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17 June 2015

Dear Shareholder

I'm pleased to invite you to attend the 2015 Annual Meeting of Xero Limited (Xero), to be held on Wednesday 22 July 2015, at 4.00pm (New Zealand time), at Visa Platinum Gallery, Te Papa, 55 Cable Street, Wellington, New Zealand (the **Meeting**).

Xero's Chief Executive and Co-founder, Rod Drury, and I, in my capacity as Chair of the board of directors of Xero (the **Board**), will present to the Meeting on Xero's performance for the financial year to 31 March 2015 and the outlook for the 2016 financial year.

It has been another strong year of revenue and customer growth for Xero. We look forward to reporting both on our achievements and future plans, and answering any questions that you may have about Xero or its performance. We've also created a page to share some of our highlights over the last year. Please enjoy our 2015 Year in Review, which you can view at: www.xero.com/year-in-review/.

Following my address, we'll cover the formal business of the Meeting, which will consist of the items set out below. Further detail on these items can be found in the Explanatory Notes to the Notice of Meeting enclosed with this letter. Rod Drury will then deliver a presentation, and we will end by opening the floor for shareholder questions.

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 be asked to vote on the election of Graham Smith as a director of Xero, following his appointment by the Board in February 2015, and on the re-election of Craig Elliott and Craig Winkler as directors of Xero who will retire by rotation at the Meeting.

The Board unanimously supports the re-election of Craig Elliott and Craig Winkler, and the election of Graham Smith, as directors of Xero. You can read about their respective backgrounds in the Explanatory Notes to the Notice of Meeting enclosed with this letter. Each director being elected or re-elected will address the Meeting prior to the shareholders being asked to vote on their election.

Sadly, a long-standing member of the Board and Chair of the Audit and Risk Management Committee, Graham Shaw, will be retiring by rotation at the Meeting and not standing for re-election. Graham joined the Board in 2006, shortly after Xero's incorporation and prior to its listing on the NZX in 2007. In that time, Graham has made an immense contribution to Xero. On behalf of the Board, we are extremely grateful for Graham's contribution and wish him all the best in his future endeavours. Graham will address the Meeting prior to retiring as a director of Xero.

Grant of Options and Issue of Shares to Directors

Both Bill Veghte and I continue to feel extremely privileged to be on the Board of such an exciting company, and we have been working hard for you to drive Xero's continued success.

In accepting our roles as directors of Xero, both Bill and I, with the agreement of the Board, agreed to receive our director remuneration by way of options to subscribe for shares in Xero, rather than payment in cash. The options that are proposed to be granted to Bill and me in February 2016 as payment of our fees as directors of Xero are subject to shareholder approval, which is being sought at the Meeting. The terms relating to these options, and the detail of the proposed approval for the grant of these options, are set out in the Explanatory Notes to the Notice of Meeting enclosed with this letter. The approval being sought in relation to the proposed grant of options is substantively the same as the approval sought, and granted, at Xero's 2014 Annual Meeting in respect of options granted to Bill and me in February 2015.

In April last year, we were incredibly pleased to welcome Lee Hatton to the Board as an additional non-executive director. Lee has proven to be a very valuable addition to the Board.

Approval will be sought at the Meeting to issue ordinary shares in Xero to Lee at market value as her director remuneration, in lieu of cash. The approval being sought in relation to the proposed issue of shares is substantively the same as the approval sought, and granted, at Xero's 2014 Annual Meeting in respect of shares issued to Lee in January 2015.

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Amendments to U.S. Equity Incentive Scheme

Lastly, shareholders will be asked to consider, and if thought fit, approve two amendments to Xero's equity incentive scheme in operation in the U.S., with the effect of increasing the number of securities that may be granted under that U.S. Scheme in order to provide the Board with additional scope to incentivise Xero's U.S. employees and directors through the grant of equity in Xero. More detail on these proposed amendments is set out in the Explanatory Notes to the Notice of Meeting enclosed with this letter.

If you cannot attend the Meeting, I encourage you to complete and lodge the enclosed Proxy Form so that it reaches our share registrar, Link Market Services Limited, by 4.00pm (New Zealand time) on Monday 20 July 2015. Alternatively, you can complete the enclosed Proxy Form online by following the instructions on the Proxy Form.

