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Xero Board Charter

1. Purpose/Role

The role of the Board is to effectively represent, and promote the interests of shareholders with a view to adding long-term value to the Company.

2. Composition

Board composition

The Constitution requires that the Board comprise between three and ten members. The Board will comprise a minimum of two independent directors or, if at any time there are eight or more directors, three of one-third of the total number, whichever is the greater. The Board has also agreed that the Chairperson shall be independent and cannot also be the Chief Executive Officer. At least two of the directors shall be ordinarily resident in New Zealand.

Rotation

All Directors appointed by way of a casual vacancy are required to be elected by the shareholders at the first annual meeting after their appointment. One-third of all Directors stand for election each year. In each year the Directors who retire are those who have been longest in office since their last election. There is no maximum term for which a person can remain a Director. One director who is an employee of the Company is not required to retire by rotation. If there is more than one Director who is an employee then the Board may nominate which one of those Directors is not liable to retire by rotation.

Independence

In order for a Director to be considered independent that Director must not be an executive officer or have any disqualifying relationship.

A 'disqualifying relationship' means any direct or indirect interest or relationship that could reasonably influence, in a material way, the director's decisions in relation to Xero. A director shall be deemed to have a 'disqualifying relationship' in the following circumstances:

- A relationship as a substantial security holder of Xero or an associated person of that substantial security holder (other than solely as a consequence of being a director of Xero);
- A relationship (other than in his capacity as a director of Xero) with Xero or a substantial security holder of Xero; or between an associated person of the Director and Xero or a substantial security holder and by virtue of which the director or any associated person of the director has derived or is likely to derive, in Xero's current financial year, 10% or more of his, her or its annual revenue during such financial year.

For the purposes of the above definition:

- 'associated person' means a person as defined by NZX Listing Rule 1.3.
- 'executive officer' means the Chief Executive Officer or any of the Chief Executive Officer's direct reports.
- 'indirect relationship' includes relationships as a supplier, partner, customer, shareholder, or

an officer of an organisation that has a relationship with Xero.

- 'relationship' includes indirect relationships and direct relationships such as employment and other contractual relationships.
- 'substantial security holder' means a person who has a relevant interest in 5% or more of the voting securities of Xero.

Nominations to the Board

The Board will review from time to time the composition of the Board and the whole Board will have the opportunity to consider candidates for appointment to the Board. To be eligible for selection the candidates must demonstrate appropriate qualities and experience. Directors will be selected based on a range of factors including the perceived needs of the Board at the time

Induction

The Board seeks to ensure that any new directors are appropriately introduced to management and the business, that all directors are acquainted with relevant industry knowledge and receive copies of appropriate Company documents to enable them to perform their role.

All Directors are expected to remain current on how to best discharge their responsibilities as Directors including keeping abreast of changes and trends in economic, political, social, financial and legal climates and governance practices.

3. Composition and Role of Committees

Board Committees may be established from time to time when it is efficient or necessary to facilitate effective decision making. Committees do not take action or make decisions on behalf of the Board unless specifically mandated by prior Board authority to do so.

The current Committees of the Board are the Audit and Risk Management Committee and the Remuneration Committee. An individual charter exists for each Committee. Other Committees may be created from time to time examine or have the delegated authority to deal with specific issues on behalf of the Board.

All Committee members and the Chairperson of the Committee are appointed by the Board.

4. Procedures

Board meetings

To enable appropriate review of Board materials, Directors receive materials approximately five days in advance of meetings for items to be acted upon, except in the case of special meetings for which the time period may be shorter due to the urgency of the matter under consideration.

The Board normally meets at least eight times per year.

The Board encourages the Chief Executive Officer to bring employees to Board meetings who can provide additional insight into the items being discussed because of their involvement in those matters. All Directors have access to employees to discuss issues or obtain further information on specific matters as they think appropriate.

The Board meets regularly in executive session without management present.

Relationship between the Chairperson and the Chief Executive Officer

The Board supports the concept of the separation of the role of Chairperson from that of the Chief Executive Officer. The Chairperson's role is to manage the Board effectively, to provide leadership to the Board, and to interface with the Company's Chief Executive Officer.

Remuneration of Directors

The Directors' remuneration is paid in the form of Directors' fees. The Board may determine that additional allowances be paid to a Director, as appropriate, to reflect additional services provided to the Company by that Director. The total fees available to be paid to Directors is subject to shareholder approval. The Human Resources and Compensation Committee reviews the remuneration of Directors based on criteria developed by that Committee.

