



xero

**XERO LIMITED INTERIM REPORT**  
FOR THE SIX MONTHS  
ENDED 30 SEPTEMBER 2009

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## RESULTS OVERVIEW

Reporting period	6 months to 30 September 2009		
Previous reporting period	6 months to 30 September 2008		
	<b>Amount (\$000s)</b>	<b>Percentage Change</b>	
Revenues from ordinary activities	\$1,271	282%	
Profit / (loss) from ordinary activities after tax attributable to security holder	(\$3,813)	10%	
Net profit / (loss) attributable to security holder	(\$3,813)	10%	
	<b>Interim / Final Dividend</b>	<b>Amount per Security</b>	<b>Imputed Amount per Security</b>
	No dividend is proposed	Not applicable	Not applicable
Record date	Not applicable		
Dividend payment date	Not applicable		

## HIGHLIGHTS

**Performance Highlights  
for the Half-Year Ended 30 September 2009**

- Operating revenues from customers of \$1.3 million, up 282% on the same period last year.
- Operating costs of \$5.0 million, 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 United Kingdom; and establishing a sales base in Australia.
- Net loss for the period of \$3.8 million – an increase of 10%.
- Cash and bank balances of \$26.0 million as at 30 September 2009.
- 12,000 paying customers as at 30 September 2009. This reflects growth of 445% compared with 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:
  - 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.
  - Xero share purchase plan raised \$5.8 million, with a 70% 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.
- Introduced 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.
- Invested 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 earlier in the year.
- 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, while 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 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 is preparing to have a presence in the United States. 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.



**Phil Norman**  
Chairman



**Rod Drury**  
Chief Executive

## CONSOLIDATED INCOME STATEMENT

	6 months Unaudited Group 2009 (\$000s)	6 months Unaudited Group 2008 (\$000s)	12 months Audited Group 31 March 2009 (\$000s)
Operating revenue & other income	1,350	421	1,119
Operating expenses	(5,020)	(3,845)	(7,491)
Depreciation & amortisation	(638)	(376)	(873)
<b>Operating deficit</b>	<b>(4,308)</b>	<b>(3,800)</b>	<b>(7,245)</b>
<i>Interest</i>			
Interest income	496	337	497
Interest expense	(1)	(2)	(3)
<b>Net (loss) before tax</b>	<b>(3,813)</b>	<b>(3,465)</b>	<b>(6,751)</b>
Income tax	-	-	-
<b>Net (loss) after tax</b>	<b>(3,813)</b>	<b>(3,465)</b>	<b>(6,751)</b>
<i>Earnings per share</i>			
Basic earnings per share (dollars)	(0.05)	(0.06)	(0.12)
Diluted earnings per share (dollars)	(0.05)	(0.06)	(0.12)

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	6 months Unaudited Group 2009 (\$000s)	6 months Unaudited Group 2008 (\$000s)	12 months Audited Group 31 March 2009 (\$000s)
Net loss after tax for the period	(3,813)	(3,465)	(6,751)
<b>Other comprehensive income</b>			
Exchange difference on translation of international subsidiaries	(28)	2	(10)
<b>Other comprehensive income for the period, net of tax</b>	<b>(28)</b>	<b>2</b>	<b>(10)</b>
<b>Total comprehensive loss for the period</b>	<b>(3,841)</b>	<b>(3,463)</b>	<b>(6,761)</b>

## STATEMENT OF CHANGES IN EQUITY

	Share capital (\$000s)	Retained earnings (\$000s)	Foreign currency translation reserve (\$000s)	Total equity (\$000s)
<i>Group (unaudited 30 September 2009)</i>				
Balance at 31 March 2009	17,130	(12,110)	-	5,020
Net (loss) after tax	-	(3,813)	-	(3,813)
Currency translation movements	-	-	(28)	(28)
Total comprehensive income	-	(3,813)	(28)	(3,841)
Issue of shares	29,046	-	-	29,046
Cost of issue	(975)	-	-	(975)
Treasury stock	(759)	-	-	(759)
<b>Balance at 30 September 2009</b>	<b>44,442</b>	<b>(15,923)</b>	<b>(28)</b>	<b>28,491</b>
<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)
Currency translation movements	-	-	2	2
Total comprehensive income	-	(3,465)	2	(3,463)
Compensation under share plan	163	-	-	163
<b>Balance at 30 September 2008</b>	<b>16,833</b>	<b>(8,824)</b>	<b>12</b>	<b>8,021</b>
<i>Group (audited 31 March 2009)</i>				
Balance at 31 March 2008	16,670	(5,359)	10	11,321
Net (loss) after tax	-	(6,751)	-	(6,751)
Currency translation movements	-	-	(10)	(10)
Total comprehensive income	-	(6,751)	(10)	(6,761)
Issue of ordinary shares	460	-	-	460
<b>Balance at 31 March 2009</b>	<b>17,130</b>	<b>(12,110)</b>	<b>-</b>	<b>5,020</b>

