



XERO LIMITED

Statement of Progress FY23

Disclosures against the Task Force on Climate-related Financial Disclosures (TCFD) Framework



Our commitment to climate action

Progress against TCFD roadmap and FY23 disclosures

As a registered supporter of the Task Force on Climate-related Financial Disclosures (TCFD), we have established a reporting and governance framework to support delivery of Xero's climate strategy, reflecting our commitment to stronger climate-related governance and meaningful action on climate change. We have started the journey towards alignment with the recommendations of the TCFD. Our focus in FY23 has been on continuing to make progress on the roadmap we developed in FY22, including the development of public emissions reduction targets aligned to climate science.

Governance		
G.1	Formalise and document governance arrangements around climate change issues at Board and management levels	● Completed
G.2	Actions to build Board climate competency over time	➤ Ongoing
G.3	When relevant, integrate the meeting of sustainability/climate change metrics and targets into Board reporting	➤ Ongoing
Strategy		
S.1	Ensure climate change is adequately considered as part of ESG strategy development	➤ Ongoing
S.2	Refine high-level climate risk assessment outcomes to identify and disclose material climate-related risks to Xero	➤ Ongoing
Risks		
R.1	Document and integrate the work done to map climate change to strategic risks and identify climate-related business risks	➤ Ongoing
R.1.b	Decide on how/where to best document climate-related opportunities	➤ Ongoing
R.2	Adapt and document risk processes	➤ Ongoing
R.3	Establish a common language and understanding around ESG, sustainability and climate change	● Completed
Metrics and targets		
M.1	Integrate Scope 1, 2 and 3 emissions data into Annual Report process	● Completed
M.2	Set long-term emissions reduction targets for Scope 1, 2 and 3 in line with science-based methodologies and underpinning emissions reduction plans	➤ Ongoing
M.3	Integrate climate change into internal reporting processes, including use of Objectives and Key Results (OKRs) and dashboards (if relevant)	➤ Ongoing

Climate governance

G.1 Formalise and document governance arrangements around climate change issues at Board and management levels

Xero's Board of Directors (Board) has responsibility for overseeing Xero's strategy and performance in relation to environmental, social and governance (ESG) issues. The Board's oversight of ESG and sustainability, including climate-related risk, is supported by Xero's risk appetite. Please refer to G.2 for details of the Board's review and approval process of Xero's climate goals and targets.

The Audit and Risk Management Committee (ARMC) of the Board provides oversight of Xero's climate strategy, governance and performance. Regular TCFD roadmap updates are provided to the ARMC, with a more detailed annual update, reporting on progress against emissions reduction targets.

An overarching climate change risk is included on our Enterprise Risk Radar and reviewed by the ARMC quarterly and at Board level annually. Please refer to the Risk section of our FY23 Annual Report for a detailed discussion of how we manage risk at Xero. Specific detail on our identified climate risks is included in the climate risk section below.



At a management level, our Chief Financial Officer (CFO) is Xero's Climate Sponsor and has responsibility for climate change-related issues. She is supported by the ESG Steering Committee and Climate Working Group. The ESG Steering Committee is comprised of Executive General Managers from across the business who meet monthly to review progress on initiatives from the Climate Working Group. The Climate Working Group is comprised of representatives from across the business who report to Executive General Managers and meet monthly. The Group is tasked with progressing emissions reduction initiatives and commitments of the TCFD roadmap. Our Sustainability team manages the day-to-day implementation of Xero's TCFD roadmap in close cooperation with our Workplace Experience team, which is responsible for energy purchasing and consumption at our office sites, travel and catering that represent our major sources of emissions. Our CFO and Director of Sustainability & ESG provide regular updates from the ESG Steering Committee and Climate Working Group to the ARMC.

G.2 Actions to build Board climate competency over time

Xero's emissions reduction targets were developed in consultation with the ARMC and approved by the Board. During this process, the Board received an overview of Xero's emissions inventory trends, target-setting methodologies, and potential reduction pathways to build Board competency on this topic.

G.3 When relevant, integrate the meeting of sustainability/climate change metrics and targets into Board reporting

The ARMC receives regular updates from the Climate Sponsor and ESG Steering Committee on progress towards implementation of our TCFD roadmap and an annual update on emissions performance.

