

XERO LIMITED
(NZBN 9429034042984)
(ARBN 160 661 183)

XERO INVESTMENTS LIMITED
(NZBN 9429047029439)

PROSPECTUS

**THIS PROSPECTUS IS BEING ISSUED IN RESPECT OF THE OFFER OF THE
OPTIONS UNDER THE CALL OPTION AGREEMENTS TO THE ELIGIBLE
PARTIES.**

IMPORTANT NOTICE

This document is important and should be read in its entirety. If after reading this Prospectus you have any questions about the securities being offered under this Prospectus or any other matter, you should consult your stockbroker, accountant or other professional adviser.

IMPORTANT NOTICES

Prospectus

This prospectus is issued by Xero Limited (NZBN 9429034042984) (ARBN160 661 183) (**Xero** or the **Company**) and Xero Investments Limited (NZBN 9429047029439) (**Xero Investments**) (together the **Issuers**) for the purposes of Part 6D of the *Corporations Act 2001* (Cth) (**Corporations Act**).

This Prospectus is in respect of an offer of the Options to acquire continuously quoted securities, issued in accordance with section 713 of the Corporations Act.

This prospectus has been prepared in respect of the offer of the Options such that the relief provided under *ASIC Corporations (Sale Offers That Do Not Need Disclosure) Instrument 2016/80* with respect to the on-sale provisions of section 707 of the Corporations Act is available. Specifically, if the Options are issued with disclosure under this Prospectus then any New Shares issued upon the exercise of any of the Options can be on-sold within 12 months of their issue (even if the New Shares were issued without disclosure or lodgement of a cleansing statement). This is because the Options are issued with disclosure and the exercise of the Option does not involve any further offer.

The information contained in this Prospectus is not investment or financial product advice and does not take into account your investment objectives, financial situation, tax position or particular needs.

It is important that the Eligible Parties read this Prospectus carefully and in its entirety before deciding whether to invest in the Options.

In particular the Eligible Parties should consider the risk factors that could affect the performance of the Group. The Eligible Parties should carefully consider these risks in light of their respective personal circumstances, investment objectives, financial situation, tax position and particular needs, and seek professional guidance from their respective stockbrokers, accountants, lawyers, financial advisers or other independent professional

advisers before deciding whether to invest in the Options.

Some of the key risk factors that should be considered by the Eligible Parties are set out in Section 2. There may be risk factors in addition to these that should be considered in light of each Eligible Party's personal circumstances.

In making representations in this Prospectus, regard has been made to the fact that the Company is a disclosing entity for the purposes of the Corporations Act and certain matters may reasonably be expected to be known to investors and professional advisers whom potential investors may consult.

Lodgement

This Prospectus is dated 27 September 2018 and a copy of this Prospectus was lodged with the Australian Securities and Investments Commission (**ASIC**) on that date.

No Options will be issued on the basis of this Prospectus any later than 13 months after the date of this Prospectus (being the expiry date of this Prospectus).

None of ASIC, the Australian Securities Exchange (**ASX**) or their respective officers take any responsibility for the contents of the Prospectus or for the merits of the investment to which this Prospectus relates.

Disclaimer

No person is authorised to give any information or make any representation in connection with the Offer which is not contained in this Prospectus. Any information or representation not so contained may not be relied on as having been authorised by any member of the Group or any of their respective affiliates, Directors, officers, employees, advisers, agents, partners, consultants or representatives, or any person with a direct or indirect equity interest in the Issuers (each a **Xero Party** and together, the **Xero Parties**), or any other person in connection with the Offer. None of the Xero Parties nor any other person warrants or guarantees the future performance of the Group or any return on any investment made pursuant to this Prospectus.

Forward-looking statements

This Prospectus may contain forward-looking statements, which are statements that may be identified by words such as “may”, “could”, “believes”, “estimates”, “expects”, “intends”, “projects”, “anticipates”, “target”, “plan”, “predict”, “propose”, “will”, “goals”, “aims”, “forecast”, “outlook”, “upside”, “likely”, “should” and other similar words that reflect, involve, or imply risks and uncertainties. Any forward-looking statements are based on an assessment of present economic and operating conditions and on a number of assumptions regarding future events and actions that, at the Prospectus Date, are expected to take place.

The Issuers do not have any present intention to update or revise forward-looking statements, or to publish prospective financial information in the future, regardless of whether new information, future events, or any other factors affect the information contained in this Prospectus, other than to the extent required by law.

Any forward-looking statements are subject to various risk factors that could cause the Group’s actual results to differ materially from the results expressed or anticipated in these statements. Such statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of the Group, the Directors and the management of the Group. Forward-looking statements should therefore be read in conjunction with, and are qualified by reference to, Section 2 and other information in this Prospectus.

None of the Xero Parties gives any assurance as to the reasonableness of any forward-looking statements contained in this Prospectus or that the results, performance or achievements expressed or implied by the forward-looking statements contained in this Prospectus will actually occur and investors are cautioned not to place undue reliance on these forward-looking statements.

Statements of past performance

This Prospectus may include information regarding the past performance of the Group. Past performance information given in this Prospectus is given for illustrative purposes only. Investors should be aware that past performance does not represent, and should not be relied upon as being indicative of, future performance.

Financial information presentation

All financial amounts contained in this Prospectus are expressed in either New Zealand dollars (**NZ\$**), United States dollars (**U.S.\$**) or Australian dollars (**A\$**) as indicated, except where stated otherwise. Any discrepancies between totals and sums of components in tables, figures and body content contained in this Prospectus are due to rounding. Tables, figures and body content contained in this Prospectus have not been amended by the Issuers to correct immaterial summation differences that may arise from this rounding convention.

The financial information in this Prospectus should be read in conjunction with, and is qualified by reference to, the information contained in Section 2 and other information in this Prospectus. Where financial information and metrics present pro forma amounts, they have been labelled “pro forma”.

No offering where it would be illegal

This Prospectus does not constitute an offer or invitation to apply for the Options in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation.

The distribution of this Prospectus (including in electronic form) outside Australia may be restricted by law and any person who comes into possession of this Prospectus outside Australia should seek advice and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws. This Prospectus may not be distributed to, or relied upon by, any person in the United States. This Prospectus does not constitute an offer to sell,

or a solicitation of an offer to buy, securities in the United States. The Options (and any New Shares issued on exercise of the Options) have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (**US Securities Act**), or the securities laws of any state or other jurisdiction of the United States, and may not be offered, sold, pledged or otherwise transferred, directly or indirectly, in the United States, or to or for the account or benefit of any person in the United States, unless the Options are registered under the US Securities Act or are offered, sold, pledged or otherwise transferred pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act or the securities laws of any state or any other jurisdiction in the United States.

The Offer is only made to the Eligible Parties.

None of the Xero Parties (and none of the officers, employees and advisers of each of their affiliates) accepts any liability or responsibility for determining whether a person is able to participate in the Offer.

Obtaining a copy of this Prospectus

An electronic copy of this Prospectus is available to the Eligible Parties resident in Australia online at <https://www.xero.com/au/about/investors/announcements/>.

The Offer constituted by this Prospectus in electronic form is only available to the Eligible Parties downloading or printing it within Australia and is not available to any other person. The Eligible Parties who access the electronic version of this Prospectus must ensure that they download and read the entire Prospectus.

A paper copy of this Prospectus is available free of charge to the Eligible Parties by contacting the Company at companysecretary@xero.com.

Applications

Applications for the Options offered under this Prospectus to Eligible Parties will be constituted (and accepted) by entry into the Call Option Agreements between Xero Investments, Xero and the relevant Eligible Parties.

No cooling-off rights

Cooling-off rights do not apply to an investment in the Options offered under this Prospectus.

Definitions and time

Defined terms and expressions used in this Prospectus are explained in the Glossary at the end of this Prospectus (see Section 5).

Unless otherwise stated or implied, references to times in this Prospectus are to Australian Eastern Standard Time (**AEST**).

Privacy

Eligible Parties may be providing personal information to the Issuers (directly or by the share registry) for the subscription of the Options (and New Shares as applicable). The Issuers may collect, hold and use that information to service Securityholder needs, facilitate distribution payments and corporate communications to Securityholders, and carry out administration.

The information may also be used from time to time and disclosed to persons inspecting the register, bidders for Securities in the context of takeovers, regulatory bodies, including the Australian Taxation Office, authorised securities brokers, print service providers, mail houses and the share registry.

Securityholders can access, correct and update the personal information the Issuers hold about them by contacting the Issuers and/or the share registry (as applicable) on the contact details set out in this Prospectus and/or on the Company's website: <https://www.xero.com/au/about/investors/>. A fee may be charged for access. Collection, maintenance and disclosure of certain

personal information is governed by legislation including the *Privacy Act 1988* (Cth) (as amended), the Corporations Act and certain rules such as the ASX Settlement Operating Rules.

