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## Climate Appendix to FY24 Annual Report

**WELLINGTON, 23 May 2024** - Xero Limited (ASX: XRO), in accordance with the ASX Listing Rules, attaches its Climate Appendix to FY24 Annual Report.

*Authorised for release to the ASX by the Chair of the Board & Chair of the Audit and Risk Management Committee*

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### About Xero

[Xero](#) is a global small business platform with 4.2 million subscribers. Xero's smart tools help small businesses and their advisors to manage core accounting functions like tax and bank reconciliation, and complete other important small business tasks like payroll and payments. Xero's extensive ecosystem of connected apps and connections to banks and other financial institutions provide a range of solutions from within Xero's open platform to help small businesses run their business and manage their finances more efficiently.

### Xero Limited (XRO)

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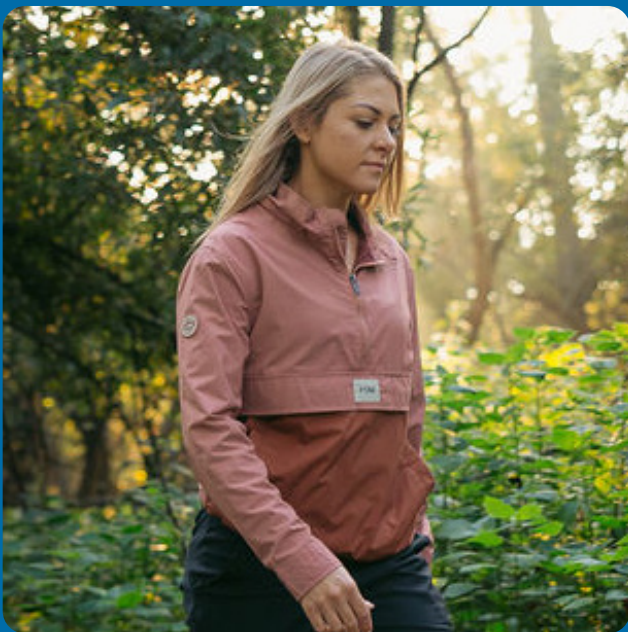
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# FY24 CLIMATE APPENDIX



Minimising our net climate impact while growing our business as the climate changes



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# ABOUT THIS REPORT

In line with the global shift towards standardised climate disclosures led by the International Sustainability Standards Board (ISSB), we continue to evolve Xero's climate disclosures to provide comparable, consistent, and transparent information about the impacts of the changing climate on our business and how we are responding to these impacts. In FY23, we provided a Statement of Progress against our roadmap under the Taskforce on Climate-Related Financial Disclosures (TCFD) Framework. The Statement is available on our website: [www.xero.com/sustainability](http://www.xero.com/sustainability). For FY24, this Climate Appendix represents our progress towards aligning our disclosures with the climate aspects of ISSB Standards S1 and S2.

## Since embarking on our TCFD journey three years ago, we have:

- Established and strengthened climate governance and risk structures
- Maintained carbon neutral certification under Climate Active for our global business operations
- Continued to invest in high-quality offsetting options that promote biodiversity
- Purchased Renewable Energy Certificates (RECs) and Large-scale Generation Certificates (LGCs) in FY24 equivalent to our Scope 3 work from home (WFH) electricity emissions
- Set emissions reduction targets and implemented emissions reduction actions
- Completed a comprehensive climate risk scenario analysis
- Improved our emissions data fidelity, tracking and governance processes
- Onboarded software solutions to help us manage climate risk and carbon calculations
- Reviewed our emissions boundary and relevancy testing and as a result, expanded our emissions boundary to align with Greenhouse Gas (GHG) Protocol requirements
- Increased the number of app partners available to help customers manage their carbon emissions

In FY25, we will review our emissions baseline and targets, review our mitigation approach and build on solutions for customers. More information is set out in the [annual emissions targets review](#) section on page 10.

## Climate-related governance

### Board oversight

Xero's Board of Directors (Board) is responsible for overseeing our environmental, social and governance (ESG) strategy and performance and approves our externally published ESG-related targets and disclosures.

The Board's oversight of ESG matters include climate-related risks and opportunities, supported by Xero's Risk Management Framework. Climate change risk is included on our Enterprise Risk Radar, which is reviewed by the Audit and Risk Management Committee (ARM Committee) quarterly and by the Board annually. Specific detail on our identified climate-related risks and opportunities is included in the [mitigation of business-wide climate risk](#) section on page 4 and [climate-related risk and opportunity management](#) section on page 8.

The ARM Committee reviews and makes recommendations to the Board in relation to our climate strategy, and oversees and reviews our climate governance and performance.

All directors have general working experience and knowledge of ESG-related matters. Xero's Chair is the co-chair of the Australian Climate Leaders' Coalition, made up of CEOs from leading companies that support industry action to meet decarbonisation targets in line with the Paris Agreement on climate change. The ARM Committee receives regular updates on developments in carbon emissions measurement, target setting and climate risk management.

