

Appendix 3B

New issue announcement, application for quotation of additional securities and agreement

Information or documents not available now must be given to ASX as soon as available. Information and documents given to ASX become ASX's property and may be made public.

Introduced 01/07/96 Origin: Appendix 5 Amended 01/07/98, 01/09/99, 01/07/00, 30/09/01, 11/03/02, 01/01/03, 24/10/05, 01/08/12, 04/03/13

Name of entity

Xero Limited

ABN

160 661 183 (ARBN)

We (the entity) give ASX the following information.

Part 1 - All issues

You must complete the relevant sections (attach sheets if there is not enough space).

- | | |
|--|---|
| 1 +Class of +securities issued or to be issued | (a) Ordinary Shares

(b) Conditional agreement to issue Ordinary Shares in Xero Limited (Restricted Stock Units or RSUs)

(c) Options to subscribe for Ordinary Shares in Xero Limited (Options) |
| 2 Number of +securities issued or to be issued (if known) or maximum number which may be issued | (a) 499,335 Ordinary Shares

(b) 198,912 RSUs relating to the future issue of up to 198,912 Ordinary Shares

(c) 297,460 Options |

3	Principal terms of the +securities (e.g. if options, exercise price and expiry date; if partly paid +securities, the amount outstanding and due dates for payment; if +convertible securities, the conversion price and dates for conversion)	<p>(a)(i) 488,944 fully paid Ordinary Shares were issued in accordance with the Rules of the Xero Limited Employee Restricted Share Plan (Share Plan) as part of the remuneration package of employees based in New Zealand, Australia and the United Kingdom. Participating employees will become entitled to the Ordinary Shares in equal percentages on 31 March 2018, 31 March 2019 and 31 March 2020, subject to the terms of the Share Plan, including the continued employment of the relevant employee with the Xero Limited Group on each vesting date</p> <p>949 fully paid Ordinary Shares were issued in accordance with the Rules of the Share Plan as part of the remuneration package of employees based in New Zealand, Australia and the United Kingdom. These employees will become entitled to one-third of the Ordinary Shares immediately, one-third of the Ordinary Shares on 31 March 2018 and one-third of the Ordinary Shares on 31 March 2019, subject to the terms of the Share Plan, including the continued employment of the relevant employee with the Xero Limited Group on each vesting date</p> <p>3,546 fully paid Ordinary Shares were issued in accordance with the Rules of the Share Plan as part of the remuneration package of employees based in New Zealand, Australia and the United Kingdom. These employees will become entitled to two-thirds of the Ordinary Shares on 31 March 2018 and one-third of the Ordinary Shares on 31 March 2019, subject to the terms of the Share Plan, including the continued employment of the relevant employee with the Xero Limited Group on each vesting date</p> <p>129 fully paid Ordinary Shares were issued in accordance with the Rules of the Share Plan as part of the remuneration package of one employee based in New Zealand. This employee will become entitled to approximately one-half of the Ordinary Shares on 31 March 2018 and approximately one-half of the Ordinary Shares on 31 March 2019, subject to the terms of the Share Plan, including the continued employment of the employee with the Xero Limited Group on each vesting date</p> <p>(a)(ii) 5,767 Ordinary Shares were issued upon vesting of 7,104 RSUs granted under the Xero Limited (USA) Equity Incentive Scheme (US Scheme) as part of the remuneration package of one former employee and two employees based in the United States. The RSUs vested subject to the terms of the US Scheme</p>
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+ See chapter 19 for defined terms.

(b) 198,912 RSUs have been granted pursuant to the US Scheme, the Xero Limited Restricted Stock Unit and Option Plan (NZ) (**NZ/SG Plan**) and the Xero Limited Restricted Stock Unit and Option Plan (AU) (**AU Plan**) as part of the remuneration package of employees based in the United States, Singapore and Australia. The number of RSUs granted was calculated based on the total dollar entitlement of all eligible employees divided by NZ\$25.75, being the 20 day volume weighted average market price of Xero Limited's Ordinary Shares on the NZX Main Board through to 27 July 2017

Of these 198,912 RSUs:

- 188,063 RSUs will vest in equal percentages on 31 March 2018, 31 March 2019 and 31 March 2020, subject to the terms of the US Scheme, NZ/SG Plan and AU Plan, as applicable, including the continued employment of the relevant employee with the Xero Limited Group on each vesting date

