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## Xero Limited

### Interim Report for the Six Months ended 30 September 2008

XERO LIMITED		
Results for Announcement to the Market		
Reporting Period	6 months to 30 September 2008	
Previous Reporting Period	6 months to 30 September 2007	
	Amount (000s)	Percentage Change
Revenues from Ordinary Activities	\$NZ 333	1287%
Profit / (Loss) from Ordinary Activities after Tax attributable to Security Holder	\$NZ (3,465)	101%
Net Profit /(Loss) attributable to Security Holder	\$NZ (3,465)	101%
Interim / Final Dividend	Amount per Security	Imputed Amount per Security
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 2008

- 2,200 paying customers as at 30 September 2008. A growth of 978% on customer numbers compared to 30 September 2007.
- Operating revenues from customers of \$333k, up 1,287% on the same period last year.
- Operating costs of \$3.8m, reflecting the substantial investment in building the Xero software platform, a scalable delivery and support infrastructure and an international sales and marketing capability.
- Net loss for the period of \$3,465k, which is in line with expectations.
- Cash and bank balances of \$6.3m as at 30 September 2008.
- 57 employees at period end.

#### Operational highlights for the period

- Now have 192 accounting partners with over 100 individuals completing Xero certification training.
- Secured 11 'Xero Network' partners that are linking their own software products to the Xero application.

- Concluded data feed agreement with Westpac. Automated bank feeds directly into Xero are now available from all New Zealand major trading banks.
- Launch of Xero Accountants' Edition, which allows accountants to bundle Xero as part of a managed cashbook service for their clients.
- Accreditation of Xero's UK software by The Institute of Chartered Accountants in England and Wales.
- Release of an Australian version of Xero at the end of September 2008.
- Execution of an innovative marketing partnership with leading Australasian practice management accounting software provider Acclipse, which will enable the integration of Xero's client accounting software into Acclipse's web-based practice management and tax software to provide a complete solution for accounting firms.
- Named as one of the top ten user interface applications internationally by US design usability consultants, The Nielsen Norman Group.

### **Commentary**

Xero's Directors consider that the Company has made excellent progress since listing on the NZX in June 2007.

The Company's online accounting software is widely regarded as 'best in class' and uptake by New Zealand users has been strong. Internationally, Xero has a footprint in the UK and will make further inroads into that market during the year ahead. The UK strategy has been to validate Xero in the UK and develop go to market partnerships, while keeping costs manageable.

With the recent announcement of an Australian version of Xero, activities in Australia are gaining momentum and, like the UK, the strategy will be to go to market primarily through partnerships.

Adoption of Software as a Service continues to grow internationally as users come to appreciate the utility and cost effectiveness of this delivery model. Xero identified this trend early and has built a well featured and easy-to-use accounting application which resides on a highly scalable infrastructure; thus the Company is well positioned to expand internationally from its New Zealand base as the low cost operator in its market sector.

As was announced in August this year, the global version of Xero has been brought forward to early 2009 in response to significant interest. This will allow the Company to substantially broaden its market during the next twelve months.

In the current global economic conditions, the Directors are focused on ensuring the careful management of the Company's costs but recognise that to build international sales momentum there must be a concurrent focus on business development and the establishment of marketing partnerships in the geographies where the Company operates.

Xero's strategy has always been to develop a world-class software product and delivery platform from New Zealand and then roll out its products globally through a variety of business and marketing partnerships. This strategy has not changed and in the sixteen months since Xero's IPO, the Directors and the Company's management team has executed its strategic plan with vigour, determination and passion.

In the next twelve months, the Xero team will continue to build on its local successes and the pursuit of the Company's international strategy to create shareholder value.

*For more information contact:*

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