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Xero Limited

Interim Report Release to NZX and ASX

For the six months ended 30 September 2012

Contents

Market Release

Appendix 1 Release (as required by NZX Listing Rules)

Appendix 4D Release (as required by ASX Listing Rules)

Interim Report including

- Commentary
- Unaudited Condensed Financial Statements
- Independent Accountants Review Report

Details of Directors and Directors' Declaration

(Note: All currency amounts in this release are in New Zealand dollars)

14 November 2012

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MARKET RELEASE

Xero continues to double revenue, accelerates investment

14 November 2012

(Note: All currency in this release is in New Zealand dollars)

Growth and momentum

Xero Limited (XRO) has continued its growth and momentum for the first six months of FY 2013. The first half-year total revenue and other income doubled that in the same period last year to \$17.3 million. For the year to 30 September 2012 Xero's paying customer base grew an additional 118% to 111,800. Annualised monthly committed revenue at 30 September was \$38.7 million, up from \$18.0 million a year ago, with 58% of committed revenue now from offshore.

Performance highlights

	6 months ended 30 September 2012	6 months ended 30 September 2011	Increase
Total revenue & other income	\$17.3m	\$7.9m	+119%
Operating expenses	\$22.8m	\$11.1m	+105%
EBITDA	(\$5.5m)	(\$3.2m)	+72%
Net loss after tax	(\$7.0m)	(\$3.7m)	+89%
Cash & cash equivalents	\$30.6m	\$11.4m	+168%
Paying business customers	111,800	51,300	+118%
Annualised Monthly Committed Revenue	\$38.7m	\$18.0m	+115%

Regional

Xero has significantly increased its development and support capability in New Zealand and expanded regional sales operations in the key markets of Australia, the United Kingdom and the United States.

Regional Operating Revenue

	6 months ended 30 September 2012	6 months ended 30 September 2011	6 months ended 30 September 2010
New Zealand	\$7.7m	\$4.6m	\$2.5m
Australia	\$5.6m	\$1.8m	\$0.5m
United Kingdom	\$2.4m	\$1.1m	\$0.5m
US/Rest of world	\$1.2m	\$0.4m	\$0.2m
Total Operating Revenue	\$16.9m	\$7.9m	\$3.7m

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Outlook

Following a positive review of the global competitiveness of the Xero offering, the directors consider accelerated investment in the business will create the best long-term value for shareholders. Xero has added 130 new jobs in the last 12 months, reaching 278 staff as at 30 September 2012. The company has significant cash reserves and will expand the team and services further to take advantage of the efficiency and proven execution ability of the organisation at a time when incumbent competitors are struggling to bring their desktop business online.

Xero is embarking on a number of strategic new projects including:

- Tax features for Australia, leveraging the work done to deliver tax features in New Zealand
- Payroll for the United States market, extending the work done to successfully deliver integrated payroll for the Australian market
- Further expansion of sales and support teams in Australia, United Kingdom and the USA
- Further investments in operational capacity to provide a platform to support one million customers

Xero Chief Executive Rod Drury says while these investments will increase losses in the immediate future, both management and the Board are acutely focused on building a long-term highly profitable business. "We have \$30.6 million of cash on hand and the ability to raise significantly more cash if required. The transition of the accounting industry into the cloud is in full swing and we are very well positioned. With our proven execution ability, we believe it is in the best interests of shareholders to continue to grow the business aggressively."

In line with the company's historic growth the company expects to continue doubling operating revenue for the full year to 31 March 2013. After reporting a 6 month after tax loss to 30 September 2012 of \$7.0m the company expects to incur an increased loss for the second six month period to 31 March 2013.

Additional commentary is included in our 2012 Interim Report, which has also been released today.

Briefings

Xero is holding an Interim Results conference call for analysts:

Date: Thursday 15 November
Time: NZ 10.30am (AEST 8.30am) – please dial-in 5 minutes prior
Confirmation Code (required on dial-in): 6561188
Dial-in New Zealand: 0800 450 585
Dial-in Australia: Sydney 8113 1400, Melbourne 8338 0900, Other 1800 554 798
Dial-in UK: 0808 234 8407
Dial-in US: 1866 839 8029
Dial-in other global: email investors@xero.com for other international dial-in numbers.

Xero is holding Analyst Briefings in Melbourne and Sydney in December, reviewing the first 6 months of FY 2013, with an update of our ongoing product and company strategy. Register here: <http://events.xero.com/au/events/405-xero-analyst-briefing>

For more information contact:

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APPENDIX 1 RELEASE

14 November 2012

This document covers Xero Limited's unaudited financial results for the six month ended 30 September 2012

Xero Limited – Results for announcement to the market

<i>Reporting Period</i>	6 months to 30 September 2012	
<i>Previous Reporting Period</i>	6 months to 30 September 2011	
	Amount (000s)	Percentage Change
<i>Revenues from Ordinary Activities</i>	\$NZ 16,852	up 113%
<i>Profit (Loss) from Ordinary Activities after Tax attributable To Security Holder</i>	\$NZ (6,951)	up 87%
<i>Net Profit (Loss) attributable To Security Holder</i>	\$NZ (6,951)	up 87%
Interim / Final Dividend	Amount per Security	Imputed Amount per Security
No dividend is proposed	Not applicable	Not applicable
<i>Record date</i>	Not applicable	
<i>Dividend Payment Date</i>	Not applicable	

