1. Purpose of this Charter

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

2. Role of the Board

The role of the Board is to:

- determine on behalf of the shareholders Xero’s strategic direction, regularly review the appropriateness of it and oversee its implementation;
- oversee and appraise Xero’s policies and performance; and
- oversee compliance with Xero’s values and governance framework.
- appoint and if necessary remove the 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; and
  - provides a safe and unbiased workplace,
  and monitoring the effectiveness of that framework.
● Checking 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.
● 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.
● 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 interests of shareholders and relevant laws and regulations.
● Overseeing the timely and balanced disclosure of price sensitive information.

2.3 Financial

● Adopting 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.
● Approving any dividend policy and dividends.
● 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.
● Ensuring that the company is taking appropriate steps to safeguard its assets

2.4 Personnel

● Selecting and, if necessary replacing, the Chief Executive Officer (CEO), setting an appropriate remuneration package, agreeing appropriate performance indicators, evaluating performance of the CEO.
● Overseeing appropriate succession plans for the CEO and key senior executives.
● Approving the appointment and if necessary removing the Chief Operating and Financial Officer and the Company Secretary, and overseeing the appointment of direct reports to the CEO.
● Approving the remuneration framework (including employee incentive plans) for executives.
● Approving the remuneration of the Non-Executive Directors.
● Approving policies, practices and measurable objectives for achieving diversity.
● Overseeing equity incentive programs
2.5 Operational

- Approving an annual operating plan and monitoring results against that plan.
- Determining that Xero has in place accurate and reliable reporting systems, internal controls (both operational and financial) and compliance activities, and monitoring performance.
- Confirming that systems are in place 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; and
- 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, having regard to the relevant factors listed in the current edition of the ASX Corporate Governance Council’s Corporate Governance Principles and Recommendations. 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 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 and ensure that the Board functions effectively. The Chair, with the assistance of the General Counsel and 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; and
● 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; and
● 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 delegate the management function within such authority limits that have been approved by the Board from time to time. The CEO and delegates must manage Xero in line with the strategic plan, the annual budget 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 the 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 periodic 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 at least every two years.

*Last reviewed: March 2018*