

Net Zero Transition Plan 2023



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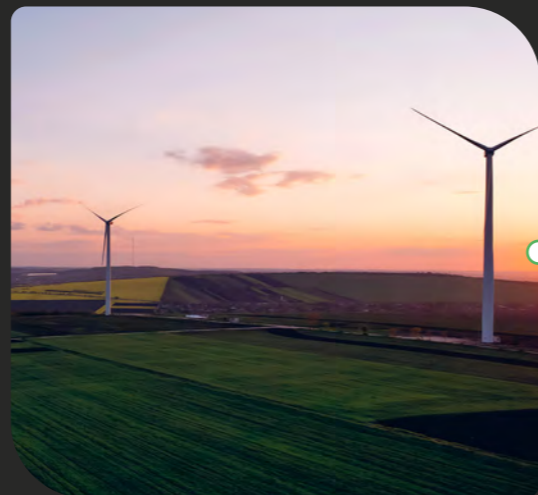
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01 INTRODUCTION FROM OUR CEO

Welcome to our first Net Zero Transition Plan.



At XP Power we aspire to lead our industry in providing the most versatile, reliable power solutions and making a positive impact on the world. For us, growing sustainably makes good sense, for our business and for the planet.”

GAVIN GRIGGS
CEO



Sustainability is important to XP Power and all our stakeholders. We are proud of the actions we have taken to date but we recognise there is more to do and everyone will need to play their part. Sustainability is an integral part of our Company strategy and a key element of this is our commitment to Net Zero by 2040. Our plan includes both how we will lower the emissions from the production of our products, and how those products themselves will have lower emissions.

This document details how that commitment will be delivered, spelling out the key actions and metrics with the policies and procedures that support the ambition day-to-day at XP Power. This plan has been developed using the guidance from the Transition Plan Taskforce (TPT), which was set up by the UK Government to develop the “Gold Standard” in this area.

With a long-term horizon in a world that is changing rapidly there are, of course, many uncertainties in the plan. But we believe it is critical for all companies to map out their road to net zero however uncertain this may be, so that stakeholders understand the key steps necessary and the associated risks to delivery.

Like many companies, we are reliant on actions outside our factory walls to meet our ambition. It is critical that governments, regulators and the energy industry rapidly take steps to decarbonise electricity grids across the globe and that our suppliers reduce the footprint of the products we buy from them. Without that, we as a Company won't succeed in our net zero journey, but more importantly, the world will have no chance of keeping warming to within 1.5 degrees as set out in the Paris Agreement.

The next few years will be critical in determining how successful these efforts will be and we are determined to play our part.

We welcome feedback on our plan, and in line with the TPT's guidelines, plan to update it periodically when there are material changes or, at the latest, every three years. We will continue to update our progress and TCFD disclosure every year as part of our Annual Report.

GAVIN GRIGGS
CEO

02 FOUNDATIONS

Objectives and priorities

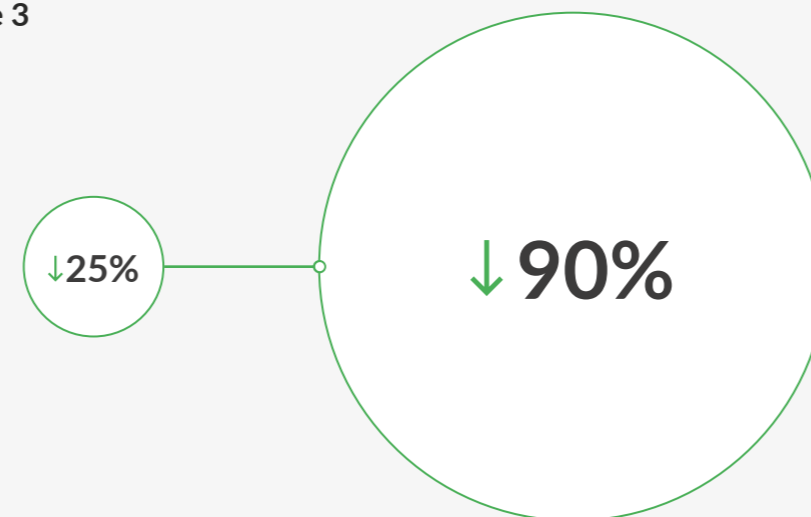
Our aim is to be net zero across Scope 1, 2 & 3 by 2040 with minimal use of offsets. Our absolute emissions reduction targets, based on a 2022 baseline as submitted to the SBTi and awaiting verification for their Net Zero Standard, are:

By 2030 By 2040

Scope 1 & 2



Scope 3



↓ Reduction

We will use our influence throughout our value chain, with suppliers and customers, to encourage carbon reduction activities to be undertaken and valued, and will continue to educate our workforce and inspire them to take action. Our policies and procedures will promote low carbon thinking and embed it as part of how XP Power does business every day.

There are risks to achieving our transition plan, which we outline in this report. That said, our TCFD work has highlighted that the business overall is resilient to climate-related physical and transition risks within the bounds of our business-as-usual activity, taking into account our existing and planned mitigation strategies and net zero action plan. Our new factory in Malaysia, which will be capable of producing most of our product lines, will introduce further resilience into our production capabilities.

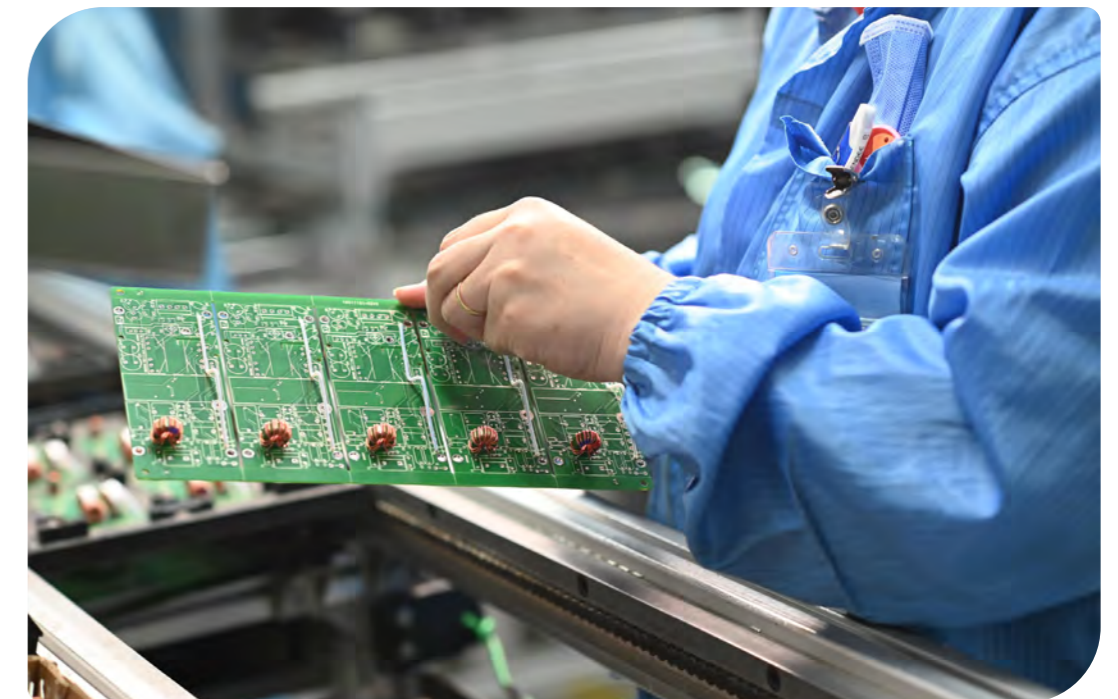
Business model implications

Our overall business strategy, which is designed to produce sustained significant growth for the coming years through continued innovation and product quality across our market segments, already integrates emissions reduction activities within it. As a result, we do not envisage any material changes in resource allocation or operational and capital expenditure versus our current plans.

The biggest emission impacts are from our products in use. The more efficient we can make our products, the lower these lifetime emissions will be. In addition, we can reduce the upstream emissions from our products by the way we design them, in particular by reducing the number of components. These two development strands are already part of our innovation pipeline.

We recognise we will also need to work collaboratively with our main suppliers to achieve reductions, and work in this area has only just started.

Our overall ability to hit our targets is materially dependant on electricity grids across the globe rapidly decarbonising. Without this we cannot be a net zero company.



