Xiaomi Corporation
2023 Task Force on Climate-related Financial Disclosures Report

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1 ABOUT THIS REPORT

1.1 REPORTING STANDARD

This report is meticulously aligned with the recommendations set forth by the Task Force on Climate-related Financial Disclosures (TCFD), adhering to its structured guidelines to ensure a comprehensive and transparent account of Xiaomi's climate-related financial risks and opportunities.

As of December 2023, the original TCFD entity has concluded its operations. The stewardship for the ongoing application and evolution of the TCFD recommendations has transitioned to the International Financial Reporting Standards (IFRS) Foundation. This strategic handover ensures the continued relevance and integration of these guidelines within global financial reporting frameworks.

Despite this transition, the nomenclature and foundational principles of the TCFD remain intact in practice. In this report, we continue to reference the term "TCFD report" to maintain consistency with the established framework and to clearly communicate our adherence to the well-recognized standards for climate-related disclosures.

1.2 INFORMATION SOURCES AND RESPONSIBILITY

The information presented in this report is sourced from Xiaomi Corporation, alongside a comprehensive collection of published scientific literature, authoritative documents, seminar briefings, official correspondences, and statistical compilations. Xiaomi Corporation holds the paramount responsibility for ensuring the precision, reliability, and currency of the data and insights contained within this report, upholding the highest standards of informational integrity and transparency.

For the purposes of clarity and consistency, this report is published in both English and Chinese. The English version is considered the definitive source for all terminology, definitions, and interpretations. In the event of ambiguity or discrepancies arising from translation, the English version shall prevail.

1.3 DISCLAIMER

Xiaomi Corporation has prepared this report grounded in scientific principles and professional judgment. The latter encompasses conclusions drawn from the information available within the specified reporting frameworks and timelines.

This report includes forward-looking statements, beyond historical facts, concerning potential future events and expectations. These statements cover a range of topics, including but not limited to, assumptions, preconditions, policy and market changes, potential actions, risk assessment levels, and action plans to address climate risks and their implications. It is important to note that the actual outcomes or trends of the events discussed in this report may vary from those projected, due to the influence of external factors.

The forward-looking statements contained in this report are based on information available up to April 26, 2024. Xiaomi Corporation does not assume any obligation or responsibility to update or revise these forward-looking statements, regardless of new information, future events, or otherwise, until our next TCFD-related report.

2 Our Company

2.1 MESSAGE FROM CEO

To Our Esteemed Customers, Investors, and Friends,

In the dynamic realm of technological advancement and shifting global market landscapes, we find ourselves at a pivotal moment, where the pressing urgency of climate change demands not just attention but decisive, immediate action. At Xiaomi, the weight of environmental shifts on our planet, communities, and economies is not lost on us. It is with a profound sense of duty that we embrace the role of stewards for a sustainable future, weaving the thread of environmental awareness through the very essence of our innovation and operational practices.

Our commitment to sustainability transcends the realm of mere response to external expectations; it is a foundational pillar, a core value that propels us forward. We perceive it as a crucial element of our mission to democratize access to exceptional technology for all. This commitment is mirrored in every facet of our business operations, from the thoughtful design and ethical manufacture of our products to the intricacies of our global supply chain dynamics. We stand unwavering in our determination to diminish our environmental impact, champion responsible sourcing, and cultivate a culture of sustainability that extends beyond the confines of Xiaomi.

Embracing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) underscores our strategic orientation towards climate change. These guidelines act as a navigational tool, aiding us in pinpointing, evaluating, and adeptly managing climate-related risks and opportunities. The adoption of the TCFD framework is not merely about bolstering our resilience against climate-related adversities; it is about unlocking new corridors for sustainable growth and innovation.

At the heart of our strategic planning lies the critical role of climate-related risk assessment. This proactive approach enables us to foresee and adapt to the evolving environmental landscape, ensuring that Xiaomi remains agile, innovative, and competitive. By transforming potential risks into avenues for sustainable development, our commitment to this methodology is steadfast, underpinning the long-term success and sustainability of our enterprise.

Our journey towards a greener future is marked by substantial investments in solutions aimed at mitigating environmental impacts. These endeavors stretch across the development of energy-efficient products, waste reduction initiatives, and the integration of sustainable materials into our product offerings. These actions are pivotal steps within our comprehensive strategy to combat climate change and make a positive contribution to the global ecosystem.

Central to our climate strategy is our engagement with stakeholders. We believe in the transformative power of collaboration and are devoted to fostering transparent communication with our customers, investors, suppliers, and the communities we serve. It is through this collective endeavor that we can nurture a more sustainable, resilient future, anchored in shared values and united action.

The challenge of climate change is perceived not merely as a duty but as a catalyst for driving long-term value for our shareholders and the broader society. By aligning our business operations with sustainable practices, we contribute to the well-being of our planet while laying down a robust, sustainable foundation for our business to flourish for generations.

As we cast our gaze towards the horizon, Xiaomi's commitment to enhancing our environmental initiatives and adhering to the TCFD recommendations remains steadfast. We have laid down ambitious benchmarks to curtail our emissions, amplify our energy efficiency, and advance the sustainability of our operations. These targets are not mere milestones; they are beacons on our journey towards a more sustainable, prosperous future for all.

In this journey, a notable milestone has been our venture into the Electric Vehicle (EV) business, reflecting our dedication to contributing to global sustainability efforts. Recognizing the automotive industry's significant impact on carbon emissions, Xiaomi is poised to redefine mobility with smart, energy-efficient electric vehicles designed to reduce environmental footprints and promote a greener, cleaner future. This strategic expansion not only exemplifies our commitment to innovation but also aligns with our broader vision to harness technology for the greater good of the environment and society.

In conclusion, I wish to reaffirm my personal and Xiaomi's unwavering commitment to combating climate change. The road ahead is fraught with challenges, but with unwavering determination, groundbreaking innovation, and the power of collective action, we are poised to make a meaningful impact. Together, we stand on the brink of creating a smarter, more sustainable world, where technology serves not just to connect us but to safeguard the very planet we inhabit.

Thank you for your unwavering support and trust in Xiaomi, as we stride towards a more sustainable future, hand in hand.

Warmest regards,

The Founder, Chairman and CEO

Lei Jun

2.2 COMPANY OVERVIEW

2.2.1 PIONEERING SMART ECOSYSTEMS FOR A CONNECTED WORLD

Founded in April 2010 and headquartered in Beijing, China, Xiaomi Corporation has emerged as a global leader in the electronics and smart hardware industry. Xiaomi's mission is to relentlessly build amazing products with honest prices to let everyone in the world enjoy a better life through innovative technology.

History and Growth

Xiaomi began its journey as a software company creating MIUI. The launch of its first smartphone in 2011 marked Xiaomi's foray into the hardware sector, setting the stage for a diverse range of products, from smartphones to IoT devices. Xiaomi's innovative business model, focusing on customer feedback and efficient supply chain management, fueled rapid growth, making it one of the fastest-growing tech companies globally.

Product Portfolio

Xiaomi's product and service portfolio spans across various segments, integrating cutting-edge technology into everyday life, and reflecting the company's commitment to innovation and user experience.

Starting with **Smartphones**, Xiaomi's range includes the Mi and Redmi series, along with associated wearables. The Smartphone department also includes laptops and tablets, further expanding the smart ecosystem. These devices are celebrated for their high-quality cameras, extended battery life, and intuitive interfaces, which have contributed to Xiaomi's substantial global user base. The smartphones operate on Xiaomi's proprietary HyperOS platform, offering a seamless experience with services like Mi Cloud for storage, Mi Music, and Mi Video for entertainment, complementing the smart ecosystem with Smart TVs and monitors that enhance the digital home experience.

In the realm of **IoT and lifestyle products**, Xiaomi boasts one of the world's largest ecosystems, featuring an array of smart home devices. From security cameras and smart lighting solutions to smart speakers and a variety of household appliances like air conditioners, refrigerators, washing machines, air purifiers, and robot vacuum cleaners, Xiaomi's offerings aim to make smart living accessible to all. Additionally, Xiaomi enhances daily life with an assortment of lifestyle and personal electronics such as earphones and power banks, embedding smart technology into the fabric of everyday activities.

Xiaomi's **Internet services** segment is another pillar of its portfolio, encompassing TV value-added services, advertising, and gaming, which drive steady revenue growth. The fintech sector within Xiaomi's internet services reflects the company's foray into financial technologies, offering innovative solutions to modern financial needs. Furthermore, Xiaomi's expansion of internet services beyond mainland China has seen remarkable growth, indicating the brand's successful adaptation and appeal in the global market.

The recent unveiling of Xiaomi's first **Electric vehicle**, the SU7, marks a significant extension of the company's product line into the automotive sector. Positioned as a C-class luxury technology sedan, the SU7 embodies Xiaomi's vision for the future of smart mobility, combining performance with ecosystem integration. Featuring Xiaomi's proprietary technologies like the E-Motor, CTB Integrated Battery, Xiaomi Pilot Autonomous Driving, and Smart Cabin, the SU7 aims to redefine the relationship between "Human x Car x Home", integrating the vehicle into Xiaomi's broader ecosystem of smart products and services.

Market Presence

Xiaomi's strategy for global expansion has played a pivotal role in shaping its market presence worldwide. The company has established a significant presence across various global markets, with a particularly strong emphasis on Europe, where it has been actively adapting to and meeting diverse consumer needs. This European focus, alongside Xiaomi's operations in Southeast Asia and other regions, underscores its commitment to catering to a wide array of international markets. Xiaomi's approach to global expansion is characterized by its sensitivity to local consumer preferences, allowing for tailored product offerings that resonate with users in different regions. Notably, Xiaomi operates in virtually all global markets, highlighting its broad and inclusive international footprint.

Financial Performance

TABLE 2-1 ANNUAL REVENUE AND PROFIT GROWTH OVER THE LAST FIVE YEARS

Year	2019	2020	2021	2022[1]	2023[2]
Annual Revenue (*1,000 CNY)	205,838,682	245,865,633	328,309,145	280,044,016	271,000,000
Adjusted Net Profit[3]	11,532,296	13,006,363	22,039,474	8,518,007	19,300,000

TABLE 2-2 MARKET SHARE IN KEY REGIONS (BY 2023)[4]

Territory	Global	Europe	Middle East	India	Latin America	Southeast Asia	Mainland China	Africa
Market share	12.8%	20.7%	17.1%	16.9%	16.0%	14.1%	13.1%	8.9%
Ranking	3	3	2	3	3	3	5	3

Xiaomi's financial performance reflects its robust business model, with consistent revenue growth and a significant global market share in the smartphone and smart device sectors. The company's focus on maintaining low profit margins on hardware to build its user base and generate revenue from services has proven successful.

[1] https://ir.mi.com/system/files-encrypted/nasdaq_kms/assets/2023/04/26/6-55-12/2022%20Annual%20Report_ENG.pdf

[2] https://ir.mi.com/system/files-encrypted/nasdaq_kms/assets/2024/03/19/6-26-00/Xiaomi%20Corp_23Q4_ER_ENG_vF_Upload.pdf

[3] Defined as profit for the period, as adjusted by adding back (i) share-based compensation, (ii) net fair value changes on investments, (iii) amortization of intangible assets resulting from acquisitions, (iv) changes of value of financial liabilities to fund investors, and (v) income tax effects of non-IFRS adjustments

[4] https://ir.mi.com/system/files-encrypted/nasdaq_kms/assets/2024/03/19/6-26-00/Xiaomi%20Corp_23Q4_ER_ENG_vF_Upload.pdf

Strategic Initiatives

- **Research and Development:** Xiaomi's commitment to innovation is evident in its substantial investment in R&D, focusing on AI, IoT, and 5G technologies to drive the next generation of smart consumer electronics.
- **Sustainability Efforts:** Xiaomi is dedicated to environmental sustainability, implementing energy-efficient practices in manufacturing, packaging, and product design to reduce its carbon footprint.
- **Customer Engagement:** With a user-centric approach, Xiaomi actively engages with its community through forums and social media, incorporating user feedback into product development and updates.

Future Outlook

As Xiaomi continues to explore new technologies and markets, its vision of creating a more connected and intelligent world is more relevant than ever. With plans to expand into electric vehicles and further enhance its IoT ecosystem, Xiaomi is poised for continued growth and innovation in the tech industry.

2.2.2 NAVIGATING THE FUTURE FOR A STRATEGIC RESPONSE TO CLIMATE CHANGE

In an era where climate change poses profound challenges to global industries, Xiaomi stands at the forefront of corporate environmental responsibility, actively engaging in strategic risk assessments to mitigate these challenges and drive sustainable innovation. Our operations, spanning continents and cultures, are intricately linked to the global ecosystem, making our commitment to understanding and addressing climate-related issues not just a corporate responsibility, but a global imperative.

Understanding the Impact

Climate change presents a multifaceted challenge to Xiaomi's operations, influencing supply chains, manufacturing processes, and market demands. Key areas impacted include:

Supply chain vulnerabilities

The procurement of critical materials from diverse global sources, including China, Africa, Australia, and Brazil, remains particularly exposed to the vicissitudes of climatic adversities.

The proliferation of extreme meteorological phenomena and the transmutation of climatic norms present substantial risks to the robustness and efficacy of our intricate international supply networks.

Operational efficiency

The production and assembly processes of our range of smartphones, domestic appliances, and electric vehicles, primarily stationed in China, correlate intimately with energy utilization and operational output, which in turn, can have favorable implications for the climate.