For those shareholders who are attending the Meeting, please bring the enclosed Proxy/Admission Form with you to assist with your registration.

At the conclusion of the Meeting, you will be invited to join the Board and management for refreshments. I look forward to seeing you then, and thank you for your ongoing support.

Sincerely,

Chris Liddell
Chair

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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Notice is hereby given that the Annual Meeting of Shareholders of Xero Limited (**Xero**) will be held at Visa Platinum Gallery, Te Papa, 55 Cable Street, Wellington, New Zealand on Wednesday 22 July 2015 at 4.00pm (New Zealand time) (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. Chief Executive's presentation; and
- 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 Graham Smith, appointed by the Board as an additional Director on 25 February 2015, be elected as a Director of Xero Limited.
3. That Craig Elliott, retiring from office as a Director of Xero Limited by rotation, be re-elected as a Director of Xero Limited.
4. That Craig Winkler, retiring from office as a Director of Xero Limited by rotation, be re-elected as a Director of Xero Limited.
5. That the grant of options to subscribe for ordinary shares in Xero Limited to Chris Liddell and Bill Veghte, as remuneration for their roles as Directors of Xero Limited (equating to an annual value of NZ\$220,000 and NZ\$176,000 respectively), in or around February 2016, on the terms set out in the Explanatory Notes to the Notice of Meeting (i.e., on substantively the same terms as the grant of options to Chris and Bill in February 2015, which was approved at Xero's 2014 Annual Meeting), be approved, and that the issue of ordinary shares in Xero Limited to Chris and Bill upon any exercise of those options, be approved.
6. That the issue of ordinary shares in Xero Limited to Lee Hatton in lieu of cash, as remuneration for her role as a Director of Xero Limited to a value of NZ\$70,000 per annum on the terms set out in the Explanatory Notes to the Notice of Meeting, be approved.
7. That the Xero Limited (USA) Equity Incentive Scheme be amended to allow for a total of 4.4m equity securities (whether options to subscribe for ordinary shares or restricted stock units or a combination of both) to be allocated pursuant to the U.S. Scheme (the **U.S. Equity Scheme Cap**), subject to the following resolution and any adjustments made in accordance with the U.S. Scheme's provisions for certain changes in Xero Limited's capitalisation.
8. That, in calculating the number of equity securities allocated for the purpose of the U.S. Equity Scheme Cap (as defined in resolution 7), any equity securities that: (a) are allocated pursuant to the U.S. Scheme after the date of this resolution, and (b) up to 1,505,440 equity securities that were allocated pursuant to the U.S. Scheme prior to the date of this resolution; but that have, in each case, prior to exercise or vesting, as applicable, been forfeited or cancelled (including if forfeited or cancelled in connection with any tax withholding upon vesting of restricted stock units), are not to be counted in such calculation.

By order of the Board.

Chris Liddell
Chair

EXPLANATORY NOTES

In these Explanatory Notes:

“**2016 Options**” means the Options, which, subject to Xero shareholder approval, are to be granted in or around February 2016 to Chris Liddell and Bill Veghte, as their annual remuneration for acting as Directors (with a value when granted of NZ\$220,000 and NZ\$176,000 respectively) and which are the subject of resolution 5;

“**ASX**” means ASX Limited or the financial market known as the Australian Securities Exchange;

“**Board**” means the board of directors of Xero;

“**Director**” means a director of Xero;

“**Equity Securities**” has the same meaning as in the NZX Listing Rules, which includes Shares but for NZX Listing Rules purposes does not include Options;

“**Non-Executive Director**” means a Director who is not also an employee or executive of Xero;

“**NZX Listing Rules**” means the NZX Main Board Listing Rules;

“**Option**” means an option to subscribe for a Share;

“**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;

“**RSU**” or “**restricted stock unit**” means a conditional contractual right to be issued a Share;

“**Share**” means an ordinary share in Xero;

“**U.S.**” means the United States of America;

“**U.S. Scheme**” means the Xero Limited (USA) Equity Incentive Scheme, an equity incentive scheme for Xero’s employees, directors, and service providers based in the U.S.; 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.*”

The proposed resolution, if passed by shareholders, would authorise the Board to fix the remuneration of Xero’s auditor.

