

**XERO LIMITED – ANNUAL MEETING
THURSDAY 16 AUGUST 2018**

Address by the Chair, Graham Smith

Good afternoon and welcome to Xero's Annual Meeting for 2018. My name is Graham Smith and I'm the Chair of Xero's Board of Directors. I'm pleased to be here with you today for my fourth Xero Annual Meeting and second as Chair of the Board.

I'd like to begin by acknowledging the Gadigal people of the Eora Nation, who are the traditional custodians of the land on which this meeting is taking place today. We pay respect to their Elders both past and present.

I'd like to welcome shareholders who are attending the meeting in person here in Sydney, and also those joining us online.

I have some quick housekeeping points. I'd be grateful if you could please make sure your phone is switched off or on silent. If there is an emergency, please follow the emergency exit signs and instructions of the venue staff.

The Company Secretary informs me that a quorum is present and I now declare the meeting open.

I'd now like to introduce all of those up on stage.

To the right of me as you look at the stage are non-executive Directors Rod Drury, Lee Hatton, Dale Murray, Susan Peterson and Craig Winkler. Bill Veghte is in Boston and unable to attend today. He sends his apologies.

To the left of me is Xero's General Counsel and Company Secretary, Chaman Sidhu. Next to Chaman is Steve Vamos, Xero's CEO, Kirsty Godfrey-Billy, the Chief Financial Officer designate, and Sankar Narayan, current Chief Operating and Financial Officer.

We are also joined today by members of Xero's executive leadership team and other Xero colleagues, together with representatives from Xero's auditors, Ernst & Young.

The order of events for this afternoon's meeting will be as follows:

- I'll say a few words about the past year for Xero and I'll also talk about some developments in our executive remuneration structure.
- We'll then turn to the formal business and resolutions of the meeting.
- The formal business will be followed by presentations from Kirsty and Steve.

- After Kirsty and Steve have presented, I will close the meeting and invite those of you attending here in Sydney to stay for refreshments with the Xero Board and leadership team.

There will be opportunities for shareholders to ask specific questions as we address each resolution in the formal part of the meeting, and there will be an opportunity for shareholders to ask general questions following Steve's presentation.

I'll move now to my Chair's address. It's been another year of milestones for Xero as we continued to pursue our mission to rewire the global economy and execute on our strategy, connecting millions of businesses to their banks, advisors and each other.

Xero delivered another impressive set of results in the year to 31 March, including strong subscriber and revenue growth underpinned by excellent operating discipline. Our financial results included our first positive EBITDA and first positive operating cash flow numbers. Kirsty and Steve will talk about our performance in more detail in their presentations.

In addition, during the last year, we transitioned to a sole listing on the ASX and were delighted to be included in the S&P/ASX 100 index. This was a significant step forward in positioning Xero to fulfill our long-term growth ambitions by giving the company access to deeper pools of capital and creating more opportunity for large international investors to become shareholders. We're pleased that the outcomes to date have validated our decision.

There has also been a successful transition in leadership of the company. In April, Rod Drury, Xero's founder, moved into a non-executive director role and Steve Vamos commenced as CEO.

It can sometimes be a challenge to appropriately time succession for a founder-CEO, but fortunately the Board and Rod agreed that the time was right for a new executive with a different skill set to take over leadership of the business.

It's impossible to overstate Rod's achievements in taking Xero from just an idea to a global software as a service business, in a decade. The Board is delighted to continue to have access to Rod's unique strategic abilities and product vision, as a fellow non-executive Director.

The Directors are also very pleased to have seen Steve hit the ground running as CEO and we're confident he will do an amazing job for Xero.

During the year we extended Xero's market-leading position in Australia, New Zealand, and the United Kingdom, and continued to grow our presence in the Americas, South East Asia, and South Africa.

With 1.4 million subscribers and more than 700 connected apps, Xero has established an ecosystem to help millions of small businesses around the world conduct “Beautiful Business” as we move ahead into our next chapter.

I’d like to take a moment to reflect on the executive changes Xero announced more recently, with Sankar Narayan, Chief Operating and Financial Officer, moving on from Xero at the end of December and Kirsty Godfrey-Billy stepping up to become Chief Financial Officer in October.

Sankar joined Xero in 2015 and has been instrumental in building Xero’s diversified growth strategy, while also driving significant improvements in the operating performance of the company. On behalf of the board, I’d like to thank Sankar for his significant contributions to Xero and to wish him the very best in his new endeavours.