03 IMPLEMENTATION STRATEGY

Business planning & operations

Based on the full carbon inventory analysis undertaken in 2022 we have put together a high-level plan that will take us towards our stated target of net zero by 2040. This plan includes actions that we can take ourselves, actions we expect our suppliers will take over time, and activities that we expect to happen outside of our value chain, which will have an impact on our footprint, in particular the decarbonisation of the grid and transportation. While it is not possible to formulate this plan in detail year by year, we have mapped out what we expect to happen in three stages:

Stage 1:

Short term (the next three years)

Stage 2:

The medium term (by our 2030 interim target year)

Stage 3:

The long term (from 2030 to 2040, our target year for being net zero as a business)

The following sections show the elements of these high-level plans. We have separated out Scope 1 & 2 from Scope 3 for clarity given how much Scope 3 dominates our footprint (99%).

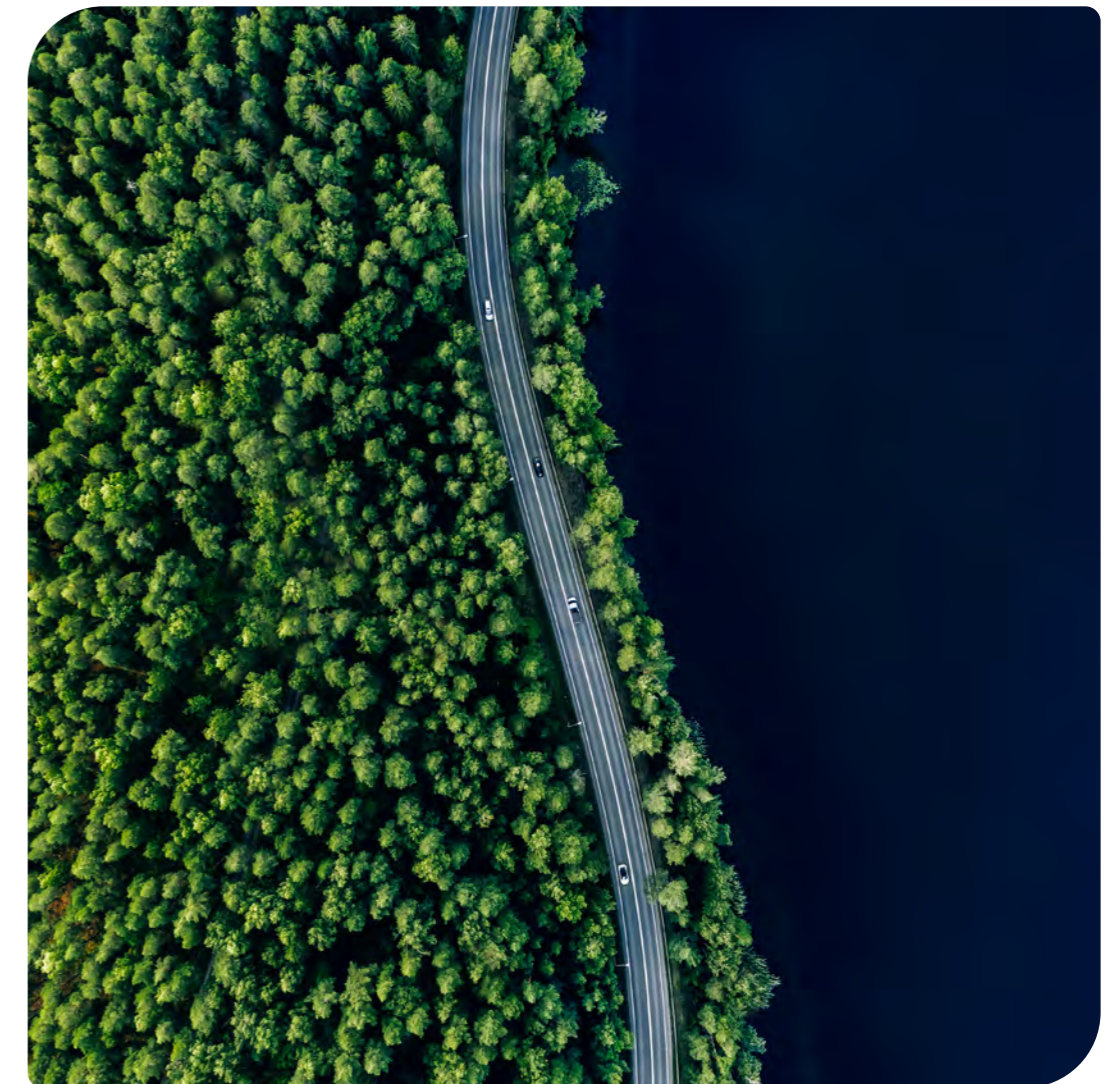
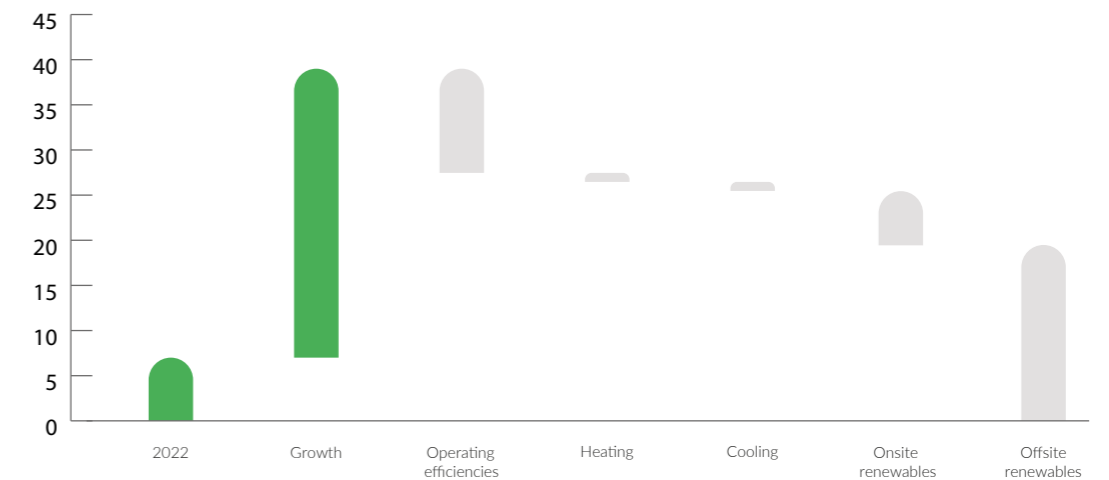
In each case we start by showing our 2022 emissions with the second bar projecting forward our absolute emissions in 2040 based on our significant strategic growth plan. This effectively gives a revised starting level of emissions given no other changes. The grey bars then show the main categories of activities that will reduce emissions.

Scope 1 & 2 forms a very small part of our overall footprint (approx. 1%), however, we believe it is necessary to do what we can to decarbonise what is fully in our control.

Our operations are not particularly carbon intensive however, and most improvements will come from a wide variety of small, site-based improvement projects. We currently have gas-fired heating in some sites, and we will look to move this to electrical heating over time. We also have a few air conditioning units on our sites, which contain high global warming potential HFCs as the refrigerant. In line with the GHG protocol we report fugitive emissions resulting from leakage and service over the operational life of the equipment. Over the long term we anticipate upgrading or replacing these units with ones that have alternative or zero HFCs as technology improves. Finally, we anticipate ongoing efficiencies as we make small upgrades and process changes across a range of equipment and business processes.

SCOPE 1 & 2

CO₂e T 000s



03 IMPLEMENTATION STRATEGY CONTINUED



The combination of rapid decarbonisation in electricity grids and adoption of renewable energy (on-site and off-site) means that Scope 1 & 2 emissions should fall rapidly to 2030 and thereafter more slowly before reaching zero at the end of the period.

