

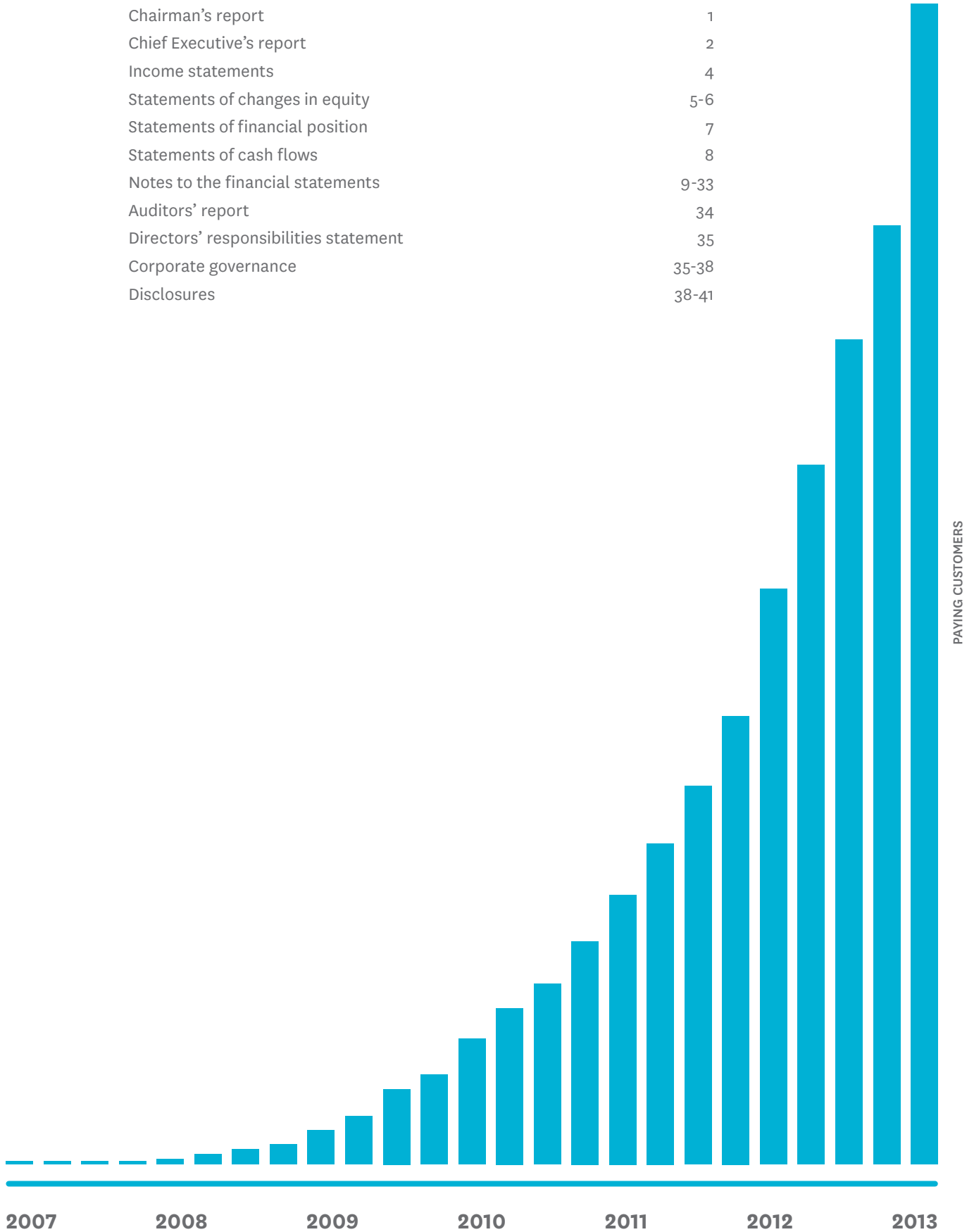


XERO LIMITED ANNUAL REPORT 2013



## XERO LIMITED ANNUAL REPORT 2013

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## CHAIRMAN'S REPORT

Xero is delivering on its plans and with substantial cash resources will continue its growth agenda to create long-term shareholder value by building a global Software as a Service (SaaS) company.

The excerpt on the right from a paper by SaaS commentator David Skok of Matrix Partners\* highlights how SaaS companies differ from traditional businesses.

With a market approach well proven in New Zealand and foundations created in Australia in the previous year, we've seen substantial growth in both countries. We've also seen strong growth in the United Kingdom and are well underway in the United States.

As we progress towards our immediate goal of one million customers we are learning what works in each region and applying the lessons to the next. We are building a scalable approach and can confidently state we are emerging as the global leader in online accounting for small business.

In line with expectations, the Company increased its operating revenue for the year to 31 March 2013 from \$19.4 million to \$39.0 million, or 102% growth. Paying customers reached 157,000 at 31 March 2013. As anticipated, the full year loss grew, coming in at \$14.4 million.

With a recurring revenue model the Company commences the 2014 financial year strongly with \$51.5 million in annualised subscriptions, up from \$25.5 million at 31 March 2012, or 102% growth.

Xero's revenues are becoming increasingly geographically diverse. At the end of March 2013, Committed Monthly Revenue by country was New Zealand 38%, Australia 40%, UK 14% and the US and Rest of the World 8%.

Not surprisingly, there has been increasing interest in Xero from investors based in the US. In December 2012 we raised an additional \$60 million capital from Valar and Matrix Capital Management, enabling us to focus on growth with the funding and support of highly connected global investors. Our visibility internationally and continued successful execution have seen strong offshore investor interest contributing to substantial share price appreciation.

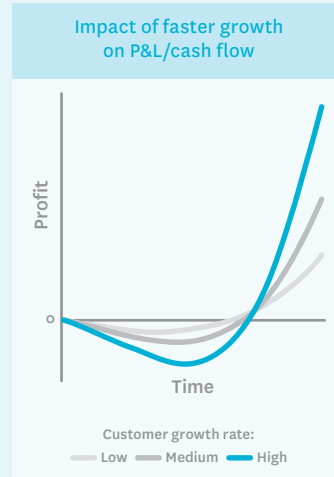
On 8 November 2012 Xero listed on the ASX. This listing was aimed at making Xero shares more readily available to Australian parties, including partners and clients, and to build the Xero brand in this large market. At 30 April the percentage of individual shareholders who were Australian-based had increased significantly to 28% compared with 4% prior to the ASX listing. Volumes traded on the ASX have also been significant – from the time of the listing until 30 April 2013, 23% of trades by volume have been on the ASX.

As indicated at the Annual Meeting, we 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.

The Board acknowledges the input of all our partners and customers and the faith they have shown in Xero as we have built out the core application and as we invest further in the global infrastructure necessary to ensure the Company's success.

### WHY IS GROWTH IMPORTANT?

(Courtesy David Skok, Matrix Partners\*)



SaaS is usually a "winner-takes-all" game, and it is therefore important to grab market share as fast as possible to make sure you are the winner in your space. Provided you can tell a story that shows that eventually growth will lead to profitability, Wall Street and investors all reward higher growth with higher valuations.

SaaS, and other recurring revenue businesses are different because the revenue for the service comes over an extended period of time (the customer lifetime). If a customer is happy with the service, they will stick around for a long time, and the profit that can be made from the customer will increase considerably.

SaaS businesses face significant losses in the early years. This is because they have to invest heavily upfront to acquire customers, but recover the profits of that investment over a long period of time. The faster the business decides to grow, the worse the losses may become. Many investors have a problem understanding this, and want to hit the brakes at precisely the moment when they should be hitting the accelerator.

\*Matrix Partners is a different company from major Xero shareholder Matrix Capital

This coming year we have a lot of work to do. The focus is on scalability as we drive expansion in the US, the UK and Australia to take advantage of the leadership position we are earning. Therefore losses can be expected to continue for the year ending 31 March 2014.

It's an exciting time to be helping small businesses and we thank our shareholders for their continued support.

**Sam Knowles**  
Chairman

## CHIEF EXECUTIVE'S REPORT

### Just getting started

This past year we've seen increased visibility of Xero. Our profile grew from being an exciting accounting software industry disrupter in Australasia to being a visible leader in the global SaaS industry. There is no doubt the Company has delivered for many shareholders already and it's natural that some may think the business is mature and the value captured.

However, we believe we're just at the beginning of a massive market shift as small businesses globally realise the benefits of connected cloud solutions.

Xero is a unique opportunity, addressing a vast market undergoing massive technological disruption. The internet, or cloud, is fundamentally changing the economics of small business everywhere.

We correctly identified the trends, and shareholder support has enabled us to take the years required to build a global small business platform. At the same time we have developed multiple channels to effectively promote cloud services and address the vast small businesses market.

Delivering a rapidly evolving product while building a business fits perfectly the analogy of "building the bridge while running over it". The work required to date has been substantial, with all teams working at the top of their game. Shareholders should take comfort in the expertise and passion displayed by all those at Xero and we're thrilled to have maintained our culture of excellence and core values while expanding quickly.

We're also thrilled that we've been able to continue doubling the business. There is a lot of pride in getting to 150,000 customers and taking significant market share in our early markets, but this number of customers is a drop in the ocean. The number of small businesses worldwide is measured in the tens to hundreds of millions. We think we have the best team, best product and best strategy to be a significant global player. We regard Xero as being just at the beginning and intend to continue to be an exciting growth opportunity for shareholders.

### Investment

With our focus on achieving a million customers, we've continued to invest in a scalable infrastructure across the business – recruiting talented staff, upgrading the software server platform, opening new

offices, shifting to larger premises as necessary, and expanding the ecosystem of partners.

Xero has continued to attract global talent, increasing staff from 194 to 382 in the 2013 financial year. This has provided for additional product development and operating capability as we have expanded our sales footprint in offshore markets. Xero has opened new offices in Sydney, Brisbane and Los Angeles and moved into larger premises in Melbourne and San Francisco.

In the past year we have released 15 major software updates – building out the fundamental feature set, responding to voted customer requests, and including new innovations. Longer-term strategic projects initiated during the year included Australian tax and US payroll, which will provide further long-term growth as they hit production next year.

There has been a 14% reduction in customer support tickets on a per customer basis, attributable to our continuous improvements, feature enhancements and increased focus on our partner programme.

Xero has upgraded its delivery platform hardware and server software as part of moving the data and systems to a new primary data centre in Chicago, from Dallas. This resulted in immediate service performance improvements.

### Partners

Xero is unique in providing both small business and accountant tools on the same platform. This has disrupted incumbent accounting software providers and places a substantial barrier to entry to small competitors. Our channel strategy is now well proven with 6,000 accountants, bookkeepers and trainers having clients that use Xero.

In July 2012 Xero purchased Spotlight Workpapers, which was designed to work specifically with Xero and streamlines year-end compliance by eliminating the need for paper processing and spreadsheets. Workpapers, along with the previously acquired integrated practice management software WorkflowMax, further enhances Xero's suite of online solutions for accountants to run their practices in the cloud.

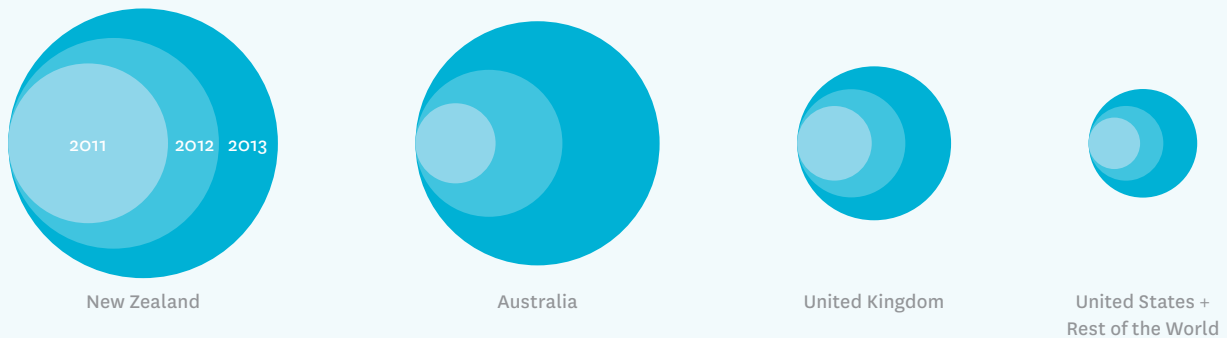
### Becoming a platform

A vibrant small business ecosystem has evolved around Xero as it matures into a business platform with more than 200 add-on applications. This ecosystem provides a wide range of business solutions for small business owners and accountants, along with referral network effect benefits.

## Performance highlights

	12 months ended 31 March 2013	12 months ended 31 March 2012	12 months ended 31 March 2011
Total operating revenue	<b>\$39.0m</b>	<b>\$19.4m</b>	<b>\$9.3m</b>
Net loss after tax	<b>(\$14.4m)</b>	<b>(\$7.9m)</b>	<b>(\$7.5m)</b>
	At 31 March 2013	At 31 March 2012	At 31 March 2011
Cash at bank	<b>\$78.2m</b>	<b>\$39.0m</b>	<b>\$16.9m</b>
Paying business customers	<b>157,000</b>	<b>78,000</b>	<b>36,000</b>
Annualised Committed Monthly Revenue	<b>\$51.5m</b>	<b>\$25.5m</b>	<b>\$13.0m</b>

## Regional revenue growth



Numerous new add-on businesses exist primarily because of the market opportunity around Xero, and our team is humbled by the number of new service companies providing consulting, implementation and training for Xero and add-ons.