- 5,000 RSUs will vest as follows: one-third immediately (as set out in this Appendix 3B), one-third on 31 March 2018 and one-third on 31 March 2019, subject to the terms of the US Scheme, including the continued employment of the relevant participating employee with the Xero Limited Group on each vesting date

- 5,437 RSUs will vest immediately (as set out in this Appendix 3B), subject to the terms of the US Scheme

- 412 RSUs will vest as follows: two-thirds on 31 March 2018 and one-third on 31 March 2019, subject to the terms of the US Scheme, including the continued employment of the relevant employee with the Xero Limited Group on each vesting date

(c) Grant of 297,460 Options under the US Scheme, NZ/SG Plan, AU Plan and the NZ/SG Plan and United Kingdom Appendix (**UK Plan**) as remuneration and incentive for certain key employees

240,000 Options will vest (and therefore become available for exercise) in equal percentages over a period of four years, subject to the continued employment of the respective key employee with the Xero Limited Group on each vesting date. The Options have a final exercise date of five years from the grant date

50,000 Options will vest (and therefore become available for exercise) in equal percentages over

a period of three years, subject to the continued employment of the key employee with the Xero Limited Group on each vesting date. The Options have a final exercise date of 25 October 2021

7,460 Options will vest (and therefore become available for exercise) in equal percentages over a period of three years, subject to the continued employment of the key employee with the Xero Limited Group on each vesting date. The Options have a final exercise date of four years from the grant date

4 Do the +securities rank equally in all respects from the +issue date with an existing +class of quoted +securities?

If the additional +securities do not rank equally, please state:

- the date from which they do
- the extent to which they participate for the next dividend, (in the case of a trust, distribution) or interest payment
- the extent to which they do not rank equally, other than in relation to the next dividend, distribution or interest payment

(a) Yes

(b) N/A

(c) N/A

+ See chapter 19 for defined terms.

<p>5 Issue price or consideration</p>	<p>(a)(i) NZ\$25.75 per Ordinary Share, being the 20 day volume weighted average market price of Xero Limited's Ordinary Shares on the NZX Main Board through to 27 July 2017</p> <p>(a)(ii) 5,767 Ordinary Shares were issued upon vesting of 7,104 Restricted Stock Units granted under the US Scheme as part of the remuneration package of one former employee and two employees based in the United States. 1,337 RSUs granted under the US Scheme were cancelled in connection with income tax withholding for two individuals based in the United States upon vesting of those RSUs. No cash consideration was required to be paid for these RSUs to vest</p> <p>(b) RSUs were granted at a value of NZ\$25.75 each, being the 20 day volume weighted average market price of Xero Limited's Ordinary Shares on the NZX Main Board through to 27 July 2017. No cash consideration is required to be paid for the RSUs to vest</p> <p>(c) N/A. Grant of 297,460 Options pursuant to the US Scheme, NZ/SG Plan, AU Plan and UK Plan, as remuneration for certain key employees based in the United States, New Zealand, Singapore, Australia and the United Kingdom. The exercise price is NZ\$25.75 per Option (being the 20 day volume weighted average market price of an Ordinary Share in Xero Limited on the NZX Main Board through to 27 July 2017)</p>
<p>6 Purpose of the issue (If issued as consideration for the acquisition of assets, clearly identify those assets)</p>	<p>(a)(i) Issue of 493,568 Ordinary Shares under the Share Plan as part of the remuneration package of employees based in New Zealand, Australia and the United Kingdom</p> <p>(a)(ii) 5,767 Ordinary Shares were issued upon vesting of 7,104 RSUs granted under the US Scheme as part of the remuneration package of one former employee and two employees based in the United States</p> <p>(b) Grant of 198,912 RSUs pursuant to the US Scheme, NZ/SG Plan and AU Plan as part of the remuneration package of certain employees based in the United States, Singapore and Australia</p> <p>(c) Grant of 297,460 Options under the US Scheme, NZ/SG Plan, AU Plan and UK Plan as remuneration and incentive for certain key employees</p>