Resolution 2 – Election of Graham Smith as a Director

Ordinary Resolution: “*That Graham Smith, appointed by the Board as an additional Director on 25 February 2015, be elected as a Director of Xero Limited.*”

Graham was appointed by the Board as an additional Director on 25 February 2015. Under NZX Listing Rule 3.3.6 and ASX Listing Rule 14.4, Graham is required to retire from office as a Director at the Meeting and he offers himself for election by the shareholders. The Board unanimously supports Graham’s election.

GRAHAM SMITH



Independent, Non-Executive Director

Term of Office: Appointed by the Board as an additional Director on 25 February 2015

Board Committees: To be appointed as Chair of the Audit and Risk Management Committee upon Graham Shaw’s retirement as a Director at the Meeting

Graham has more than 25 years of finance experience in the software industry. He is currently Executive Vice President at Salesforce after seven years as its Chief Financial Officer where he managed the company’s financial strategy and operations through rapid growth to more than US\$5 billion annual revenue. He has held executive positions at Advent Software, Vitria Technology, Nuance Communications and Oracle.

Graham is based in California and also serves on the board of directors of Splunk, MINDBODY, and Good Technology.

Resolution 3 – Re-election of Craig Elliott as a Director

Ordinary Resolution: “That Craig Elliott, 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 and ASX Listing Rule 14.4, Craig is required to retire by rotation at the Meeting as a Director. Craig will offer himself for re-election as a Director at the Meeting, and the Board unanimously supports Craig’s re-election.

CRAIG ELLIOTT



Independent, Non-Executive Director

Term of Office: Appointed by the Board as an additional Director on 20 September 2012, elected as a Director by the shareholders on 1 August 2013

Board Committees: People and Remuneration Committee

Craig co-founded and is CEO of Pertino Networks, a cloud networking software company based in Silicon Valley. He is also a Strategic Advisor at NZTE in respect of Angel, VC and PE markets, helping guide New Zealand high-growth technology companies to enter markets in the U.S.

Craig is a previous CEO of Packeteer, taking the company from three people to IPO. Prior to that, he spent ten years at Apple in senior product and marketing roles.

Resolution 4 – Re-election of Craig Winkler as a Director

Ordinary Resolution: “That Craig Winkler, 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 and ASX Listing Rule 14.4, Craig is required to retire by rotation at the Meeting as a Director. Craig will offer himself for re-election as a Director at the Meeting, and the Board unanimously supports Craig’s re-election.

CRAIG WINKLER



Non-Independent, Non-Executive Director

Term of Office: Appointed by the Board as an additional Director on 21 May 2009, elected as a Director by the shareholders on 23 July 2009, re-elected as a Director by the shareholders on 21 July 2011 and 1 August 2013

Board Committees: Audit and Risk Management Committee, Nominations Committee

Craig co-founded Australian small business accounting software provider MYOB in 1991.

Craig went on to build up a team around him that made MYOB a popular business tool and brand in Asia, New Zealand, the USA, the UK and Ireland. In 2004, MYOB merged with Solution 6 to become Australia’s largest IT company with more than 1,000 staff globally. Craig resigned as Director and Chief Innovation Executive at MYOB in 2009.

Craig now spends the bulk of his time working in the philanthropic sector.

Resolution 5 – Approval of the 2016 Options to be granted to Chris Liddell and Bill Veghte

Ordinary Resolution: *“That the grant of options to subscribe for ordinary shares in Xero Limited to Chris Liddell and Bill Veghte, as remuneration for their roles as Directors of Xero Limited (equating to an annual value of NZ\$220,000 and NZ\$176,000 respectively), in or around February 2016, on the terms set out in the Explanatory Notes to the Notice of Meeting (i.e., on substantively the same terms as the grant of options to Chris and Bill in February 2015, which was approved at Xero’s 2014 Annual Meeting), be approved, and that the issue of ordinary shares in Xero Limited to Chris and Bill upon any exercise of those options, be approved.”**

* Please refer to the voting exclusions on page 8 in relation to this resolution.

Background

On 12 February 2014, the Board appointed Chris Liddell and Bill Veghte as additional Non-Executive Directors, with these appointments being confirmed by shareholders at Xero’s 2014 Annual Meeting.