Escalating temperatures and climatic fluctuations bear the potential to significantly influence the energy requisites and thermal regulation demands of our manufacturing hubs and data repositories.

Market dynamics

The intricate webs of transportation, warehousing, dissemination, and commerce that span the globe do not escape the repercussions of climate-related regulatory shifts and commercial disruptions.

The fluctuating regulatory landscape and the burgeoning consumer predilection for eco-conscious merchandise exert considerable sway over our innovation pipeline and market engagement methodologies.

Strategic Role of Risk Assessments

To navigate these complexities, Xiaomi employs comprehensive climate-related risk assessments, which serve as the backbone of our strategic planning and decision-making processes. These assessments enable us to:

- **Identify Vulnerabilities:** Systematically identify areas within our operations and supply chains that are most susceptible to climate-related risks.
- **Prioritize Actions:** Allocate resources effectively to areas with the highest risk impact, ensuring operational resilience and sustainability.
- **Drive Innovation:** Leverage insights from risk assessments to innovate sustainable products and solutions that meet evolving market demands.

Key Initiatives and Commitments

Xiaomi's approach to addressing climate-related challenges is multi-dimensional, encompassing a range of initiatives and commitments that underscore our dedication to sustainability:

- **Renewable Energy Transition:** Commitment to transitioning to 100% renewable energy in our operations by 2040, reducing greenhouse gas emissions.
- **Sustainable Supply Chain Management:** Implementing stringent environmental standards for suppliers to promote responsible sourcing and reduce environmental impact.
- **Product Lifecycle Sustainability:** Enhancing product design for greater energy efficiency, longer durability, and easier recycling, contributing to a circular economy.

Sustainability milestone	Xiaomi’s commitments and actions
Carbon Neutral Goal	In 2023, Xiaomi formally announced its carbon neutral goal, committing to achieving carbon neutrality in its own operations by 2040 and reaching 100% usage of renewable energy.
Green Electricity Initiative	Xiaomi actively promotes the use of green electricity, responding to China’s “100% Green Electricity” action initiative. Xiaomi has planned to sign long-term memorandums with electricity suppliers to purchase green electricity and obtain corresponding green electricity consumption certificates. This initiative will cover Xiaomi’s own office parks, manufacturing bases, logistics storage, and the operating facilities of supply chain partners.
Clean Energy Pilot Factory	In 2023, Xiaomi conducted a carbon-neutral factory pilot at its Yizhuang Smart Factory. By systematically organizing the factory’s energy control measures and investment in renewable energy facilities, purchasing green electricity that meets the international I-REC standards, and using carbon credits generated from wind power to offset remaining emissions, Xiaomi successfully achieved carbon neutrality for its Yizhuang Smart Factory.
Smart Manufacturing	Xiaomi employs a “platform + module” smart manufacturing architecture, which enables rapid production line changes and flexible manufacturing. By 2023, this design has improved production efficiency by approximately 60% compared to traditional factories, increased the processing capacity per unit of equipment, and significantly reduced energy consumption per processing.

Engagement and Collaboration

Recognizing that the fight against climate change is a collective endeavor, Xiaomi actively engages with various stakeholders, including:

Industry Partnerships

Collaborating with industry peers to share best practices and drive sector-wide sustainability initiatives. This includes adopting environmentally friendly materials, improving energy efficiency in manufacturing processes, and reducing waste. Xiaomi has also worked with its suppliers on the development of energy-efficient components, such as low-power chipsets and display technologies, working with suppliers to design products that are easier to repair, upgrade, and recycle. In collaboration with its suppliers, Xiaomi has adopted green manufacturing practices, such as using renewable energy sources, reducing water consumption, and minimizing waste in production facilities.

Regulatory Compliance

Ensuring adherence to international and local environmental regulations, actively participating in policy dialogues to advocate for sustainable industry practices. Xiaomi has provided training and support to its suppliers to help them adopt sustainable practices and comply with environmental regulations, including workshops, technical assistance, and sharing best practices in areas such as energy management, waste reduction, and environmental compliance.

Customers Engagement

Empowering communities through education and initiatives aimed at promoting environmental awareness and action. Xiaomi's approach to integrating all independent devices into a unified system through Human X Car X Home has optimized algorithms for key components in smartphones and AIoT devices. Specifically, Xiaomi's advanced electronic control algorithms for air conditioners can autonomously calculate the required cooling or heating based on actual indoor temperatures and user preferences, reducing unnecessary operational energy consumption by over 20%. In smart modes, further energy savings of up to 30% are achieved, significantly reducing the carbon footprint of air conditioning use. Xiaomi is committed to exploring green transformation technologies and smart hardware, providing minimalistic new energy solutions for living, working, and travel scenarios. Xiaomi's offerings range from portable photovoltaic and energy storage devices to consumer-grade, home, and office photovoltaic power generation and storage equipment, integrating DC technology and collective intelligent control to deploy "PEDF (Photovoltaic, Energy storage, Direct current, Flexibility)" response terminals for residential, office, and travel scenarios.

Looking Ahead: Our Continuous Commitment

As we forge ahead, Xiaomi's dedication to mitigating climate-related risks and enhancing sustainability remains unwavering. Our future plans include:

Innovating for Sustainability: Leveraging cutting-edge technology to develop products and solutions that contribute to environmental conservation and sustainability.

Expanding Renewable Energy Use: Exploring new opportunities and technologies to further integrate renewable energy into our global operations.

Enhancing Transparency: Committing to greater transparency in our environmental reporting, providing stakeholders with clear, comprehensive insights into our progress and challenges.

By integrating detailed narratives, key bullet points, and illustrative tables and figures, Xiaomi's TCFD report offers a comprehensive overview of our strategic response to climate-related challenges, underscoring our global commitments and the positive impact of our initiatives on sustainability.

3 TCFD Highlights

3.1 GOVERNANCE

Xiaomi has established a sophisticated governance framework for climate-related issues, reflecting its commitment to environmental stewardship and sustainable practices. Xiaomi's governance structure is designed to ensure meticulous oversight and active management of sustainability challenges, with several key bodies playing distinct yet collaborative roles.

At the top of Xiaomi's governance hierarchy is the Board of Directors, which has formed a Corporate Governance Committee (CGC) to specifically oversee Environmental, Social, and Governance (ESG) matters. This is supported by the Group's Sustainability Committee (SC) and further complemented by the ESG Working Group, which drives the integration of ESG principles into Xiaomi's business practices. Each business unit within the company is tasked with executing climate-related strategies within their domains, ensuring alignment with the company's overarching sustainability goals.

The Board is responsible for regular reviews of ESG-related risks and provides guidance on risk management strategies. It is involved in bi-annual data collection and analysis to assess the impact of ESG strategies on the company's financial health. The Board also reviews greenhouse gas (GHG) emission reduction targets and receives updates on the company's ESG progress.

The CGC is crucial in implementing governance practices aligned with climate objectives, monitoring compliance with environmental regulations, and facilitating communication on climate issues. It also reviews and approves significant climate-related policies and initiatives.

The SC develops strategies for sustainable development, including climate action plans, and ensures these goals are integrated into all business operations. It monitors progress and reports to the Board and stakeholders.

The ESG Working Group focuses on assessing climate-related risks and opportunities and ensures the alignment of ESG initiatives with the company's sustainability strategy.

Xiaomi integrates climate considerations into its business strategy and decision-making through a structured ESG Integration Framework. The Sustainability Committee identifies ESG risks and formulates strategic objectives, with the Board reviewing the progress bi-annually. All key decisions involve a review of climate risks, and the Sustainability Committee works to embed ESG values throughout the value chain. The ESG Working Group coordinates efforts to implement action plans, with regular performance reports and quarterly meetings to discuss progress.

3.2 STRATEGY

Xiaomi's climate strategy is built on a foundation of extensive scenario analysis, incorporating forecasts from renowned agencies like the IPCC and the IEA. This approach, consistent with the TCFD principles, ensures that Xiaomi's strategic planning is informed by the latest in climate science and global socioeconomic projections.

The company's **physical climate risk** assessment is based on strategic and scientific considerations for three distinct time horizons: 2030, 2050, and 2080. The year 2030 is aligned with international climate goals like the SDGs and the NDCs under the Paris Agreement. By this time, tangible climate impacts are expected to necessitate significant adaptation measures. The year 2050 serves as a benchmark for achieving net-zero emissions, as per various government and corporate commitments, including Xiaomi's own. The year 2080 allows for the assessment of the cumulative effects of climate change and the success of global mitigation efforts.

Key findings from Xiaomi's climate risk assessment indicate a rising risk score over time across all scenarios, with more severe impacts predicted under the high-emission SSP5-8.5 scenario. Certain hazards like 'Wildfires' and 'Extreme Heat' show higher risk scores in future scenarios compared with the baseline conditions, pointing to areas needing urgent risk management strategies. Furthermore, climate risks vary significantly across Xiaomi's assets, suggesting a need for tailored strategies at each location.

TABLE 3-1 PERCENTAGE INCREASE OF ASSESSED PHYSICAL CLIMATE CHANGE RISK SCORES FOR XIAOMI'S EXISTING BUSINESSES

Scenario	Year	Extreme Heat	Extreme Cold	River Flooding	Extreme Rainfall Flooding	Coastal & Offshore Flooding	Extreme Winds & Storms	Water Stress & Drought	Wildfires
SSP1-2.6	2030	124%	-36%	-19%	2%	0%	12%	3%	3%
SSP1-2.6	2050	166%	-46%	9%	18%	0%	13%	1%	16%
SSP1-2.6	2080	181%	-48%	-3%	13%	0%	14%	5%	37%
SSP5-8.5	2030	139%	-31%	8%	12%	0%	13%	-1%	18%
SSP5-8.5	2050	282%	-56%	15%	8%	0%	19%	1%	53%
SSP5-8.5	2080	420%	-84%	38%	42%	0%	31%	0%	89%

In terms of **transition climate risks**, Xiaomi has identified risks from policy and legal changes, market shifts, reputational impacts, and technological advancements, all of which have implications for the company's value. These include the cost implications of carbon pricing, regulation-driven updates for materials and energy efficiency, the introduction of the Carbon Border Adjustment Mechanism (CBAM), and the indirect costs of value chain decarbonization. Additionally, there's increased stakeholder scrutiny over climate disclosures which could affect the company's valuation.

Time horizons for transition risk assessment—2030, 2040, and 2050—align with global climate targets and Xiaomi's own carbon neutrality goal. This timeframe selection reflects the immediacy of transition risks compared to the long-term nature of physical climate impacts.

Xiaomi's four business segments – Smartphones, IoT and lifestyle products, Internet Services, and Electric Vehicles (EVs) – exhibit a remarkable degree of parity in their transition risk-opportunity profiles, resulting in an average score that hovers near zero on the risk spectrum. However, Smartphones and EVs demonstrate a wider dispersion of risk-opportunity scores, highlighting the spectrum of potential outcomes these two segments may encounter under various transition risk scenarios.

The most salient risks for Xiaomi's smartphones, IoT and lifestyle products, and EVs stem from regulations mandating material and energy efficiency improvements, as well as cascading cost increases arising from decarbonization efforts throughout the value chain. Conversely, the most promising opportunities for Xiaomi's global businesses lie in diversifying into the electric vehicle market and capitalizing on policy incentives to provide technologies that facilitate the transition to a low-carbon economy and enhance energy efficiency.

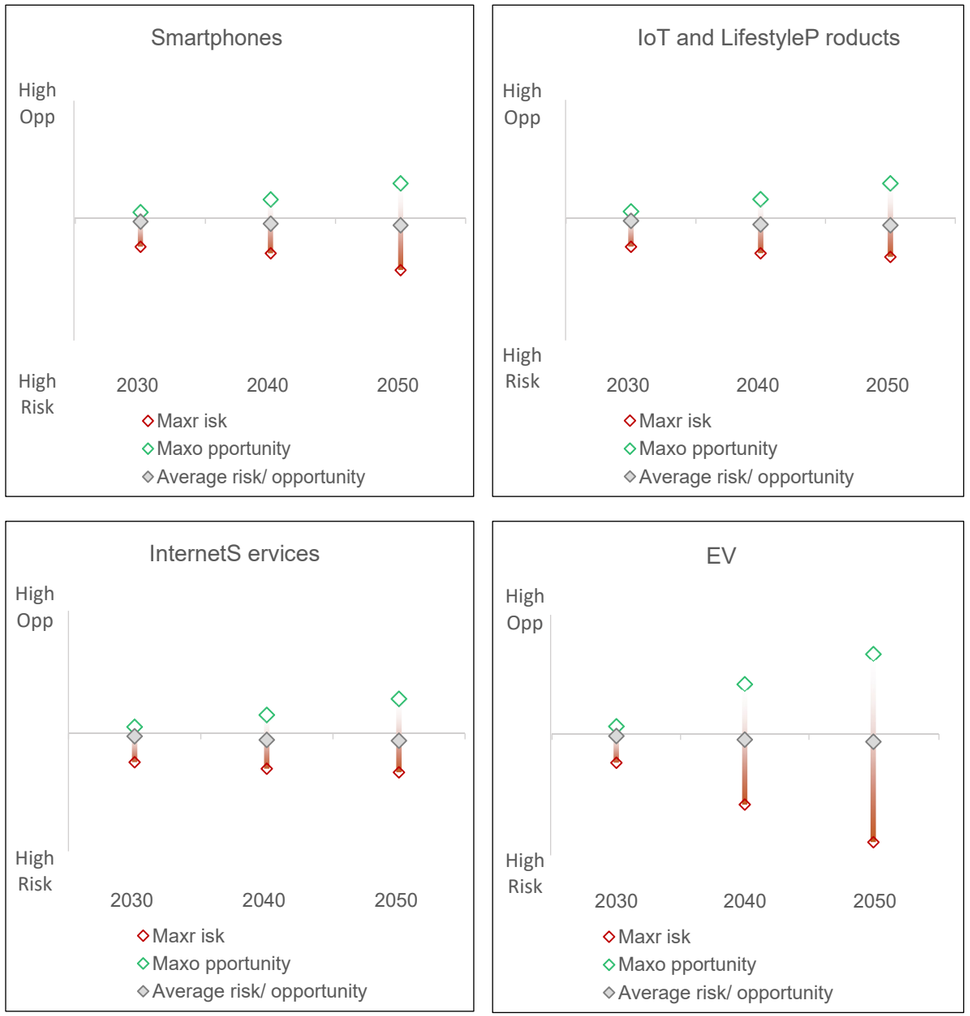


FIGURE 3-1 AVERAGE AND MAX RISK SCORES ACROSS XIAOMI'S BUSINESS SEGMENTS

Driven by its "connecting everything" philosophy, Xiaomi's business strategy is informed by the above scenario analysis and risk assessment, particularly regarding climate change and the push towards a low-carbon economy. This commitment is evident across various aspects of our operations.