## Forward looking statements

This Climate Appendix includes climate-related and other forward-looking statements, metrics and estimates about Xero and the environment in which Xero operates, which are subject to uncertainties and contingencies outside of Xero's control and should therefore not be considered to be guarantees, predictions or forecasts of future climate-related outcomes or financial performance. Readers are cautioned not to place undue reliance on any forward-looking statements in this Appendix, particularly in light of the long-time horizon which this Appendix discusses. While Xero has prepared the information in this Appendix in good faith based on its current assumptions, knowledge and understanding, it reserves the right to change its view in the future and does not undertake to publicly update or revise any forward-looking statements to reflect any change in expectations, contingencies or assumptions.

**Management approach**

At a management level, our Chief Financial Officer (CFO) is Xero's Climate Sponsor and has responsibility for climate change-related matters. She is supported by the ESG Steering Committee and sustainability team. The ESG Steering Committee comprises Executive General Managers from across the business including risk, finance, investor relations, strategy, people and workplace experience, communications, legal and compliance, and product and technology. The Committee meets at least quarterly to review progress on climate-related initiatives. Relevant policy owners are included in the ESG Steering Committee and tasked with updating processes and documentation to support governance and operationalisation of our emissions reduction targets, such as our travel policy, energy purchasing agreements, new office location selection, and catering.

Our sustainability team manages the day-to-day implementation of our climate strategy, in close cooperation with our workplace experience (facilities) team.

**Climate accountability at a glance**

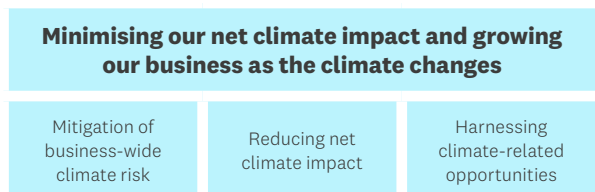


**Climate strategy**

We undertake an annual sustainability survey to gauge employee commitment towards sustainability, understand their current practices, gather carbon emissions data, and help determine sustainability-related priorities for the financial year.

Results from our 2024 survey show the majority of our people believe Xero's commitment to environmental and social sustainability is a critical component of our employee value proposition (EVP). 'Delivering a performance and purpose-driven EVP' is the top priority under the 'Unleash Xero(s) to Win' pillar of our FY25-27 business strategy.

Our ESG strategy, including our dedicated climate strategy, supports our FY25-27 business strategy. The climate strategy has three areas of focus:



Each area of focus within the climate strategy is discussed in detail below, in conjunction with an account of our climate metrics and targets.

**Mitigation of business-wide climate risk**

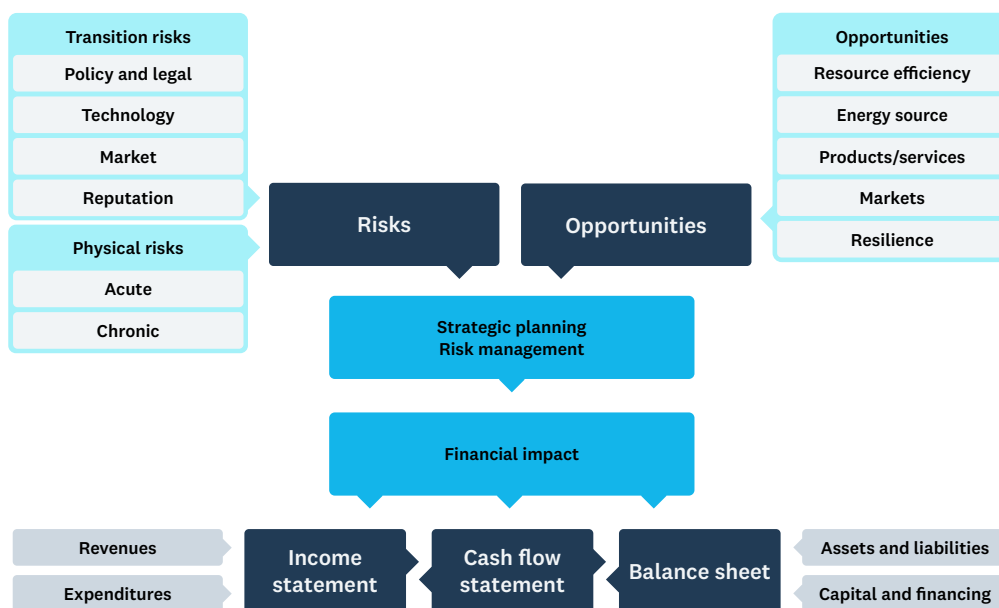
In FY24, we completed our first climate risk scenario assessment. This cross-functional exercise included input from relevant senior leaders, which enabled us to understand our transitional and physical risk exposure under different timeframes and warming scenarios. It was critical to understanding how climate change may impact the future of our operations and strategic objectives. The assessment complemented insights from previous risk assessments, by providing more in-depth quantitative and qualitative insights and analysis.

### Climate risk scenario assessment methodology

To support our climate risk scenario analysis and substantiate its comprehensiveness, we implemented S&P Global's Climonomics tool, which provides climate risk analytics to identify and quantify in dollar value climate risks in assets, businesses and investments.<sup>1</sup>

The methodology is aligned with emerging legislative requirements and disclosure standards such as the ISSB S2 on climate risk disclosures.

