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MARKET RELEASE

24 June 2016

WAIVERS FROM THE NZX MAIN BOARD LISTING RULES

Xero Limited (ASX/NZX: XRO) (**Xero**) will be holding its 2016 Annual Meeting on Wednesday 20 July 2016, at 9.00am AEST (11.00am New Zealand time), at Establishment Rooms I, II and III, Level 3, Establishment, 252 George Street, Sydney, Australia, and virtually through an online platform provided by Xero's share registrar, Link Market Services (at www.virtualmeeting.co.nz/xero2016) (the **Meeting**).

The Notice of Meeting can be found on Xero's website at www.xero.com/about/investors/announcements. In connection with Resolution 5 to be considered at the Meeting (the details of which are contained in the Notice of Meeting), Xero is relying on waivers granted by NZX in July 2014 of certain NZX Main Board Listing Rules; a copy of the relevant NZX Regulation Decision is attached to this Release.

Matt Vaughan
Company Secretary
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NZX Regulation Decision

Xero Limited (XRO)

Application for waiver from NZX Main Board Listing Rules
3.5.1 and 6.2.2

3 July 2014



Application 1 – Waiver from NZX Main Board Listing Rule 3.5.1

Decision

1. Subject to the conditions in paragraph 2 below, and on the basis that the information provided by XRO is complete and accurate in all material respects, NZX Regulation (“**NZXR**”) grants XRO a waiver from NZX Main Board Listing Rule (“**Rule**”) 3.5.1 to allow XRO to pay remuneration to its directors, in their capacities as directors, either in part or in whole by way of an issue of Options on the terms of the Share Option Scheme as set out in Appendix One, which would, upon exercise of such Options, result in an issue of Equity Securities.
2. The waiver in paragraph 1 above is provided on the following conditions:
 - a. XRO obtains shareholder approval to the issue of Options under Rule 7.3.1 specifying the maximum number of Options that can be issued and, in respect of the issue of the Options as remuneration to Chris Liddell and Bill Veghte on 12 February 2014 (the **2014 Options**), shareholder ratification under Rule 7.3.1, in each case as if the relevant Options were “Equity Securities”;
 - b. The notice of meeting to be provided to XRO shareholders to consider a resolution approving the issue of Options required pursuant to the condition in paragraph 2a. complies with the requirements of Rule 6.2 (subject to the waiver granted in paragraph 6), and is approved by NZX; and
 - c. The issue of Options other than the 2014 Options must be completed within the timeframe set out in Rule 7.3.2 as if the Options were “Equity Securities”.
3. The information on which this decision is based is set out in Appendix One to this decision. This decision will not apply if that information is not, or ceases to be, full and accurate in all material respects.
4. The relevant Rules are set out in Appendix Two to this decision.

Reasons

5. In coming to the decision to grant the waiver set out in paragraph 1 above, NZXR has considered that:
 - (a) The policy objective of Rule 3.5.1 is to ensure that Shareholders have oversight and governance of Directors’ remuneration. Rule 7.3.1 allows Equity Securities to be issued to any Director with shareholder approval. By granting this waiver, XRO shareholders will have the opportunity to consider and vote on the issue of Options as Directors’ remuneration.
 - (b) The process requiring NZX approval of the relevant notice of meeting will ensure that the notice of meeting contains adequate information for shareholders to make an informed decision.



Application 2 – Waiver from NZX Main Board Listing

Rule 6.2.2

Decision

6. Subject to the conditions in paragraph 2 above, and on the basis that the information provided by XRO is complete and accurate in all material respects, NZXR grants XRO a waiver from the requirement to prepare an Appraisal Report to accompany a notice of meeting under Rule 6.2.2 in respect of any notice of meeting provided to XRO shareholders in reliance of the waiver granted in paragraph 1 above to consider a resolution for the issue of Options on the terms of the Share Option Scheme as set out in Appendix One to Directors as remuneration.
7. The information on which this decision is based is set out in Appendix One to this decision. This decision will not apply if that information is not, or ceases to be, full and accurate in all material respects.
8. Rule 6.2.2 is set out in Appendix Two to this decision.