Xiaomi's robust technology stack, encompassing hardware, software like HyperOS and the Intelligence Hub, and intelligent manufacturing powered by IoT and AI, exemplifies their preparedness for various environmental scenarios. These technologies contribute directly to a low-carbon future:

- Smart technologies optimize device performance and interconnectivity, leading to energy efficiency and reduced waste.
- Intelligent manufacturing increases production and distribution efficiency, minimizing resource waste and emissions.
- Renewable energy exploration helps create a cleaner energy infrastructure for future products.

The intricate layers of Xiaomi's technology stack – from hardware to user applications – demonstrate their adaptability. This comprehensive ecosystem allows them to leverage advancements in renewable energy and continuously improve their processes, ultimately contributing to a low-carbon future.

3.3 RISK MANAGEMENT

Xiaomi manages its climate-related risks through our established risk management process, comprising several key components aimed at systematically identifying, evaluating, and managing potential business risks:

Regular Internal Control Assessments:	These are performed to systematically identify potential business risks. By regularly reviewing internal controls, Xiaomi ensures that any potential risk factors affecting its operations are identified and assessed in a timely manner.
Role of Internal Audit Team:	**Independent Reviews:** The internal audit team conducts independent annual reviews to assess the adequacy and effectiveness of risk management and internal controls. **Accounting Practices Examination:** They scrutinize accounting practices to ensure accuracy and compliance with relevant accounting standards. **Key Internal Controls Assessment:** The team assesses the key internal controls that are crucial for safeguarding the company's assets and ensuring the integrity of financial reporting. **Audit Committee Reporting:** Findings and recommendations are reported to the Audit Committee, ensuring that oversight and action are taken on the identified risks.
Board Review and Oversight:	The Board of Directors evaluates management and internal audit reports to determine the effectiveness of risk management and internal controls. This level of oversight ensures that the company's strategic risk management objectives are being met.
Disclosure Policies Development:	**Confidential Information Handling:** Guidelines are provided for handling confidential information for directors, officers, senior management, and employees to preserve the integrity of sensitive data. **Disclosure and Inquiry Management:** They monitor and manage disclosure and response to inquiries, maintaining transparency and stakeholder confidence. **Control Procedures Implementation:** Procedures are put in place to prevent unauthorized access and use of insider information, protecting the company from legal and reputational risk.

Xiaomi acknowledges the critical influence of climate change on its operational risks and integrates climate-related risk management into its overall operational strategy to ensure business resilience and capture financial benefits.

Understanding of Climate-Related Operational Risks

Xiaomi identifies climate change as a multifaceted risk that affects product and service quality, supply chain stability, and logistics operations. We recognize that consumer expectations for sustainable products and the regulatory environment are rapidly evolving, with particular challenges for mobile devices, including compliance with energy consumption and e-waste regulations. Climate change also presents physical risks that can lead to supply chain disruptions and influence the cost and availability of raw materials, impacting production costs.

Integration with Operational Strategy

Xiaomi's operational strategy is closely aligned with climate risk management, reflecting in our targets for carbon neutrality in operations by 2040 and a complete shift to renewable energy by the same year. Initiatives like participating in the China GE100 (Green Electricity 100) initiative illustrate this alignment. Xiaomi also prioritizes R&D in clean technology, with substantial investment in energy-saving technologies for smartphones, IoT and lifestyle products. These include energy-saving screen technologies and low-power AI, which directly address energy consumption challenges.

Evaluation of Financial Benefits

Xiaomi evaluates the financial benefits of our climate risk management strategies through:

Financial Impact Assessment: Establishing baselines for the financial impact of climate incidents.

Risk Analysis: Assessing the probability and potential financial impact of climate risks.

Cost-Benefit Analysis: Analyzing the costs and benefits of mitigation strategies to establish the financial rationale for risk management actions.

Scenario Simulation: Modeling financial impacts under different climate scenarios to test the robustness of risk management strategies.

Performance Metrics and Monitoring: Setting and tracking KPIs related to climate risk management, like cost savings from energy efficiency and supplier resilience.

ROI Calculation: Determining the ROI for climate risk mitigation strategies, validating the financial benefits of integrating climate risk assessment into operations.

Overall, Xiaomi's approach demonstrates a proactive stance on climate change, integrating technical measures to manage risks and leveraging opportunities for growth within the sustainable products market. Xiaomi's methodical assessment of climate risks, adaptation of operations, and investment in clean technologies position it to not only manage potential negative impacts but also benefit financially from the transition to a low-carbon economy.

3.4 METRICS AND TARGETS

Xiaomi's strategic approach to addressing climate change integrates rigorous targets with clear metrics that span from the immediate to the distant future. In the short term, by 2030, we aim to reduce greenhouse gas emissions from our primary operations by 70%, using 2021 as a reference point. This includes a commitment to 70% renewable electricity consumption in our operations. Moreover, Xiaomi plans to enhance the energy efficiency of our domestic logistics by 10% within this period.

Progressing to mid-term goals by 2040, Xiaomi sets our sights on achieving 100% clean heat in operations and carbon neutrality across our existing business ventures. Furthermore, we target having half of our packaging materials as near-zero emissions and transitioning to clean energy vehicles for micro and light transportation.

By 2050, Xiaomi envisions reaching net-zero emissions throughout our value chain of existing businesses, demonstrating our long-term dedication to creating a sustainable business model.

Xiaomi's commitment to sustainability extends beyond setting ambitious targets. We prioritize precise measurement of progress to ensure we are on track to achieve them. By monitoring the achievement of the following milestones at the designated dates, we will gain a clear understanding of our progress. Deviations from these milestones will prompt a data-driven evaluation and, if necessary, a recalibration of our efforts to guarantee their successful fulfillment:

We aim for a staunch 70% reduction in direct emissions by 2030, with a vision of achieving net-zero emissions by 2040. We are actively pursuing energy efficiency improvements within our manufacturing processes. Our benchmarks target an 8% improvement by 2025, followed by a further 13% increase by 2027. Ultimately, we aspire to transition to using 100% renewable electricity by 2035.

Addressing Scope 3 emissions is a key priority. We aim to achieve a 20% renewable electricity ratio within our supply chain manufacturing by 2025, with a targeted increase to 25% by 2030. This will culminate in a significant leap to 50% renewable electricity by 2035.

Our sustainability focus extends beyond energy use. We are committed to a 5% improvement in packaging material efficiency by 2027, alongside similar enhancements in domestic logistics energy efficiency.

These meticulously chosen benchmarks provide a clear roadmap for Xiaomi's sustainability journey. By diligently monitoring progress towards these goals, we contribute to broader climate action initiatives. Our commitment to achieving these benchmarks underscores Xiaomi's unwavering dedication to environmental responsibility and positions us as a leader within the industry.

4 Governance

4.1 GOVERNANCE HIERARCHY FOR CLIMATE-RELATED ISSUES

Xiaomi places great emphasis on a robust governance framework, recognizing its pivotal role in effectively overseeing the company's climate-related endeavors. The governance hierarchy dedicated to addressing climate issues is multifaceted, incorporating several key components designed to ensure comprehensive supervision and proactive management of environmental and sustainability challenges.

Key Components of Xiaomi's Governance Hierarchy for Climate-Related Issues

Board of Directors

- **Oversight of ESG Matters:** The Board has established the Corporate Governance Committee (CGC) to specifically oversee ESG matters within Xiaomi, supported by the Group's Sustainability Committee (SC).
- **Regular Review of ESG-Related Risks:** The Board is actively involved in the regular review of risks associated with ESG, providing guidance on effective risk management strategies to mitigate potential impacts on the company.
- **Bi-Annual Data Collection and Analysis:** The Board engages in the collection and analysis of data pertinent to ESG risks. This involves discussing and reviewing relevant strategies and measures, ensuring they are synchronized with the Group's broader goals.
- **Scenario Analysis for Impact Assessment:** Through detailed scenario analyses, the Board assesses the full impact of various ESG strategies on Xiaomi's overall financial health.
- **Participation in ESG Risk and Opportunity Assessment:** The Board actively participates in assessing ESG risks and opportunities, identifying key areas of concern such as supply chain risks, product and service quality, and data security and privacy, supported by the Audit Committee.
- **Examination of Significant ESG Matters:** The Board examines ESG matters that significantly affect Xiaomi's business operations and are of close concern to stakeholders, ensuring that the company remains responsive to both internal and external ESG expectations.
- **Review of GHG Emission Reduction Targets:** The Board conducts reviews of Xiaomi's GHG emission reduction targets, progress, and any necessary adjustments. The Board offers recommendations for changes to ensure continuous improvement in environmental performance.
- **Regular Updates on ESG Progress:** The Board receives regular updates on the company's ESG progress, oversees the implementation of ESG measures to ensure that Xiaomi remains committed to its ESG objectives, and reports transparently on its progress.

Corporate Governance Committee

- Oversees the implementation of governance practices that align with climate-related objectives.
- Monitors compliance with legal and regulatory requirements pertaining to environmental stewardship.
- Facilitates communication between the Board and other governance bodies on climate issues.
- Reviews and approves major climate-related policies and initiatives.

Sustainability Committee

- Develops and recommends strategies for sustainable development, including climate action plans.
- Coordinates across departments to ensure sustainability goals are integrated into all aspects of business operations.
- Tracks progress against sustainability targets and reports to the Board and stakeholders.

ESG Working Group

- Focuses on the integration of Environmental, Social, and Governance (ESG) principles into business practices.
- Conducts detailed assessments of climate-related risks and opportunities.
- Implements ESG initiatives and ensures alignment with the company's overall sustainability strategy.

Relevant Business Units

- Each business unit incorporates climate considerations into their operational decisions and innovations.
- Responsible for executing climate-related strategies within their specific domains, such as product design, supply chain management, and operational efficiency.
- Collaborates with the Sustainability Committee and ESG Working Group to align departmental activities with company-wide sustainability objectives.

Through the concerted efforts of these governance components, Xiaomi is committed to a sustainable production model that not only mitigates its environmental impact but also supports the resilient and thriving operation of its major business segments. By leveraging the expertise and insights of these teams, Xiaomi aims to enhance its decision-making processes, ensuring that business strategies are conducive to its ongoing development and sustainability goals. This governance hierarchy reflects Xiaomi's proactive approach to climate stewardship, embodying its commitment to environmental responsibility and sustainable growth.

4.2 ROLES AND RESPONSIBILITIES OF THE CORPORATE GOVERNANCE COMMITTEE

Xiaomi's dedication to a robust governance framework is a testament to its commitment to addressing climate-related challenges with rigor and foresight. Central to this governance framework is the Corporate Governance Committee, a key pillar in Xiaomi's strategic oversight of environmental, social, and governance (ESG) matters. This committee plays a critical role in steering the company towards sustainable excellence and ensuring that ESG considerations are at the forefront of Xiaomi's operational and strategic decisions.

Enhanced Focus by the Corporate Governance Committee

The Corporate Governance Committee, under Xiaomi's multifaceted governance structure, is instrumental in overseeing the company's key ESG commitments and performances. Comprising esteemed members, including Chairman Chen Dongsheng (陈东升) and members Wong Shun Tak (王舜德) and Cai Jinqing (蔡金青), the committee is charged with a broad range of responsibilities that underscore its central role in Xiaomi's governance hierarchy.

Core Responsibilities:

Strategic Oversight of ESG Commitments:

The committee ensures that Xiaomi's ESG commitments are set and aligned with the company's broader strategic goals. This involves a continuous evaluation of how these commitments are integrated into Xiaomi's daily operations and long-term planning.

Assessment of ESG-Related Risks:

A pivotal aspect of the committee's role is identifying and assessing potential ESG-related risks that may impact Xiaomi's operations, reputation, and financial performance. This involves a proactive approach to risk management, ensuring that Xiaomi stays ahead of potential challenges.

Regular Reporting to the Board:

Transparency and accountability are key principles guiding the committee's functions. It is responsible for compiling comprehensive reports on ESG matters and progress, which are presented to the Board on a bi-annual basis. This ensures that the Board remains informed and can make decisions with a full understanding of ESG dynamics.