Climate strategy

S.1 Ensure climate change is adequately considered as part of ESG strategy development

Xero's company-wide ESG strategy supports our company strategy and includes an environmental pillar focused on the implementation of our TCFD roadmap, retaining carbon neutral certification and achieving Xero's emissions reduction targets.

Xero's ESG Steering Committee and Climate Working Group includes representation from our Strategy team to ensure climate-related risks and opportunities are captured in overall strategy development on an ongoing basis. Relevant policy owners, such as Workplace Experience, are included in the ESG Steering Committee and Climate Working Group and are tasked with updating documentation to support governance and operationalisation of emissions reduction targets, such as the travel policy, and new office location selection.

S.2 Refine high-level climate risk assessment outcomes to identify and disclose material climate-related risks to Xero

Xero undertakes an annual climate-related risk and opportunity assessment to inform our ESG strategy, which also feeds into the company strategy. The assessment is a cross-functional undertaking with inputs from senior representatives across the business. The outcome of this assessment is documented in a standalone climate-related risk and opportunity register, with key risks and opportunities integrated into business strategy and risk management. Section R.1 of this document outlines the climate-related risk and opportunities that have been identified as material to Xero.

Climate risk management

R.1 Document and integrate the work done to map climate change to strategic risks and identify climate-related business risks

Xero has committed to an annual evaluation of the risks associated with climate change on our business and strategy, which we undertake through the ESG Steering Committee. In FY23, we conducted a climate-related risk and opportunity workshop, attended by members of our Climate Working Group, to validate previously identified climate-related risks and opportunities and assess them against our enterprise risk management likelihood and impact matrices. Through the Climate Working Group, we are in the process of identifying existing controls, including control gaps and weaknesses. The following risk groupings were identified:

Physical

- Impact of acute and chronic changes causing disruption to critical inputs, such as people, electricity and communication infrastructure, in turn affecting Xero's ability to service customers
- Impact of acute and chronic changes impacting Xero's customers and in turn demand for Xero's services

Transitional

- Changes in operating costs due to the pace and timing of the renewable energy transition
- Shifts in regulatory requirements and stakeholder expectations related to climate change

Conversely, Xero's response to climate change presents a number of opportunities, some of which are related to risks, acting as a control to reduce the residual risk rating. Opportunities relate to the following areas:

- Resilience capacity building for critical inputs
- Management of climate action, both in speed and quality of action, positively impacting Xero's reputation and ability to keep pace with changing stakeholder expectations
- Ability for Xero to support broader climate action with a focus on helping our customers to become more sustainable

During FY24, we plan to complete a robust external scenario analysis to understand the short, medium and long-term impact of climate-related issues on Xero's business, strategy and financial planning, as well as the financial impacts of climate-related risks and opportunities consistent with the International Financial Reporting Standards (IFRS).

R.1(b) Decide on how/where to best document climate-related opportunities

Climate-related opportunities are identified and captured in our climate-related risk and opportunity register.

Opportunities will continue to be assessed and prioritised in FY24 as we develop the next iteration of our strategy.

Previously identified climate-related opportunities have driven our investments in helping small businesses to become more sustainable, through our education tools and partnerships. Xero recognises that every business has a role to play in supporting the transition to a net-zero economy and we are in a unique position to help small businesses take steps in their sustainability journey. In FY23, we announced a partnership with sustainability fintech Cogo in Australia and welcomed UK-based climate tech start-up Ecologi into our ecosystem. Working with companies like Cogo and Ecologi may help provide small businesses in Australia and the UK with tools to better understand their carbon footprint and take action to reduce it.

R.2 Adapt and document risk processes

Currently, we manage climate-related risk in alignment with our Group Risk Management Framework on a standalone, detailed risk register. In FY23, we held a climate-related risk and opportunity workshop to validate previously identified risks and opportunities.

To support the identification of physical and transitional impacts to Xero's business operations, two guiding climate scenarios were developed and drawn upon in the workshops. These were informed by industry-specific guidance around how climate is impacting the broader technology sector. The workshops confirmed a greater number of climate-related opportunities than risks.

A representative from the Sustainability team is part of the Risk Strategy Forum to ensure that sustainability (including climate change, human rights and modern slavery) is embedded in the organisation's risk management approach. An overarching climate change risk is included on our Enterprise Risk Radar, which is reviewed at the Executive and Board level.

During FY24, we will continue to assess the effectiveness of controls, supporting governance, and integration of opportunities into business strategy and relevant policies. In late FY24, we will revisit our climate-related risk and opportunity register to re-validate it.

