

Interim Report

For the six months ended
30 September 2013

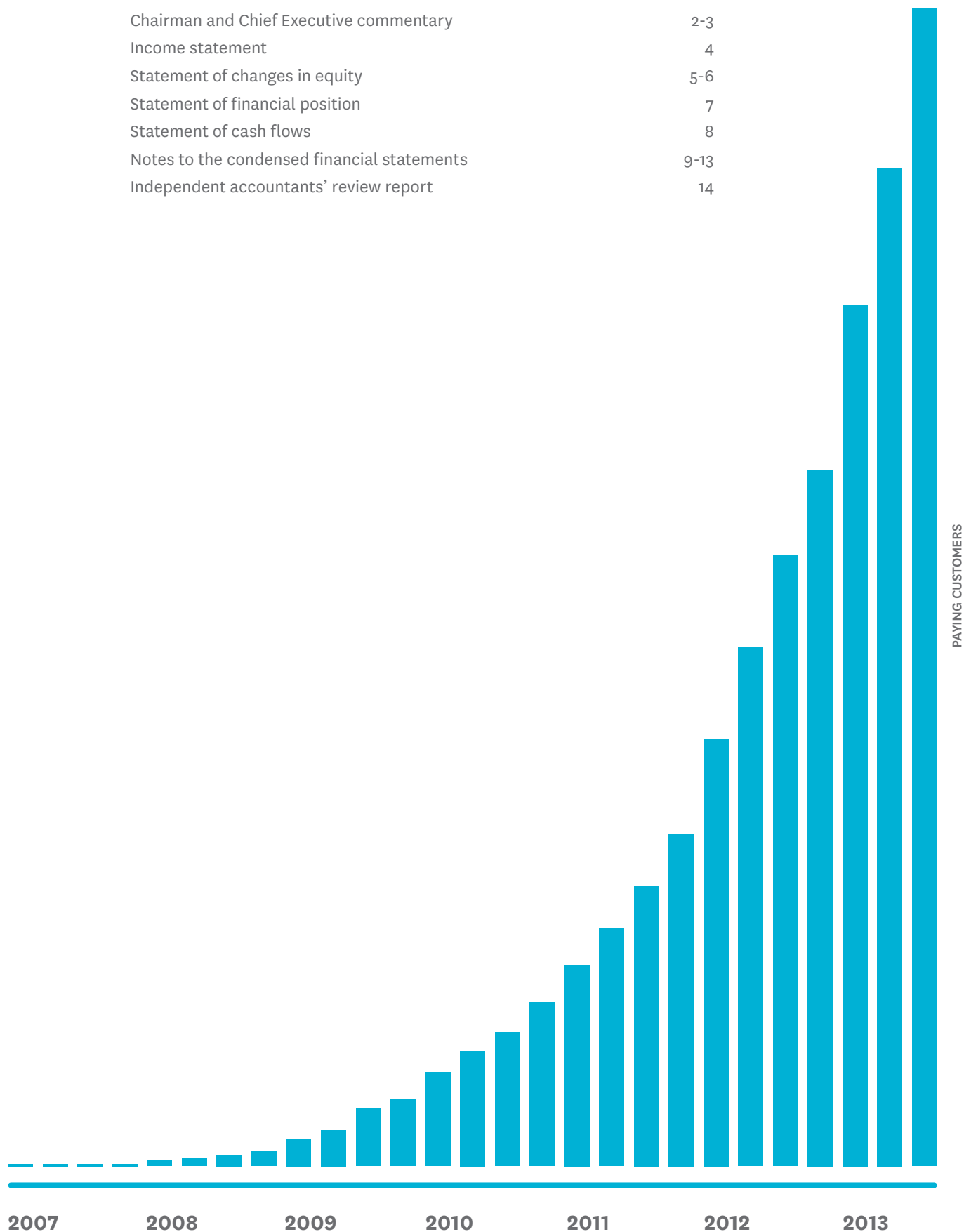


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XERO LIMITED INTERIM REPORT 2013

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CHAIRMAN AND CHIEF EXECUTIVE COMMENTARY

It has been an incredible six months at Xero, with many highlights. There has been a major focus on growth and investment to take advantage of the massive opportunity of small businesses moving to the Cloud. Xero continues to attract top talent and execute at a world-class level. The market is beginning to accelerate and the sustained investment in Xero's clean foundations is apparent in the quality and speed advantage that Xero has over incumbent providers.