Collaboration with Sustainability Committee and ESG Working Group:

The Corporate Governance Committee works in close collaboration with the Sustainability Committee and ESG Working Group. This synergy ensures that ESG strategies are cohesively implemented across all levels of the organization, from strategic down to operational.

Disclosure of ESG and Climate-Related Performances:

The committee oversees the disclosure of ESG and climate-related performances, ensuring that Xiaomi's stakeholders, including investors, customers, and the broader community, are well-informed about the company's sustainability initiatives and achievements.

Through its comprehensive and strategic approach, the Corporate Governance Committee of Xiaomi is not just a regulatory body but a driving force behind the company's commitment to sustainability and responsible corporate conduct. By aligning ESG commitments with Xiaomi's overarching strategic goals, the committee ensures that sustainability is not an adjunct but a core component of Xiaomi's operational excellence and innovation ethos.

4.3 INTEGRATION OF CLIMATE CONSIDERATIONS INTO BUSINESS STRATEGY AND DECISION-MAKING PROCESSES

At Xiaomi, the integration of Environmental, Social, and Governance (ESG) considerations, particularly those related to climate, into our business strategy and decision-making processes is a cornerstone of our commitment to sustainable development. This comprehensive approach ensures that our global business operations are resilient, responsible, and aligned with our long-term sustainability goals.

TABLE 4-1 STRATEGIC ESG INTEGRATION FRAMEWORK

Role	Task	Frequency
Sustainability Committee's Role: · The Sustainability Committee plays a pivotal role in identifying ESG risks, formulating strategic objectives, and developing actionable plans. It rigorously reviews the outcomes of these implementations to ensure continuous improvement. · The Board of Directors receives bi-annual reports from Sustainability Committee, summarizing the work done, reviewing the next phase of plans and objectives, thereby maintaining stringent oversight on the progress of ESG initiatives.	**Reviewing Climate Risk in Decision-Making:** · Key decision-making processes involve a thorough review of climate-related risks, risk management, and control mechanisms. This includes proactive identification, tracking, and governance of significant ESG risks, ensuring that climate considerations are at the forefront of strategic decisions. **Promoting ESG Values in the Value Chain:** · Sustainability Committee functions to fulfil Xiaomi's commitment of promoting ESG principles throughout its value chain to enhance sustainable development. This involves engaging with suppliers, partners, and other stakeholders to embed sustainability into every aspect of our operations.	Committee-level catch-up: Quarterly
ESG Working Group Coordination: · The ESG Working Group coordinates internal and external resources to guide and support the responsible departments in implementing action plans. Performance is reported regularly, and quarterly meetings are held with the Sustainability Committee to share and discuss progress on sustainability-related topics and their impact on the business.	**Raising Climate Issue Management Awareness:** · Both the corporate group and individual business units are well-informed about the management processes related to climate issues. This ensures that climate considerations are integrated into the operational workflows of all departments. **Reporting Climate-Related Workflows:** · Business and support units are required to report climate-related workflows to the management, fostering a culture of transparency and accountability in addressing climate challenges.	Group-level catch-up: Monthly

By integrating climate considerations into Xiaomi's strategy and decision-making processes, we aim to bring positive impacts on our global business development:

Guidance for Sustainable Operations and Business Growth:

- Our approach to managing and responding to risks, particularly those related to climate, guides our operations and business towards sustainable development. By prioritizing sustainability, Xiaomi ensures that its global operations are not only environmentally responsible but also resilient in the face of climate challenges.

Enhancing Sustainable Development in the Value Chain:

- Elevating sustainability within our value chain is crucial to supporting Xiaomi's global business expansion. By working closely with our partners and suppliers to adopt sustainable practices, we not only mitigate environmental risks but also enhance the overall sustainability of our products and services, contributing to a more sustainable future.

Through these structured processes and strategic frameworks, Xiaomi is steadfast in its commitment to integrating climate considerations into every facet of its business strategy and decision-making. By doing so, we not only safeguard our planet but also ensure the long-term success and resilience of our global business operations.

5 Strategy

5.1 ASSESSMENT OF CLIMATE-RELATED RISKS AND OPPORTUNITIES

5.1.1 INTRODUCTION TO CLIMATE-RELATED STRATEGY AND SCENARIO ANALYSIS

In alignment with the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations, Xiaomi is committed to integrating comprehensive climate-related risk assessments into our strategic planning. This commitment underscores our dedication to enhancing resilience and sustainability in the face of climate change. Central to our approach is the application of scenario analysis, a method recommended by the TCFD to assess the resilience of business strategies under various climate-related scenarios.

Adoption of IPCC AR6 Scenarios and TCFD Principles

Our scenario analysis framework is designed to encompass a wide range of potential future physical climate conditions, incorporating both the SSP1-2.6 (low carbon) and SSP5-8.5 (high carbon) pathways. These are informed by the most recent definitions provided by the Intergovernmental Panel on Climate Change (IPCC) in its Sixth Assessment Report (AR6)[5], specifically drawing on the Shared Socioeconomic Pathways (SSPs) that offer detailed insights into the interplay between greenhouse gas emissions, socioeconomic dynamics, and potential climate impacts.

Xiaomi aims to achieve value chain carbon neutrality for its existing businesses[6] by 2050, which is set against an ambitious backdrop that strives to surpass the mitigation pathways outlined in the IPCC scenarios. However, the journey toward this ambitious goal is not without its challenges, particularly considering the varying capabilities and endeavors of other parties within the socioeconomic environment to meet similar carbon neutral targets by the mid-21st century. Recognizing this, Xiaomi acknowledges the need to critically review the potential risks that may arise if other entities within its value chain and broader socioeconomic sphere achieve carbon neutrality at a later stage than Xiaomi's targeted timeline.

Assessing the potential cascading effects from delayed carbon neutral achievements by other stakeholders is a crucial aspect of Xiaomi's strategic planning. This assessment aims to identify and address the risks associated with such delays, ensuring that Xiaomi can navigate these challenges effectively while steadfastly advancing toward its own climate goals. By taking a proactive approach to understanding and mitigating these risks, Xiaomi is dedicated to not only achieving its ambitious climate objectives but also contributing positively to the global climate action landscape, fostering resilience and sustainability within its value chain and beyond.

[5] https://www.ipcc.ch/assessment-report/ar6/

[6] Existing businesses: the business scope released by Xiaomi Group's latest performance announcement, including Smartphones, IoT and lifestyle products, Internet services and others.

Shared Socioeconomic Pathways (SSPs) Overview

The SSPs, as outlined in the IPCC AR6, describe five main narratives that project varying degrees of global socioeconomic development and their consequent impact on climate change:

SSP1-1.9 and SSP1-2.6 (Sustainability Focus) - These scenarios are characterized by sustainability-focused pathways, with SSP1-1.9 aiming for very low GHG emissions and achieving net zero CO_2 emissions around 2050, and SSP1-2.6 aiming for low GHG emissions with net zero around 2075. They envision a world where development is inclusive and respects environmental boundaries, leading to reduced inequality and a shift towards human well-being beyond just economic growth.

SSP2-4.5 (Middle of the Road) - This 'middle of the road' scenario assumes that social, economic, and technological trends do not deviate significantly from historical patterns. Development and income growth are uneven, and while some progress is made towards sustainable development goals, environmental degradation occurs, and resource intensity decreases only modestly.

SSP3-7.0 (Regional Rivalry) - Characterized by high GHG emissions, this scenario envisions a future where nationalism and regional conflicts lead to a focus on domestic and regional issues over global cooperation. Economic development is slow, consumption is material-intensive, and inequalities worsen over time.

SSP5-8.5 (Fossil-fueled Development) - This scenario predicts very high GHG emissions with a triple increase in CO_2 emissions by 2075, driven by a world that heavily relies on fossil fuels. It assumes rapid technological progress and development of human capital, leading to significant economic growth but at the cost of environmental degradation.

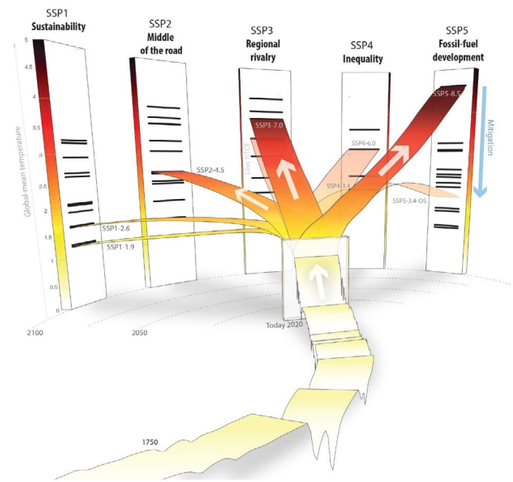


FIGURE 5-1 THE SSP SCENARIOS AND THEIR FIVE SOCIO-ECONOMIC SSP FAMILIES. THE MORE OPAQUE BANDS OVER THE 21ST CENTURY INDICATE THE FIVE SSP SCENARIOS SSP1-1.9, SSP1-2.6, SSP2-4.5, SSP3-7.0, AND SSP5-8.5 USED AS PRIORITY SCENARIOS IN IPCC[7]

[7] https://gmd.copernicus.org/articles/13/3571/2020/

Integration of IEA Climate Scenarios

To enhance the robustness of our strategy, we integrate well-established climate scenarios from the International Energy Agency (IEA), focusing specifically on evaluating transition climate change risks. We have selected two distinct IEA scenarios that offer broad-ranging perspectives on potential future developments:

Stated Policies Scenario (STEPS): This scenario builds upon the current policy intentions and targets that have been announced by countries worldwide. It serves as a pragmatic baseline that extends the present into the future, assuming that all climate pledges and targets are met without any further policy innovations. STEPS is instrumental in providing insight into the foreseeable transitions in the energy sector, reflecting incremental changes and progression based on existing commitments.

Net Zero Emissions by 2050 Scenario (NZE): This ambitious scenario outlines a path to reach net-zero global carbon dioxide emissions by 2050. It is a more transformational and aggressive pathway that depends on the immediate and sweeping deployment of all available clean and efficient energy technologies, coupled with a significant level of societal and economic transformation. NZE is crucial for Xiaomi to anticipate and prepare for a rapidly changing energy landscape driven by the pressing need to address climate change.

Incorporating these scenarios in our risk assessment framework provides a dual-view of the transition risks: one that is rooted in present realities and incremental changes (STEPS), and another that aligns with a proactive, goal-driven approach to a sustainable future (NZE). This dual-scenario approach allows Xiaomi to align its strategy with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, emphasizing the importance of climate-related risk assessment in financial planning. Utilizing these scenarios also ensures that our strategic decisions are based on robust climate projections and cutting-edge scientific research, thus enabling Xiaomi to stay ahead in a rapidly evolving global energy context.

The latest International Energy Agency (IEA) scenarios are critical for assessing future pathways of global energy systems and their implications on climate change. These scenarios offer projections based on a comprehensive set of variables including technological change, economic growth, and energy policies, which help governments, businesses, and other stakeholders plan and respond to the challenges and opportunities of energy transitions. The three latest IEA scenarios[8] are:

Stated Policies Scenario (STEPS): This scenario takes into account the current commitment and policy intentions of countries, reflecting the world's trajectory based on existing energy policies. It is grounded in the policies and measures that governments have already put in place or announced.

Announced Pledges Scenario (APS): This scenario builds on STEPS, incorporating countries' stated energy and climate pledges, even if specific policies have not yet been formulated. It projects the implications if all of these pledges are met in full and on time.

Net Zero Emissions by 2050 Scenario (NZE): This scenario outlines a pathway to reach net-zero CO_2 emissions globally by 2050. It is aligned with the goal of limiting global warming to 1.5°C above pre-industrial levels and provides an ambitious yet technically possible route, considering the massive changes in energy production and use that would be required.

[8] https://www.iea.org/reports/global-energy-and-climate-model/understanding-gec-model-scenarios

5.1.2 REVIEWED CLIMATE-RELATED RISKS AND THEIR SIGNIFICANCE

Xiaomi has comprehensively reviewed its physical and transition risks, as per the TCFD framework. This assessment underscores our proactive approach to understanding and mitigating climate-related risks, ensuring Xiaomi's resilience and sustainability in a changing climate.

Physical climate risk refers to the potential for physical damage and financial losses due to increased exposure to climate hazards resulting from climate change. The essence of physical climate risk is its impact on natural hazard frequency and severity under climate change, affecting assets differently based on their location and the nature of the hazards they're exposed to. These risks manifest in two forms:

Acute physical risks are associated with specific weather events or hazards, such as extreme heat and cold, floods, wildfires, and storms.

Chronic physical risks, on the other hand, arise from longer-term shifts in climate patterns, like water stress and drought.