R.3 Establish a common language and understanding around ESG, sustainability and climate change

Our ESG Steering Committee, Executive Leadership Team (XLT) and Board have established a common understanding of ESG, sustainability and climate change issues. This is reflected in our annual reporting suite, of which this document forms a part.

Metrics and targets

M.1 Integrate Scope 1, 2 and 3 emissions data into Annual Report process

We report our Scope 1, 2 and 3 emissions in our Annual Report, Databook, and on our website. Xero is a participant in the Australian Government's Climate Active carbon neutral program and our annual Climate Active inventories and Public Disclosure Statements are available on the [Climate Active website](#). Emissions which have been previously reported were calculated under guidance associated with this scheme and have some variations in alignment with the Greenhouse Gas (GHG) Protocol. As our 2030 emissions reductions targets have been set in line with the Science Based Target Net-Zero guidance (GHG Protocol aligned), we are transitioning to reporting a GHG Protocol aligned inventory in our annual reporting suite. This inventory will be used to report our progress against our 2030 emissions reduction targets. Our Climate Active inventory will continue to be provided in our annual Climate Active Public Disclosure Statements available on the Australian Government's [Climate Active website](#).

M.2 Set long-term emissions reduction targets for Scope 1, 2 and 3 in line with science-based methodologies and underpinning emissions reduction plans

In November 2022, we set public emissions reduction targets consistent with the recommendations of the Science Based Targets initiative (SBTi) and aligned to the Paris Agreement's goal of limiting global warming to well below 2°C, including:

- 42% reduction in Scope 1 and 2 emissions from a FY20 base by FY30
- 17% reduction in Scope 3 emissions from a FY20 base by FY30
- Net-zero no later than FY50¹

In order to realise these targets, we are exploring the following emissions reduction plans across our operations:

Scope 2

- Transition office tenancy electricity load to verified renewable electricity
- Increase average energy efficiency of office tenancies

¹ Fewer than 10% of total emissions that require abatement through offsets

Scope 3

- Transition base building electricity load to verified renewable electricity
- Increase average energy efficiency of base building services
- Increase uptake of low emissions transport for staff commute (e.g. active, public)
- Reduce flight passenger kilometres per full-time employee (FTE)
- Cap the class of flights for long haul and domestic business travel for FTE
- Reduce number of hotel nights for business travel per FTE
- Increase in the diversion of organic waste generated at Xero offices from landfill
- Transition cloud services to providers that utilise verified renewable electricity
- Increase proportion of vegetarian options at catered events

These targets are the result of modelling that accounts for the growth ambitions and nature of Xero's operations to FY30 and beyond. To support the development of these targets, an emissions pathway model was developed to understand the trajectory of business as usual emissions. This forecast included high, medium and low scenarios to provide a range for growth in emissions. A long list of emissions reduction opportunities was identified, followed by an assessment of feasibility, impact and influence to develop a short list of opportunities. The selected emissions reduction opportunities were included in the model with adjustable percentage contribution to develop a bespoke emissions pathway. Three reduction pathways were developed and were presented to the ESG Steering Committee with a recommendation provided to the ARMC for Board endorsement.

The actions we have taken and currently have in place to help to reduce emissions across the business are:

- Assessing the potential to transition to renewable electricity for office tenancies across Xero's international operations
- Reducing electricity consumption via efficiency measures within Xero offices such as sensor and timer lighting, use of LED lighting in the majority of offices, working with air-conditioning engineers and landlords to improve the efficiency of heating and cooling systems, including a solar shade to help make the air conditioning more effective in Wellington (New Zealand), and solar panels in Napier (New Zealand) and Melbourne (Australia)
- Reducing office waste production and increasing recycling rates including e-waste collection and compost bins in some offices. Xero also has aluminium, glass, and paper recycling, as well as soft and hard plastic recycling, battery recycling, and printer toner cartridge recycling