### Regional activity

#### *New Zealand paying customers:*

31 March 2013 – 73,000 (previous year – 47,000)

In New Zealand almost all accountants offer Xero and the focus for the next year will be on increasing customers per practice and upgrading customers to higher-value plans. Xero is steadily replacing incumbent providers and seeing strong take-up of its accountant-side software. Sales costs have flattened as New Zealand has achieved scale, with the New Zealand business now providing a significant contribution to funding product development and overheads.

#### *Australia paying customers:*

31 March 2013 – 51,000 (previous year – 16,000)

Australia has experienced the greatest regional growth during the period and in March 2013 overtook New Zealand as the largest regional contributor to revenue. This has followed a substantial investment in the Australian team, which has grown from 27 to 71 during the year. A new Australian HQ was opened in Melbourne in December 2012 and the number of accounting and bookkeeping partners has grown significantly. We released an integrated payroll service in Australia in May 2012, making Xero compelling for many Australian small businesses.

In February 3,900 accountants and bookkeepers attended a 15-city Australia-wide roadshow. We anticipate that Australia will continue to be a substantial contributor to revenue growth in the next year.

#### *United Kingdom paying customers:*

31 March 2013 – 22,000 (previous year – 11,000)

In the UK the market is waking up to cloud accounting and our team tripled to 27 over the course of the year. About a third of the UK's top 100 accounting firms are now Xero partners and more than 200 accountants and bookkeepers attended the first Xero UK Partner conference in September 2012.

We believe Xero is the leading cloud accounting provider in the UK by revenue. The UK has a less sophisticated online banking infrastructure than Australia and New Zealand, but as the market develops we consider we are ideally positioned to benefit from a market nearly three times larger than Australia.

#### *United States and Rest of the World paying customers:*

31 March 2013 – 11,000 (previous year – 4,000)

Xero has established a beachhead in the US market, moved into new US headquarters in San Francisco and opened a sales office in Los Angeles.

Product localisations are substantially complete and the foundations of an accountant channel are established. During the year Xero entered marketing partnerships with payment firm Bill.com and payroll services company ADP. Armanino, the largest accounting firm in California, recently selected Xero as the platform of choice for its outsourced accounting services division.

Xero is increasing its profile in the US accounting industry and is positioned as the leading challenger to Intuit.

As expected, customer growth has exceeded that experienced in other markets in their early stages. The focus for this year will be on proving that we can take on the incumbent as we have in other markets and executing our sales model in California. With a recruitment team in place since January, the US team grew from 19 to 44 in the first four months in calendar 2013.

### Outlook

Xero anticipated the substantial opportunity as small businesses move to the cloud. We have shown that it takes a significant investment and many years to build a broad and global small business financial platform.

Xero has proven the opportunity, its strategy and its execution ability. The incumbents continue to struggle with the complex transition of their businesses to the cloud model. At 31 March 2013 Xero had \$78.2 million cash on hand, is investing in its global sales capability and feels confident in achieving its objective of gaining a million paying customers.

**Rod Drury**  
Chief Executive

**XERO LIMITED – INCOME STATEMENTS – FOR THE YEAR ENDED 31 MARCH 2013**

	Notes	Group 2013 (\$000s)	Group 2012 (\$000s)	Parent 2013 (\$000s)	Parent 2012 (\$000s)
Operating revenue	4	39,033	19,370	26,857	15,186
Other income	4	936	401	936	427
<b>Total revenue &amp; other income</b>		<b>39,969</b>	<b>19,771</b>	<b>27,793</b>	<b>15,613</b>
Operating expenses	4	55,954	28,385	45,778	24,720
<b>Operating deficit</b>		<b>(15,985)</b>	<b>(8,614)</b>	<b>(17,985)</b>	<b>(9,107)</b>
Net interest income	4	1,838	612	1,827	607
Net operating loss before tax		(14,147)	(8,002)	(16,158)	(8,500)
Gain on investment in associate		-	170	-	178
Share of profit of associate		-	38	-	-
<b>Net loss before tax</b>		<b>(14,147)</b>	<b>(7,794)</b>	<b>(16,158)</b>	<b>(8,322)</b>
Income tax expense	5	(296)	(110)	-	-
<b>Net loss after tax for the year attributable to the shareholders of the Company</b>		<b>(14,443)</b>	<b>(7,904)</b>	<b>(16,158)</b>	<b>(8,322)</b>
<i>Earnings per share</i>					
Basic & diluted loss per share	6	(\$0.13)	(\$0.08)	(\$0.15)	(\$0.09)

**XERO LIMITED – STATEMENTS OF COMPREHENSIVE INCOME – FOR THE YEAR ENDED 31 MARCH 2013**

	Group 2013 (\$000s)	Group 2012 (\$000s)	Parent 2013 (\$000s)	Parent 2012 (\$000s)
Net loss after tax	(14,443)	(7,904)	(16,158)	(8,322)
<b>Other comprehensive income</b>				
Exchange difference on translation of international subsidiaries	(11)	(39)	-	-
<b>Total other comprehensive (expense)/ income for the year</b>	<b>(11)</b>	<b>(39)</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive loss for the year attributable to the shareholders of the Company</b>	<b>(14,454)</b>	<b>(7,943)</b>	<b>(16,158)</b>	<b>(8,322)</b>

The accompanying notes form an integral part of these financial statements

**XERO LIMITED – STATEMENTS OF CHANGES IN EQUITY – FOR THE YEAR ENDED 31 MARCH 2013**

	Notes	Share capital (\$000s)	Treasury stock (\$000s)	Share-based payment reserve (\$000s)	Accumulated losses (\$000s)	Foreign currency translation reserve (\$000s)	Total equity (\$000s)
<b>Year ended 31 March 2013</b>							
<i>Group</i>							
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)
<b>Total comprehensive income</b>		-	-	-	<b>(14,443)</b>	<b>(11)</b>	<b>(14,454)</b>
<i>Transactions with owners:</i>							
Issue of shares (net of issue costs)	13	59,882	-	-	-	-	59,882
Accrual for equity portion of purchase of Max Solutions Holdings Limited	11	-	-	2,222	-	-	2,222
Vesting of shares – purchase of Max Solutions Holdings Limited		-	1,333	(1,333)	-	-	-
Accrual for equity portion of purchase of Paycycle assets	11	-	-	489	-	-	489
Vesting of shares – purchase of Paycycle assets		-	431	(431)	-	-	-
Issue of shares – purchase of Spotlight Workpapers Limited	11	600	-	-	-	-	600
Issue of shares – employee restricted share plan		1,818	(1,818)	-	-	-	-
Accrual of share-based employee benefits		-	-	1,665	-	-	1,665
Vesting of shares – employee restricted share plan		-	1,399	(1,399)	-	-	-
<b>Balance at 31 March 2013</b>		<b>155,551</b>	<b>(5,529)</b>	<b>3,096</b>	<b>(50,394)</b>	<b>(72)</b>	<b>102,652</b>
<b>Year ended 31 March 2012</b>							
<i>Group</i>							
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)
<b>Total comprehensive income</b>		-	-	-	<b>(7,904)</b>	<b>(39)</b>	<b>(7,943)</b>
<i>Transactions with owners:</i>							
Issue of shares (net of issue costs)		36,365	-	-	-	-	36,365
Issue of shares – purchase of Paycycle assets	11	1,294	(1,294)	512	-	-	512
Issue of shares – purchase of Max Solutions Holdings Limited	11	4,000	(4,000)	407	-	-	407
Issue of shares – employee restricted share plan		1,424	(1,424)	-	-	-	-
Accrual of share-based employee benefits		-	-	1,219	-	-	1,219
Vesting of shares – employee restricted share plan		-	957	(957)	-	-	-
<b>Balance at 31 March 2012</b>		<b>93,251</b>	<b>(6,874)</b>	<b>1,883</b>	<b>(35,951)</b>	<b>(61)</b>	<b>52,248</b>

## XERO LIMITED – STATEMENTS OF CHANGES IN EQUITY – FOR THE YEAR ENDED 31 MARCH 2013

	Notes	Share capital (\$000s)	Treasury stock (\$000s)	Share-based payment reserve (\$000s)	Accumulated losses (\$000s)	Foreign currency translation reserve (\$000s)	Total equity (\$000s)
<b>Year ended 31 March 2013</b>							
<i>Parent</i>							
Balance at 1 April 2012		93,251	(6,874)	1,883	(36,427)	-	51,833
Net loss after tax		-	-	-	(16,158)	-	(16,158)
<b>Total comprehensive income</b>		-	-	-	<b>(16,158)</b>	-	<b>(16,158)</b>
<i>Transactions with owners:</i>							
Issue of shares (net of issue costs)	13	59,882	-	-	-	-	59,882
Accrual for equity portion of purchase of Max Solutions Holdings Limited	11	-	-	2,222	-	-	2,222
Vesting of shares – purchase of Max Solutions Holdings Limited		-	1,333	(1,333)	-	-	-
Accrual for equity portion of purchase of Paycycle assets	11	-	-	489	-	-	489
Vesting of shares – purchase of Paycycle assets		-	431	(431)	-	-	-
Issue of shares – purchase of Spotlight Workpapers Limited	11	600	-	-	-	-	600
Issue of shares – employee restricted share plan		1,818	(1,818)	-	-	-	-
Accrual of share-based employee benefits		-	-	1,665	-	-	1,665
Vesting of shares – employee restricted share plan		-	1,399	(1,399)	-	-	-
<b>Balance at 31 March 2013</b>		<b>155,551</b>	<b>(5,529)</b>	<b>3,096</b>	<b>(52,585)</b>	-	<b>100,533</b>
<b>Year ended 31 March 2012</b>							
<i>Parent</i>							
Balance at 1 April 2011		50,168	(1,113)	702	(28,105)	-	21,652
Net loss after tax		-	-	-	(8,322)	-	(8,322)
<b>Total comprehensive income</b>		-	-	-	<b>(8,322)</b>	-	<b>(8,322)</b>
<i>Transactions with owners:</i>							
Issue of shares (net of issue costs)		36,365	-	-	-	-	36,365
Issue of shares – purchase of Paycycle assets	11	1,294	(1,294)	512	-	-	512
Issue of shares – purchase of Max Solutions Holdings Limited	11	4,000	(4,000)	407	-	-	407
Issue of shares – employee restricted share plan		1,424	(1,424)	-	-	-	-
Accrual of share-based employee benefits		-	-	1,219	-	-	1,219
Vesting of shares – employee restricted share plan		-	957	(957)	-	-	-
<b>Balance at 31 March 2012</b>		<b>93,251</b>	<b>(6,874)</b>	<b>1,883</b>	<b>(36,427)</b>	-	<b>51,833</b>

The accompanying notes form an integral part of these financial statements



**XERO LIMITED – STATEMENTS OF FINANCIAL POSITION – AT 31 MARCH 2013**

	Notes	Group 2013 (\$000s)	Group 2012 (\$000s)	Parent 2013 (\$000s)	Parent 2012 (\$000s)
<b>Assets</b>					
<i>Current assets</i>					
Cash at bank	7	78,244	38,976	75,511	36,722
Trade & other receivables	8	5,876	3,023	7,177	3,696
<b>Total current assets</b>		<b>84,120</b>	<b>41,999</b>	<b>82,688</b>	<b>40,418</b>
<i>Non-current assets</i>					
Property, plant & equipment	9	7,274	4,195	4,588	3,990
Intangible assets	10	17,585	10,260	15,001	8,033
Investment in subsidiaries	22	-	-	3,438	2,638
Deferred tax benefit	5	102	85	-	-
Trade & other receivables	8	1,341	1,234	1,213	1,169
<b>Total non-current assets</b>		<b>26,302</b>	<b>15,774</b>	<b>24,240</b>	<b>15,830</b>
<b>Total assets</b>		<b>110,422</b>	<b>57,773</b>	<b>106,928</b>	<b>56,248</b>
<b>Liabilities</b>					
<i>Current liabilities</i>					
Trade & other payables	12	3,090	3,046	3,573	2,759
Employee entitlements		4,471	2,408	2,822	1,657
Income tax	5	209	71	-	(1)
<b>Total current liabilities</b>		<b>7,770</b>	<b>5,525</b>	<b>6,395</b>	<b>4,415</b>
<b>Total liabilities</b>		<b>7,770</b>	<b>5,525</b>	<b>6,395</b>	<b>4,415</b>
<b>Net assets</b>		<b>102,652</b>	<b>52,248</b>	<b>100,533</b>	<b>51,833</b>
<b>Equity</b>					
Share capital	13	150,022	86,377	150,022	86,377
Share-based payment reserve		3,096	1,883	3,096	1,883
Accumulated losses		(50,394)	(35,951)	(52,585)	(36,427)
Foreign currency translation reserve		(72)	(61)	-	-
<b>Total equity</b>		<b>102,652</b>	<b>52,248</b>	<b>100,533</b>	<b>51,833</b>

