Important notice

This presentation is given on 16 August 2018 on behalf of Xero Limited (Xero) (ASX:XRO) (Company number NZ 183 0488, AU ARBN 160 661 183)

Information in this presentation:

• is for general information purposes only, and is not an offer or invitation for subscription, or purchase of, or a recommendation to invest in, securities in Xero Limited

• should be read in conjunction with, and is subject to, Xero's latest and prior interim and annual reports, including Xero's annual report for the period ended 31 March 2018, and Xero's market releases on the ASX

• includes forward-looking statements about Xero and the environment in which Xero operates, which are subject to uncertainties and contingencies outside of Xero’s control – Xero’s actual results or performance may differ materially from these statements

• includes statements relating to past performance, which should not be regarded as a reliable indicator of future performance

• may contain information from third parties believed to be reliable, but no representations or warranties are made as to the accuracy or completeness of such information

All information in this presentation is current at 31 March 2018, unless otherwise stated

All currency amounts are in NZ dollars, unless otherwise stated

See page 38 for a glossary of the key terms used in this presentation
Chair’s address

Graham Smith
CHAIR OF THE BOARD

Junk & Disorderly, Auckland, New Zealand
When reviewing Xero’s executive remuneration structure, we had the following objectives:

- Differentiate and reward excellent performance, both in the short and long-term
- Enable Xero to attract and retain employees, and motivate them to achieve results with integrity and fairness
- Balance the mix of fixed and variable remuneration to influence appropriate behaviours and actions to support a growing business
- Remuneration structure that meets the expectations of shareholders for an ASX company
- Reward outcomes aligned to Xero’s aspirations for growth and operational discipline
- Competitive total remuneration benched to S&P/ASX 100 for AU/NZ roles and local tech sector for UK/US roles
Executive remuneration structure

Xero’s executive remuneration for FY19 consists of the following components:

**Fixed remuneration**
- Annual salary
- Retirement: Superannuation (AU), KiwiSaver (NZ), 401k (US) and pension (UK)

**Short-term incentive**
- Deferred STI plan: 50% in cash at end of 12 month performance period, 50% deferred as equity for a further 12 months. Performance measures are:

<table>
<thead>
<tr>
<th>Voice of Shareholder</th>
<th>Voice of Customer</th>
<th>Voice of Employee</th>
<th>Individual Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NPS</td>
<td>eNPS</td>
<td>Engagement</td>
</tr>
<tr>
<td>Revenue growth</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EBITDA</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MRR growth</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subscriber additions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Global Exec</td>
<td>30%</td>
<td>10%</td>
<td>5%</td>
</tr>
<tr>
<td></td>
<td>15%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td></td>
<td>15%</td>
<td>10%</td>
<td>20%</td>
</tr>
<tr>
<td>Regional Leads</td>
<td>20%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td></td>
<td>10%</td>
<td>2.5%</td>
<td>2.5%</td>
</tr>
<tr>
<td></td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
</tr>
</tbody>
</table>

**Long-term incentive**
- “Block options plan”: block of options granted, vesting equally on the 2nd, 3rd and 4th anniversary of the grant date, five year expiry
- Current executives (except CEO) granted block options in June 2018, vesting in June 2020, June 2021 and June 2022, and expiring June 2023
### CEO inclusion in evolved structure

- Steve Vamos, CEO, will be included in the evolved executive remuneration structure as detailed below:

<table>
<thead>
<tr>
<th>Short-term incentive</th>
<th>Long-term incentive</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Steve's incentive for FY19 will now include the deferral component applying to all senior executives</td>
<td>• Steve will participate in the new executive block options plan from August 2018</td>
</tr>
<tr>
<td>• 50% is payable as cash at the end of the 12 month performance period ending 31 March 2019</td>
<td>• To reflect Steve’s existing LTI grants, participation reduced by 25% and vesting foregone in June 2020</td>
</tr>
<tr>
<td>• 50% is deferred as equity in the form of restricted stock units (RSUs) for a further 12 months</td>
<td>• 180,000 options to be granted, vesting in equal parts in June 2021 and June 2022, expiring June 2023</td>
</tr>
<tr>
<td>• Subject to measures outlined on previous slide and calculated over the 12 month performance period</td>
<td>• Strike price calculated as at 1 April 2018 to align with the start of Xero's current financial year and the strike price applicable for other executives</td>
</tr>
</tbody>
</table>

- The terms of Steve's employment agreement will be varied to the extent necessary to implement the changes to his variable remuneration as outlined above

- Steve’s base salary will increase by 12.5% from $900,000 to $1,012,500 per annum effective from the first full pay period following his retirement from the Telstra Board in October 2018
Resolutions
RESOLUTION 1

Fixing the remuneration of the Auditor

That the Board is authorised to fix the remuneration of the auditor for the ensuing year

For 80,586,939
99.37%

Against 420,246
0.52%

Discretionary 89,671*
0.11%

* 58,163 of which are held by the Chair of the Meeting who intends to vote in favour of the resolution
RESOLUTION 2

