Modern Slavery Statement
FY23

Contents

1. Introduction

At Xero, our purpose is to make life better for people in small business, their advisers and communities around the world. Our purpose is underpinned by the five values described in Xero's Code of Conduct **(Code)** and these are fundamental to everything we do. Together with our purpose, our vision is to be the most insightful and trusted small business platform.

In staying true to our purpose, vision and values, we are committed to working to prevent modern slavery and human trafficking in our operations and supply chains. We understand and remain vigilant on our key modern slavery risks, have policies and processes in place to help us monitor and mitigate them, and regularly assess the effectiveness of our actions.

This is our fifth modern slavery statement and it sets out the actions that we have taken across the Xero Group during the financial year ended 31 March 2023 **(FY23)** to understand and address our modern slavery risks.

Our values

Human

Xeros are authentic, inclusive and really care

Ownership

Xeros deliver on our commitments

Challenge

Xeros dream big, lead and embrace change

Beautiful

Xeros create experiences that people love
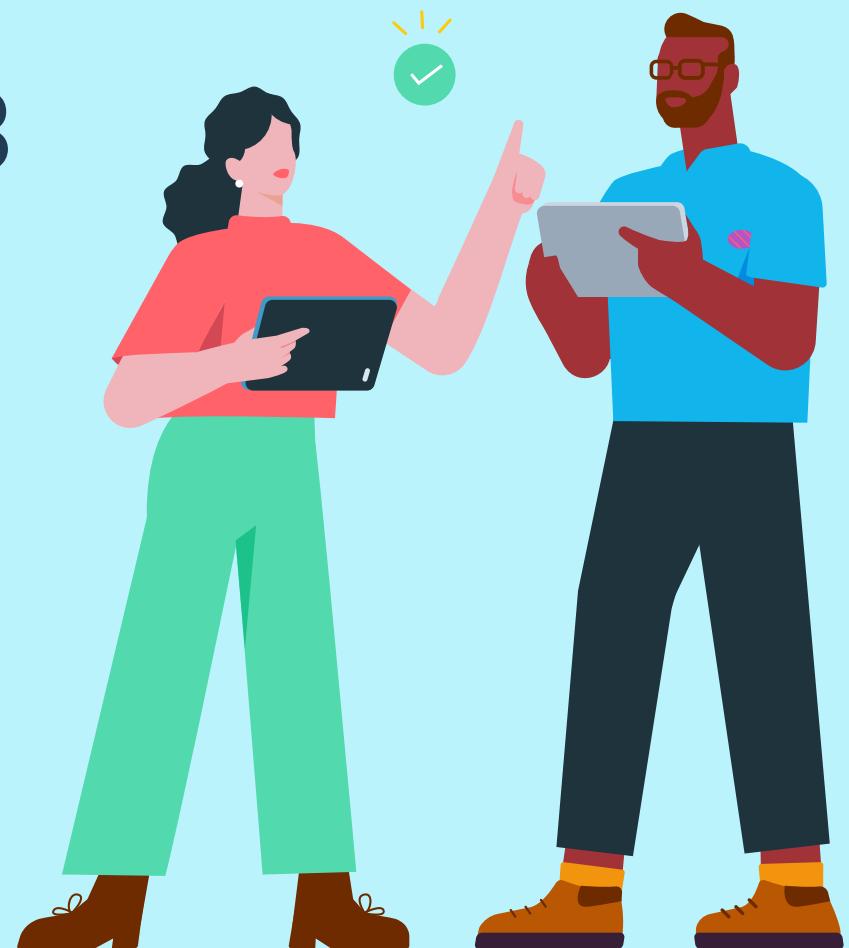
Team

Xeros are great team players

2. Our actions and progress during FY23

Modern Slavery Statement FY23

2. Our actions and progress during FY23

In our FY22 statement we set ourselves five goals to improve our management of modern slavery
and human trafficking risks in our operations and supply chain to be delivered during FY23 and FY24:

Goal	Key deliverables	Duration	Initiatives undertaken in FY23	Status
1. Improve supply chain visibility Deepen our visibility and understanding of modern slavery and human trafficking risks in our supply chain	1. Select and implement a supply chain sustainability monitoring application to support due diligence testing of higher-risk suppliers 2. Assess suppliers' modern slavery risk at the time of onboarding and undertake risk-based due diligence 3. Have existing suppliers sign Xero's Supplier Code of Conduct 4. Run in-depth due diligence campaign on two higher risk categories	FY23 & FY24	1. We have explored the option of a supply chain sustainability monitoring application through a competitive tendering process. This technology aims to reduce our risk exposure overall and support continuous improvements across our supply chain. Our next step is to assess implementation feasibility 2. All new suppliers are assessed for modern slavery risks based on the type of products and services provided and locations they operate in 3. We require all our new suppliers to review and adhere to our Supplier Code of Conduct at the time of onboarding. More than 75% of our suppliers[1] (measured based on spend) have signed our Supplier Code of Conduct or have an acceptable equivalent in place 4. We have conducted an in-depth due diligence audit on our office furniture, apparel and merchandise suppliers. Key objectives included: • Assessing our suppliers' broader sustainability and specific modern slavery risks and performance • Identifying best practices in specific sectors and categories of products and services • Raising awareness, and supporting our suppliers to improve their own sustainability and modern slavery performance Refer to section 5 for a detailed summary of the category-deep dive campaigns.	Objectives for FY23 met, goal carried over to FY24
2. Understand & manage third party risk Enhance our understanding of the risk associated with third party suppliers	1. Reporting and escalation of material risks and issues to Executive Leadership team (XLT) Risk Committee and/or Audit and Risk Management Committee (ARMC) 2. Articulation of modern slavery risk in relevant risk profile(s) where appropriate	FY23 & FY24	1. Establishment of the XLT Risk Committee which provides governance over the most material risks, both current and emerging, including any material modern slavery-related risks. Enhanced risk radar reporting to the XLT Risk Committee and Board/ARMC, including new and emerging risks and effectiveness of risk management processes 2. Continued development and ongoing governance of the functional risk profiles across Xero	Objectives for FY23 met, goal carried over to FY24

