

Notice of 2017 Annual Meeting

12 July 2017
Sydney, Australia



Dear Shareholder

I'm pleased to invite you to attend the 2017 Annual Meeting of Xero Limited (**Xero**), to be held on Wednesday 12 July 2017, at 9am AEST (11am NZT) (the **Meeting**), at Level 3, Establishment, 252 George Street, Sydney, NSW, Australia.

Consistent with Xero's 2016 Annual Meeting, you will be able to attend the Meeting in person in Sydney, or you will be able to attend the Meeting virtually through an online platform provided by our share registrar, Link Market Services (at www.virtualmeeting.co.nz/xero2017). If you attend the Meeting virtually, you will be able to watch the Meeting live, vote, and ask questions online. Further information on how to do this is set out in the Notice of Meeting and the Virtual Annual Meeting Online Portal Guide available in the Investors section of Xero's website (www.xero.com/about/investors).

Xero's 2017 Annual Meeting will be held in Australia – recognising that Australia is Xero's largest market by both revenue and subscribers. Our New Zealand based shareholders and our increasingly global shareholder base will also be able to attend and participate in the Meeting virtually. Xero's 2016 Annual Meeting was attended virtually by over 300 shareholders across 10 different countries, making it a huge success. If you cannot attend the Meeting in person, I encourage you to make use of this technology so that we can report to you on our achievements, and answer any questions you may have about Xero or its performance.

I will open the Meeting in my capacity as Chair of the board of directors of Xero (the **Board**), and will then cover the formal business of the Meeting, which will consist of the items set out below. Further detail on these items is contained in the Explanatory Notes to the Notice of Meeting.

Following the formal business of the Meeting, Rod Drury, Xero's Chief Executive, and members of Xero's senior management team, will present on Xero's progress over the last year and the direction of Xero. We will end the Meeting by opening the floor for shareholder questions.

FORMAL BUSINESS OF THE MEETING

Auditor Remuneration

Shareholders will be asked to authorise the Board to fix the remuneration of the auditor.

Election and Re-election of Directors

Shareholders will also be asked to vote on the election of Susan Peterson as a Non-Executive Director of Xero, following her appointment by the Board in February 2017, and on the re-election of Lee Hatton who will retire by rotation at the Meeting.

I am pleased to advise that the Board unanimously supports the election of Susan Peterson and the re-election of Lee Hatton as Non-Executive Directors of Xero. You can read about their respective backgrounds in the Explanatory Notes to the Notice of Meeting. Susan and Lee will address the Meeting prior to shareholders being asked to vote on their election or re-election.

Sadly, a long-standing member of the Board, and member of the People and Remuneration Committee, Craig Elliott, will be retiring by rotation at the Meeting and not standing for re-election. Craig joined the Board in September 2012 and has made an immense contribution to Xero since that time. The Board is extremely grateful for Craig's contribution and we wish him all the best in his future endeavours.

Non-Executive Director Remuneration

Shareholders will also be asked to vote on an increase in the maximum aggregate annual remuneration that can be paid to the Non-Executive Directors from NZ\$850,000 to NZ\$1,400,000 (an increase of NZ\$550,000), and to authorise that the remuneration of Non-Executive Directors may be payable either in part or in whole by way of an issue of Equity Securities.

The current maximum aggregate annual remuneration that can be paid to Non-Executive Directors was last increased at Xero's 2014 Annual Meeting. Xero is now a significantly larger, more complex, and more global company, and this increase is seen as critical to ensure that Xero can continue to attract Directors who have the appropriate knowledge and experience relevant to growing a global technology platform. Additional information on this proposed resolution is set out in the Explanatory Notes in this booklet.

ATTENDING AT AND PARTICIPATING IN THE MEETING

If you cannot attend the Meeting (whether in person or via the online platform), I encourage you to appoint a proxy by gam AEST (11am NZT) on Monday 10 July 2017.

You can appoint a proxy by completing and lodging the accompanying Proxy Form so that it reaches our share registrar, Link Market Services, by the time set out above. Alternatively, you can securely appoint a proxy online by following the instructions on the Proxy Form.

Shareholders physically present at the Meeting or attending virtually will have the opportunity to submit questions to the Board, Xero's senior management, and Xero's auditors during the Meeting. If you would like to ask a question prior to the Meeting, please email investors@xero.com or fill in the "Email us" box on our website (www.xero.com/about/investors/contact) by gam AEST (11am NZT) on Monday 10 July 2017. The Board will endeavour to address all appropriate questions at the Meeting.

Notice of Annual Meeting of Shareholders

For those shareholders who are attending the Meeting in person, please bring the accompanying Proxy Form (Admission Card) with you to assist with your registration. You can also download the LinkVote App from the Apple App Store or Google Play Store if you would like to vote during the Meeting using a mobile phone.