Xero's website

Any reference to documents included on Xero's website, <https://www.xero.com/au/>, are for convenience only, and none of the documents or other information available on Xero's website form part of this Prospectus and are not interpreted as part of this Prospectus, or incorporated herein by reference unless expressly stated.

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1 DETAILS OF THE OFFER

1.1 Summary of the Offer

Xero Investments is separately undertaking an offer of guaranteed senior unsecured convertible notes (**Notes**) to wholesale and professional investors in various jurisdictions. The Notes are intended to be listed on the Official List of the Singapore Exchange Securities Trading Limited. An offering circular dated 27 September 2018 (the **Offering Circular**) in respect of the Notes has been prepared by the Issuers and is available on the ASX company announcements platform. The Offering Circular contains more information in respect of the Notes. This Prospectus does not relate to the offering of the Notes.

In conjunction with the issue of the Notes, Xero Investments intends to issue the Options being offered under this Prospectus to the Eligible Parties. The Offer of these Options will only be extended to the Eligible Parties. The Offer is not underwritten. The Call Option Agreements (together with other call options to be acquired by Xero Investments from the Eligible Parties) are expected generally to reduce or offset the potential dilution upon conversion of the Notes and/or offset any cash payments Xero Investments is required to make in excess of the principal amount of converted Notes, as the case may be. The Group intends to use approximately U.S.\$29.9 million of the net proceeds from the issue of the Notes to pay for the cost of the Call Option Agreements (together with other call options to be acquired by Xero Investments from the Eligible Parties).

1.2 Terms of the Options

The total number of Options being offered to the Eligible Parties is 300,000, exercisable into approximately 6.5 million New Shares, which will cover, subject to anti-dilution adjustments substantially similar to those applicable to the Notes, the equivalent number of Shares underlying the Notes. Xero will issue to the Eligible Parties one New Share for each Option exercised. The Options being offered to the Eligible Parties are exercisable at an overall average exercise price of approximately U.S.\$60.5966. The Issuers will not apply to the ASX for quotation of the Options.

Each call option agreement sets out the other rights and liabilities attaching to the Options. It is entered into between Xero Investments, the Company and each Eligible Party, and comprises call option transaction(s) involving the sale of call option(s) by Xero Investments to each Eligible Party, with an overall average exercise price equal to approximately U.S.\$60.5966 (the **Call Option Agreements**).

Each Option comprises a number of tranches, each of which can only be exercised once, and will expire, on each expiry date under the terms of the Call Option Agreements ranging from 24 May 2023 to 27 September 2023 (subject to any adjustment in accordance with the terms of the Call Option Agreements). Each tranche will be automatically exercised on its expiry date unless the relevant Eligible Party notifies Xero Investments prior to the expiration time on such date in accordance with the terms of the Call Option Agreements or the volume weighted average price per Share, as measured under the Option, is equal to or less than the exercise price with respect to such tranche. Each tranche of the Option will be settled by delivery from Xero Investments to the relevant Eligible Party of, with respect to each tranche, a number of New Shares determined by reference to the number of options exercised under that tranche, against payment by the relevant Eligible Party to Xero Investments of an amount determined by reference to the exercise price multiplied by the number of options exercised under that tranche. Such delivery of Shares at settlement will be effected by the issuance of New Shares by Xero to the Eligible Parties.

Shares issued upon the exercise of any of the Options (**New Shares**) will be fully paid and will rank equally in all respects with Xero's existing Shares on issue. A summary of the rights and liabilities attaching to the New Shares is set out in Section 3.2.

Any New Shares issued upon exercise of the Options issued under the Offer will be issued under the Company's existing placement capacity under Listing Rule 7.1.

1.3 Purpose of this Prospectus

The Options are being offered under a Prospectus to allow New Shares issued on the exercise of any of the Options to be on-sold within 12 months of their issue without a disclosure document or 'cleansing statement' being issued for those New Shares that otherwise would be required under the Corporations Act to on-sell those New Shares with 12 months of their issue.

1.4 Use of funds raised from the Offer

No funds will be raised from the Offer of the Options.

The net proceeds from the issue of the Notes will be approximately U.S.\$292.6 million, after deduction of commissions, professional fees and other administrative expenses.

Approximately U.S.\$29.9 million of the net proceeds from the issue of the Notes is expected to fund the Call Option Agreements (together with other call options to be acquired by Xero Investments from the Eligible Parties).

Any funds raised from the exercise of the Options will be used for the purposes of making payments to holders of the Notes in respect of the conversion or redemption of the Notes.

1.5 Effects of the Offer on the Issuers

(a) Effect on financial position

The Offer will have the following impacts on the financial position of the Issuers:

- (i) the costs of the Call Option Arrangements (together with other call options to be acquired by Xero Investments from the Eligible Parties) of approximately U.S.\$29.9 million and paid for by the net proceeds of the issue of the Notes; and
- (ii) the Call Option Agreements will result in a cash inflow if the relevant call options are exercised. That is, if all the Options under this Offer, being 300,000, are subscribed, and subsequently exercised, by the Eligible Parties before they expire, Xero Investments will receive approximately U.S.\$392.3 million (based on the overall average exercise price of approximately U.S.\$60.5966) in cash from the Eligible Parties, against the delivery of approximately 6.5 million New Shares by Xero Investments to the Eligible Parties.

(b) Effect on the capital structure of the Issuers

As at the date of this Prospectus, the Issuers have the following Securities on issue:

Description	Number of Securities
Ordinary shares	(a) Xero Investments: 100 (b) Company: 140,486,129 ¹
Unlisted options	(a) Xero Investments: Nil (b) Company: 3,538,821
Restricted stock units	(a) Xero Investments: Nil (b) Company: 430,746

1. Including 834,431 ordinary shares held on a restricted basis in connection with the Company's share-based compensation plans.

In connection with the offering of the Notes, Xero Investments will issue Notes to an aggregate value of US\$300 million on or around 4 October 2018.

Xero Investments will issue 300,000 Options to the Eligible Parties upon the entry into the Call Option Agreements.

The total number of Shares that will be issued if all of the Options are subscribed for and exercised is approximately 6.5 million, representing about 4.6% of the total Shares on issue at the date of this Prospectus.

1.6 Options will not be quoted

The Issuers will not apply to the ASX for quotation of the Options being offered pursuant to this Prospectus.

Xero will seek quotation of any New Shares issued upon exercise of any of the Options.

Xero Investments expects that the Options will be issued to Eligible Parties on or about 4 October 2018.

1.7 CHES

The Company participates in the Clearing House Electronic Sub-register System, known as CHES, operated by ASX Settlement Pty Limited, in accordance with the Listing Rules and ASX Settlement Operating Rules.

Under CHES, Eligible Parties upon conversion of their Options in accordance with the terms of the Call Option Agreements will not receive a certificate but will receive a statement of their holding of New Shares.

If you are broker sponsored, ASX Settlement Pty Limited will send you a CHES statement.

The CHES statement will set out the number of New Shares issued, provide details of your holder identification number, the participant identification number of the sponsor and the terms and conditions applicable to the New Shares.

If you are registered on the Issuer Sponsored sub-register, your statement will be dispatched by the Company's share registry and will contain the number of New Shares issued to you and your security holder reference number.

A CHESSE statement or Issuer Sponsored statement will routinely be sent to Shareholders at the end of any calendar month during which the balance of their shareholding changes. Shareholders may request a statement at any other time, however a charge may be made for additional statements.

1.8 Taxation implications

The Directors do not consider it appropriate to give the Eligible Parties advice regarding the taxation consequences of subscribing for the Options (and subsequent New Shares if applicable) under this Prospectus. The Issuers and their respective advisers and officers do not accept any responsibility or liability for any such taxation consequences to the Eligible Parties or potential investors. As a result, Eligible Parties should consult their professional tax adviser in connection with subscribing for the Options under this Prospectus.

1.9 Offer not made where to make the Offer would be unlawful

This Prospectus does not constitute an offer of Securities in any place in which, or to any person to whom, it would not be lawful to make such an offer.

2 RISK FACTORS

This Section 2 describes some of the potential risks associated with an investment in the Group.

An investment in the Group is subject to risks specific to the Group and its business and is also subject to general risks. Each of these risks could, if they eventuate, have a material adverse impact on the Group's business, financial position, operating and financial performance and the value of the Shares. Many of the circumstances giving rise to these risks are beyond the control of the Group and its Directors and management.

You should note that the risks described in this Section 2 are not the only risks faced by the Group. Additional risks (including risks of which the Group and its Directors are currently unaware) also have the potential to have a material adverse effect on the Group's business, financial position, operating and financial performance and the value of the Shares.

Before deciding whether to invest in the Group, you should read this Prospectus carefully and in its entirety, and satisfy yourself that you have a sufficient understanding of the actual and potential risks associated with such an investment. You should consider whether an investment in the Group is suitable for you having regard to your personal circumstances, investment objectives, financial situation, tax position and particular needs. If you do not understand any part of this Prospectus or are in any doubt as to whether to invest in the Group, you should seek professional advice from your stockbroker, accountant, lawyer, financial adviser or other independent professional adviser.