Election of Dale Murray as a Director

That Dale Murray, appointed by the Board as a Director on 13 April 2018, be elected as a Director of Xero Limited

For 81,008,124
99.86%

Against 18,987
0.02%

Discretionary 93,718*
0.12%

* 58,810 of which are held by the Chair of the Meeting who intends to vote in favour of the resolution
RESOLUTION 3

Re-election of Rod Drury as a Director

That Rod Drury, retiring from office as a Director of Xero Limited by rotation, be re-elected as a Director of Xero Limited

For 81,042,764 99.89%

Against 2,941 0.00%

Discretionary 89,946* 0.10%

* 53,038 of which are held by the Chair of the Meeting who intends to vote in favour of the resolution
RESOLUTION 4

Re-election of Craig Winkler as a Director

That Craig Winkler, retiring from office as a Director of Xero Limited by rotation, be re-elected as a Director of Xero Limited

For
67,012,647
82.60%

Against
1,021,132
1.26%

Discretionary
13,096,939*
16.14%

* 13,062,531 of which are held by the Chair of the Meeting who intends to vote in favour of the resolution
RESOLUTION 5

Re-election of Graham Smith as a Director

That Graham Smith, retiring from office as a Director of Xero Limited by rotation, be re-elected as a Director of Xero Limited

For 79,686,064
98.22%

Against 1,338,712
1.65%

Discretionary 102,448*
0.13%

* 67,140 of which are held by the Chair of the Meeting who intends to vote in favour of the resolution
RESOLUTION 6(a)

Approval of the issue of shares to Directors - Lee Hatton

That for the purposes of ASX Listing Rule 10.11, and for all other purposes, approval is given for Xero to issue shares to Lee Hatton in lieu of her remuneration on the terms and conditions set out in the Explanatory Notes of this Notice of Meeting.

For 80,600,839
99.36%

Against 421,419
0.52%

Discretionary 96,400*
0.12%

* 61,492 of which are held by the Chair of the Meeting who intends to vote in favour of the resolution.
RESOLUTION 6(b)

Approval of the issue of shares to Directors
- Bill Veghte

That for the purposes of ASX Listing Rule 10.11, and for all other purposes, approval is given for Xero to issue shares to Bill Veghte in lieu of his remuneration on the terms and conditions set out in the Explanatory Notes of this Notice of Meeting.

For 80,665,499
99.44%

Against 357,449
0.44%

Discretionary 95,710*
0.12%

* 60,802 of which are held by the Chair of the Meeting who intends to vote in favour of the resolution
Adoption of new Constitution

That Xero’s current constitution be revoked and Xero adopt the new Constitution tabled at the Meeting in its place, with effect from the close of the Meeting or any adjournment of it.

For
81,014,352
99.87%

Against
9,024
0.01%

Discretionary
98,912*
0.12%

* 64,004 of which are held by the Chair of the Meeting who intends to vote in favour of the resolution
Financial overview

Kirsty Godfrey-Billy
CHIEF ACCOUNTING OFFICER
Positive EBITDA with continued growth

AMRR\(^1\)
$484.4m
+ 33% YOY

SUBSCRIBERS
1.4m
+ 351,000 YOY

POSITIVE EBITDA
$26.0m
+ $55m YOY

OPERATING REVENUE
$406.6m
+ 38% YOY

OPERATING CASH FLOW
$41.2m
+ 46m YOY

\(^1\) See the Glossary on page 38 for details on annualised monthly recurring revenue
Strong top-line and bottom-line performance

Xero subscriber growth

351,000 added in 12 months

1,386,000 subscribers

Cash outflow\(^1\) as % of revenue

(71%) to (9%) in 3 years

\(^1\) Operating and investing cash flows
$484m
Annualised monthly recurring revenue

$121m
added in 12 months
Increasing lifetime value

<table>
<thead>
<tr>
<th>March 2018</th>
<th>Progress from March 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARPU</td>
<td>$29.13</td>
</tr>
<tr>
<td>MRR churn %</td>
<td>1.10%</td>
</tr>
<tr>
<td>Gross margin</td>
<td>81%</td>
</tr>
<tr>
<td>LTV per subscriber¹</td>
<td>$2,310  +9%²</td>
</tr>
</tbody>
</table>

Total group subscriber lifetime value (LTV)

$990m ($1.0b in CC)² added in 12 months

¹ Increased 8% YOY in nominal terms
² Constant currency based on FX rates at 31 March 2017
Positive EBITDA

First positive EBITDA for the full-year driven by operating efficiencies across the business

EBITDA excl. SBP\(^1\) was $43.0m in FY18, an improvement of $59.9m YOY from $(16.9m) loss in FY17

\(^1\) SBP is a non-cash cost to Xero
Positive operating cash flow

Positive operating cash flow of $41.2m for FY18, an improvement of $45.6m from $(4.4m) in FY17.

Operating and investing cash flows as a % of revenue improved to 9% in FY18. Total operating and investing cash flows were $(36.9m) for FY18, a reduction from $(70.8m) in FY17.

Cash and short-term deposits balance at 31 March 2018 was $80.0m.