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APPENDIX 4D

14 November 2012

Xero Limited

ACN 160 293 630

Incorporated in New Zealand

Half Year Report

<i>Reporting Period</i>	1 April 2012 to 30 September 2012
<i>Previous Reporting Period</i>	1 April 2011 to 30 September 2011

Results for Announcement to the Market

	NZD (000s)	Percentage Change
<i>Operating Revenue from Ordinary Activities</i>	16,852	up 113%
<i>Profit (Loss) from Ordinary Activities after Tax attributable To Security Holder</i>	(6,951)	up 87%
<i>Net Profit (Loss) attributable To Security Holder</i>	(6,951)	up 87%

Dividends – Ordinary Shares	Amount per Security NZD	Imputed Amount per Security NZD
Interim Dividend	-	-
Payment Date	-	-

Financial information

The appendix 4D should be read in conjunction with the unaudited condensed consolidated financial statements for the six months ended 30 September 2012 as contained in the Interim Report attached.

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INTERIM REPORT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2012

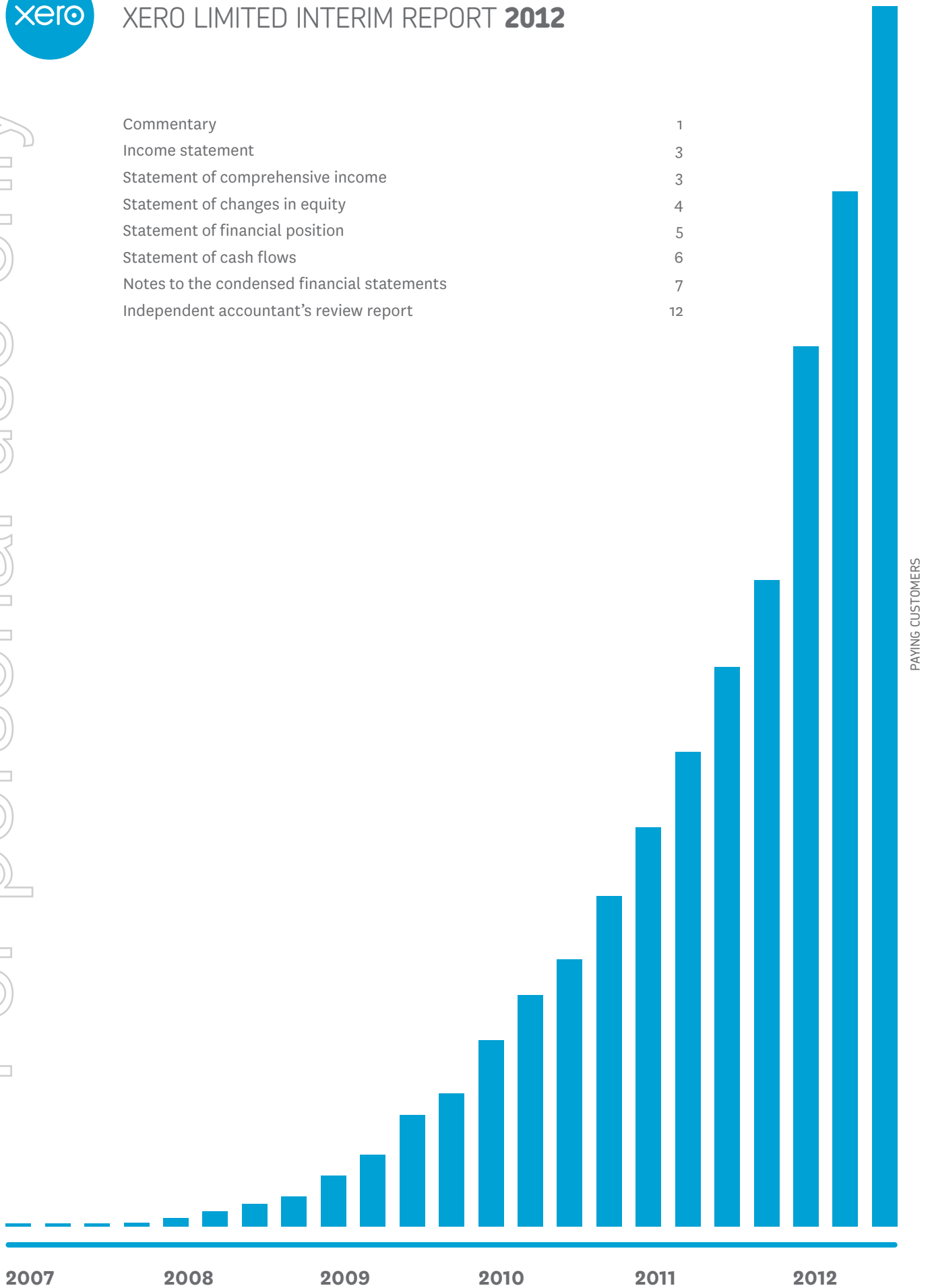


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XERO LIMITED INTERIM REPORT 2012

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COMMENTARY

Growth and momentum

Xero has continued its growth and momentum for the first six months of the financial year, significantly increasing development and support capabilities in New Zealand and expanding regional operations in key markets of Australia, the United Kingdom and the United States.