### Climate related-risks, opportunities, and financial impact



*Adapted from the TCFD, 2017 and presented here for illustrative purposes only. It should not be read as presenting information specific to Xero*

### We assessed Xero’s financial exposure to physical and transition climate risk in the short (2030), intermediate (2050) and long-term (2090), under four scenarios.

To assess our direct and indirect risk exposure, we focused on the following categories:

- Leased Xero offices
- Our cloud infrastructure providers’ data centres
- Material customer geographies
- Critical suppliers

These categories are the most relevant to our business, providing insight into our direct and indirect exposure. As a software company, we do not own or control any significant physical assets (such as office buildings, data centres or warehouses) and, as such, our physical climate risk exposure is lower.

### The four scenarios assessed were as follows:

1. **High climate change and low mitigation scenario (Representative Concentration Pathway (RCP)<sup>2</sup> 8.5)** in which total GHG emissions triple by 2067
2. **Medium-high climate change and limited mitigation scenario (RCP 7.0)** in which total GHG emissions double by 2100
3. **Medium climate change and strong mitigation scenario (RCP 4.5)** in which total GHG emissions increase throughout 2100 and then gradually decline at the end of the century
4. **Low climate change and strong mitigation scenario (RCP 2.6)** in which total GHG emissions stabilise at current levels until 2050 and then decline to 2100, consistent with the goals of the Paris Agreement

<sup>1</sup> The majority of the climate data is derived from the Coupled Model Intercomparison Project (CMIP) run by the World Climate Research Programme CMIP6, which integrates many of the latest advances in climate change science from 49 modelling institutions, contributing to a total of 132 climate models. Source: S&P Global, Climonomics Methodology. June 2023, p.7

<sup>2</sup> Representative Concentration Pathways define a specific emissions trajectory and are prescribed pathways for GHG and aerosol concentrations, together with land use change, that are consistent with a set of broad climate outcomes used for climate modelling

The climate scenario diagram below provides a more detailed overview of the four scenarios and their implications.

Description of scenario	Key risk	Effort to curb emissions	Energy generation	New technology	Transport	Temperature 2081-2100*	Sea level 2081-2100**	Extreme weather 2081-2100	Adaptation required
<b>High climate change scenario and low mitigation scenario</b> in which total GHG emissions triple by 2067	Heightened physical risk, limited transitional risk	Low	Coal-fired power		Cars, trucks	RCP 8.5 3.7 °C	0.63 m	Large increase	High level at high cost
<b>Medium-high climate change scenario and limited mitigation scenario</b> in which total GHG emissions double by 2100	Mix of transition and physical risk	Medium	Mix		Mix	RCP 7.0 2.2 °C	0.48 m	Medium increase	Medium level at medium cost
<b>Medium climate change scenario and strong mitigation scenario</b> in which total GHG emissions increase throughout 2100 and then gradually decline at the end of the century	Mix of transition and physical risk	Medium	Renewable		Mix	RCP 4.5 1.8 °C	0.47 m	Medium increase	Medium level at medium cost
<b>Low climate change scenario and strong mitigation scenario</b> in which total GHG emissions stabilise at current levels until 2050 and then decline to 2100. Consistent with the goals of the Paris Accord	Transition risk is high, associated with strong focus on reducing emissions. Physical risk is more limited	High	Renewable	Emissions capture	Bicycles, public transport	RCP 2.6 1.0 °C	0.4 m	Small increase	Low level at low cost

\*Average increase relative to 1986-2005

\*\*Average rise relative to 1986-2005

Adapted from the Australian Government - Department of the Environment and Energy. The analysis represented in this diagram was completed by the Department of the Environment and Energy and is presented here for illustrative purposes only. It should not be read as presenting information specific to Xero

Once the raw/unmitigated risk was assessed, we identified existing controls to understand our residual/remediated risk exposure. The results were verified by analysing our industry and peer climate risk exposure, risk intelligence sources, and by consulting with representatives from across the business.

### Key findings

**Overall, Xero's physical raw/unmitigated risk exposure is considered low under all scenarios and time frames.**

The modelling shows that Xero, our customers, and suppliers are likely to be most impacted by an increase in carbon prices, rather than other transitional or physical risks. This is especially relevant under a high decarbonisation scenario aligned to the Paris Agreement.

Xero's overall physical risk exposure is low due to the fact that our business, and the software as a service (SaaS) industry in general, is not physical-asset heavy. Xero's exposure is understood to be consistent with industry and peer risk exposure.

In terms of direct exposure, the physical risk that is moderately more prevalent relates to changes to temperature extremes. This is more evident under RCP 8.5 and in the 2090s. It is predicted that increased temperatures will have an impact on employee productivity, increase energy consumption associated with heating and cooling offices, and reduce the longevity of equipment such as heating, ventilation, and air conditioning. Based on the severity and our existing control environment, these impacts are deemed to be negligible to Xero.