It was agreed that, as consideration for acting as Non-Executive Directors (and in Chris Liddell’s case, as Chair of the Board), the annual remuneration payable to Chris and Bill would be NZ\$220,000 and NZ\$176,000 per annum, respectively, with such remuneration to be satisfied by the issue of Options. In compliance with the NZX Listing Rules and ASX Listing Rules, and with shareholder ratification and approval (granted at Xero’s 2014 Annual Meeting), both Chris and Bill were granted Options on 12 February 2014 and again on 12 February 2015 as remuneration for their roles as Directors for the corresponding periods.

The approval requested under this resolution is required for the grant of the 2016 Options in or around February 2016 to Chris and Bill, with such 2016 Options representing Chris’ and Bill’s annual remuneration as directors of Xero for the 12 month period to 11 February 2017. The precise number of 2016 Options to be issued is to be determined by using the Black-Scholes valuation methodology (as described below), and otherwise on the terms detailed below.

NZX Listing Rules and ASX Listing Rules

As a company that is listed on both the NZX Main Board and ASX, Xero must comply with the Listing Rules of both stock exchanges in relation to the issue of securities to Directors.

In July 2014, Xero received a waiver from the NZX of certain NZX Listing Rules to enable the Board to make grants of Options as remuneration for Non-Executive Directors. A copy of the waiver was released through Xero’s Market Announcement Platform on the NZX and ASX. The waiver is subject to the condition that shareholder approval is obtained to the terms of the Options under NZX Listing Rule 7.3.1(a), as if the Options were “Equity Securities” (as defined by the NZX Listing Rules to include Shares but not Options). This approval is being sought pursuant to proposed resolution 5.

Under the ASX Listing Rules, ASX Listing Rule 10.11 also requires that the issue of the 2016 Options to Directors be approved by Xero shareholders before the Options can be issued. This approval is being sought pursuant to this proposed resolution 5. Xero has obtained a waiver from the ASX, such that the Notice of Meeting is able to provide:

- that the 2016 Options will be granted no later than 12 months after the date of the Meeting (rather than one month after the date of the Meeting as required by ASX Listing Rule 10.13.3); and
- the formula which will be used to calculate the issue price of the 2016 Options (rather than the specific issue price as required by ASX Listing Rule 10.13.5).

Incentivising through the issue of the 2016 Options

The Board considers it to be in Xero’s interests to grant the 2016 Options as described above to Chris Liddell and Bill Veghte.

The Board believes that the grant of Options as director remuneration is an effective method of incentivising Non-Executive Directors to maximise the long-term value of Xero for shareholders as it more effectively aligns the interests of the Directors with those of shareholders, by giving the Directors an opportunity to share in the success of Xero. 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.

Further, in Xero’s offshore markets, remunerating directors by way of Options is common; particularly in the U.S. where both Chris and Bill are based. As part of Xero’s global growth strategy, it is important that the Board be able to attract and retain high quality directors that are experienced in, and knowledgeable about, Xero’s offshore markets. Being able to compensate these directors in line with the relevant market expectations is seen as fundamental to this objective.

The Board considers that Options are particularly effective as a remuneration tool as they are valuable only to the extent that the price of the underlying Shares is greater than the exercise price of the Options (the exercise price of the Options is set by reference to the market value of the underlying Shares at the time of grant of the Options as set out below).

Proposed Terms of the 2016 Options

The terms of the 2016 Options will be the same as the terms of the Options generally granted to Xero's U.S. based employees under the U.S. Scheme (other than the requirement for shareholder approval at this Meeting), with the key terms being as follows:

Options: Exercisable into Shares on a 1:1 basis.

Exercise Price: Market value of the underlying Shares on the date of issue to be in or around February 2016, based on the volume weighted average price of the underlying Shares for the 20 trading days prior to the grant of the 2016 Options.

Vesting Schedule: The 2016 Options vest, and become able to be exercised, in three equal instalments, on the first, second and third anniversaries of the date of the grant of the 2016 Options, subject to the continued service of the relevant Director on each instalment date. If either Chris Liddell or Bill Veghte ceases to hold office, any unvested 2016 Options granted to Chris Liddell or Bill Veghte, as applicable, will be cancelled.