The first half year operating revenue more than doubled that in the same period last year to \$16.9 million. For the year to 30 September 2012 Xero's paying customer base also more than doubled, to 111,800. Annualised monthly committed revenue at 30 September was \$38.7 million, up from \$18.0 million a year ago, with 58% of committed revenue now from offshore.

Revenue attributable to each of New Zealand, Australia and the UK is covering service delivery costs as well as sales and marketing expenditure and providing a contribution to corporate and product development costs. The US is at an earlier stage in the growth cycle and following a customer acquisition pattern similar to these other regions.

Investment

With a goal of being able to support a million customers, investment has been spread across all four areas of the business. Globally 130 new jobs have been created, reaching 278 staff in total at 30 September.

Sales and Marketing – a significant investment has been made in sales and support in all offshore markets to drive channel-led sales. Selling through accountants and bookkeepers has been proven in New Zealand and is well advanced in Australia.

Service Delivery – a substantial investment is being made in building and managing a scalable and resilient delivery platform. Xero is now

one of Rackspace's major customers and operates at a class-leading 99.99% uptime.

Product Development – product development capacity has doubled in the past 12 months. Xero continues to deliver significant new features and innovations rapidly. New major development projects have been initiated during the period involving Australian tax, Australian and US payroll, mobile, accountant tools and business intelligence.

Corporate – managing more than 100% annual growth in a sustainable manner has required a substantial investment in general and administrative resources – both people and systems.

Emerging as a platform

Key to Xero's strength has been the development of an effective accountants and bookkeepers channel that provides a cost-effective pathway to the small business market. This complements direct sales and a growing group of solution partners.

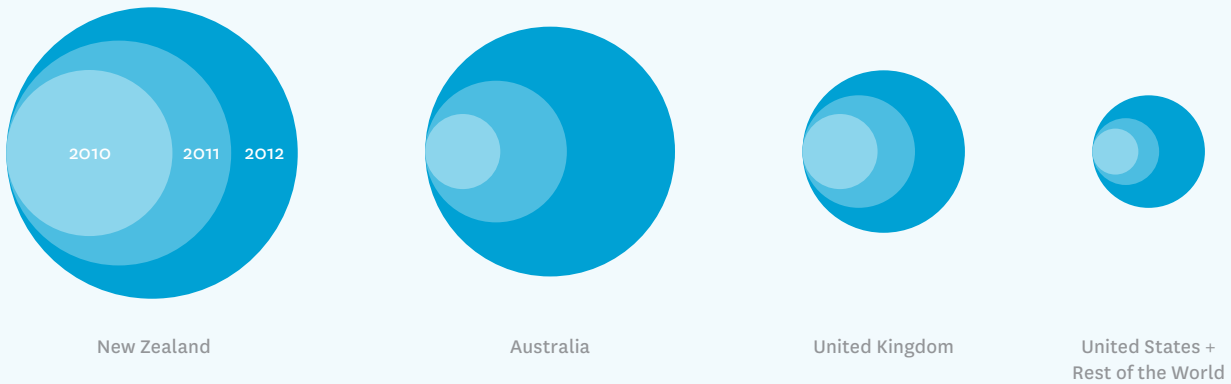
The strategy of supplying accountants with free partner tools such as financial statement production, practice management, electronic tax filing and electronic workpapers (through the recently acquired Spotlight Workpapers) is disrupting the accounting software market and provides a real incentive for these valuable partners to switch to Xero.

The rich ecosystem of solution providers that connect seamlessly to the Xero application has seen Xero evolve from not only an accounting solution to a powerful small business cloud platform providing a wide range of business solutions for accountants and small business owners. The third-party investment in this platform is substantial as are the referral benefits and network effects in having hundreds of cloud solution vendors working together.

Performance Highlights

	6 months ended 30 September 2012	6 months ended 30 September 2011
Total revenue & other income	\$17.3m	\$7.9m
Operating expenses	\$22.8m	\$11.1m
EBITDA	(\$5.5m)	(\$3.2m)
Net loss after tax	(\$7.0m)	(\$3.7m)
	At 30 September 2012	At 30 September 2011
Cash & cash equivalents	\$30.6m	\$11.4m
Paying business customers	111,800	51,300
Annualised Monthly Committed Revenue	\$38.7m	\$18.0m

Regional Revenue Growth – for the six months ended 30 September 2012



Regional activity

New Zealand paying customers:

30 September 2012 – 57,300 (previous year – 30,600)

In New Zealand Xero is being used by virtually all significant accounting firms, with a growing number of 100% Xero practices. The focus in New Zealand is now on winning more business from each practice. Sales costs have flattened as the team reaches operating efficiency.

Australia paying customers:

30 September 2012 – 32,500 (previous year – 10,400)

The Australian region has shown particularly strong growth, with a tripling of the number of paying customers on the back of the integrated payroll release and significant growth in the number of accounting and bookkeeping partners. The planned development of electronic tax filing with the Australian Taxation Office will provide further impetus. The Australian business will have more than 60 staff by year end and is completing a new fit-out for the Australian HQ in Melbourne. Australia is expected to be the revenue growth engine for the Company for the next 18 months.