Reasons

9. In coming to the decision to grant the waiver set out in paragraph 4 above, NZXR has considered that:
 - a. The purpose underlying Rule 6.2.2 is to ensure that security holders being asked to vote on resolutions to approve transactions to which Rule 6.2.2 applies receive the benefit of an independent evaluation that appropriately scrutinises the merits of such transactions, to ensure that security holders are not prejudiced by transactions that are implemented by parties that will benefit from them. In this case, given the shareholders will approve the level of remuneration and the maximum number of Options that a Director can be granted and the terms of the Options will be clearly disclosed in the notice of meeting, the shareholder protection through the enforcement of the requirement for an Appraisal Report is not warranted.
 - b. The terms of the Share Option Scheme, on which the Options will be issued, have already been approved by shareholders, and the terms of Options and the terms on which those Options will be granted to a Director are not unduly complicated or difficult for XRO shareholders to understand. An Appraisal Report is not likely to assist shareholders in evaluating the terms of the Options and is unlikely to be of benefit to XRO shareholders.

ENDS.



Appendix One

1. XRO operates a share option scheme for service providers (including employees and contractors) of XRO or any related company ("**Share Option Scheme**"). Participants in the Share Option Scheme are granted options ("**Options**") to purchase ordinary shares in XRO.
2. A summary of the relevant terms of the Share Option Scheme as they would relate to a Director are as follows:
 - a. The number of Options granted to a Director will be determined by dividing the remuneration for the Director by the value of an Option at the date of the grant, such value to be determined in accordance with the Black Scholes option pricing model.
 - b. 33.3% of the Options being granted to a Director will become vested and exercisable on each of the first two anniversaries of the date of the relevant grant, and 33.4% of the Options granted will become vested and exercisable on the third anniversary of the date of the relevant grant, in each case subject to the Director's continued service as a director of XRO.
 - c. The Options may be exercised at any time, following vesting of the Options, until the first anniversary of the final vesting date in respect of the relevant grant.
 - d. The Director must pay the pre-determined price for the Shares on exercise of the Options. This exercise price for the Options will be the fair market value of a share in XRO as at the date of grant of the relevant Options.
3. On 12 February 2014, XRO issued 13,481 Options to Mr Liddell and 10,785 Options to Mr Veghte by way of remuneration in their respective capacities as non-executive directors of XRO pursuant to the Share Option Scheme, subject to shareholder approval at the next shareholders' meeting.
4. XRO intends to grant further Options to Mr Liddell and Mr Veghte in their respective capacities as non-executive directors of XRO by way of remuneration. XRO may, in the future, wish to grant Options to other directors in their capacity as a director by way of remuneration.



Appendix Two

Rule 3.5 Directors' Remuneration

3.5.1 No remuneration shall be paid to a Director of an Issuer by that Issuer or any of its Subsidiaries in his or her capacity as a Director of the Issuer or any of its Subsidiaries unless that remuneration has been authorised by an Ordinary Resolution of the Issuer, other than remuneration paid to a Director by a Subsidiary that has Equity Securities Quoted. Each such resolution shall express Directors' remuneration as either:

(a) a monetary sum per annum payable to all Directors of the Issuer taken together; or

(b) a monetary sum per annum payable to any person who from time to time holds office as a Director of the Issuer.

Such a resolution may expressly provide that the remuneration may be payable either in part or in whole by way of an issue of Equity Securities, provided that issue occurs in compliance with Rule 7.3.8.

If remuneration is expressed in accordance with (a), then in the event of an increase in the total number of Directors of the Issuer holding office, the Directors may, without the authorisation of an Ordinary Resolution of the Issuer, increase the total remuneration by such amount as is necessary to enable the Issuer to pay to the additional Director or Directors of the Issuer remuneration not exceeding the average amount then being paid to each of the other non-Executive Directors (other than the chairperson) of the Issuer.

No resolution which increases the amount fixed pursuant to a previous resolution shall be approved at a general meeting of the Issuer unless notice of the amount of increase has been given in the notice of meeting. Nothing in this Rule 3.5.1 shall affect the remuneration of Executive Directors in their capacity as executives.

Directors' remuneration for work not in the capacity of a Director of the Issuer or a Subsidiary may be approved by the Directors without Shareholder approval, subject to Rule 9.2 (if applicable).