At the conclusion of the Meeting, shareholders attending in person will be invited to join the Board and members of the management team for refreshments. I look forward to your attendance at the Meeting, and thank you for your ongoing support.

Sincerely,



Graham Smith
Chair

Notice is hereby given that the Annual Meeting of Shareholders of Xero Limited (**Xero**) will be held at Level 3, Establishment, 252 George Street, Sydney, NSW, Australia on Wednesday 12 July 2017, at 9am AEST (11am NZT) (the **Meeting**).

Any capitalised terms not defined below have the meaning given to them in the Explanatory Notes to the Notice of Meeting.

ITEMS OF BUSINESS

- A. The Chair's introduction
- B. Formal business and resolutions
- C. Presentation from Xero's Chief Executive and members of Xero's senior management team
- D. Shareholder questions

SHAREHOLDERS WILL BE ASKED TO CONSIDER, AND IF THOUGHT FIT, PASS THE FOLLOWING ORDINARY RESOLUTIONS:

1. That the Board is authorised to fix the remuneration of the auditor.
2. That Susan Peterson, appointed by the Board as a Director on 22 February 2017, be elected as a Director of Xero Limited.
3. That Lee Hatton, retiring from office as a Director of Xero Limited by rotation, be re-elected as a Director of Xero Limited.
4. (a) That the maximum annual remuneration able to be paid to all of the Non-Executive Directors taken together be increased from NZ\$850,000 to NZ\$1,400,000 (i.e., a NZ\$550,000 increase), with immediate effect; and (b) that such remuneration payable to Non-Executive Directors may be payable either in part or in whole by way of an issue of Equity Securities (as defined in the NZX Listing Rules).

By order of the Board.



Graham Smith
Chair

6 June 2017



Explanatory Notes

IN THESE EXPLANATORY NOTES:

- “ASX” means ASX Limited;
- “Board” means the board of directors of Xero;
- “Companies Act” means New Zealand’s Companies Act 1993;
- “Director” means a director of Xero;
- “Meeting” means this annual meeting;
- “Non-Executive Director” means a Director who is not also an employee or executive of Xero;
- “Notice of Meeting” means this notice of annual meeting of shareholders;
- “NZX” means NZX Limited;
- “NZX Listing Rules” means the NZX Main Board Listing Rules;
- “Ordinary Resolution” means a resolution passed by a simple majority of the votes of shareholders of Xero entitled to vote and voting on the resolution;
- “Share” means an ordinary share in Xero;
- “U.K.” means the United Kingdom;
- “U.S.” means the United States of America; and
- “Xero” means Xero Limited.

Resolution 1 – Fixing the Remuneration of the Auditor

Ordinary Resolution: *“That the Board is authorised to fix the remuneration of the auditor.”*

Pursuant to section 207T of the Companies Act, Ernst & Young is automatically reappointed at the Meeting as auditor of Xero. Section 207S of the Companies Act provides that the auditor’s fees and expenses must be fixed by the company or in the manner that the company determines at this Meeting. The proposed resolution, if passed by shareholders, would authorise the Board, consistent with commercial practice, to fix the remuneration of Ernst & Young as Xero’s auditor.

Resolution 2 – Election of Susan Peterson as a Director

Ordinary Resolution: “That Susan Peterson, appointed by the Board as a Director on 22 February 2017, be elected as a Director of Xero Limited.”

Susan Peterson was appointed by the Board as a Director on 22 February 2017. Under NZX Listing Rule 3.3.6, Susan is required to retire from office as a Director at this Meeting, but she offers herself for election by the shareholders. The Board unanimously supports Susan’s election.

SUSAN PETERSON

Independent, Non-Executive Director

Term of Office: Appointed by the Board as a Director on 22 February 2017

Board Committees: People and Remuneration Committee



Susan is an experienced independent director on both ASX and NZX listed companies. She is currently an independent director of listed companies Trustpower, Vista Group and Property for Industry. Susan is also a director of The New Zealand Merino Company. Susan is a member of the New Zealand Markets Disciplinary Tribunal, was a past Ministerial Appointee to The National Advisory Council for the Employment of Women and has also been a long-serving member of the Board of IHC.

Resolution 3 – Re-election of Lee Hatton as a Director

Ordinary Resolution: “That Lee Hatton, retiring from office as a Director of Xero Limited by rotation, be re-elected as a Director of Xero Limited.”

Under NZX Listing Rule 3.3.11, Lee is required to retire by rotation at this Meeting as a Director. Lee will offer herself for re-election as a Director at this Meeting, and the Board unanimously supports Lee’s re-election.