United Kingdom paying customers:

30 September 2012 – 15,100 (previous year – 7,300)

The UK growth path is beginning to accelerate with more than 200 accountants and bookkeepers attending the inaugural Xero UK Partner conference in September. The UK team is operating effectively in its new Milton Keynes office and staff appointments have included the addition of experienced senior staff into core roles such as Marketing Manager and National Sales Manager.

United States/Rest of World paying customers:

30 September 2012 – 6,900 (previous year – 3,000)

Xero has continued to build its capability and presence in the US market, seeing good growth and a growing profile. A Xero Partner Advisory Council has been formed, there is a good pipeline of partners in the initial stages of working with Xero, and numerous advocates are emerging. The positive reception given to the delivery of US-specific product features this year is providing confidence that Xero is well positioned against the incumbent competitor.

Governance

As announced at the 2012 Annual Meeting, Xero has listed on the ASX. This secondary listing on 8 November is aimed at making Xero shares more readily available to Australian parties, including partners and clients.

In September Xero appointed US-based high-tech executive Craig Elliott to the Xero Board of Directors and as Chair of the Xero US Advisory Board. Mr Elliott is co-founder and CEO of Silicon Valley based cloud networking provider Pertino Networks and a strategic advisor to New Zealand Trade and Enterprise with respect to angel, venture capital and private equity markets.

Outlook

The Board is continuing to follow a growth agenda focused on creating longer-term shareholder value rather than short-term profitability. The investment in staffing, infrastructure and the strengthening of regional management and operations puts Xero in a strong position as it drives towards its next target of one million customers globally.

In line with the company's historic growth the company expects to double operating revenue for the full year to 31 March 2013 and incur a increased loss for the second 6 month period to 31 March 2013.

Xero has emerged as the company to watch in the small business accounting space, winning mind and market share from the incumbent providers. The nimbleness demonstrated by Xero and the continued execution of its strategy gives confidence in its ability to become a significant player in the global accounting market.

Sam Knowles
Chairman

14 November 2012

Rod Drury
Chief Executive

XERO LIMITED – INCOME STATEMENT – FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2012

	6 months Unaudited Group 2012 (\$000s)	6 months Unaudited Group 2011 (\$000s)	12 months Audited Group 31 March 2012 (\$000s)
Operating revenue	16,852	7,913	19,370
Government grants	434	-	401
Total revenue & other income	17,286	7,913	19,771
Operating expenses	(22,770)	(11,115)	(26,491)
Depreciation & amortisation	(1,961)	(820)	(1,894)
Operating loss	(7,445)	(4,022)	(8,614)
Interest income	636	308	612
Net operating loss before tax	(6,809)	(3,714)	(8,002)
Gain on investment in associate	-	-	170
Share of profit of associate	-	32	38
Net loss before tax	(6,809)	(3,682)	(7,794)
Income tax expense	(142)	(39)	(110)
Net loss after tax attributable to the shareholders of the company	(6,951)	(3,721)	(7,904)
<i>Earnings per share</i>			
Basic & diluted earnings per share (dollars)	(0.07)	(0.04)	(0.08)

XERO LIMITED – STATEMENT OF COMPREHENSIVE INCOME – FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2012

	6 months Unaudited Group 2012 (\$000s)	6 months Unaudited Group 2011 (\$000s)	12 months Audited Group 31 March 2012 (\$000s)
Net loss after tax	(6,951)	(3,721)	(7,904)
Other comprehensive income			
Exchange difference on translation of international subsidiaries	6	(33)	(39)
Total other comprehensive income/(expense) for the period, net of tax	6	(33)	(39)
Total comprehensive loss attributable to the shareholders of the company	(6,945)	(3,754)	(7,943)