- Encouraging employees to use active or public transport rather than private vehicles. Xero provides electric vehicle chargers in Melbourne (Australia) as well as motorbike and bicycle parking, shower and changing facilities in the majority of offices to promote use of active transport
- Ensuring that access to video conference technology is straightforward for Xero's people and its use is integrated into normal ways of working. This could help to minimise carbon-intensive travel options such as air travel
- Enhancing Xero's procurement processes to enable consideration of climate impacts in purchasing decisions. We are also in the process of incorporating sustainability criteria and weighting in our supplier selection process in order to highlight suppliers who proactively address social and environmental impacts, including GHG emissions
- Continuing to deepen our relationship with one of our largest technology suppliers, AWS, and to work together to understand our environmental impact whenever we build products and services. Xero's AWS emissions are anticipated to reduce over time as AWS works towards its goal of 100% renewable energy by 2025
- Working with our travel management partners to identify improvements in our platforms that record and track our flights to include more robust carbon-related data. Our intention is to use that data to improve our policies and introduce meaningful initiatives that align with our flight reduction targets
- Creating a more sustainable Xerocon experience. In 2022, we used a Forest Stewardship Council certified company called Re-board to produce our exhibitor booths in London (United Kingdom) and New Orleans (Louisiana). We reduced the amount of merchandise produced and worked with venues to ensure they were using best practice waste management systems. In 2023, we will be presenting Xerocon as a global event in Sydney. This change could help to condense the international airline travel required by our team to facilitate the events
- Adding an additional resource in FY23 to uplift organisation-wide capability around climate change, including the capacity to deliver on our targets and the accompanying emissions reduction plans

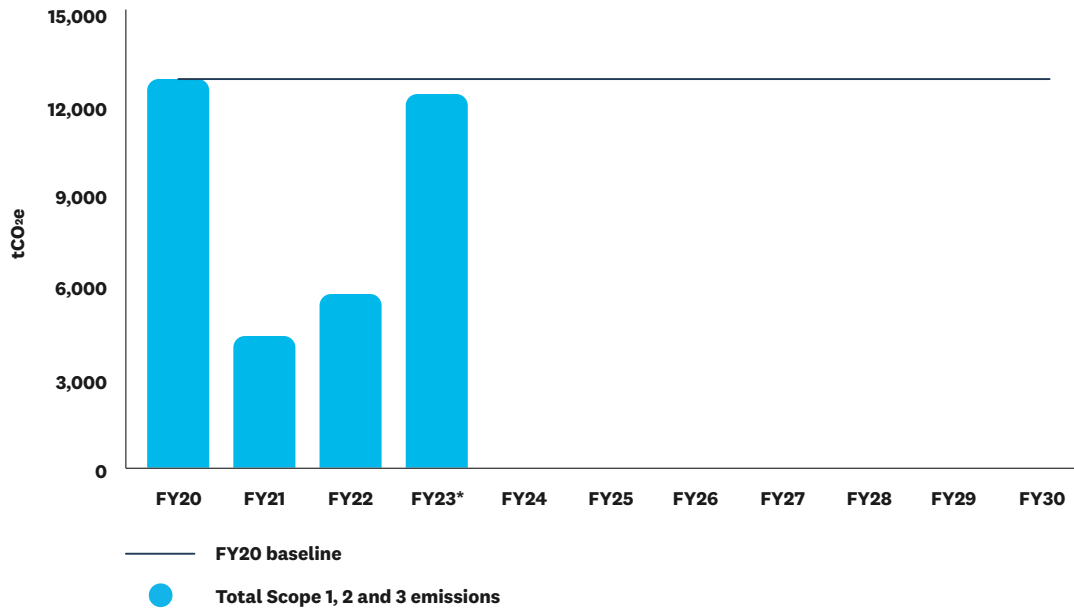
Tracking emissions over time

Our FY23 emissions² increased compared to FY22, driven primarily by a resumption of global travel (flights) and the return of international Xerocon events. Our FY23 information and communications technology (ICT) emissions³ are down 63.1% compared to FY22 as a result of the decarbonisation actions undertaken by our cloud hosting suppliers. In FY23, working from home emissions⁴ decreased and upstream leased assets increased, reflecting a return to more office-based working.

Overall our FY23 inventory is 3.9% lower than FY20 base year. Our emissions intensity (tCO₂e per FTE) was 2.40 in FY23, 42.2% lower than FY20 base year.