6a	Is the entity an ⁺ eligible entity that has obtained security holder approval under rule 7.1A? If Yes, complete sections 6b – 6h <i>in relation to the</i> ⁺ <i>securities the subject of this Appendix 3B</i> , and comply with section 6i	N/A
6b	The date the security holder resolution under rule 7.1A was passed	N/A
6c	Number of ⁺ securities issued without security holder approval under rule 7.1	N/A
6d	Number of ⁺ securities issued with security holder approval under rule 7.1A	N/A
6e	Number of ⁺ securities issued with security holder approval under rule 7.3, or another specific security holder approval (specify date of meeting)	N/A
6f	Number of ⁺ securities issued under an exception in rule 7.2	N/A
6g	If ⁺ securities issued under rule 7.1A, was issue price at least 75% of 15 day VWAP as calculated under rule 7.1A.3? Include the ⁺ issue date and both values. Include the source of the VWAP calculation.	N/A
6h	If ⁺ securities were issued under rule 7.1A for non-cash consideration, state date on which valuation of consideration was released to ASX Market Announcements	N/A
6i	Calculate the entity's remaining issue capacity under rule 7.1 and rule 7.1A – complete Annexure 1 and release to ASX Market Announcements	N/A

⁺ See chapter 19 for defined terms.

7	<p>*Issue dates</p> <p>Note: The issue date may be prescribed by ASX (refer to the definition of issue date in rule 19.12). For example, the issue date for a pro rata entitlement issue must comply with the applicable timetable in Appendix 7A.</p> <p>Cross reference: item 33 of Appendix 3B.(a)</p>	<p>(a) 28 July 2017</p> <p>(b) 28 July 2017 (grant date)</p> <p>(c) 28 July 2017 (grant date)</p>						
8	<p>Number and *class of all *securities quoted on ASX (<i>including</i> the *securities in section 2 if applicable)</p>	<table><tr><th>Number</th><th>*Class</th></tr><tr><td>138,327,846</td><td>Ordinary Shares</td></tr></table>	Number	*Class	138,327,846	Ordinary Shares		
Number	*Class							
138,327,846	Ordinary Shares							
9	<p>Number and *class of all *securities not quoted on ASX (<i>including</i> the *securities in section 2 if applicable)</p>	<table><tr><th>Number</th><th>*Class</th></tr><tr><td>484,297</td><td>RSUs (a conditional contractual right to be issued up to 484,297 Ordinary Shares) – taking into account all forfeited RSUs to date and the grant of 198,912 RSUs and the 7,104 RSUs that have vested as set out in this Appendix 3B</td></tr><tr><td>2,426,183</td><td>Unlisted Options (convertible into Ordinary Shares on a 1:1 basis) – taking into account all forfeited options to date and the grant of 297,460 Options as set out in this Appendix 3B</td></tr></table>	Number	*Class	484,297	RSUs (a conditional contractual right to be issued up to 484,297 Ordinary Shares) – taking into account all forfeited RSUs to date and the grant of 198,912 RSUs and the 7,104 RSUs that have vested as set out in this Appendix 3B	2,426,183	Unlisted Options (convertible into Ordinary Shares on a 1:1 basis) – taking into account all forfeited options to date and the grant of 297,460 Options as set out in this Appendix 3B
Number	*Class							
484,297	RSUs (a conditional contractual right to be issued up to 484,297 Ordinary Shares) – taking into account all forfeited RSUs to date and the grant of 198,912 RSUs and the 7,104 RSUs that have vested as set out in this Appendix 3B							
2,426,183	Unlisted Options (convertible into Ordinary Shares on a 1:1 basis) – taking into account all forfeited options to date and the grant of 297,460 Options as set out in this Appendix 3B							
10	<p>Dividend policy (in the case of a trust, distribution policy) on the increased capital (interests)</p>	<p>(a) As for all Ordinary Shares</p> <p>(b) N/A</p> <p>(c) N/A</p>						