XERO LIMITED – STATEMENT OF CHANGES IN EQUITY – FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2012

	Share capital (\$000s)	Treasury stock (\$000s)	Share-based payments reserve (\$000s)	Accumulated losses (\$000s)	Foreign currency translation reserve (\$000s)	Total equity (\$000s)
Group (unaudited 30 September 2012)						
Balance at 1 April 2012	93,251	(6,874)	1,883	(35,951)	(61)	52,248
Net loss after tax	-	-	-	(6,951)	-	(6,951)
Currency translation movements	-	-	-	-	6	6
Total comprehensive income	-	-	-	(6,951)	6	(6,945)
Issue of shares under employee restricted share plan	1,818	(1,818)	-	-	-	-
Accrual of share based employee benefits	-	-	506	-	-	506
Issue of shares – Spotlight Workpapers Limited (Note 9)	300	-	-	-	-	300
Accrual for equity portion of purchase of Max Solutions Holdings Limited	-	-	1,222	-	-	1,222
Accrual for equity portion of purchase of Paycycle assets	-	-	314	-	-	314
Vesting of ordinary shares – purchase of Paycycle assets	-	431	(431)	-	-	-
Balance at 30 September 2012	95,369	(8,261)	3,494	(42,902)	(55)	47,645
Group (unaudited 30 September 2011)						
Balance at 1 April 2011	50,168	(1,113)	702	(28,047)	(22)	21,688
Net loss after tax	-	-	-	(3,721)	-	(3,721)
Currency translation movements	-	-	-	-	(33)	(33)
Total comprehensive income	-	-	-	(3,721)	(33)	(3,754)
Issue of shares under employee restricted share plan	1,248	(1,248)	-	-	-	-
Accrual of share based employee benefits	-	(39)	838	-	-	799
Issue of shares – purchase of Paycycle assets	1,294	(1,294)	-	-	-	-
Accrual for equity portion of purchase of Paycycle assets	-	-	128	-	-	128
Balance at 30 September 2011	52,710	(3,694)	1,668	(31,768)	(55)	18,861
Group (audited 31 March 2012)						
Balance at 1 April 2011	50,168	(1,113)	702	(28,047)	(22)	21,688
Net loss after tax	-	-	-	(7,904)	-	(7,904)
Currency translation movements	-	-	-	-	(39)	(39)
Total comprehensive income	-	-	-	(7,904)	(39)	(7,943)
Issue of ordinary shares	36,365	-	-	-	-	36,365
Accrual of share based employee benefits	-	-	1,219	-	-	1,219
Vesting of ordinary shares in employee restricted share plan	-	957	(957)	-	-	-
Issue of ordinary shares – purchase of Paycycle assets	1,294	(1,294)	-	-	-	-
Issue of ordinary shares – purchase of Max Solutions Holdings Limited	4,000	(4,000)	-	-	-	-
Issue of shares under employee restricted share plan	1,424	(1,424)	-	-	-	-
Accrual for equity portion of purchase of Paycycle assets	-	-	512	-	-	512
Accrual for equity portion of purchase of Max Solutions Holdings Limited	-	-	407	-	-	407
Balance as at 31 March 2012	93,251	(6,874)	1,883	(35,951)	(61)	52,248

XERO LIMITED – STATEMENT OF FINANCIAL POSITION – AS AT 30 SEPTEMBER 2012

	Notes	Unaudited Group 2012 (\$000s)	Unaudited Group 2011 (\$000s)	Audited Group 31 March 2012 (\$000s)
Assets				
<i>Current assets</i>				
Cash & cash equivalents		30,581	11,383	38,976
Trade receivables & other assets	2	4,166	2,243	3,023
Total current assets		34,747	13,626	41,999
<i>Non-current assets</i>				
Property, plant & equipment	3	4,692	947	4,195
Intangible assets	3	13,380	6,378	10,260
Investment in associate		–	230	–
Deferred tax benefit		137	54	85
Other non-current assets	4	1,273	104	1,234
Total non-current assets		19,482	7,713	15,774
Total assets		54,229	21,339	57,773
Liabilities				
<i>Current liabilities</i>				
Trade & other payables	5	3,633	1,544	3,046
Employee entitlements		2,711	905	2,408
Income tax		240	29	71
Total current liabilities		6,584	2,478	5,525
Net assets		47,645	18,861	52,248
Equity				
Share capital	6	87,108	49,016	86,377
Share based payment reserve		3,494	1,668	1,883
Accumulated losses		(42,902)	(31,768)	(35,951)
Foreign currency translation reserve		(55)	(55)	(61)
		47,645	18,861	52,248

XERO LIMITED – STATEMENT OF CASH FLOWS – FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2012

	Notes	6 months Unaudited Group 2012 (\$000s)	6 months Unaudited Group 2011 (\$000s)	12 months Audited Group 31 March 2012 (\$000s)
Operating activities				
<i>Cash was provided from</i>				
Receipts from customers		15,847	7,493	18,560
Interest received		575	376	632
Government grants		319	-	283
GST received		-	79	-
Dividends received		-	9	26
		16,741	7,957	19,501
<i>Cash was applied to</i>				
Payments to suppliers & employees		(19,793)	(11,249)	(23,379)
GST paid		(657)	-	(833)
Income tax paid		(25)	(90)	(150)
		(20,475)	(11,339)	(24,362)
Net cash flows from operating activities	8	(3,734)	(3,382)	(4,861)
Investing activities				
<i>Cash was provided from</i>				
Cash acquired on acquisition of subsidiary		-	-	259
Disposal of property, plant & equipment		20	-	-
		20	-	259
<i>Cash was applied to</i>				
Purchase of property, plant & equipment		(1,194)	(614)	(3,963)
Capitalised development costs		(3,401)	(1,155)	(3,519)
Intangible assets		(68)	-	(37)
Acquisition of subsidiary (Note 9)		(100)	-	(1,000)
Purchase of Paycycle business		-	(377)	-
Other assets		(18)	(11)	(299)
		(4,781)	(2,157)	(8,818)
Net cash flows from investing activities		(4,761)	(2,157)	(8,559)
Financing activities				
<i>Cash was provided from</i>				
Repayment of director's & other loans		100	-	200
Share issue		-	-	35,638
		100	-	35,838
<i>Cash was applied to</i>				
Cost of share issue		-	-	(364)
		-	-	(364)
Net cash flows from financing activities		100	-	35,474
Net (decrease)/increase in cash held		(8,395)	(5,539)	22,054
Cash & cash equivalents at the beginning of the period		38,976	16,922	16,922
Cash & cash equivalents at the end of the period		30,581	11,383	38,976

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PRESENTATION & 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 New Zealand Generally Accepted Accounting Practice and comply with the requirements of International Accounting Standard (IAS) 34 Interim Financial Reporting and with the New Zealand Equivalent to International Accounting Standard NZ (IAS) 34 Interim Financial Reporting. The Company is a profit oriented entity.