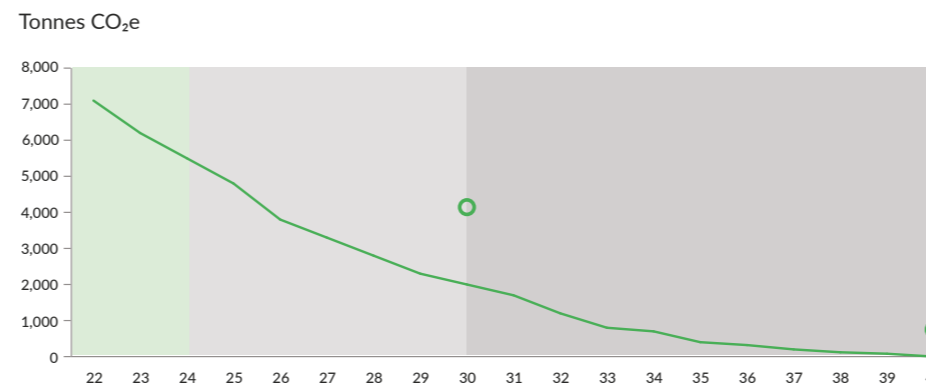
We have back-up generators at a couple of sites, which are the only carbon intensive assets that we operate. In order to ensure continuity of production throughout periods of grid outage we have occasionally had to use these, albeit in total these accounted for less than 1% of our Scope 1 & 2 emissions in 2022. We will look to replace these with low carbon alternatives in the medium term as alternative technology can cost effectively provide the same back-up function.

In addition to these site-based activities to improve efficiency and replace equipment, we will also be pursuing opportunities to source renewable electricity. We already have solar panels on some of our sites and in the short term we will look to install more to maximise what is possible on our sites. However, this will not provide all our electricity needs, so we will be pursuing off-site renewable electricity via Purchase Power Agreements (PPAs) or similar to provide the rest of our needs. This is not currently possible in our Asian production sites and it is not clear when these mechanisms will become widely available in the countries in which we are based. At the moment we, therefore, consider these as medium-term options at best.

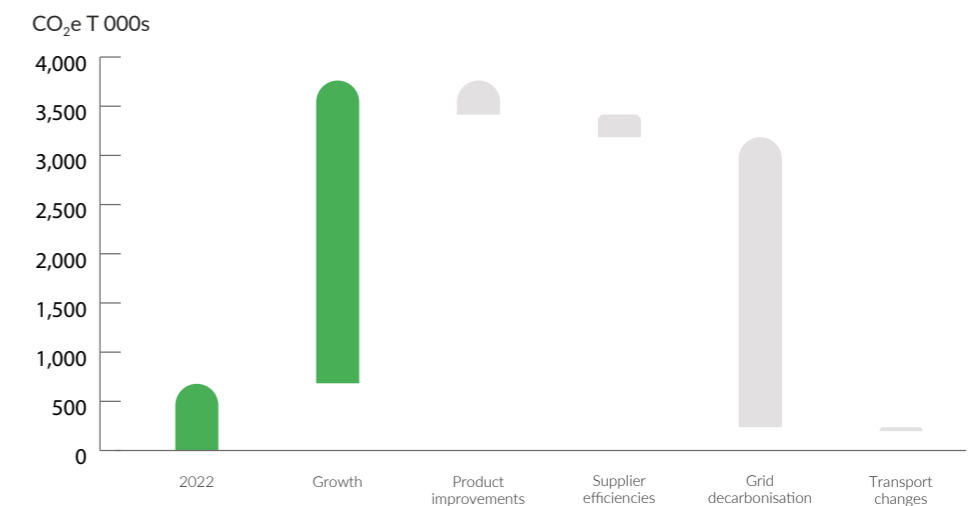
During this period the electricity grids where we operate will also be decarbonising, however, for Scope 1 & 2 we anticipate sourcing on and off-site renewables ahead of the rate of decarbonisation of the overall grid. As a result, the effects of grid decarbonisation are not shown on the waterfall to 2040. However, grid decarbonisation will still contribute in the short and medium term to our Scope 1 & 2 reduction and will likely be necessary for achieving our 2030 interim SBTi target given the uncertainties around PPAs in Asia as noted earlier.

The following chart shows the evolution over time of our emissions following the planned actions by ourselves and the anticipated actions of others. The chart is shaded to show the short, medium and long-term phases. Of course at this stage, this trajectory should be taken as indicative only and as certain projects are implemented the profile may be a series of step changes rather than gradual progression. Also shown on the chart are the 2030 and 2040 emission reduction targets that have been submitted to the SBTi and are currently awaiting validation. As can be seen, our current expectations are that we will be ahead of both the 2030 and 2040 reduction targets.

TOTAL SCOPE 1 & 2



SCOPE 3



As can be seen from the chart, the single biggest factor in our ability to hit net zero by 2040 is the decarbonisation of grids globally. We clearly cannot directly influence this but rely on governments to implement appropriate policies to achieve this. As in our TCFD Report, we, therefore, use the IEA's NZE scenario to build in what we expect to happen in this area, and we have used this data to allocate impacts to the short, medium and long term.

The other major area of focus under Scope 3 is on product innovation where we can directly influence emissions. By reducing the number of components in a product, and by increasing the overall efficiency of the product, we can reduce both the upstream and downstream impacts of our product range. Given the critical nature of our power supplies in our customers' equipment, our products are subject to stringent regulations and approval processes, which can take a long time. In addition, the engineering work to improve efficiency and decrease components will require some long-term projects. As such, we do not foresee significant reduction impacts in the short term from this activity with the majority coming into the long-term horizon.

We also expect our suppliers will be making small efficiency improvements in the way that we will be in our own operations. This will be a combination of upgrading equipment to be lower emissions, electrification of heating and other operational efficiencies. We expect this to be in the order of 2% per annum, however, because of the way that data is updated in the life cycle databases we use, we only expect these to be reflected in the data when it is updated, which is typically every five years.

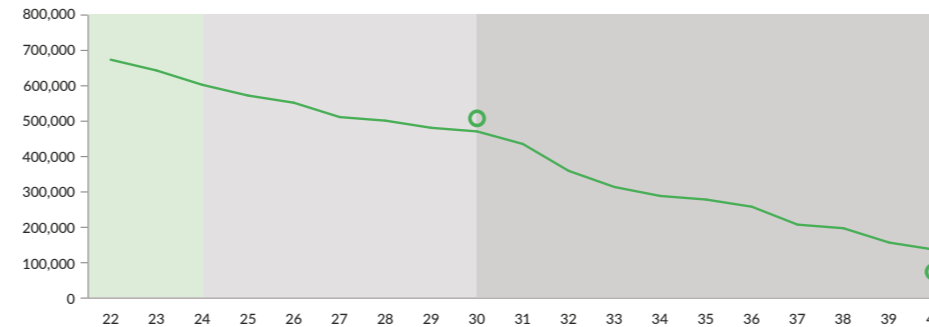
03 IMPLEMENTATION STRATEGY CONTINUED

The other category of activity is changes in transport-related emissions. Much of our product is shipped to customers by sea but some is shipped by air owing to customer demands for short lead times. In recent years this air freight has increased as a proportion owing to the supply chain issues that the whole of the electronics industry has been impacted by. We will look to redress this balance but have to be mindful of customer requirements so we will need to work with customers rather than acting unilaterally and this will, therefore, take time. In addition, we are looking at how we package and ship our products to see if there are opportunities for reducing the overall emissions footprint associated with product logistics. Finally, in this area we will continue to seek opportunities to reduce emissions from business travel and employee commuting, making full use of technology to reduce the need for travel and encouraging low carbon options such as public transport and EV cars. Although each of these areas is small in overall terms compared with the impacts of our products in use, we believe it is important to work to the principle of “every kg of carbon counts” and reduce wherever possible.

The following chart shows the evolution over time of our emissions following the planned actions by ourselves and the anticipated actions of others. The chart is shaded to show the short, medium and long-term phases. Of course, at this stage this trajectory should be taken as indicative only. Also shown on the chart are the 2030 and 2040 emission reduction targets that have been submitted to the SBTi and are currently awaiting validation. As can be seen, our current forecast is that we will be ahead of the reduction targets for 2030 but that the current projects and expectations outside of our value chain will not meet the 2040 reduction target. The gap to this 90% reduction target in 2040 will be kept under review as plans develop and technology evolves, and we will endeavour to undertake extra activity to meet the target.