Capital raise

Xero's \$180m capital raise in October 2013 from sophisticated technology investors has removed substantial risk from the business. It is a clear signal that the company is operating on a world-class basis and ensures the company is in a strong position to continue its growth agenda.

Investment

Investment in prior periods is paying off with strong growth and momentum. For the first six months of FY 2014 Xero continued its global expansion. The United States is now the fastest-growing region by revenue percentage and is where the heaviest investment is being applied.

Good progress has been made in putting a global senior leadership team in place to enable the company to scale. Total staff numbers have been expanded from 382 to 584 during the period. New offices have been opened in Los Angeles, San Francisco, London, Melbourne, Perth, Auckland and Wellington.

Sales and Marketing – Xero is driving its successful accounting and bookkeeping channel approach into the US market and is automating its direct customer sales channel. Its first fully integrated advertising campaign is underway in Australia using local press, outdoor, radio and online. Leading indicators such as accountants' attendance at roadshows, sales pipeline and conversion ratios are positive.

Service delivery – Xero continues to build its resilient delivery platform to enable scaling to one million customers. The platform continues to deliver class-leading uptime and reliability.

Product development – Xero has been releasing the first versions of new products and functionality such as Purchase Orders, Files, US Payroll and Australian Tax. The extent of investment means Xero can innovate and evolve products more rapidly than competitors. The company will accelerate investment in product capability to provide more rapid innovation.

Customer Experience – Xero continues to invest in delivering the best experience to its customers. As well as increasing the number of support staff in Wellington, Melbourne and Milton Keynes, the company has recently opened a support office in Denver.

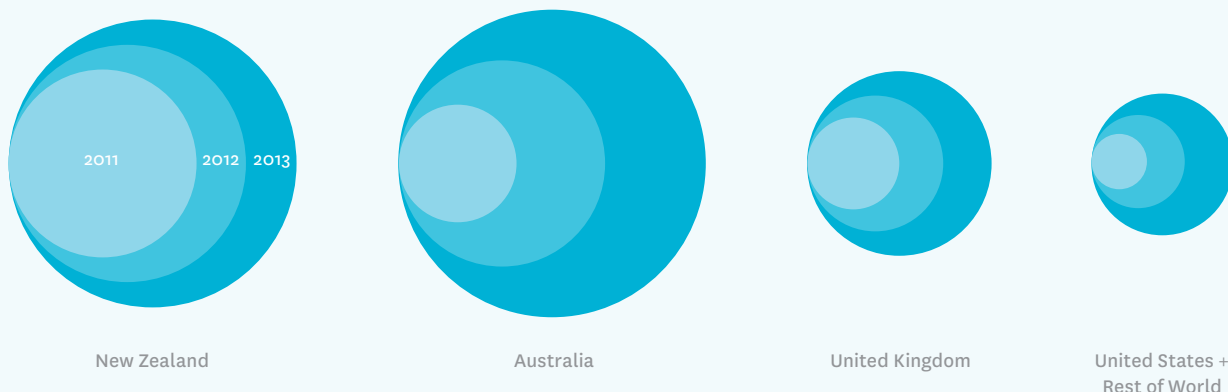
Growth and momentum

For the first half year operating revenue grew 84% over the same period last year, to \$30.3 million. This figure excludes revenue from Xero Personal, for which an announcement to terminate was made in August 2013, and which is deemed to be a discontinued operation.