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 2012 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 2012.

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 2012 have been applied to these consolidated condensed interim financial statements.

2. TRADE RECEIVABLES & OTHER ASSETS

	Unaudited Group 2012 (\$000s)	Unaudited Group 2011 (\$000s)	Audited Group 31 March 2012 (\$000s)
Trade receivables	1,891	1,098	1,347
Accrued income	1,130	506	687
Prepayments	412	192	311
Interest receivable	198	99	138
Government grants receivable	285	-	170
Loans to Directors	-	232	120
Rental bonds	250	-	250
Other loans	-	116	-
	4,166	2,243	3,023

3. ACQUISITION & DISPOSAL OF NON-CURRENT ASSETS

	6 months Unaudited Group 2012 (\$000s)	6 months Unaudited Group 2011 (\$000s)	12 months Audited Group 31 March 2012 (\$000s)
Property, plant & equipment			
- Acquisitions	956	614	4,197
- Disposals	(54)	-	(625)
Intangible assets			
- Acquisitions (capitalised development costs)	4,547	2,292	7,091
- Acquisitions (software licences)	67	-	-
- Acquisitions (trademarks)	1	-	-
Net tangible assets per share (dollars)	0.32	0.13	0.39

4. OTHER NON-CURRENT ASSETS

	Unaudited Group 2012 (\$000s)	Unaudited Group 2011 (\$000s)	Audited Group 31 March 2012 (\$000s)
Loans to key management	1,116	-	1,094
NZX & rental bonds	157	104	140
	1,273	104	1,234

5. TRADE & OTHER PAYABLES

	Unaudited Group 2012 (\$000s)	Unaudited Group 2011 (\$000s)	Audited Group 31 March 2012 (\$000s)
Trade payables	732	518	969
Other payables & accrued expenses	1,140	531	651
Onerous lease provision	191	-	275
Income in advance	111	20	90
GST payable	559	224	61
Amounts payable on acquisition of subsidiary	500	-	1,000
Contingent consideration on acquisition of subsidiary (Note 9)	400	251	-
	3,633	1,544	3,046

6. SHARE CAPITAL

	Unaudited Group 2012 Shares (000s)	Unaudited Group 2011 Shares (000s)	Audited Group 31 March 2012 Shares (000s)
Movement in ordinary shares			
Balance at 1 April	106,782	91,012	91,012
Issue of ordinary shares	-	-	13,352
Shares issued - Paycycle	-	606	606
Shares issued - Max Solutions Holdings Limited	-	-	1,262
Shares issued - Spotlight Workpapers Limited (Note 9)	58	-	-
Shares issued under Employee Restricted Share Plan	347	550	550
Ordinary shares on issue	107,187	92,168	106,782
Treasury stock	(2,828)	(1,919)	(2,683)
	104,359	90,249	104,099

During the period the Company issued 347,438 shares under the Employee Restricted Share Plan, at an average price of \$5.31 per share.

During the period the Company granted 282,397 options to selected employees with exercise prices of \$3.83 to \$5.31 per share, being the market price on the date the options were granted. The options are exercisable in equal amounts over three years from the grant date. No options can be exercised later than the first anniversary of the final vesting date (a total of four years from the grant date). Any unvested and unexercised options will be cancelled should an employee cease to be employed.

7. SEGMENT INFORMATION

The Group has six operating segments based on the geographical locations of its operations and revenue streams, and five reporting segments at 30 September 2012. These segments have been determined based on the reports reviewed by the Board to make strategic decisions.

The Group currently operates in one business segment, providing an online accounting solution for small businesses and their advisors.

The segment information shows the operating performance of each country, as currently reviewed by the Board. Prior period information has been restated where appropriate.

Country operating expenses represent the sales and marketing costs and the service delivery costs including both in-country and an allocation of centrally managed costs. Operating expenses for Corporate represent all development and general and administration expenses.

The assets and liabilities of the Group are reported to and reviewed by the Board in total and are not allocated by operating segment. Therefore, operating segment assets and liabilities are not disclosed.