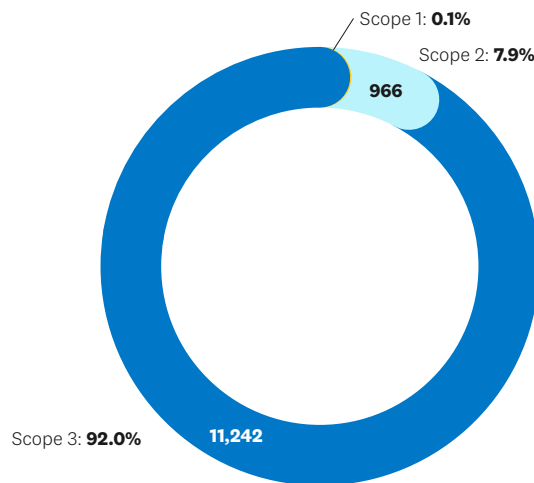
Reducing business travel, improving the sustainability of our events and transitioning to renewable energy remain key priorities to achieve our 2030 emissions reduction targets.

GHG emissions reduction progress



*FY23 emissions for this graph have been calculated using an extrapolation of activity data from the 9 months of the financial year (1 April to 31 December). This number will be amended in the FY24 Annual Report using the full financial year activity data

Emissions by Scope FY23 FY23 GHG emissions breakdown (tCO₂e)*



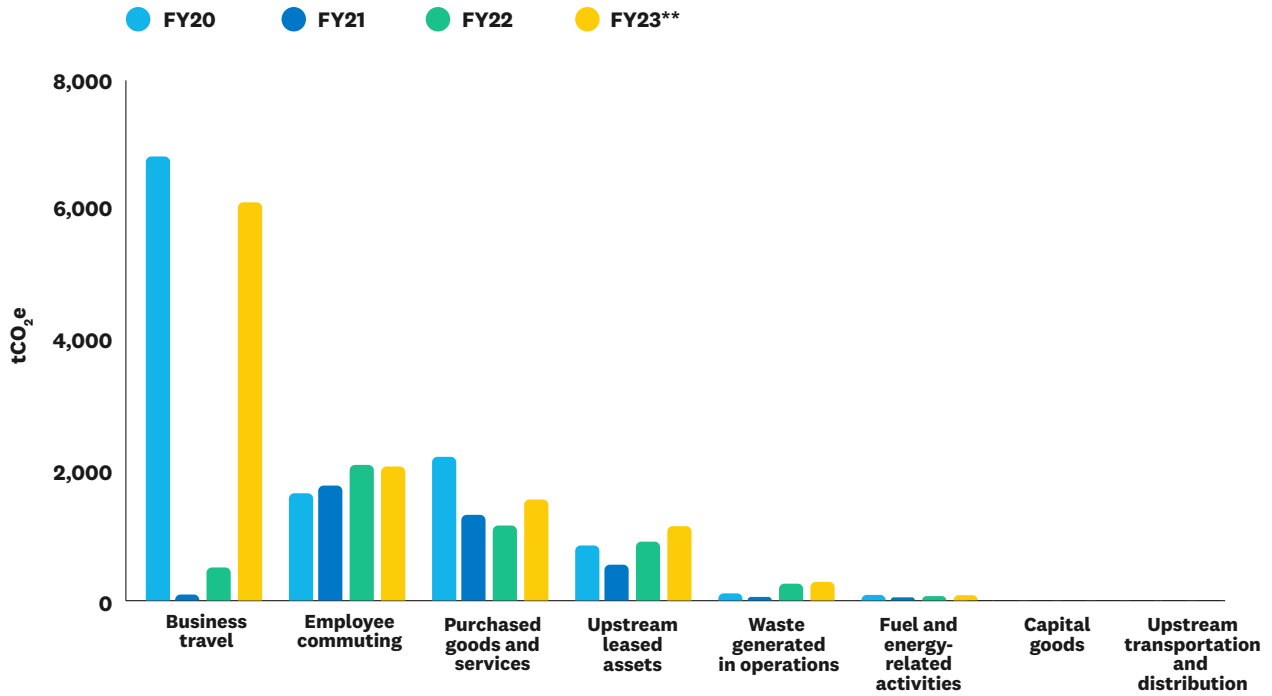
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² FY23 emissions for this report have been calculated using an extrapolation of activity data from the 9 months of the financial year (1 April to 31 December). This number will be amended in the FY24 Annual Report using the full financial year activity data

³ ICT emissions are categorised in alignment with GHG Protocol under purchased goods and services in the Scope 3 emissions sources graph below

⁴ Working from home emissions are categorised in alignment with GHG Protocol under employee commuting in the Scope 3 emission sources graph below