TOTAL SCOPE 3

Tonnes CO₂e

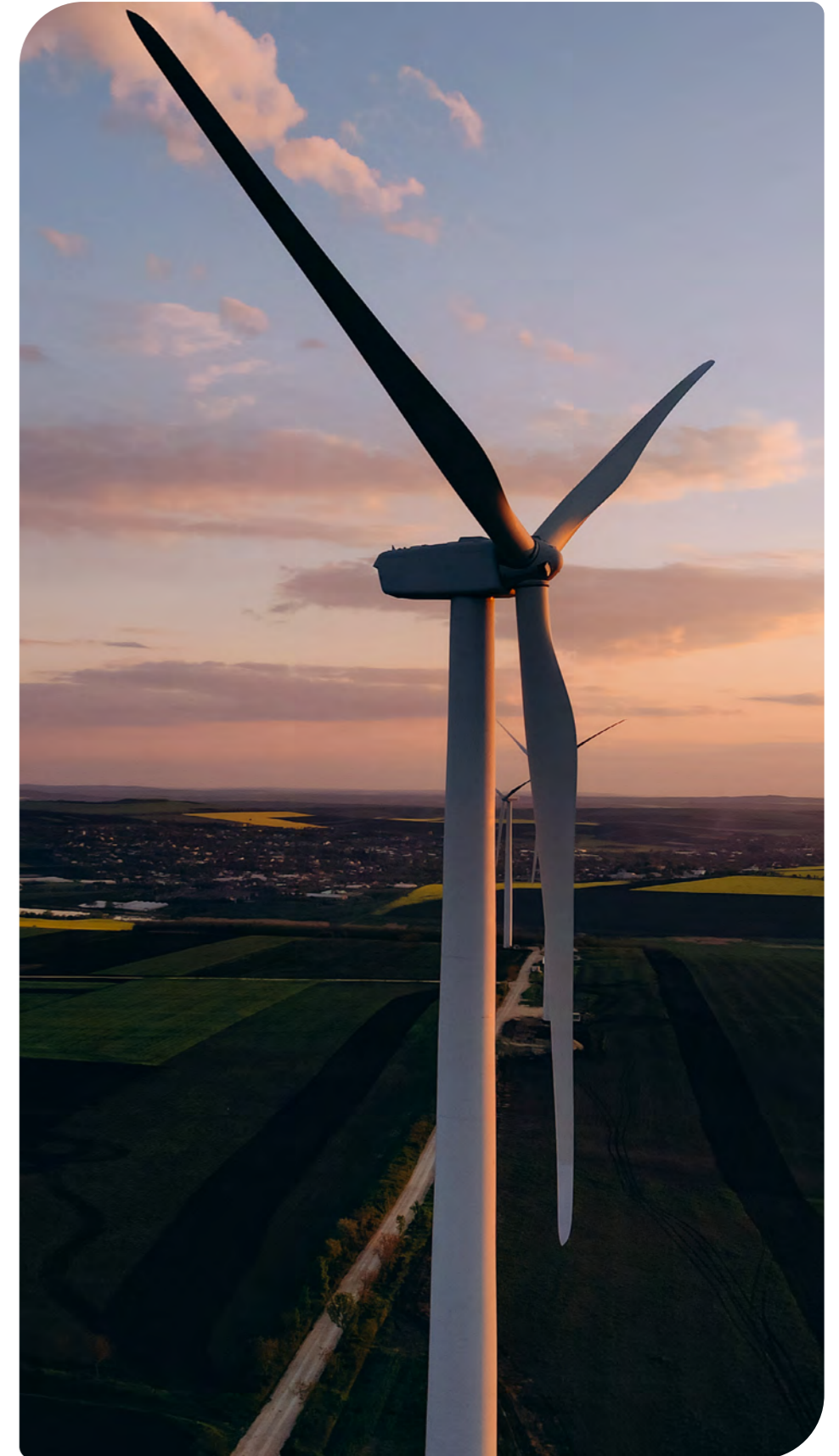


The trend here is for slower improvement than Scope 1 & 2 with changes around 2030 as product development activity starts to impact emissions of products in use more.

Emissions are not fully reduced to zero by 2040 (even if we bridge the gap to the 90% reduction target), so some removal activity to compensate for these residual emissions via the use of offsets will be required. At this stage we have not built this in as we want to keep the focus on reduction activities and we will continue to investigate what more may be done to reduce these residual emissions further without the need for removals.

It should be noted that our carbon reduction plan is highly sensitive to our assumptions of annual business growth. With an assumed CAGR of 10% growth in our modelling, our business would grow over five-fold by 2040. Some of our plans improve emissions intensity but do not eliminate emissions entirely. Our ability to achieve absolute reductions is in part dependant on which business growth numbers we assume. This is illustrated in the following table, which shows the effects of the reduction activities under different growth scenarios:

Business growth CAGR %	10%	5%	0%
Absolute reductions forecast by 2040 (%)	74%	89%	95%



03 IMPLEMENTATION STRATEGY CONTINUED

Business strategy

Our overall business strategy, which is designed to produce sustained significant growth for the coming years through continued innovation and product quality across our market segments, is set out in the following detail. It can be seen that this strategy already integrates emissions reduction activities within it. As such, it is not practical to isolate the specific financial impacts of these emission reduction actions.



Develop a market-leading range of competitive products

We need a market-leading range of products to be attractive to our customers. This range also needs to be broad due to the fragmented nature of the markets we serve, which have several product requirements. The broader and more up to date our product range, the more chance we will have something that will work effectively in our target customers' applications.

PLANNED FUTURE ACTIONS

We are focused on developing product platforms that are easy to modify and can be reused over multiple sectors and applications, and on expanding our portfolio of products with class-leading efficiencies and low standby power.



Target accounts where we can add value

We pride ourselves in the level of service and support we offer to our customers, particularly during the design-in stage. We have a compelling proposition where customers expect excellent quality and reliability to power their mission-critical equipment, particularly with a power problem due to either heat dissipation or electrical noise. These are our target customers.

PLANNED FUTURE ACTIONS

We are prioritising our resource on customers that fit our value proposition. We are de-emphasising customers that may have significant revenue potential but where cost is a more critical factor than quality, reliability or engineering support during the design phase.



Vertical penetration of focus accounts

We have a relatively small share of available business in some accounts we call on. We continue to expand our product portfolio to address more opportunities available to grow our revenues.

PLANNED FUTURE ACTIONS

As we expand our product offering through continued product development augmented by acquisitions, we aim to address our customers' requirements with excellent service and support.



Build a global supply chain that balances high efficiency with market-leading customer responsiveness

Since listing in 2000, we have built a strong brand in the power converter market. This, along with our product portfolio and excellent customer service, has allowed us to take market share and grow significantly. As the Company grows, we need to upgrade our systems and processes, especially our supply chain processes, to scale and run a larger business as we continue to grow.

PLANNED FUTURE ACTIONS

Continue support and optimisation of the ERP implementation across the Group. The new facility in Malaysia is expected to be operational in 2024 and it will complement our plants in Vietnam and China to meet global demand and allow for further expansion. Our overall objective is to provide a resilient and flexible supply chain with the capability to manufacture most products in China, Vietnam and Malaysia and enhanced business continuity planning.



Lead our industry on environmental matters

Strong corporate social responsibility is important to our customers, employees and the communities we operate in. This incorporates environmental performance, health and safety, treatment of our people and business ethics.

PLANNED FUTURE ACTIONS

We will remain a committed member of the RBA (Responsible Business Alliance). We will take the necessary steps in our carbon transition plan to meet net zero targets.



Make selective acquisitions of complementary businesses to expand our offering

Our strong balance sheet and cash generative business model allow us the capacity to pursue complementary business acquisitions. This is another avenue to expand our product offering and addressable market.

PLANNED FUTURE ACTIONS

We will integrate acquisitions into our global supply chain, product development and sales structures to maximise growth opportunities, while continuing to develop a pipeline of potential acquisitions to expand our product offering and engineering capabilities.

In our TCFD Report we concluded that climate-related risks can be accommodated in our business-as-usual activity in light of our existing and planned mitigation strategies and net zero action plan. No additional fundamental changes to our business strategy or budgets resulting from climate change are expected to be required for the foreseeable future.

With regard to opportunities, our TCFD Report highlighted solar power, PPAs, reduction of air freight, legislation on energy efficiency, electrification and energy and waste savings. All of these aspects have been included in the emissions reduction plans previously set out.

03 IMPLEMENTATION STRATEGY CONTINUED

Products and services

A long-standing benefit of our products is their reliability and efficiency in providing critical power systems for use in customers' equipment.