Performance highlights

	6 months ended 30 September 2013	6 months ended 30 September 2012	Increase
Total operating revenue	\$30.3m	\$16.5m	+84%
Net loss after tax	(\$17.1m)	(\$7.0m)	+144%
Cash at bank	\$55.3m	\$30.6m	+81%
Paying business customers	211,300	111,800	+89%
Partner channel	8,800	4,600	+91%
Annualised Monthly Committed Revenue	\$70.6m	\$38.7m	+82%

Regional revenue growth



Regional activity

New Zealand

Paying customers: 30 September 2013 – 85,500 (previous year – 57,300)

Partner channel: 2,400 (previous year – 1,800)

In New Zealand Xero products are used by almost all significant accounting firms. Significant numbers of new startup accounting and bookkeeping firms are using Xero as their platform. Xero continues to expand its footprint within mid-size and large accounting firms and we expect the proportion of firms that operate substantially on Xero products to rise significantly as the new reporting framework and much anticipated farming solutions are released during 2014.

Australia

Paying customers: 30 September 2013 – 79,100 (previous year – 32,500)

Partner channel: 4,100 (previous year – 1,900)

Australian customer numbers continue to more than double each year. The rollout of electronic tax filing with the Australian Tax Office will provide further momentum. Xerocon Australia was the biggest-ever conference for Xero with more than 900 participants, and its Add-on software developer day attracted 200. Xero has also introduced a new channel of financial advisors in Australia, who see Xero's Cashbook product as a good fit for their clients.

United Kingdom

Paying customers: 30 September 2013 – 30,100 (previous year – 15,100)

Partner channel: 1,300 (previous year – 700)

In the United Kingdom Xero has opened a London office and has built up its management team at its Milton Keynes UK headquarters. More than 40 of the UK top 100 accounting firms are Xero partners. The second Xerocon UK conference attracted more than 400 participants and its Add-on software developer day attracted 200.

United States/Rest of World

Paying customers: 30 September 2013 – 16,600 (previous year – 6,900)

Partner channel: 1,000 (previous year – 200)

In the United States Xero has built a world-class team numbering nearly 100 staff, which includes the US Payroll development team across multiple states. The accounting partner channel has been aggressively developed, with 25 of *Accounting Today's* top 100 firms moving clients to Xero and the first Xerocon US conference attracting more than 400 participants.

Positioning

Xero is now on the world stage. In the past year incumbent competitors have delivered competing online accounting products or major new versions. We believe these offerings demonstrate how difficult it is to move from a desktop-centric approach to world-class online software. Xero is benefiting from seven years and \$200m of investment in developing a modern, global accounting platform that is free of legacy. Xero is delivering better features and innovation at a faster pace.

With an excellent product and proven ability to innovate and operate, the company has been building up its marketing and sales teams to take the product to market at scale. No other new entrant has had comparable resources to create the breadth of platform that Xero has already delivered, positioning Xero uniquely as the number one challenger in each of its markets.

The company expects to exceed 80% growth in operating revenue for the full year to 31 March 2014 and continue to incur increased operating losses for the second 6 month period as it continues to invest. With cash reserves at 31 October in excess of \$230m the Board is continuing to follow a growth agenda focused on creating longer-term shareholder value rather than short-term profitability. Xero is investing in the infrastructure to support millions of customers and create a significant Cloud-based financial platform for its customers and partners.

