

Xero Limited

## Income Statements

For the year ended 31 March 2009

		<b>Group</b>	<b>Group</b>	<b>Parent</b>	<b>Parent</b>
		<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<i>Notes</i>	<i>(\$000s)</i>	<i>(\$000s)</i>	<i>(\$000s)</i>	<i>(\$000s)</i>
Operating revenue & other income	2	1,119	389	1,239	417
Operating expenses	2	8,364	5,488	8,487	5,506
<b>Operating deficit</b>		<b>(7,245)</b>	<b>(5,099)</b>	<b>(7,248)</b>	<b>(5,089)</b>
Net interest income	2	494	789	491	794
<b>Net (loss) before tax</b>		<b>(6,751)</b>	<b>(4,310)</b>	<b>(6,757)</b>	<b>(4,295)</b>
Income tax		-	-	-	-
<b>Net (loss) after tax</b>		<b>(6,751)</b>	<b>(4,310)</b>	<b>(6,757)</b>	<b>(4,295)</b>

### *Earnings per share*

Basic & diluted loss per share		(\$0.12)	(\$0.08)	(\$0.12)	(\$0.08)
Loss per share from continuing operations		(\$0.12)	(\$0.08)	(\$0.12)	(\$0.08)
Weighted average of issued ordinary shares		55,001	52,288	55,001	52,288

Xero Limited

## Statements of Changes in Equity

For the year ended 31 March 2009

	Share Capital	Accumulated Losses	Foreign Currency Translation Reserve	Total Equity
	(\$000s)	(\$000s)	(\$000s)	(\$000s)
<b>Year ended 31 March 2009</b>				
<i>Group</i>				
Balance at 1 April 2008	16,670	(5,359)	10	11,321
Net (loss) after tax	-	(6,751)	-	(6,751)
Total recognised income & expense	-	(6,751)	-	(6,751)
Issue of ordinary shares	460	-	-	460
Currency translation movements	-	-	(10)	(10)
<b>Balance as at 31 March 2009</b>	<b>17,130</b>	<b>(12,110)</b>	<b>-</b>	<b>5,020</b>
<i>Parent</i>				
Balance at 1 April 2008	16,670	(5,344)	-	11,326
Net (loss) after tax	-	(6,757)	-	(6,757)
Total recognised income & expense	-	(6,757)	-	(6,757)
Issue of ordinary shares	460	-	-	460
<b>Balance as at 31 March 2009</b>	<b>17,130</b>	<b>(12,101)</b>	<b>-</b>	<b>5,029</b>
<b>Year ended 31 March 2008</b>				
<i>Group</i>				
Balance at 1 April 2007	2,781	(1,049)	-	1,732
Net (loss) after tax	-	(4,310)	-	(4,310)
Total recognised income & expense	-	(4,310)	-	(4,310)
Issue of ordinary shares	15,000	-	-	15,000
Cost of issue	(1,111)	-	-	(1,111)
Currency translation movements	-	-	10	10
<b>Balance as at 31 March 2008</b>	<b>16,670</b>	<b>(5,359)</b>	<b>10</b>	<b>11,321</b>
<i>Parent</i>				
Balance at 1 April 2007	2,781	(1,049)	-	1,732
Net (loss) after tax	-	(4,295)	-	(4,295)
Total recognised income & expense	-	(4,295)	-	(4,295)
Issue of ordinary shares	15,000	-	-	15,000
Cost of issue	(1,111)	-	-	(1,111)
<b>Balance as at 31 March 2008</b>	<b>16,670</b>	<b>(5,344)</b>	<b>-</b>	<b>11,326</b>

Xero Limited  
**Balance Sheets**  
As at 31 March 2009

	Group 2009 (\$000s)	Group 2008 (\$000s)	Parent 2009 (\$000s)	Parent 2008 (\$000s)
<b>Assets</b>				
<i>Non-current assets</i>				
Property, plant & equipment	375	472	364	460
Investment in subsidiaries	-	-	195	-
Intangible assets	2,029	1,065	2,029	1,065
Other non-current assets	504	387	504	387
<b>Total non-current assets</b>	<b>2,908</b>	<b>1,924</b>	<b>3,092</b>	<b>1,912</b>
<i>Current assets</i>				
Cash & cash equivalents	3,807	9,517	3,720	9,471
Trade & other receivables	402	438	361	377
<b>Total current assets</b>	<b>4,209</b>	<b>9,955</b>	<b>4,081</b>	<b>9,848</b>
<b>Total assets</b>	<b>7,117</b>	<b>11,879</b>	<b>7,173</b>	<b>11,760</b>
<b>Liabilities</b>				
<i>Current liabilities</i>				
Trade & other payables	2,077	532	2,124	408
Finance lease	6	6	6	6
<b>Total current liabilities</b>	<b>2,083</b>	<b>538</b>	<b>2,130</b>	<b>414</b>
<i>Non-current liabilities</i>				
Finance lease	14	20	14	20
<b>Total non-current liabilities</b>	<b>14</b>	<b>20</b>	<b>14</b>	<b>20</b>
<b>Total liabilities</b>	<b>2,097</b>	<b>558</b>	<b>2,144</b>	<b>434</b>
<b>Net assets</b>	<b>5,020</b>	<b>11,321</b>	<b>5,029</b>	<b>11,326</b>
<b>Equity</b>				
Share capital	17,130	16,670	17,130	16,670
Accumulated losses	(12,110)	(5,359)	(12,101)	(5,344)
Foreign currency translation reserve	-	10	-	-
	<b>5,020</b>	<b>11,321</b>	<b>5,029</b>	<b>11,326</b>
Net tangible assets per share (in cents)	\$0.13	\$0.23	\$0.13	\$0.22
Weighted average of issued ordinary shares	55,001	52,288	55,001	52,288

