

23 December 2014

Dear shareholder

2014 has been our biggest year yet, and we are delighted to have grown the business to over \$US100m Annualised Committed Monthly Revenue while growing at over 80%. The real story of this year has been the onboarding of world-class capability. We've now grown the team to over 1,000, who are coming on stream to accelerate innovation in 2015. Onboarding so many staff has been an incredibly time consuming activity but it positions us very strongly for the coming years.

You may have read that we just recently passed 400,000 paying customers, a major milestone as we head into key selling seasons in the UK, New Zealand and the US. In 2014 we processed NZ\$250 billion of transactions and 95 million invoices, connecting millions of businesses, advisors, suppliers and customers worldwide.

The support from our customers and partners is both humbling and exciting. Together we've established Xero as one of the leading platforms on which they connect, collaborate and conduct their business. Through a constant innovation cycle, we are fulfilling our potential as a small business growth engine, bringing together crucial capabilities in accounting, payroll and payments with insights and the business specific applications small businesses need from our hundreds of partners worldwide.

We're now utilising large volumes of data to report business performance at scale and deliver insights to help improve the growth of small businesses, providing a real time data set to discover the real power of the small business economy and trends such as growing self and part-time employment.

We're thrilled to be playing a role in igniting the small business economy. Our customers are adding employees and growing revenue and margins by having clear visibility of their numbers and easy access to advisors. At the same time, the vibrant ecosystem around Xero, including the growing advisor channel, is creating jobs worldwide.

We're continuously improving the platform with over 400 releases to benefit users deployed during 2014. Most of these releases were silent, unnoticed by customers, but span small business tasks ranging from payroll through to beautiful business reporting. We just unveiled a new business dashboard to help small businesses have better visibility of their cash flow as Xero begins its delivery of 'Big Data for Small Business' in early 2015.

Our momentum is not only a clear vote for platforms born and bred in the cloud, but also for those optimised for mobile devices. In the past 12 months, over 145,000 small businesses have downloaded Xero Touch enabling them to pay, invoice, and manage cash flow any place, any time.

Today, we are New Zealand's and Australia's most loved accounting platform and we are achieving a similar position in the UK. As we said at our Annual Meeting in July this year, our focus until now has been to establish Australia and the United Kingdom as our next growth engines. Having delivered that, our focus is now on the US. We are making good progress in getting our operating team in place. The small business cloud market is still in its infancy: of the addressable market of hundreds of millions of small businesses, only a small percentage currently use cloud financial software.

Throughout 2014 we've invested significantly in our platform, which is becoming critical infrastructure in our core markets. We now manage 500 servers across multiple data centres while maintaining best-in-class uptime of 99.99 percent. We have our sights set on not just leading in building our cloud infrastructure, but also putting the innovations and investments from the global cloud providers like Microsoft, Google and Amazon to work for small businesses.

On the reverse of this letter is a disclosure notice informing shareholders that we have extended the repayment dates (from December 2014 to July 2015) for two executive loans that were granted in December 2011 to Ross Jenkins, our CFO, and Chris Ridd, our Australian MD. These loans were used by Ross and Chris to purchase shares in Xero. Ross and Chris remain valuable members of our leadership team, and the Board has extended the repayment date of these loans to help ensure that Ross and Chris, along with the remainder of the leadership team, remain highly incentivised to continue to work hard for you to drive long-term growth.

Thank you all for your support in 2014. Our team are fired up and excited about what's to come. 2015 is going to rock.



Rod Drury, CEO

This document is for information only. It does not require any action from you.

Xero Limited

(the Company)

Disclosure Document Relating to the Provision of Financial Assistance Not Exceeding 5% of Shareholders' Funds (Section 80(1)(b) Companies Act 1993)

To: All shareholders of the Company

Introduction

This document is provided to all shareholders in accordance with the requirements set out in section 80 of the Companies Act 1993. It sets out the details on which the financial assistance provided to selected employees by the Company in December 2011, in connection with the purchase of shares in the Company, is amended.

Details of Financial Assistance

On 10 December 2011, the Company provided financial assistance by way of loans from the Company to Ross Jenkins, Chief Financial Officer of the Company, and Chris Ridd, Managing Director of Xero Australia Pty Limited, to enable each of them to purchase shares in the Company on identical terms as described below:

- a) **Shares:** 196,364 ordinary shares in the Company.
- b) **Consideration paid or payable for the shares:** NZ\$540,000 (based on the volume weighted average price of Xero's shares quoted on the NZSX for the 20 days prior to 10 December 2011 of NZ\$2.75 per share).
- c) **Nature and amount of the financial assistance:** A loan of NZ\$540,000 for up to three years at 4% interest per annum.

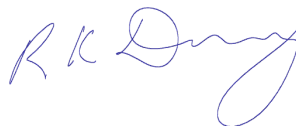
The Board of the Company resolved to extend the repayment date of the above loans to 9 July 2015. All other terms of these loans remain the same.

Dated: 23 December 2014

Signed



Chris Liddell
Chairman of the Board of Xero Limited



Rod Drury
Director of Xero Limited