Our Business Continuity Plan (BCP) takes into consideration environmental impacts in the form of natural disasters. Given our low direct exposure (under all scenarios and timeframes) to acute

physical risk, we are confident our BCP adequately covers key considerations in this regard.

In terms of our indirect physical risk exposure, water stress and drought are predicted to represent a medium-level risk to our cloud infrastructure providers' data centres under RCP 8.5 by the 2090s. In response, we have assessed our data centre providers' climate resilience plans and contingency measures, and we believe the risk is currently well managed.

It is not yet possible to quantify opportunities in financial terms in the same way we have done for climate-related risks. However, as part of the assessment we revisited previously identified opportunities to validate they were still the right ones to pursue.

A consistent theme within our assessment, internal consultation and industry review is that climate-related opportunities are more salient to our business than climate risks.

### The top opportunities we identified include:

- 1. Emissions reduction pathways to reduce the emissions intensity of our business**
- 2. Providing increased climate-related solutions to our customers** (the [harnessing climate-related opportunities](#) section on page 8 of this document explores this in more detail)

The table below provides an overview of the most relevant risks and opportunities to which Xero is directly or indirectly exposed, either in the short- or medium- to long-term future.

**Xero's direct and indirect climate risks and opportunities**

Impact	Description	Category/asset	Risk/ opportunity	Financial impact	Timeframe	Xero action/control
<b>Physical risk and opportunity</b>						
Water stress	Reduced availability of water due to depletion of aqueducts	Data centres	●	Low	Medium-long	Review data centre providers' water availability contingency in the event of prolonged drought or depletion of aqueducts
Drought	Decrease in precipitation leading to increased water depletion	Data centres	●	Low	Medium-long	
Temperature extremes	Temperature extremes impacting productivity of workforces and leading to increased operational expenses	Customers, suppliers	●	Low	Medium-long	Investigate customer and supplier exposure
Business continuity	Be adequately prepared to cope with and manage the impacts of climate change	Xero	●	Med	Short	Review Xero's contingency plans to include more explicit climate change scenario considerations
Workforce implications	Remote and hybrid working helps provide contingency if Xero is subject to increased heat stress and broader physical risks	Employees	●	Med	Short	Assess provisions to prepare our people to work remotely at any point in time, in light of any type of emergency including natural disaster or temperature extremes
<b>Transitional risk and opportunity</b>						
Carbon pricing (external)	Increased financial losses due to emissions reduction policies and regulation	Offices, data centres, customers, suppliers	● ●	Med/ High	Short-long	Develop and implement emissions reduction pathway that focuses on the entire value chain
Market	Increased demand for accounting solutions that measure and mitigate emissions and manage climate risk	Product	●	Med	Short-long	Obtain market insights to understand current and future requirements

● Risks ● Opportunity

**Next steps**

Based on the identified risks and opportunities, we have developed an action plan and assigned responsibilities across key functional areas.

From a climate risk governance perspective, we plan to undertake the following activities:

- Update our Climate Risk Register in early FY25 to take into consideration the outputs from the climate risk scenario analysis
- Continue to integrate climate risk in our enterprise risk processes
- Continue to proactively monitor our direct and indirect climate risk exposure and obligations
- Repeat the climate risk scenario analysis in FY26



### Managing supplier ESG risk

Our stakeholders expect us to deliver on sustainability commitments and responsible business practices. Given the nature of our industry, our supply chain plays a central role in identifying and addressing sustainability-related risks and opportunities. It accounts for more than 95% of our carbon footprint.

To support us with this endeavour, in FY24 we commenced the implementation of EcoVadis, an ESG supplier management platform. This will help us to better understand the emissions performance of our supply chain. We will complete the EcoVadis implementation in FY25.

In FY25, we plan to refine our existing ESG risk methodology and assessment for suppliers. We intend to engage with our critical and high risk suppliers to undertake a comprehensive ESG assessment, based on internal and third-party verified processes.

We will prioritise suppliers that represent the greatest opportunity for us to reduce our Scope 3 emissions and critical suppliers to our business operations in the event of disruptions (including acute physical climate risk).

## Reducing net climate impact

### Improving measurement and management of our carbon valuations and reporting

Reducing our net climate impact is a priority and we realise that in order to optimise our approach, we need better visibility and control of our emissions data to act faster and make more informed decisions about emissions reduction actions. That's why a key focus in FY24 has been improving the measurement of emissions and the management and governance of data throughout our emissions tracking and calculations processes. These improvements included:

- Undertaking a pre-assessment engagement in relation to our GHG emissions reporting to understand our readiness for formal assurance, identify any gaps and devise a plan of action to address these
- Formalising of data ownership
- Commencing the transition of our emissions data calculations from a manual process using external technical consultants to a dedicated internal carbon ledger platform, Sumday. This is a continuation of our Scope 3 optimisation project from FY23, to improve the measurement and management of our Scope 3 emissions

In FY25, we seek to:

- Engage with our critical and high-emissions suppliers to understand their current carbon management maturity, with a view to setting supplier emissions reduction targets
- Continue to communicate our Net Zero @ Xero journey to our people and customers, and support them in reducing their own emissions
- Further refine our input data for emissions calculations, to improve data quality and accuracy

### Greening our employees' WFH electricity emissions

In alignment with our goals around increased renewable electricity uptake, we purchased Renewable Energy and Large Scale Generation Certificates across all of our relevant operating geographies in FY24. We did this to validate the consumption of electricity from renewable sources, to abate the estimated Scope 3 employee WFH-related electricity usage.