TABLE 5-1 CATEGORIZATION OF XIAOMI'S PHYSICAL CLIMATE CHANGE RISKS

TCFD Category (Acute, etc.)	Hazard	Scenario Indicator (Unit)	Definition	Baseline Period
Physical - Acute	Extreme Heat	Warm Spell Duration Index (WSDI) (days)	Annual number of days with at least 6 consecutive days when daily maximum temperature is above 90th percentile of the daily climatic condition.	1985–2014
	Extreme Cold	Cold Spell Duration Index (CSDI) (days)	Annual number of days with at least 6 consecutive days when daily minimum temperature is below 10th percentile of the daily climatic condition.	1985–2014
	River Flooding	River Flooding Inundation Depth (metres)	Maximum inundation depth experienced within a 270m×270m area that is associated with a 1-in-500-year# undefended river flooding event.	2020
	Extreme Rainfall Flooding	Pluvial Flooding Inundation Depth (metres)	Maximum inundation depth experienced within a 270m×270m area that is associated with a 1-in-500-year# pluvial (extreme-rainfall-induced) flooding event.	2020
	Coastal Flooding	Coastal Flooding Inundation Depth (metres)	Maximum inundation depth associated with a 1-in-500-year# coastal flooding event as a result of sea level rise, land subsidence, storm surges and/or high tide events.	2010
	Extreme Winds & Storms	Maximum Tropical Cyclone Windspeed (knots)	Maximum sustained wind speed within 200km of a tropical cyclone	1980–2022
	Rainfall-Induced Landslides	Rainfall Induced-Landslide Index (days)	Annual number of days with a fire-permitting climatic conditions. This index is based on the McArthur Forest Fire Danger Index (FFDI; widely used in Australia for several decades) and combines a record of dryness, based on rainfall and evaporation, with meteorological variables for wind speed, temperature, and humidity.	1985–2014
	Wildfires	Forest Fire Danger Index (FFDI) (days)	Annual number of days with a potential chance of a rainfall-induced landslide event. This index is developed using antecedent rainfall index (weighted summation of daily rainfall amounts) and landslide susceptibility (based on slope, faults, geology, forest loss, and road networks).	1985–2014
Physical - Chronic	Water Stress and Drought	Water Stress (water stress category)	Ratio of total water withdrawals to available surface and groundwater supplies.	1960–2014

We decided to choose 2030, 2050, and 2080 as the time horizons for Xiaomi's physical climate risk assessment, associated with several strategic and scientific considerations:

2030 (five-year term)

This timeframe aligns with the United Nations' Sustainable Development Goals (SDGs) and the timeframe for the nationally determined contributions (NDCs) under the Paris Agreement. By 2030, many countries hosting Xiaomi's operations and/or cross-border collaboration have set targets for reducing greenhouse gas emissions, and early impacts of climate change are likely to become increasingly tangible, making it a critical period for implementing adaptation measures and achieving initial mitigation targets.

2050 (twenty-five-year term)

The mid-century mark is a standard scientific reference point for assessing climate impacts under various greenhouse gas concentration scenarios. Many governments, international agreements, and corporations, including Xiaomi itself, have set 2050 as a target for achieving value chain-wide net-zero emissions for its existing businesses. It is a pivotal year for many long-term climate strategies and provides a benchmark for assessing progress towards carbon neutrality and other extensive climate commitments.

2080 (fifty-five-year term)

The late-century period allows for the assessment of the cumulative effects of climate change, considering both committed warming due to past emissions and the potential success or failure of global mitigation efforts towards the 1.5°C target by 2100. It provides a view into the longer-term climate risks that could manifest if high emissions continue, including the possibility of crossing critical climate tipping points.

The following key messages are identified from our assessment:

Risk Score Increase Over Time: Under both SSP scenarios, Xiaomi's total risk for various climate hazards tend to increase over time, indicating an escalating risk profile as we progress through the 21st century. This pattern is consistent with scientific projections that climate change impacts are expected to intensify over time if mitigation efforts are not significantly ramped up.

Variation by SSP Scenario: There is a noticeable difference in Xiaomi's total risk when comparing SSP1-2.6 to SSP5-8.5. Generally, the risks under SSP5-8.5 are more severe, reflecting the greater intensity and frequency of climate hazards associated with a higher greenhouse gas emissions trajectory. This aligns with climate science which predicts more severe impacts under higher emissions scenarios.

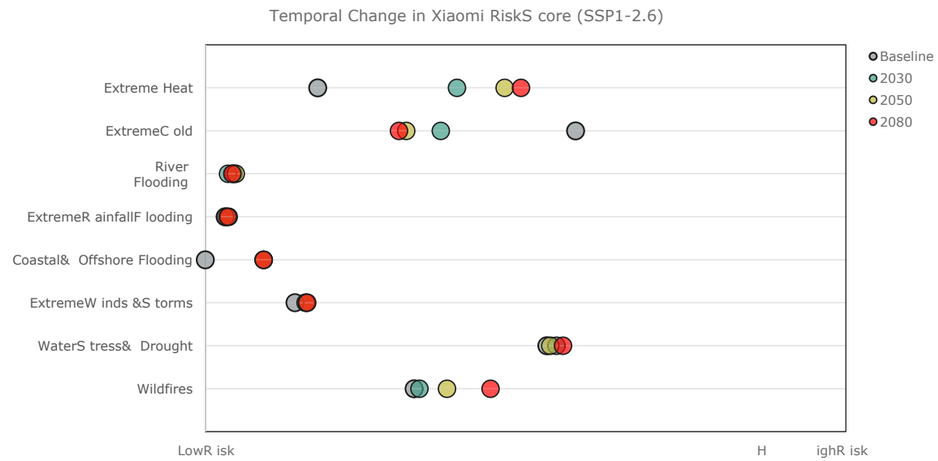
Differential Hazard Impact: Certain climate hazards such as 'Wildfires' and 'Extreme Heat' have higher risk scores compared to others, suggesting that these are areas of particular concern for Xiaomi. It is indicative that assets related to or located in areas prone to flooding may require more immediate and robust risk management strategies.

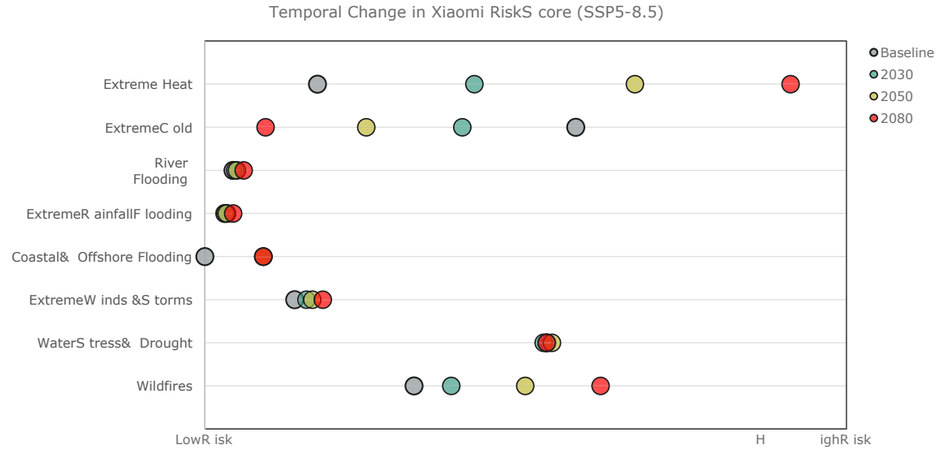
- a) Under SSP1-2.6, the risk score of extreme heat remains relatively low. However, it is projected to increase by 181% from the baseline period to the year 2080. This signifies a significant aggravation of the extreme heat hazard and Xiaomi assets' overall exposure to it. For SSP5-8.5, the score is expected to rise by 420% within the same timeframe, and generally be higher than the projected risks under SSP1-2.6.
- b) While the risk score of wildfires under SSP1-2.6 increases by 37% from baseline to 2080, a significant rise of 89% is projected under SSP5-8.5 within the same timeframe, indicating a much steeper increase in risk under the latter scenario.

Acute vs. Chronic Risks: While the temporal risk scores for all hazards increase, the pace and extent of change differ among them. Acute risks like 'Wildfires' and 'Extreme Heat' not only present higher risks, but also show variation in risk intensity, while chronic risks such as 'Water Stress & Drought' appear to have a steady risk increase, which suggests the need for different adaptation strategies for acute and chronic risks.

Distinct Climatic Pattern at Asset Level: Among Xiaomi's assets of the most financial importance, a clear variance is observed in risk levels among different types of assets. Certain production sites located near a river show a high risk of River Flooding that increases under SSP5-8.5, indicating their particular vulnerability to flooding. Other warehouses show a consistently high score across Extreme Heat and Drought, indicating that these risks may need to be prioritized in risk management strategies for their locations. The Extreme Cold risk at select assets of Xiaomi increases by 23% from baseline to 2080 under SSP5-8.5, which could demand heating and infrastructure winterization investments.

FIGURE 5-2 TEMPORAL CHANGE IN XIAOMI RISK SCORE





Xiaomi TCFD Report

TABLE 5-2 IMPACTS OF PHYSICAL RISKS TO XIAOMI'S OPERATIONS

Climate Hazard	Description	Impact to Xiaomi
Extreme Heat	Unusually high temperatures leading to heatwaves, affecting ecosystems, human health, and infrastructure.	**Increased Operational Expenses (OPEX):** A surge in cooling and energy demands, particularly during extreme heat events, leads to higher electricity bills. This increase in operational costs is driven by the need to maintain optimal temperatures for both work environments and equipment, including machines, HVAC systems, and data centers that support Xiaomi's extensive range of products and services. **Capital Expenditure (CAPEX) Implications:** The increased load on machines and cooling systems due to extreme heat necessitates additional investments in infrastructure to prevent overheating and maintain efficiency. This could lead to higher CAPEX as Xiaomi may need to upgrade or expand its cooling and HVAC systems to cope with the heightened thermal stress, ensuring the reliability and longevity of its manufacturing and data processing equipment. **Manufacturing and Business Interruptions:** Limited power usage policies or power outages, often imposed during heatwaves to manage electricity demand, can significantly reduce Xiaomi's manufacturing capacity. These disruptions can lead to delays in the production of Xiaomi's wide product range, from smartphones to IoT devices and even its electric vehicle, the SU7. Such interruptions can result in loss of revenue due to the inability to meet market demand promptly. **Health Risks to Employees:** Extreme heat elevates health risks, including heatstroke for employees working in manufacturing facilities, warehouses, or any operational sites lacking adequate cooling measures. This not only affects employee well-being but could also lead to increased medical expenses for the company and potential losses in productivity due to employee downtime. **Impact on Product Performance and Demand:** High temperatures can affect the performance and reliability of electronic devices, including Xiaomi's smartphones, laptops, tablets, and IoT products. This could lead to increased product returns, warranty claims, and a potential decline in consumer trust and satisfaction. Additionally, there may be a surge in demand for certain products like air conditioners and fans, putting pressure on Xiaomi to ramp up production and supply chain operations to meet this spike.
Extreme Cold	Severe cold weather events causing hypothermia and infrastructure damage.	**Manufacturing Disruptions:** Extreme cold is anticipated to moderately impact Xiaomi's manufacturing processes. The health and safety of site personnel, especially those working outdoors or in unheated areas, could be at risk, necessitating increased medical attention and potentially leading to decreased working hours. Furthermore, extreme cold events such as snow and ice might obstruct key access routes, disrupting the transport of materials and goods, and consequently delaying customer orders. This could result in reputational damage if Xiaomi is unable to meet demand in a timely manner. **Increased Operational Costs:** The need to heat indoor areas more extensively during extreme cold conditions would elevate energy demands, leading to higher operational costs. This is particularly relevant for Xiaomi's diverse range of products, including its smart home devices and IoT ecosystem, which rely on seamless manufacturing and assembly processes. **Retail and Commercial Real Estate Challenges:** Extreme cold may pose a low risk to Xiaomi's retail and commercial operations, with potential health and safety concerns for staff and customers due to inadequate heating. The likelihood of appliance breakdowns could incur additional repair costs and downtime. Moreover, customer footfall in non-essential retail spaces may decline during extreme cold periods, affecting revenue streams for Xiaomi's retail segments. **Warehousing and Storage Risks:** The moderate risk to warehouses and storage facilities could affect Xiaomi's inventory management and distribution, especially for temperature-sensitive products. Machinery and vehicles may require extra maintenance, and blocked access routes due to snow and ice could delay deliveries, impacting Xiaomi's supply chain efficiency. **Product Performance and Delivery:** For Xiaomi's range of products, from smartphones and laptops to smart home devices and the SU7 electric vehicle, extreme cold conditions might necessitate additional considerations in product design and delivery logistics to ensure reliability and customer satisfaction.
River Flooding	Overflow from rivers due to excessive rain or snowmelt, damaging industrial production.	**Infrastructure and Equipment Damage:** River flooding can lead to severe damage to Xiaomi's manufacturing facilities, warehouses, and other critical infrastructure. This could result in higher capital expenditures (CAPEX) as the company might need to repair or replace major equipment and infrastructure, affecting the book value in serious cases. Such damage could disrupt the production of Xiaomi's smartphones, laptops, tablets, and IoT devices, impacting supply chains and product availability. **Business Interruption:** The flooding of power facilities or blockage of key access routes could lead to business interruptions, halting Xiaomi's operations temporarily. This could result in significant loss in revenue, especially if the flooding affects major manufacturing hubs or distribution centers. The interruption could delay the delivery of Xiaomi's wide array of products, from smart home devices to its electric vehicle, the SU7, potentially harming Xiaomi's reputation and customer satisfaction.