References to Xero or Xero Investments in the risk factors below include each member of the Group (unless the context requires otherwise).

2.1 Risks specific to the Call Option Agreements

The Call Option Agreements may affect the value of the Shares

In connection with establishing their initial hedges of the Call Option Agreements (see Section 3.1 for further information), the Eligible Parties may enter into various derivative transactions with respect to Shares and/or purchase Shares concurrently with or shortly after the pricing of the Notes. This activity could increase (or reduce the size of any decrease in) the market price of Shares at that time.

In addition, the Eligible Parties may modify their hedge positions by entering into or unwinding various derivatives with respect to the Shares and/or purchasing or selling the Shares or other securities of the Company in secondary market transactions following the pricing of the Notes and prior to the maturity of the Notes (and are likely to do so during any observation period related to a conversion of the Notes). This activity could also cause or avoid an increase or a decrease in the market price of the Shares.

In addition, if any such Call Option Agreements fail to become effective, whether or not the offering of the Notes is completed, the Eligible Parties may unwind their hedge positions with respect to the Shares, which could adversely affect the value of the Shares.

The Group does not make any representation or prediction as to the direction or magnitude of any potential effect that the transactions described above may have on the price of the Shares. In addition, the Group does not make any representation that the Eligible Parties will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

The Group is subject to counterparty risk with respect to the Call Option Agreements

The Eligible Parties are financial institutions, and the Group will be subject to the risk that any or all of them might default under the Call Option Agreements. The Group's exposure to the credit risk of the Eligible Parties will not be secured by any collateral. Past global economic conditions have resulted in the actual or perceived failure or financial difficulties of many financial institutions. If an Eligible Party becomes subject to insolvency proceedings, Xero Investments will become an unsecured creditor in those proceedings with a claim equal to Xero Investments' exposure at that time under the Call Option Agreements with such Eligible Party. Xero Investments' exposure will depend on many factors but, generally, an increase in Xero Investments' exposure will be correlated to an increase in the market price and in the volatility of the Shares.

In addition, upon a default by an Eligible Party, the Group may suffer adverse tax consequences and more dilution than the Group currently anticipates with respect to the Shares. The Group can provide no assurances as to the financial stability or viability of the Eligible Parties.

Xero Investments may be unable to achieve equity classification on the call spread

Xero Investments is required to account for the Call Option Agreements (together with other call options to be acquired by Xero Investments from the Eligible Parties) under the IFRS. The transactions are highly complex arrangements, and judgement is required to determine the appropriate accounting treatment under IFRS. It is expected that the Call Option Agreements will be equity classified under IFRS. However, there is a risk that the instrument could be required to be classified as a derivative liability.

Classification as a derivative liability will result in a requirement for fair value re-measurement of the instrument. Its fair value will be subject to the Company's share price and other market factors. Under this scenario, increases in the company's share price could result in material fair value losses being recognised in the Group's and Xero Investments' income statements.

2.2 Risks specific to an investment in the Group

Strategic risks

The success of the Group's business is dependent on its ability to retain existing customers and attract new customers

The Group's business depends on its ability to retain its existing customers and the Group's growth depends on its ability to attract further business from existing customers and to attract new customers.

There is a risk in the future as the Group expands its software offering that the Group's customers could reduce the use of the Group's software, for example, in terms of the number of users, number of products sold per customer and volume of transactions, which could result in a reduction in the level of payments they make to the Group. The Group generally does not require customers to enter long term contracts requiring minimum levels of usage or minimum time commitments, and the Group's customer contracts can typically be terminated by either party on one month's notice. Therefore, there is a risk that if customers terminate their contracts with the Group, or reduce their usage of the Group's software (in the future), revenue could decrease. There is also a risk that existing customers fail to expand their use of the Group's software or that new customers fail to select the Group's software for their businesses.

The Group's ability to retain and attract customers and the Group's customers' levels of usage of its products, depends on many factors including the adequacy of the Group's products with respect to matters such as functionality, reliability, availability, cost-effectiveness, pricing, customer support and value compared to competing products. In addition, customers' use of the Group's software may be affected by external factors including a slowdown in global or regional trade, competition or changes to laws and regulations which affect the Group's customers' business. If the Group's customers do not continue to use its software or increase their use over time, and if new customers do not choose to use the Group's software, the growth in the Group's revenue may slow, or the Group's revenue may decline.

The Group operates in a competitive environment that may negatively impact its operating results

Competition is and will continue to be strong in the market in which the Group operates. The Group faces risks that:

- existing competitors could increase their competitive position through aggressive marketing campaigns, product innovation, price discounting or acquisitions;
- new software products, updates, features and services may not be well received by customers or may fail to meet customer expectations and the Group may be unable to implement necessary changes to these products to improve customer satisfaction;
- the Group may fail to anticipate and respond to technology changes as quickly as its competitors;
- competitors may increase their product offering or value proposition to compete with the Group on a larger scale; and
- new competitors could develop products which compete with the Group's products.

If the Group does not continue to offer attractive products to its customers (including small businesses and accounting or bookkeeping partners), customers may choose to purchase products from the Group's competitors. The actions of an existing competitor or the entry of new competitors in the market may also have a material adverse effect on business performance.

Growth depends upon the Group's ability to capitalise on market trends and to innovate and deliver products in line with technological and customer behavioural trends

Commitment to investment in customer-led innovation and development of new products, services, features and functionality is important in maintaining and growing the Group's customer base, as well as attracting and retaining development talent. This investment is expensive and often involves an extended period of time to achieve a return on investment, of which there can be no assurance of realising. A failure to deliver in alignment with customer expectations and ahead of competitors could impact the Group's financial performance and reduce its share price. There can be no assurance that the Group will achieve the necessary technological advances or have the financial resources needed to introduce new products or services or that it will otherwise have the ability to compete effectively in the markets that it participates in. Furthermore, if the Group devotes resources to the pursuit of new technologies and products that fail to be commercially viable, all or part of these expenses related to research and development may be lost and the business may suffer.

The Group believes that it must continue to dedicate resources to its innovation efforts to develop the Group's software and technology product offering and maintain its competitive position. However, the Group may not receive significant revenues from these investments for several years, or may not realise such benefits at all.

The Group's business depends on its strong reputation and the value of its brand

The Group's brand equity is essential to ongoing growth. The Group considers its reputation for trustworthiness and integrity as important in maintaining customer goodwill and confidence for its operations and products. A range of events, including a material non-compliance with regulations or license terms, significant outage, a breach of its information systems, or other disclosure of customers' personal information, could have an adverse impact on the Group's reputation and the value of its brands. This could also increase expenditure due to additional security costs and/or potential claims for compensatory damages. Damage to the Group's reputation and reduction in brand equity may reduce customer demand and negatively impact the Group's future financial performance and could also reduce its share price.

In addition, the success of the Group's business is dependent in part on the ongoing strength of its brand. As the cloud-based accounting or small business platform industries become increasingly competitive, the Group expects that its success will be dependent in part on maintaining and enhancing its brand strength, which may become increasingly difficult and more costly. If the Group is unable to maintain and enhance the strength of its brand, then its ability to retain and expand its customer base and its attractiveness to existing and potential partners may be impaired, and its business, financial condition and results of operations will be adversely affected. In addition, maintaining and enhancing the Group's brand may require the Group to make increased investment in its business activities, which may not deliver requisite returns. If the Group does not maintain and enhance its brand successfully, or if it incurs excessive cost in this effort, the Group's business, financial condition and results of operations may be adversely affected.

The Group's intellectual property rights are valuable and any inability to protect them could reduce the value of the Group's products, services and brand

The Group has significant intellectual property rights including copyright, trademarks and patent assets which are important to its business. The Group regards its copyright, trademarks, domain names, patents, trade secrets, customer databases and similar intellectual property as critical to its success. The Group relies on a combination of copyright and trademark laws, patents, trade secret protection, confidentiality and non-disclosure agreements and other contractual provisions in order to protect its intellectual property. These efforts may not be adequate, and third parties may infringe or misappropriate the Group's proprietary rights. A material failure to obtain or protect the Group's intellectual property rights could damage the Group's business and result in increased expenses and lost revenues. The process of applying for intellectual property protection can be time-consuming and expensive. There can also be no assurance that its current or future applications will be successful. For example, consultants, vendors, former employees and current employees may breach their obligations regarding non-disclosure and restrictions on use. In addition, intellectual property laws in various jurisdictions may afford differing and limited protection, may not permit the Group to gain or maintain a competitive advantage, and may not prevent its competitors from duplicating its products or gaining access to its proprietary information and technology. In addition, a party could seek to

challenge, invalidate, circumvent or render unenforceable any of the Group's intellectual property. Such claims, whether or not valid, could require the Group to spend significant amounts in litigation, pay damages, re-brand or re-engineer products or services, acquire licenses to third party intellectual property and may turn management attention away from the business, which may have a material adverse effect on the Group's businesses, financial condition and results of operations.