[1] Includes only suppliers who we have procured from in FY23

2. Our actions and progress during FY23

Goal	Key deliverables	Duration	Initiatives undertaken in FY23	Status
3. Refine supplier risk profile and compliance Revisit and refine our supplier risk assessment and develop an action plan to improve oversight of higher risk suppliers' compliance	1. Develop an approach to undertake supplier due diligence 2. Pilot supplier due diligence approach	FY23 & FY24	1. A risk-based supplier due diligence approach was developed, and included a desktop audit component. This was developed in house and includes physical audits for higher-risk suppliers 2. Piloted in FY23, the next step will be to refine this approach and integrate it into our procurement processes in order to assess the compliance measures of future suppliers	✓ Goal met & completed
4. Detect and address non-compliance Develop, document and communicate a formal process for investigating and remediating instances of modern slavery, suspected modern slavery or modern slavery-like behaviour in our operations and supply chain	1. Detect modern slavery incidents through new and existing mechanisms 2. Integrate modern slavery consideration into existing incident management processes	FY23 & FY24	1. We developed a draft Sustainability Incident Management Plan (SIMP) to help with the identification of modern slavery incidents 2. The next step will be to take steps to embed that Sustainability Incident Framework in Xero's incident management approach	✓ Objectives for FY23 met, goal carried over to FY24
5. Enhance modern slavery governance Increase cadence of reporting to XLT and the ARMC on progress in executing our work plan and mitigating modern slavery risk	1. Increase cadence of reporting to executives and ARMC on modern slavery work plan 2. Establishment of Modern Slavery committee to advance modern slavery priorities	FY23	1. Executives and the ARMC are provided with a quarterly progress report on our modern slavery work plan 2. Modern slavery committee has been set up and meets on a quarterly basis, as a minimum	✓ Goal met & completed

In addition to our committed actions, throughout the course of the year we identified several additional gaps and opportunities.

In FY23, we joined the United Nations Global Compact (UNGC) as a corporate member. Primarily, we have joined the UNGC Network Australia to work collaboratively with peers and build upon existing measures we have in place to prevent modern slavery in our operations and supply chain.

In FY23, we completed Xero's second stakeholder engagement and materiality assessment in accordance with the International Integrated Reporting Council (IIRC) Framework. This allows us to continue to identify and respond to the sustainability issues, risks and opportunities that are most material to our stakeholders to create long-term value at Xero.

The assessment considered a range of inputs, including peer and competitor benchmarking, a review of the Sustainability Accounting Standards Board (SASB) software and IT services sector standard, and Xero's internal policy documents.

We reviewed a range of thought leadership documents from leading institutions such as the World Bank, World Economic Forum and Organisation for Economic Development (OECD) to ensure global macroeconomic and geopolitical trends were reflected in the analysis. We also engaged directly with internal and external stakeholders through surveys with more than 1,000 responses from employees, investors, board members, partners, and customers. The initial findings were reviewed by our ESG Steering Committee, and validated by the Xero leadership team and board of directors.

Responsible sourcing and modern slavery risk, was a material issue for Xero and we are continuing to take action to improve performance in supply chain management, and appropriately manage this risk.

2.1 Impact of COVID-19

During FY23, COVID-19 did not materially impact our ability to assess and address our modern slavery risks. Our approach, where possible, was to avoid cancelling supplier contracts and defer any monies paid to future contracts in the hope this would support our ongoing relationships with suppliers, thereby mitigating the risk that workers employed under these contracts would be adversely affected by the impacts of COVID-19 on our business relationships.

3. Our structure, operations and supply chains

Modern Slavery Statement FY23

3.1 Our structure

Xero Limited is a New Zealand incorporated company and is listed on the Australian Securities Exchange. It is the parent company of the Xero Group which, as at 31 March 2023, included a total of 30 entities across Australia, New Zealand, the United Kingdom, Germany, Poland, Denmark, Sweden, Norway, the United States of America, Canada, Hong Kong, Singapore, South Africa and India (**Xero Group**).

More information about the country of incorporation of the entities in the Xero Group can be found in Xero Limited's Annual Report for FY23.

As at 31 March 2023, companies in the Xero Group operated in the information technology sector and/or the financial services sector. The majority of companies in the group[2] followed policies and processes set by Xero Limited and shared centralised sustainability, procurement, finance, legal, risk and company secretarial functions.

3.2 Our operations

Xero provides an easy to use cloud-based online accounting platform, including a growing suite of connected software solutions:

- client accounting for small business available anywhere, anytime, and on mobile devices

- accountant tools for management reporting and final accounts production

- Xero's ecosystem consists of more than 1,000 connected apps to support other small business and nonprofit needs

Our subscription based software-as-a-service business model allows Xero to address the large and fragmented small business market. As at 31 March 2023, Xero had over 3.7 million subscribers worldwide, over 5,000 employees globally and generated total operating revenue of $1.4 billion[3].

3.3 Our brands

In Australia and the United Kingdom, the Xero Group provides information technology products and services under the brand names Xero, Hubdoc, Planday, Workflow Max, and Tickstar. In Australia, Waddle also provides cloud-based invoice financing services under the brand names Waddle from Xero and Waddle Services from Xero[4].

3. Our structure, operations and supply chains

3.4 Our supply chains

At Xero we have relationships with over 2,300 global suppliers, and this number is increasing as we continue to grow and expand across the globe. Our supplier arrangements range from one-off purchases with non-contracted suppliers through to multi-year contract agreements.

Our suppliers (both software and non-software) are critical to the success of our operations at Xero. They vary in criticality, and risks may arise with our suppliers which need to be carefully managed.

Our supplier Business Owners play an essential role in this process as they have the responsibility of owning the business relationship Xero has with the supplier, and therefore the associated risk(s) during the entire supplier relationship lifecycle.

Contracts and supplier engagements that are of low value (under $100,000) and considered low risk can be initiated by employees directly through a 'self-serve' process. This process identifies risks and directs employees to Procurement, or other internal teams as required.

We have a mix of short and long-term relationships with our suppliers but, in general, our preferred approach is to build long-term relationships with our suppliers.

3.4.1 What we procure

Our centralised global procurement team focuses on the procurement of information and communications technology (**ICT**), marketing and sales, financial, professional and workplace facilities-related goods and services for the Xero Group.