	New Zealand (\$000s)	Australia (\$000s)	United Kingdom (\$000s)	Rest of World (\$000s)	Corporate (\$000s)	Total (\$000s)
2012 - Group (unaudited)						
<i>For the six months ended 30 September 2012</i>						
Revenue from external customers	7,690	5,602	2,420	1,140	-	16,852
Government grants & associate earnings	-	-	-	-	434	434
Interest revenue	-	-	-	-	636	636
Total	7,690	5,602	2,420	1,140	1,070	17,922
Operating expenses	(4,792)	(5,278)	(2,134)	(2,109)	(10,418)	(24,731)
Segment profit/(loss) before tax	2,898	324	286	(969)	(9,348)	(6,809)
2011 - Group (unaudited) - restated						
<i>For the six months ended 30 September 2011</i>						
Revenue from external customers	4,607	1,805	1,101	400	-	7,913
Government grants & associate earnings	-	-	-	-	32	32
Interest revenue	-	-	-	-	308	308
Total	4,607	1,805	1,101	400	340	8,253
Operating expenses	(3,033)	(2,222)	(1,049)	(154)	(5,477)	(11,935)
Segment profit/(loss) before tax	1,574	(417)	52	246	(5,137)	(3,682)
2012 - Group (audited) - restated						
<i>For the year ended 31 March 2012</i>						
Revenue from external customers	10,325	5,024	2,723	1,298	-	19,370
Government grants & associate earnings	-	-	-	-	609	609
Interest revenue	-	-	-	-	612	612
Total	10,325	5,024	2,723	1,298	1,221	20,591
Operating expenses	(6,951)	(5,455)	(2,528)	(1,227)	(12,224)	(28,385)
Segment profit/(loss) before tax	3,374	(431)	195	71	(11,003)	(7,794)

8. RECONCILIATION OF OPERATING CASH FLOWS

	6 months Unaudited Group 2012 (\$000s)	6 months Unaudited Group 2011 (\$000s)	12 months Audited Group 31 March 2012 (\$000s)
Reconciliation from the net loss after tax to the net cash flows from operations			
Net loss after tax	(6,951)	(3,721)	(7,904)
<i>Adjustments for</i>			
- Depreciation	699	133	320
- Amortisation	1,262	687	1,574
- Deferred tax	(52)	(19)	(50)
- Associated company profit	-	(23)	(38)
- Gain on investment in associate	-	-	(170)
- Loss/(gain) on foreign exchange transactions	369	(33)	(8)
- Loss on disposal of property, plant & equipment	17	-	119
- Employee entitlements	1,555	418	1,380
- Interest on loans	-	-	(18)
<i>Changes in working capital items</i>			
(Increase)/decrease in trade receivables & other assets	(1,285)	(392)	(1,162)
(Decrease)/increase in trade payables & other liabilities	(90)	(93)	(202)
Increase/(decrease) in GST	499	79	(84)
Increase/(decrease) in current tax	169	(32)	10
Increase/(decrease) in employee entitlements	53	(155)	1,282
Increase/(decrease) in income in advance	21	20	90
	(3,734)	(3,131)	(4,861)
<i>Add: Items classified as investing activities</i>			
Accrual for Paycycle business	-	(251)	-
Net cash flow from operating activities	(3,734)	(3,382)	(4,861)

9. BUSINESS COMBINATIONS

In July 2012 the Group acquired the assets and business of Spotlight Workpapers Limited. The transaction will cost a total of \$800,000 comprising a cash component and an equity component.

The following table summarises the consideration paid and the amount of assets acquired. No liabilities were assumed.

	(\$000s)
Cash consideration at 20 July 2012	100
Equity consideration	300
Contingent consideration	400
Total consideration	800
<i>Recognised amounts of identifiable assets acquired</i>	
Software development costs	800
Goodwill	-
Total identifiable assets	800

The equity component of the consideration at 20 July 2012 comprised the issue of 58,366 shares in Xero Limited to the owners of Spotlight Workpapers Limited at the Volume Weighted Average Price ("VWAP") market share price on 20 July 2012, which was \$5.14. The equity component of this issue was \$300,000.

The contingent consideration comprises:

- The contingent cash consideration arrangements require the Group to pay the owners of Spotlight Workpapers Limited \$100,000 in cash on the meeting of certain commercial and technical success factors.
- The contingent equity consideration arrangements require the Group to issue the owners of Spotlight Workpapers Limited with shares using the VWAP market share price at that date to the value of \$300,000 on the meeting of certain commercial and technical success factors.

The Workpapers software solution is due for commercial release in 2013 and no revenues in respect of the acquisition have been included in the Group's Income Statement for the period ended 30 September 2012.

10. RELATED PARTIES

The loans to Directors have now been fully repaid.

On 1 October 2012 a total of 100,000 options were granted to Craig Elliott (Director) under the Xero Limited Employee (USA) Share Option Scheme in his capacity as the Chairman of the Xero US Advisory Board.

11. EVENTS AFTER THE BALANCE SHEET DATE

On 8 November 2012 the Company completed a secondary listing on the Australian Securities Exchange (ASX). There were no other subsequent events.

12. COMMITMENTS & CONTINGENCIES

At 30 September 2012 the Company had capital commitments of \$1.2 million in respect of the contract for the fitout of its new Melbourne office (30 September 2011: nil, 31 March 2012: nil).

There are no contingent liabilities as at 30 September 2012, 30 September 2011 or 31 March 2012.

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the shareholders of Xero Limited

REVIEW REPORT ON THE INTERIM FINANCIAL STATEMENTS

We have reviewed the interim condensed financial statements ("financial statements") of Xero Limited ("the Company"), and the entities it controlled at 30 September 2012 or from time to time during the period ("the Group") on pages 3 to 11, which comprise the statement of financial position as at 30 September 2012, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six month period ended 30 September 2012, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Interim Financial Statements

The Company's Directors are responsible for the preparation and presentation of the financial statements that present fairly the financial position of the Group as at 30 September 2012, and its financial performance and cash flows for the period ended on that date.