Sam Knowles
Chairman

Rod Drury
Chief Executive

20 November 2013

XERO LIMITED – INCOME STATEMENT – FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

	Notes	6 months Unaudited Group 2013 (\$000s)	6 months Unaudited Group 2012 (\$000s)	12 months Audited Group 31 March 2013 (\$000s)
Operating revenue		30,324	16,496	38,353
Government grants		713	434	936
Total revenue & other income		31,037	16,930	39,289
Operating expenses		(44,609)	(22,701)	(51,245)
Depreciation & amortisation		(3,728)	(1,862)	(4,328)
Operating deficit		(17,300)	(7,633)	(16,284)
Net interest income		1,209	636	1,838
Net loss before tax		(16,091)	(6,997)	(14,446)
Income tax expense		(263)	(142)	(296)
Net loss from continuing operations		(16,354)	(7,139)	(14,742)
Net (loss) / profit from discontinued operations	8	(791)	188	299
Net loss after tax for the period attributable to the shareholders of the company		(17,145)	(6,951)	(14,443)
<i>Earnings per share</i>				
Basic & diluted loss per share		(\$0.14)	(\$0.07)	(\$0.13)

XERO LIMITED – STATEMENT OF COMPREHENSIVE INCOME – FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

	6 months Unaudited Group 2013 (\$000s)	6 months Unaudited Group 2012 (\$000s)	12 months Audited Group 31 March 2013 (\$000s)
Net loss after tax	(17,145)	(6,951)	(14,443)
Other comprehensive income			
Exchange difference on translation of international subsidiaries	–	6	(11)
Total other comprehensive income / (expense) for the period	–	6	(11)
Total comprehensive loss for the period attributable to the shareholders of the company	(17,145)	(6,945)	(14,454)

XERO LIMITED – STATEMENT OF CHANGES IN EQUITY – FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

	Share capital (\$000s)	Treasury stock (\$000s)	Share- based payment reserve (\$000s)	Accumulated losses (\$000s)	Foreign currency translation reserve (\$000s)	Total equity (\$000s)
Group (unaudited 30 September 2013)						
Balance at 1 April 2013	155,551	(5,529)	3,096	(50,394)	(72)	102,652
Net (loss) after tax	-	-	-	(17,145)	-	(17,145)
Currency translation movements	-	-	-	-	-	-
Total comprehensive income	-	-	-	(17,145)	-	(17,145)
<i>Transactions with owners</i>						
Issue of shares – key management	1,550	-	-	-	-	1,550
Issue of shares – employee restricted share plan	3,418	(3,418)	-	-	-	-
Vesting of shares – employee restricted share plan	-	33	(33)	-	-	-
Exercising of employee stock options	332	-	(64)	-	-	268
Vesting of shares – purchase of Paycycle assets	-	431	(431)	-	-	-
Accrual for equity portion of purchase of Paycycle assets	-	-	140	-	-	140
Accrual for equity portion of purchase of Max Solutions Holdings Limited	-	-	555	-	-	555
Accrual of share-based employee benefits	-	-	1,531	-	-	1,531
Balance at 30 September 2013	160,851	(8,483)	4,794	(67,539)	(72)	89,551
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)
<i>Transactions with owners</i>						
Issue of shares – purchase of Spotlight Workpapers Limited	300	-	-	-	-	300
Issue of shares – employee restricted share plan	1,818	(1,818)	-	-	-	-
Vesting of shares – purchase of Paycycle assets	-	431	(431)	-	-	-
Accrual for equity portion of purchase of Paycycle assets	-	-	314	-	-	314
Accrual for equity portion of purchase of Max Solutions Holdings Limited	-	-	1,222	-	-	1,222
Accrual of share-based employee benefits	-	-	506	-	-	506
Balance at 30 September 2012	95,369	(8,261)	3,494	(42,902)	(55)	47,645