Category	Description
Marketing & Sales	This was our largest category of spend in FY23, comprising around one third of our total procurement spend by value. It's made up of advertising and media spend (including digital), agency spend (advertising, marketing and public relations), events (e.g. Xerocon conferences and regional roadshows), sponsorships, creative marketing services, sales, and public relations related services and merchandise.
Information and communications technology (ICT)	This was our second largest category of spend in FY23, representing more than 30% of our total procurement spend by value. This category includes software, hosting and cloud platform services, computer systems and peripheral devices, telecommunications and network technology and services.
Professional Services	Our spend in this category is mainly made up of software engineering and development, consulting, legal and other professional services. It represented more than 12% of our total spend by value in FY23.
Workplace and Facilities	This category of spend represented close to 10% of total spend by value in FY23, and includes the office leasing costs and the range of facilities suppliers Xero engages with to maintain our offices premises in more than 10 locations, including: project management companies, architects, construction contractors, relocation providers and furniture suppliers. Each office also requires goods and services such as cleaning services, office maintenance, consumables and stationery.
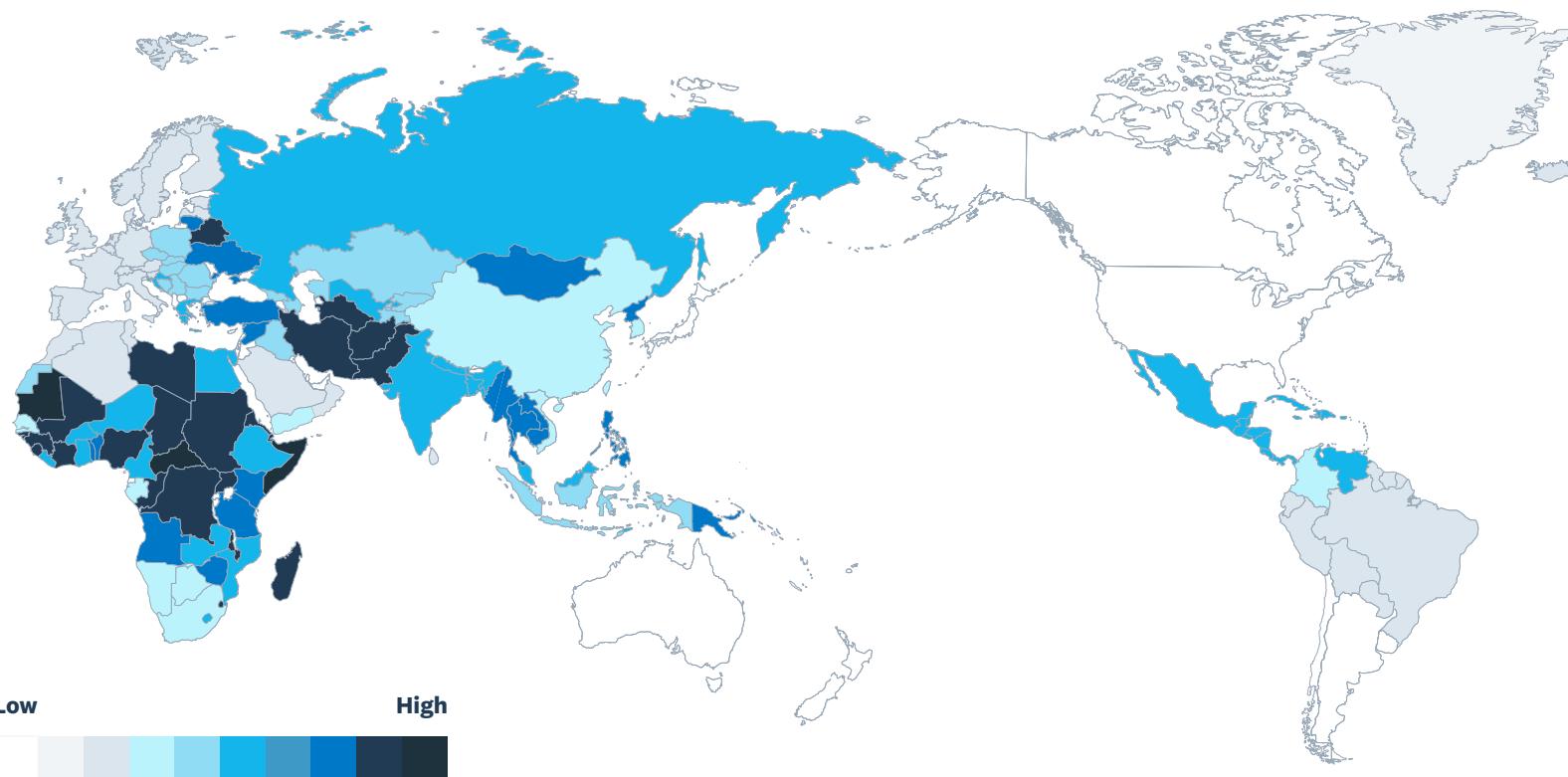
Other notable procurement categories for the Xero Group include: Banking and payments, Recruitment, healthcare, contractor and training services, Financial and insurance services, Travel and entertainment

3.4.2 Where we procure

During FY23, we were directly invoiced by more than 2,100 suppliers across more than 35 countries. Around two thirds of direct suppliers are located in New Zealand, Australia, the US and the UK. These countries have a low prevalence of modern slavery and governments that take strong action against it[5].