I also extend my congratulations to Kirsty for her appointment as Chief Financial Officer, effective on the 1st of October. This is a very well deserved promotion.

Earlier this month we also announced the acquisition of Hubdoc, a leading data capture solution that helps accountants, bookkeepers, and small businesses to streamline administrative tasks like financial document collection and data entry. The acquisition is a key element of Xero’s code-free accounting strategy, which enables small businesses and their advisors to focus less on paperwork and more on growing their businesses.

Over the past few years we’ve been driving global growth and extending the platform even as we managed the company towards cash flow breakeven. With that breakeven milestone in our sights, the company continues to drive growth in existing geographies and in markets that are newer for Xero, such as Asia, Canada and South Africa. At the same time, we’re also focussed on expanding the platform for small businesses and our accounting and bookkeeping partners through internal development efforts, partnerships, and M&A such as our recent acquisition of Hubdoc.

We intend to maintain our financial discipline that we have demonstrated to date, while pursuing these significant growth opportunities.

I’d like to turn now to some recent changes to executive remuneration arrangements.

With the support of our People and Remuneration Committee, and independent advice from expert consultants at PwC, the Board has this year evolved the remuneration and retention arrangements for executives.

We had a range of objectives in mind when reviewing Xero's executive remuneration structure, which you can see detailed on the screen. The goals include meeting shareholder expectations, and addressing Xero's needs as a high-growth company, as well as competing for key talent in several countries. Our remuneration structures should enable Xero to attract, retain and motivate the best people as current and future leaders of our company.

The Board has also been mindful to ensure that the new arrangements for our executives, and in particular their incentive arrangements, drive the right decisions and behaviours whilst promoting a culture of teamwork and innovation that will enable Xero to deliver sustainable growth for shareholders.

I'll turn now to the mix of executive remuneration components, with the current financial year as a focus.

We've sought to balance the mix of fixed and variable remuneration to offer competitive packages appropriately benchmarked to local market comparators, and established a target position reflecting the unique nature of Xero's rapid growth as a global business.

The short-term incentive plan, or STI, for senior executives has been evolved to include a deferred component. The STI plan allows senior executives to receive 50% of their calculated STI payment in cash at the end of a twelve month performance period, subject to performance hurdles, with the remaining 50% deferred as equity for a further twelve months. Deferred equity will take the form of restricted stock units, known as RSUs.

STI performance measures include individual and organisational performance measures you can see on the screen. Each twelve month performance period aligns with Xero's financial year, which ends on 31 March.

The long-term incentive plan, or LTI, for executives has also been evolved to replace the annual allocation of equity, or employee share plan form of LTI, that applies to Xero employees generally. Executive LTI now takes the form of a block option grant to the executive leadership team and certain executive general manager level roles. This involves granting a block of options that vest in equal portions on the second, third and fourth anniversary of the grant date. The Board believes that this four-year vesting profile will ensure that our leadership will keep an appropriate focus on making decisions for the long-term benefit of Xero, whilst also providing an additional retention incentive as the individuals must be employed by Xero at each vesting date.

I'll now detail the executive remuneration structure for our CEO, Steve Vamos. Steve's remuneration arrangements were disclosed to the market in March and May of this year, and they include fixed and performance-based variable components. In order to align incentives between the CEO and his executive team to drive long-term shareholder value, Steve will be included in the evolved remuneration structure that I just outlined. Steve's STI arrangements will now include the deferral component applying to all other senior executives. Steve's participation in the LTI executive block options plan has been reduced pro rata by 25% to reflect his existing LTI equity grants. 180,000 options will be granted to Steve this month. Steve's options will vest equally in the last two years of the plan and on the same vesting dates as the other executives, namely June 2021 and June 2022. The approach of determining the number of options on a pro rata basis, and of aligning the vesting schedule with the existing executives, will apply to any other executive who is invited in the future to participate in the LTI executive block options plan. In Steve's case, the Board also decided to align the exercise price of his options with the market price leading up to the first of April 2018, which is the beginning of Xero's financial year. This reflects the approach taken for other senior executives.

I will now cover changes to Steve's base salary. At the time of Steve's appointment, the Xero Board agreed with Steve that he should be given some time to reduce his board roles, and that his base salary as Xero's CEO would initially be set lower to recognize these additional time commitments.

On Tuesday, Telstra announced that Steve will step down from the Telstra board in October this year, after nine years of service. As a result, Steve's base salary will increase by 12.5 percent with effect from the first full pay period following his retirement from the Telstra board.

That brings me to the end of my Chair's address.

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