



The world's easiest accounting system

XERO OPERATING UPDATE AS AT 31 MARCH 2010

Xero triples revenue

1 April 2010

Revenue and customer growth

- Xero will report operating revenues in excess of \$3m for the 2010 financial year - a tripling of revenues earned for the 2009 financial year.
- Paying customers exceeded 17,000 in more than 50 countries compared to 6,000 in 25 countries at 31 March 2009. This excludes the just released Xero Personal product.
- The focus on recruiting and building a channel of accountants has resulted in 980 firms using Xero Partner Edition.

Company news

- Xero grew its team from 56 to 90 in the year including expanded sales teams in the United Kingdom and Australia.
- Xero entered into an agreement with US based Yodlee, Inc. extending automated daily bank account feeds into Xero from customer accounts in more than 11,000 global financial institutions and other account sources (including 100 throughout Australia).
- Xero formed a partnership with NZ Federated Farmers to assist in driving productivity as broadband is provided to the farm, with first product deliverables planned in July 2010.
- Xero formed a partnership with Schola to deliver an integrated school management system for the 2011 school year.
- Xero won three ONYAs (web awards) for Best Web Application, Best User Experience and Most Outstanding Website.

Product progress

- Launched 'Xero Personal' a personal financial management product developed in conjunction with BNZ.
- Continued monthly product enhancements for 'Xero Business'.
- Further investment in Xero Partner Edition to position Xero as the single ledger system for accountants and bookkeepers.
- Invested in a major upgrade to the Xero hosting server environment to provide capacity for future growth and implemented a global Content Delivery Network through Akamai for faster application delivery.
- Released version 2 of the Xero API (application programming interface), which enhanced the ability for partners to leverage the Xero accounting engine.
- Released software connections to the products of SaaS global leaders - Salesforce.com and FreshBooks.
- Xero Network partners (solutions that connect electronically to Xero) grew from 13 to 35 including four payroll partners in Australia.

General commentary

In the past year, Xero has moved from appealing to 'early adopters' and is beginning to be considered as a mainstream product in the market place.

Following the successful capital raising in April / May 2009, the Company grew its team and capacity significantly, positioning Xero as a global leader in online accounting for small businesses.

Xero is pleased to have delivered solid customer and revenue growth while trialling a number of sales models to find the most effective in each regional market.

In New Zealand, customer growth exceeded expectations driven for the most part through the accountant channel. In Australia, which is the newest market, the focus was on the development of the accountant channel ahead of the forthcoming key June financial year end.

In the UK, the sales efforts were re-configured to focus on Xero implementation by accountants and to encourage adoption among key individuals within practices. This follows commitments from a number of sizeable UK accounting firms for large up-front orders without actual implementation. The re-focus on implementation is working. Xero has excluded those unimplemented customers from its customer count to more closely align the timing of revenue.

Xero continued to invest on its relationships with telecommunications carriers, especially integration with their provisioning engines – a prerequisite before they turn on marketing spend. To date, the relationships have assisted Xero to building its brand awareness.

Xero's major Australasian competitor MYOB, in partnership with Banklink, is expected to react to Xero and release an online product this calendar year. It will be MYOB's second attempt to offer an online alternative to its desktop system. After three years in the online space Xero is well ahead. The market awareness generated by MYOB's entry to the online market will be positive for the SaaS (Software-as-a-Service) model and Xero.

Xero has successfully scaled up its operation, and momentum continues to build in its regional markets via the accountants channel and online. Assisted by the Yodlee relationship, Xero will begin to focus on other world markets including the US and Canada.

The Company will provide its full year financial announcement and strategic update to the market in May.

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