## CONSOLIDATED BALANCE SHEET

	6 months Unaudited Group 2009 (\$000s)	6 months Unaudited Group 2008 (\$000s)	12 months Audited Group 31 March 2009 (\$000s)
<b>Assets</b>			
<i>Non-current assets</i>			
Property, plant & equipment	397	464	375
Intangible assets	2,371	1,474	2,029
Other non-current assets	496	387	504
<b>Total non-current assets</b>	<b>3,264</b>	<b>2,325</b>	<b>2,908</b>
<i>Current assets</i>			
Cash & cash equivalents	25,996	6,280	3,807
Current tax receivable	9	33	12
Trade receivables & other assets	970	196	390
<b>Total current assets</b>	<b>26,975</b>	<b>6,509</b>	<b>4,209</b>
<b>Total assets</b>	<b>30,239</b>	<b>8,834</b>	<b>7,117</b>
<b>Liabilities</b>			
<i>Current liabilities</i>			
Trade payables & other liabilities	1,748	789	2,077
Finance lease	-	7	6
<b>Total current liabilities</b>	<b>1,748</b>	<b>796</b>	<b>2,083</b>
<i>Non-current liabilities</i>			
Finance lease	-	17	14
<b>Total non-current liabilities</b>	<b>-</b>	<b>17</b>	<b>14</b>
<b>Total liabilities</b>	<b>1,748</b>	<b>813</b>	<b>2,097</b>
<b>Net assets</b>	<b>28,491</b>	<b>8,021</b>	<b>5,020</b>
<b>Equity</b>			
Share capital	44,442	16,833	17,130
Retained earnings	(15,923)	(8,824)	(12,110)
Foreign currency translation reserve	(28)	12	-
	<b>28,491</b>	<b>8,021</b>	<b>5,020</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS

	6 months Unaudited Group 2009 (\$000s)	6 months Unaudited Group 2008 (\$000s)	12 months Audited Group 31 March 2009 (\$000s)
<b>Operating activities</b>			
<i>Cash was provided from</i>			
Receipts from customers	1,437	388	925
GST received	48	177	282
Income tax received (RWT)	-	-	210
Interest received & other income	262	441	611
	<b>1,747</b>	<b>1,006</b>	<b>2,028</b>
<i>Cash was applied to</i>			
Payments to suppliers & employees	(5,056)	(3,678)	(7,172)
GST paid	(1)	-	-
Income tax paid (RWT)	-	211	-
	<b>(5,057)</b>	<b>(3,467)</b>	<b>(7,172)</b>
<b>Net cash flows from operating activities</b>	<b>(3,310)</b>	<b>(2,461)</b>	<b>(5,144)</b>
<b>Investing activities</b>			
<i>Cash was applied to</i>			
Purchase of property, plant & equipment	(117)	(114)	(126)
Capitalised development costs	(711)	(673)	(1,397)
Intangible assets	-	-	(1)
Sale of other assets	13	-	-
<b>Net cash flows from investing activities</b>	<b>(815)</b>	<b>(787)</b>	<b>(1,524)</b>
<b>Financing activities</b>			
<i>Cash was provided from</i>			
Net private placement funds received in advance	-	-	954
Issue of ordinary shares	28,050	-	-
	<b>28,050</b>	<b>-</b>	<b>954</b>
<i>Cash was applied to</i>			
Cost of share issue	(944)	-	-
Share buyback	(744)	-	-
Finance lease repayments	(20)	(3)	(6)
	<b>(1,708)</b>	<b>(3)</b>	<b>(6)</b>
<b>Net cash flows from financing activities</b>	<b>26,342</b>	<b>(3)</b>	<b>948</b>
<b>Net increase / (decrease) in cash held</b>	<b>22,217</b>	<b>(3,251)</b>	<b>(5,720)</b>
Foreign currency translation adjustment	(28)	14	10
Cash & cash equivalents at beginning of the period	3,807	9,517	9,517
<b>Cash &amp; cash equivalents at end of the period</b>	<b>25,996</b>	<b>6,280</b>	<b>3,807</b>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