The Group's financial performance is impacted by the identification and availability of attractive investment opportunities in the future

The financial performance of the Group and the returns available to its shareholders will be impacted by the identification and availability of attractive acquisition and investment opportunities in the future. Investment opportunities can be subject to market conditions and other factors outside of the control of the Group (including without limitation, commercial or regulatory changes), which may result in there being limited or unsuitable acquisition or investment opportunities at the relevant time. Additionally, if such investment opportunities are ineffective, poorly implemented or implemented later than expected, this may have a material adverse effect on the Group's performance.

The Group may not be able to integrate acquired companies or businesses successfully

The Group's corporate strategy includes growth driven by the acquisition of or investment in businesses. The Group expends significant time and management attention on integration activities, including negotiating terms of initial restructuring, training, providing know-how and business support and creating new incentive structures for management and staff. However, there is no assurance that such measures will be effective in successfully integrating the acquired companies or businesses into the Group's existing operations or to create growing profitable businesses. Delays in integration or unresolved corporate culture issues may divert management attention and resources or delay or prevent revenue growth in the Group's other investments and may therefore materially and adversely affect the Group's business, results of operations or financial position. Further, such acquisitions may involve a number of risks inherent in assessing the values, strengths, weaknesses and growth in profitability of the relevant business or assets and it is possible that unexpected problems may arise which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. No assurance can be given as to the impact of acquisitions and investments on the Group's overall financial performance in the future.

The Group may require access to additional funding for future growth

The Group may require additional funding in the future in order to maintain and/or expand its business. Under such circumstances, the Group may have to obtain banking facilities or obtain access to other forms of debt or equity financing to finance its operations and business activities. There is no certainty as to the availability of such financing facilities or that the Group would be able to obtain such additional funding on favourable terms and further interest charged on these financing facilities may have a material effect on the Group's results of operations. Any breach by the Group of covenants given in relation to such financing facilities may give rise to rights exercisable by the lenders. Such rights include, *inter alia*, terminating the relevant facilities, enforcing any security granted in relation to those banking facilities or accelerating the repayment of the outstanding loan amounts. Any such breaches may have a material and adverse impact on the Group's results of operations and financial position. If the Group is not able to secure relevant financing facilities at commercially reasonable terms, the Group may not be able to implement its future growth plans fully. In addition, offerings of

equities could also have an adverse effect on the financial position or voting power of any individual shareholder.

Operational risks

The Group needs to maintain, develop and manage business relationships or the Group's business may be negatively affected

The Group's growth is supported by its ability to develop and maintain business relationships (e.g. banks, financial institutions, ecosystem partners, accountants and bookkeepers). The Group relies on these partnerships to provide bank and other data, additional services and distribution. Failure to develop and maintain these relationships may reduce the Group's revenues and profits and cause it to lose customers.

In particular, the Group relies heavily on accountants and bookkeepers to support distribution of the Xero product to their customers. If this key relationship category was negatively impacted in some way, through for example product quality issues, the ability to attract new small business customers could be adversely impacted.

The Group also relies on third party business relationships to support business operations. The failure of these third parties to provide acceptable and sufficiently high-quality products, services and technologies or to update their products, services and technologies could result in a disruption to the Group's business operations and its customers, which may reduce the Group's revenues and profits, cause the Group to lose customers and damage its reputation.

The Group does not control the relevant third parties, who may decide to increase their prices for services or discontinue their relationship with the Group (subject to any applicable contractual arrangements). There is no assurance that the Group will be able to negotiate or maintain terms commercially acceptable to it, or put in place alternative arrangements on a timely basis.

Changes in the Group's relationships with third parties could materially and adversely affect the Group's business and operations, as well as its profitability and competitiveness.

The Group's success is dependent on its key contracts and arrangements

The Group relies on a number of key contracts and arrangements, including contracts and arrangements that relate to key operational matters such as:

- hosting the platform;
- security and access gateway for customers to access the platform;
- software relating to operating the platform;
- customer relationship management (CRM); and
- customer support.

Any failure by the Group to maintain, renew or replace key contracts and arrangements on commercially acceptable terms, or any failure by a counterparty to perform its obligations under such contracts or arrangements, could have a material adverse effect on the Group's business, operations

and financial performance. Certain key contracts and arrangements may be terminated by the counterparty for convenience, and some contracts are due to expire within the next 12 months. In these cases, the Group may not have contractual certainty in respect of the term of the relevant contract or arrangement or the operation of such contract or arrangement. As a result, these contracts and arrangements may give rise to a greater risk of unexpected termination or renegotiation of key commercial terms, or disputes.

Majority of the Group's revenue comes from small businesses which may have fewer resources to weather an economic downturn

Most of the Group's revenues come from small businesses. These customers may be materially and adversely affected by economic downturns to a greater extent than larger, more mature and established businesses. Small businesses typically have more limited financial resources, including capital-borrowing capacity, than larger entities. If small businesses experience financial hardship as a result of a weak economy, the overall demand for the Group's products and services could be significantly affected.

Security incidents, improper access to, or disclosure of the Group's data or customers' data, or other cyberattacks on the Group's or its customers' systems, could expose the Group or its customers to a risk of loss or misuse of customer data and could significantly damage the Group's brand and reputation and negatively impact its business

The Group's systems contain large amounts of customer data, as well as the data of employees, end customers, and suppliers of the Group's customers. The Group uses commercially available security technologies and processes to limit access to this data. The Group places a strong focus on developing processes to protect this data however such measures cannot guarantee absolute security.

The Group's systems may be the target of various forms of cyber attacks that could result in a data breach or temporary unavailability of the Group's platform. The Group is aware that no security system is perfect and has procedures in place to minimise the impact of any breach.

Any resulting damage to the Group's brand or reputation as a result of such unavailability or data breaches could have a material adverse effect on customer loyalty, relationships with key suppliers, employee retention rates and demand for the Group's products and services, any of which could materially and adversely impact the Group's market share and financial and operating performance.

Security measures the Group implements may not prevent all instances of unauthorised access to its systems and the Group's customers' personal data

The Group processes large amounts of personal customer data (including name, address and bank details) as part of its business and therefore must comply with strict data protection and privacy laws in jurisdictions in which it operates. Such laws may restrict the Group's ability to collect and use personal information relating to platform users and potential users including the marketing use of that information. The Group has put in place both systems and procedures and cyber security mechanisms which seek to ensure that personal customer data is handled appropriately and in compliance with applicable data protection and privacy laws. Notwithstanding these measures, the Group is exposed to the risk that, as a result of human error, cyber-crime or otherwise, personal customer data could be wrongfully appropriated, lost or disclosed, or processed in breach of data protection regulation, by or on its behalf. For example, outside parties may induce employees, customers, or users to disclose

sensitive information to gain access to the Group's systems. Inadequate use of security controls or security practices by the Group's customers or its employees could also lead to unauthorised access to data held in customer accounts. Outside parties may also use stolen identity information to gain unauthorised access to data held in customer accounts. Such an occurrence could result in the Group facing liability under data protection laws, the loss of its customers, the loss of goodwill of its customers and the deterrence of new customers, any or a combination of which could have a material adverse effect on the Group's reputation, business, financial condition and results of operations.

The Group's systems are subject to network interruption risks which could have a negative impact on the quality of the services offered by the Group and, as a result, on demand from consumers and consequently volume of revenue

The Group's ability to provide its services to its customers and to effectively operate its services depends to a great extent on the reliability and security of the information technology systems and third-party networks it uses. Information technology systems and the networks used by the Group are potentially subject to damage and interruption caused by human error, problems relating to telecommunications networks, natural disasters, sabotage, viruses and similar events. Interruptions in the system could have a negative impact on the quality of the services offered and, as a result, on demand from consumers and consequently on the volume of revenue. In addition, interruptions in the system could result in the termination of certain of the Group's licenses or contracts or lead to the incurrence of compensatory damages.

A cybersecurity incident affecting the third parties the Group relies on could expose the Group or its customers to a risk of loss or misuse of customer data and significantly damage the Group's reputation

The Group depends on third parties such as partners and vendors for the conduct of its business. The Group and/or its customers may grant access to customer data to these third parties in the ordinary course of business. While the Group assesses the security controls of these third parties, the Group cannot guarantee the effectiveness of such control measures. A cybersecurity incident involving these third parties may lead to disclosure of Group or customer data or sensitive business information. This could significantly damage the Group's reputation and cause other adverse consequences.

If the Group fails to effectively process transactions or adequately protect against potential fraudulent activities, its business may be harmed

The Group or its partners process large volumes (both in number and value) of transactions daily. Despite efforts to ensure that effective systems and controls are in place to handle these transactions appropriately, it is possible that errors may be made, or that funds may be misappropriated due to fraud.