Final Exercise Date: The date that is the fourth anniversary of the date of grant (i.e., in or around February 2020).

Value of 2016 Options: Calculated in accordance with the Black-Scholes valuation methodology, which gives an Option a "value" based on inputs that include the market price of the underlying Shares at grant date, the exercise price of the Option, the expected annualised volatility of the underlying Shares, the period from grant until final exercise date, and an annual risk-free interest rate.

Number of Options to be Granted: The number of 2016 Options to be granted to Chris Liddell and Bill Veghte will be calculated by dividing the annual remuneration of the relevant Director (i.e., NZ\$220,000 for Chris and NZ\$176,000 for Bill) by the value of a 2016 Option as at the date of grant, up to a maximum number of 50,000 2016 Options each (i.e., 100,000 Options in total). Once the maximum number of 2016 Options is reached, any remaining director remuneration will be paid in cash and not through the grant of further Options.

If this resolution is approved by shareholders, the Board intends to grant the 2016 Options in or around February 2016 to Chris Liddell and Bill Veghte as the whole of their annual director remuneration (and to issue Shares to Chris Liddell and Bill Veghte upon any exercise of vested 2016 Options), on the terms set out above, provided that such granting of Options occurs no later than the date that is 12 months following the date of the passing of this resolution, and is, in all cases, subject to the Non-Executive Director remuneration cap.

If this resolution is not approved, both Chris and Bill will be paid their respective director remuneration in cash.

Resolution 6 – Approval of the issue of Ordinary Shares to Lee Hatton

Ordinary Resolution: *"That the issue of ordinary shares in Xero Limited to Lee Hatton in lieu of cash, as remuneration for her role as a Director of Xero Limited to a value of NZ\$70,000 per annum on the terms set out in the Explanatory Notes to the Notice of Meeting, be approved."**

* Please refer to the voting exclusions on page 8 in relation to this resolution.

Background

On 10 April 2014, the Board appointed Lee Hatton as an additional Non-Executive Director, with that appointment being confirmed by shareholders at Xero's 2014 Annual Meeting. Following Lee's appointment, it was agreed that Lee's director remuneration of NZ\$70,000 would be paid by the issue of Shares, in lieu of cash. On 30 January 2015, in compliance with the NZX Listing Rules and ASX Listing Rules, and with shareholder approval (granted at Xero's 2014 Annual Meeting), Lee was issued 2,173 Shares in lieu of cash, as remuneration for her role as a Director for the preceding six month period, to a value of NZ\$35,000. Shareholder approval is now required for the issue of Shares to Lee over the course of the next 12 month period.

NZX Listing Rules and ASX Listing Rules

Under the NZX Listing Rules, and pursuant to shareholder approval obtained at Xero's 2014 Annual Meeting, the Board is able to issue Shares to Lee Hatton or other Directors as director remuneration in the manner proposed in accordance with NZX Listing Rule 7.3.8. That NZX Listing Rule requires, with respect of Shares, that any such Shares must be issued after the end of the period (or half period) to which that remuneration relates, and that the issue of such Shares must be equal to the volume weighted average market price of the Shares over the 20 business days prior to issue.

Under the ASX Listing Rules, Xero must also comply with ASX Listing Rule 10.11, which requires the issue of Shares to a Director to be approved by shareholders.

It is proposed that Shares be issued to Lee at the end of each 6-month period to which the remuneration relates (expected to be on or around 30 July 2015 and 30 January 2016). The maximum number of Shares that may be issued to Lee at the end of each such 6-month period will be calculated by dividing NZ\$35,000 (being half of Lee's total annual remuneration for her role as a Director of NZ\$70,000) by the volume weighted average market price of the Shares over the 20 business days prior to the date of issue (which will therefore be the issue price of the Shares).

Approval Sought

Shareholder approval is sought for the issue of Shares to Lee as described above, for the purpose of ASX Listing Rule 10.11.

Xero has obtained a waiver from the ASX, such that the Notice of Meeting is able to provide:

- that the issue of the Shares to Lee will occur no later than 12 months after the date of the Meeting (rather than one month after the date of the Meeting as required by ASX Listing Rule 10.13.3); and
- the formula which will be used to calculate the issue price of the Shares to be issued to Lee (rather than the specific issue price as required by ASX Listing Rule 10.13.5).

