1. Purpose of this Charter

This Charter sets out the role and responsibilities of the Board of Xero Limited (Xero) and the manner in which the Board exercises and discharges its role and responsibilities. It also sets out matters which may be delegated to management.

2. Role of the Board

The role of the Board is to:

- determine, and regularly review the appropriateness of, Xero’s strategic direction
- oversee the implementation of, and hold management to account for its implementation of, Xero’s strategic direction
- oversee Xero’s policies and performance
- approve Xero’s purpose and values, and oversee adherence to Xero’s values and governance frameworks
- approve the risk appetite within which the Board expects management to operate
- appoint, and if necessary remove, the Chief Executive Officer (CEO)

The Board monitors the management and performance of the business by:

2.1 Strategic

- Reviewing, assessing and approving the strategic plan for Xero
- Regularly overseeing performance to confirm Xero is being appropriately managed and that its performance is aligned with the strategic plan
- Focussing Xero’s activities on long term shareholder value

2.2 Governance

- Assessing whether an appropriate culture and management framework is in place that requires that Xero:
  - complies with the law and relevant regulations
○ conforms with the highest standards of behaviour, and has a Code of Conduct that reflects this
○ provides a safe working environment that promotes health and wellbeing, where everyone is treated with fairness, dignity and respect and without discrimination, harassment, sexual harassment, victimisation or bullying, and monitoring Xero’s culture and the effectiveness of that framework

● Ensuring that compliance with policies and procedures is properly monitored
● Adopting clearly defined delegations of authority from the Board to the CEO (which may, in turn, be delegated), and from the Board to its committees
● Establishing and maintaining an appropriate structure of Board committees to enhance the Board’s capacity to fulfil its responsibilities
● Ensuring that an appropriate framework is in place for relevant information to be reported to the Board
● Adopting formal processes for Board renewal and the selection of new directors, and approving director fees
● Confirming that directors are properly inducted and that all directors are provided with ongoing access to the company's operations, management and information
● Annually reviewing the Board’s own processes and effectiveness including its committee structure
● Determining that Xero’s governance policies and practices are appropriate and are aligned with the interests of shareholders, Xero’s risk appetite, and relevant laws and regulations
● Overseeing the timely and balanced disclosure of price sensitive information
● Considering reports on material breaches of Xero's Code of Conduct and material incidents under Xero's Whistleblower Policy

2.3 Financial

● Approving Xero’s financial statements, forecasts, and other reports required by law or under the ASX Listing Rules to be adopted by the Board
● Approving an annual budget for the financial performance of Xero and monitoring results on a regular basis
● Confirming that Xero's financial position is sound and that it is able to meet its debts and other obligations when they are due, and that Xero has sufficient financial resources to achieve its strategic plan
● Overseeing the integrity of Xero’s accounting and corporate reporting systems and reviewing these systems annually
● Approving any dividend policy and the payment of any proposed dividend to shareholders
● Determining that satisfactory arrangements are in place for auditing the company's financial affairs and that the scope of the external audit is adequate
• Assessing the performance and independence of the external auditors and reviewing the arrangements in place for the appointment, reappointment, removal and remuneration of the external auditor (subject to any necessary shareholder approval)
• Ensuring that the company is taking appropriate steps to safeguard its assets and to oversee and mitigate against current and emerging financial risks

2.4 Personnel

(a) People
• Selecting and, if necessary replacing, the CEO
• Overseeing appropriate succession plans for the CEO and Xero’s executive leadership team (XLT)
• Approving the appointment of, and if necessary removing, the Company Secretary
• Approving policies, practices and measurable objectives for achieving diversity
• Ensuring an appropriate mix of skills, experience, independence, knowledge and diversity is represented by directors on the Board