Our ambition is to be an industry leader on sustainability – this also includes our products. We were the first to introduce "greener" converters and we believe that we have the broadest product portfolio in our industry. Product design is our customers' top material impact and scored even higher than customer experience and satisfaction. Our R&D investment is a key part of our strategy, with particular focus on energy efficiency and delivering to our clients' needs in RF, High Voltage, Low Voltage and Low Power.

This year, we undertook a full analysis of the carbon footprint of our products. This has enabled us to better understand where the impacts are and start to look at ways to reduce our embedded emissions in purchased goods and in-use phase emissions, which are the two biggest sources of our Scope 3 emissions. To have a sustainable business, we need to be more deliberate in developing low carbon products and solutions that solve our customers' power problems, within the balance of cost and efficiency. Our engineers bring ideas, skills and innovation to reducing energy usage for our customers, and we integrate sustainability into our product design as new materials and components become available. We consider and respond to environmental issues throughout every stage of our product lifecycle, and our high-efficiency products play a role in helping the economy move to a low-carbon future. Our new product design process considers:



ENERGY EFFICIENCY

We have consistently led the industry in developing high-efficiency products, in the industrial and medical sectors, which consume and, therefore, use less electricity in both powering the application or on standby. This results in significantly reduced CO₂ emissions over the lifetime of the customers' equipment, which is often seven to ten years.



HAZARDOUS SUBSTANCES

We avoid the use of hazardous substances in our products, facilitating their recycling at the end of their lifetime and reducing their impact on the environment.



NOVEL MATERIALS

Wherever possible, we introduce novel materials into our higher-end products, like ultra-efficient silicon carbide devices. We have also used new semiconductor components for the control of our power supplies, which allow soft switching to reach very high-efficiency rates and low standby power ratings. Future developments in power transistor technology are expected to allow significant reduction in the size of power converters and increase their efficiency in some applications. We use over 4,000 key materials and components within our products such as Power FET, IGBT and ceramic capacitors, which enable us to produce durable and quality products and will investigate opportunities to reduce component count.



LOW-CARBON MANUFACTURING

As well as designing our products so they are highly efficient, we also consider the manufacturing process. Traditionally, products undergo testing (burn-in) after manufacture to eliminate early failures by running them under stress. When we burn-in our products, we recycle the power in the manufacturing facility to significantly reduce our carbon footprint. Burn-in cycles are monitored and reduced based on the defect data, further reducing CO₂ emissions.



PRODUCT LIFECYCLE MANAGEMENT

Our design processes consider the complete product lifecycle of our power conversion products from the outset, and we aim to always extend the useful product life where possible. The characteristics of a product that make it more energy efficient also increases its reliability and useful lifetime – highly efficient products run cooler, which increases the lifetime of key components that are sensitive to heat, such as electrolytic capacitors. Efficient products also avoid the need for an electromechanical fan to exhaust the waste heat – one of the most unreliable components of a traditional power conversion system.



PRODUCT SAFETY

A power converter is a safety critical part of any electrical system or application as it provides the isolation barrier between the end-user and the potentially lethal high voltage mains electricity. An example of this is a mains powered drug delivery system, which connects directly to a patient and relies on the safety isolation within our power supply to keep the patient safe. All of our products come under the remit of our ISO 9001 registration.

Although integrated into our overall product development, improved efficiency and reduced component count are specific aspects that have been quantified as part of the transition plan and are included in the graphs in section 2.1. Efficiencies from product in use will run through the whole period, with small improvements each year as new products are introduced and old products are withdrawn.

It will take longer to implement reduced component counts owing to the nature of the product development process and the long duration required to gain customer approvals for products. As such, these improvements will start in the medium term but will be mainly long term, after 2030.



03 IMPLEMENTATION STRATEGY CONTINUED

Policies and conditions

There are four main policies that help embed sustainability into our business:

- | | |
|----|---------------------------------|
| 01 | Code of conduct |
| 02 | Environmental |
| 03 | Biodiversity |
| 04 | Supply Chain |

Each of these supports the overall aim of achieving net zero by 2040, by “considering the environment in setting business strategies and initiatives and in promoting best environmental practices in the various ways in which we work”.

In addition there are a number of procedures and approaches that are used to align the business with the strategic ambition of net zero.



A. Product development

All new products should have a lower impact than those they replace. In the main this is currently in relation to their efficiency in use, however, in the future this will also include embodied carbon. This will affect Scope 3 upstream and downstream.



B. New sites

Our Vietnam site was built to Singapore Building & Construction Authority Gold Standard. Our new Malaysia factory is being built with regard to the Malaysian Green Building Index.



C. Recruitment

Onboarding material includes information regarding XP Power's commitment to sustainability and in particular net zero. This encourages new employees to contribute improvement ideas and to set the culture around net zero early in employee's careers, which will affect all elements of emissions.



D. Supplier engagement

Suppliers are encouraged to actively pursue emission reduction activities as part of the supplier code of conduct, which will affect long-term Scope 3 upstream emissions. However, this is an area where we recognise more needs to be done to ensure specific reductions are seen in practise.

We are also currently looking at incorporating a carbon price or equivalent mechanism in financial approvals to encourage low carbon decision making, in particular with regard to capital expenditure.

03 IMPLEMENTATION STRATEGY CONTINUED

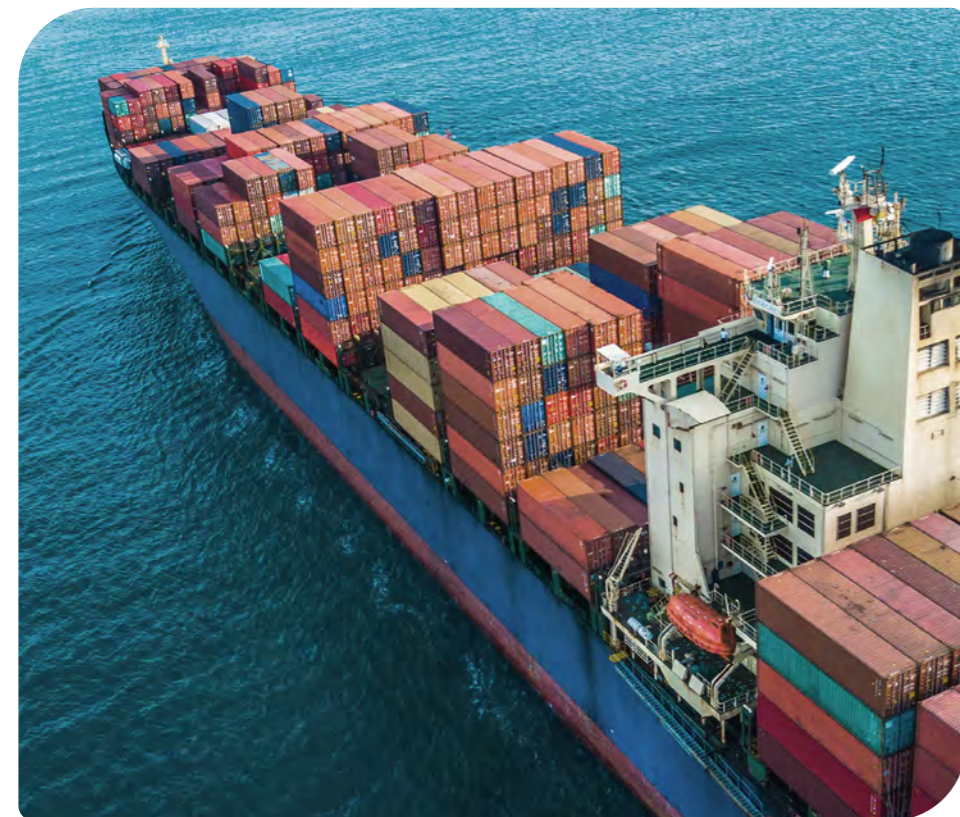
Financial planning

As noted earlier, the emission reduction activities that can be pursued by the Company directly, affecting Scope 1, 2 and part of Scope 3, are embedded in the overall business to drive significant growth. It is not possible to, therefore, specifically identify the financial benefits or costs associated with them as they are so interlinked with other factors.

For example the company invests in R&D activity to improve the efficiency of products in use. This is an important and long standing focus to meet customer needs. To try to separate out the low carbon aspects of this work from quality and other customer requirements would be artificial as they are so interwoven.

