

Xero Limited

## Consolidated Income Statement

For the six months ended 30 September 2008

	Unaudited Group 2008	Unaudited Group 2007	Audited Group 31 March 2008
	(\$000s)	(\$000s)	(\$000s)
Operating revenue	333	24	134
Operating expenses	3,845	2,160	5,146
<b>Operating deficit</b>	<b>(3,512)</b>	<b>(2,136)</b>	<b>(5,012)</b>
<i>Other income / (expenses)</i>			
Other income	88	198	255
Interest income	337	319	793
Interest expense	(2)	(3)	(4)
Depreciation & amortisation	(376)	(103)	(342)
<b>Net (loss) before tax</b>	<b>(3,465)</b>	<b>(1,725)</b>	<b>(4,310)</b>
Income tax	-	-	-
<b>Net (loss) before tax</b>	<b>(3,465)</b>	<b>(1,725)</b>	<b>(4,310)</b>
<i>Earnings per share</i>			
Basic earnings per share (dollars)	(0.06)	(0.03)	(0.08)
Diluted earnings per share (dollars)	(0.06)	(0.03)	(0.08)

Xero Limited

## Statement in Changes of Equity

For the six months ended 30 September 2008

	Share capital	Deferred compensation	Retained earnings	Foreign currency translation reserve	Total equity
	(\$000s)	(\$000s)	(\$000s)	(\$000s)	(\$000s)
<i>Group (unaudited 30 September 2008)</i>					
Balance at 31 March 2008	16,670		(5,359)	10	11,321
Net (loss) after tax	-		(3,465)	-	(3,465)
Total recognised income & expense	-		(3,465)	-	(3,465)
Deferred compensation under share plan		163			163
Currency translation movements	-		-	2	2
<b>Balance at 30 September 2008</b>	<b>16,670</b>	<b>163</b>	<b>(8,824)</b>	<b>12</b>	<b>8,021</b>
<i>Group (unaudited 30 September 2007)</i>					
Balance at 31 March 2007	2,781		(1,049)	-	1,732
Net (loss) after tax	-		(1,725)	-	(1,725)
Total recognised income & expense	-		(1,725)	-	(1,725)
Issue of ordinary shares	15,000		-	-	15,000
Cost of issue	(1,094)		-	-	(1,094)
<b>Balance at 30 September 2007</b>	<b>16,687</b>	<b>-</b>	<b>(2,774)</b>	<b>-</b>	<b>13,913</b>
<i>Group (audited 31 March 2008)</i>					
Balance at 31 March 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 at 31 March 2008</b>	<b>16,670</b>	<b>-</b>	<b>(5,359)</b>	<b>10</b>	<b>11,321</b>

Xero Limited  
**Consolidated Balance Sheet**  
As at 30 September 2008

	Unaudited Group 2008 (\$000s)	Unaudited Group 2007 (\$000s)	Audited Group 31 March 2008 (\$000s)
<b>Assets</b>			
<i>Non-current assets</i>			
Property, plant & equipment	464	402	472
Intangible assets	1,474	536	1,065
Other non-current assets	387	375	387
<b>Total non-current assets</b>	<b>2,325</b>	<b>1,313</b>	<b>1,924</b>
<i>Current assets</i>			
Cash & cash equivalents	6,280	12,550	9,517
Current tax receivable	33	233	210
Trade receivables & other assets	196	99	228
<b>Total current assets</b>	<b>6,509</b>	<b>12,882</b>	<b>9,955</b>
<b>Total assets</b>	<b>8,834</b>	<b>14,195</b>	<b>11,879</b>
<b>Liabilities</b>			
<i>Current liabilities</i>			
Trade payables & other liabilities	789	254	532
Finance lease	7	6	6
<b>Total current liabilities</b>	<b>796</b>	<b>260</b>	<b>538</b>
<i>Non current liabilities</i>			
Finance lease	17	22	20
<b>Total non-current liabilities</b>	<b>17</b>	<b>22</b>	<b>20</b>
<b>Total liabilities</b>	<b>813</b>	<b>282</b>	<b>558</b>
<b>Net assets</b>	<b>8,021</b>	<b>13,913</b>	<b>11,321</b>
<i>Equity</i>			
Share capital & reserves	16,833	16,687	16,670
Retained earnings	(8,824)	(2,774)	(5,359)
Foreign currency translation reserve	12	-	10
	<b>8,021</b>	<b>13,913</b>	<b>11,321</b>

Xero Limited

## Consolidated Statement of Cash Flows

For the six months ended 30 September 2008

	Unaudited Group 2008 (\$000s)	Unaudited Group 2007 (\$000s)	Audited Group 31 March 2008 (\$000s)
<b>Operating activities</b>			
<i>Cash was provided from</i>			
Receipts from customers	388	16	130
GST received	177	107	202
Interest received & other income	441	493	975
	1,006	616	1,307
<i>Cash was applied to</i>			
Payments to suppliers & employees	(3,678)	(2,263)	(4,947)
Income tax paid (RWT)	211	(97)	(235)
	(3,467)	(2,360)	(5,182)
<b>Net cash flows from operating activities (see note 4)</b>	<b>(2,461)</b>	<b>(1,744)</b>	<b>(3,875)</b>
<b>Investing activities</b>			
<i>Cash was applied to</i>			
Purchase of property, plant & equipment	(114)	(188)	(330)
Capitalised development costs	(673)	(486)	(1,215)
Intangible assets	-	(52)	(19)
Loans to directors	-	(300)	(300)
Other assets	-	(75)	(75)
<b>Net cash flows from investing activities</b>	<b>(787)</b>	<b>(1,101)</b>	<b>(1,939)</b>
<b>Financing activities</b>			
<i>Cash was provided from</i>			
Issue of ordinary shares	-	15,000	15,000
	-	15,000	15,000
<i>Cash was applied to</i>			
Cost of share issue	-	(1,085)	(1,111)
Finance lease repayments	(3)	(2)	(5)
	(3)	(1,087)	(1,116)
<b>Net cash flows from financing activities</b>	<b>(3)</b>	<b>13,913</b>	<b>13,884</b>
<b>Net (decrease) / increase in cash held</b>	<b>(3,251)</b>	<b>11,068</b>	<b>8,070</b>
Foreign currency translation adjustment	14	(32)	(67)
Cash & cash equivalents at beginning of the year	9,517	1,514	1,514
<b>Cash &amp; cash equivalents at end of period</b>	<b>6,280</b>	<b>12,550</b>	<b>9,517</b>