Extreme Rainfall Flooding, Coastal & Offshore Flooding	Heavy precipitation leading to flash floods and urban flooding, disrupting industrial production. Increased water levels along coastlines, mainly due to storms or sea-level rise, causing erosion and damage.	**Manufacturing Impact:** Flooding could cause extensive physical damage to Xiaomi's manufacturing infrastructure, including buildings, equipment, power and water supply systems, and vehicles. This damage necessitates higher capital expenditures (CAPEX) for repairs or replacements, impacting Xiaomi's financial standing. The blockage of key site areas and access routes due to flooding may lead to significant downtime and operational disruptions. This could delay the production and delivery of Xiaomi's wide range of products, from smartphones and laptops to IoT devices, potentially tarnishing Xiaomi's reputation for reliability. Flooding poses serious health and safety risks to Xiaomi's site personnel, possibly requiring evacuations and leading to further downtime. The increased risk of accidents and health issues among employees could lead to higher medical expenses and loss of productivity. **Retail and Commercial Real Estate Impact:** Flooding can compromise the structural integrity of Xiaomi's retail outlets and commercial properties, along with damaging utilities and products. This might necessitate temporary closures for repairs, leading to loss of revenue and increased repair costs. Debris and floodwaters may obstruct access for deliveries, staff, and customers, disrupting business operations. Extreme weather conditions might also deter customers from visiting non-essential retail and commercial spaces, further impacting revenue. The real estate market value and insurance premiums for Xiaomi's properties in flood-prone areas might be adversely affected, leading to financial losses and increased operational costs. **Warehousing and Storage Impact:** Flooding can cause irreversible damage to stored products and equipment like forklifts and cranes, leading to financial and reputational damages for Xiaomi. The need for increased maintenance and repair costs following a flooding event could strain Xiaomi's financial resources. Blocked access routes due to flooding may disrupt operations and delay deliveries, affecting Xiaomi's supply chain efficiency and its ability to meet customer demands timely.
Water stress & drought	Temporary or permanent reduction in productivity due to a lack of available water, which can be caused by drought, overexploitation of water resources, or other factors.	**Increased Operational Expenses (OPEX):** Water stress and drought conditions can lead to higher water costs due to scarcity and increased competition for limited resources. For Xiaomi, this could result in increased OPEX, especially in water-intensive processes within manufacturing facilities where water is essential for cooling, cleaning, and other production-related activities. This increase in operational costs could affect the overall profitability and cost competitiveness of Xiaomi's diverse range of products. **Reduction in Manufacturing Capacity:** Water-intensive processes critical to the production of Xiaomi's products, such as the manufacturing of semiconductors for smartphones, tablets, and other electronic devices, may face capacity reductions in the face of water stress. This could lead to a slowdown in production rates, affecting Xiaomi's ability to meet market demand for its popular product lines, including the Mi and Redmi series of smartphones, laptops, and IoT devices. A reduction in manufacturing capacity could result in loss of revenue and potentially harm Xiaomi's market position and customer satisfaction levels. **Impact on Product and Service Portfolio:** Water stress and drought conditions could necessitate a reevaluation of Xiaomi's product and service portfolio, with a potential shift towards more water-efficient technologies and processes. This could influence the development, design, and coating of new products, including Xiaomi's electric vehicle, the SU7, ensuring that water usage is minimized throughout the product lifecycle, from manufacturing to end-user operation. **Supply Chain Disruptions:** Water scarcity could also affect Xiaomi's supply chain, particularly in regions prone to drought, impacting the availability of raw materials and components essential for Xiaomi's product range. Supply chain disruptions could lead to increased costs and delays in product delivery, affecting Xiaomi's ability to maintain a steady supply of its diverse offerings to the global market.

Wildfires	Uncontrolled fires in wild areas, exacerbated by dry conditions and high temperatures.	**Manufacturing Impact:** Wildfires can cause direct physical damage to Xiaomi's manufacturing infrastructure, including buildings, equipment, and vehicles, through direct heat and flame. This damage may necessitate significant repairs or replacements, leading to increased capital expenditures and potential downtime. Blocked key site areas and access routes by wildfires or debris can disrupt Xiaomi's operations, leading to delays in manufacturing processes. This could delay customer orders for Xiaomi's products, ranging from smartphones and laptops to IoT devices, potentially causing reputational damage. The health and safety of site personnel are at risk due to heat, flame, smoke, and dust particulates from wildfires. This may necessitate evacuations and time off, further contributing to operational downtime and loss of revenue. **Retail and Commercial Real Estate Impact:** Wildfires can cause extensive damage to Xiaomi's retail outlets and commercial properties, possibly leading to temporary closures for repairs and maintenance. This can result in repair costs, insurance claims, loss of revenue, and staff redundancies. Blocked access routes for deliveries, staff, and customers can disrupt business operations. Additionally, customers may be less inclined to visit non-essential retail spaces during and after wildfire events, impacting Xiaomi's revenue and cash flow. The market value of real estate may decrease, and insurance premiums may rise or become unavailable for properties in wildfire-prone areas, leading to potential financial losses. **Warehousing and Storage Impact:** Wildfires pose a high risk of direct physical damage to Xiaomi's warehouses and storage facilities, including stored goods and vehicles like forklifts and cranes. This can lead to financial and reputational impacts, especially if goods are damaged or deliveries are delayed. Blocked access routes due to wildfires or debris can lead to disruptions in warehouse operations and potential delays in deliveries, impacting Xiaomi's supply chain efficiency.

Transition climate risks are risks that result from the process of adjusting to a lower-carbon economy. These are associated with the economic and financial implications related to the transition towards a more sustainable and energy-efficient economy. Such risks include policy and legal changes, market shifts, reputational impacts, and technology advancements that can affect Xiaomi's value.

We took the following key considerations to assess our transition climate risks:

Policy and Legal Risks: Anticipating changes in environmental laws, regulations, carbon pricing, and subsidies can affect operational costs and influence strategic investment decisions.

Market Risks: Shifts in consumer preferences, increased demand for energy-efficient products, and changes in energy prices can impact market share and revenue streams.

Reputational Risks: Public perception regarding climate change and sustainability efforts can affect Xiaomi's brand value and customer loyalty.

Technology Risks: Rapid advancements in low-emission and energy-efficient technologies might render existing products or processes obsolete.

We chose 2030, 2040, and 2050 as the assessment time horizons for transition risks with the following considerations:

2030 (Short-term):

This timeframe corresponds with the near-term targets set by many global climate agreements and policies, including the Paris Agreement's nationally determined contributions (NDCs). It allows Xiaomi to align its strategies with the anticipated regulatory changes and market evolution due to increased climate action within this decade.

2040 (Mid-term):

This horizon is significant for Xiaomi given its own commitment to achieving carbon neutrality in its operations by 2040. It provides a benchmark for assessing progress and aligning with mid-century climate and energy targets that are being established by governments and industries worldwide.

2050 (Long-term):

This year is a common target date for many national and international climate goals, including achieving net-zero emissions. Assessing risks up to 2050 enables Xiaomi to anticipate the broader impacts of the global transition to a low-carbon economy and to adapt its long-term business strategy accordingly.

The selection of different horizons is strategic, reflecting the fact that the physical impacts of climate change might become more pronounced and certain over a longer term as the climate system evolves, whereas the transition risks are more immediate and are likely to be experienced by Xiaomi in a more condensed timeframe due to rapid policy changes, technological innovations, and market dynamics. This approach allows Xiaomi to tailor its risk management and strategic planning processes to the specific characteristics and expected timelines of these risk categories.

TABLE 5-3 AVERAGE AND MAX SCORES OF TRANSITION RISKS AND OPPORTUNITIES

	Smartphones			IoT and lifestyle products			Internet services			EV			Xiaomi Corporation		
	Risks & opps (NZE-STEPS)			Risks & opps (NZE-STEPS)			Risks & opps (NZE-STEPS)			Risks & opps (NZE-STEPS)			Risks & opps (NZE-STEPS)		
	2030	2040	2050	2030	2040	2050	2030	2040	2050	2030	2040	2050	2030	2040	2050
Average risk/ opportunity	-0.03	-0.04	-0.05	-0.02	-0.04	-0.05	0.00	0.00	-0.01	-0.01	-0.04	-0.05	-0.02	-0.03	-0.04
Max risk	-0.20	-0.25	-0.26	-0.20	-0.25	-0.27	-0.02	-0.07	-0.18	-0.20	-0.49	-0.75	-0.18	-0.22	-0.32
Max opportunity	0.04	0.13	0.24	0.04	0.13	0.24	0.04	0.06	0.16	0.05	0.34	0.55	0.04	0.12	0.23
Average Risk	-0.07	-0.14	-0.21	-0.06	-0.16	-0.22	-0.01	-0.04	-0.12	-0.06	-0.25	-0.40	-0.06	-0.14	-0.21
Average Opportunity	0.02	0.06	0.11	0.02	0.07	0.12	0.01	0.03	0.07	0.02	0.13	0.22	0.01	0.05	0.09

Note:

Opportunity / Risk score key				
Very high Opp.	Higher Opp.	Mod. Opp.	Lower Opp.	Limited
≥=0.28	0.20 to < 0.28	0.12 to < 0.20	0.04 to <0.12	<0.04 to <-0.04
Very high Risk	Higher Risk	Mod. Risk	Lower Risk	Limited
≤-0.28	-0.20 to >-0.28	-0.12 to >-0.20	-0.04 to >-0.12	<0.04 to <-0.04

The biggest challenge for Xiaomi's **Smartphones** lies in potential carbon pricing mechanisms. As the cost of CO_2 emissions rises towards 2050, operational expenses (Opex) are likely to increase. While no specific opportunities were identified for smartphones, Xiaomi's overall focus on sustainable and smart technology development bodes well for the future.

Regulations mandating improved material and energy efficiency pose a significant risk for Xiaomi's **IoT and Lifestyle Products**. These regulations, impacting both greenhouse gas (GHG) intensity per capita and expenses (Capex and Opex), could lead to higher costs. However, the maturing renewable energy market offers a significant opportunity. As the levelized cost of electricity (LCOE) falls, operational energy costs could potentially decrease.

The available data suggests that **Internet Services** face neither direct risks nor opportunities. This likely indicates an indirect impact through operational changes in other segments. However, broader trends in technological efficiency and renewable energy adoption could create favorable conditions for this segment's growth and sustainability.

The main challenge for Xiaomi's **Electric Vehicles** segment involves the "pass-through cost" from decarbonizing the value chain. As Xiaomi strives for lower emissions in its EVs, it will likely face higher costs. However, diversifying into the EV market presents a significant opportunity. With the expected rise in electricity consumption within the transportation sector, Xiaomi's EVs could find a fertile ground for growth.

Across all segments, policy and legal changes, market transitions, and carbon pricing pose consistent risks, translating to increased costs and investment needs for compliance and adaptation. Opportunities, however, are consistently positive. These opportunities lie in areas such as supporting the low-carbon transition with smart and AIoT technologies, embracing mature renewable energy applications, and enhancing production efficiency. Notably, the most prominent risks intensify towards 2050, reflecting the deepening impact of climate change and stricter regulations. Conversely, opportunities seem to be expanding over time, suggesting that Xiaomi's commitment to sustainability could yield long-term benefits.

Stakeholder scrutiny over climate disclosures could indirectly impact revenue across all segments, posing a reputational risk for Xiaomi. The EV segment stands out with the strongest opportunity, driven by the positive impact on revenue from the projected rise in final electricity consumption within the transportation sector by 2050. Importantly, Xiaomi's focus on integrating smart technology and AIoT capabilities across its business model aligns with global trends towards digitalization and efficiency, potentially enhancing its competitiveness and market positioning.