The carbon reduction focus in our own operations will be from a number of small projects at a site level. Many of these will entail replacement of old equipment over time with operational cost benefits resulting from improved efficiency at the same time as reducing emissions. The full list of detailed projects has yet to be identified but it is envisaged that the upfront cost to achieve reductions will be no more than business-as-usual replacement costs. Similarly, the business will be looking to enter into PPAs (or equivalent mechanisms) to secure access to renewable electricity, but such arrangement will only be entered if it makes economic sense. Given that renewable energy is often the lowest cost of generating electricity we do not see this as a barrier to adoption.

In summary we believe that the actions the Company directly takes to reduce emissions will result in costs or impacts on revenues that are in line with those already in our strategy and growth projections and that no restructuring or write down of assets will be necessary.



Sensitivity analysis

Our TCFD Report details the qualitative scenario analysis that has been undertaken using three public climate-related scenarios to help us understand the resilience of our business to climate change:

- Net Zero Emissions by 2050 Scenario (NZE) – outlining a pathway for the global energy sector to achieve net zero CO₂ emissions by 2050, which limits the global temperatures rise to 1.5°C by 2100, with 50% probability. This scenario is included as it informs decarbonisation pathways used by the SBTi.
- Stated Policies (STEPS) – outlining a combination of physical and transition risk impacts as temperatures rise by 2.5°C by 2100, with 50% probability. This scenario is included as it represents a midway path with the trajectory implied by today’s policy settings.
- RCP 8.5 – where global temperatures rise by around 4°C by 2100. This scenario is included for its extreme physical climate risks.

The main risks were identified as follows:

RISK	STORM AND FLOOD DISRUPTION	SUPPLY CHAIN RISKS	CARBON PRICE IMPACTS IN THE VALUE CHAIN	ROBUSTNESS OF LOCAL POWER GRID SUPPLY	RISK OF NOT MEETING NET ZERO TARGET
Type	Physical (acute)	Physical (acute)	Transition (policy and legal)	Transition (market)	Transition (market and reputation)
Area	Own operations	Upstream	Upstream	Own operations	Upstream/own operations
Primary potential financial impact	Lost production and revenue	Lost production and revenue	Higher cost of inputs	Lost productions and revenue	Lower profit margins through increase costs and lower revenue
Time horizon	○	○	○	○	○
Likelihood	○	○	○	○	○
Magnitude of impact	●	●	●	●	●
Location or service most impacted	US, Vietnam	Group	Transport, purchased goods and services	China, Vietnam	Group

KEY

- Short term ○ Medium term ○ Medium-high term ○ Long term
- Low ● Major ● Moderate

In aggregate, we conclude that our overall climate risk exposure is moderate and the Group is financially resilient and strategically robust to climate change. We will continue to develop our analysis as new data becomes available, both internally and externally, and we will continue to monitor our climate exposures and action plans through our risk management framework.

Our ability to meet our transition plan target of net zero by 2040 is significantly driven by the pace of decarbonisation of electricity grids globally. In particular, our plan assumes grids decarbonise in line with the IEA’s NZE scenario. While this is seen as what is required globally to achieve net zero by 2050, many commentators view this as optimistic given current policies and trends. Any deviation from the NZE trajectory would affect our ability to hit our target of being net zero as a Company by 2040. This is the key risk in our implementation plan and cannot be offset by activity elsewhere. Government policies and significant grid investment will, therefore, be closely monitored and reported in future updates to the plan.

04 ENGAGEMENT STRATEGY

We know that we cannot meet our net zero ambitions alone. We will need to work with our value chain partners to lower emissions, but also we will rely significantly on governments and power companies to drive the decarbonisation of electricity grids.



Value chain

Within our own value chain we need to influence both suppliers and customers.

Our suppliers are critical to our success, and we work in partnership with them to increase the strength of the supplier base. We are committed to maintaining high standards among our suppliers to reduce operational risks and foster long-term partnership success. XP Power has many suppliers providing a wide range of components. For the largest suppliers we plan to start active discussions in the near term to firstly understand what they are currently doing and what data they can provide us with in relation to carbon emissions. This will allow us to assess what may be possible in this area, be it joint projects, component selection policies, or supplier selection criteria, and to put together an appropriate action plan.

It is not practical to actively engage with all suppliers with regard to decarbonisation, however, we do encourage all suppliers to take actions through our supplier Code of Conduct.

Customer needs play a central role in shaping our product design and development process, enabling our customers to deliver power products and solutions to enhance their businesses' sustainability, while delivering economic value to all parties in the value chain. We have had some discussions with our key customers regarding climate reporting and reduction. Our main goal will be to improve the efficiency of our products to help them reduce their own impacts from their final products in use. We will continue to promote efficiency as a key aspect of power supplies and encourage our customers to see the value of this, not just from a carbon reduction perspective but also as a value proposition more generally.



Industry

We are a full member of the RBA and have adopted the RBA Code of Conduct throughout our organisation. This deals with environmental standards, treatment of people, health and safety, and business ethics. We are pleased that the RBA understands the need for decarbonisation across the electronics industry and support their efforts.

The RBA are in the process of introducing an industry-wide approach to collecting data from suppliers, which at the moment will just capture Scope 1 & 2 data. We believe that in time this may be extended to Scope 3, at which time it would become much more valuable. We will continue to assess how we might benefit from these industry-wide approaches and actively seek to learn from within the industry via the RBA.

We do not intend to join any other industry associations at this time but if in the future we do, we would ensure that their policies with regard to climate change are aligned with our own aims and specifically the aims of the Paris Agreement to keep warming to within 1.5 degrees.



Government, public sector and civil society

Our main engagement with governments and regulators comes when we are developing new sites. We are keen to be a responsible partner and work with local authorities to ensure that we bring employment to areas in a way that does not negatively impact the environment. We seek to have any new buildings accredited to the appropriate local green building standard, and by doing so help demonstrate that industrial development can be done in a low impact way.

Our targets are in the process of being validated by SBTi to their Net Zero Standard, thus ensuring our aims are aligned with a 1.5 degree trajectory. By being part of this initiative, we lend our voice to the hundreds of other companies doing likewise, demonstrating our commitment to our shareholders, our employees and indeed wider society.

ENSURING OUR TARGETS
ARE ALIGNED WITH A

1.5 DEGREE
TRAJECTORY

05 METRICS & TARGETS

Governance, business and operational metrics and targets

We outline our strategic objectives on page 07, but at this stage, we are not detailing operational targets that underpin these objectives beyond the detail on short, medium and long-term actions provided in Implementation Strategy. In the coming months we will develop annual/interim carbon reduction targets and determine how our strategic objectives translate into our supplier approach and NPD. We do not envisage any internal organisation and governance changes that would be required to deliver our plan, given the existing strength of our Governance structure.

Financial metrics and targets

We are not disclosing any financial metrics and targets against our transition plan. The delivery of our planned emissions reduction activities is incorporated in our existing overall business strategy, so we do not have additional spend or envisage any material changes in resource allocation or operational and capital expenditure versus our current plans.

GHG emissions metrics and targets

Metrics

We have reported on our annual gross Scope 1 & 2 greenhouse gas (GHG) emissions for a number of years, and in 2022 we included our full Scope 3 emissions footprint outlining details of our value chain greenhouse gas emissions for the first time. Our 2022 footprint represents our base year, so these are the core metrics by which we have set our net zero ambition, and which we will monitor our progress against annually.

Our carbon footprint is calculated using methodologies consistent with the *Greenhouse Gas (GHG) Protocol: A Corporate Accounting and Reporting Standard*, with additional guidance from the *GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard* and the *GHG Protocol Technical Guidance for Calculating Scope 3 Emissions*, as required. Our carbon footprint for Scopes 1, 2 and 3 are independently verified with limited assurance, by Interek Assuris. We measure all greenhouse gases as relevant and our targets cover CO₂, CH₄, N₂O and HFCs.