Part 2 - Pro rata issue

11	<p>Is security holder approval required?</p>	<p>N/A</p>
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12	Is the issue renounceable or non-renounceable?	N/A
13	Ratio in which the *securities will be offered	N/A
14	*Class of *securities to which the offer relates	N/A
15	*Record date to determine entitlements	N/A
16	Will holdings on different registers (or subregisters) be aggregated for calculating entitlements?	N/A
17	Policy for deciding entitlements in relation to fractions	N/A
18	Names of countries in which the entity has security holders who will not be sent new offer documents <small>Note: Security holders must be told how their entitlements are to be dealt with. Cross reference: rule 7.7.</small>	N/A
19	Closing date for receipt of acceptances or renunciations	N/A
20	Names of any underwriters	N/A
21	Amount of any underwriting fee or commission	N/A
22	Names of any brokers to the issue	N/A
23	Fee or commission payable to the broker to the issue	N/A
24	Amount of any handling fee payable to brokers who lodge acceptances or renunciations on behalf of security holders	N/A
25	If the issue is contingent on security holders' approval, the date of the meeting	N/A

+ See chapter 19 for defined terms.

26	Date entitlement and acceptance form and offer documents will be sent to persons entitled	N/A
27	If the entity has issued options, and the terms entitle option holders to participate on exercise, the date on which notices will be sent to option holders	N/A
28	Date rights trading will begin (if applicable)	N/A
29	Date rights trading will end (if applicable)	N/A
30	How do security holders sell their entitlements <i>in full</i> through a broker?	N/A
31	How do security holders sell <i>part</i> of their entitlements through a broker and accept for the balance?	N/A
32	How do security holders dispose of their entitlements (except by sale through a broker)?	N/A
33	*Issue date	N/A

Part 3 - Quotation of securities

You need only complete this section if you are applying for quotation of securities

34 Type of *securities
(tick one)

(a) ☒ (in respect of the "Ordinary Shares" described in Part 1 only, i.e. referenced throughout in paragraph "(a)")

(b) ☐ All other *securities

Example: restricted securities at the end of the escrowed period, partly paid securities that become fully paid, employee incentive share securities when restriction ends, securities issued on expiry or conversion of convertible securities

Entities that have ticked box 34(a)

Additional securities forming a new class of securities

Tick to indicate you are providing the information or documents

- 35 ☐ If the +securities are +equity securities, the names of the 20 largest holders of the additional +securities, and the number and percentage of additional +securities held by those holders
- 36 ☐ If the +securities are +equity securities, a distribution schedule of the additional +securities setting out the number of holders in the categories
1 - 1,000
1,001 - 5,000
5,001 - 10,000
10,001 - 100,000
100,001 and over
- 37 ☐ A copy of any trust deed for the additional +securities

Entities that have ticked box 34(b)

- 38 Number of +securities for which +quotation is sought
- 39 +Class of +securities for which quotation is sought
- 40 Do the +securities rank equally in all respects from the +issue date with an existing +class of quoted +securities?
- If the additional +securities do not rank equally, please state:
- the date from which they do
 - the extent to which they participate for the next dividend, (in the case of a trust, distribution) or interest payment
 - the extent to which they do not rank equally, other than in relation to the next dividend, distribution or interest payment
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+ See chapter 19 for defined terms.

41 Reason for request for quotation now

Example: In the case of restricted securities, end of restriction period

(if issued upon conversion of another +security, clearly identify that other +security)

42 Number and +class of all +securities quoted on ASX (including the +securities in clause 38)

Number	+Class

Quotation agreement

1 *Quotation of our additional *securities is in ASX's absolute discretion. ASX may quote the *securities on any conditions it decides.

2 We warrant the following to ASX.


- The issue of the *securities to be quoted complies with the law and is not for an illegal purpose.
- There is no reason why those *securities should not be granted *quotation.
- An offer of the *securities for sale within 12 months after their issue will not require disclosure under section 707(3) or section 1012C(6) of the Corporations Act.

Note: An entity may need to obtain appropriate warranties from subscribers for the securities in order to be able to give this warranty

- Section 724 or section 1016E of the Corporations Act does not apply to any applications received by us in relation to any *securities to be quoted and that no-one has any right to return any *securities to be quoted under sections 737, 738 or 1016F of the Corporations Act at the time that we request that the *securities be quoted.
- If we are a trust, we warrant that no person has the right to return the *securities to be quoted under section 1019B of the Corporations Act at the time that we request that the *securities be quoted.

3 We will indemnify ASX to the fullest extent permitted by law in respect of any claim, action or expense arising from or connected with any breach of the warranties in this agreement.