XERO LIMITED – STATEMENT OF CHANGES IN EQUITY – FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

	Share capital (\$000s)	Treasury stock (\$000s)	Share- based payment reserve (\$000s)	Accumulated losses (\$000s)	Foreign currency translation reserve (\$000s)	Total equity (\$000s)
Group (audited 31 March 2013)						
Balance at 1 April 2012	93,251	(6,874)	1,883	(35,951)	(61)	52,248
Net (loss) after tax	-	-	-	(14,443)	-	(14,443)
Currency translation movements	-	-	-	-	(11)	(11)
Total comprehensive income	-	-	-	(14,443)	(11)	(14,454)
<i>Transactions with owners</i>						
Issue of shares (net of issue costs)	59,882	-	-	-	-	59,882
Issue of shares – purchase of Spotlight Workpapers Limited	600	-	-	-	-	600
Issue of shares – employee restricted share plan	1,818	(1,818)	-	-	-	-
Vesting of shares – employee restricted share plan	-	1,399	(1,399)	-	-	-
Vesting of shares – purchase of Paycycle assets	-	431	(431)	-	-	-
Vesting of shares – purchase of Max Solutions Holdings Limited	-	1,333	(1,333)	-	-	-
Accrual for equity portion of purchase of Paycycle assets	-	-	489	-	-	489
Accrual for equity portion of purchase of Max Solutions Holdings Limited	-	-	2,222	-	-	2,222
Accrual of share-based employee benefits	-	-	1,665	-	-	1,665
Balance at 31 March 2013	155,551	(5,529)	3,096	(50,394)	(72)	102,652

XERO LIMITED – STATEMENT OF FINANCIAL POSITION – AT 30 SEPTEMBER 2013

	Notes	Unaudited Group 2013 (\$000s)	Unaudited Group 2012 (\$000s)	Audited Group 31 March 2013 (\$000s)
Assets				
<i>Current assets</i>				
Cash at bank		55,332	30,581	78,244
Trade & other receivables	2	8,671	4,166	5,876
Total current assets		64,003	34,747	84,120
<i>Non-current assets</i>				
Intangible assets	3	25,274	13,380	17,585
Property, plant & equipment	3	8,661	4,692	7,274
Trade & other receivables	2	3,679	1,273	1,341
Deferred tax benefit		316	137	102
Total non-current assets		37,930	19,482	26,302
Total assets		101,933	54,229	110,422
Liabilities				
<i>Current liabilities</i>				
Trade & other payables	4	5,796	3,633	3,090
Employee entitlements		6,034	2,711	4,471
Income tax		552	240	209
Total current liabilities		12,382	6,584	7,770
Total liabilities		12,382	6,584	7,770
Net assets		89,551	47,645	102,652
Equity				
Share capital	5	152,368	87,108	150,022
Share-based payment reserve		4,794	3,494	3,096
Accumulated losses		(67,539)	(42,902)	(50,394)
Foreign currency translation reserve		(72)	(55)	(72)
Total equity		89,551	47,645	102,652
Net tangible assets per share		\$0.54	\$0.32	\$0.72

XERO LIMITED – STATEMENT OF CASH FLOWS – FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013

	Notes	6 months Unaudited Group 2013 (\$000s)	6 months Unaudited Group 2012 (\$000s)	12 months Audited Group 31 March 2013 (\$000s)
Operating activities				
<i>Cash was provided from</i>				
Receipts from customers		28,729	15,847	37,476
Interest received		1,166	575	1,208
Government grants		481	319	788
		30,376	16,741	39,472
<i>Cash was applied to</i>				
Payments to suppliers & employees		(38,253)	(19,793)	(44,639)
Sales tax		(866)	(657)	(2,190)
Income tax		(136)	(25)	(175)
		(39,255)	(20,475)	(47,004)
Net cash flows from operating activities	7	(8,879)	(3,734)	(7,532)
Investing activities				
<i>Cash was provided from</i>				
Net disposal of property, plant & equipment		–	20	20
Net rental bonds repaid		–	–	158
		–	20	178
<i>Cash was applied to</i>				
Capitalised development costs		(10,582)	(3,401)	(7,654)
Purchase of property, plant & equipment		(2,524)	(1,194)	(4,566)
Intangible assets		(26)	(68)	(28)
Other assets		(822)	(18)	–
Investment in subsidiary		–	(100)	(1,200)
		(13,954)	(4,781)	(13,448)
Net cash flows from investing activities		(13,954)	(4,761)	(13,270)
Financing activities				
<i>Cash was provided from</i>				
Repayment of Director's loans		–	100	100
Repayment of other loans		–	–	–
Share issue		–	–	60,000
		–	100	60,100
<i>Cash was applied to</i>				
Cost of share issue		–	–	(118)
		–	–	(118)
Net cash flows from financing activities		–	100	59,982
Net (decrease) / increase in cash held		(22,833)	(8,395)	39,180
Foreign currency translation adjustment		(79)	–	88
Cash at bank at the beginning of the period		78,244	38,976	38,976
Cash at bank at the end of the period		55,332	30,581	78,244