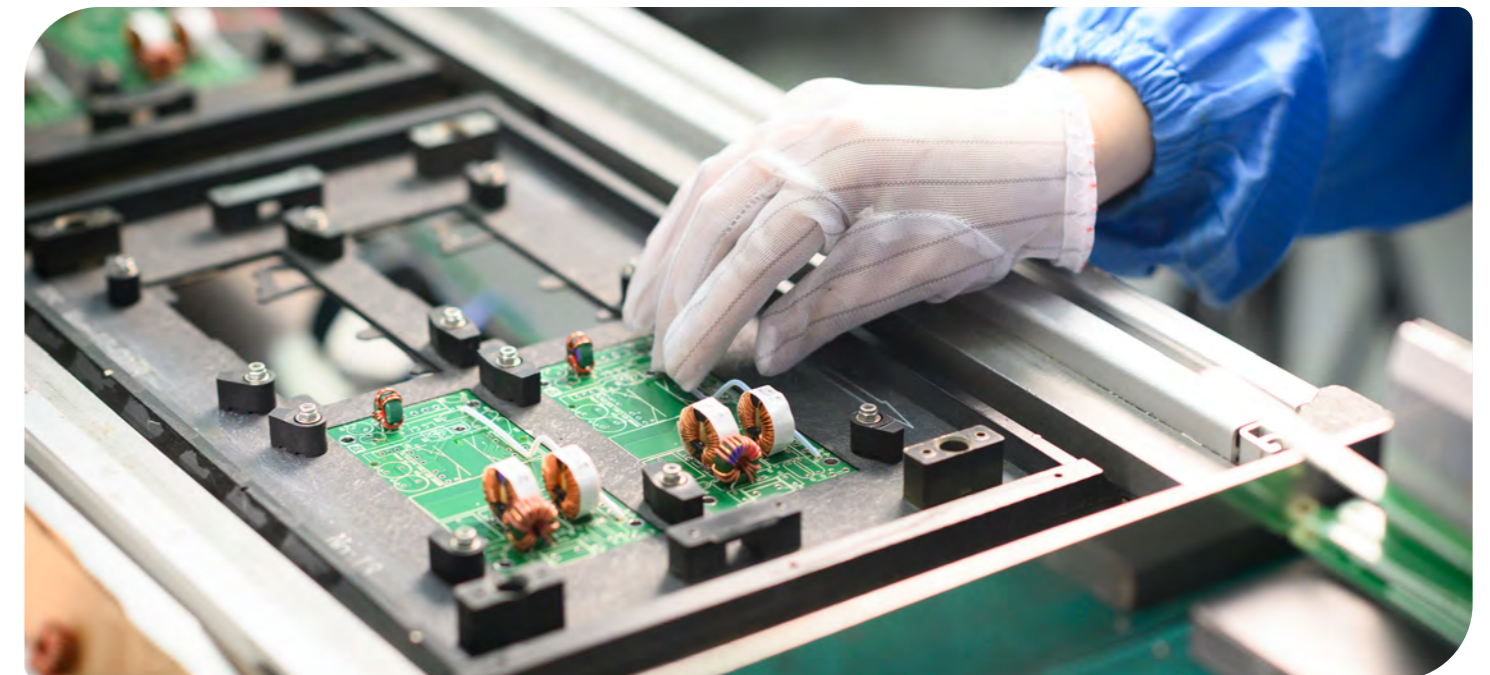
Our Scope 1 & 2 GHG emissions are derived from measured data sources with no estimates used. Scope 1 is a combination of emissions from stationary combustion for heating (both propane and natural gas), emissions from temporary diesel generators for backup electricity generation and fugitive emissions related to air conditioning, measured by HFC top-ups. Our Scope 2 largely related to emissions from purchased electricity, although we purchase municipal heat at one site in Germany.

Fourteen sales representative office sites, with no manufacturing or design capabilities, are excluded from our GHG inventory as they are below threshold. Collectively, these sites account for 35 sales and administrative employees who work onsite and at home to varying degrees. We estimate this exclusion to be around 1% of combined Scope 1 & 2 and zero impact on Scope 3.

The majority of our GHG emissions are represented by our Scope 3 emissions (99% of the total footprint), and within that, our downstream Scope 3 emissions associated with the use phase of our products dominates (73% of the total footprint). We calculated all applicable Scope 3 categories for our 2022 carbon footprint. Five categories of Scope 3 are not applicable to our business. Four categories of Scope 3 (Capital goods, Waste generated in operations, Processing of sold products and End of life treatment of sold products), are excluded from our reporting and our science-based targets as they are negligible and collectively account for under around 0.5% of our Scope 3 inventory.

Due to their nature, the calculation of Scope 3 emissions requires estimates and assumptions, which we outline for our key Scope 3 sources below:

- Use of sold products – the energy “used” by our products relates to the electrical energy lost by our power units through e.g., heat or noise as defined by their efficiency profile. We have calculated the lifetime energy waste for representative products of our key product ranges, considering sales volume, average power in range, efficiency profile and hours in use. International Energy Agency (IEA) 2022 emissions factors for our key sales regions were then applied to this data to calculate emissions across the assumed lifetime of the products.
- Purchased goods and services – we used component level purchase data, by quantity and/or weight and applied lifecycle assessment-based emissions factors against representative components within each component category. Spend-based analysis was used for less than 5% of the category’s emissions, where representative products could not be identified.
- Upstream transportation and distribution – all inbound, intragroup and outbound logistics under our control were mapped against mode, weight and transportation distance to calculate emissions on a wheel-to-well basis, using EcoTransIT. It is not always possible to distinguish outbound transportation paid for by the Group or by customers, so categories four and nine should be considered in aggregate.



05 METRICS & TARGETS CONTINUED

GHG CATEGORY NAME	STATUS TO XP POWER	TCO ₂ E	% SCOPE 1 & 2	GHG INTENSITY TO 2022 REVENUE (TCO ₂ E/£'M)
Scope 1				
Scope 1 Combustion Emissions		340.2	5%	-
Scope 1 Fugitive Emissions		221.0	3%	-
Total Scope 1		561.2	8%	1.9
Scope 2				
Scope 2 location-based		6,468.8	92%	-
Scope 2 purchased heat and steam		12.3	-	-
Total Scope 2 location-based		6,481.1	92%	22.3
Total Scope 1 & 2		7,042.3	100%	24.3
Scope 3				
Upstream emissions		178,929.9	27%	-
1. Purchased goods and services	Calculated, material	167,275.2	25%	-
2. Capital goods	Calculated, immaterial*	-	-	-
3. Fuel and energy-related activities (not inc. in Scope 1 or Scope 2)	Calculated, material	2,189.8	-	-
4. Upstream transportation and distribution	Calculated, material	6,254	1%	-
5. Waste generated in operations	Calculated, immaterial*	-	-	-
6. Business travel	Calculated, material	517.0	-	-
7. Employee commuting	Calculated, material	2,693.6	-	-
8. Upstream leased assets	Not applicable	-	-	-
Downstream emissions		496,038.2	74%	-
9. Downstream transportation and distribution	Not applicable	-	-	-
10. Processing of sold products	Calculated, immaterial*	-	-	-
11. Use of sold products	Calculated, material	496,038.2	74%	-
12. End of life treatment of sold products	Calculated, immaterial*	-	-	-
13. Downstream leased assets	Not applicable	-	-	-
14. Franchises	Not applicable	-	-	-
15. Investments	Not applicable	-	-	-
Total Scope 3 Footprint (tCO₂e)		674,968	-	2,324.3
Total GHG Emissions (tCO₂e)		682,010	-	2,348.5

* Excluded from our science-based targets.

We also monitor and report annually on our emissions intensity, energy use, energy intensity, renewable solar energy generation, freshwater withdrawal and waste management. Further details can be found in our 2022 Annual Report.

Targets

In 2021, we announced our public commitment to be net zero by 2040. In 2022 we signed the letter of commitment with The Science Based Targets initiative (SBTi) and have submitted targets for validation in the first half of 2023. These targets have yet to be validated by SBTi but they reaffirm our long-term commitment to net zero by 2040 across all Scopes and introduce interim targets for 2030. Our plan will ensure we are aligned to the UK Government's Net Zero Strategy, setting out a pathway to reaching net zero greenhouse gas emissions ahead of 2050.

OUR TARGETS ARE:

42%

TO REDUCE ABSOLUTE SCOPES 1 & 2 GHG EMISSIONS BY 42% BY 2030 FROM A 2022 BASE YEAR.

2040

TO REACH NET ZERO GHG EMISSIONS ACROSS THE VALUE CHAIN BY 2040.

25%

TO REDUCE ABSOLUTE SCOPE 3 GHG EMISSIONS BY 25% BY 2030 FROM A 2022 BASE YEAR.