Business interruption or failure of the Group's technology may impact the availability of the Group's products and services and may impact access to or result in loss of data of customers, which may damage its reputation and harm its future financial results

The Group's disaster recovery planning may not sufficiently anticipate eventualities. The Group's software utilises data processing and storage capabilities provided by Amazon Web Services (**AWS**). If the relevant AWS hosting region ever becomes unavailable, customers may not be able to access

some or all of the Group's platform which could significantly impact the Group's future performance and financial results.

The Group's business operations are vulnerable to damage or interruption from natural disasters, fire, computer viruses, power loss, telecommunication failures, terrorist attacks and other events beyond the Group's control. In addition, the Group's corporate headquarters are located near a seismic fault in New Zealand. In the event of a major natural or man-made disaster, the Group's insurance coverage may not completely compensate the Group for the Group's losses and its future financial results may be impacted.

The Group continually invests in its systems and software platforms to create appropriate technology architecture and to support platform availability and scalability for its rapidly growing customer base. If these investments do not deliver the desired results, the Group's operations could be disrupted, and the Group's business could be harmed

If the Group experiences prolonged delays or difficulties in upgrading the scalability of its platform and associated systems, the platform may experience outages and the Group may not be able to deliver the level of service that its customers expect. This could result in material loss of customer revenue or damage to the Group's reputation.

The Group is dependent on its key management team and skilled employees

The Group's operating and financial success will depend partly upon the performance, efforts and expertise of its people. There can be no assurance that the Group will be able to attract in sufficient numbers in the required regions, key management, operating and technical staff and/or be able to retain these individuals. Operations could be adversely affected if the Group was unable to attract such staff or were to lose key staff members which it was unable to replace with equally qualified personnel. The loss of key executives or the delay in their replacement, or the inability to attract key executives with the requisite skills and experience, could materially and adversely affect the Group's ability to implement its business strategies.

The Group's success also depends on the continued efforts and ability to hire and retain skilled professionals with the requisite software development product management and cloud-industry based technical experience. The dynamic and rapid changes in the software development industry requires the Group's skilled professionals to keep abreast of changing industry standards and trends to adapt to the changing requirements and business environment. Competition to attract such skilled professionals and personnel is intense and there is no assurance that the Group will be successful in retaining or attracting skilled professionals and the lack of availability of such skills may materially and adversely affect operations.

The Group is subject to the credit risk of its customers and counterparties

Credit risk is the risk that a customer or counterparty fails to meet its contractual obligations under a financial instrument and that this results in a loss to the Group. The Group may be exposed to counterparty credit risk arising from its operating activities.

The Group is exposed to risks involving an inadequacy or failure of its internal controls and internal audit processes

There is a risk that a failure or inadequacy of internal controls, people or procedures, or external events, may give rise to failures or disruptions in operational systems and controls. Such events may include but are not limited to fraud, security failures, unavailability of products and services, Group and customer data loss, manual processing errors and unauthorised access to systems or premises. Such failures may have an impact on the Group's reputation, ability to attract and retain customers and key personnel, and may subsequently impact upon the financial performance and position of the Group.

The Group is exposed to the foreign exchange markets

The Group's financial statements are presented in New Zealand dollars. However, a significant proportion of the Group's revenue and expenses are denominated in other currencies, most notably Australian dollars, Great British pounds and U.S. dollars. As a result, the Group's revenues are highly sensitive to movements in the exchange rate between those currencies and the New Zealand dollar where currency translation effects occur. This could diminish the impact of positive results or increase the impact of negative results recorded in the Group's financial statements. While the Group hedges a portion of its foreign currency exchange rate exposure through derivative instruments based on the Group's treasury policy, the Group does not seek to hedge all of its foreign currency exchange rate exposure. There can be no assurance that the Group's hedging activities will be successful in mitigating the impact of exchange rate fluctuations. In addition, significant volatility in exchange rates may increase the Group's hedging costs, limit its ability to hedge its exchange rate exposure, particularly against unfavourable movements in the exchange rates of certain emerging market currencies, and could have an adverse impact on the Group's results of operations, particularly the Group's profitability. Any of the factors above may have a material adverse effect on the Group's business, financial condition and results of operations.

Legal and compliance risks

The Group is subject to the risk of investigations, disputes and legal proceedings

The risk of litigation and claims is a general risk that applies across the Group's business. The Group may become involved in investigations, inquiries or disputes, debt recoveries, and contractual claims with respect to its activities with suppliers, customers and employees. The Group may also become subject to infringement claims, including patent, copyright, trade secret, and trademark infringement claims. Litigation may be required to determine the validity and scope of the intellectual property rights of others. A negative outcome from litigation or the cost of responding to potential or actual litigation or investigation can have a significant negative impact on the financial performance and reputation of the Group, and require significant management focus.

Laws and regulations regarding financial services, privacy and data protection could result in claims, regulatory impacts and changes to the Group's business processes, penalties, increased cost of doing business or otherwise harm the Group's business

Regulations relating to the provision of cloud services is evolving as governments continue to adopt or modify laws and regulations regarding data privacy, data protection, and the collection, processing, storage, transfer, use of personal data and mandatory notification of breaches of data security. In addition, there is a risk that laws and regulations that were historically formulated to regulate financial

institutions either evolve or are interpreted by regulatory authorities to apply to aspects of the Group's products and services.

Any new or altered laws or regulations which affect the Group's business could require the Group to increase spending and employee resources on regulatory compliance and/or change or restrict the Group's business practices, which could adversely affect the Group's operations and profitability. For example, to address the GDPR (EU's recently implemented General Data Protection Regulation) and other data privacy regulations, the Group has made changes to its products and business processes. If the Group fails to address these changing requirements or fails to support its customers meeting their regulatory obligations that may arise in connection with use of the Group's platform, demand for the Group's offerings could decline. In addition, the Group could incur penalties for non-compliance with these laws which may be significant.

Changes in government regulation regarding open data could impact the Group's competitive positioning and financial performance

Changes in regulation which result in more open access to banking data may impact on the Group's ability to innovate and differentiate from competitors and reduce the ability to attract new customers.

The Group is subject to government regulations and legal requirements

As a globally available SaaS platform, the Group faces ongoing legal risk arising from its exposure to a wide range of laws and regulatory requirements in various jurisdictions. There is a risk that laws, regulations and governmental agency administrative procedures may be adopted with respect to the Group's products and services, covering issues such as user privacy, the content and quality of products and services, intellectual property rights, and information security. These changes could limit the Group's proposed scope of business activities and require significant investments by the Group. In particular, changes in government regulation regarding location of data hosting and data storage may require the Group to invest in new data storage locations and may materially increase its cost base, therefore impacting the Group's financial performance. Further, there can also be no assurance that any jurisdiction in which the Group operates will not change its licensing requirements, including the terms and conditions to which any existing licences and approvals are subject, or introducing new licensing or approval requirements. If the regulatory scheme of any jurisdiction in which the Group operates in were to change its licensing or approvals requirements, the Group may be required to expend significant capital or other resources in order to comply with the new requirements and/or may be required to modify its product offering or its operations in order to comply with the new requirements and/or may not be able to meet the new requirements, any or a combination of which could have a material adverse effect on its business, financial condition and results of operations. In addition, tax and accounting laws and requirements applying to customers of the Group's platform, or changes in those laws and requirements, may impact the product functionality requirements of the Group's platform and may require significant investment by the Group. Further, any inability to meet those laws and requirements may result in loss of customers or liability to customers.

The Group utilises open source software and failure to comply with its legal terms and conditions could result in the Group being subject to significant damages and incur significant legal expenses in defending such allegations

Some of the Group's solutions incorporate and are dependent on the use and development of "open source" software. Open source software is generally licensed under open source licenses which may include a requirement that the Group make available, or grant licenses to, any modifications or derivatives works created using the open source software. If an author or other third party that uses or distributes such open source software were to allege that the Group had not complied with the legal terms and conditions of one or more of these licenses, the Group could incur significant legal expenses defending against such allegations and could be subject to significant damages.

2.3 General risks

General business risks

The Group is subject to changes in accounting policy

The Group must report and prepare financial statements in accordance with prevailing accounting standards and policies. There may be changes in these accounting standards and policies in the future which may have an adverse impact on the Group. The Group adheres to the Generally Accepted Accounting Practice in New Zealand (**NZ GAAP**) and the Group's financial statements comply with New Zealand equivalents to International Financial Reporting Standards (**NZ IFRS**), and other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS as established by the New Zealand Accounting Standards Board (**ASB**). These accounting practices, standards and notices are out of the control of the Group. From time to time, the ASB may introduce new or refined accounting standards which may affect the future measurement and recognition of key income statement or statement of financial position items. Such changes may also be as a result of harmonisation of NZ IFRS with international accounting standards. There is also a risk that interpretations of existing NZ IFRS, including those relating to the measurement and recognition of key income statement and statement of financial position items, may differ. In particular, the Group has adopted three new accounting standards from 1 April 2018, namely the IFRS 9, IFRS 15 and IFRS 16 and while the assessment of these new accounting standards remain in the preliminary stages, it is expected that these new accounting standards will impact the Group's financial results for the first half of 2018. Any changes to NZ GAAP, NZ IFRS or to the interpretation of those standards could have a material adverse effect on the financial performance and position reported in the Group's financial statements.