Xero Limited

**Statements of Cash Flows**

For the year ended 31 March 2009

	<b>Group</b>	<b>Group</b>	<b>Parent</b>	<b>Parent</b>
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	(\$000s)	(\$000s)	(\$000s)	(\$000s)
<b>Operating activities</b>				
<i>Cash was provided from</i>				
Receipts from customers	925	130	1,043	125
GST received	282	202	211	195
RWT received	210	-	210	-
Interest received & other income	611	975	597	1,017
	2,028	1,307	2,061	1,337
<i>Cash was applied to</i>				
Payments to suppliers & employees	(7,172)	(4,947)	(7,055)	(5,036)
Income tax paid (RWT)	-	(235)	-	(235)
	(7,172)	(5,182)	(7,055)	(5,271)
<b>Net cash flows from operating activities</b>	<b>(5,144)</b>	<b>(3,875)</b>	<b>(4,994)</b>	<b>(3,934)</b>
<b>Investing activities</b>				
<i>Cash was applied to</i>				
Purchase of property, plant & equipment	(126)	(330)	(112)	(317)
Capitalised development costs	(1,397)	(1,215)	(1,397)	(1,215)
Intangible assets	(1)	(19)	(1)	(19)
Investments in subsidiaries	-	-	(195)	-
Loans to directors	-	(300)	-	(300)
Other assets	-	(75)	-	(75)
<b>Net cash flows from investing activities</b>	<b>(1,524)</b>	<b>(1,939)</b>	<b>(1,705)</b>	<b>(1,926)</b>
<b>Financing activities</b>				
<i>Cash was provided from</i>				
Net private placement funds received in advance	954	15,000	954	15,000
	954	15,000	954	15,000
<i>Cash was applied to</i>				
Cost of share issue	-	(1,111)	-	(1,111)
Finance lease repayments	(6)	(5)	(6)	(5)
	(6)	(1,116)	(6)	(1,116)
<b>Net cash flows from financing activities</b>	<b>948</b>	<b>13,884</b>	<b>948</b>	<b>13,884</b>
<b>Net (decrease) / increase in cash held</b>	<b>(5,720)</b>	<b>8,070</b>	<b>(5,751)</b>	<b>8,024</b>
Foreign currency translation adjustment	10	(67)	-	(67)
Cash & cash equivalents at beginning of the year	9,517	1,514	9,471	1,514
<b>Cash &amp; cash equivalents at end of the year</b>	<b>3,807</b>	<b>9,517</b>	<b>3,720</b>	<b>9,471</b>

**Notes to the Condensed Financial Statements**

For the year ended 31 March 2009

**1. Financial Statements**

The condensed consolidated financial statements of Xero Limited (the Company) together with its subsidiaries (the Group) 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 as set out in the Group's Annual Report 2008.

The condensed consolidated financial statements are based on the audited Financial Statements of the Company & Group on which an unqualified audit opinion has been expressed.

**2. Revenues and Expenses**

	<b>Group</b>	<b>Group</b>	<b>Parent</b>	<b>Parent</b>
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	(\$000s)	(\$000s)	(\$000s)	(\$000s)
<b>Operating revenue from the rendering of services</b>	<b>959</b>	<b>134</b>	<b>1,089</b>	<b>162</b>
<i>Other income</i>				
Government grants*	125	216	125	216
Other	35	39	25	39
	160	255	150	255
<b>Total revenue and other income</b>	<b>1,119</b>	<b>389</b>	<b>1,239</b>	<b>417</b>
<i>Operating expenses</i>				
Audit fees	45	24	30	24
Employee entitlements	4,577	2,720	3,523	2,623
Lease/rental costs	387	238	285	237
Directors' fees & expenses	180	171	180	171
Loss on disposal of property, plant & equipment	7	10	4	10
(Gain)/loss on foreign exchange transactions	(9)	67	(9)	67
Other operating expenses	2,304	1,916	3,609	2,033
<b>Total operating expenses exc. depreciation &amp; amortisation</b>	<b>7,491</b>	<b>5,146</b>	<b>7,622</b>	<b>5,165</b>
<i>Depreciation &amp; amortisation expense</i>				
Property, plant & equipment	212	134	204	133
Amortisation of other intangible assets	6	6	6	6
Amortisation of development costs	655	202	655	202
<b>Total depreciation &amp; amortisation</b>	<b>873</b>	<b>342</b>	<b>865</b>	<b>341</b>
<b>Total operating expenses</b>	<b>8,364</b>	<b>5,488</b>	<b>8,487</b>	<b>5,506</b>
<i>Interest</i>				
Interest income - bank	485	781	482	780
Interest income - loan to related party	12	12	12	12
Interest income - loan to subsidiaries	-	-	-	6
Interest expense - finance charges payable under finance lease	(3)	(4)	(3)	(4)
<b>Net interest income</b>	<b>494</b>	<b>789</b>	<b>491</b>	<b>794</b>
<b>Net (loss) before tax</b>	<b>(6,751)</b>	<b>(4,310)</b>	<b>(6,757)</b>	<b>(4,295)</b>

\*Government grants have been received from NZTE in respect of overseas market development. The grants were claimed retrospectively on qualifying expenditure, and all conditions have been fulfilled at balance date.