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 New Zealand Equivalent to International Accounting Standard (IAS) 34 Interim Financial Reporting.

The Company is a profit oriented entity and 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 2013 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 2013.

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 2013 have been applied to these consolidated condensed interim financial statements.

2. TRADE & OTHER RECEIVABLES

	Unaudited Group 2013 (\$000s)	Unaudited Group 2012 (\$000s)	Audited Group 31 March 2013 (\$000s)
<i>Current assets</i>			
Trade receivables	3,002	1,904	2,163
Provision for doubtful debts	(48)	(13)	(47)
Accrued income	2,319	1,130	1,505
Prepayments	1,932	412	1,100
Interest receivable	753	198	745
Government grants receivable	550	285	318
Rental bonds	163	250	92
	8,671	4,166	5,876
<i>Non-current assets</i>			
Loans to key management	2,723	1,116	1,138
Rental & other bonds	956	157	203
	3,679	1,273	1,341

3. ADDITIONS & DISPOSALS OF NON-CURRENT ASSETS

During the six months ended 30 September 2013, the Group acquired assets with a total cost of \$2.9 million (30 September 2012: \$1.0 million, 31 March 2013: \$4.2 million) and capitalised development costs of \$11.0 million (30 September 2012: \$4.5 million, 31 March 2013: \$10.7 million).

Capitalised development costs with a Net Book Value of \$742,000 relating to Xero Personal were written off as a result of the Discontinued Operation. Property, plant & equipment with a Net Book Value of \$28,000 were also disposed of during the period (30 September 2012: \$54,000, 31 March 2013: \$14,000). No other assets were disposed of during the period.

4. TRADE & OTHER PAYABLES

	Unaudited Group 2013 (\$000s)	Unaudited Group 2012 (\$000s)	Audited Group 31 March 2013 (\$000s)
Trade payables	1,653	732	1,312
Accrued expenses	2,990	1,331	1,061
Income in advance	216	111	159
Sales tax payable	937	559	558
Deferred settlement	–	400	–
Amounts payable on acquisition of subsidiary	–	500	–
	5,796	3,633	3,090

5. SHARE CAPITAL

Movement in ordinary shares on issue

	Unaudited Group 2013 ('000s)	Unaudited Group 2012 ('000s)	Audited Group 31 March 2013 ('000s)
Balance at 1 April	117,219	106,782	106,782
Issue of shares	–	–	10,000
Issue of shares – employee restricted share plan	214	347	347
Issue of shares – loans to key management	97	–	–
Issue of shares – exercising of employee stock options	76	–	–
Issue of shares – purchase of Spotlight Workpapers Limited	–	58	90
Ordinary shares on issue at the end of the period	117,606	107,187	117,219
Treasury stock	(1,841)	(2,828)	(1,841)
Ordinary shares on issue at the end of the period	115,765	104,359	115,378

During the period the Company issued 213,653 shares under the Employee Restricted Share Plan, and 96,876 shares to key management, at an average price of \$16.00.

During the period the Company granted 170,789 options to selected employees with an exercise price of \$17.40 per share, being the market price on the date the options were granted. Employees exercised 76,563 options during the period, resulting in the issue of 76,563 shares at an average exercise price of \$3.50 per share. Employees forfeited 11,509 options during the period.