(b) Remuneration
• Setting an appropriate remuneration package, agreeing appropriate performance indicators, and evaluating performance of the CEO
• Approving the remuneration framework (including strategy, structure, policies, and employee incentive plans)
• Approving the remuneration of the non-executive directors
• Ensuring that Xero’s remuneration policies and practices fit with its strategic goals and comply with Xero’s risk appetite, and good governance principles and practice
• Overseeing equity incentive programs and overseeing that conduct is only rewarded where it aligns with Xero’s purpose, values and risk appetite

2.5 Operational

• Approving an annual operating plan and monitoring results against that plan
• Approving, overseeing and reviewing systems of financial and non-financial risk management for current and emerging risks
• Confirming that Xero has in place accurate and reliable reporting systems, internal controls (both operational and financial) and compliance activities, and overseeing performance of these systems, controls, and activities
• Confirming that systems are in place to monitor the effectiveness of Xero’s risk management framework and to identify, manage and mitigate significant risks
3. Board Composition and Process

The Board is appointed by the shareholders. The Board, with guidance from the Nominations Committee, will determine:

- the size of the Board, subject to the terms of Xero’s Constitution
- the composition of the Board, taking into account the appropriate mix of skills, knowledge, experience, diversity and independence

The Board will consist of a majority of independent non-executive directors. The Board will consider and conclude on the independence of its non-executive directors at least once per year. The Board will have regard to the relevant factors listed in the then current edition of the ASX Corporate Governance Council’s Corporate Governance Principles and Recommendations, but may determine that a director is independent even if one of the factors is not satisfied. The Board only considers directors to be independent where they are independent of management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to interfere with, the exercise of their unfettered and independent judgement.

Directors are required to take all reasonable steps to avoid an actual, potential or perceived conflict of interest with Xero.

The Board will meet sufficiently regularly to perform its role effectively and directors will use reasonable endeavours to attend Board meetings.

The Chair is appointed by the Board and must be an independent non-executive director. The role of the Chair is to lead the Board, facilitate constructive discussion at Board meetings, ensure that the Board functions effectively and communicate the Board’s position to shareholders. The Chair, with the assistance of the Company Secretary, will establish the agenda for, and frequency of, Board meetings and will chair meetings of shareholders, including the annual general meeting.

The Board will appoint at least one Company Secretary. The Company Secretary is accountable to the Board and all directors will have direct access to the Company Secretary.

On an annual basis, the Board, with assistance from the Nominations Committee, will review and evaluate:

- its own performance, including against the requirements of this Charter
- the performance of its Committees
- the performance of individual directors

4. Board Committees

The Board may from time to time establish committees to assist in carrying out its responsibilities and adopt charters setting out matters relevant to the composition, responsibilities and administration of such committees.

The Board will, as a minimum, establish the following committees:

- Audit and Risk Management Committee
- People and Remuneration Committee
- Nominations Committee

The Board may also delegate specific functions to *ad hoc* committees from time to time. The powers delegated to such committees will be described in Board resolutions.

5. Relationship between the Board and Management

The Board has delegated to the CEO all the powers and authorities required to manage Xero’s business, except those expressly reserved to the Board or one of its Committees as described in Section 2. The CEO may from time to time delegate the management function within such authority limits that have been approved by the Board.

The CEO and delegates must manage Xero in line with the strategic plan, the annual budget, the risk appetite and the strategies approved by the Board for managing risks, at all times exercising good judgment. The CEO and delegates’ roles include effective leadership, and clear commitment to Xero’s values and Code of Conduct.

The CEO is accountable to the Board for the exercise of the delegated authority and must report material matters to the Board with accurate and timely information. The CEO must supply the Board with information in a form, timeframe and quality that will enable the Board to discharge its duties effectively, and will have open communications with the Board.

The Board will adopt appropriate structures and procedures to ensure it retains its independence and functions independently of management. This will include the non-executive directors meeting in the absence of management on a regular basis.
The Board or a Committee may seek external legal or other professional advice as the Board or Committee considers necessary and appropriate.

A director may seek external legal or professional advice with the consent of the Chair, or the Chair of the Audit and Risk Management Committee.

The Board Charter will be reviewed periodically.

Last reviewed: February 2020