**Notes to the Condensed Financial Statements**

For the year ended 31 March 2009

**3. Dividends**

No dividends have been paid or proposed in the current year.

**4. Reconciliation of Operating Cash Flows**

	<b>Group</b>	<b>Group</b>	<b>Parent</b>	<b>Parent</b>
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	(\$000s)	(\$000s)	(\$000s)	(\$000s)
<i>Reconciliation from the net (loss) after tax to the net cash from operating activities</i>				
Net (loss) after tax	(6,751)	(4,310)	(6,757)	(4,295)
<i>Adjustments</i>				
Depreciation	212	134	204	133
Amortisation	661	208	661	208
Net (profit)/loss on disposal of property, plant & equipment	7	10	4	10
Unrealised foreign currency (gains)/losses	-	67	-	67
Translation of foreign operations	(10)	10	-	-
Employee incentive plans	406	-	349	-
Interest on loans to directors	(12)	(12)	(12)	(12)
<i>Changes in working capital items</i>				
(Increase)/decrease in trade receivables & prepayments	(88)	(63)	(64)	(14)
(Decrease)/increase in trade payables & accruals	(8)	196	191	102
(Increase)/decrease in GST receivable	103	(82)	91	(70)
(Increase)/decrease in current tax receivable	210	(208)	210	(208)
(Decrease)/increase in employee entitlements	75	59	75	59
(Decrease)/increase in income in advance	51	34	54	4
Issue costs	-	82	-	82
<b>Net cash from operating activities</b>	<b>(5,144)</b>	<b>(3,875)</b>	<b>(4,994)</b>	<b>(3,934)</b>

**5. Commitments & Contingencies**

There are no capital commitments or contingent liabilities as at 31 March 2009 (2008 Nil).

**6. Events after the Balance Sheet Date**

On 9 April 2009 the Group, through its Parent Company, completed a private placement of 5.8 million new ordinary shares at \$0.90 cents each, raising \$5.2 million in cash. \$1.0 million of this amount was received prior to balance date.

On 30 April 2009 the Parent Company announced a Share Placement Plan (SPP) to existing shareholders on its share register on 23 April 2009. Under the SPP shareholders will be able to subscribe for up to \$5,000 of new ordinary shares at \$0.90 cents each. The closing date for the SPP is 18 May 2009.

On 14 May 2009 a Special Meeting of Shareholders approved the issue of 20 million ordinary shares at \$0.90 each to Mr Craig Winkler and related parties raising a further \$18.0 million which is to be paid in cash in May 2009.

There were no other subsequent events.

**Notes to the Condensed Financial Statements**

For the year ended 31 March 2009

**7. Segment Information**

The primary format is geographical segments by location of customers, based on the Group's management and internal reporting structure.

For the year ended 31 March 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.

The Group currently operates in one business segment, providing an online accounting solution for small and medium sized enterprises (SMEs).

Inter-segment pricing is determined on an arm's length basis.

	New Zealand	United Kingdom	Australia	Inter-Segment Eliminations	Total
	(\$000s)	(\$000s)	(\$000s)	(\$000s)	(\$000s)
<b>For the year ended 31 March 2009</b>					
<b>Group</b>					
Total segment revenue	1,239	1,808	175	-	3,222
Inter-segment revenue	294	1,649	160	-	2,103
Revenue from external customers	945	159	15	-	1,119
Segment net (loss)/profit before tax	(6,757)	6	-	-	(6,751)
Depreciation & amortisation	(865)	(7)	(1)	-	(873)
Segment assets	7,173	262	85	(403)	7,117
Segment liabilities	2,144	136	25	(208)	2,097
Capital expenditure	1,737	10	4	-	1,751
<b>For the year ended 31 March 2008</b>					
<b>Group</b>					
Total segment revenue	162	336	-	-	498
Inter-segment revenue	32	332	-	-	364
Revenue from external customers	130	4	-	-	134
Segment net (loss)/profit before tax	(4,295)	(15)	-	-	(4,310)
Depreciation & amortisation	(341)	(1)	-	-	(342)
Segment assets	11,760	119	-	-	11,879
Segment liabilities	434	124	-	-	558
Capital expenditure	1,551	13	-	-	1,564

**8. Group Entities**

Xero Trustee Limited, a wholly owned subsidiary, was incorporated on 1 May 2008 and is the trustee for the Xero Limited Employee Restricted Share Plan.