The accompanying notes form an integral part of these financial statements

## XERO LIMITED – STATEMENTS OF CASH FLOWS – FOR THE YEAR ENDED 31 MARCH 2013

	Notes	Group 2013 (\$000s)	Group 2012 (\$000s)	Parent 2013 (\$000s)	Parent 2012 (\$000s)
<b>Operating activities</b>					
<i>Cash was provided from</i>					
Receipts from customers		37,476	18,560	24,171	14,774
Dividends received		-	26	-	26
Other income		788	283	788	283
Interest received		1,208	632	1,196	627
		<b>39,472</b>	<b>19,501</b>	<b>26,155</b>	<b>15,710</b>
<i>Cash was applied to</i>					
Payments to suppliers & employees		(44,639)	(23,379)	(37,433)	(22,217)
Sales tax		(2,190)	(833)	(666)	(329)
Income tax		(175)	(150)	1	-
		<b>(47,004)</b>	<b>(24,362)</b>	<b>(38,098)</b>	<b>(22,546)</b>
<b>Net cash flows from operating activities</b>	<b>14</b>	<b>(7,532)</b>	<b>(4,861)</b>	<b>(11,943)</b>	<b>(6,836)</b>
<b>Investing activities</b>					
<i>Cash was provided from</i>					
Cash acquired on acquisition of subsidiary		-	259	-	-
Net rental bonds repaid		158	-	250	-
Disposal of property, plant & equipment net		20	-	20	-
		<b>178</b>	<b>259</b>	<b>270</b>	<b>-</b>
<i>Cash was applied to</i>					
Purchase of property, plant & equipment		(4,566)	(3,963)	(1,897)	(3,777)
Capitalised development costs		(7,654)	(3,519)	(6,395)	(3,499)
Intangible assets		(28)	(37)	(28)	(38)
Other assets		-	(299)	-	(253)
Investment in subsidiary		(1,200)	(1,000)	(1,200)	(1,000)
		<b>(13,448)</b>	<b>(8,818)</b>	<b>(9,520)</b>	<b>(8,567)</b>
<b>Net cash flows from investing activities</b>		<b>(13,270)</b>	<b>(8,559)</b>	<b>(9,250)</b>	<b>(8,567)</b>
<b>Financing activities</b>					
<i>Cash was provided from</i>					
Repayment of Director's loan		100	100	100	100
Repayment of other loans		-	100	-	100
Share issue		60,000	35,638	60,000	35,638
		<b>60,100</b>	<b>35,838</b>	<b>60,100</b>	<b>35,838</b>
<i>Cash was applied to</i>					
Cost of share issue		(118)	(364)	(118)	(364)
<b>Net cash flows from financing activities</b>		<b>59,982</b>	<b>35,474</b>	<b>59,982</b>	<b>35,474</b>
Net increase in cash held		39,180	22,054	38,789	20,071
Foreign currency translation adjustment		88	-	-	-
Cash at bank at beginning of the year	7	38,976	16,922	36,722	16,651
<b>Cash at bank at end of the year</b>	<b>7</b>	<b>78,244</b>	<b>38,976</b>	<b>75,511</b>	<b>36,722</b>

The accompanying notes form an integral part of these financial statements

## NOTES TO THE FINANCIAL STATEMENTS

### 1. CORPORATE INFORMATION

Xero Limited is a limited liability company, domiciled and incorporated in New Zealand and registered under the New Zealand Companies Act 1993. The registered office of the Company is 3 Market Lane, Wellington 6011, New Zealand.

The financial statements presented are for Xero Limited (the "Parent"/"Company") and its subsidiaries (together "the Group") for the year ended 31 March 2013.

Xero Limited is an issuer for the purposes of the Financial Reporting Act 1993.

The consolidated financial statements of the Group for the year ended 31 March 2013 were authorised for issue in accordance with a resolution of the Directors on 23 May 2013.

The Group's principal activity is the provision of a platform for online accounting and business services to small businesses and their advisors.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**(a) Basis of preparation** The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice. They comply with New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS"), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements comply with International Financial Reporting Standards ("IFRS").

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and Companies Act 1993.

The Company and Group are profit-oriented entities for financial reporting purposes.

The consolidated financial statements have been prepared using the historical cost convention.

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

**(b) Changes in accounting policies & disclosures** The accounting policies adopted are consistent with those of the previous year.

**(c) Basis of consolidation** Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The consideration transferred for an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of

exchange. Costs directly attributable to the acquisition are expensed in the Income Statement. Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries are consistent with the policies adopted by the Group.

**(d) Revenue** Subscriptions, conference and training revenues are recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is recorded net of sales tax and discounts and after eliminating sales within the Group. The following specific recognition criteria must also be met before revenue is recognised:

**Services** – Revenue is recognised in the accounting period in which the service is rendered. Consideration received prior to the service being rendered is recognised in the Statements of Financial Position as income in advance and included within trade and other payables. Revenue for which services have been rendered but invoices have not been issued is recognised within the Statement of Financial Position as accrued income and included within trade and other receivables.

**Interest** – Interest income is recognised on an accruals basis using the effective interest rate method.

**Government grants** – Government grants are recognised at their fair value where there is reasonable assurance that the grants will be received and all attaching conditions will be complied with. When a grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

**(e) Income tax** In the Income Statement income tax comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related benefits will be realised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liabilities where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the same taxable entity or different entities where there is an intention to settle the balance on a net basis.

**(f) Sales tax** The Income Statements and the Statements of Cash Flows have been prepared so that all components are stated exclusive of sales tax, except where sales tax is not recoverable. All items in the Statements of Financial Position are stated net of sales tax with the exception of receivables and payables, which include sales tax invoiced.

Commitments and contingencies are disclosed net of the amount of sales tax recoverable from, or payable to, the taxation authority.

Sales tax includes Goods and Services Tax (GST) and Value Added Tax (VAT) where applicable.

**(g) Foreign currency translation** Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in New Zealand dollars (\$) (the "presentation currency"), which is the Company's functional currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement. Foreign exchange gains and losses are presented in the Income Statement within operating expenses.

The Group translates the results of its foreign operations from their functional currencies to the presentation currency of the Group using the closing exchange rate at balance date for assets and liabilities and the average monthly exchange rates for income and expenses. The difference arising from the translation of the Statements of Financial Position at the closing rates and the Income Statement at the average rates is recorded within the foreign currency translation reserve.

**(h) Property, plant & equipment** In the balance sheet property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation on assets is calculated using the straight-line method to allocate the difference between their original costs and their residual values over their estimated useful lives, as follows:

Leasehold improvements	Terms of lease
Motor vehicles	3-5 years
Furniture & equipment	2-7 years
Computer equipment	2-3 years

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each balance date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are recognised in the Income Statement.

**(i) Intangible assets**

(I) Research costs are expensed as incurred.

Costs associated with maintaining internal computer software programs are recognised as an expense as incurred. Costs that are directly associated with the development of the software products controlled by the Group are recognised as intangible assets where the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the capitalised software development costs include the software development employee costs. Other development expenditures that do not meet these criteria are recognised as expenses as incurred. Development costs previously recognised as expenses are not recognised as assets in a subsequent period. Computer software development costs recognised as assets are amortised over their estimated useful lives.

(II) Other intangible assets acquired are initially measured at cost. Internally generated assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the Income Statement in the year in which the expenditure is incurred.

The useful lives of the Group's intangible assets are assessed to be finite. Assets with finite lives are amortised over their useful lives and tested for impairment whenever there are indications that the assets may be impaired.

(III) Amortisation is recognised in the Income Statement on a straight-line basis over the estimated useful life of the intangible asset, from the date it is available for use.

The estimated useful lives are:

Trademarks/patents	10 years
Domains	10 years
Capitalised development costs	2-5 years

*Continued on next page ...*

**(j) Impairment of non-financial assets** At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of the recoverable amount. Where the carrying value of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell or the asset's value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

**(k) Loans & receivables** The Group classifies its financial assets as loans and receivables. Management determines the classifications of its financial assets at initial recognition. The Group's loans & receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date. These are classified as non-current assets. The Group's loans and receivables comprise "trade & other receivables" and cash and cash equivalents in the Statements of Financial Position. Loans and receivables are carried at amortised cost using the effective interest method. The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade receivables is described in Note 2.(m).

**(l) Cash & cash equivalents** Comprise cash in hand, deposits held at call with banks, other short-term and highly liquid investments with original maturities of six months or less.

**(m) Trade & other receivables** The Group recognises trade and other receivables initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The carrying amount of an asset is reduced through the use of a provision account, and the amount of the loss is recognised in the Income Statement. When a receivable is uncollectible, it is written off against the provision account for receivables. Subsequent recoveries of amounts previously written off are credited against the Income Statement.

**(n) Trade & other payables** The Group recognises trade and other payables initially at fair value and subsequently measured at amortised cost using the effective interest method. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid. The amounts are unsecured, non-interest bearing and are usually paid within 45 days of recognition.

**(o) Provisions** The Group recognises a provision when it has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense in the Income Statement.

**(p) Employee entitlements** The liability for employees' compensation for future leave is accrued in relation to the length of service rendered by employees and relates to the vested and unvested entitlements.

The Group operates both short-term and long-term incentive plans. Employee incentive obligations are measured at the amounts expected to be paid when the liability is settled and are expensed as the related service is provided. The Group operates an equity-settled, share-based compensation plan, under which employees render services in exchange for non-transferable share options and shares. The value of the employee services rendered for the grant of non-transferable share options and shares is recognised as an expense over the vesting period, and the amount is determined by reference to the fair value of the options and shares granted.

**(q) Earnings per share** The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares.

Basic EPS is calculated by dividing the Group profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares on issue during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares on issue for the effects of all dilutive potential ordinary shares, which comprise treasury stock and share options granted to employees.

**(r) Share capital** Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid is deducted from equity attributable to the Company's equity holders until the shares are cancelled or transferred outside the Group.

**(s) Volume Weighted Average Price (VWAP)** is calculated by summing the dollar value of shares traded over the previous 20 days and dividing by the total volume of shares traded over the same period.

**(t) Segment reporting** An operating segment is a component of an entity that engages in business activities from which it may earn revenue and incur expenses, whose operating results are regularly reviewed by the entity's Chief Operating Decision Maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Operating segments are aggregated for disclosure purposes where they have similar products and services, production processes, customers, distribution methods and regulatory environments.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (u) Standards or interpretations issued but not yet effective and relevant to the Group

NZ-IFRS 9 Financial Instruments (effective for accounting periods beginning on or after 1 January 2015) – This standard is being compiled in phases with the first phase addressing financial assets and the second phase, addressing financial liabilities. The standard is not expected to have a material impact on the Group financial statements. The Group will adopt the standard for the year ending 31 March 2016.

NZ-IAS 1 Presentation of Financial Statements (effective for accounting periods beginning on or after 1 July 2012) – This standard requires entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss in subsequent periods. The standard is not expected to have a material impact on the Group financial statements. The Group will adopt the standard for the year ending 31 March 2014.

NZ-IFRS 13 Fair Value Measurement (effective for accounting periods beginning on or after 1 January 2013) – This standard provides a single source of guidance for determining the fair value of assets and liabilities. The application of this guidance may result in different fair values being determined for the relevant assets. The standard expands the disclosure requirements for all assets and liabilities carried at fair value. This includes information about the assumptions made and the qualitative impacts of those assumptions on the fair value determined. The standard is not expected to have a material impact on the Group financial statements. The Group will adopt the standard for the year ending 31 March 2014.

There are a number of other amendments to accounting standards as part of the ongoing improvement process. None of these changes is expected to have a significant impact on the Company or Group.

The Company and Group have not adopted any standards prior to their effective date.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS

In applying the Group's accounting policies management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to the Group. Actual results may differ from the judgements, estimates and assumptions.

The significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below.

(a) **Deferred tax assets** The Group recognises a deferred tax asset in relation to tax losses, only to the extent of the Group's deferred tax liabilities.

It is not considered prudent to recognise a deferred tax asset in respect of losses and other temporary differences given the uncertainty of the timing of profitability and the requirement for ownership continuity.

(b) **Capitalised development costs** The Group capitalises its development costs based on a proportion of employee costs. The percentages applied are in line with industry standards. The Group regularly reviews the carrying value of capitalised development costs to ensure they are supported by the associated future economic benefits. The development costs are amortised over three to five years, being the expected useful life of the software.