Xero's Supply Chain Map
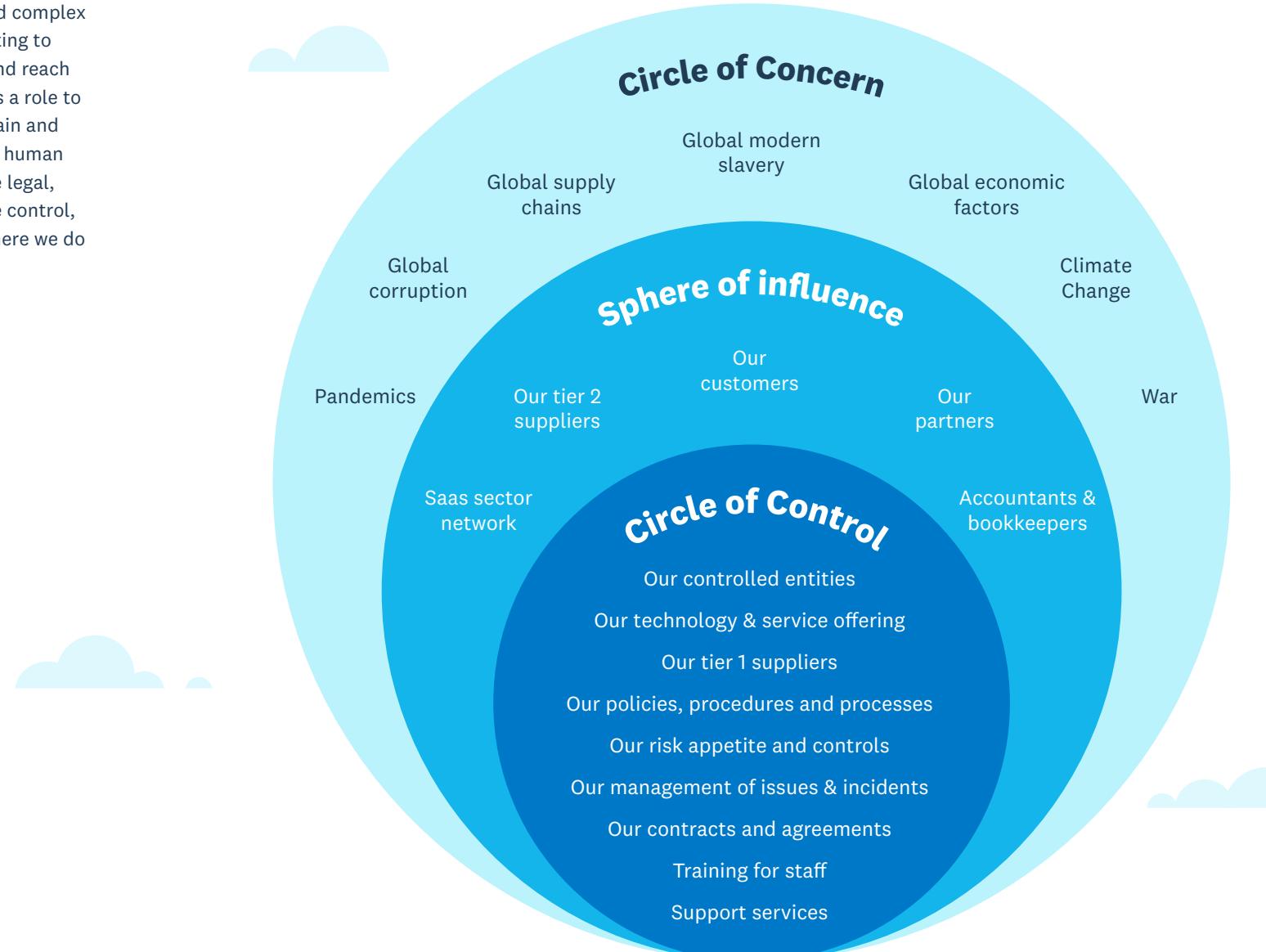
Low   High

Australia
23% of total spend
19% of supplier count

Canada
2% of total spend
6% of supplier count

Denmark
3% of total spend
10% of supplier count

New Zealand
37% of total spend
20% of supplier count

Other
3% of total spend
12% of supplier count

Singapore
1% of total spend
3% of supplier count

South Africa
2% of total spend
3% of supplier count

United Kingdom
13% of total spend
13% of supplier count

United States
16% of total spend
15% of supplier count

[5] The Walk Free 2018 Global Slavery Index, available from **https://www.globalslaveryindex.org/resources/downloads/**

4. Modern slavery risks in our operations and supply chains

Modern Slavery Statement FY23

We recognise that modern slavery is a global and complex problem. Many of the risks and factors contributing to modern slavery extend far beyond the control and reach of any one entity, and Xero recognizes that it has a role to play as a large company with a global supply chain and workforce. We are committed to helping protect human rights, and to taking meaningful action using the legal, policy, operational and management settings we control, and leveraging our influence to effect change where we do not have direct control.

Circle of Concern

Global modern slavery

Global supply chains

Global economic factors

Global corruption

Climate Change

Sphere of influence

Our customers

Pandemics

Our tier 2 suppliers

Our partners

War

Saas sector network

Accountants & bookkeepers

Circle of Control

Our controlled entities

Our technology & service offering

Our tier 1 suppliers

Our policies, procedures and processes

Our risk appetite and controls

Our management of issues & incidents

Our contracts and agreements

Training for staff

Support services

4.2 Our risk methodology

At a strategic level modern slavery risks are managed in accordance with Xero's existing risk management framework which is designed to identify material financial and non-financial risks that may impact our ability to achieve our strategic priorities.
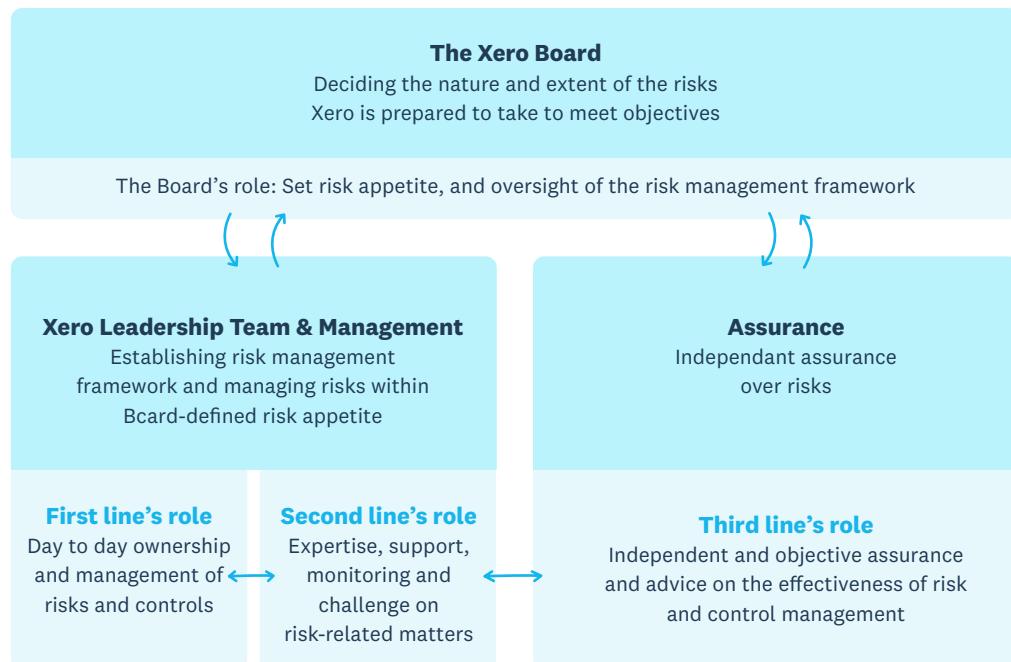
The Board has ultimate accountability for risk management, which includes ensuring that accountability for risk management, which includes ensuring that current and emerging risks are identified and adequate controls, monitoring, and reporting mechanisms are in place and operating effectively.

The Audit and Risk Management Committee (ARMC) assists the Board with its oversight of risk coordination, collaboration management, audit, and compliance with legal and regulatory requirements within the Committee's area of responsibility. Responsibility for managing risks within the Board-defined risk appetite is shared between the Xero Leadership Team, management and all our people.

We recognise that everyone at Xero has a role to play in this area. Therefore, we have aligned accountability for managing risk to the globally recognised 'Three Lines Model'. Key roles are outlined in 'Xero's Risk Management Accountability - Three Lines Model'.

Modern slavery and broader sustainability related risks are considered a key risk with potential financial, people and culture related material impacts. The risk is regularly reviewed and is overseen by the Xero Leadership Team and ARMC.

Xero's Risk Management Accountability – Three Lines Model

The Xero Board
Deciding the nature and extent of the risks
Xero is prepared to take to meet objectives

The Board's role: Set risk appetite, and oversight of the risk management framework

Xero Leadership Team & Management
Establishing risk management framework and managing risks within Bcard-defined risk appetite

Assurance
Independant assurance over risks

First line's role
Day to day ownership and management of risks and controls

Second line's role
Expertise, support, monitoring and challenge on risk-related matters

Third line's role
Independent and objective assurance and advice on the effectiveness of risk and control management

External Assurance Providers

Key

Accountability, reporting

Delegation, direction, resources, oversight

Alignment, communication, coordination, collaboration

4.2 Modern slavery risks in our operations

4.2.1 Direct labour

The Xero Group has physical office locations in more than 10 countries. Almost all (more than 98%) of our global workforce is located in countries considered to be at low risk of modern slavery and with governments who take strong action against it. We have a very small number of employees in countries where local laws and regulations to counter modern slavery are not as strong, but these employees are employed by the Xero Group directly and subject to the same robust hiring processes as all other Xero employees globally.