No retirement allowances are payable to Directors.

Directors are entitled to reimbursement of reasonable expenses associated with undertaking their duties as a Director. All Directors' expenses are approved by the Chairperson. The Chairperson's expenses are approved by the Chairperson of the Audit and Risk Management Committee.

Remuneration of Chief Executive Officer

The Chief Executive Officer's remuneration is paid in the form of a salary and may also be entitled to participate in Company incentive schemes, subject to any necessary shareholder approval requirements.

Conflicts of Interest

Where conflicts of interest exist then Directors excuse themselves from discussions in respect of those interests and in accordance with the NZX listing rules and do not exercise their right to vote in respect of such matters.

Trading in Xero Shares

All non-executive Directors are encouraged to hold Xero shares.

Directors are subject to limitations on their ability to buy and sell Xero shares by Xero's Insider Trading Policy and the Securities Market Act 1988. These limitations include the requirement that Directors cannot buy and sell Xero shares during the black-out periods from 1 February to the announcement of Xero's half-year results and from 1 September to the announcement of Xero's full year results. All trading is subject to prior approval of the Chairperson (or in the Chairperson's case by the Chairperson of the Audit and Risk Management Committee). All changes in the shareholdings of Directors are reported to the Board and the NZX.

5. Responsibilities and Duties

Policy and Corporate Strategy

The Board's role is to effectively represent, and promote the interests of, shareholders with a view to adding long-term value to the Company's shares. Having regard to this role the Board directs, and supervises the management of, the business and affairs of the Company including, in particular:

- Ensuring that the Company's goals are clearly established, and that strategies are in place for achieving them;
- That there is ongoing review of performance against the strategic objectives;

- Approving transactions relating to acquisitions and divestments and capital expenditure above delegated authority limits;
- That there is ongoing assessment of business risks and ensuring appropriate control and accountability systems are in place to manage them;
- Establishing policies for strengthening the performance of the Company including ensuring that management is proactively seeking to build the business through innovation, initiative, technology, new products and the development of its business capital;
- Monitoring the performance of management;
- Appointing the Chief Executive Officer, setting the terms of their employment and where necessary, terminating their employment;
- Approving and monitoring the Company's financial and other reporting and ensuring the Company's financial statements represent a true and fair view.

Evaluation of the Chief Executive Officer and Management Succession Planning

The Human Resources and Compensation Committee evaluates the performance of the Chief Executive Officer and oversees the Chief Executive Officer's evaluation of his direct reports. It also recommends the annual remuneration of the Chief Executive Officer to the Board for approval and approves the remuneration of the Chief Executive Officer's direct reports. The evaluation is based on criteria which include the performance of the business, the accomplishment of long-term strategic objectives and other non-quantitative objectives agreed at the beginning of each year.

The Chief Executive Officer reports annually to the Board regarding management and Chief Executive Officer succession planning and management development. In the event of an emergency or the retirement of the Chief Executive Officer the Human Resources and Compensation Committee will recommend suitable candidates to the Board for appointment to the position of Chief Executive Officer.

6. Power and Authority

Delegation of Authority to the Chief Executive Officer

The formulation and implementation of policies and reporting procedures for management has been delegated to the Chief Executive Officer as formal delegation terms. The Board's delegation of the conduct of the day to day affairs of the Company to the Chief Executive Officer is made within these terms. The Board monitors those delegations. The Chief Executive Officer in turn implements a Delegation of Authority Policy which sets limits on certain decision making and achieves individual accountability.

Independent Advice

A Committee or individual Director may retain and consult with external advisers (including legal) at the Company's expense where the Committee or individual deems it necessary to carry out its, his or her functions, with the approval of the Chairperson of the Board.

Non-executive Directors are not employees of Xero. Non-executive Directors are entitled to rely on Xero executives, in relation to matters within their responsibility and area of expertise and may assume the accuracy of information provided by such persons, so long as the Director is not aware of any reasonable grounds upon which such reliance or assumption may be inappropriate.

The Board may rely upon information provided by Board Committees and their members in relation to matters within that Board Committee's delegated responsibility, provided that it has evaluated the information and is not aware of any reasonable basis upon which to question its accuracy.

7. Accountability

Evaluation of Board performance

The Chairperson meets regularly with Directors to discuss individual performance of the Directors. The Board reviews its performance as a whole on an annual basis.