6.2 Notices of Meeting

6.2.1 The text of any resolution to be put to a meeting of an Issuer for the purposes of Rule 7.3.1, Rule 7.3.5(c), Rule 7.5 or Rule 7.6.5 shall be set out in the notice of the relevant meeting. That notice shall be approved by NZX in accordance with Rule 6.1, and shall contain the precise terms and conditions of the specific proposal to issue, ratify the issue of, acquire, or redeem the Securities in question, or to provide financial assistance. The resolution shall not authorise any issue, acquisition, redemption or assistance which varies in any material



respect from the description in the notice. As a minimum, the notice or the papers accompanying it shall state or contain so much of the following information as is applicable:

- (a) the number of Securities to be issued, acquired, or redeemed or, if the number is not known, the formula to be applied to determine the number, and the maximum number which may be issued, acquired or redeemed; and
- (b) the purpose of the issue, acquisition or redemption; and
- (c) the issue, acquisition or redemption price, or if the price is not known, the formula to be applied to determine the price, and the time or times for payment with sufficient detail to enable Security holders to ascertain the terms of issue, acquisition or redemption to or from any party; and
- (d) the party or parties to whom the Securities are to be issued, or from whom they are to be acquired, where that is known, and in all cases identifying by name any such parties who are Directors or Associated Persons of the Issuer or any Director; and
- (e) in the case of an issue, the consideration for the issue and where that is cash, the specific purpose for raising the cash; and
- (f) the period of time within which the issue, acquisition or redemption will be made; and
- (g) in the case of an issue, the ranking of the Securities to be issued for any future benefit; and
- (h) in the case of a resolution under Rule 7.6.5 authorising the giving of financial assistance, the amount and full terms of that assistance, and the party or parties to whom that assistance is to be given, identifying by name any such parties who are Directors or Associated Persons of the Issuer or any Director.

- 6.2.2 A notice of meeting to consider a resolution of the nature referred to in Rule 6.2.1 shall be accompanied by an Appraisal Report if;
- (a) the resolution is required by Rule 7.5; or
 - (b) in the case of an issue, the issue is intended or is likely to result in more than 50% of the Securities to be issued being acquired by Directors or Associated Persons of Directors of the Issuer; or
 - (c) in the case of an acquisition or redemption or the giving of financial assistance, it is intended or likely that more than 50% of the Securities to be acquired or redeemed will be Securities held by Directors or Associated Persons of Directors of the Issuer, or that more than 50% of the total financial assistance to be given will be given to such persons.
- 6.2.3 Each notice of meeting of holders of Securities shall contain or be accompanied by sufficient explanation to enable a reasonable person to understand the effect of the resolutions proposed in the notice of meeting.
- 6.2.4 Without limiting Rule 6.2.3, notices in respect of proposed changes to a Constitution or Trust Deed shall be sufficiently explicit to enable the effect of such changes to be understood without reference to the existing or proposed Constitution or Trust Deed. The notice shall state that the changes have been approved by NZX.



- 6.2.5 If:
(a) resolution is to be proposed at a meeting of shareholders of an Issuer which is a company registered under the Companies Act 1993; and
(b) that resolution is passed, shareholders will have the right to require the Issuer to purchase their shares by virtue of section 110 or section 118 of that Act, then the notice of meeting to consider that resolution shall contain a prominent statement of the right referred to in (b).
- 6.2.6 A proxy form shall be sent with each notice of meeting of Quoted Security holders and shall:
(a) as a minimum, (so far as the subject matter and form of the resolutions reasonably permits) provide for two-way voting (for or against) on all resolutions, enabling the Quoted Security holder to instruct the proxy as to the casting of the vote; and
(b) not be sent with any name or office (e.g., chairperson of directors) filled in as proxy holder.
So far as is reasonably practicable, resolutions shall be framed in a manner which facilitates two-way voting instructions for proxy holders.

Rule 7.3 Issue of New Equity Securities

- 7.3.1 No Issuer shall issue any Equity Securities (including issue on Conversion of any other Security) unless:
(a) the precise terms and conditions of the specific proposal to issue those Equity Securities have been approved (subject to Rule 7.3.3) by separate resolutions (passed by a simple majority of Votes) of holders of each Class of Quoted Equity Securities of the Issuer whose rights or entitlements could be affected by that issue, and that issue is completed within the time specified in Rule 7.3.2; or
(b) the issue is made in accordance with any of Rules 7.3.4 to Rule 7.3.11.
- 7.3.2 An issue authorised by resolutions passed pursuant to Rule 7.3.1(a) shall be completed:
(a) if that issue is made solely to Employees within 36 months after the passing of those resolutions; or
(b) in all other circumstances, within twelve months after the passing of those resolutions.