### Harnessing climate-related opportunities

As governments and regulators around the world increasingly mandate large companies to disclose their GHG emissions, many of our customers will find themselves needing to quantify and report their own carbon emissions in order to participate in corporate supply chains. We recognise this is both a challenge and an opportunity for small and medium businesses, and we are committed to working with customers to help them navigate changing compliance requirements.

We see significant potential for accountants and bookkeepers to play an important role in this process. In FY24 we entered into a global partnership with carbon accounting platform Sumday, which takes an education-led approach to upskilling accountants and bookkeepers, so they can provide carbon accounting services to their clients. Along with webinars and online resources, we partnered with Sumday to deliver sessions on the opportunity to develop carbon accounting as a revenue stream for accounting practices, including at Xerocon Sydney.

We understand for some of our customers, measuring their carbon footprint and taking action to reduce it is something they want to do themselves. Being a sustainable business may be an important part of their brand proposition or a competitive advantage. To enable this, we now have carbon measurement platforms available on the Xero App Store for customers in all markets globally.

## Climate-related risk and opportunity management

### Climate risk integration

We manage climate risks in accordance with our Enterprise Risk Management Framework. Climate change is classified as a tier 2 risk under our Enterprise Risk Radar and is considered a strategic risk that is overseen by the ARM Committee. Refer to the [governance](#) section of this document for further detail. A senior manager from the sustainability team is part of the internal Risk Strategy Forum, to ensure climate risk is embedded in our risk management approach.

### Risk and opportunities

We have identified climate-related risks and opportunities for Xero through climate risk workshops. These were assessed in accordance with our risk impact and likelihood matrix. Material risks were included in our Climate Risk Register. Based on our qualitative assessment, the risk rating ranged from low to medium.

Risk ownership was assigned, existing controls and control gaps and/or weaknesses were identified in consultation with the respective owners.

Most of the opportunities identified during the workshop were controls to manage the identified risks and therefore were included as controls in our Climate Risk Radar.

**Key risks that were identified as material and are proactively being managed include:**

**Physical**

- Impact of acute and chronic climate changes causing disruption to critical inputs, such as employees, electricity, and communication infrastructure, that affects Xero's ability to service customers
- Impact of acute and chronic climate changes impacting customers and 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, our 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 become more sustainable

Climate-related opportunities are identified and captured in our Climate Risk Register. Opportunities will continue to be assessed and prioritised in FY25.

In FY24, we developed a Sustainability Incident Management Plan and included climate and broader sustainability incidents in our existing enterprise incident management process. Over time, this will also provide us with actual data points to inform our risk analysis and ratings.

**Roles and responsibilities**

Senior representatives from across the business have been nominated as risk owners and are responsible for overseeing the implementation of controls and maintaining these on an ongoing basis.

The sustainability team is responsible for maintaining the Climate Risk Register and coordinating enterprise-wide climate risk-related initiatives, including risk assessment and climate risk scenario analysis. They are also responsible for keeping abreast of current and emerging ESG-related regulatory and broader stakeholder expectations.

Our transitional and physical climate risk exposure is monitored on an ongoing basis by the sustainability and enterprise risk teams.

The sustainability team, in consultation with climate risk representatives, reviews Xero's Climate Risk Register at least annually to validate the rating and assess the internal and external environment for any key changes in existing and emerging risks.

**Climate risk scenario analysis as part of Xero's broader Enterprise Risk Management Framework**

In February, we completed our first climate risk scenario analysis to understand our physical and transitional risk exposure and quantify its impact. A description of this process and its outcomes is provided in the [strategy](#) section on pages 4-8.

Our Climate Risk Register has been updated to incorporate key findings from the detailed climate risk scenario analysis and reassess existing risk and opportunities.

In FY25, we will continue to monitor our climate-related risk exposure, assess effectiveness of controls and review our risk management practices to make sure they remain fit for purpose.

**Climate reporting, metrics and targets**

**Climate performance and emissions reporting**

Xero has been reporting against the TCFD framework since FY22 and is starting to evolve disclosures to align progressively with the ISSB and International Financial Reporting Standards S1 and S2 standards.

We currently report our Scope 1, 2 and relevant Scope 3 GHG emissions data in our Annual Report, Databook, and on our website: [www.xero.com/sustainability](http://www.xero.com/sustainability). We are 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: [www.climateactive.org.au/buy-climate-active/certified-members/xero](http://www.climateactive.org.au/buy-climate-active/certified-members/xero). We have been disclosing our environmental impact and action through the Climate Disclosure Project since 2021 and achieved a C/Awareness-level rating in 2023.

