Annual Meeting 2011
Strategic Update
Xero model

Big start up

- Raise enough money to win
- Recruit the best team
- Build presence, channel, ecosystem and advocates
- Disrupt the product category by innovating on multiple fronts
- Make entry difficult for new players
- Deliver a great customer experience
- Demonstrate leadership

Build a billion dollar business
Customer acquisition record

Paying business customers doubled in the last year

<table>
<thead>
<tr>
<th>Year</th>
<th>Customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td></td>
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<tr>
<td>2009</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>45,000</td>
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</table>
Customers in 100+ countries
180,000 Xero users
174,000 API requests per day
4,500 database hits per second
$44 billion processed
It’s working
Customer numbers and revenue are growing exponentially

<table>
<thead>
<tr>
<th>Year</th>
<th>Customers</th>
<th>Revenue (000’s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>204</td>
<td>24</td>
</tr>
<tr>
<td>2008</td>
<td>950</td>
<td>134</td>
</tr>
<tr>
<td>2009</td>
<td>6,000</td>
<td>959</td>
</tr>
<tr>
<td>2010</td>
<td>17,000</td>
<td>3,158</td>
</tr>
<tr>
<td>2011</td>
<td>36,000</td>
<td>9,341</td>
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</tbody>
</table>

Current annualised run rate over $15,000,000
Revenue and expenses

Well through the investment phase
Revenue generated per employee

Responsibly growing the team

Mar 08  Sep 08  Mar 09  Sep 09  Mar 10  Sep 10  Mar 11  Jun 11

$120,000 pa per employee
Xero delivers quality software - fast

60+ major releases

<table>
<thead>
<tr>
<th>July 2010</th>
<th>August</th>
<th>September</th>
<th>October</th>
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</thead>
<tbody>
<tr>
<td>Xero Personal - Splits, Labels, Import Rules</td>
<td>VAT adjustments (UK)</td>
<td>Inventory Items</td>
<td>Xero Personal - Notifications (Financial Snapshots)</td>
</tr>
<tr>
<td>Xero Personal - Wesabe Import Tool</td>
<td>Spend/Receive Money Editing</td>
<td>Import/Export Inventory Items</td>
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<td></td>
<td>Report Updates</td>
<td>Analysis Codes and Bank Rules</td>
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<td></td>
<td>Ledger Plan (Partner Edition)</td>
<td>GST changes (NZ)</td>
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<td></td>
<td>Managed Client Role Update (Partner Edition)</td>
<td>Westpac Bank Feeds (Australia)</td>
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<td>Kiwibank Bank Feeds (NZ)</td>
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<td></td>
<td></td>
<td>Automatic Manual Journal Narrations</td>
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<td></td>
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<td>Improved Organisation Search in My Xero</td>
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<td></td>
<td></td>
<td>Xero Personal - Plans &amp; Reminders</td>
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<thead>
<tr>
<th>November</th>
<th>December</th>
<th>January 2011</th>
<th>February</th>
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<tbody>
<tr>
<td>55+ Bank Feeds for UK banks</td>
<td>Detailed Account Transaction Report</td>
<td>Salesforce integration</td>
<td>Accounts Payable – Set Planned Date</td>
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<tr>
<td>Notification Inbox</td>
<td>Bulk Emailing of Statements and Invoices</td>
<td></td>
<td>Batch Payments Enhancements</td>
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<td></td>
<td>Edit Reconciled Spend/Receive Money Transactions</td>
<td></td>
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<td></td>
<td>Edit Posted Manual Journals</td>
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<tr>
<td></td>
<td>API Updates</td>
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<td></td>
<td>VAT Rate Change(UK)</td>
<td></td>
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<td></td>
<td>Differential Annual Reporting (NZ)</td>
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<td></td>
<td>Xero Personal - Detailed Search</td>
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<thead>
<tr>
<th>March</th>
<th>April</th>
<th>May</th>
<th>June</th>
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<tbody>
<tr>
<td>Xero Personal Launch</td>
<td>Microsoft Dynamics Integration</td>
<td>Invoice and Receipt Attachments</td>
<td>Mobile App - Xero Touch</td>
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<tr>
<td>FreshBooks Integration &amp; Multi-currency</td>
<td></td>
<td>Report Enhancements</td>
<td>Google single sign-on</td>
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<tr>
<td>Publishing Reports to PDF</td>
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<td>Address Lookup Service (NZ)</td>
<td>Google marketplace app</td>
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<tr>
<td>NZ Differential Annual Reports - Reporting Codes</td>
<td></td>
<td>LinkedIn Profiles to Advisor Directory</td>
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<td>Partner Logos</td>
<td></td>
<td>NBS bank feeds (NZ)</td>
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<tr>
<td></td>
<td></td>
<td>Xero Personal - Spending &amp; Saving and Dashboard Enhancements</td>
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Google Apps Marketplace