#### 4. REVENUES & EXPENSES

	Notes	Group 2013 (\$000s)	Group 2012 (\$000s)	Parent 2013 (\$000s)	Parent 2012 (\$000s)
<b>Operating revenue from the rendering of services</b>		<b>39,033</b>	<b>19,370</b>	<b>26,857</b>	<b>15,186</b>
<b>Other income</b>					
Government grants*		936	401	936	401
Dividends received		-	-	-	26
		<b>936</b>	<b>401</b>	<b>936</b>	<b>427</b>
<b>Total revenue &amp; other income</b>		<b>39,969</b>	<b>19,771</b>	<b>27,793</b>	<b>15,613</b>
<b>Operating expenses</b>					
Employee entitlements		29,272	15,389	22,097	11,612
Employee entitlements – share-based payments		5,270	2,492	4,262	1,938
Employee entitlements capitalised		(8,466)	(4,035)	(8,393)	(4,014)
IT infrastructure costs		7,662	3,266	6,536	2,856
Advertising & marketing		5,623	2,976	1,603	1,231
Consulting & subcontracting		1,922	1,222	1,308	792
Lease/rental		1,771	958	1,174	766
Travel related		1,453	839	642	487
Communication & office administration		1,370	778	942	543
Staff recruitment		824	409	605	290
Superannuation costs		765	330	467	139
Listing costs		618	158	618	158
Loss/(gain) on foreign exchange transactions		442	(8)	417	(8)
Directors' fees	16	243	220	243	220
Fees paid to auditors	15	183	167	134	142
Intercompany market support payments		-	-	7,551	4,703
(Gain)/loss on disposal of property, plant & equipment		(13)	119	(14)	121
Other operating expenses		2,468	1,211	1,658	906
<b>Total operating expenses excl. depreciation &amp; amortisation</b>		<b>51,407</b>	<b>26,491</b>	<b>41,850</b>	<b>22,882</b>
<b>Depreciation &amp; amortisation expense</b>					
Property, plant & equipment	9	1,130	320	948	259
Amortisation of other intangible assets	10	12	11	12	10
Amortisation of development costs	10	3,405	1,563	2,968	1,569
<b>Total depreciation &amp; amortisation</b>		<b>4,547</b>	<b>1,894</b>	<b>3,928</b>	<b>1,838</b>
<b>Total operating expenses</b>		<b>55,954</b>	<b>28,385</b>	<b>45,778</b>	<b>24,720</b>
<b>Interest income</b>					
Interest income – bank		1,794	587	1,783	582
Interest income – loan to related party	16	44	20	44	20
Interest income – other		-	5	-	5
<b>Net interest income</b>		<b>1,838</b>	<b>612</b>	<b>1,827</b>	<b>607</b>
<b>Net operating loss before tax</b>		<b>(14,147)</b>	<b>(8,002)</b>	<b>(16,158)</b>	<b>(8,500)</b>

\*Government grants have been received from the Ministry of Business, Innovation and Employment (2012: Ministry of Science and Innovation). The grants were claimed retrospectively on qualifying expenditure, and all conditions have been fulfilled at balance date.

**5. CURRENT & DEFERRED INCOME TAX****Current income tax**

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable of the profits of the consolidated entities as follows:

	Group 2013 (\$000s)	Group 2012 (\$000s)	Parent 2013 (\$000s)	Parent 2012 (\$000s)
Accounting loss before income tax	(14,147)	(7,794)	(16,158)	(8,322)
At the statutory income tax rate of 28%	(3,961)	(2,182)	(4,524)	(2,330)
Non-deductible expenditure/(non-accessable income)	413	27	380	(37)
Adjustment in respect of prior periods	59	-	42	-
Effect of change in income tax rate	-	39	-	-
Tax rate variance of subsidiary	-	63	-	-
Tax expense on share of associate company profit	-	11	-	-
Total tax losses not recognised	3,785	2,152	4,102	2,367
<b>Income tax expense reported in income statement</b>	<b>296</b>	<b>110</b>	<b>-</b>	<b>-</b>
<i>Comprising:</i>				
Income tax	313	160	-	-
Deferred tax	(17)	(50)	-	-
<b>Income tax expense</b>	<b>296</b>	<b>110</b>	<b>-</b>	<b>-</b>

**Income tax payable/receivable**

Opening balance	71	61	(1)	-
Income tax liability for the year	313	160	-	-
Income tax (paid)/received	(175)	(150)	1	(1)
<b>Current tax payable/(receivable)</b>	<b>209</b>	<b>71</b>	<b>-</b>	<b>(1)</b>

**Imputation credit account**

<b>Balance at 31 March</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>1</b>
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## Deferred income tax

The analysis of deferred tax assets and deferred tax liabilities is as follows

	Group provisions & employee entitlements (\$000s)	Group accelerated depreciation (\$000s)	Group tax losses (\$000s)	Group net (\$000s)
<i>Deferred tax asset/(liability) balances</i>				
At 1 April 2012	524	(762)	323	85
Adjustment in respect of prior periods	(194)	-	194	-
Charged to income statement	55	(371)	333	17
<b>At 31 March 2013</b>	<b>385</b>	<b>(1,133)</b>	<b>850</b>	<b>102</b>
At 1 April 2011	296	(571)	310	35
Effect of change in income tax rate on opening balance	(20)	38	21	39
Adjustment in respect of prior periods	(97)	-	(2)	(99)
Charged to income statement	345	(229)	(6)	110
<b>At 31 March 2012</b>	<b>524</b>	<b>(762)</b>	<b>323</b>	<b>85</b>

	Parent provisions & employee entitlements (\$000s)	Parent accelerated depreciation (\$000s)	Parent tax losses (\$000s)	Parent net (\$000s)
<i>Deferred tax asset/(liability) balances</i>				
At 1 April 2012	327	(762)	435	-
Adjustment in respect of prior periods	63	37	(100)	-
Charged to income statement	(116)	(487)	603	-
<b>At 31 March 2013</b>	<b>274</b>	<b>(1,212)</b>	<b>938</b>	<b>-</b>
At 1 April 2011	261	(571)	310	-
Effect of change in income tax rate on opening balance	(17)	38	(21)	-
Adjustment in respect of prior periods	(155)	-	155	-
Charged to income statement	238	(229)	(9)	-
<b>At 31 March 2012</b>	<b>327</b>	<b>(762)</b>	<b>435</b>	<b>-</b>

With the exception of employee entitlements temporary differences are expected to reverse after 12 months. Deferred tax assets and liabilities have been offset where the balances are due to/receivable from the same counter parties. Deferred income tax assets are recognised for carried forward tax losses to the extent of the Company's deferred tax liabilities. The Company has unrecognised New Zealand tax losses available to carry-forward of \$49,657,000 (2012: \$35,051,000) subject to shareholder continuity being maintained as required by New Zealand tax legislation.

**6. EARNINGS PER SHARE**

Loss attributable to ordinary shareholders

	Notes	Group 2013 (000s)	Group 2012 (000s)	Parent 2013 (000s)	Parent 2012 (000s)
Net loss after tax		(\$14,443)	(\$7,904)	(\$16,158)	(\$8,322)
Issued ordinary shares	13	117,219	106,782	117,219	106,782
Weighted average of issued ordinary shares		110,403	93,472	110,403	93,472
Basic & diluted loss per share		(\$0.13)	(\$0.08)	(\$0.15)	(\$0.09)

**7. CASH AT BANK**

	Group 2013 (\$000s)	Group 2012 (\$000s)	Parent 2013 (\$000s)	Parent 2012 (\$000s)
Cash & cash equivalents	68,244	38,976	65,511	36,722
Short term deposits	10,000	-	10,000	-
	<b>78,244</b>	<b>38,976</b>	<b>75,511</b>	<b>36,722</b>

**8. TRADE & OTHER RECEIVABLES**

	Notes	Group 2013 (\$000s)	Group 2012 (\$000s)	Parent 2013 (\$000s)	Parent 2012 (\$000s)
<i>Current assets</i>					
Trade receivables		2,163	1,354	1,092	839
Provision for doubtful debts		(47)	(7)	(15)	(7)
Trade receivables from related parties	16	-	-	3,688	1,500
Accrued income		1,505	687	613	357
Prepayments		1,100	311	704	147
Interest receivable		745	138	745	138
Government grant receivable		318	170	318	170
Sales tax receivable		-	-	32	182
Rental bonds		92	250	-	250
Loan to Director		-	120	-	120
		<b>5,876</b>	<b>3,023</b>	<b>7,177</b>	<b>3,696</b>
<i>Non-current assets</i>					
Loans to key management	16	1,138	1,094	1,138	1,094
NZX & rental bonds		203	140	75	75
		<b>1,341</b>	<b>1,234</b>	<b>1,213</b>	<b>1,169</b>

Trade receivables are related primarily to the monthly subscription charged for the Xero service. Subscriptions are charged monthly in arrears and paid by direct debit. At 31 March 2013, trade receivables of the Group of \$72,000 were past due and are considered impaired (2012: \$64,000). These relate primarily to training and conference customers.

## 9. PROPERTY, PLANT & EQUIPMENT

	Leasehold improvements (\$000s)	Motor vehicles (\$000s)	Computer equipment (\$000s)	Furniture & equipment (\$000s)	Total (\$000s)
<b>Group – Year ended 31 March 2013</b>					
<i>Cost</i>					
Balance at 1 April 2012	2,784	116	1,003	870	4,773
Additions	2,114	120	1,207	784	4,225
Disposals	-	(60)	(118)	(3)	(181)
Foreign exchange adjustment	(1)	-	(1)	-	(2)
<b>Balance at 31 March 2013</b>	<b>4,897</b>	<b>176</b>	<b>2,091</b>	<b>1,651</b>	<b>8,815</b>
<i>Depreciation</i>					
Balance at 1 April 2012	14	78	404	82	578
Depreciation expense	397	36	474	223	1,130
Disposals	-	(60)	(107)	-	(167)
<b>Balance at 31 March 2013</b>	<b>411</b>	<b>54</b>	<b>771</b>	<b>305</b>	<b>1,541</b>
<b>Net carrying amount</b>	<b>4,486</b>	<b>122</b>	<b>1,320</b>	<b>1,346</b>	<b>7,274</b>
<b>Group – Year ended 31 March 2012</b>					
<i>Cost</i>					
Balance at 1 April 2011	308	80	565	252	1,205
Additions	2,792	36	617	752	4,197
Disposals	(316)	-	(177)	(132)	(625)
Foreign exchange adjustment	-	-	(2)	(2)	(4)
<b>Balance at 31 March 2012</b>	<b>2,784</b>	<b>116</b>	<b>1,003</b>	<b>870</b>	<b>4,773</b>
<i>Depreciation</i>					
Balance at 1 April 2011	182	62	391	104	739
Depreciation expense	75	16	177	52	320
Disposals	(242)	-	(162)	(76)	(480)
Foreign exchange adjustment	(1)	-	(2)	2	(1)
<b>Balance at 31 March 2012</b>	<b>14</b>	<b>78</b>	<b>404</b>	<b>82</b>	<b>578</b>
<b>Net carrying amount</b>	<b>2,770</b>	<b>38</b>	<b>599</b>	<b>788</b>	<b>4,195</b>

**9. PROPERTY, PLANT & EQUIPMENT (CONTINUED)**

	Leasehold improvements (\$000s)	Motor vehicles (\$000s)	Computer equipment (\$000s)	Furniture & equipment (\$000s)	Total (\$000s)
<b>Parent – Year ended 31 March 2013</b>					
<i>Cost</i>					
Balance at 1 April 2012	2,754	116	833	765	4,468
Additions	329	120	717	390	1,556
Disposals	-	(60)	(101)	(2)	(163)
<b>Balance at 31 March 2013</b>	<b>3,083</b>	<b>176</b>	<b>1,449</b>	<b>1,153</b>	<b>5,861</b>
<i>Depreciation</i>					
Balance at 1 April 2012	8	78	327	65	478
Depreciation expense	354	36	364	194	948
Disposals	-	(60)	(93)	-	(153)
<b>Balance at 31 March 2013</b>	<b>362</b>	<b>54</b>	<b>598</b>	<b>259</b>	<b>1,273</b>
<b>Net carrying amount</b>	<b>2,721</b>	<b>122</b>	<b>851</b>	<b>894</b>	<b>4,588</b>
<b>Parent – Year ended 31 March 2012</b>					
<i>Cost</i>					
Balance at 1 April 2011	306	80	487	213	1,086
Additions	2,752	36	519	684	3,991
Disposals	(304)	-	(173)	(132)	(609)
<b>Balance at 31 March 2012</b>	<b>2,754</b>	<b>116</b>	<b>833</b>	<b>765</b>	<b>4,468</b>
<i>Depreciation</i>					
Balance at 1 April 2011	182	62	357	101	702
Depreciation expense	70	16	133	40	259
Disposals	(244)	-	(163)	(76)	(483)
<b>Balance at 31 March 2012</b>	<b>8</b>	<b>78</b>	<b>327</b>	<b>65</b>	<b>478</b>
<b>Net carrying amount</b>	<b>2,746</b>	<b>38</b>	<b>506</b>	<b>700</b>	<b>3,990</b>

## 10. INTANGIBLE ASSETS

	Software development* (\$000s)	Patents, domains & trademarks (\$000s)	Total (\$000s)
<b>Group – Year ended 31 March 2013</b>			
<i>Cost</i>			
Balance at 1 April 2012	14,742	113	14,855
Additions	10,717	29	10,746
Foreign exchange adjustment	(4)	-	(4)
<b>Balance at 31 March 2013</b>	<b>25,455</b>	<b>142</b>	<b>25,597</b>
<i>Amortisation &amp; impairment</i>			
Balance at 1 April 2012	4,560	35	4,595
Amortisation	3,405	12	3,417
<b>Balance at 31 March 2013</b>	<b>7,965</b>	<b>47</b>	<b>8,012</b>
<b>Net carrying amount</b>	<b>17,490</b>	<b>95</b>	<b>17,585</b>
<b>Group – Year ended 31 March 2012</b>			
<i>Cost</i>			
Balance at 1 April 2011	7,688	110	7,798
Additions	7,054	37	7,091
Disposals	-	(33)	(33)
Foreign exchange adjustment	-	(1)	(1)
<b>Balance at 31 March 2012</b>	<b>14,742</b>	<b>113</b>	<b>14,855</b>
<i>Amortisation &amp; impairment</i>			
Balance at 1 April 2011	2,997	28	3,025
Amortisation	1,563	11	1,574
Disposals	-	(4)	(4)
<b>Balance at 31 March 2012</b>	<b>4,560</b>	<b>35</b>	<b>4,595</b>
<b>Net carrying amount</b>	<b>10,182</b>	<b>78</b>	<b>10,260</b>

\*Included in software development are projects in progress with a year end balance of \$1.3 million (2012 : \$900,000).