90%

TO REDUCE ABSOLUTE SCOPES 1,2 AND 3 GHG EMISSIONS BY 90% BY 2040 FROM A 2022 BASE YEAR.

Our targets cover 100% of Scope 1 & 2 and 100% of Scope 3 as reported.

The relevant metrics, units, methodologies and definitions to assess progress towards reaching the target are outlined above.

Carbon credits

In line with the SBTi target criteria, our targets and transition plan do not include the use of carbon credits. While no such action is planned currently, we may consider using offsets as an option for additional emission reductions beyond the science-based targets, or as a way to reduce our residual emissions in 2040 to zero.

06 GOVERNANCE

Board oversight and reporting

The Board of Directors has overall responsibility and oversight of all matters that impact our strategy, risk management, vision, and values. This includes approval, oversight and monitoring of our science-based targets and transition plan. Transition plan elements are considered within the context of competing demands for resource allocation and allocation decisions are made based on considering issues such as the elements' impact, cost and deadlines alongside those of competing projects. Where possible, win-win elements are prioritised, such as those that reduce operational cost and emissions at the same time.

The key elements of our transition plan were derived and approved by the Board, while setting the science-based targets. The science-based targets were developed after a thorough analysis of the base year carbon footprint alongside forecasting the expected timing and impact of our identified value-chain emission reduction actions required to meet the targets and an analysis of projected business growth.

The Board is not expected to review these targets in the near future. However, under the SBTi criteria, targets must be reviewed, and if necessary, recalculated, and revalidated, at a minimum every five years, or when there is significant change in emissions inventory (e.g., change in calculation methodology), company structure or activities (e.g., M&A, material shift in the service offering), projections/assumptions used to set targets, (e.g., growth projections, timing of technological development, or as expected contribution from third parties does not materialise).

The Board will monitor progress against the transition plan at least annually and more often as data allows. Key metrics such as Scope 3 emissions are currently only calculated on an annual basis, but progress against operational objectives can be monitored on an ongoing basis.

Roles, responsibility and accountability

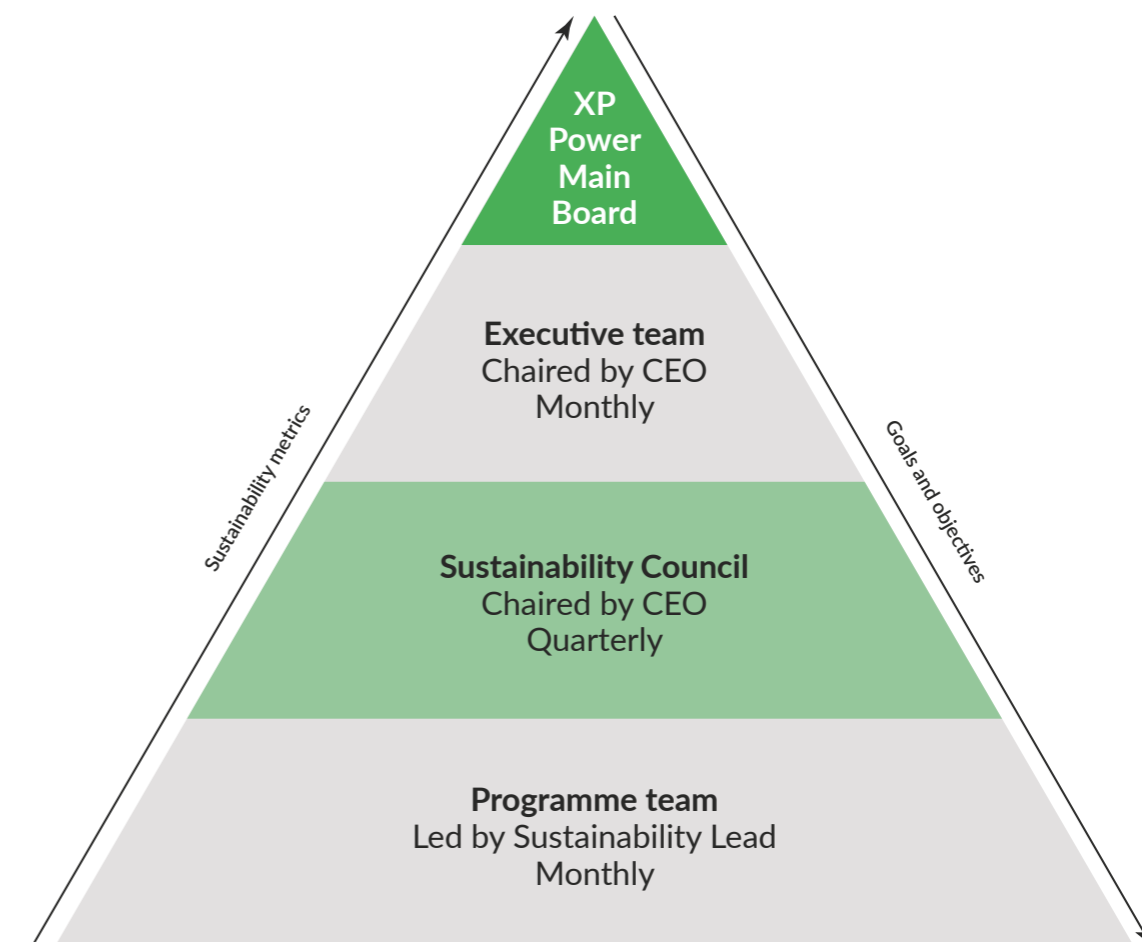
Our sustainability governance structure has been enhanced over recent years, which will help in supporting delivery of the plan. Oversight and delivery of the transition plan, including the setting and review of targets and monitoring of progress towards them is the responsibility of the Board and, at the management level, the Executive Leadership team (ELT).

Our Sustainability Council supports the Executive Team through determining the relevant goals and objectives, reviewing environmental KPIs, resolving issues, mitigating risks to the plan, and recommending policies and processes to the Executive Team and Board. The Sustainability Council is a cross-functional team Chaired by the CEO, which meets quarterly and is tasked with the formation and successful delivery of the XP Power sustainability action plan and, within this, the net zero transition plan.

The Sustainable Development Working Group, led by our Sustainability Lead, sits below the Sustainability Council, and meets monthly, with more of an operational remit, managing and tracking the progress of specific sustainability projects.

The transition plan is not subject to shareholder approval, and neither is the transition plan subject to external assurance. We believe the plan to be "evolutionary" in terms of impact to the business, rather than "revolutionary". We don't forecast any significant reset to the current business strategy and expect to accommodate near-term transition plan actions within the boundaries of business-as-usual spend and strategy.

From an internal procedures standpoint, we are introducing transition plan requirements into the decision matrix at key stages of the business to support delivery of the plan, for instance within procedures around product design, facilities management and logistics planning.



06 GOVERNANCE CONTINUED

Culture

We recognise that delivery of our transition plan requires a comprehensive and lasting change management programme. We also recognise that elements of change come from within, so we are looking to encourage our staff at all levels to assist in delivering the required transformation.

We already utilise Group-wide internal communications to explain the concept of net zero, to outline our commitments, what they and delivery against targets means for the business. Last year, in a change communicated to employees, we took the opportunity to align our employees' default pension option with our ESG values, with our new scheme switching to Standard Life's Sustainable Multi-asset Plan, which invests in responsible investment strategies.

Further actions may be required, such as role-based training in certain instances. In addition, we are investigating changes to our employee onboarding and working groups to assist in change.

Incentives and remuneration

Currently, sustainability considerations form a minor part of executive compensation in short-term incentives for the Executive Leadership Team. This will be revisited with the ongoing Remuneration Policy review that will be presented to shareholders for approval in 2024. The Group expects to include consideration for the achievement of certain sustainability actions within broader executive remuneration.

Skills, competencies and training

The Board receives updates and training with regards to sustainability matters annually. At the management level, the Sustainability Council similarly gain and develop expertise with awareness and training embedded within the Council's meeting and objectives. Certain Council members have also done, or are electing to undertake, external training on sustainability matters.

We participate in regular industry forums, and organisations such as the Responsible Business Alliance, and provide input and collaborative approaches that enhance our employees' skills in decarbonisation.





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POWERING THE WORLD'S CRITICAL SYSTEMS