**Xero's emissions reduction targets**

Xero is formally committed to the Science Based Targets initiative (SBTi). In November 2022, we set public emissions reduction targets consistent with SBTi recommendations and the Paris Agreement's goal of limiting global warming this century to well below 2°C above pre-industrial levels, 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 FY50<sup>3</sup>

We have been working towards achieving these targets by focusing on increased renewable energy uptake, being strategic about business travel, and switching to more sustainable catering wherever possible. However, as climate-related mitigation solutions evolve and our business matures, so will our approach to emissions reductions.

Details of our emissions reductions actions can be found on our website: [www.xero.com/au/sustainability/environment](http://www.xero.com/au/sustainability/environment)

<sup>3</sup> Fewer than 10% of total emissions that require abatement through offsets

### Annual emissions targets review

In line with recommended practice from the GHG Protocol, in FY23 we committed to reviewing our targets annually and considering any material changes to our business or the assumptions used to model our baseline, targets, and emissions reduction pathways. During our FY24 review, conducted by an external advisor, we identified two drivers that necessitated a rebaselining of our targets:

- The impacts of the organisational restructure announced in March 2023
- Completion of a relevancy assessment of our FY20 baseline carbon emissions boundary and the emissions sources within the boundary, pursuant to the relevancy criteria described in the GHG Protocol

Our FY24 technical review concluded that the organisational restructure implemented in March 2023 met the significance thresholds for rebaselining and recalculating of our targets as outlined in the GHG Protocol, Climate Active and SBTi standards. This is because our emissions targets are the result of modelling based on assumptions about our operations and growth ambitions to FY30 and were calculated before our organisational restructure in 2023. Since we set our targets, our business has changed due to:

- A new strategy and operating model
- Reduced full-time employee (FTE) numbers and slower than predicted FTE growth
- A rationalised office footprint to enhance productivity, collaboration, and cost-efficiency
- More geographically distributed Executive Leadership Teams, making significant reductions in international travel less feasible

As Scope 3 emissions make up the majority of our emissions profile and are expected to continue to evolve as we gain access to more transparent supplier data, we wanted to confirm that we were accounting for all relevant Scope 3 emissions sources. To do this, we completed a relevancy assessment of our FY20 baseline carbon emissions boundary in FY24, in line with the relevancy criteria described in the GHG Protocol. This review has resulted in the addition of previously known but unreported categories, alongside additional emissions sources within existing Scope 3 categories. This has led to an expansion of emissions in Scope 3 category 1: purchased goods and services, and the addition of emissions from Scope 3 category 2: capital goods, and Scope 3 category 4: upstream transport and distribution. The inclusion of these additional emissions sources represents an increase of around 183% in our annual emissions on our FY20 baseline.

<sup>4</sup> We account for all carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>) and nitrous oxide (N<sub>2</sub>O) emissions i.e. all relevant GHG emissions listed under the United Nations Framework Convention on Climate Change and Kyoto Protocol. All emissions are expressed in tonnes CO<sub>2</sub>-e quantities based on global warming potentials sourced from the Intergovernmental Panel on Climate Change (IPCC) Assessment Report 5. Xero does not have any reportable HFCs, PFCs, SF<sub>6</sub> or NF<sub>3</sub> gases to report under its operational control

<sup>5</sup> We have adopted Scope 3 emissions categories from the GHG Protocol. These categories capture the following emissions sources relevant to Xero: Purchased goods and services (professional services, non-capex IT, marketing and digital advertisements, cloud services, paper, events and food and catering), capital goods (capex IT, furniture and leasehold improvements), fuel and energy-related activities (fleet fuel, office electricity and green electricity), upstream transport and distribution (postage and courier), waste and wastewater (general waste, recycled waste, organic waste and water), business travel (flights, taxi, rideshare, rental car, grey fleet, train and accommodation), employee commuting (employee commute and WFH), and upstream leased assets (shared/base building electricity and natural gas)

<sup>6</sup> FY24 Scope 1, 2 and 3 emissions have been calculated using an extrapolation of activity data from the 10 months of the financial year (1 April to 31 January) with the exception of certain emission sources in Scope 3, Category 1: Purchased goods and services (professional services, non-capex IT, marketing and digital advertisements, events and food and catering), which have been calculated using a full 12 months of data. We note that this approach brings with it some uncertainty and as such emissions based on projections will be amended in the FY25 Annual Report to reflect actuals

<sup>7</sup> In FY24, we expanded our emissions boundary to include new Scope 3 emissions of purchased goods and services (IT non-capex, professional services, and marketing and digital advertisements), capital goods (capex IT, capex furniture, and leasehold improvements) and upstream transport and distribution (courier and postage services) which account for 60% of our FY24 footprint

<sup>8</sup> Location-based methodology is used for Scope 2 and Scope 3 emissions totals with the exception of purchased goods and services category cloud services which was calculated using market-based methodology

In light and of the two drivers (outlined above), we will revisit our baseline and climate targets in FY25. We will do this in consultation with SBTi and provide an update on completion of this work. Rebaselining is becoming an increasingly common activity and necessary process to account for material organisational changes, acquisitions, divestments and methodology changes, enabling more accurate emissions reporting and net-zero planning.