TABLE 5-4 TRANSITION RISKS AND OPPORTUNITIES, AND THEIR RELEVANCE TO XIAOMI'S OPERATIONS

No	Transition Drivers	Assumed Risk/Opp.	Impact area	Relevance to Xiaomi
1	Introduction of carbon pricing mechanisms	Risk	OpEx	According to World Bank[9], in total 104 carbon pricing initiatives (including emissions trading system (ETS), carbon tax mechanism and government crediting mechanisms) are under implementation or consideration in 52 national jurisdictions and 42 subnational jurisdictions as of 2023 to expedite the decarbonization process. Meanwhile the number of carbon pricing initiatives is showing a continuous growth in trend. Carbon price may affect the energy and raw materials market that is relatively important to Xiaomi's operating cost and the supply chain. Besides, since Xiaomi operates globally, indirect impacts of carbon price may also derive from the interests of oversea customers and stakeholders.
2	Regulation-driven materials and energy efficiency gains and updates	Risk	OpEx	The landscape of climate change policy is dynamic, encompassing two overarching objectives—actions aiming to curtail behaviors contributing to adverse climate effects and those striving to foster adaptation. For example, under the Kigali Amendment to the Montreal Protocol[10] adopted on October 15, 2016, the ratified parties will phase down hydrofluorocarbons (HFCs) that have been widespread in air conditioners, refrigerators and other products as alternatives to Chlorofluorocarbons (CFCs) and Hydrochlorofluorocarbons (HCFCs). The EU's Energy-Related Products (ErP) Directive (2009/125/EC) applies to most products that consume energy throughout their lifecycle, and a CE mark that permits its sale across the EU will only be attached when the product is tested to meet relevant energy and resources performance standards. Regulation on ecodesign for smartphones, mobile phones, cordless phones and slate tablets (EU/2023/1670) and Delegated Regulation on energy labelling of smartphones and tablets (EU/2023/1669) have put on stricter requirements on energy efficiency, battery longevity, and reparability to portable electronic devices. New EU battery regulation (Regulation 2023/1542) approved in July 2023 introduces battery categories (including portable, industrial, automotive, electric vehicle (EV), and light means of transport (LMT) batteries) and labelling, design, manufacture and disposal requirements and regulations are specified for each battery category.
3	Carbon border adjustment mechanism (CBAM) and climate-related trade barriers	Risk	OpEx	The implementation of a CBAM[11] plays a crucial role in supporting climate protection efforts by pricing CO_2 emissions that are not covered by carbon taxes or ETS. Additionally, the CBAM addresses the risk of carbon leakage, which occurs when domestic emissions reductions lead to increased emissions in countries with less stringent climate policies. Initially, the CBAM will apply to imports of electricity, aluminum, iron and steel, cement, fertilizers, and hydrogen. Starting from 2026, these imported goods into the European Union (EU) will incur a carbon levy based on the embedded emissions generated during their production process. Xiaomi has conducted a thorough review of the recently proposed CBAM legislation. We acknowledge the potential ramifications of CBAM on our business operations. To mitigate these potential risks, Xiaomi has established a comprehensive internal response and preparedness plan. This plan includes a strategic assessment focused on the direct impact of CBAM on specific materials and components used in our products. Xiaomi remains actively engaged in monitoring the ongoing development of CBAM requirements. Our primary objective is to ensure that the implications of CBAM on Xiaomi's extensive portfolio of exported goods, including smartphones, are minimized.
4	Pass-through cost from value chain decar-bonization	Risk	OpEx	Companies need considerable efforts to reduce GHG emissions in order to achieve the goal of Net-Zero by 2050. This necessitates the development of high-efficiency facilities, low-carbon products, and innovative technologies geared towards minimizing GHG emissions. Investing in these advancements is imperative, as failure to do so could result in companies facing carbon taxes or having to procure carbon credits, particularly in regions with government-supported emission trading schemes. These costs may continue to rise if regulations are reinforced. Additionally, without enhancing the facilities' efficiency, the rising production and operating costs will also impact the company's operating margin and therefore risk the company's bottom line. Scope 3 emissions account for the largest share of Xiaomi's total emissions. While its Scope 1 and 2 can be decarbonized through electrification + renewables, its scope 3 emissions will be much harder to abate and Xiaomi may have to bear higher pass-through costs as the value chain decarbonizes (or as it chooses lower-emissions suppliers)
5	Increasing stakeholder scrutiny over climate disclosures	Risk	Revenue	Over the past two decades, ESG and climate reporting has increased in transparency and importance. Stakeholder scrutiny has been intensified as greenwashing becomes a concern. Companies will have to enhance its governance and comply with more stringent reporting obligations which may incur additional operation expenditure. Failing to do so will then affect valuation of the company.
6	Diversify business activities to electric vehicles (EVs) market	Opportunity	Revenue	Current internal combustion engine (ICE) vehicles are significant source of GHG emissions globally. With climate change, customers may increasingly prefer new EVs and products with lower carbon emissions. Xiaomi officially launched its smart EV business in 2021 with an initial investment of $1.57 billion, and plans to invest $10 billion over the next ten years to support the research[12], development and production of smart EVs.
7	Maturity of renewable energy applications	Opportunity	OpEx	The global market is witnessing a growing adoption and prominence of renewable energy sources, leading to a decline in renewables cost. A company with a sustainable and renewable energy structure is more likely to lower future operational energy costs and resilient to pressure related to climate change compliance, taxes, carbon market transactions, and other associated outlays.

[9] https://carbonpricingdashboard.worldbank.org/

[10] https://treaties.un.org/Pages/ViewDetails.aspx?src=IND&mtdsg_no=XXVII-2-f&chapter=27

[11] https://trade.ec.europa.eu/access-to-markets/en/news/carbon-border-adjustment-mechanism-cbam

[12] https://www.reuters.com/article/idUSKBN2BN034/

8	Enhanced efficiency in production and distribution processes	Opportunity	OpEx	Organizations are increasingly showcasing successful endeavors in reducing operational expenses through enhanced efficiency in production, distribution processes, infrastructure, machinery, and transportation. This optimization extends beyond energy efficiency to encompass broader aspects such as materials, water, and waste management. These strategic measures not only yield direct cost savings in the medium to long term but also align with global initiatives aimed at emission reduction. Technological innovations play a pivotal role in facilitating this transition, encompassing developments in heating solutions, circular economy practices, advancements in LED lighting and industrial motor technologies, retrofitting of buildings, utilization of geothermal power, provision of water management solutions, and the evolution of electric vehicles. Xiaomi has been continuing developing and promoting its intelligent manufacture by leveraging IoT and AI technologies to improve industrial efficiency, reducing waste of resources and waste generation.
9	Support the low-carbon economy transition with smart and AIOT technologies	Opportunity	Revenue	Organizations that lead in innovation and creating new products and services to enable lower emissions may position themselves advantageously in a competitive landscape shaped by changing consumer and producer preferences. Xiaomi's HyperOS and intelligence Hub (Hypermind) unifies all connected devices through a set of converged system frameworks to achieve the goals of optimal device performance, synergizing inter-device experience and connectivity. This would play a key role in reducing redundancy and improving energy utilization of the devices, contributing to the reduction of energy consumption e-waste.
10	Provide low-carbon economy transition and energy efficiency enhancement technologies backed by policy incentives	Opportunity	Revenue	ICT technologies have been considered important to enable the energy conservation and emission reduction in both industry and residential sectors by Chinese government. For example, according the top designed "1+N" policy framework for peaking carbon dioxide emissions and achieving carbon neutrality, the government supports the acceleration of integrating the AI, big data, and 5G communication and other emerging technologies with energy-efficient industries. The 14th Five-Year Development Plan for the information and communications industry[13] articulates one of the designated missions of the industry is to empower the society in all areas of energy saving and emission reduction. The Action Plan for Green and Low-Carbon Development of the Information and Communications Industry (2022-2025)[14] puts *empowering the whole society to reduce carbon emissions and promote peak performance* as a key task, and proposes to take the needs of digital, intelligent and energy-efficient transformation of various industries as the mission to assist in the transformation of the economy and society to digitalization and low carbon emission, with the particular focus on the area of creating low-carbon and environmentally friendly living conditions for residents and developing the energy-efficient and intelligent city.

Policy & Legal Market Technology Reputation

[13] https://www.gov.cn/xinwen/2021-12/28/5664873/files/1760823a103e4d75ac681564fe481af4.pdf
[14] https://www.gov.cn/zhengce/zhengceku/2022-08/26/content_5706914.htm

5.2 NON-FINANCIAL AND FINANCIAL IMPLICATIONS OF CLIMATE CHANGE

Xiaomi's business segments each face unique vulnerabilities to climate change, which are set to intensify under various SSPs and IEA scenarios. Climate-related risks present a significant challenge for Xiaomi, potentially impacting several key financial indices of the company. Considering Xiaomi's historical financial trends from 2018 to 2022, clear non-financial and financial indicators are observed regarding where climate-related issues may exert pressure.

Non-financial implications:

Products and Services at Xiaomi are both influenced substantially by climate-related risks and opportunities. Our commitment to compliance with evolving climate-related policies is steering our strategy towards enhancing the environmental sustainability of our offerings. Simultaneously, opportunities to expand with the growing demand for climate-friendly products are guiding our innovative development of new products and services that foster climate mitigation and adaptation.

Xiaomi's **Operations** are steadfastly pursuing our carbon neutrality goal for our direct operations (Scope 1 and 2) by 2040 and our aim to transition to 100% renewable energy by 2040. Numerous initiatives are underway to propel us towards these objectives. For instance, in 2023, we are proud participants in the China GE100 (Green Electricity 100) initiative, reflecting our proactive stance. We are in the process of negotiating a long-term agreement with electricity providers to secure green electricity annually at competitive rates, which will also enable us to obtain the corresponding green electricity consumption certificates.

Our dedication to **Research and Development** is paramount, as we seek to convert climate-related challenges into opportunities by investing in clean technology. In 2022 alone, Xiaomi's R&D investments amounted to 16 billion yuan, over half of which was allocated to clean technology sectors. This investment has paid dividends; revenue from products utilizing clean technology patents represented 59.7% of our total revenue. Our innovations in this field include:

- **5G and Energy-Saving Information Transmission Technology:** Xiaomi's energy efficiency enhancements in various 5G scenarios represent a significant step forward in sustainable smartphone usage.
- **Screen Energy-Saving Technology:** Our "Global Dark Mode" is a testament to our commitment to energy conservation, capable of reducing screen energy consumption by an impressive 70% in certain contexts.
- **Smart Energy-Saving Technology:** Innovations such as our adaptive refresh rate function exemplify our efforts to reduce energy consumption without compromising the user experience.
- **Low-Power Artificial Intelligence:** Our voice assistant, "XiaoAi Classmate," now requires approximately 37% less energy for activation, thanks to our proprietary algorithm optimizations.

Xiaomi is acutely aware of the physical and transition threats posed by climate change and has instituted a comprehensive risk management framework to mitigate these risks. Our framework provides for detailed response protocols for extreme weather events which may affect our infrastructure. We also continuously refine our emergency sourcing strategies to ensure uninterrupted access to production materials and maintain our logistical integrity in the face of climatic fluctuations.

Financial implications:

Smartphones, representing a substantial portion of Xiaomi's revenue, experienced a downward trend in 2022, and a dramatic comeback in 2023. The introduction of the CBAM and similar climate-related trade barriers could lead to increased costs for imports, particularly in markets with stringent environmental regulations like Europe. Increased administrative costs, a result of compliance with greenhouse gas (GHG) emissions trading schemes and efforts to decarbonize the supply chain, are likely to compress profit margins. For instance, the operating profit's significant decrease from 2022 suggests higher operating costs, which may escalate further due to these climate policies. The company's gross profit trend, which decreased substantially from 2022, also indicates potential vulnerability to increased costs.

The cost of sales in **IoT and Lifestyle Products** did not decrease as quickly as revenue, and climate-related risks such as acute hazards (e.g., wildfires, extreme heat) and chronic risks (e.g., water stress) could exacerbate this discrepancy. The segment's dependency on energy and raw materials markets makes it sensitive to carbon pricing mechanisms, which may further inflate operational expenses. Regulatory updates for energy efficiency could necessitate a shift to greener technology, potentially increasing operational expenses while reducing GHG intensity. If the upward trend in total assets due to long-term investments continues, it must be assessed whether these investments consider the transition to greener technologies, which could affect the non-current assets line.

While revenue in **Internet Services** saw a slight increase, the physical infrastructure underpinning internet services, such as data centers, is susceptible to climate risks like extreme heat and wildfires. This vulnerability may necessitate significant investment in climate control and fire prevention systems, which could influence Xiaomi's current and non-current liabilities, especially if these are financed through debt. The slight increase in the cost of sales for internet services and its growing percentage of total revenue indicate that expenses are rising and may continue to do so with necessary infrastructure enhancements.

With Xiaomi's exploration into the **Electric Vehicles (EV)** market, financial indices such as R&D expenditure within non-current assets could rise. Policy shifts and market dynamics associated with the low-carbon transition, while offering opportunities through incentives, could also pose risks of stringent environmental standards and supply chain disruptions. The historical increase in non-current liabilities suggests an increase in long-term obligations, which may include investments in sustainable technology and production facilities for EVs.

In the pursuit of scientific precision and aspirational goals, Xiaomi is dedicated to implementing a comprehensive strategy that addresses the financial implications of climate-related risks on pivotal financial indices through innovative and sustainable practices.

Revenue

Xiaomi is committed to enhancing the resilience of its revenue against climate-related economic challenges by pioneering sustainable supply chain initiatives. By strategically investing in the reduction of the carbon footprint of our products, particularly targeting the European market in compliance with the Carbon Border Adjustment Mechanism (CBAM), we aim to source from environmentally responsible suppliers, escalate energy efficiency across operations, and integrate sustainable materials into our product design. Furthermore, Xiaomi intends to expand its product portfolio to incorporate options that align with ecological principles, thereby catering to the growing demographic of environmentally conscious consumers and safeguarding revenue streams against climate-induced market fluctuations.

Cost of Sales

Xiaomi is poised to transition to sustainable manufacturing processes, recognizing that such initiatives may result in initial cost surges. Nevertheless, this trajectory is anticipated to culminate in long-term financial benefits and a fortified market standing. Specific strategies include the adoption of renewable energy within our manufacturing facilities and the optimization of our logistics to minimize emissions. These efforts are projected to diminish the overall carbon footprint of our operations, subsequently reducing expenses linked to carbon pricing mechanisms and contributing to global sustainability efforts.

Gross Profit and Margin

In an endeavor to safeguard our gross profit margins amidst escalating operational costs prompted by climate adaptation, Xiaomi is venturing into the development and marketing of premium products with high sustainability credentials. These products are expected to resonate with consumers willing to invest in environmentally responsible technology. Concurrently, a judicious approach to pricing will be employed while maintaining competitive market pricing.

Research and Development Expenses

Xiaomi's research and development endeavors are steadfastly directed towards pioneering advancements in sustainable technologies. Our focus encompasses the creation of energy-efficient smartphones and IoT products, alongside the exploration of low-impact materials. Through significant investment in R&D, Xiaomi is paving the way for climate-resilient product lines and operational frameworks, thereby aspiring to lead the industry in green technology.

Selling and Marketing Expenses

Xiaomi's marketing narratives will prominently feature our unwavering commitment to sustainability. By showcasing our efforts to mitigate environmental impact and adhere to stringent climate disclosure mandates, we strive to bolster our brand image and captivate a clientele that values ecological stewardship. This narrative is expected to not only resonate with our customers but also to foster brand loyalty and amplify sales, driving Xiaomi towards a greener and more profitable horizon.

5.3 VISION FOR BUSINESS STRATEGY IN LIGHT OF CLIMATE RISKS AND OPPORTUNITIES

5.3.1 WADING THROUGH CHANGING CIRCUMSTANCES

At Xiaomi, we recognize that the landscape of tomorrow's business is being reshaped by the realities of climate change. Our dedication to crafting a sustainable and prosperous future for our company is matched by our commitment to being at the forefront of this transformation. We envision a future where our responses to various climate scenarios will not only reflect our corporate responsibilities but also create a thriving environment for innovation and growth.