If this resolution is not approved, Lee will be paid her director remuneration in cash for the relevant period.

Resolution 7 – Amendment to the U.S. Scheme

Ordinary Resolution: *“That the Xero Limited (USA) Equity Incentive Scheme be amended to allow for a total of 4.4m equity securities (whether options to subscribe for ordinary shares or restricted stock units or a combination of both) to be allocated pursuant to the U.S. Scheme (the U.S. Equity Scheme Cap), subject to the following resolution and any adjustments made in accordance with the U.S. Scheme’s provisions for certain changes in Xero Limited’s capitalisation.”*

Background

The U.S. Scheme was established in 2012 to allow for the grant of Options to U.S. employees and directors. Options are considered an effective way of incentivising participants, as they enable participants to benefit financially if Xero is successful and its Shares become worth more than the Option exercise price (being no less than fair market value when the Options are granted).

The U.S. Scheme was amended in 2014 to allow for the grant of Restricted Stock Units (RSUs). RSUs are a conditional contractual right to be issued an equivalent number of Shares upon vesting of the RSUs. RSUs are considered an effective motivation and retention tool, and an effective way to incentivise participants in that they enable participants to benefit financially, through the issue of Shares upon vesting of the RSUs, if the participant contributes to Xero for a set period of time.

California state securities law requirements

The U.S. Scheme was approved by Ordinary Resolution at Xero’s 2012 Annual Meeting, as was required by Californian state securities law. Californian state securities law also requires that a cap on the number of securities that may be granted under the U.S. Scheme must be approved by shareholders. Accordingly, when the U.S. Scheme was approved in 2012, Xero set a maximum aggregate cap of 2.2m securities that may be granted under the U.S. Scheme over its term (being 10 years from the date of establishment, unless terminated earlier).

Under the NZX Listing Rules and ASX Listing Rules, in general terms, Xero is able to issue securities to employees, without shareholder approval, if the total number of equity securities issued to employees during the 12 months preceding the date of the issue does not exceed 3% of the aggregate of the total number of securities on issue at the commencement of that period. This rule will continue to apply to Xero, regardless of the outcome of this proposed resolution.

Approval sought

As at the date of this Notice of Meeting, 1,911,302 Options and RSUs have been allocated under the U.S. Scheme, which means that only 288,698 further new Options and RSUs can be granted before the U.S. Equity Scheme Cap of 2.2m equity securities (whether Options or RSUs) is reached.

When the U.S. Scheme was established, Xero had seven U.S.-based employees. Xero now employs over 230 U.S.-based employees. Accordingly, approval is sought to increase the U.S. Equity Scheme Cap by a further 2.2m securities (whether Options or RSUs), to 4.4m equity securities (whether Options or RSUs) that may be granted under the U.S. Scheme over its 10 year term.

The purpose of this resolution is to ensure that Xero continues to have the ability to effectively incentivise its employees and directors, and to help ensure that they continue to work towards Xero’s success.

Resolution 8 – Amendment to the U.S. Scheme

Ordinary Resolution: *“That, in calculating the number of equity securities allocated for the purpose of the U.S. Equity Scheme Cap (as defined in resolution 7), any equity securities that: (a) are allocated pursuant to the U.S. Scheme after the date of this resolution, and (b) up to 1,505,440 equity securities that were allocated pursuant to the U.S. Scheme prior to the date of this resolution; but that have, in each case, prior to exercise or vesting, as applicable, been forfeited or cancelled (including if forfeited or cancelled in connection with any tax withholding upon vesting of restricted stock units), are not to be counted in such calculation.”*

Background

Details of the U.S. Scheme and the California state securities law approval requirements are set out in the Explanatory Notes to resolution 7 above.

Forfeiting and cancelling of Options and RSUs

Under the U.S. Scheme, if an employee ceases to be employed by Xero, any unvested Options and RSUs that they hold are automatically forfeited/cancelled and any vested Options that have not been exercised within 30 days following such employee’s termination (or six months if termination is due to death or disability) are cancelled, subject to certain exceptions. Options are also cancelled if they are not exercised by the final expiry date of such Options, which is generally one year following the final vesting date of such Options.

