



MARKET RELEASE

Xero Full Year Results

14 May 2009

This document covers Xero Limited's audited financial results for the year ended 31 March 2009.

XERO LIMITED RESULTS FOR ANNOUNCEMENT TO THE MARKET

<i>Reporting Period</i>	12 months to 31 March 2009	
<i>Previous Reporting Period</i>	12 months to 31 March 2008	
	Amount (000s)	Percentage Change
<i>Revenues from Ordinary Activities</i>	\$NZ 959	616%
<i>Profit (Loss) from Ordinary Activities after Tax attributable to Security Holder</i>	\$NZ (6,751)	57%
<i>Net Profit (Loss) attributable to Security Holder</i>	\$NZ (6,751)	57%
Interim / Final Dividend	Amount per Security	Imputed Amount per Security
No dividend is proposed	Not applicable	Not applicable
<i>Record Date</i>	Not applicable	
<i>Dividend Payment Date</i>	Not applicable	

Financial highlights for the full year to 31 March 2009

- Revenue from subscriptions of \$959,000
- Operating expenses of \$8,364,000
- A net loss for the year of \$6,751,000
- Cash and bank balances of \$3,807,000



Commentary on financials

- The operating revenue from customer subscriptions was \$959,000 for the year ended 31 March 2009 compared with \$134,000 for the previous year; a 616% increase. In addition, Xero received grant funding from New Zealand Trade & Enterprise of \$125,000 (2008: \$216,000). Interest earned was \$494,000 (2008: \$789,000).
- Revenue was significantly weighted towards the last quarter of the period as Xero customer acquisition accelerated.
- Payments to suppliers and employees totalled \$8,364,000 for the year ended 31 March 2009 compared with \$5,488,000 in the prior year; a 52% rise.
- The result for the year was a net loss before tax of \$6,751,000, compared to \$4,310,000 in 2008; a 57% increase, which was in line with expectations.
- Xero had 55 employees at 31 March 2009 including 32 employees in product development, 3 employees based in the UK and 2 employees in Australia compared to 44 employees overall at year-end 2008.

Cashflow and balance sheet

- The net cash used for operations amounted to \$5,144,000 compared to \$3,875,000 for the previous year. These increased costs are primarily attributable to the increase in staff in all areas of operations, particularly product development and sales and marketing.

Customer Highlights

- Xero exceeded 6,000 paying customers, up from 950 customers as at 31 March 2008, this figure included over 2,000 customers in the United Kingdom.
- Xero doubled its customer base in the first three months of 2009.
- Xero now has paying customers in 25 Countries.
- Xero has trained 292 Xero Certified Advisors.
- Growth continued after year-end, with customer numbers exceeding 7,500 at 10 May 2009.

Product progress

- Xero has continued to release high quality software every month.
- NAB, ANZ and Commonwealth Bank are providing automated bank feeds to Australian Xero customers.
- Global version of Xero was released in December 2008.
- PayPal link has been embedded with Xero invoices for online payments.
- Release of Integrated Fixed Assets and depreciation features – fulfilling one of the major requests from accountants.
- Release of significant features that enable accountants to manage large numbers of their clients.



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Company News

- Xero selected to be the sole accounting partner in the New Zealand Institute Chartered Accountants (NZICA) Catalyst Programme.
- International companies Microsoft, Campaign Monitor and Rackspace completed case studies on Xero.
- International marketing expert Andy Lark, Global Vice-President of Enterprise Marketing at Dell, joined Xero as a US-based advisor to help Xero move into the next phase of its global marketing strategy.
- Telecom New Zealand began its Xero promotional campaign.
- Xero has signed a strategic marketing partnership with Telstra in Australia and British Telecom in the UK.
- Winner of 2009 PricewaterhouseCoopers Hi-Tech Awards – Innovative Services Product Award.
- Winner of two international 2009 Webby Awards for world-class software usability and design.

Economic climate

Xero is well-positioned for the current global financial situation:

- Almost all businesses require an increased focus on cashflow and Xero helps businesses to have accurate, timely and up-to-date financial information.
- In order for banks to roll over credit facilities, many are now demanding monthly management accounts. Xero facilitates cost-effective collaboration between small businesses and their accountants.
- Xero is contributing to job creation. New jobs and companies are being established to provide services using the Xero platform.
- Xero is earning export revenue from the UK, Australia and global regions following product releases in those countries.

Subsequent Events

- Post year-end, Xero has successfully raised \$23.2 million in new capital from strategic investors (with \$18 million of this being subject to approval by shareholders at the Special Shareholders' Meeting held on 14 May 2009).
- In addition, Xero is also raising further capital via a Share Purchase Plan which is being offered to all New Zealand-based Xero Shareholders. The SPP closes on 18 May 2009.
- Craig Winkler, the major new strategic investor, will join Xero's Board on 21 May 2009 following completion of the capital raising (subject to the outcome of the Shareholders' Special Meeting).
- Xero currently has in excess of 7,500 customers who, in aggregate, are committed to approximately \$250,000 of monthly revenues. Revenue collection and recognition is subject to timings of customer promotional periods.



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Summary

- Xero has successfully delivered on its initial milestones; namely to complete product development, establish itself in the New Zealand market and enter the Australian and United Kingdom markets.
- Xero is beginning to see early adopter accounting practices converting their client base and is seeing continued strong growth through this channel.
- Xero has developed international channels that will provide exposure to large numbers of businesses in Australia and the UK.

Xero will provide detailed analysis and additional commentary in its Annual Report.

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