As a software company, our workforce predominantly comprises skilled labour. As part of our standard recruitment processes[6], we undertake a range of checks to satisfy ourselves that our employees are legally allowed to work and have valid identity documents and/or visas for the location where they will be working. We do not employ children in any capacity within the Xero Group. As such, we consider the risk of modern slavery and human trafficking in our directly-employed workforce to be low, and managed appropriately within Xero's existing risk management framework.
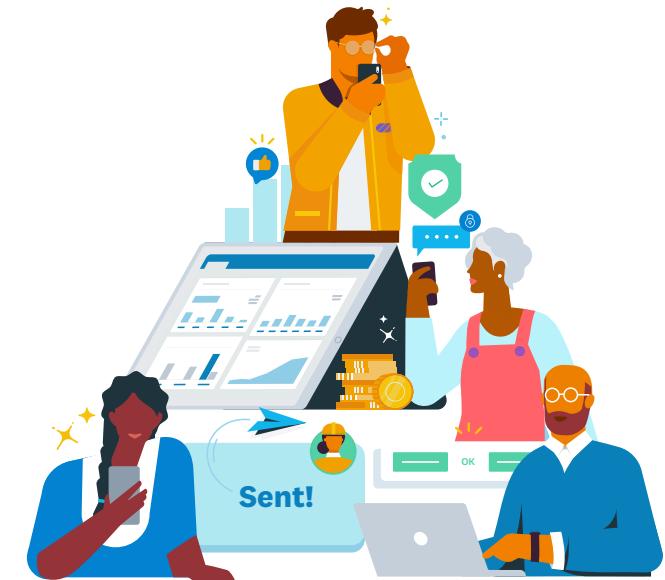
4.2.2 Indirect labour

From time to time we may call upon external providers to supply us with workers to meet temporary peaks in demand. We may also engage workers on short-term or temporary contracts.

The majority of these workers are skilled workers. This represents a very small part of our overall operating workforce: 95% of our people are direct employees of the Xero Group, meaning around 5% of our people are contingent workers.

Where we use agencies to provide contingent workers in New Zealand, these companies are part of a panel of providers who are pre-screened to ensure they have signed our Supplier Code of Conduct (Supplier Code) and are contractually bound to satisfy that the workers they supply to Xero are paid fairly, in accordance with the law in the jurisdiction where they are working, and are not victims of modern slavery or human trafficking. In all other locations, agencies supplying workers or contractors are governed by supplier agreements and must also agree to comply with our Supplier Code. Of the contingent workforce Xero used in FY23, more than 75% were located in countries considered to be at low risk of modern slavery and with governments who take strong action against it[7].

The Xero Group also has a range of contracts with specialist providers of contract consulting services, notably in the information technology sector, who may supply workers to work partly or exclusively on a scope of work agreed with Xero. These providers are treated as suppliers and the risk associated with their workforce is managed in accordance with the supply chain risk management process outlined below.

[6]The Walk Free 2018 Global Slavery Index, available from **https://www.globalslaveryindex.org/resources/downloads/**

4.2.3 Other third parties

We also work with third parties who form part of our broader ecosystem and contribute to generating operating revenue. These third parties are treated differently from suppliers and fall into three main groups:

- Accounting and bookkeeping partners, who may recommend and on-sell Xero products to their clients

- Developers and strategic partners who create software that connects to the Xero platform, including apps available for purchase in the Xero App Store

- Banks and financial institutions who provide direct data feeds into our platform and products

As we do not have direct visibility of the supply chains of these third parties, we have less ability to assess and a less mature understanding of the risk of modern slavery and human trafficking in part of our operations.

In FY24, we are planning to undertake a risk assessment of our non-supplier third party entities to understand our risk exposure for each of the abovementioned groups and the current controls we have in place.

4.2.4 Financing products

Within the Xero Group, Waddle provides small business invoice financing in Australia. As part of its ongoing due diligence process, Waddle monitors and assesses a range of risks associated with the business activities of its lending clients. Based on our consultation with Waddle and several additional factors, we consider our modern slavery risk profile with respect to lending to be low. These additional factors include Xero's decision to exit the Waddle business, the sectors of operation represented in Waddle's current lending portfolio and the fact that Waddle only lends to small businesses based in and operating in Australia, in respect of invoices issued in Australia to other businesses operating in Australia.

As part of its due diligence process, Waddle monitors and assesses a range of risks associated with the business activities of its lending clients. Employees with the authority to approve Waddle business lending are required to complete the same compulsory modern slavery awareness training as all other employees in the Xero Group. This assists their understanding of the types of businesses where there is a higher risk of modern slavery and human trafficking. All Waddle employees complete a broad range of training, including but not limited to, annual anti-money laundering and counter terrorism financing training.

Waddle's Know Your Customer (KYC) due diligence also helps us to confirm and verify customers, and the nature of their business activities, using independent and reliable sources.

[7] The Walk Free 2018 Global Slavery Index, available from **https://www.globalslaveryindex.org/resources/downloads/**
[8] In March 2023, Xero announced its plans to exit Waddle.

4.3 Modern slavery risks in our supply chain

We take a risk-based approach to managing our suppliers, meaning we do more due diligence in relation to suppliers who operate in sectors or geographies where the risk of modern slavery and human trafficking is known to be higher. We conducted a broad-based risk assessment of our existing suppliers in 2020 and identified those considered to be higher risk on this basis. New suppliers that we have onboarded since that date have been assessed for modern slavery and human trafficking risk as part of the tender selection process. We continue to evolve and refine our understanding of supplier risk.

Approximately half of purchases undertaken by Xero are channelled through our central procurement process, allowing us to centrally assess the risk of modern slavery and human trafficking in these purchases. We recognise that where employees are able to make smaller purchases directly, there is an increased risk related to suppliers who are not part of our formal procurement process. As a result, we decided to make our modern slavery awareness training mandatory for all Xero employees.

4.3.1 Specific sector, product and service-related risks

Xero is committed to minimising the risk of directly causing modern slavery and/or contributing to it.

Our procurement team is trained in modern slavery issues, including the potential effect that unrealistic cost and timing expectations may have on encouraging modern slavery. Our people are also required by our Code of Conduct to report any suspected breaches of the law, including instances of modern slavery.

Nonetheless, we recognise that some sectors, products and services in our supply chains, in particular when sourced from higher risk regions, may create an amplified modern slavery risk[9,10].

The following tables outline the nature of these risks within our business and how we managed these in FY23.