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## **Notes to the Condensed Financial Statements (Unaudited)**

For the six months ended 30 September 2008

### **1. Presentation & Accounting Policies**

These unaudited consolidated condensed interim financial statements of Xero Limited (the Company) and its subsidiaries (the Group) have been prepared in accordance with New Zealand Equivalent to International Accounting Standard (NZIAS) 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 2008 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 2008.

The same significant judgments, estimates and assumptions included in the notes to the financial statements in the Group's Annual Report for the year ended 31 March 2008 have been applied to these interim financial statements.

### **2. Events after the Balance Sheet Date**

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

### **3. Commitments & Contingencies**

There were no capital commitments or contingent liabilities as at 30 September 2008, 30 September 2007 or 31 March 2008.

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## Notes to the Condensed Financial Statements (Unaudited)

For the six months ended 30 September 2008

	Unaudited Group 2008 (\$000s)	Unaudited Group 2007 (\$000s)	Audited Group 31 March 2008 (\$000s)
<b>4. Reconciliation of Operating Cash Flows</b>			
<i>Reconciliation from the net (loss) after tax to the net cash flows from operating activities</i>			
Net (loss) after tax	(3,465)	(1,725)	(4,310)
<i>Adjustments for:</i>			
- Depreciation	105	54	134
- Amortisation	271	49	208
- Net loss on disposal of property, plant & equipment	3	-	10
- Unrealised foreign currency losses	-	-	67
- Translation of foreign operations	(4)	31	10
- Deferred compensation	163	-	-
- Interest on loans to directors	-	-	(12)
<i>Changes in working capital items</i>			
- Decrease in tax receivable	177	(198)	(290)
- Decrease in trade receivables & other assets	32	(48)	(63)
- Increase in trade payables & other liabilities	257	11	289
- Issue costs	-	82	82
<b>Net cash flows from operating activities</b>	<b>(2,461)</b>	<b>(1,744)</b>	<b>(3,875)</b>
<b>5. Other Disclosures</b>			
<b>Revenues</b>			
Operating revenue	333	24	134
<i>Other income</i>			
- Government grants	76	170	216
- Rent received	12	28	39
	88	198	255
<b>Total revenue</b>	<b>421</b>	<b>222</b>	<b>389</b>
<b>Acquisition &amp; disposal of assets</b>			
<i>Property, plant &amp; equipment</i>			
- Acquisitions	90	188	330
- Disposals	(3)	-	(15)
<i>Intangibles</i>			
- Acquisitions	680	538	1,234
<b>Net tangible assets per share (dollars)</b>	<b>0.12</b>	<b>0.25</b>	<b>0.19</b>

Xero Limited

## Notes to the Condensed Financial Statements (Unaudited)

For the six months ended 30 September 2008

### 6. Segment Information

For the period ended 30 September 2008 there were two segments - New Zealand and United Kingdom. The Group also launched its product in Australia on 30 September 2008.

For the period ended 30 September 2007 there was only one segment - New Zealand.

For the year ended 31 March 2008 there were two segments - New Zealand and United Kingdom.

2008 group (unaudited)	New Zealand	United Kingdom	Total
For the period ended 30 September 2008	\$000s	\$000s	\$000s
Total segment revenue	344	39	383
Inter-segment revenue	50	-	50
Revenue from external customers	294	39	333
Adjusted EBITDA	(3,425)	1	(3,424)

2007 group (unaudited)	New Zealand	Total
For the period ended 30 September 2007	\$000s	\$000s
Total segment revenue	24	24
Revenue from external customers	24	24
Adjusted EBITDA	(1,938)	(1,938)

2008 group (audited)	New Zealand	United Kingdom	Total
For the year ended 31 March 2008	\$000s	\$000s	\$000s
Total segment revenue	162	4	166
Inter-segment revenue	32	-	32
Revenue from external customers	130	4	134
Adjusted EBITDA	(4,748)	(9)	(4,757)

### 7. Investments in Subsidiaries

On 1 May 2008 Xero Trustee Limited was incorporated to act as Trustee for the Xero Limited Employee Restricted Share Plan. Xero Trustee Limited is a wholly owned subsidiary of the Group.

### 8. Related Parties Transactions

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

In May 2008 the Company established the Xero Limited Employee Restricted Share Plan. This Plan applies to all Xero New Zealand employees. Under the share plan, shares in Xero Limited were granted at the IPO issue price of \$1.00 to Xero Trustee Limited, a Group subsidiary, and allocated to employees using funds lent to them by the Company. This entitles the employee to receive a number of Company shares subject to continued employment for specified periods between one and three years. At the time of vesting the employee is paid a cash bonus which is used to repay the loan and the restrictions on the shares are then removed. No shares have vested in the current period.

Deferred compensation is recognised upon issue of restricted shares under the Group's restricted share Plan. Amounts are transferred to share capital upon the vesting of the shares.

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.