Capitalised software development is an internally generated cost except for \$1.3 million of externally purchased assets (2012: 274,000).

**10. INTANGIBLE ASSETS (CONTINUED)**

	Software development* (\$000s)	Patents, domains & trademarks (\$000s)	Total (\$000s)
<b>Parent – Year ended 31 March 2013</b>			
<i>Cost</i>			
Balance at 1 April 2012	12,516	112	12,628
Additions	9,920	28	9,948
<b>Balance at 31 March 2013</b>	<b>22,436</b>	<b>140</b>	<b>22,576</b>
<i>Amortisation &amp; impairment</i>			
Balance at 1 April 2012	4,560	35	4,595
Amortisation	2,968	12	2,980
<b>Balance at 31 March 2013</b>	<b>7,528</b>	<b>47</b>	<b>7,575</b>
<b>Net carrying amount</b>	<b>14,908</b>	<b>93</b>	<b>15,001</b>
<b>Parent – Year ended 31 March 2012</b>			
<i>Cost</i>			
Balance at 1 April 2011	7,682	75	7,757
Additions	4,834	37	4,871
<b>Balance at 31 March 2012</b>	<b>12,516</b>	<b>112</b>	<b>12,628</b>
<i>Amortisation &amp; impairment</i>			
Balance at 1 April 2011	2,991	25	3,016
Amortisation	1,569	10	1,579
<b>Balance at 31 March 2012</b>	<b>4,560</b>	<b>35</b>	<b>4,595</b>
<b>Net carrying amount</b>	<b>7,956</b>	<b>77</b>	<b>8,033</b>

\*Included in software development are projects in progress with a year end balance of \$1.3 million (2012 : \$900,000).

Capitalised software development is an internally generated cost except for \$1.3 million of externally purchased assets (2012: 274,000).

**11. BUSINESS COMBINATIONS****Spotlight Workpapers Limited**

In July 2012 the Group acquired the assets and business of Spotlight Workpapers Limited which is the developer of a Workpapers module. The transaction cost a total of NZ \$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	200
Equity consideration	600
<b>Total consideration</b>	<b>800</b>
<i>Recognised amounts of identifiable assets acquired</i>	
Software development costs	800
Goodwill	-
<b>Total identifiable assets</b>	<b>800</b>

The Group paid the owners of Spotlight Workpapers Limited the first instalment of the cash component of \$100,000 on 20 July 2012, with the second instalment based on meeting commercial and technical success factors. A payment of \$100,000 was made on the 26 March 2013 upon the achievement of these factors.

The equity component of the consideration comprised two share allotments. The first on 20 July 2012 comprised the issue of 58,366 shares in Xero Limited to the owners of Spotlight Workpapers Limited at the VWAP on 20 July 2012, which was \$5.14. The value of this issue was \$300,000. The second on 26 March 2013 comprised the issue of 31,087 shares in Xero Limited to the owners of Spotlight Workpapers Limited at the VWAP on 26 March 2013, which was \$9.65. The value of this issue was \$300,000.

As the Workpapers module was under development during the period no revenue has been recognised and costs of \$36,000 were incurred in the current year. If the Company had been acquired from the start of the financial year the results of the Group would not have materially differed.

My Workpapers Limited, which is a non-trading entity, was acquired on 20 July 2012 for no consideration.

**Max Solutions Holdings Limited**

In the prior year the Group acquired the remaining shares (84.1%) in Max Solutions Holdings Limited ("MSHL") that it did not own. The transaction cost a total of \$6 million comprising a cash component of \$2 million and an equity component of \$4 million.

\$1 million of the cash component was paid on completion in February 2012, and the deferred consideration balance of \$1 million was paid in two equal parts of \$500,000, in August 2012 and in February 2013.

The equity component of the consideration comprised the issue of 1,261,830 shares in Xero Limited to the owners of MSHL at the VWAP at 23 March 2012, which was \$3.17.

The shares vest to the owners evenly over a three year period contingent on continued employment by the Group. This cost is being recognised as an employment cost spread over the same period. During the current year a total of \$2,222,000 was recognised (2012: \$407,000).

As these employees are involved in the development of software, an element of these amounts has been capitalised under the Group's software development capitalisation policy.

**Paycycle Holdings Pty Limited**

On 1 August 2011 the Group acquired the assets and business of Paycycle Holdings Pty Limited. The transaction cost a total of \$1.9 million comprising of a cash component of \$628,000 and an equity component of \$1.3 million. The cash component was fully paid in the prior year.

The equity component of the consideration comprised the issue of 606,130 shares in Xero Limited to the owners of Paycycle Holdings Pty Limited at the VWAP at 1 August 2011, which was \$2.13.

The shares vest to the owners evenly over a three year period contingent on continued employment by the Group. This cost is being recognised as an employment cost spread over the same period. During the current year a total of \$489,000 was recognised (2012: \$512,000). As these employees are involved in the development of software an element of these amounts has been capitalised under the Group's software development capitalisation policy.

**12. TRADE & OTHER PAYABLES**

	Notes	Group 2013 (\$000s)	Group 2012 (\$000s)	Parent 2013 (\$000s)	Parent 2012 (\$000s)
Trade payables		1,312	969	936	738
Trade payables due to related parties	16	-	-	2,081	200
Accrued expenses		1,061	926	527	803
Amounts payable on acquisition of subsidiary		-	1,000	-	1,000
Income in advance		159	90	29	18
Sales tax payable		558	61	-	-
		<b>3,090</b>	<b>3,046</b>	<b>3,573</b>	<b>2,759</b>

**13. SHARE CAPITAL****Movement in ordinary shares on issue**

	Notes	Group 2013 (000s)	Group 2012 (000s)	Parent 2013 (000s)	Parent 2012 (000s)
Balance at 1 April		106,782	91,012	106,782	91,012
Issue of ordinary shares		10,000	13,352	10,000	13,352
Issue of ordinary shares – purchase of Paycycle assets		-	606	-	606
Issue of ordinary shares – purchase of Max Solutions Holdings Limited		-	1,262	-	1,262
Issue of ordinary shares – purchase of Spotlight Workpapers Limited	11	90	-	90	-
Issue of ordinary shares under employee long term incentive plans		347	550	347	550
<b>Ordinary shares on issue at 31 March</b>		<b>117,219</b>	<b>106,782</b>	<b>117,219</b>	<b>106,782</b>
Treasury stock		(1,841)	(2,683)	(1,841)	(2,683)
<b>Ordinary shares on issue at 31 March</b>		<b>115,378</b>	<b>104,099</b>	<b>115,378</b>	<b>104,099</b>

All shares have been issued, are fully paid and have no par value.

In December 2012 the Company issued 10 million shares to Matrix Capital and Valar. These shares were issued at \$6.00 – the VWAP at the time the transaction was negotiated. Transaction costs of \$118,000, being primarily ASX and NZX listing fees, were incurred in this transaction.

During the year the Company issued 347,438 shares under the employee long term incentive plans, at an average price of \$5.31.

During the year the Company granted 392,390 options to selected employees with exercise prices of \$3.83 to \$7.70 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.

Treasury stock includes shares issued in relation to the purchase of Paycycle assets, Max Solutions Holdings Limited and the Employee Restricted Share Plan that have yet to vest.



#### 14. RECONCILIATION OF OPERATING CASH FLOWS

	Group 2013 (\$000s)	Group 2012 (\$000s)	Parent 2013 (\$000s)	Parent 2012 (\$000s)
<i>Reconciliation from the net loss after tax to the net cash from operating activities</i>				
Net loss after tax	(14,443)	(7,904)	(16,158)	(8,322)
<i>Adjustments</i>				
Depreciation	1,130	320	948	259
Amortisation	3,417	1,574	2,980	1,579
Deferred tax	(17)	(50)	-	-
Associate profit	-	(38)	-	-
Gain on investment in associate	-	(170)	-	(178)
Loss/(gain) on foreign exchange transactions	442	(8)	417	(8)
(Gain)/loss on disposal of property, plant & equipment	(13)	119	(14)	121
Employee entitlements	3,976	1,380	2,864	950
Interest on loans	(44)	(18)	(44)	(18)
Bad debts	114	32	40	21
<i>Changes in working capital items</i>				
(Increase)/decrease in trade receivables & prepayments	(3,130)	(1,162)	(4,001)	(3,718)
Increase/(decrease) in trade payables & accruals	(743)	(318)	341	1,793
Increase/(decrease) in current tax payable	138	10	(1)	(1)
Increase/(decrease) in employee entitlements	1,572	1,282	674	668
Increase/(decrease) in income in advance	69	90	11	18
<b>Net cash from operating activities</b>	<b>(7,532)</b>	<b>(4,861)</b>	<b>(11,943)</b>	<b>(6,836)</b>

#### 15. AUDITORS' REMUNERATION

	Group 2013 (\$000s)	Group 2012 (\$000s)	Parent 2013 (\$000s)	Parent 2012 (\$000s)
<i>Amounts received or due &amp; receivable by PricewaterhouseCoopers for:</i>				
Audit of financial statements	97	69	52	47
Accounting advice and other assurance services*	43	57	39	57
Taxation services**	43	38	43	38
<i>Amounts received or due &amp; receivable by Argents for:</i>				
Audit of financial statements	-	3	-	-
<b>Total fees paid to auditors</b>	<b>183</b>	<b>167</b>	<b>134</b>	<b>142</b>

\* Services relate to procedures on the Group's half year result, audit of the Company's share register and technical accounting advice.

\*\* Services relate to the provision of assurance services for the annual tax return, tax advice on the Group's long-term incentive plans and taxation of offshore employees.

**16. RELATED PARTIES**

The Company entered into the following transactions and had balances (payable)/receivable with the following related parties:

	Parent 2013 (\$000s)	Parent 2012 (\$000s)
<b>Xero (UK) Limited</b>		
Operating revenue received from subsidiary	2,585	1,435
Operating expenses paid to subsidiary	872	739
Due from/(to) subsidiary	713	693
<b>Xero Pty Limited (Australia)</b>		
Operating revenue received from subsidiary	5,657	2,377
Operating expenses paid to subsidiary	2,654	2,691
Due from/(to) subsidiary	2,481	474
<b>Xero Inc (United States)</b>		
Operating revenue received from subsidiary	1,063	264
Operating expenses paid to subsidiary	4,434	1,313
Due from/(to) subsidiary	494	333
<b>Max Solutions Holdings Limited</b>		
Due from/(to) subsidiary	(2,078)	(200)
<b>Spotlight Workpapers Limited</b>		
Due from/(to) subsidiary	(3)	-
<b>Total</b>		
Operating revenue received from subsidiaries	9,305	4,076
Operating expenses paid to subsidiaries	7,960	4,743
Due from/(to) subsidiaries	1,607	1,300

All transactions and outstanding balances with these related parties are priced to provide a fair return on assets employed and revenues generated and are to be settled in cash and under normal commercial terms. None of the balances are secured.

Operating revenue/(expense) includes management fees, distributor costs, transaction fees and market support payments between the Company and its subsidiaries.

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The Group and Company entered into the following transactions and had balances payable/receivable with the following related parties:

**Loans to Directors & key management**

	Loan interest 2013 (\$000s)	Loan interest 2012 (\$000s)	Balance outstanding 2013 (\$000s)	Balance outstanding 2012 (\$000s)
Key management	44	14	1,138	1,094
Directors	-	6	-	120
	<b>44</b>	<b>20</b>	<b>1,138</b>	<b>1,214</b>

Secured loans of \$1.0 million were issued to key management during the year ended 31 March 2012 to purchase shares in the Company at \$2.75 per share. 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.

**Other related parties – Directors & key management**

	Transaction value for year 2013 (\$000s)	Transaction value for year 2012 (\$000s)	Balance outstanding 2013 (\$000s)	Balance outstanding 2012 (\$000s)
Graham Shaw, Craig Winkler, Sam Morgan – Anaplan Inc.	-	55	-	-
Graham Shaw – Jeff Gray European Limited	87	-	-	-
Sam Morgan – Kiwi Landing Pad Limited	44	23	-	-

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

Some members of key management and Directors subscribe to the Xero services provided by the Group. None of these related party transactions were significant to any party.

Some members of key management participate in the Employee Restricted Share Plan (Note 20).

No amounts with any related parties were written off or foregone during the year (2012: Nil).

**Key management personnel remuneration** Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, and include the Directors, the Chief Executive, his direct reports and the country managers. During the year the Group underwent a change in operating structure. Comparative amounts in this note have been restated to reflect this change. The following table summarises remuneration paid to key management personnel.