Accountants' Responsibility

We are responsible for reviewing the financial statements presented by the Directors in order to report to you whether, in our opinion and on the basis of the procedures performed by us, anything has come to our attention that would indicate that the financial statements do not present fairly the matters to which they relate.

A review is limited primarily to enquiries of company personnel and analytical review procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit on the financial statements and, accordingly, we do not express an audit opinion.

We have reviewed the financial statements of the Group for the period ended 30 September 2012 in accordance with the Review Engagement Standards issued in New Zealand.

We have no relationship with or interests in, Xero Limited other than in our capacities as accountants performing this review, and providers of taxation and other assurance services. These services have not impaired our independence as auditors of the Group.

Opinion

Based on our review, nothing has come to our attention that causes us to believe that the financial statements which have been prepared in accordance with International Accounting Standard 34 and New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting do not present fairly the financial position of the Group as at 30 September 2012 and its financial performance and cash flows for the period ended on that date.

Restriction on Distribution or Use

This report is made solely to the Company's shareholders, as a body. Our review work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an accountants' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our review procedures, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants
Wellington, New Zealand
14 November 2012



pwc

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CHAIRMAN

ROD DRURY

CRAIG ELLIOTT

SAM MORGAN

GRAHAM SHAW

CRAIG WINKLER

MANAGEMENT:

ROD DRURY
*CHIEF EXECUTIVE,
CO-FOUNDER*

HAMISH EDWARDS
CO-FOUNDER

ROSS JENKINS
CHIEF FINANCIAL OFFICER

ALASTAIR GRIGG
CHIEF OPERATING OFFICER

NATASHA HUBBARD
GENERAL MANAGER HUMAN RESOURCES

PAULA JACKSON
GENERAL MANAGER MARKETING

NATHAN MCLEAN
GENERAL MANAGER GLOBAL FACILITIES

NIGEL PIPER
GENERAL MANAGER CUSTOMER SUPPORT

DUNCAN RITCHIE
GENERAL MANAGER OPERATIONS

PAUL WILLIAMS
GENERAL MANAGER FINANCE

LEANNE GRAHAM
*COUNTRY MANAGER
- NEW ZEALAND*

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*MANAGING DIRECTOR
- AUSTRALIA*

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*MANAGING DIRECTOR
- UNITED KINGDOM*

JAMIE SUTHERLAND
*PRESIDENT
- UNITED STATES*

AUDITOR:

PRICEWATERHOUSECOOPERS

LEGAL ADVISOR:

BELL GULLY

COMPANY SECRETARY:

ROSS JENKINS

BANKERS:

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BANK OF NEW ZEALAND LIMITED

HSBC LIMITED

NATIONAL AUSTRALIA BANK LIMITED

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14 November 2012

Company Announcements Office
Australian Securities Exchange
Exchange Centre
Level 6
20 Bridge Street
Sydney NSW 2000
Australia

Dear Sir/Madam

LISTING RULE 4.2a.2 – Details of Directors and Directors' Declarations in respect of the half year financial statements and notes

This announcement is made pursuant to ASX Listing Rule 4.2a and relates to and should be read in conjunction with the announcement of the company's result for the six months to 30 September 2012 dated 14 November 2012.

The directors of Xero Limited, at any time during or since the end of the half year ended 30 September 2012, were:

Mr Sam Knowles	Chairman
Mr Rod Drury	Director
Mr Craig Elliott	Director (appointed 20 September 2012)
Mr Sam Morgan	Director
Mr Graham Shaw	Director
Mr Craig Winkler	Director

Attached is a declaration on behalf of the directors in respect of the interim financial statements and notes.

Yours faithfully

Ross Jenkins
Company Secretary



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XERO LIMITED ("the Company")

Directors' declaration in respect of Group Financial Statements for the six months ended 30 September 2012

Introduction

It is a requirement of the ASX Listing Rules that a declaration be given by the directors of the Company in respect of the financial statements for the Xero Group (the Company and its subsidiaries) for the six months ended 30 September 2012. This declaration must be filed with the ASX.

Declaration

The directors of the Company hereby declare that:

- a. the Xero Group consolidated condensed interim financial statements for the six months ended 30 September 2012 and the notes to those financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice and comply with the requirements of International Accounting Standard (IAS) 34 - Interim Financial Reporting and with the New Zealand Equivalent to International Accounting Standard NZ (IAS) 34 Interim Financial Reporting;
- b. the Xero Group consolidated condensed interim financial statements for the six months ended 30 September 2012 and the notes to those financial statements give a true and fair view of the financial position at 30 September 2012 and performance of the Xero Group for the period ended on that date;
- c. in the directors' opinion there are reasonable grounds to believe that the Xero Group will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with the resolution of the directors dated 14 November 2012 and is signed for and on behalf of the board of directors by the board Chairman.

Signed

Sam Knowles

Chairman

14 November 2012

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