LEE HATTON

Independent, Non-Executive Director

Term of Office: Appointed as a Director on 10 April 2014, elected as a Director by Xero’s shareholders on 23 July 2014

Board Committees: Audit and Risk Management Committee (Chair), People and Remuneration Committee



Lee Hatton is the CEO of UBank and Executive General Manager of Direct Banking at National Australia Bank (NAB). With more than two decades in the financial services industry, Lee has a breadth of experience. In her current roles, Lee oversees more than 3,000 people within NAB’s Direct business and leads UBank, a digital only bank that is introducing new innovation to the financial services industry. Lee started her career as a graduate at Westpac Banking Corporation in New Zealand, and subsequently held a number of roles across the U.K. the U.S. and Australia. Lee is also currently an Executive Director of the NAB Venture Fund.

Resolution 4 – Non-Executive Director Remuneration

Ordinary Resolution: “(a) That the maximum annual remuneration able to be paid to all of the Non-Executive Directors taken together be increased from NZ\$850,000 to NZ\$1,400,000 (i.e., a NZ\$550,000 increase), with immediate effect; and (b) that such remuneration payable to Non-Executive Directors may be payable either in part or in whole by way of an issue of Equity Securities (as defined in the NZX Listing Rules).”*

*Please refer to the voting exclusions on page 16 in relation to this resolution.

INCREASE IN THE NON-EXECUTIVE DIRECTOR REMUNERATION CAP

Under Xero’s Constitution and NZX Listing Rule 3.5.1, the maximum annual remuneration that can be paid to all of the Non-Executive Directors taken together (the **Remuneration Cap**) must be approved by shareholders by way of an Ordinary Resolution. Pursuant to this requirement, Xero seeks shareholder approval to increase the Remuneration Cap from NZ\$850,000 to NZ\$1,400,000 (an increase of NZ\$550,000).

The current Remuneration Cap of NZ\$850,000 was approved in 2014. At that time, the Remuneration Cap represented 1.2% of total operating revenue for the year ended 31 March 2014. Xero is now a significantly larger, more complex, and more global company, as evidenced by Xero’s financial results for the year ended 31 March 2017. A comparison of Xero’s financial position in 2014 compared to 2017 is set out below:

At 31 March	2017	2014	% Change
Total Operating Revenue	NZ\$295.4m	NZ\$70.1m	321.4
Subscribers	1,035,000	284,000	264.4

With more than one million subscribers, over 100,000 business advisors and 500+ connected apps, Xero has established a global ecosystem, and market leadership in Australia, New Zealand and the U.K., while continuing to grow its presence in North America, South East Asia, and South Africa. Xero has built a world-class team aligned with its mission to use cloud technology to rewire the small business economy, and is ramping up its efforts in markets where it sees a substantial amount of opportunity as small businesses and the accounting industry transition to the cloud.

The increase in the Remuneration Cap is being proposed after a benchmarking process was undertaken on Non-Executive Director fees at the end of 2016 in the key geographies of New Zealand, Australia, the U.S. and the U.K. As a result of that process, it became apparent that Xero would need to increase the Remuneration Cap in order to ensure Xero can attract and retain Non-Executive Directors with the appropriate knowledge and experience relevant to growing global technology platforms, wherever these directors may be located in the world. This is seen as particularly important as Xero moves into the next stage of its growth and forges ahead on its journey toward NZ\$1 billion in revenue and beyond.

The proposed increased Remuneration Cap would represent 0.47% of total operating revenue for the year ended 31 March 2017, and it would allow the Board to recruit approximately two to three additional Non-Executive Directors in key markets, such as the U.K. or the U.S.



INCENTIVISING AND ALIGNING SHAREHOLDER INTERESTS THROUGH THE ISSUE OF EQUITY SECURITIES AS NON-EXECUTIVE DIRECTOR REMUNERATION

NZX Listing Rule 3.5.1 provides that any resolution to determine remuneration payable to Directors may expressly provide that the remuneration may be payable either in part or in whole by way of an issue of Equity Securities, without the necessity for a resolution of shareholders, provided that the issue complies with NZX Listing Rule 7.3.8.

NZX Listing Rule 7.3.8, as it applies to an issue of Shares by Xero to a Non-Executive Director requires, among other things, that:

- the Shares are issued after the end of the period (or half period) to which the remuneration of the Non-Executive Director relates; and
- the issue price of the Shares is equal to the volume weighted average market price of Shares over the 20 business days prior to the issue.

The value of the Shares at the time of issue, taken together with all other Non-Executive Director remuneration, cannot exceed the then applicable Remuneration Cap.

The Board considers it to be in Xero's interests to give the Board the discretion to remunerate Non-Executive Directors in part or in whole by way of the issue of Equity Securities rather than solely by cash.