The Group is exposed to risks associated with the performance of the global economy and the prevailing economic and political conditions in the markets in which it operates

The Group's operating and financial performance is influenced by a variety of general economic and business conditions, including the level of inflation, interest rates, ability to access funding, oversupply and demand conditions and government fiscal, monetary and regulatory policies. Prolonged deterioration in these conditions, including an increase in interest rates or an increase in the cost of capital, could have a material adverse impact on the Group's operating and financial performance.

An outbreak or a material escalation of hostilities including a declaration of war in major countries of the world or acts of terrorism may affect the global economic and commercial environment and in turn directly or indirectly affect the Group's future revenues, operations and financial performance.

The Group is subject to changes in taxation laws

The Group's tax position is based on current tax law and an understanding of the practice of the relevant tax authorities in respect of the application of that law. An interpretation of taxation laws by the relevant tax authority that differs from the Group's view of the application of those laws may reduce the pool of tax losses available or increase the amount of tax that is payable by the Group. There is also the potential for changes to taxation law or changes in the position of tax authorities that may impact the Group's tax position, which in turn may impact the Group's financial performance. In addition, the Group may from time-to-time be subject to reviews, audits or investigation from relevant tax authorities, the outcome of which may impact the amount of tax payable by the Group and impact the financial performance of the Group.

The Group is exposed to interest rates changes

Changes in interest rates will affect borrowings which bear interest at floating rates. Any increase in interest rates will affect the Group's costs of servicing borrowings, and may affect the relative strength of the Australian dollar, New Zealand dollar and the U.S. dollar, each of which could materially and adversely affect the Group's financial performance and position.

The Group is exposed to force majeure events

Events may occur within or outside Australia that negatively impact global, Australian or other local economies relevant to the Group's financial performance, the operations of the Group and/or the price of the Shares. These events include, but are not limited to, acts of terrorism, an outbreak of international hostilities, fires, floods, earthquakes, labour strikes, civil wars, natural disasters, outbreaks of disease or other man-made or natural events or occurrences that may have a material adverse effect on the Group's ability to perform its obligations.

The Group is subject to fluctuations in the price of its Shares

The market price of the Shares will fluctuate due to various factors including general movements in interest rates, the Australian and international investment markets, economic conditions, global geopolitical events and hostilities, investor perceptions and other factors.

Trading in the Shares may not be liquid

There may be relatively few potential buyers or sellers of the Shares on the ASX at any time. This may increase the volatility of the market price of the Shares. It may also affect the prevailing market price at which Shareholders are able to sell their Shares. This may result in Shareholders receiving a market price for the Shares that is less or more than the price at which the Shareholders acquired or subscribed for the Shares.

There is no assurance that the Group will be able to pay dividends

The Company's ability to pay dividends or make other distributions in the future is contingent on its profits and certain other factors, including the capital and operational expenditure requirements of the business. Therefore, there is no assurance that dividends will be paid. Moreover, to the extent the

Company pays any dividends, its ability to offer fully imputed dividends is contingent on making taxable profits. The value of imputation credits to a shareholder will differ depending on the shareholder's particular tax circumstances.

There is no assurance that the Group's shareholders may not suffer dilution

In the future, the Company may elect to issue Shares (including pursuant to employee and management equity incentive arrangements) or engage in fundraisings including to fund acquisitions or growth initiatives that the Group may pursue. While the Company will be subject to the constraints of the Listing Rules regarding the percentage of its capital that it is able to issue within a 12 month period (other than where exceptions apply), Shareholders may be diluted as a result of such issues of Shares and fundraisings.

There is no assurance that expected future events will occur

There can be no guarantee that the assumptions and contingencies contained within forward looking statements, opinion or estimates (including projections, guidance on future earnings and estimates) will ultimately prove to be valid or accurate. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance and achievements of the Group to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

3 ADDITIONAL INFORMATION

3.1 Eligible Party activities

In connection with establishing their initial hedges of the Call Option Agreements, the Eligible Parties or their respective affiliates may enter into various derivative transactions with respect to and/or purchase Shares concurrently with or shortly after the pricing of the Notes. This activity could increase (or reduce the size of any decrease in) the market price of the Shares at that time.

The Eligible Parties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to the Shares and/or by purchasing or selling Shares or other securities of the Company in secondary market transactions following the pricing of the Notes and prior to the maturity of the Notes. This activity could also cause or avoid an increase or a decrease in the market price of the Shares.

For a discussion of the potential impact of any market or other activity by the Eligible Parties in connection with the Call Option Agreements, see Section 2.1.

3.2 Rights and liabilities attached to Shares

Any New Shares issued upon the exercise of the Options will rank equally in all respects with existing Shares.

Full details of the rights and liabilities attaching to the Shares are set out in the Company's constitution (**Constitution**), a copy of which can be inspected, free of charge, at the registered office of the Company at 19-23 Taranaki Street, Te Aro, Wellington, 6011 New Zealand during normal business hours.

The following is a broad summary of the rights, privileges and restrictions attaching to all Shares. This summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of holders of Shares. These rights and liabilities can involve complex questions of law arising from an interaction of the Constitution with statutory and common law requirements. For a Shareholder to obtain a definitive assessment of the rights and liabilities which attach to Shares in any specific circumstances, the Shareholder should seek legal advice.

Voting

Subject to the Constitution and to any rights/restrictions attached to any shares, at meetings of the Company's shareholders, each shareholder is entitled to receive notice of, and, if they are entitled to vote at the meeting, attend and vote at, general meetings of the Company.

General meetings and notices

Written notice of the time, date and place of a meeting of shareholders must be sent to every shareholder entitled to receive notice of the meeting and to every Director and the auditor of the Company not less than 10 working days before the meeting.

Dividends

The Company's Directors may pay interim and final dividends in accordance with the Companies Act and the Listing Rules.

The payment of a dividend does not require confirmation by a general meeting of the Company.

Subject to the rights of holders of any shares or other equity securities which confer special rights as to dividends, each ordinary share in the Company confers on the holder the right to an equal share in dividends authorised by the Board.

Issue of further shares

Subject to the Constitution, the Listing Rules and the Companies Act, the Company's Directors have the right to issue shares (including preference shares) or to grant options to any person and in any number they think fit.

Transfer of the Company's Shares

Subject to the Constitution, the Companies Act, the Listing Rules or the ASX Settlement Operating Rules, the Company's Shares are freely transferable. Subject to the Constitution, the Companies Act, the Listing Rules or the ASX Settlement Operating Rules, the Company's Directors may decline to register a transfer of the Company's Shares if:

- the Company has a lien on any of the shares;
- the transfer is not accompanied by the certificate (if any) for the shares to which it relates or other evidence as the Board or the Company's share registrar may reasonably require to show the right of the transferor to make the transfer;
- the Company is served with a court order that restricts the holder's capacity to transfer the shares;
- registration of the transfer may break an Australian law;
- if the transfer is paper-based, a law relating to stamp duty prohibits the Company from registering it;
- the transfer does not comply with the terms of an employee equity incentive scheme or plan of the Company;
- the holder has agreed in writing to the application of a holding lock; or
- the transfer is in breach of the Listing Rules.

Winding up

Subject to the rights of holders of any shares or other equity securities which confer special rights as to surplus assets, each ordinary share in the Company confers on the holder the right to an equal share in the distribution of surplus assets of the Company.

Upon the liquidation of the Company the surplus assets of

the Company (if any) must be distributed among the shareholders in proportion to their shareholding.

With the approval of the shareholders of the Company, the liquidator may divide among the Company's shareholders the whole or any part of the surplus assets of the Company and may attribute values to assets as the liquidator considers appropriate and determine how the division is to be carried out as between the shareholders or difference classes of shareholders.

Alteration of capital

The Company may buy back its shares in any manner authorised or permitted by the Constitution, the Companies Act and Listing Rules.

3.3 Company is a disclosing entity

This Prospectus is a transaction-specific prospectus for the offer of the Options to acquire continuously quoted securities (within the meaning of the Corporations Act) and is issued and has been prepared pursuant to section 713 of the Corporations Act. Accordingly, this Prospectus does not contain the same level of disclosure as an initial public offering prospectus.

The Company is a disclosing entity under the Corporations Act. It is subject to regular reporting and disclosure obligations under both the Corporations Act and the Listing Rules. These obligations require the Company to notify ASX of information about specific events and matters as they arise for the purpose of ASX making the information available to the securities market conducted by ASX. In particular, the Company has an obligation under the Listing Rules (subject to certain limited exceptions), to notify ASX once it is, or becomes aware of information concerning the Company which a reasonable person would expect to have a material effect on the price or value of the Shares. In making representations in this Prospectus regard has been had to the fact that the Company is a disclosing entity for the purposes of the Corporations Act and certain matters may reasonably be expected to be known to investors and professional advisers whom potential investors may consult.