## 1. BASIS OF PRESENTATION &amp; ACCOUNTING POLICIES

These unaudited, consolidated, condensed interim financial statements of Xero Limited (the Company) and its subsidiaries (together "the Group") have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting and 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 2009 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 2009.

The same significant judgements, estimates and assumptions included in the notes to the financial statements in the Group's Annual Report for the year ended 31 March 2009 have been applied to these interim financial statements.

The Group has adopted the following new and amended IFRS as of 1 April 2009:

– IAS 1 (Revised), 'Presentation of Financial Statements' – effective 1 January 2009. The revised standard requires the presentation of non-owner changes in equity to be disclosed as part of the income and expenses rather than in the Statement of Changes in Equity. As a result the Group has presented a Consolidated Statement of Comprehensive Income. Comparative information has also been re-presented to comply with these disclosure requirements.

– IFRS 8, 'Operating Segments' – effective 1 January 2009. IFRS 8 requires the presentation of segmental information as used by the Chief Operating Decision Maker of the Group to allocate resources and make strategic decisions. The Group has applied the new standard (replacing IAS 14: Segment Reporting) within these financial statements. There has been no significant change in disclosures from those presented under IAS 14.

	6 months Unaudited Group 2009 (\$000s)	6 months Unaudited Group 2008 (\$000s)	12 months Audited Group 31 March 2009 (\$000s)
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## 2. OTHER DISCLOSURES

Operating revenue	1,271	333	959
<b>Other income</b>			
Government grants	69	76	125
Rent received	10	12	35
Subtotal	79	88	160
<b>Total revenue &amp; other income</b>	<b>1,350</b>	<b>421</b>	<b>1,119</b>
<b>Acquisition &amp; disposal of assets</b>			
Property, plant & equipment			
– Acquisitions	128	90	126
– Disposals	(21)	(3)	(25)
Intangibles			
– Acquisitions (capitalised development costs)	876	680	1,625
<b>Net tangible assets per share (dollars)</b>	<b>0.30</b>	<b>0.12</b>	<b>0.05</b>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

	6 months Unaudited Group 2009 (\$000s)	6 months Unaudited Group 2008 (\$000s)	12 months Audited Group 31 March 2009 (\$000s)
<b>3. SHARE CAPITAL</b>			
Opening balance	17,130	16,670	16,670
Share placement	23,200	–	460
Share purchase plan	5,846	–	–
Treasury stock	(759)	163	–
Cost of issue	(975)	–	–
	<b>44,442</b>	<b>16,833</b>	<b>17,130</b>

	Shares (000s)	Shares (000s)	Shares (000s)
Opening balance	55,460	55,000	55,000
Share placement	25,778	460	460
Share purchase plan	6,495	–	–
Treasury stock	(515)	–	–
	<b>87,218</b>	<b>55,460</b>	<b>55,460</b>

During the period the Company undertook a share placement programme whereby a total of 25.8 million new shares were issued at \$0.90.

In May 2009 a share purchase plan was completed with a total of 6.5 million new shares being issued at \$0.90 to existing shareholders.

Included in treasury stock is a share buyback that was completed in August 2009, which resulted in the purchase of 500,000 shares at an average price of \$1.49.

	6 months Unaudited Group 2009 (\$000s)	6 months Unaudited Group 2008 (\$000s)	12 months Audited Group 31 March 2009 (\$000s)
<b>4. TRADE RECEIVABLES &amp; OTHER ASSETS</b>			
Trade receivables	138	48	100
Prepayments	179	86	74
Interest receivable	366	48	58
Employee loans	111	–	122
Other accrued income	176	14	36
	<b>970</b>	<b>196</b>	<b>390</b>

## 5. TRADE PAYABLES &amp; OTHER LIABILITIES

Trade payables	332	156	221
Income in advance	215	68	85
Employee entitlements	869	160	692
Other payables & accrued expenses	332	405	125
Net private placement funds received in advance	–	–	954
	<b>1,748</b>	<b>789</b>	<b>2,077</b>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