In the interim, we have accounted for the additional Scope 3 categories in our FY24 inventory and intend to offset 100% of that expanded inventory with verified carbon offset units, RECs and LGCs to specifically cover our WFH electricity emissions. For more information about our offset projects, visit our website: [www.xero.com/sustainability](http://www.xero.com/sustainability)

### Tracking our emissions over time

We measure our Scope 1<sup>4</sup>, 2 and 3 emissions according to the GHG Protocol<sup>5</sup> with FY20 as our baseline year.

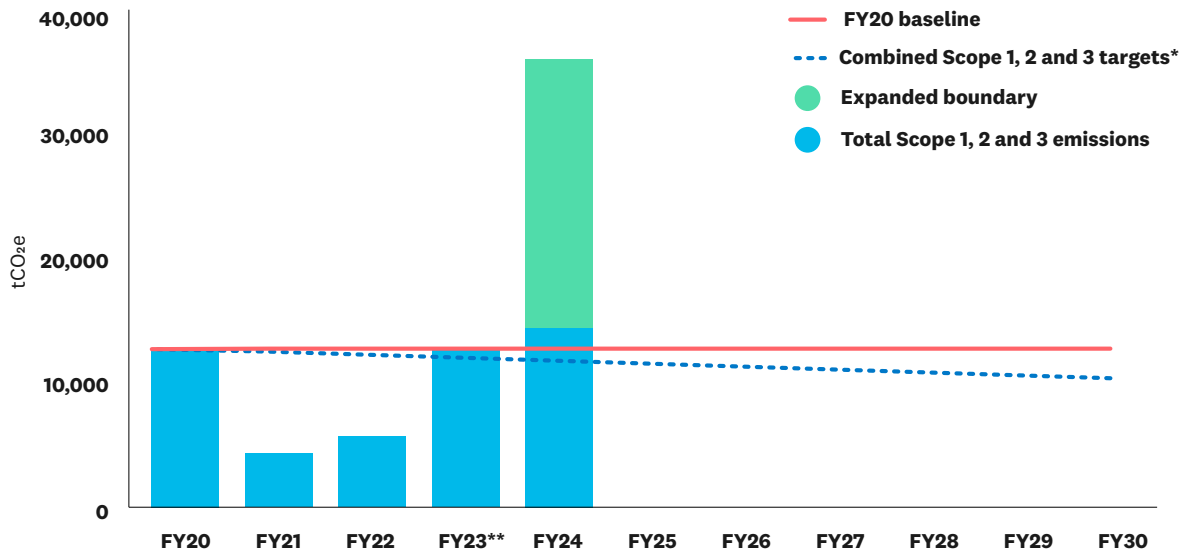
Overall, the year-on-year increase in our FY24 inventory<sup>6</sup> is 13% based on the same FY20 boundary. When we include the additional Scope 3 categories and sources identified as part of our relevancy assessment, the year-on-year increase is 182%.

This is primarily driven by an expansion of our reporting boundary to better account for all relevant Scope 3 emissions sources<sup>7</sup> within the GHG Protocol categories of purchased goods and services, capital goods, and upstream transport and distribution. These new emissions sources, which were not included in our FY20 baseline inventory of 12,707t CO<sub>2</sub>e, account for 60% of our total FY24 emissions footprint. As a result, we will rebaseline our targets at our FY24 inventory during the course of FY25.

Outside of this boundary expansion, Scope 1 fleet fuel emissions have increased due to increased spend. Scope 2 emissions have increased from prior year due to greater energy usage across a number of office locations where employee attendance has increased from the previous year.

Scope 3 air travel emissions increased due to a strategic change in travel patterns and changes in emissions factors. There has also been an increase in Scope 3 ground travel emissions due to increased spend. Scope 3 WFH emissions increased due to the use of an updated methodology to estimate our employee WFH energy and associated emissions. Scope 3 cloud services emissions are down 19%<sup>8</sup> in FY24 from FY23 as a result of the decarbonisation actions undertaken by our cloud hosting suppliers.