Copies of documents lodged with ASIC (as applicable) in relation to the Company may be obtained from, or inspected at, an ASIC office. Copies of all documents announced to the ASX can be found at <https://www.xero.com/au/about/investors/announcements/>.

The Issuers will provide to any Eligible Party, on request and free of charge, a copy of each of the following documents:

- (a) the annual financial report of the Company for the financial year ended 31 March 2018, being the most recent annual report of the Company before the issue of this Prospectus; and
- (b) any documents used to notify ASX of information relating to the Company in the period from lodgement of the annual financial report referred to above until lodgement of the Prospectus with ASIC, in accordance with the Listing Rules as referred to in section 674(1) of the Corporations Act (such notices are listed below).

The Company has lodged the following announcements with ASX since the date of the lodgement of the 2018 annual report:

Date	Description of announcement
27 September 2018	Xero successfully prices convertible notes
26 September 2018	Xero Announces Convertible Notes Offering
26 September 2018	Xero Trading Update
7 September 2018	Appendix 3B
3 September 2018	Appendix 3B
30 August 2018	Ceasing to be a substantial holder
30 August 2018	Appendix 3B
28 August 2018	Change in substantial holding
28 August 2018	Becoming a substantial holder
23 August 2018	Appendix 3B
16 August 2018	New Constitution
16 August 2018	Results of Meeting
16 August 2018	Annual Meeting 2018 – Presentation
16 August 2018	Annual Meeting 2018 – Chair’s Address to Shareholders
16 August 2018	Appendix 3B
9 August 2018	Appendix 3B
3 August 2018	Secondary Trading Notice
3 August 2018	Appendix 3B
2 August 2018	Appendix 3B
1 August 2018	Xero acquires Hubdoc

20 July 2018	Strategic Alliance with Gusto for US Payroll
13 July 2018	Xero 2018 Notice of Annual Meeting & Proxy Form
13 July 2018	Xero 2018 Financial Assistance Disclosure Notice
12 July 2018	Appendix 3B
10 July 2018	Xero announces executive changes
29 June 2018	Appendix 3B
18 June 2018	Appendix 3Y – Craig Winkler
14 June 2018	Appendix 3B
7 June 2018	Appendix 3B
4 June 2018	Appendix 3B
30 May 2018	Appendix 3Y – Bill Veghte
29 May 2018	Appendix 3Y – Lee Hatton
25 May 2018	Secondary Trading Notice
25 May 2018	Appendix 3B
22 May 2018	Appendix 3Y – Lee Hatton
21 May 2018	Appendix 3Y – Craig Winkler
17 May 2018	Appendix 3B
10 May 2018	Xero Shareholder Letter 10 May 2018
10 May 2018	Xero Appendix 4G Annual Report 2018

Refer to the ASX website www.asx.com.au (ASX code: XRO), or the Company's website <https://www.xero.com/au/about/investors/announcements/> to read these announcements in full. Any reference to documents included on Xero's website, <https://www.xero.com/au/>, are for convenience only, and none of the documents or other information available on Xero's website form part of this Prospectus and are not interpreted as part of this Prospectus, or incorporated herein by reference unless expressly stated.

3.4 Information excluded from continuous disclosure notices

As at the date of this Prospectus, there is no information that has not been disclosed under the continuous disclosure requirements of the Listing Rules in accordance with the exceptions in the Listing Rules and which, in the Board's opinion, investors and their professional advisers would reasonably require in order to assess the Company's assets and liabilities, financial position and performance, profits and losses and prospects or the rights and liabilities attaching to the Options and which would be reasonable for investors and their professional advisers to expect to find in this Prospectus.

3.5 Determination by ASIC

ASIC has not made a determination which would prevent the Issuers from relying on section 713 of the Corporations Act in issuing the Options under this Prospectus.

3.6 Market price of the Shares

The highest and lowest market closing prices of the Shares on ASX during the 3 months immediately preceding the date of lodgement of this Prospectus with ASIC and the respective dates of those sales were:

- highest: A\$52.34 per Share on 30 August 2018; and
- lowest: A\$42.80 per Share on 31 July 2018.

The latest available market closing price of the Shares on ASX prior to the date of lodgement of this Prospectus with ASIC was A\$49.69 per Share on 26 September 2018.

3.7 Dividend policy

Neither the Company nor Xero Investments has ever declared or paid any dividends on its Securities. The Group does not have any present intention to pay cash dividends on its shares in the foreseeable future. The Group currently intends to invest its future earnings, if any, to fund its growth. However, any future determination as to the declaration and payment of dividends will be at the discretion of the Company and Xero Investments' Board of Directors and will depend on Group's financial condition, operating results, contractual restrictions, capital requirements, business prospects and other factors the Company and Xero Investments' Board of Directors may deem relevant.

3.8 Interests of Directors

Other than as set out below, in this section or elsewhere in this Prospectus, no Director or any entity in which a Director is a partner or director, has or has had in the two years before the date of this Prospectus, any interest in:

- (a) the formation or promotion of the Issuers;
- (b) property acquired or proposed to be acquired by the Issuers in connection with its formation or promotion of the Offer; or
- (c) the Offer,

and no amounts have been paid or agreed to be paid (in cash or Shares or otherwise) and no other benefit has been given or agreed to be given to any Director or to any entity in which a Director is a partner or a director, either to induce him or her to become, or qualify as, a Director or otherwise for

services rendered by him or her or by the entity in connection with the formation or promotion of the Issuers or the Offer.

Givia Pty Ltd (a trustee of an Australian charitable trust), an existing shareholder of Xero, intends to enter into stock borrowing arrangements (as the lender) with one or more Eligible Parties pursuant to which it will lend up to 1,000,000 Shares, for which Givia Pty Ltd may receive a lending fee. Craig Winkler, a director of Xero, is a director of Givia Pty Ltd; he and his family members are not beneficiaries of the trust.

3.9 Interests in existing Securities

As at the date of this Prospectus the Directors have a direct or indirect interest in the following Securities of the Issuers:

Director	Number of Shares in Xero	Number of options	Restricted stock units
Rod Drury	17,719,779 ¹	-	-
Lee Hatton	6,700	-	-
Dale Murray	-	-	-
Susan Peterson	562	-	-
Graham Smith	-	-	-
Bill Veghte	50,145 ²	55,260 ²	-
Craig Winkler	13,025,990 ³	-	-
Kirsty Godfrey-Billy	3,833 ⁴	140,000 ⁴	3,051

1. Shares are held by Rodanna Ventures Trust. Rodney Kenneth Drury, Anna Margaret Clare Drury and Scott Moran are the trustees.

2. 27,117 Shares are held by National Financial Services LLC on behalf of Bean Brook Farm 2013 Annuity Trust. Bill Veghte is the trustee of the trust. 23,028 Shares are held directly by Bill Veghte. 45,416 of the options granted to Bill Veghte have vested (meaning that they are capable of being exercised). None of the options have been exercised as at 26 September 2018.

3. 13,004,545 Shares are held by Givia Pty Limited, the trustee of an Australian charitable trust. Craig Winkler is a director of Givia Pty Limited; he and his family members are not beneficiaries of the trust. 21,445 Shares are held by Bangarie Investments Pty Limited. Craig Winkler is a director of Bangarie Investments Pty Limited.

4. Of the Shares held, 3,720 are restricted shares issued in connection with the Company's share-based compensation plans. 20,000 of the options granted to Kirsty Godfrey-Billy have vested (meaning that they are capable of being exercised). None of the options have been exercised as at 26 September 2018. None of the Securities held by Kirsty Godfrey-Billy were granted as fees for her role as a Director.

3.10 Remuneration of Directors

Directors of Xero are entitled to remuneration out of the funds of the Company but the remuneration of the non-executive Directors may not exceed in any year the amount fixed by the Company in general meeting for that purpose. The aggregate remuneration of the non-executive Directors of Xero has been fixed at a maximum of NZ\$1,400,000 per annum.

Directors are also entitled to be paid reasonable travel, accommodation and other expenses incurred in consequence of their attendance at Board meetings and otherwise in the execution of their duties as Directors.