6. SEGMENT INFORMATION

The Group has seven operating segments based on the geographical locations of the operations and revenue streams, and five reporting segments at 30 September 2013. These segments have been determined based on the reports reviewed by the Board (Chief Operating Decision Maker) to make strategic decisions.

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

The segment information shows the operating performance of each region, as currently reviewed by the Board. Prior period information has been restated where appropriate to disclose this information on a basis consistent with the current year.

Country operating expenses represent sales and marketing costs and 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)
2013 – Group (unaudited)						
<i>For the six months ended 30 September 2013</i>						
Revenue from external customers	10,816	12,346	4,448	2,621	93	30,324
Government grants	–	–	–	–	713	713
Interest revenue	–	–	–	–	1,209	1,209
Total	10,816	12,346	4,448	2,621	2,015	32,246
Operating expenses	(5,476)	(12,575)	(4,131)	(8,605)	(13,822)	(44,609)
Depreciation & amortisation	–	–	–	–	(3,728)	(3,728)
Segment contribution before tax	5,340	(229)	317	(5,984)	(15,535)	(16,091)
2012 – Group (unaudited) – restated						
<i>For the six months ended 30 September 2012</i>						
Revenue from external customers	7,348	5,548	2,406	1,133	61	16,496
Government grants	–	–	–	–	434	434
Interest revenue	–	–	–	–	636	636
Total	7,348	5,548	2,406	1,133	1,131	17,566
Operating expenses	(4,761)	(5,255)	(2,124)	(2,104)	(8,457)	(22,701)
Depreciation & amortisation	–	–	–	–	(1,862)	(1,862)
Segment contribution before tax	2,587	293	282	(971)	(9,188)	(6,997)
2013 – Group (audited) – restated						
<i>For the year ended 31 March 2013</i>						
Revenue from external customers	16,359	13,734	5,477	2,722	61	38,353
Government grants	–	–	–	–	936	936
Interest revenue	–	–	–	–	1,838	1,838
Total	16,359	13,734	5,477	2,722	2,835	41,127
Operating expenses	(10,606)	(12,648)	(5,010)	(4,788)	(18,193)	(51,245)
Depreciation & amortisation	–	–	–	–	(4,328)	(4,328)
Segment contribution before tax	5,753	1,086	467	(2,066)	(19,686)	(14,446)

7. RECONCILIATION OF OPERATING CASH FLOWS

	Notes	Unaudited Group 2013 (\$000s)	Unaudited Group 2012 (\$000s)	Audited Group 31 March 2013 (\$000s)
<i>Reconciliation from the net loss after tax to the net cash from operating activities</i>				
Net loss after tax		(17,145)	(6,951)	(14,443)
<i>Adjustments</i>				
Depreciation		1,015	699	1,130
Amortisation		2,713	1,163	3,198
Deferred tax		215	(52)	(17)
Loss on foreign exchange transactions		259	369	442
Loss/(gain) on disposal of property, plant & equipment		–	17	(13)
Employee entitlements		2,350	1,555	3,976
Interest on loans		(36)	(22)	(44)
Bad debts		65	37	114
Discontinued operations – non-cash items	8	953	99	219
<i>Changes in working capital items</i>				
(Increase)/decrease in trade receivables & prepayments		(2,862)	(1,300)	(3,130)
Increase/(decrease) in trade payables & accruals		2,504	409	(743)
Increase/(decrease) in current tax payable		343	169	138
Increase/(decrease) in employee entitlements		690	53	1,572
Increase/(decrease) in income in advance		57	21	69
Net cash from operating activities		(8,879)	(3,734)	(7,532)

8. DISCONTINUED OPERATIONS

On 28 August 2013 the Group announced the cessation of the development of its personal financial management tool Xero Personal and closure of the service on 30 November 2014. The Group has accounted for the closure of Xero Personal as a discontinued operation as it is a significant change in strategy.