	2013 (\$000s)	2012 Restated (\$000s)
Short-term employee benefits	2,329	1,670
Directors' fees	243	220
Share options (under Employee Share Options Scheme)	52	14
Share-based payments (under Employee Restricted Share Plan)	467	332

**17. FINANCIAL INSTRUMENTS & FINANCIAL RISK MANAGEMENT OBJECTIVES**

**Financial instruments** Financial instruments recognised in the Statement of Financial Position include cash balances, receivables and payables. It is, and has been, through the period of these financial statements, the Group's policy that no trading in financial instruments shall be undertaken.

**Capital management** The capital structure of the Group consists of equity raised by the issue of ordinary shares in the parent company.

The Group manages its capital to ensure that entities in the Group are able to continue as going concerns. The Group is not subject to any externally imposed capital requirements.

**Classification & fair values** The carrying value of the Parent's and Group's financial instruments approximates their fair value. Set out below is a comparison by category of the carrying amounts of all the Parent's and Group's financial instruments. The fair value of the Group's financial assets and liabilities does not materially differ from their carrying value.

	Loans & receivables (\$000s)	Financial liabilities at amortised cost (\$000s)	Total carrying value (\$000s)
<b>Group – Year ended 31 March 2013</b>			
<i>Assets</i>			
Trade & other receivables	4,979	-	4,979
Cash at bank	78,244	-	78,244
Loans to key management	1,138	-	1,138
<b>Total financial assets</b>	<b>84,361</b>	<b>-</b>	<b>84,361</b>
<i>Liabilities</i>			
Trade & other payables	-	2,304	2,304
Employee entitlements	-	3,479	3,479
<b>Total financial liabilities</b>	<b>-</b>	<b>5,783</b>	<b>5,783</b>
<b>Group – Year ended 31 March 2012</b>			
<i>Assets</i>			
Trade & other receivables	2,732	-	2,732
Cash at bank	38,976	-	38,976
Loans to Directors	120	-	120
Loans to key management	1,094	-	1,094
<b>Total financial assets</b>	<b>42,922</b>	<b>-</b>	<b>42,922</b>
<i>Liabilities</i>			
Trade & other payables	-	2,620	2,620
Employee entitlements	-	1,838	1,838
<b>Total financial liabilities</b>	<b>-</b>	<b>4,458</b>	<b>4,458</b>

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	Loans & receivables (\$000s)	Financial liabilities at amortised cost (\$000s)	Total carrying value (\$000s)
<b>Parent – Year ended 31 March 2013</b>			
<i>Assets</i>			
Trade & other receivables	6,516	–	6,516
Cash at bank	75,511	–	75,511
Other loans	1,138	–	1,138
<b>Total financial assets</b>	<b>83,165</b>	<b>–</b>	<b>83,165</b>
<i>Liabilities</i>			
Trade & other payables	–	3,488	3,488
Employee entitlements	–	2,074	2,074
<b>Total financial liabilities</b>	<b>–</b>	<b>5,562</b>	<b>5,562</b>
<b>Parent – Year ended 31 March 2012</b>			
<i>Assets</i>			
Trade & other receivables	3,322	–	3,322
Cash at bank	36,722	–	36,722
Loans to Directors	120	–	120
Other loans	1,094	–	1,094
<b>Total financial assets</b>	<b>41,258</b>	<b>–</b>	<b>41,258</b>
<i>Liabilities</i>			
Trade & other payables	–	2,466	2,466
Employee entitlements	–	1,207	1,207
<b>Total financial liabilities</b>	<b>–</b>	<b>3,673</b>	<b>3,673</b>

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, credit risk and foreign currency risk.

**Interest rate risk** The Group's interest rate risk arises from its cash balances. These are placed on deposit at variable rates that expose the Group to cash flow interest rate risk. The Group does not enter into forward rate agreements or any interest rate hedges.

The Company's management regularly reviews its banking arrangements to ensure that it achieves the best returns on its funds while maintaining access to necessary cash levels to service the Company's day-to-day activities.

**17. FINANCIAL INSTRUMENTS & FINANCIAL RISK MANAGEMENT OBJECTIVES (CONTINUED)**

The interest rate re-pricing profiles of the Group's financial assets and liabilities subject to interest rate risk are:

	Carrying value (\$000s)	12 months or less (\$000s)	Greater than 12 months (\$000s)
<b>Group – Year ended 31 March 2013</b>			
<i>Financial assets</i>			
Cash at bank	78,244	78,244	-
Loans to key management	1,138	-	1,138
<b>Total</b>	<b>79,382</b>	<b>78,244</b>	<b>1,138</b>
<b>Group – Year ended 31 March 2012</b>			
<i>Financial assets</i>			
Cash at bank	38,976	38,976	-
Loans to Directors & key management	1,214	120	1,094
<b>Total</b>	<b>40,190</b>	<b>39,096</b>	<b>1,094</b>
<b>Parent – Year ended 31 March 2013</b>			
<i>Financial assets</i>			
Cash at bank	75,511	75,511	-
Loans to key management	1,138	-	1,138
<b>Total</b>	<b>76,649</b>	<b>75,511</b>	<b>1,138</b>
<b>Parent – Year ended 31 March 2012</b>			
<i>Financial assets</i>			
Cash at bank	36,722	36,722	-
Loans to Director & key management	1,214	120	1,094
<b>Total</b>	<b>37,936</b>	<b>36,842</b>	<b>1,094</b>

Of the financial assets and liabilities above, only the cash at bank is subject to floating interest rate risk. Loans to key management are subject to fixed interest rates. All other financial assets and liabilities of the Group are not subject to interest rate risk.

At 31 March 2013 if interest rates had been 1.0% higher/lower with all other variables held constant, the impact on interest income, net loss and accumulated losses of the Group would have been \$721,000 (2012: \$364,000) based on yearly average cash balances.

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**Liquidity risk** Liquidity risk is the risk that the Company or Group cannot pay contractual liabilities as they fall due. During the year, the Company raised \$60 million by way of private placement. Following the receipt of the proceeds of the capital raising, the Company has sufficient cash to meet its requirements in the foreseeable future. The Group has no debt.

The following table sets out the undiscounted contractual cash flows for all financial liabilities of the Company and Group:

	Contractual cash flows (\$000s)	6 months or less (\$000s)	6-12 months (\$000s)
<b>Group – Year ended 31 March 2013</b>			
Trade & other payables	2,304	2,304	-
Employee entitlements	3,479	3,479	-
<b>Total non-derivative liabilities</b>	<b>5,783</b>	<b>5,783</b>	<b>-</b>
<b>Group – Year ended 31 March 2012</b>			
Trade & other payables	2,620	2,120	500
Employee entitlements	1,838	1,838	-
<b>Total non-derivative liabilities</b>	<b>4,458</b>	<b>3,958</b>	<b>500</b>
<b>Parent – Year ended 31 March 2013</b>			
Trade & other payables	3,488	3,488	-
Employee entitlements	2,074	2,074	-
<b>Total non-derivative liabilities</b>	<b>5,562</b>	<b>5,562</b>	<b>-</b>
<b>Parent – Year ended 31 March 2012</b>			
Trade & other payables	2,466	1,966	500
Employee entitlements	1,207	1,207	-
<b>Total non-derivative liabilities</b>	<b>3,673</b>	<b>3,173</b>	<b>500</b>

**Credit risk** Where the Group has a receivable from another party, there is a credit risk in the event of non-performance by that other party. Financial instruments that potentially subject the Group to credit risk principally consist of bank balances and receivables.

The Group manages its exposure to credit risk by monitoring the credit quality of the financial institutions that hold its cash balances. The credit risk associated with trade receivables is small because of the inherently low individual transaction values and the spread over many customers.

**Maximum exposure to credit risk at balance date**

	Group 2013 (\$000s)	Group 2012 (\$000s)	Parent 2013 (\$000s)	Parent 2012 (\$000s)
Cash at bank	78,244	38,976	75,116	36,722
Receivables	4,776	2,712	2,785	2,049
Non-current receivables	1,341	1,234	1,213	1,169
<b>Total</b>	<b>84,361</b>	<b>42,922</b>	<b>79,114</b>	<b>39,940</b>

**Foreign currency risk** The Group faces the risk of movements in foreign currency exchange rates against the New Zealand dollar. The Group operates in three other currencies, being UK pounds, Australian dollars and US dollars. As a result the Group's Income Statement and Statements of Financial Position can be affected by movements in exchange rates.

Both the UK and Australian operations are now self funding. The US operation is funded directly from New Zealand and will continue to require funding support for at least the next year. The Group forward purchases its US dollar requirements for three to six months in advance to manage the impacts of movements in the exchange rate. During this time the foreign currency risk will increasingly be mitigated by the generation of revenues in the US.

If the New Zealand dollar had weakened by 10% against the other operating currencies, with all other variables remaining constant, the effect would have been an increase in the net loss and accumulated losses for the Group for the year ended 31 March 2013 of \$461,000 (2012: \$118,000).

**18. SEGMENT INFORMATION**

The Group has seven operating segments based on geographical locations of the operations and revenue streams, and five reporting segments at 31 March 2013. 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 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.

Country operating expenses represent 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 Chief Operating Decision Maker 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
<b>Group – For the year ended 31 March 2013</b>						
Revenue from external customers	16,913	13,866	5,511	2,743	–	39,033
Government grants & associate earnings	–	–	–	–	936	936
Interest revenue	–	11	–	–	1,827	1,838
<b>Total</b>	<b>16,913</b>	<b>13,877</b>	<b>5,511</b>	<b>2,743</b>	<b>2,763</b>	<b>41,807</b>
Operating expenses	(10,675)	(12,706)	(5,033)	(4,800)	(18,193)	(51,407)
Depreciation & amortisation	–	–	–	–	(4,547)	(4,547)
<b>Segment contribution before tax</b>	<b>6,238</b>	<b>1,171</b>	<b>478</b>	<b>(2,057)</b>	<b>(19,977)</b>	<b>(14,147)</b>
<b>Group – For the year ended 31 March 2012 – restated</b>						
Revenue from external customers	10,325	5,024	2,723	1,298	–	19,370
Government grants & associate earnings	–	–	–	–	609	609
Interest revenue	–	–	–	–	612	612
<b>Total</b>	<b>10,325</b>	<b>5,024</b>	<b>2,723</b>	<b>1,298</b>	<b>1,221</b>	<b>20,591</b>
Operating expenses	(6,072)	(5,584)	(2,563)	(1,207)	(11,065)	(26,491)
Depreciation & amortisation	–	–	–	–	(1,894)	(1,894)
<b>Segment contribution before tax</b>	<b>4,253</b>	<b>(560)</b>	<b>160</b>	<b>91</b>	<b>(11,738)</b>	<b>(7,794)</b>

**19. COMMITMENTS & CONTINGENCIES**

There were capital commitments for building fitouts of \$390,000 at 31 March 2013 (2012: Nil). There were no contingent liabilities at 31 March 2013 (2012: Nil).



## 20. SHARE-BASED PAYMENTS

### Employee Restricted Share Plan

The Xero Limited Employee Restricted Share Plan ("RSP") was introduced for selected executives and employees of the Group. Under the RSP, ordinary shares in Xero Limited are issued to a trustee, Xero Trustee Limited, a wholly-owned subsidiary, and allocated to participants, on grant date, using funds lent to them by the Company.

The price for each share issued during the year under the RSP is the higher of the VWAP immediately preceding the date on which the share is allocated or the invitation price.

Under the RSP, the shares are beneficially owned by the participants. The length of retention period before the shares vest is between one and three years. If the individual is still employed by the Group at the end of this specific period, the employee is given a cash bonus that must be used to repay the loan and the shares are then transferred to the individual. The number of shares awarded is determined by the Remuneration Committee of the Board of Directors. The weighted average grant date fair value of restricted shares issued during the year was \$5.61 (2012: \$2.29). Shares with a grant date fair value of \$1,399,000 vested during the year (2012: \$957,000). The Group has no legal or constructive obligation to repurchase the shares or settle the RSP for cash.

	Number of shares 2013 (000s)	Number of shares 2012 (000s)
Unvested shares at 1 April	758	679
Awarded pursuant to Employee Restricted Share Plan	445	621
Forfeited	(49)	(49)
Vested	(567)	(493)
Unvested shares at 31 March – allocated to employees	587	758
Forfeited shares not yet reallocated – held by Trustee	8	57
	595	815
Percentage of total ordinary shares	0.5%	0.8%
Ageing of unvested shares		
Balance of shares to vest within one year	377	455
Balance of shares to vest after one year but not more than two years	210	303
	587	758

The number of shares awarded pursuant to the RSP does not equal the number of shares created for the plan as forfeited shares are held in trust and reissued.

**20. SHARE-BASED PAYMENTS (CONTINUED)****Employee Share Options Scheme**

Share options are granted to selected employees. The exercise price of the granted options is equal to the market price of the shares on the date of the grant.

Options are conditional on the employee completing the necessary years' service (the vesting period) as appropriate to that tranche. The options tranches are exercisable in equal amounts over three to five years from the grant date. No options can be exercised later than the first anniversary of the final vesting date (a total of four to six years from the grant date). There were 20 employees holding stock options at 31 March 2013 (2012: 1 employee). The cost of stock options recognised in the Income Statement is \$274,000 at 31 March 2013 (2012: \$15,000).