**GHG emissions reduction progress under FY20 boundary**

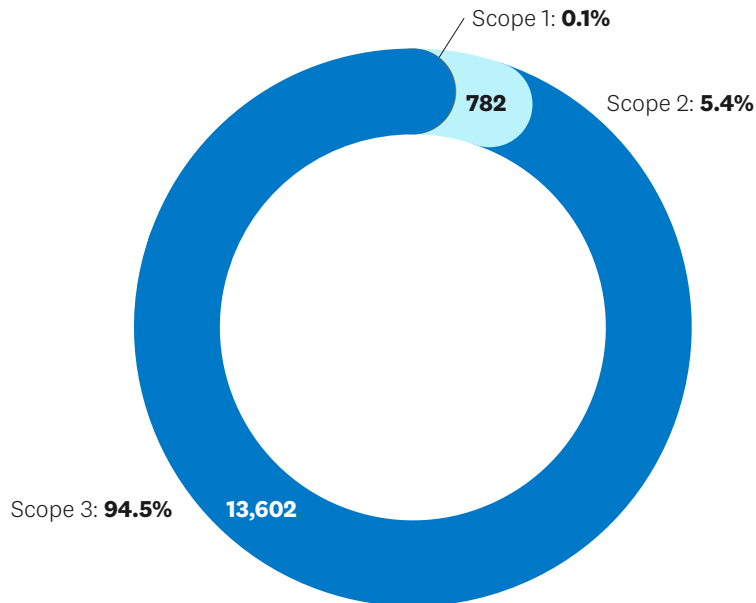


\*We will revisit our baseline and climate targets in FY25

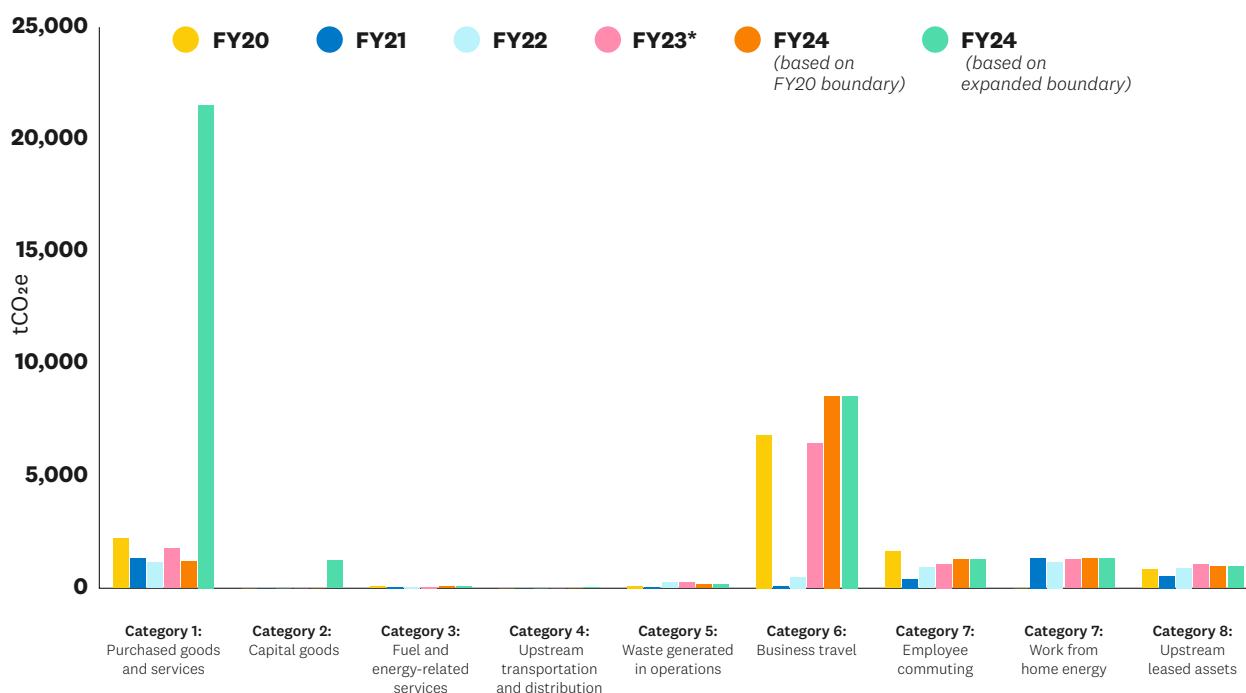
\*\*FY23 emissions data included in this report has been updated from the FY23 Annual Report to reflect a full 12 months of actual activity data

**Emissions by scope FY24**

FY24 GHG emissions breakdown (tCO<sub>2</sub>e)



Scope 3 emissions source



\*FY23 emissions data included in this report has been updated from the FY23 Annual Report to reflect a full 12 months of actual activity data

Fiscal years FY20 - FY24 Scope 3 emissions data in tCO<sub>2e</sub>

Scope 3 emissions category	FY20	FY21	FY22	FY23**	FY24 (based on FY20 boundary)	FY24 (based on expanded boundary)
Category 1: Purchased goods and services	2,208	1,316	1,152	1,774	1,200	21,523
Category 2: Capital goods	not calculated	not calculated	not calculated	not calculated	not calculated	1,226
Category 3: Fuel and energy-related services	85	48	66*	66	74	74
Category 4: Upstream transportation and distribution	not calculated	not calculated	not calculated	not calculated	not calculated	29
Category 5: Waste generated in operations	109	54	258	264	170	170
Category 6: Business travel	6,826	91	507	6,459	8,568	8,568
Category 7: Employee commuting	1,648	408*	914	1,077	1,278	1,278
Category 7: Employee commuting – work from home	not calculated	1,357	1,170	1,270	1,336	1,336
Category 8: Upstream leased assets	845	549*	904	1,069	976	976
<b>Total Scope 3</b>	<b>11,721</b>	<b>3,823</b>	<b>4,971</b>	<b>11,979</b>	<b>13,602</b>	<b>35,180</b>

\*Adjusted down for rounding.

\*\*FY23 emissions data included in this report has been updated from the FY23 Annual Report to reflect a full 12 months of actual activity data

For more information on our climate disclosures, see the Social and Environment section of the Xero Databook on our website:

[www.xero.com/sustainability](http://www.xero.com/sustainability)