The impact on the Income Statement relating to the discontinued operation is set out below. Included in the current period are future revenues and expenses associated with the closure of Xero Personal. The impact on the Statement of Cash Flows is not materially different from the revenue and operating expense amounts set out below.

	Unaudited Group 2013 (\$000s)	Unaudited Group 2012 (\$000s)	Audited Group 31 March 2013 (\$000s)
Operating revenue	377	356	680
Operating expenses	(293)	(69)	(162)
Amortisation	(133)	(99)	(219)
Software development intangible asset write off	(742)	–	–
Net (loss) / profit from discontinued operations	(791)	188	299

9. RELATED PARTIES

Secured loans of \$1.6 million were issued to key management during the period ended 30 September 2013 to purchase shares in the Company at \$16.00 per share, which was the 20 day Volume Weighted Average Price at the time of issue. Simple interest is accrued at a rate of 4% per annum, with the loans and interest being repayable three years after the date of issue. The fair value of the loans does not materially differ from their carrying value.

10. COMMITMENTS & CONTINGENCIES

There were capital commitments for building fitouts of \$640,000 at 30 September 2013 (30 September 2012: \$1.2 million, 31 March 2013: \$390,000).

There were no contingent liabilities as at 30 September 2013 (30 September 2012: Nil, 31 March 2013: Nil).

11. GROUP ENTITIES

On 1 April 2013, Max Solutions Holdings Limited, Max Solutions Limited, Spotlight Workpapers Limited and My Workpapers Limited were amalgamated into Xero (NZ) Limited.

Xero (NZ) Limited commenced trading on 1 April 2013 as a limited risk distributor for the Group's operations in New Zealand and those regions outside Australia, the United Kingdom and the United States.

12. EVENTS AFTER THE BALANCE DATE

On 14 October 2013, Xero Limited raised \$180 million of new capital at the price of \$18.15 per share by issuing 9.92 million ordinary shares.

There were no other significant events after balance date.

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the shareholders of Xero Limited

Review Report on the Interim Financial Statements

We have reviewed the consolidated condensed interim financial statements ("financial statements") of Xero Limited ("the Company"), and the entities it controlled at 30 September 2013 or from time to time during the period ("the Group") on pages 4 to 13, which comprise the statement of financial position as at 30 September 2013, 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 2013, 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 2013, 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 2013 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 2013 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.



Chartered Accountants

Wellington, New Zealand
20 November 2013

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DIRECTORS:

SAM KNOWLES
CHAIRMAN
ROD DRURY
CRAIG ELLIOTT
SAM MORGAN
GRAHAM SHAW
CRAIG WINKLER

MANAGEMENT:

ROD DRURY
CHIEF EXECUTIVE, CO-FOUNDER
ROSS JENKINS
CHIEF FINANCIAL OFFICER
ALASTAIR GRIGG
CHIEF OPERATING OFFICER
DUNCAN RITCHIE
CHIEF PLATFORM OFFICER
STUART MCLEAN
CHIEF REVENUE OFFICER
AMANDA ARMSTRONG
*GENERAL MANAGER,
NEW ZEALAND*
CHRIS RIDD
*MANAGING DIRECTOR,
AUSTRALIA*
GARY TURNER
*MANAGING DIRECTOR,
UNITED KINGDOM*
JAMIE SUTHERLAND
PRESIDENT, UNITED STATES

AUDITOR:

PRICEWATERHOUSECOOPERS

LEGAL ADVISOR:

BELL GULLY

COMPANY SECRETARY:

MATT VAUGHAN

BANKERS:

ASB BANK LIMITED
BANK OF NEW ZEALAND LIMITED
HSBC LIMITED
NATIONAL AUSTRALIA BANK LIMITED
SILICON VALLEY BANK

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