The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	Weighted average exercise price	Options 2013 (000s)	Weighted average exercise price	Options 2012 (000s)
Outstanding at 1 April	2.75	200	-	-
Granted during the period	4.75	392	2.75	200
Forfeited during the period	7.70	(2)	-	-
Exercised during the period	2.75	(5)	-	-
Outstanding at 31 March	4.08	585	2.75	200
Exercisable at 31 March	2.75	35	-	-

Grant-vest	Expiry date	Exercise price	Options 2013 (000s)	Options 2012 (000s)
2011-12	2017-18	2.75	195	200
2012-13	2016-17	3.82	140	-
2012-13	2016-17	5.31	142	-
2012-13	2016-17	4.97	100	-
2012-13	2016-17	7.70	8	-

The weighted average fair value of options granted during the year, determined using the Black-Scholes valuation model, was \$1.21 per option (2012: \$0.70).

The significant inputs into the model were the market share price at grant date, the exercise price shown above, the expected annualised volatility of between 33% and 42%, a dividend yield of 0%, an expected option life of between one and six years and an annual risk-free interest rate of between 2.5% and 3.5%.

The volatility measured is the standard deviation of continuously compounded share returns and is based on a statistical analysis of daily share prices in the last 12 months.

## 21. OPERATING LEASE COMMITMENTS

	Group 2013 (\$000s)	Group 2012 (\$000s)	Parent 2013 (\$000s)	Parent 2012 (\$000s)
Within one year	2,341	1,198	1,355	902
After one year but not more than five years	5,561	3,667	3,681	3,595
More than five years	2,161	2,943	2,161	2,943
	<b>10,063</b>	<b>7,808</b>	<b>7,197</b>	<b>7,440</b>

Operating lease commitments are for the Group's premises.

## 22. GROUP ENTITIES

	Principal activity	Country of incorporation	Balance date	Interest 2013 (%)	Interest 2012 (%)
Xero (NZ) Limited	Non-trading	New Zealand	31 March	100	-
Xero (UK) Limited	Limited risk distributor	United Kingdom	31 March	100	100
Xero Australia Pty Limited (formerly Xero Pty Limited)	Limited risk distributor	Australia	31 March	100	100
Xero Inc	Limited risk distributor	United States	31 March	100	100
Xero Trustee Limited	Trustee	New Zealand	31 March	100	100
Max Solutions Holdings Limited	Holding company	New Zealand	31 March	100	100
Max Solutions Limited	Business software developer	New Zealand	31 March	100	100
Spotlight Workpapers Limited	Business software developer	New Zealand	31 March	100	-
My Workpapers Limited	Non-trading	New Zealand	31 March	100	-

Xero (NZ) Limited was incorporated on 21 November 2012 and did not trade during the year.

Spotlight Workpapers Limited and My Workpapers Limited were acquired on 20 July 2012 (Note 11).

Xero Trustee Limited is the Trustee for Xero Limited Employee Restricted Share Plan.

During the year Xero Inc and Xero Australia Pty Limited changed their balance dates from 31 December and 30 June respectively to 31 March and Xero Pty Limited changed its name to Xero Australia Pty Limited.

## 23. EVENTS AFTER THE BALANCE SHEET DATE

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 of Australia, the UK and the US.

There were no other events after balance date.

## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF XERO LIMITED

### Report on the Financial Statements

We have audited the financial statements of Xero Limited ("the Company") on pages 4 to 33, which comprise the statements of financial position as at 31 March 2013, the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 31 March 2013 or from time to time during the financial year.

### Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company and the Group's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We have no relationship with, or interests in, Xero Limited or any of its subsidiaries other than in our capacities as auditors and providers of other assurance and taxation services. These services have not impaired our independence as auditors of the Company and the Group.

### Opinion

In our opinion, the financial statements on pages 4 to 33:

- (i) comply with generally accepted accounting practice in New Zealand;
- (ii) comply with International Financial Reporting Standards; and
- (iii) give a true and fair view of the financial position of the Company and the Group as at 31 March 2013, and their financial performance and cash flows for the year then ended.

### Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 March 2013:

- (i) we have obtained all the information and explanations that we have required; and
- (ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

### Restriction on Distribution or Use

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit 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 auditors' 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 audit work, for this report or for the opinions we have formed.

*PricewaterhouseCoopers*

### PricewaterhouseCoopers

Chartered Accountants  
Wellington, New Zealand  
23 May 2013

## DIRECTORS' RESPONSIBILITIES STATEMENT

The Financial Reporting Act 1993 requires the Directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Company and Group and of the financial performance and cash flows for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy, at any time, the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1993. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board of Directors of the Company and Group authorised these financial statements for issue on 23 May 2013.

For and on behalf of the Board of Directors



**Sam Knowles**  
Chairman  
23 May 2013



**Graham Shaw**  
Director  
23 May 2013

## CORPORATE GOVERNANCE

The Board recognises the importance of good corporate governance, particularly its role in delivering improved corporate performance and protecting the interests of all stakeholders.

The Board is responsible for establishing and implementing the Company's corporate governance frameworks, and is committed to fulfilling this role in accordance with best practice while observing applicable laws, the NZX Corporate Governance Best Practice Code (NZX Code), and the Corporate Governance Principles and Recommendations (2nd Edition) issued by the ASX Corporate Governance Council (ASX recommendations).

This section sets out the Company's commitment to good corporate governance and addresses the Company's compliance with the eight fundamental principles of the ASX recommendations. In doing so, the Company's compliance with the NZX Code is also addressed.

### PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

*Companies should establish and disclose the respective roles and responsibilities of the Board and management*

The Board is the overall and final body responsible for all decision-making within the Company, having a core objective to effectively represent and promote the interests of shareholders with a view to adding long-term value to the Company.

The Board Charter describes the Board's role and responsibilities and regulates internal Board procedures; a copy of this document is available in the Investors section on the Company's website. The Board has the responsibility to work to enhance the value of the Company in the interests of the Company and the shareholders.

The Board directs, and supervises the management of, the business and affairs of the Company including, in particular:

- ensuring that the Company's goals are clearly established, and that strategies are in place for achieving them;
- ensuring that there is an ongoing review of performance against the Company's strategic objectives;
- approving transactions relating to acquisitions and divestments and capital expenditure above delegated authority limits;
- ensuring that there is an ongoing assessment of business risks and that there are appropriate control and accountability systems in place to manage them;
- establishing policies aimed at strengthening the performance of the Company, including ensuring that management is proactively seeking to build the business through innovation, initiative, technology, new products and the development of its business capital;
- monitoring the performance of management;
- appointing the Chief Executive, setting the terms of their employment and, where necessary, terminating their employment; and
- approving and monitoring the Company's financial and other reporting and ensuring the Company's financial statements represent a true and fair view.

**Delegation** To enhance efficiency, the Board has delegated some of its powers to Board Committees and other powers to the Chief Executive. The terms of the delegation by the Board to the Chief Executive are documented in the Board Charter and more clearly set out in the Company's Delegated Authority framework. This framework also establishes the authority levels for decision-making within the Company's management team.

**Performance management** The Remuneration Committee evaluates the performance of the Chief Executive.

Formal procedures are in place to facilitate performance evaluations of the senior management team. These are facilitated by the General Manager, Human Resources, in liaison with the Chief Executive.

Evaluations of both the Chief Executive and the senior management team are based on set criteria, including the performance of the business, the accomplishment of long-term strategic objectives and other non-quantitative objectives agreed at the beginning of each year. During the financial year, performance evaluations of the Chief Executive and senior management team were completed in accordance with the Company's established procedures.

## PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE

*Companies should have a Board of an effective composition, size and commitment to adequately discharge its responsibilities and duties*

**Composition of the Board** At 31 March 2013 the Board comprised six Directors, being a non-executive Chairman, one executive Director and four non-executive Directors. The Board has a broad range of IT, financial, sales, business and other skills and expertise necessary to meet its objectives.

On 26 July 2012 Phil Norman resigned as Director, and on 20 September 2012 Craig Elliott was appointed to the Board.

**Selection & role of Chairman** The Chairman of the Board is elected by the non-executive Directors. The Board supports the separation of the role of Chairman (Sam Knowles) and Chief Executive (Rod Drury). The Chairman's role is to manage the Board effectively, to provide leadership to the Board, and to facilitate the Board's interface with the Chief Executive.

Sam Knowles was appointed as Chairman of the Board during the previous financial year (replacing Phil Norman upon his resignation as a Director) and held the role of Chairman for the entire 2013 financial year. The Board has determined that Sam Knowles is an Independent Director.

**Director independence** The Board Charter requires that a minimum of two Directors be "independent".

The Board takes into account the guidance provided under the NZX Listing Rules, the ASX Listing Rules and the ASX Recommendations, in determining the independence of Directors.

The Board will review any determination it makes as to a Director's independence on becoming aware of any information that may have an impact on the independence of the Director. For this purpose, Directors are required to ensure that they immediately advise the Board of any relevant new or changed relationships to enable the Board to consider and determine the materiality of the relationships.

The Board considers that Graham Shaw, Sam Knowles, Sam Morgan and Craig Elliott are Independent Directors. The Board has

determined that Rod Drury is not an Independent Director because of his executive responsibilities and substantial shareholding, and that Craig Winkler is not an Independent Director because he is a substantial shareholder of the Company. The Board has recently determined that Sam Morgan is now an Independent Director because he is no longer considered a substantial shareholder of the Company.

**Conflicts of interest** The Board Charter outlines the Board's policy on conflicts of interest. Where conflicts of interest do exist, Directors excuse themselves from discussions and do not exercise their right to vote in respect of such matters.

**Nomination & appointment** The procedures for the appointment and removal of Directors are ultimately governed by the Company's Constitution. The Board has established a Nominations Committee whose role is to identify and recommend to the Board individuals for nomination as members of the Board and its Committees, taking into account such factors as it deems appropriate, including experience, qualifications, judgement and the ability to work with other Directors.

Directors receive formal letters of appointment setting out the arrangements relating to their appointments.

**Board Committees** The Board operated three Committees during the year: the Audit and Risk Management Committee, the Remuneration Committee and the Nominations Committee. The Charters of each Committee are in the Investors section on the Company's website. The membership of each Committee at 31 March 2013 was:

1. Audit and Risk Management Committee – Graham Shaw (Chair), Sam Knowles, Craig Winkler
2. Remuneration Committee – Sam Knowles (Chair), Graham Shaw, Craig Winkler
3. Nominations Committee – Sam Morgan (Chair), Sam Knowles, Craig Winkler

**Retirement & re-election** The Board acknowledges and observes the relevant Director rotation/retirement rules under the NZX Listing Rules and the ASX Listing Rules.

**Director remuneration** Directors' fees are currently set at a maximum of \$500,000 for the non-executive Directors. The actual amount of fees paid in the past year was \$243,000.

**Board access to information & advice** The Company Secretary is responsible for supporting the effectiveness of the Board by ensuring that policies and procedures are followed and co-ordinating the completion and dispatch of the Board agendas and papers.

All Directors have access to the senior management team, including the Company Secretary, to discuss issues or obtain information on specific areas in relation to items to be considered at Board meetings or other areas as they consider appropriate. Further, Directors have unrestricted access to Group records and information.

The Board, the Board Committees and each Director have the right, subject to the approval of the Chairman, to seek independent professional advice at the Company's expense to assist them to carry out their responsibilities. Further, the Board and Board Committees have the authority to secure the attendance at meetings of outsiders with relevant experience and expertise.

**Director education** All Directors are responsible for ensuring they remain current in understanding their duties as Directors.

**Directors' share ownership** All Directors and employees are required to comply with the Company's Insider Trading Policy and Guidelines in undertaking any trading in the Company's shares. A copy of this Policy can be found in the Investors section on the Company's website. The table of Directors' shareholdings is included in the Disclosures section of this Annual Report.

**Indemnities & insurance** Deeds of Indemnity have been given to Directors in relation to potential liabilities and costs they may incur for acts or omissions in their capacity as Directors.

The Directors' and Officers' Liability insurance covers risks normally covered by such policies arising out of acts or omissions of Directors and employees in their capacity as such. Insurance is not provided for dishonest, fraudulent, malicious or wilful acts or omissions.

**Board meetings** The Board met formally 10 times in the year ended 31 March 2013 and there were also separate meetings of the Board Committees. At each meeting the Board considers key financial and operational information as well as matters of strategic importance.

Executives regularly attend Board meetings and are also available to be contacted by Directors between meetings.

Directors who are not members of the Committees may attend the Committee meetings.

The Board has a formal review of its performance on an annual basis. This process incorporates gaining feedback via a third party to enhance the robustness of the process.

Feedback on relevant Board performance factors is provided by executive members to enhance the working relationship between the Board and management.

### **PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING**

*Companies should actively promote ethical and responsible decision-making*

The Board maintains high standards of ethical conduct and the Chief Executive is responsible for ensuring that high standards of conduct are maintained by all staff. The Board intends to adopt a "Code of Conduct" covering the practices necessary to maintain confidence in the Company's integrity; the practices necessary to take into account the Company's legal obligations and reasonable expectations of its stakeholders; and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The Board has approved a Diversity Policy, a copy of which is available in the Investors section on the Company's website.