4 We give ASX the information and documents required by this form. If any information or document is not available now, we will give it to ASX before *quotation of the *securities begins. We acknowledge that ASX is relying on the information and documents. We warrant that they are (will be) true and complete.

Sign here:  Date: 31 July 2017
(~~Director~~/Company secretary)

Print name: Chaman Sidhu

+ See chapter 19 for defined terms.

Appendix 3B – Annexure 1

Calculation of placement capacity under rule 7.1 and rule 7.1A for eligible entities

Introduced 01/08/12 Amended 04/03/13

Part 1

Rule 7.1 – Issues exceeding 15% of capital	
Step 1: Calculate “A”, the base figure from which the placement capacity is calculated	
Insert number of fully paid +ordinary securities on issue 12 months before the +issue date or date of agreement to issue	
Add the following: <ul style="list-style-type: none"> • Number of fully paid +ordinary securities issued in that 12 month period under an exception in rule 7.2 • Number of fully paid +ordinary securities issued in that 12 month period with shareholder approval • Number of partly paid +ordinary securities that became fully paid in that 12 month period Note: <ul style="list-style-type: none"> • <i>Include only ordinary securities here – other classes of equity securities cannot be added</i> • <i>Include here (if applicable) the securities the subject of the Appendix 3B to which this form is annexed</i> • <i>It may be useful to set out issues of securities on different dates as separate line items</i> 	
Subtract the number of fully paid +ordinary securities cancelled during that 12 month period	
“A”	

+ See chapter 19 for defined terms.

Step 2: Calculate 15% of “A”	
“B”	0.15 <i>[Note: this value cannot be changed]</i>
Multiply “A” by 0.15	
Step 3: Calculate “C”, the amount of placement capacity under rule 7.1 that has already been used	
<p>Insert number of +equity securities issued or agreed to be issued in that 12 month period <i>not counting</i> those issued:</p> <ul style="list-style-type: none"> • Under an exception in rule 7.2 • Under rule 7.1A • With security holder approval under rule 7.1 or rule 7.4 <p>Note:</p> <ul style="list-style-type: none"> • <i>This applies to equity securities, unless specifically excluded – not just ordinary securities</i> • <i>Include here (if applicable) the securities the subject of the Appendix 3B to which this form is annexed</i> • <i>It may be useful to set out issues of securities on different dates as separate line items</i> 	
“C”	
Step 4: Subtract “C” from [“A” x “B”] to calculate remaining placement capacity under rule 7.1	
<p>“A” x 0.15</p> <p><i>Note: number must be same as shown in Step 2</i></p>	
<p>Subtract “C”</p> <p><i>Note: number must be same as shown in Step 3</i></p>	
Total [“A” x 0.15] – “C”	<i>[Note: this is the remaining placement capacity under rule 7.1]</i>

+ See chapter 19 for defined terms.

Part 2

Rule 7.1A – Additional placement capacity for eligible entities	
Step 1: Calculate “A”, the base figure from which the placement capacity is calculated	
“A” <i>Note: number must be same as shown in Step 1 of Part 1</i>	
Step 2: Calculate 10% of “A”	
“D”	0.10 <i>Note: this value cannot be changed</i>
Multiply “A” by 0.10	
Step 3: Calculate “E”, the amount of placement capacity under rule 7.1A that has already been used	
Insert number of +equity securities issued or agreed to be issued in that 12 month period under rule 7.1A Notes: <ul style="list-style-type: none"> • <i>This applies to equity securities – not just ordinary securities</i> • <i>Include here – if applicable – the securities the subject of the Appendix 3B to which this form is annexed</i> • <i>Do not include equity securities issued under rule 7.1 (they must be dealt with in Part 1), or for which specific security holder approval has been obtained</i> • <i>It may be useful to set out issues of securities on different dates as separate line items</i> 	
“E”	

+ See chapter 19 for defined terms.

Step 4: Subtract “E” from [“A” x “D”] to calculate remaining placement capacity under rule 7.1A	
“A” x 0.10 <i>Note: number must be same as shown in Step 2</i>	
Subtract “E” <i>Note: number must be same as shown in Step 3</i>	
Total [“A” x 0.10] – “E”	<i>Note: this is the remaining placement capacity under rule 7.1A</i>

+ See chapter 19 for defined terms.