and developing revenues in Australia and the UK.

Xero's focus on managing costs, together with the increased revenues, saw a modest 10% year-on-year increase in the net loss for the period. This was also achieved while investing significantly in infrastructure and the personnel needed for growth.

The Company expanded its software development team so that it has the capacity to broaden its offering and remain world-class.

Recently the Company announced it is planning to enter the consumer market. Xero has formed a partnership with the BNZ to develop and launch Xero Personal in early 2010. This personal money management service will give consumers a complete view of all aspects of their finances and leverages the investment made in the core Xero platform.

Xero is continuing to build market momentum, assisted by the valuable exposure from its marketing partnerships with telecommunications carriers in the UK and Australia. The appointment of country managers and key sales staff in these regions is also helping to drive the uptake of Xero through accountants.

Software-as-a-Service (SaaS) is being discovered by businesses all around the world and is becoming a key enabler of productivity. Xero is now used in more than 50 countries and the Company is preparing to have a presence in the US. The US market is complex and extremely competitive and Xero will be taking care to ensure the strategy for entry is the right one.

The platform needed to take Xero to the next level internationally has been firmly established. In the year ahead the Company will focus on growing revenues in its key markets and beyond.

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