	6 months Unaudited Group 2009 (\$000s)	6 months Unaudited Group 2008 (\$000s)	12 months Audited Group 31 March 2009 (\$000s)
<b>6. RECONCILIATION OF OPERATING CASH FLOWS</b>			
Reconciliation from the net loss after tax to the net cash flows from operations			
Net (loss) after tax	(3,813)	(3,465)	(6,751)
<i>Adjustments for</i>			
- Depreciation	103	105	212
- Amortisation	535	271	661
- Net loss on disposal of property, plant & equipment	2	3	7
- Translation of foreign operations	(28)	(4)	(10)
- Deferred compensation	136	163	406
- Interest on loans to Directors	-	-	(12)
<i>Changes in working capital items</i>			
(Increase)/decrease in trade receivables & other assets	(568)	32	(88)
Increase/(decrease) in trade payables & other liabilities	111	257	(8)
Decrease in GST receivable	3	-	103
Decrease in tax receivable	-	177	210
Increase in employee entitlements	79	-	75
Increase in income in advance	130	-	51
<b>Net cash flow from operating activities</b>	<b>(3,310)</b>	<b>(2,461)</b>	<b>(5,144)</b>

**7. SEGMENT INFORMATION**

Operating segments are determined by geographical location. The Group measures the operating segments based on profit before tax. Each segment derives its revenue from the sale of online accounting and business services to small enterprises. Inter-segment eliminations relate to inter-company balances.

For the period ended 30 September 2009 there were three segments - New Zealand, the United Kingdom and Australia.

For the period ended 30 September 2008 there were two segments - New Zealand and the United Kingdom.

For the year ended 31 March 2009 there were three segments - New Zealand, the United Kingdom and Australia.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

	New Zealand (\$000s)	United Kingdom (\$000s)	Australia (\$000s)	Inter- segment eliminations (\$000s)	Total (\$000s)
<b>2009 Group (unaudited)</b>					
<b>For the period ended 30 September 2009</b>					
Total segment revenue	1,693	1,462	444	-	3,599
Inter-segment revenue	(636)	(1,319)	(373)	-	(2,328)
Operating revenue from external customers	1,057	143	71	-	1,271
Depreciation & amortisation	(633)	(4)	(1)	-	(638)
Interest	495	-	-	-	495
Segment net (loss) / profit before tax	(3,830)	18	(1)	-	(3,813)
Non-current asset additions	981	9	14	-	1,004
Segment assets	30,918	817	338	(1,834)	30,239
<b>2008 Group (unaudited)</b>					
<b>For the period ended 30 September 2008</b>					
Total segment revenue	344	39	-	-	383
Inter-segment revenue	(50)	-	-	-	(50)
Operating revenue from external customers	294	39	-	-	333
Depreciation & amortisation	(372)	(4)	-	-	(376)
Interest	335	-	-	-	335
Segment net (loss) / profit before tax	(2,674)	(791)	-	-	(3,465)
Non-current asset additions	761	9	-	-	770
Segment assets	9,357	46	-	(569)	8,834
<b>2009 Group (audited)</b>					
<b>For the year ended 31 March 2009</b>					
Total segment revenue	1,089	1,808	175	-	3,072
Inter-segment revenue	(304)	(1,649)	(160)	-	(2,113)
Operating revenue from external customers	785	159	15	-	959
Depreciation & amortisation	(865)	(7)	(1)	-	(873)
Interest	494	-	-	-	494
Segment net (loss) / profit before tax	(6,757)	6	-	-	(6,751)
Non-current asset additions	1,738	9	4	-	1,751
Segment assets	6,979	262	86	(210)	7,117

**8. RELATED PARTIES**

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

All transactions with other related parties are priced on an arm's length basis and are settled in cash under normal commercial terms. None of the balances is secured.

**9. EVENTS AFTER THE BALANCE SHEET DATE**

On 12 October 2009, Xero Live Pty Limited, the Group's wholly owned Australian subsidiary, changed its name to Xero Pty Limited.

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

**10. COMMITMENTS & CONTINGENCIES**

There were no capital commitments or contingent liabilities as at 30 September 2009, 30 September 2008 or 31 March 2009.



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