Scope 3 emissions sources*



*We have adopted Scope 3 emission categories from the GHG protocol. These categories capture the following sub-categories relevant to Xero: business travel (flights, taxi, rideshare, rental car, grey fleet, and accommodation), employee commuting (employee commute and working from home), purchased goods and services (ICT including cloud services, paper, food & catering and events), upstream leased assets (shared/base building electricity and natural gas), waste generated in operations (general waste, recycled waste, organic waste, and water), fuel and energy-related activities (fleet fuel and purchased electricity not included in Scope 1 or 2)

**FY23 emissions for this graph have been calculated using an extrapolation of activity data from the 9 months of the financial year (1 April to 31 December). This number will be amended in the FY24 Annual Report using the full financial year activity data

For more information on our historical GHG Protocol aligned emissions please refer to our Databook on our website: www.xero.com/sustainability

Xero has been disclosing our environmental impact and action through the Climate Disclosure Project (CDP) since 2021.

M.3 Integrate climate change into internal reporting processes, including use of Objectives and Key Results (OKRs) and dashboards (if relevant)

Xero's climate performance has been integrated into our internal reporting mechanisms including the company's Regular Business Review process and via regular updates to XLT and ARMC.

In FY24, we will consider piloting an environmental software solution which, if successful, could help to improve the availability and fidelity of our emissions data. It's anticipated that such a tool could make it easier to report on actual performance more frequently, take action to impact our emissions performance, and to provide regular updates to leadership and ARMC on performance in relation to key Scope 3 drivers such as business travel.

Looking ahead

In FY23, we submitted our near-term and net-zero targets to the Science Based Targets initiative (SBTi) for validation. Our validation review from SBTi is scheduled for H2 FY24.

In Q4 FY23, we began a program of work to improve the measurement and management of our Scope 3 emissions inventory, and to develop a program to engage with our suppliers and customers. During FY24, we will seek to:

- Review our Scope 3 emissions inventory, review relevancy testing and update our data management plan
- Conduct a supplier risk and opportunity assessment, and associated Scope 3 reduction roadmap that aims to operationalise our Scope 3 emissions reduction target and associated KPIs
- Identify and engage with key suppliers through a supplier engagement strategy
- Communicate our Net Zero @ Xero journey with our customers and support them in reducing their own emissions

In line with recommended practice, we will review our targets annually and consider any material changes to Xero's business or the assumptions used to model the targets and emissions reduction pathways. The impact of recently disclosed organisational changes will be considered as part of the FY24 review of the targets and emissions reduction pathways.

During FY24, we aim to revise our FY22-FY24 TCFD reporting roadmap to extend to the FY24-FY26 period. The review aims to maintain our alignment with emerging best practice and regulatory changes across relevant jurisdictions. The roadmap will be presented to the AMRC and Board for approval.



FY22-24 TCFD roadmap

Key

- G** Governance
- S** Strategy
- R** Risk management
- M** Metrics & targets

FY22

- G.1** Formalise and document governance arrangements around climate change issues at Board and management
- R.1** Document and integrate the work done to map climate change to strategic risks and identify climate-related business risks
 - R.1.b** Decide on how/where to best document climate-related opportunities
- R.2** Adapt and document risk processes
- R.3** Establish a common language and understanding around ESG, sustainability and climate change
- M.1** Integrate Scope 1, 2 and 3 emissions data into Annual Report process

FY23

- G.2** Actions to build Board climate competency over time
- G.3** When relevant, integrate the meeting of sustainability/climate change metrics and targets into Board reporting
- S.1** Ensure climate change is adequately considered as part of ESG strategy development
- S.2** Refine high level climate risk assessment outcomes to identify and disclose material climate-related risks to Xero
- M.2** Set long-term emissions reduction targets for Scope 1, 2 and 3 in line with science-based methodologies and underpinning emissions reduction plans
- M.3** Integrate climate change into internal reporting processes, including use of OKRs and dashboards (if relevant)

FY24

- S.3** Develop and monitor climate-related metrics and targets (financial and non-financial) to support the delivery of the ESG Strategy
- S.4** Undertake climate change scenario analysis and develop strategies to increase Xero's resilience
- R.4** Develop and integrate strategic and operational responses to identified climate-related risks and opportunities, including timing and responsibilities, and relevant indicators to be tracked
- M.4** Develop guidance on how offset costs can be used to inform emissions reduction opportunity assessment
- M.5** Develop and report emissions associated with water and waste, and set long-term reduction targets