Sector	Key geographies	Main types of modern slavery risk	Type of potential impact[11]	Xero's risk exposure and management	Risk level[12]
Accommodation	• Australia • Canada • New Zealand • United Kingdom • United States	• Debt bondage • Slavery • Human trafficking	Direct link	Executive and employee travel. In FY24 we will work to engage our corporate travel provider to prioritise accommodation providers who manage their modern slavery risk proactively.	**Lower**
Cleaning	• All countries where Xero has physical offices	• Forced labour • Debt bondage • Slavery • Human trafficking	Direct link, Contribute	A 'category deep dive' has been undertaken in FY22, suppliers have been assessed and improvement recommendations have been provided.	**Medium**
Construction	• All countries where Xero has physical offices	• Forced labour • Child labour • Slavery • Human trafficking	Direct link	Construction of physical premises for Xero offices is managed through rigorous tender processes to select providers who are willing to agree to comply with our Supplier Code.	**Medium**
Electronics	• China • Malaysia • Hong Kong • Japan	• Forced labour • Child labour • Debt bondage • Human trafficking	Direct link, Contribute	Purchase of electronic equipment (IT hardware and mobile phones) is managed through preferring established suppliers with a commitment to working to prevent modern slavery.	**Medium**

[9] Australian Border Force identifies sectors, products and services at higher risk of modern slavery at **https://modernslaveryregister.gov.au/resources/**
[10] "Cause, contribute and directly linked" as defined in the UN Guiding Principles and OECD Guidelines on Business and Human Rights
[11] As defined in the United Nations Guiding Principles on Business and Human Rights, 2011. See below for details.
[12] As defined in our 2020 broad-based supplier risk assessment.

4. Modern slavery risks in our operations and supply chains

Sector	Key geographies	Main types of modern slavery risk	Type of potential impact[11]	Xero's risk exposure and management	Risk level[12]
Event management and food services	• All countries where Xero has physical offices	• Forced labour • Child labour • Slavery • Human trafficking	Direct link	Purchase of event management services, including catering, at Xero events is managed through supplier screening at the point of tendering.	**Medium**
Digital and technology advisory and delivery services	• Australia • Canada • India • New Zealand • United States	• Debt bondage • Slavery • Forced labour	Contribute	Using professional services firms to provide advisory, delivery and resource augmentation services in the digital and technology space is managed through a panel of approved digital providers, due diligence at the point of contact and through our Supplier Code.	**Medium**
Office fittings	• Australia • China • New Zealand	• Forced labour • Debt bondage • Slavery • Human trafficking	Direct link	A 'category deep dive' has been undertaken in FY23, suppliers have been assessed and improvement recommendations have been provided. Purchase of items to fit out Xero offices is managed through preferring established suppliers that have committed to working to prevent modern slavery and agreed to our Supplier Code.	**Higher**
Apparel and merchandise	• Australia • Bangladesh • China • New Zealand • United States	• Forced labour • Debt bondage • Child labour • Slavery • Human trafficking	Contribute	A 'category deep dive' has been undertaken in FY23, suppliers have been assessed and improvement recommendations have been provided.Purchase of employee t-shirts and promotional merchandise for use in Xero offices and at Xero events is managed through preferring established suppliers that have committed to working to prevent modern slavery and agreed to our Supplier Code.	**Higher**
Food and beverage	• All countries where Xero has physical offices	• Debt bondage • Slavery • Forced labour	Contribute	Catering at Xero events is managed through rules and policies set for the event management company by Xero. Catering at Xero offices represents a small amount of our catering spend and is managed by individual offices.	**Higher**
Stationery	• Various countries	• Forced labour • Debt bondage • Slavery • Human trafficking	Direct link	Purchase of items of stationery for use in Xero offices and at Xero events is managed through preferring established suppliers that have committed to working to prevent modern slavery and agreed to our Supplier Code.	**Higher**

* Xero also has some modern slavery risks deep in its supply chain, including child labour, forced labour, debt bondage and human trafficking in Agriculture, Extractives, Fisheries, Forestry, Timber and Textiles.

Our understanding of the UNEP's (United Nations Environment Programme) continuum of involvement

Cause	Contribute	Directly linked	No involvement
A company may **cause** modern slavery if its own activities directly result in a modern slavery impact.	A company may **contribute** to modern slavery if its activities significantly contribute to modern slavery caused by another party, including acts or omissions that may facilitate or incentivise modern slavery.	A company may be **directly linked** to modern slavery if the impact is directly linked to its operations, products or services by its business relationships. Direct linkage may occur even where there is no direct contractual relationship.	A company may **not be linked** to a modern slavery impact.

Responding to impact

Take action where possible to improve human right outcomes			
Seek to prevent or stop the impact; provide for or cooperate in remediation.	Seek to prevent or stop contribution; use leverage to mitigate any remaining impact, as far as possible; provide for or cooperate in remediation.	Seek to build or use leverage to prevent and mitigate the impact and consider whether to stay in relationship if there is no leverage; show ongoing efforts to mitigate the impact; potentially take a role in remediation.	

4. Modern slavery risks in our operations and supply chains

4.3.2 Location-specific risks

Around 7 percent of our direct suppliers are located in countries that have a medium-high modern slavery risk. The large majority of those are in South Africa and Singapore, where Xero has a physical presence. Refer to section 3 for a more detailed overview.

Marketing and event services, information technology, data migration, professional services and recruitment services are the main categories of goods and services that we procure from our suppliers in these countries.

As a result of their country of origin and/or delivery, suppliers of these goods and services are considered higher risk and are managed in accordance with our enhanced due diligence process for higher risk suppliers.

Our country's risk profiles are informed by international indices, including the Walk Free 2018 Global Slavery Index, The UNESCO Worldwide Governance Indicators (WGI) project and the US State Department's Trafficking in Persons Report 2022.

As is the case for most reporting entities, country/location for our supply chain is based on the supplier's address in our accounts payable system and may not reflect the location from which products and/or services are delivered.

At present, our key mechanism for managing modern slavery risks in our extended supply chains is the requirement that our suppliers comply with our Supplier Code and notify us of any actual or potential breaches of it (see section 5).