No current plans to draw down on stand-by debt facility of $100m.
Beauty of Xero's SaaS model

- Acquire subscribers economically at scale
- Grow revenue per subscriber
- Grow gross margins
- Retention at scale
- Generate long-term value
Xero has adopted the following three accounting standards from 1 April 2018:

<table>
<thead>
<tr>
<th>Standard</th>
<th>Description</th>
</tr>
</thead>
</table>
| **IFRS 15**<br>Revenue from contracts with customers | • Xero’s commission costs will be capitalised and expensed over time  
• This standard also changes the classification and timing of when revenue is recognised |
| **IFRS 16**<br>Leases | • The majority of Xero’s leases will be recognised on the balance sheet, with the expense moving from operating expenses to depreciation and finance expense |
| **IFRS 9**<br>Financial instruments | • Amends the classification and measurement of Xero’s financial instruments and simplifies its hedge accounting model to align more closely to risk management strategies and objectives |
CEO update

Steve Vamos
CHIEF EXECUTIVE OFFICER

Lagom, Bristol, United Kingdom
Xero’s mission is to rewire the global economy, connecting millions of businesses to their banks, advisors and each other.

- Great people and teams
- Beautiful products and global platform
- Love and protect our customers
- Win with accountants and bookkeepers
- Grow into new spaces and places
- Build to scale globally
Continued focus

Alignment of execution with strategy
Global and regional operating model
Great product management
Capital investment framework
Driving adoption of cloud accounting

Small businesses

Accountants and Bookkeepers

Growth drivers

Existing markets

New markets

Adjacent products
Strengthening Xero’s global footprint

Subscribers at 31 March 2018

301,000
New Zealand
583,000
Australia
312,000
United Kingdom
132,000
North America
58,000
Rest of World

Leading cloud accounting platform

TAM potential in a large global underserved market

1 Estimated English speaking addressable market based on publicly available data
Grow small business platform revenues

Small businesses

Suppliers

App ecosystem

Financial institutions

Government

Customers

Employees

Accountants and Bookkeepers

Growth drivers

Finweb

Transactional revenues

Data-driven solutions
Growing the small business platform

Revenue composition

Group operating revenue

$406.6m

- Core accounting: 93%
- Platform revenues¹: 1%
- WorkflowMax²: 3%
- Non-recurring³: 3%

Revenue growth YOY

- Core accounting: 37%
- Platform revenues¹: 94%
- WorkflowMax²: 29%
- Non-recurring³: 50%

¹ Platform revenues include revenue derived from related services, including add-ons with incremental revenue (such as payroll and expenses modules) and revenue share agreements with partners
² Revenues relating to WorkflowMax, online workflow and job management software
³ Non-recurring includes revenue from events (such as Xerocons and roadshows), and other non-subscription or platform services
Acquisition of Hubdoc
Leading data capture solution

Significant step towards code-free accounting

Enhances Xero’s platform strategy
Outlook

Xero will continue to focus on growing its global small business platform.

Cash outflow in FY19 is forecast to reduce from FY18. Xero is managing the business to cash flow break-even within its current cash balance, without drawing on its debt facility, excluding capital outlays for M&A.

Following cash flow break-even, it is intended that surplus cash flow will be reinvested, subject to investment criteria, to drive long-term shareholder value.

¹ Operating and investing cash flows
Appendix
**Glossary**

**Subscribers**
Subscriber means each unique subscription to a Xero-offered product that is purchased by an accounting partner or an end user and is, or is available to be, deployed

**AMRR**
Annualised monthly recurring revenue (AMRR) represents monthly recurring revenue at 31 March, multiplied by 12. It provides a 12 month forward view of revenue, assuming any promotions have ended and other factors such as subscriber numbers, transaction volumes, pricing and foreign exchange remain unchanged during the year.

**ARPU**
ARPU is calculated as annualised monthly recurring revenue at 31 March divided by subscribers at that time (and divided by 12 to get a monthly view).

**MRR churn**
MRR churn is the value of monthly recurring revenue (MRR) from subscribers who leave Xero in a month as a percentage of the total MRR at the start of that month. The percentage provided is the average of the monthly churn for the previous 12 months.

**Total lifetime value**
LTV is the gross margin expected from a subscriber over the lifetime of that subscriber. This is calculated by taking the average subscriber lifetime (1 divided by MRR churn) multiplied by ARPU, multiplied by the gross margin percentage. Group LTV is calculated as the sum of the individual segment LTVs, multiplied by segment subscribers, divided by total Group subscribers.

**CAC months**
CAC months or months of ARPU to recover CAC represent the number of months of revenue required to recover the cost of acquiring each new subscriber. The calculation is sales and marketing costs for the 12 month period less conference revenue (such as Xerocon), divided by gross new subscribers added during the same period, divided by ARPU.

**NPS**
Net promoter score

**eNPS**
Employee net promoter score

**SBP**
Share-based payments

**Finweb**
Financial web

**CAC**
Customer acquisition costs

**GAAP**
Generally accepted accounting principles

**TAM**
Total addressable market