Approval sought

Currently, all Options and RSUs that have been granted under the U.S. Scheme are counted towards the calculation of the U.S. Equity Scheme Cap detailed above in resolution 7, even if those Options or RSUs have been subsequently forfeited or cancelled.

As at 10 June 2015, there were 636,454 Options and RSUs that have been allocated pursuant to the U.S. Scheme, but that have, in each case, prior to exercise or vesting (as applicable), been forfeited or cancelled. In addition to those forfeited or cancelled Options and RSUs, there are, at the date of this Notice of Meeting, 868,986 outstanding Options and RSUs, which, in the case of Options, have either not vested or vested and not been exercised, and, in the case of RSUs, have not vested. The maximum number of equity securities that could therefore be effectively “re-allocated” pursuant to part (b) of resolution 8 above, if resolution 8 is passed by shareholders at the Meeting, would be 1,505,440 (being the total number of Options and RSUs that have been allocated pursuant to the U.S. Scheme but that have been cancelled or forfeited as at 10 June 2015 plus all outstanding Options and RSUs as at the date of this Notice of Meeting that have the potential to be cancelled or forfeited). The total number of issued Shares, at the date of this Notice of Meeting, is 136,107,864.

This resolution seeks approval for the ability for Xero to grant a number of Options or RSUs that are equivalent to the number of Options or RSUs that have been forfeited or cancelled, or that may be forfeited or cancelled, without having to count any such forfeited or cancelled Options and RSUs against the total number of equity securities (whether Options or RSUs) available under the U.S. Equity Scheme Cap referenced in resolution 7 above.

The purpose of this resolution is to ensure that Xero continues to have the ability to effectively incentivise its employees and directors, and to help ensure that they continue to work towards Xero’s success.

IMPORTANT INFORMATION

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 the enclosed 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 he/she sees fit. If you wish to give your proxy discretion then you must mark the appropriate boxes on the form to grant your proxy that discretion. 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 Chris Liddell and Bill Veghte cannot vote such discretionary proxies on resolution 5, and Lee Hatton cannot vote such discretionary proxies on resolution 6). If you do not tick any box for a particular resolution, then your instruction for your proxy will be to abstain from voting. If you do not appoint a proxy on your Proxy Form, your Proxy Form will be invalid.

The completed Proxy Form must be received by our Share Registrar, Link Market Services, no later than 4.00pm (New Zealand time) on Monday 20 July 2015. Any Proxy Form received after that time will not be valid for the Meeting.

Please refer to the instructions on the enclosed Proxy Form as to the ways in which the Proxy Form can be sent to Link Market Services, including instructions on how to appoint your proxy and vote online.

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 5.00pm (New Zealand time) on Monday 20 July 2015. 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 5:

- Xero will disregard any votes cast on that resolution by Chris Liddell and Bill Veghte and any associate (as defined in the ASX Listing Rules) or associated person (as defined in the NZX Listing Rules) of Chris or Bill.
- Xero need not disregard a vote if it is cast by Chris or Bill as proxy for a person who is entitled to vote, in accordance with the express directions (i.e., instructions to vote for or against the resolution) on the Proxy Form. Under NZX Listing Rule 9.3.3, if Chris or Bill are appointed proxy for a person who is entitled to vote, they are not entitled to vote if the direction on the Proxy Form allows them discretion as to how to vote on resolution 5 (i.e., discretion to exercise that vote as they see fit).

In relation to resolution 6:

- Xero will disregard any votes cast on that resolution by Lee Hatton and any associate (as defined in the ASX Listing Rules) or associated person (as defined in the NZX Listing Rules) of Lee.
- Xero need not disregard a vote if it is cast by Lee as proxy for a person who is entitled to vote, in accordance with the express directions (i.e., instructions to vote for or against the resolution) on the Proxy Form. Under NZX Listing Rule 9.3.3, if Lee is appointed proxy for a person who is entitled to vote, she is not entitled to vote if the direction on the Proxy Form allows her discretion as to how to vote on resolution 6 (i.e., discretion to exercise that vote as she sees fit).

MORE INFORMATION

If you have any questions or require further information in relation to this Notice of Meeting, please contact Xero's Company Secretary, Matt Vaughan, at companysecretary@xero.com.

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