In addition, through our risk–based supplier due diligence process we also ask our direct suppliers questions on their supply chain to understand what controls they have in place.
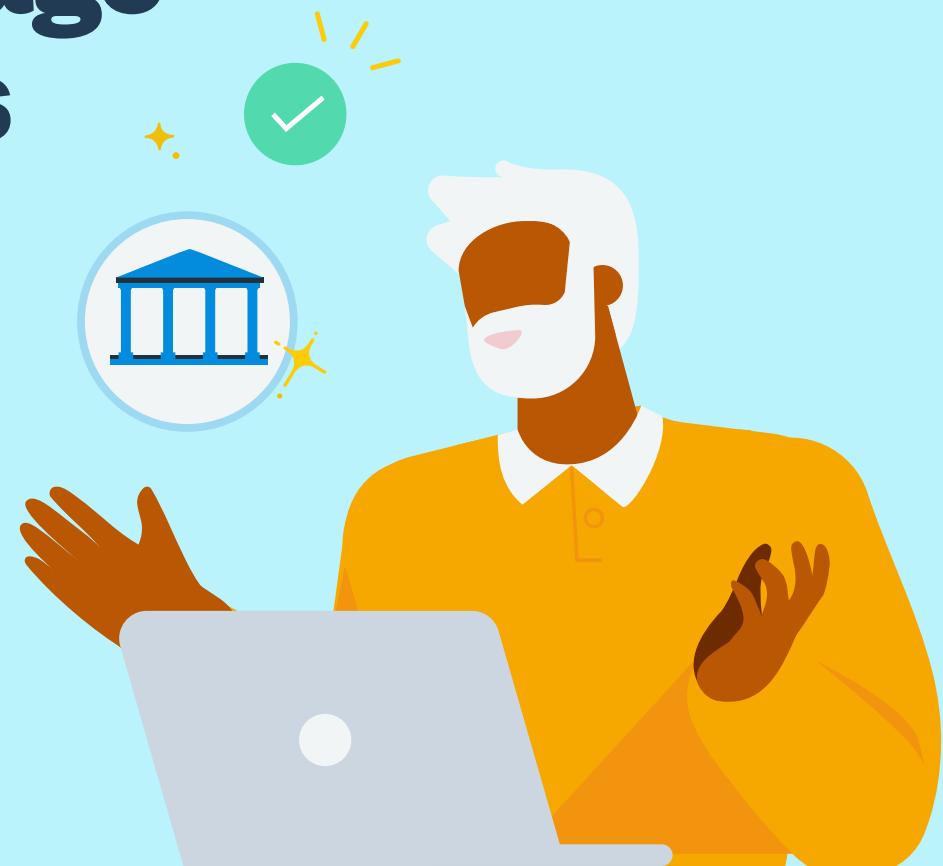
Due to the nature of our spend profile and supplier arrangements, we deem our modern slavery risk exposure to be relatively low and therefore current controls to manage our extended supply chain to be adequate. However, should a specific procurement arrangement be deemed higher risk, we would evaluate whether the current measures are sufficient or whether additional controls are warranted.

5. Our governance processes and controls to manage modern slavery risks

Modern Slavery Statement FY23

Xero is committed to high standards of corporate governance and our Board is responsible for ensuring that we have an appropriate corporate governance framework. Forming part of and underpinning that framework are a number of policies and processes that assist us in addressing our modern slavery risks, including our due diligence and remediation processes.

One of our committed actions in FY22 was to enhance modern slavery governance and provide increased visibility to the executives and the ARMC on our efforts to mitigate modern slavery issues and incidents in our operations and supply chain, and proactively manage the risk.

In FY23, we established a cross-functional modern slavery working group which meets on a quarterly basis to advance our modern slavery commitments. We now also provide the executive team, and the ARMC with regular progress reports on our modern slavery work plan.

In FY23, we commenced work to help ensure that modern slavery related incidents are detected and appropriately dealt with through Xero's existing business risk incident process.

We aim to further embed consideration of modern slavery risks in our current business processes in the course of FY24. This will also provide an avenue to escalate material incidents to the executive team and the ARMC on a regular basis.

5.1 Our key controls

Control type	Description	Scope of control
Recruitment due diligence	We operate a robust recruitment process that includes right to work checks for prospective employees (see Section 4 above).	**Employees**
Modern slavery awareness training	We require everyone at Xero, including our senior leaders and directors, to complete training to help them to identify the warning signs of modern slavery and understand how to raise concerns. In addition, our procurement specialists undertake deeper training to help them identify the ways in which procurement practices can impact on modern slavery risks. Xero Limited's Board of Directors (Board) has been provided with the same content in an appropriate format, with additional information to facilitate their oversight of the risk of modern slavery in our operations and value chain. In FY24, we will review the scope and content of the modern slavery training available to all employees to determine whether it is still fit for purpose or whether it needs to be enhanced or amended.	**All employees and Xero's Board of Directors**
Procurement team training	By the end of FY23 all members Xero's procurement team had completed the annual ethical procurement and supply chain certification training provided by the Chartered Institute of Procurement & Supply (CIPS), so that they can better recognise situations where we need to consider modern slavery risks and safeguard against unethical behaviours in our supply chain. In FY24, we will review training requirements for the procurement team to ensure that their training certification remains up to date, determine whether additional training may be required and/or whether other functions may also benefit from more in-depth modern slavery/human rights related training.	**Procurement team**

Control type	Description	Scope of control
Standard contractual terms modern slavery	Our standard form contracts include language requiring our suppliers to comply with all laws applicable to their business including: federal, local, and international (including modern slavery and human trafficking laws) that apply wherever they do business.	**Suppliers**
Supplier Code of Conduct (SCoC)	We've developed our Supplier Code in line with global principles, including the UN's Guiding Principles on Business & Human Rights. It sets out the minimum standards that we expect of our suppliers in areas such as modern slavery, labour and human rights, bribery and corruption. We inform our existing and new suppliers that we expect compliance with its principles and standards. Our Supplier Code makes it clear that we expect our suppliers to assess their compliance with the Supplier Code and inform us if they don't meet its requirements. We also require suppliers to notify us if they become aware of a breach or possible breach of the Supplier Code. We expect our suppliers to manage their own suppliers to ensure they also meet the Supplier Code's standards. If a supplier can't meet or breaches our Supplier Code, it is our preference to work with them to resolve the issue in order to provide the best outcome for the workers we are seeking to protect. Where a supplier is unwilling or unable to bring conditions in line with our Supplier Code, we may also consider terminating the contract and seeking an alternate supplier.	**Suppliers**
Supplier due diligence	Aligned with ISO 20400, Australia's Modern Slavery Act 2018 and best practice recommendations, our approach to supplier due diligence is informed by the level of risk the relationship and procurement engagement is subject to, based on best available information. As we committed to in our FY22 statement, in FY23 we refined and further developed our risk-based due diligence approach. Our supplier due diligence approach involves a mixture of category deep dives, desktop based surveys, physical audits, interviews with existing and new suppliers to understand current practices and mitigate potential modern slavery issues and incidents.	**Suppliers**

Control type	Description	Scope of control
Category Deep Dives	This year we undertook two category deep dives focusing on: apparel and merchandise, and office furniture. These were deemed priorities based on the level of risk and the leverage that Xero has to influence current practices. Unlike in previous years, we expanded our 'Category Deep Dives' remit to include environmental performance in addition to modern slavery and labour rights. We developed tailored sustainability related questions for each category and requested our suppliers to provide us with their written response, substantiated by evidence, where this was deemed appropriate. The responses were reviewed and customised feedback with recommendations for improvements were provided to each entity. To ensure that recommendations were realistic, the size of the entity assessed was taken into consideration. This ensures that recommendations for improvement were appropriate and do not inadvertently discriminate against small to medium sized enterprises. In our assessment we also took into consideration the potential risk that each supplier would be exposed to based on criteria such as: location of the goods manufactured, business model (e.g. if the respective supplier manufactures the products or whether they are an intermediary), existing compliance breaches (direct or indirect). The two deep dives provide further detail on the process, key findings and lessons learnt.	**Suppliers**

Category Deep Dive 1:
Apparel and merchandise

We contacted our apparel and merchandise goods related suppliers to complete a desktop modern slavery and ESG Category Deep Dive, which 90% of our suppliers completed.