Xero works seamlessly
Xero improves productivity by connecting advisors to businesses
Over half of the accountants in NZ use Xero
Winning accountants in Australia
We have changed the industry

A breath of fresh air in accounting

The average spend on traditional business accounting is $3,000 a year. But for the same cost, Sidekick offers you so much more.

Traditional accounting
$3,000/year
- Year-end accounts
- An annual meeting to review them

Sidekick
$250/month
- Year-end accounts & GST returns
- Quarterly meetings
- Xero accounting software
- Monthly analysis of your business performance
- Year-round phone support

SIDEKICK
He’ll give your business a kick in the #@%!
Single ledger is compelling

For the accounting practice
- General ledger
- Management accounts
- Annual accounts
- Fixed assets
- Tax

For small businesses
- Invoicing
- Debtors
- Creditors
- GST
- Expense claims
- Contacts

Shared data
The Modern Practice
Best of breed tools to run a modern accounting practice

Accountant

- Workflowmax
- Practice Point
- Xero
- Office 365
- e360
Delivering customers and revenue
WorkflowMax

Investment to create online tax module has paid off
Post + Xero partnership

- Post + Xero working together to improve New Zealand SME productivity
- Unique opportunity to be global leader in digital postal services
- Partnership will deliver
  - digital addresses and delivery services
  - virtual mailboxes for customers and small businesses
  - address lookup service providing unique identifier for businesses
Australian payroll acquisition

• Agreement to acquire Australian online payroll company Paycycle

• Enhances Xero’s offering and accelerates growth in AU

• Includes payroll, employee leave, tax and superannuation

• Provides Xero with a specialist payroll development team

• Total cost of acquisition AUD$1.5 million

• Integrated early next year
Australia

Gaining momentum in the Australian market

- Established head office in Melbourne
- Appointed Chris Ridd as Managing Director
- Revenue increased 5x to $1.5m
- Building the team rapidly
- Staff of 14 located in Melbourne, Sydney, Brisbane and Perth
- Covering direct cost
UK

Xero brand fully established in UK

- Revenue increased 3.5x to $1.3m
- Staff of 9 - completing 24hr coverage
- Covering direct costs
- Impending Yodlee MFA feeds for business banks should see acceleration
- Shaping the UK market

“When customers say for the first time, their accounting makes sense, you know there’s something very different going on...”

Xero Customer Speak, Dennis Howlett, UK Accounting Software Commentator
US small market info

25m small businesses

99.7% of all employees

40% of all technology workers

50% contribution to GDP

$800B spent on technology in 2010

Source: US Small Business Administration
US strategy
Ramping up our presence in the US

- Complete US Product
- Influencing the influencers
- US based team
- Connecting into the ecosystem
- Build brand with partnerships
- Online first - then physical
Financial summary

- Xero recorded a net loss of $7.5 million for the 12 months to 31 March 2011
- Customer numbers grew to 36,000 at 31 March 2011
- At 31 March 2011, Xero has net cash resources of $16.9 million
- Subscription revenues covering direct sales across all regions and contributing to R&D

<table>
<thead>
<tr>
<th>Summary Audited Financials (NZ$000’s)</th>
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<tbody>
<tr>
<td><strong>Income Statement</strong></td>
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<tr>
<td></td>
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<tr>
<td>Total number of customers</td>
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<tr>
<td>Operating revenue</td>
</tr>
<tr>
<td>Total operating expenses</td>
</tr>
<tr>
<td>Net loss</td>
</tr>
<tr>
<td>Number of employees</td>
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<tr>
<td><strong>Balance Sheet</strong></td>
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<tr>
<td>Cash &amp; cash equivalents</td>
</tr>
<tr>
<td>Total assets</td>
</tr>
<tr>
<td>Net assets</td>
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</tbody>
</table>
Cash
Strong position
Break-even, or grow

- It’s all working well
- It’s still very early in the industry
- It doesn’t make sense to slow down
- Strong cash position and unlikely to run out
- Small competitors are not well funded
- The opportunity is now
Growth and Durability

- Growth
- Durability

- Internet applications
- Accounting Software

Xero
Questions