At 31 March 2013, the proportion of women employed by the Company (and its wholly owned subsidiaries) was as follows: 42% in all positions; 21% in senior executive positions; and 0% on the Board. These figures include permanent full-time, permanent part-time and fixed-term employees, but not independent contractors.

The Board intends, during the 2014 financial year, to develop measurable objectives for achieving gender diversity, and a method by which it will assess performance against those objectives.

### **PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORTING**

*Companies should have a structure to independently verify and safeguard the integrity of their financial reporting*

The Board is committed to a transparent system for auditing and reporting of the Company's financial performance. The Board has established an Audit and Risk Management Committee, which performs a central role in achieving this goal.

The Audit and Risk Management Committee's principal functions are:

- to assist the Board in ensuring that appropriate accounting policies and internal controls are established and followed;
- to assist the Board in producing accurate financial statements in compliance with all applicable legal requirements and accounting standards; and
- to ensure the efficient and effective management of business risks.

One of the main purposes of the Audit and Risk Management Committee is to ensure the quality and independence of the audit process. The Chairman of the Audit and Risk Management Committee and Chief Financial Officer work with the external auditors to plan the audit approach. All aspects of the audit are reported back to the Audit and Risk Management Committee and the auditors are given the opportunity at Audit and Risk Management Committee meetings to meet with the Board.

The Audit and Risk Management Committee has adopted a formal Charter, a copy of which is available in the Investors section on the Company's website.

### **PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE**

*Companies should promote timely and balanced disclosure of all material matters concerning the company*

The Board has adopted a Market Disclosure and Communications Policy, a copy of which is available in the Investors section on the Company's website. The Policy has been communicated internally to ensure that it is strictly adhered to by the Board and the Company's employees.

The Company has been listed on the NZX Main Board since 5 June 2007 and listed on the ASX since 8 November 2012 and has at all times complied with its continuous disclosure obligations under the NZX Listing Rules, the Securities Markets Act 1988 (NZ), and the ASX Listing Rules.

### **PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS**

*Companies should respect the rights of shareholders and facilitate the effective exercise of those rights*

During the time that the Company has been listed on the NZX and the ASX, it has built a reputation of openness and has encouraged a high level of communication with shareholders and the market generally. It does this through numerous forms of communication including formal communication, social media, blogs, press releases and road-shows.

The Board encourages active participation by shareholders at the Annual Meeting of the Company, and allows shareholders to submit questions to the Board prior to or at the Annual Meeting, to be answered by the Board at the Annual Meeting.

**PRINCIPLE 7 – RECOGNISE AND MANAGE RISK**

*Companies should establish a sound system of risk oversight and management and internal control*

The Board has an Audit and Risk Management Committee that reports to the Board regularly – please see “Principle 4” above for further detail in relation to the Audit and Risk Management Committee.

The Company’s senior management maintain Risk Register and this is reviewed at each Board meeting.

As a New Zealand company, section 295A of the Australian Corporations Act is not applicable to the Company. However, the Company’s Chief Executive and Chief Financial Officer provide equivalent assurances to the Board as part of the annual external audit process.

**PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY**

*Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear*

The Board has a Remuneration Committee whose principal function is to oversee the remuneration strategies and policies for the Company.

The Company distinguishes the structure of non-executive Directors’ remuneration from that of executive Directors.

The Remuneration Committee is governed by a formal charter, a copy of which is available in the Investors section on the Company’s website.

**DISCLOSURES****USE OF CASH & CASH EQUIVALENTS**

In accordance with ASX Listing Rule 4.10.19, the Board has determined that the Company has used the cash & cash equivalents that it had at the time of its admission to the ASX in a way consistent with its business objectives, from the period of its admission to the ASX on 8 November 2012 to 31 March 2013.

**ENTRIES RECORDED IN THE INTERESTS REGISTER**

The following are particulars of entries made in the Interests Register for the period 1 April 2012 to 31 March 2013.

**Directors’ interests** Directors disclosed interests, or cessations of interest, in the following entities pursuant to section 140 of the Companies Act 1993 during the year ended 31 March 2013.

Entity	Relationship
<b>Sam Knowles</b>	
On-brand Partners Limited	Became a director and shareholder
Localist Limited	Ceased to be a director
Wellington Venues Limited	Ceased to be a director
Government ICT Council	Ceased to be chairman
<b>Craig Elliott (Initial Disclosure)</b>	
Pertino Inc	Director and shareholder
Global Vetlink	Director and shareholder
<b>Sam Morgan</b>	
Kiwi Landing Pad Limited	Director and shareholder
Outsmart Limited	Ceased to be a director
EBUS Limited	Ceased to be a shareholder
Sonar6	Ceased to be a shareholder
<b>Graham Shaw</b>	
Jeff Gray European Limited	Became a director

*Continued on next page ...*



**Share dealings of Directors** Directors disclosed, pursuant to section 148 of the Companies Act 1993, the following acquisitions and disposals of relevant interest in Xero shares during the year ended 31 March 2013.

Shares	Date of acquisition/ disposal	Consideration per share	Number of shares acquired/ (disposed)
Craig Winkler	31 August 2012	\$4.56	21,445
Rod Drury	30 November 2012	\$6.00	(833,334)
Craig Winkler (Givia Pty Limited)	30 November 2012	\$6.00	(2,500,000)
Sam Morgan	21 December 2012	\$7.40	(1,000,000)

Share Options	Date of grant	Exercise price	Number of options granted
Craig Elliott	1 October 2012	\$4.97	100,000

**Shareholdings of Directors at 31 March 2013**

	2013 Number of shares	2012 Number of shares	2013 Number of options
Rod Drury	21,719,779	22,553,113	-
Craig Elliott	-	-	100,000
Sam Knowles (two holdings)	569,191	569,191	-
Sam Morgan	5,122,609	6,122,609	-
Graham Shaw	1,336,010	1,336,010	-
Craig Winkler (two holdings)	18,475,990	20,954,545	-

**Remuneration of Directors** Details of the total remuneration of, and the value of other benefits received by each Director of Xero during the financial year ended 31 March 2013 are as follows:

	2013 Fees (\$000s)	2013 Salary (\$000s)	2012 Fees (\$000s)	2012 Salary (\$000s)
Rod Drury*	-	355	-	255
Craig Elliott	20	-	-	-
Sam Knowles	80	-	47	-
Sam Morgan	40	-	40	-
Phil Norman**	13	-	53	-
Graham Shaw	50	-	40	-
Craig Winkler	40	-	40	-
	<b>243</b>	<b>355</b>	<b>220</b>	<b>255</b>

\*Mr Drury is an executive Director and receives remuneration from Xero in the form of a salary. He does not participate in the Xero Employee Restricted Share Plan.

\*\*Phil Norman ceased to be a Director on 26 July 2012.

**DISCLOSURES (CONTINUED)**

**Employee remuneration** The following table shows the number of employees (including employees holding office as Directors of subsidiaries) whose remuneration and benefits for the year ended 31 March 2013 were within the specified bands above \$100,000. The remuneration figures shown in the table include all monetary payments actually paid during the course of the year ended 31 March 2013. They also include bonuses paid in respect of the Group's Employee Restricted Share Plan. The table does not include amounts paid post 31 March 2013 that related to the year ended 31 March 2013, such as the short-term incentive scheme bonus. The table below includes the remuneration of Rod Drury. No Director of a subsidiary receives or retains any remuneration or other benefits from Xero for acting as such.

	2013 Number of employees	2013 Number of employees acting as Directors of subsidiaries	2012 Number of employees	2012 Number of employees acting as Directors of subsidiaries
100,000 to 109,999	17		11	
110,000 to 119,999	10		8	
120,000 to 129,999	13		10	
130,000 to 139,999	6		2	
140,000 to 149,999	8		2	
150,000 to 159,999	5		5	
160,000 to 169,999	3		1	
170,000 to 179,999	2		2	
180,000 to 189,999	4		-	
190,000 to 199,999	2		1	
200,000 to 209,999	-		1	
210,000 to 219,999	3		-	
230,000 to 239,999	1		-	
240,000 to 249,999	2		-	
250,000 to 259,999	1		3	1
260,000 to 269,999	-		1	
270,000 to 279,999	1		-	
300,000 to 309,999	1		1	1
310,000 to 319,999	1		-	
340,000 to 349,999	1		-	
350,000 to 359,999	2	2	1	
360,000 to 369,999	1		-	
370,000 to 379,999	-		1	1
420,000 to 429,999	1	1	1	
430,000 to 439,999	1		-	
450,000 to 459,000	1		-	
	<b>87</b>	<b>3</b>	<b>51</b>	<b>3</b>

**Analysis of shareholding at 10 May 2013**

	Number of holders	Number of shares	% of issued capital
1 to 1,000	2,257	1,052,327	0.90
1,001 to 5,000	1,468	3,777,298	3.22
5,001 to 10,000	476	3,546,525	3.03
10,001 to 100,000	460	10,722,424	9.15
100,001 and over	54	98,120,537	83.70
<b>Total</b>	<b>4,715</b>	<b>117,219,111</b>	<b>100.00</b>

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Twenty largest shareholders at 10 May 2013

Shareholder rank & name	Holding	Percentage of total shares on issue
1. Anna Margaret Clare Drury & Kenneth Drury (Rod Drury)	21,719,779	18.53
2. New Zealand Central Securities Depository Limited	18,975,573	16.19
3. Givia Pty Limited (Craig Winkler)	18,454,545	15.74
4. Hamish Craig Edwards & Tineke Edwards & Andrew Finch	5,792,298	4.94
5. Jasmine Investment Holdings Limited (Sam Morgan)	5,122,609	4.37
6. Valar Ventures LP (Peter Theil)	4,135,870	3.53
7. VV Xero Holdings LLC (Peter Theil)	4,062,068	3.47
8. Nicola Jane Wilson & David Wilson & Christopher Richie	1,812,819	1.55
9. Anna Grigg & Alastair Grigg & Claymore Trustees Limited	1,351,776	1.15
10. Graham Shaw & Delwyn Shaw	1,336,010	1.14
11. JB Were (NZ) Nominees Limited	1,286,338	1.10
12. Bank of New Zealand	1,177,778	1.00
13. Nelson Nien Sheng Wang & Pei-Chun Ko	1,034,990	0.88
14. FNZ Custodians Limited	816,779	0.70
15. W5 Limited	800,000	0.68
16. Craig Walker & Catherine Walker	738,898	0.63
17. Gavin George & Jacquetta George	630,915	0.54
18. Spence Corporate Trustee Limited	630,915	0.54
19. Xero Limited (Employee Restricted Share Plan)	595,816	0.51
20. Fletcher Brown & Karen Oakley-Harness	464,000	0.40

**Substantial Security Holders** According to notices given under the Securities Markets Act 1988 the following persons were Substantial Security Holders in Xero Limited at 10 May 2013 in respect of the number of voting securities set opposite their names:

1. Anna Drury & Kenneth Drury (Rod Drury)	21,719,779
2. Givia Pty Limited (Craig Winkler)	18,454,545
3. Matrix Capital Management Company LLC	11,489,934
4. Peter Thiel	8,197,938

The total number of issued voting securities of Xero Limited at 10 May 2013 was 117,219,111 (115,378,000 after excluding treasury stock). At 10 May 2013 there were 109 shareholders holding less than a marketable parcel of shares (being 45 shares or less).

**Waivers** Xero Limited had no NZX waivers granted or published by NZX within or relied upon it in the 12 months immediately preceding 10 May 2013. Xero Limited has been granted waivers from the ASX which are standard for a New Zealand company listed on the ASX including confirmation that ASX will accept financial statements denominated in New Zealand dollars and prepared and audited in accordance with New Zealand Generally Accepted Accounting Principles and Auditing Standards.

**Subsidiary company Directors** The following people held office as Directors of subsidiary companies at 31 March 2013:

Xero (UK) Limited – Rod Drury, Gary Turner  
 Xero Australia Pty Limited – Rod Drury, Chris Ridd  
 Xero (NZ) Limited – Rod Drury, Graham Shaw  
 Xero Inc – Rod Drury  
 Xero Trustee Limited – Rod Drury, Graham Shaw  
 Max Solutions Holdings Limited – Rod Drury, Graham Shaw  
 Max Solutions Limited – Rod Drury, Graham Shaw  
 Spotlight Workpapers Limited – Rod Drury, Graham Shaw  
 My Workpapers Limited – Rod Drury, Graham Shaw

**Annual Meeting** Xero's Annual Meeting of shareholders will be held in Wellington on Thursday 1 August 2013 at 4pm. A notice of Annual Meeting and Proxy Form will be circulated to shareholders in June 2013.

**REGISTERED OFFICE:**

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FACSIMILE: +64 4 819 4801  
UNIT 1, 6 ELIZABETH STREET  
HAWTHORN, VIC 3122  
AUSTRALIA

NZ COMPANY NUMBER: 1830488  
ARBN: 160 661 183

**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*  
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:**

ROSS JENKINS

**BANKERS:**

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

**SHARE REGISTRAR:**

NEW ZEALAND  
LINK MARKET SERVICES LIMITED  
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