The majority of suppliers in this category are based in countries that are considered lower risk for modern slavery prevalence. However, a small number ranks medium for modern slavery vulnerability, the remainder are considered lower risk.

Of the suppliers that participated in this assessment, 80% procure finished goods from a supplier and 20% are a manufacturer.

Goods procured are manufactured in countries of multiple origins including: China, Australia, New Zealand, USA, Switzerland, Sweden, UK and South Africa. Hence, the modern slavery risk profile varies quite considerably.

Xero assessed the maturity of each respondent's deep dive response and assigned each supplier a grade, with the results varying significantly. Results for the modern slavery risk component ranged as follows:

• 'suggest improvement' 18%
• 'meets requirement' 36%
• 'good practice' 27%
• 'leading' 18%

In general, suppliers with leading and good practices had robust controls in place such as: contractual provisions, supplier code of conduct, policies, stakeholder engagement, training and supply chain mapping.

A response was considered leading if, among other factors, claims relating to a supplier's robust controls were also verified (where appropriate) by a third party auditing/certifying body and a recent certificate was provided as evidence.

On the other hand, suppliers that performed less well 'suggest improvement' had few if any controls in place that would ensure adequate management of modern slavery risk.

Category Deep Dive 2: Office furniture

We contacted our office furniture related suppliers to complete a desktop modern slavery and sustainability Category Deep Dive. 80% of our suppliers responded to the assessment of which 20% provided an incomplete response which could not be assessed.

All the suppliers in this category and who completed the assessment are based in countries that are considered lower risk for modern slavery prevalence and vulnerability.

Out of the suppliers that participated in this assessment, 57% procure finished goods from a supplier and 43% are a manufacturer.

Goods procured are manufactured in countries of multiple origins including: China, Australia, New Zealand, UK, Lithuania, Netherlands and India. However, a sizable proportion are manufactured in New Zealand, which is considered by the Walk Free Foundation, creators of the 2018 Modern Slavery Index, to carry a lower modern slavery risk.

Xero assessed the maturity of each respondent's deep dive response and assigned each supplier a grade, with the results varying significantly particularly for the modern slavery risk management component. Results ranged as follows:

• 'meets requirement' 50%
• 'leading' 50%

There was a significant difference between leading performers and entities that just met the requirement. However, for this category none of the suppliers performed average.

The top performance had strong measures in place including: third-party certifications, management systems (for example ISO accreditation), contract clauses, periodic risk assessments, audits, policies, remediation and whistleblowing processes and training.

Category Deep Dive 3: Next steps

Tailored feedback was provided to each supplier across both categories in order to encourage them to take further action to manage the risk effectively and ensure that appropriate controls are in place.

The next step for Xero is to explore opportunities to improve our approach, including investigating a potential system and technology solution.

It will also provide Xero with increased visibility of supplier's modern slavery practices and performance, and in turn determine priorities.

5.2 Modern slavery incidents & remediation processes

Xero is in the process of exploring appropriate mechanisms that can alert us when a sustainability related incident, including possible incidents of modern slavery, occurs in our supply chain.

Simultaneously, through our modern slavery work plan, we are working on integrating sustainability related incidents in our existing process and system. This will support a more standardised remediation process should incidents arise in the future.

We have a number of mechanisms that allow our employees and third parties to report concerns about suspected or actual improper conduct, including modern slavery. These include:

Reporting Mechanism	Description	Scope of mechanism
Raising concerns directly	Our modern slavery awareness training encourages our people to be alert to any situation that doesn't feel right to them and could possibly involve modern slavery, and to raise their concerns directly with the procurement or legal team. Our people are also required by our Code of Conduct to report any suspected breaches of the law, including instances of modern slavery. We also have internal Slack channels devoted to sustainability and ethics, where our people ask questions about things that might not seem right to them and we refer their concerns on to the procurement, people experience or legal team depending on the nature of the concern.	**All Xero employees**
Raising concerns anonymously	Our Whistleblower Policy covers whistleblowing concerns raised by anyone who currently works or formerly worked at any entity in the Xero Group (including contractors and consultants, associates of Xero, secondees, volunteers, interns, casual workers and agency workers) as well as any current or former supplier of goods or services (paid or unpaid) to any entity in the Xero Group, and their relatives, dependents or spouses. Our Whistleblowing Policy supports the reporting (including anonymously) of concerns about illegal or unethical conduct. The policy is available on Xero's website and to employees via Xero's intranet.	**All Xero employees, contractors and consultants, associates of Xero, secondees, volunteers, interns, casual workers and agency workers**

6. Assessing the effectiveness of our actions

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Our procurement team has key performance indicators **(KPIs)** to manage and report on the quantitative impact of our actions in response to modern day slavery risks.

The KPI's include:

100%: percentage of procurement staff who have completed training on modern slavery at 31 March 2023[14]

We have implemented a number of measures to improve modern slavery governance at Xero. The quarterly working group that has been established this financial year brings together leaders from procurement, risk, legal, human resources and sustainability to discuss modern slavery issues and any other material matter.

The sustainability team is also part of the Risk Steering Committee to help ensure that sustainability (including climate change, human rights and modern slavery) are embedded in the organisation's risk management approach.

[14] Excludes staff on long term leave as at 31 March 2023

7. Our next steps

Looking ahead to the financial year ending 31 March 2024 (FY24), Xero will look to focus on five action areas and report regularly to the ARMC on our progress towards achieving these:

Improve supply chain visibility: Continue to deepen our visibility and understanding of modern slavery and human trafficking risks in our supply chain (action carried forward from FY23)

Detect and address non-compliance: Develop, document and communicate a formal process for raising concerns, investigating and remediating instances of modern slavery, suspected modern slavery or modern slavery-like behaviour in our operations and supply chains (action carried forward from FY23)

Modern slavery in 3rd party relationships (non-supplier): Undertake a risk analysis to understand modern slavery exposure through our partnership arrangements and identify appropriate controls (this is a revised action, based on action 2, that we committed to in FY22)

Training and engagement: Revisit our internal and external stakeholder training and engagement approach on modern slavery and develop a comprehensive framework (NEW action)

Governance: Formalise and enhance our internal consultation process with all owned and controlled entities (NEW action)

8. Consultation and approval

This is a joint statement of Xero Limited (NZ company number 1830488, ARBN 160 661 183) and Xero Australia Pty Limited (ACN 124 215 247), as reporting entities under Australia's Modern Slavery Act 2018 (Cth) and of Xero Limited and Xero (UK) Limited (UK company number 06071722), as reporting entities under the United Kingdom's Modern Slavery Act 2015. It covers the period from 1 April 2022 to 31 March 2023.

The directors of all owned and controlled entities of the above reporting entities were consulted on the statement prior to the statement being reviewed and approved by the Board of Xero Limited on 16 May 2023.

Mark Cross
Non-Executive Director and Chair of the Audit & Risk Management Committee

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