The total remuneration of, and the value of other benefits received by each Director of Xero for the preceding two financial years ended 31 March 2017 and 31 March 2018 was as follows:

Director	Country	Committee Chair	2018 Director fees (NZ\$000s)	2018 committee chair fees (NZ\$000s)	2018 total fees (NZ\$000s)	2017 total fees ² (NZ\$000s)
Rod Drury ³	New Zealand	-	-	-	-	-
Craig Elliott ⁴	New Zealand	-	25	-	25	57
Lee Hatton	Australia	Audit and Risk Management Committee	90	20	110	81
Susan Peterson	New Zealand	-	90	-	90	9
Graham Smith	United States	Nominations Committee	310	-	310	220
Bill Veghte ⁵	United States	People and Remuneration Committee	287	14	301	185
Craig Winkler	Australia	-	90	-	90	57
Total			892	34	926 ¹	N/A ⁶

1. Total remuneration is presented based on accounting expense and may include amounts earned but not yet received.

2. Includes director and committee chair fees for the year ended 31 March 2017.

3. Rod Drury was an executive director during the years ended 31 March 2018 and 2017, and received executive remuneration from Xero. He did not participate in Xero's share-based compensation plans nor did he receive remuneration in his capacity as director during those years.

4. Craig Elliott resigned as a Director effective 12 July 2017.

5. The fees for Bill Veghte differ from the standard annual fees because they including accounting expense that has been recognised for options that continue to vest from option grants made to Bill Veghte in 2016 and 2015.

6. Total remuneration for the year ended 31 March 2017 is not a meaningful comparison due to resignation of previous Directors during that year.

The standard annual fees payable to non-executive directors during the year ended 31 March 2018 were as follows. Due to the global composition of the Xero Board, fees are determined by the Board by assessing local benchmarks in each Director's country of residence, and are then annually converted to a NZD rate.

Country	Chair (NZ\$000s)	Director (NZ\$000s)	Audit & Risk Management Committee Chair (NZ\$000s)	People & Remuneration Committee Chair (NZ\$000s)
New Zealand	180	90	20	15
Australia	180	90	20	15
United States	310	226	21	14
United Kingdom	260	115	19	19

No additional fees are currently paid for Chair of the Nomination Committee.

Details of the remuneration structure of the CEO (Rod Drury) for the year ended 31 March 2018 was as follows. Rod Drury does not participate in Xero's share-based compensation plans.

Salary (NZ\$000s)	Target Short Term Incentive (NZ\$000s)
550	275

The CEO's actual achievement against the target STI amount was 82.81% based on the following targets:

- (a) financial results component – 50% of the target STI and consisting of the following measures:
- (i) net cash flow;
 - (ii) revenue; and
 - (iii) annual revenue per user; and
- (b) personal component – 50% of the target STI and consisting of the following measures:
- (i) EBITDA;
 - (ii) gross margin;
 - (iii) succession planning; and
 - (iv) leadership metrics: diversity, attrition, engagement.

No remuneration has been paid to the Directors of Xero Investments in their capacity as Directors of that entity in addition to their Board fees as Directors of Xero (in the case of Graham Smith and Susan Peterson) or their remuneration as an executive of Xero (in the case of Kirsty Godfrey-Billy).

Xero also maintains insurance for the Directors of the Issuers against liabilities for costs and expenses incurred by them in defending legal proceedings arising from their conduct whilst acting in the capacity as a Director. Xero has entered into indemnity deeds with each of the Directors of the Issuers (**Deeds**). Under the Deeds, Xero agrees to indemnify each of the Directors to the extent permitted by the Companies Act 1993 (NZ) against certain liabilities incurred by the Directors whilst acting as a director of the Issuers. The Deeds also grants each Director a right of access to certain records of the

Issuers to the maximum extent permitted by law, after the Director ceases to be a director of the Issuers.

3.11 Related party transactions

There are no related party transactions involved in the Offer that are not otherwise described in the Prospectus.

3.12 Interests of other persons

Except as disclosed in this Prospectus, no expert, promoter or other person named in this Prospectus as performing a function in a professional, advisory or other capacity:

- (a) has any interest nor has had any interest in the last two years prior to the date of this Prospectus in the formation or promotion of the Issuers, the Offer or property acquired or proposed to be acquired by the Issuers in connection with its formation or promotion or the Offer; or
- (b) has been paid or given or will be paid or given any amount or benefit in connection with the formation or promotion of the Issuers or the Offer.

Gilbert + Tobin will be paid approximately A\$15,000 (plus GST) in fees for legal services in connection with the Offer.

3.13 Consent to be named and statement of disclaimer of responsibility

Gilbert + Tobin has given, and has not withdrawn prior to lodgement of this Prospectus with ASIC, its written consent to be named in this prospectus as Australian legal adviser (other than in respect of taxation and stamp duty) in relation to the Offer in the form and context in which it is named.

None of the entities or persons referred to above has authorised or caused the issue of this Prospectus or has made or purports to make any statement or representation included in this Prospectus or any statement on which a statement included in this Prospectus is based, except as stated above. To the maximum extent permitted by law, each of the entities and persons referred to above expressly disclaims, makes no representation regarding, and takes no responsibility for, any statements or material in or omissions from this Prospectus, other than with respect to its name or as stated above.

3.14 ASX confirmations

The Company has received confirmations from the ASX of the following:

- (a) the terms of the Call Option Agreements are appropriate and equitable for the purposes of Listing Rule 6.1;
- (b) the Call Options Agreements are not considered options for the purposes of Listing Rules 6.15 to 6.23A;
- (c) the manner in which Listing Rule 7.1 applies to the issue of the Call Option Agreements.

3.15 Directors' discretion

The Directors may at any time decide to withdraw this Prospectus.

The Directors may make determinations in any manner they think fit in relation to any difficulties, anomalies or disputes which may arise in connection with or by reason of the operation of the Offer whether generally or in relation to any Eligible Party. Any determinations by the Board will be conclusive and binding on all Eligible Parties and other persons to whom the determination relates.

4 AUTHORISATION

Each Director has consented to the lodgement of this Prospectus with ASIC and has not withdrawn that consent.

Signed for and on behalf of both
Xero Limited and Xero Investments Limited
On 27 September 2018

A handwritten signature in black ink, appearing to read 'Susan Peterson', written in a cursive style.

Susan Peterson
Independent Director

5 GLOSSARY

In this Prospectus, the following words have the following meanings unless the context requires otherwise:

A\$ means Australian dollars.

AEST means Australian Eastern Standard Time.

ASB means New Zealand Accounting Standards Board.

ASIC means Australian Securities Investment Commission.

ASX means ASX limited (ACN 008 624 691) or, where the context requires it, the Australian Securities Exchange operated by it.

ASX Settlement Operating Rules means the operating rules of ASX Settlement Pty Limited (ACN 008 504 532).

AWS means Amazon Web Services.

Board means the board of directors of the Company and/or Xero Investments (as the context requires).

Call Option Agreements has the meaning given in Section 1.2.

CHESS means ASX Clearing House Electronic Sub-registry System.

Companies Act means Companies Act 1993 (NZ).

Constitution means the constitution of the Company as at the date of this Prospectus.

Corporations Act means *Corporations Act 2001* (Cth).

Deeds has the meaning given in Section 3.10.

Director means each of the directors of the Company and/or Xero Investments (as the context requires).

Eligible Parties means Goldman Sachs International and Morgan Stanley & Co. International plc.

Group means the Company and its related bodies corporate.

IFRS means International Financial Reporting Standards.

Issuers means Xero Limited and Xero Investments Limited.

Issuer Sponsored means Shares issued by an issuer that are held in uncertified form without the holder entering into a sponsorship agreement with a broker or without the holder being admitted as an institutional participant in CHESS.

Listing Rules means the listing rules of the ASX, as amended, modified or waived from time to time.

New Share means a Share to be issued upon exercise of an Option.

NZ\$ means New Zealand dollars.

NZ GAAP means Generally Accepted Accounting Practice in New Zealand.

NZ IFRS means New Zealand equivalents to International Financial Reporting Standards.

Offer means the offer of the Options made pursuant to this Prospectus.

Offering Circular has the meaning given in Section 1.1.

Option means a call option comprising a number of tranches, exercisable at an overall average exercise price of approximately U.S.\$60.5966 and each of which can only be exercised once, and is expiring, on each of its expiry dates under the terms of the Call Option Agreements, which will be settled by delivery of a number of Shares, on the terms set out in Section 1.2.

Prospectus means this document dated 27 September 2018 and any replacement or supplementary prospectus in relation to this document.

Prospectus Date means the date of which this Prospectus was lodged with ASIC, being 27 September 2018.

Securities means any securities, including Shares and the Options, issued or granted by the Issuers.

Securityholder means a holder of a Security.

Share means a fully paid ordinary share in the capital of the Company.

Shareholder means a registered holder of one or more Shares.

United States means United States of America, its territories and possessions, any State of the United States of America and the District of Columbia.

U.S.\$ means United States dollars.

US Securities Act means U.S. Securities Act of 1933, as amended.

Xero or **Company** means Xero Limited (NZBN 9429034042984) (ARBN 160 661 183).

Xero Party or **Xero Parties** means any member of the Group or any of their respective affiliates, directors, officers, employees, advisers, agents, partners, consultants or representatives, or any person with a direct or indirect equity interest in the Issuers.

Xero Investments means Xero Investments Limited (NZBN 9429047029439).