The Board believes that providing remuneration to Non-Executive Directors in the form of Shares in consideration for their services as Directors more effectively aligns the interests of the Non-Executive Directors with those of shareholders, by giving the Non-Executive Directors an opportunity to share in the success of Xero. Non-Executive Director remuneration in this form can motivate and reward long-term decision making, with the aim of creating and maximising shareholder value over the longer term.

Xero does not intend to grant any options to acquire Shares to any Non-Executive Director as remuneration for their role as Non-Executive Director.

This part of the proposed resolution is substantively the same as the resolution passed by shareholders in 2014, allowing Xero to remunerate Directors in part or in whole by way of an issue of Equity Securities.

Important Information

VIRTUAL ANNUAL MEETING

Shareholders will be able to attend the Meeting in person, or, alternatively, will be able to attend and participate at the Meeting virtually via an online platform provided by Xero's share registrar, Link Market Services at www.virtualmeeting.co.nz/xero2017. Shareholders attending and participating in the Meeting virtually via the online platform will be able to vote and ask questions during the Meeting. More information regarding virtual attendance at the Meeting (including how to vote and ask questions during the Meeting) is available in the Virtual Annual Meeting Online Portal Guide available on the Investors section of Xero's website (www.xero.com/about/investors).

LINKVOTE APP

Shareholders attending the Meeting in person can download the LinkVote App from the Apple App Store or Google Play Store if they would like to vote during the Meeting using a mobile phone. More information on voting using a mobile phone at the Meeting can be found in the Mobile App Guide available on the Investors section of Xero's website (www.xero.com/about/investors).

PROXIES

Any shareholder who is entitled to attend and vote at the Meeting may appoint a proxy to attend and vote instead of him or her by filling out, and following the instructions on, the accompanying Proxy Form. Alternatively, you can securely appoint a proxy online by following the instructions on the Proxy Form. In order to complete the validation process to appoint a proxy online, NZX registered holders will need their common shareholder number (CSN) and Authorisation Code (FIN), and ASX registered holders will need their shareholder reference number (SRN) and postcode or country of residence. If you need to obtain these details, please contact Link Market Services. Their contact details are set out in the Proxy Form.

The person appointed as proxy is not required to be a Xero shareholder. If you are entitled to cast two or more votes at the Meeting, you may appoint two proxies and may specify the proportion or number of votes that each proxy is appointed to exercise. If you appoint a proxy, you may either direct your proxy how to vote for you or you may give your proxy discretion to vote as they see fit. If you wish to give your proxy discretion, then you must tick the appropriate boxes for each resolution to grant your proxy that discretion. If you do not tick any box for a resolution, then your instruction for your proxy will be to abstain. The Chair of the Meeting and any Director appointed as proxy intend to vote all discretionary proxies in favour of the relevant resolution (except that the Chair of the Meeting and Non-Executive Directors cannot vote such discretionary proxies on resolution 4). If you do not appoint a proxy on your Proxy Form, your Proxy Form will be invalid. If you tick more than one box for a resolution, your vote on that resolution will be invalid.

The completed Proxy Form must be received by our share registrar, Link Market Services, by no later than 9am AEST (11am NZT) on Monday 10 July 2017. Any Proxy Form received after that time will not be valid for the Meeting.

ORDINARY RESOLUTION

The formal business of the Meeting is to pass the Ordinary Resolutions set out in the preceding pages. An Ordinary Resolution is a resolution passed by a simple majority of the votes of shareholders of Xero entitled to vote and voting on the resolution.

VOTING

Voting entitlements for the Meeting will be determined as at 3pm AEST (5pm NZT) on Monday 10 July 2017. Registered shareholders at that time will be the only persons entitled to vote at the Meeting and only the Shares registered in those shareholders' names at that time may be voted at the Meeting.

VOTING EXCLUSIONS

In relation to resolution 4:

- Xero will disregard any votes cast by the Chair of the Meeting or a Non-Executive Director and any Associated Person (as defined in the NZX Listing Rules) of the Chair of the Meeting or a Non-Executive Director.
- Xero will not disregard any votes cast by the Chair of the Meeting or a Non-Executive Director as proxy for a person who is entitled to vote, in accordance with their express directions on the Proxy Form (i.e., instructions to vote for or against the resolution). However, Xero will disregard any votes cast by the Chair of the Meeting or a Non-Executive Director as proxy for a person who is entitled to vote, if the direction on the Proxy Form allows them discretion as to how to vote or if there is no direction given.

MORE INFORMATION

If you have any questions or require further information about this Notice of Meeting, please contact Xero's Company Secretary, Chaman Sidhu, at companysecretary@xero.com.



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