In our journey towards a sustainable future, Xiaomi's steadfast commitment is reflected in our nuanced understanding of climate-related risks. Our analytical prowess shines through our ability to discern the subtleties between low and high carbon scenarios. While the average risk values for these scenarios may converge, Xiaomi recognizes that the devil is in the details. Our meticulous risk assessments identify the specific impacts of various climate hazards, enabling us to tailor our strategic responses with precision. We embrace the diversity of risk, turning insights into actions that fortify our resilience and adaptability.

Embracing a Low Carbon Future (SSP1-2.6):

In a world where collective climate action has curtailed greenhouse gas emissions, Xiaomi foresees an increased demand for energy-efficient products. Our business strategy is poised to capitalize on this demand by advancing the development and marketing of cutting-edge IoT devices and pioneering the next generation of electric vehicles (EVs). Compliance with evolving regulatory landscapes will not be seen as a hurdle, but an opportunity to innovate and lead in the market with reduced costs as a byproduct of a greener economy. Xiaomi aims to transcend the market norms and forge a legacy of sustainability, positioning ourselves as an exemplar of a low carbon pioneer, which will significantly enhance our brand value and market leadership.

Navigating a High Carbon Reality (SSP5-8.5):

Even as we confront a future where mitigation efforts may falter, leading to greater environmental challenges, Xiaomi stands ready to adapt and excel. We will confront increased physical and transition risks with resilience, ensuring our supply chains and infrastructure are robust and adaptable to withstand climate extremities. Our strategic financial planning is set to counterbalance the impact of carbon pricing mechanisms, turning potential costs into investments for more efficient operations and innovative product pricing. Xiaomi's commitment to dynamic risk management and adaptable business models will set us apart as we pioneer new pathways to safeguard our operations and maintain our competitive edge.

5.3.2 ADAPTING TO EVOLVING TIMEFRAME

2030 as a Policy Alignment Checkpoint

The year 2030 serves as a crucial short-term horizon for assessing and mitigating climate risks, coinciding with key international benchmarks such as the United Nations' Sustainable Development Goals (SDGs) and the Nationally Determined Contributions (NDCs) under the Paris Agreement. As this period is expected to witness tangible early impacts of climate change and marks a critical timeframe for countries hosting Xiaomi's operations to meet their greenhouse gas reduction targets, Xiaomi is positioning itself to effectively address these challenges:

- **Adaptation Measures:** Xiaomi will focus on implementing robust adaptation measures to cope with the increasing physical risks posed by climate change. This includes enhancing the resilience of its operations, supply chains, and infrastructure to extreme weather events and other climate-related disruptions.
- **Mitigation Strategies:** Aligning with the 2030 targets set by various countries and international agreements, Xiaomi will accelerate its efforts to achieve its initial mitigation goals. This involves reducing greenhouse gas emissions across its operations and value chain through energy efficiency improvements, increased use of renewable energy sources, and innovative product designs that contribute to lower carbon footprints.
- **Compliance with Regulatory Requirements:** Xiaomi will ensure strict compliance with relevant EU regulations that impact its product and operational strategies, such as the EU Ecodesign Regulation (EU) 2023/1670, which mandates durability, repairability, and battery life standards for electronic devices. Adhering to these regulations will not only reduce the environmental impact of Xiaomi's products but also enhance their sustainability.
- **Software Updates and Durability:** In accordance with the EU Energy Labeling Regulation (EU) 2023/1669, Xiaomi will provide a minimum of 5 years of software updates for its devices, extending their lifespan and reducing electronic waste. The focus on product durability, repairability, and energy efficiency will be key in minimizing Xiaomi's environmental footprint and addressing consumer demand for more sustainable products.
- **Reduction of Hazardous Substances:** Compliance with the EU Restriction of Hazardous Substances (RoHS) Directive and REACH Regulation will be a priority for Xiaomi, ensuring that its products and packaging are free from harmful chemicals, thereby mitigating environmental and health risks associated with its product lifecycle.
- **Sustainable Packaging:** Aligning with the EU Packaging and Packaging Waste Directive, Xiaomi will adopt sustainable packaging practices, focusing on reducing waste, enhancing recyclability, and minimizing the use of hazardous substances in its packaging materials.

2050 for Mid-term Technological and Market Transformation

For the mid-term horizon of 2050, Xiaomi is poised to undergo significant technological and market transformations to address climate change risks, aligning with broader goals of achieving value chain-wide net-zero emissions for its existing businesses. This period is recognized as a critical juncture for assessing climate impacts and marking progress towards extensive climate commitments.

- **Expanding IoT and Connected Devices Ecosystem:** By 2050, Xiaomi envisions a vast expansion of its Internet of Things (IoT) and connected devices ecosystem, moving beyond smartphones to integrate a wide array of products within its MIUI software platform. The advancement of 5G and other connectivity technologies will facilitate more extensive IoT applications, positioning Xiaomi to lead in creating interconnected smart environments. This strategic shift will not only enhance user experiences but also contribute to energy efficiency and reduced carbon emissions through intelligent management of resources and services.
- **Transition to Electric Vehicles (EVs):** Xiaomi's entry into the EV market is a key component of its mid-term strategy, reflecting a commitment to sustainable transportation solutions. Leveraging its expertise in consumer electronics and software, Xiaomi aims to innovate in the EV space, offering vehicles that are integrated within its broader HyperOS ecosystem. This move will require Xiaomi to address new challenges related to EV production, supply chains, and market dynamics, ensuring that its EV offerings align with sustainability principles and contribute to reducing the transportation sector's carbon footprint.
- **Emphasizing Sustainability and Circular Economy:** In response to regulatory pressures and the imperative for sustainability, Xiaomi will intensify its focus on sustainable product design, manufacturing practices, and circular business models. Adhering to regulations like the EU Ecodesign and Energy Labeling rules, Xiaomi will prioritize extending product lifespans, enhancing repairability, providing ongoing software updates, and embracing circular economy principles. These efforts will be crucial in minimizing waste, promoting recycling, and ensuring that Xiaomi's products and services contribute positively to the environment.

2080 to Build a Strategic Resilient Blueprint

As Xiaomi aspires to be a century-old company, its long-term strategy for 2080 involves a comprehensive assessment of resilience to cope with climate change risks. Recognizing the potential cumulative effects of climate change, including the possibility of reaching critical tipping points, our strategic blueprint for managing these climate scenarios is built on a foundation of foresight and flexibility:

- **Innovative Product Development:** Our investment in research and development is geared towards creating products that can thrive in a low-carbon economy, meeting and setting new standards of sustainability.
- **Dynamic Risk Management:** We are developing an agile risk management framework that is responsive to the varying intensities of climate impacts. This will be achieved by diversifying our production footprint globally and investing in infrastructure designed for resilience.
- **Proactive Financial Strategies:** Xiaomi is preparing to navigate the financial landscapes shaped by climate scenarios through innovative financing, operational efficiencies, and strategic pricing models that ensure the affordability of our greener products.
- **Collaborative Leadership:** We believe in the power of partnership, seeking alliances with peers, governments, and civil society to share insights, pool resources, and jointly advance towards a low-carbon economy.

Xiaomi's business strategy, driven by its "connecting everything" philosophy, is finely attuned to the outcomes of scenario analysis and risk assessment, particularly in the context of the evolving climate change narratives and the push towards a low-carbon economy.

The intricate layers of Xiaomi's technology stack—from the robust hardware foundation to the user-interactive applications—demonstrate the company's readiness to adapt to a variety of scenarios, including those posed by environmental risks. Here's how this technological ecosystem contributes to the company's long-term strategy and its alignment with a low-carbon economy:

Efficient Utilization of Resources:

Xiaomi is evolving from a hardware-centric model to a more integrated hardware and software-centric ecosystem, highlighted by our HyperOS. This transition enables more efficient utilization of resources across the "Human x Car x Home" ecosystem. The precision computing and minimized redundancy at the core of Xiaomi's offerings allow for smarter resource management. By leveraging software capabilities to optimize hardware usage, Xiaomi is actively reducing energy consumption and waste, contributing to a lower carbon footprint while seamlessly integrating various hardware components to create cohesive solutions within user scenarios.

Adaptive Infrastructure:

The adaptability of Xiaomi's infrastructure, powered by the Linux Kernel and our proprietary Vela, forms the backbone of our transition towards a software-centric approach. This adaptability extends beyond process and device management to facilitate the interaction between different hardware units. By ensuring optimal efficiency, Xiaomi can swiftly respond to environmental pressures and maintain operational integrity, all while fostering an interconnected environment where hardware components complement each other to enhance overall ecosystem efficiency.

Intelligent Services and Frameworks:

Atop Xiaomi's foundational infrastructure lies an advanced layer of AI frameworks and services, marking a shift towards intelligent, software-driven solutions. This layer is pivotal in transforming Xiaomi's devices into adaptable and sustainable tools. The AI's ability to learn and evolve ensures that Xiaomi can introduce new efficiencies and respond to user behaviors that promote sustainability. This adaptability is key to aligning with a low-carbon economy and leveraging the synergy between different hardware devices to construct comprehensive, energy-efficient solutions.

HyperConnect Layer:

The HyperConnect layer epitomizes Xiaomi's commitment to transitioning towards a more software-centric, interconnected ecosystem. Serving as the conduit between Xiaomi's core systems and user-facing applications, HyperConnect enables seamless communication across devices. This integration not only enriches the user experience but also ensures that devices can collaborate effectively, conserving energy and aligning with sustainable business practices by utilizing the combined strengths of hardware components in unified solutions.

Smart Manufacturing:

Incorporating smart manufacturing principles underscores Xiaomi's dedication to enhancing efficiency and sustainability across its product lifecycle. By integrating smart software solutions with manufacturing processes, Xiaomi is reducing waste and maximizing the efficiency of its supply chain. This approach resonates with the shift towards a software-centric model, where the focus extends beyond individual hardware units to encompass holistic solutions that reduce environmental impact and support a low-carbon economy. Through smart manufacturing, Xiaomi is not only optimizing its hardware production but also embedding software-driven intelligence to create more sustainable and integrated manufacturing solutions.

By integrating these technological layers into its business strategy, Xiaomi is positioning itself to anticipate and mitigate risks effectively. Our focus on an integrated, energy-efficient, and smart ecosystem not only meets the current demands of consumers but also strategically places Xiaomi ahead in the race to adapt to and capitalize on a low-carbon future.

At Xiaomi, our vision is not just to respond to the risks and opportunities presented by climate change but to redefine the role of technology and business in leading society towards a more sustainable and equitable future. Our commitment is unwavering; our strategies, robust; and our journey, ambitious. Together, we are stepping into a future where our business operations harmonize with the environment, creating value that extends beyond the bottom line to forge a better world for all.

6 Risk Management

6.1 IDENTIFICATION AND ASSESSMENT OF RISKS AT XIAOMI

6.1.1 XIAOMI'S RISK MANAGEMENT PROCESS NARRATIVE

Regular Internal Control Assessments

- To identify potential business risks systematically.

Board Review and Oversight

- Evaluation of management and internal audit reports to determine the effectiveness of risk management and internal controls

Role of Internal Audit Team

- Independent annual reviews of the adequacy and effectiveness of risk management and internal controls.
- Examination of accounting practices
- Assessment of key internal controls
- Reporting findings and recommendations to the Audit Committee

Disclosure Policies Development

- Guidance on handling confidential information for directors, officers, senior management, and employees
- Monitoring of information disclosure and response to enquiries
- Implementation of control procedures to prevent unauthorized access and use of insider information

At Xiaomi, risk management is an essential, systematic process that is tightly interwoven with our business strategy and core operational processes. Our methodology is characterized by its thoroughness and adaptability, designed to be all-encompassing and flexible to meet the challenges presented as our business environment changes, ensuring our ability to consistently identify and address potential risks.

The process is underpinned by regular and detailed internal control assessments conducted to detect and evaluate risks that may impact our business operations and outcomes. This systematic vigilance is a critical component of our organizational risk health. Our Internal Audit team is entrusted with conducting independent, comprehensive annual audits that examine the resilience and efficacy of our risk management and internal control systems.

The scope of work for the Internal Audit team involves a deep analysis of accounting practices and a critical evaluation of all principal internal controls. This exercise yields significant insights and is pivotal in fortifying our financial stability and operational resilience. The findings and recommendations generated from these audits are substantive contributions to our continuous improvement efforts, which are subsequently presented to the Audit Committee for review and action.

Following this, the Board, bolstered by the Audit Committee and management, meticulously reviews these reports. This review is a fundamental aspect of our corporate governance, ensuring that all aspects of the company's operations are aligned with our governance standards. The Board, having reviewed the documentation for the reporting period, validates the effectiveness and appropriateness of the risk management and internal control systems in place.

In addition, Xiaomi has established a set of disclosure policies that act as a formal framework directing our directors, senior management, and employees in managing confidential information with due diligence. These policies are complemented by control procedures designed to ensure stringent prevention of unauthorized access and misuse of insider information.

This comprehensive risk management approach reinforces Xiaomi's dedication to maintaining a robust governance structure and highlights our unwavering commitment to safeguarding the interests of our stakeholders and the integrity of our business operations.

6.1.2 SIGNIFICANT OPERATIONAL RISKS OF XIAOMI RELEVANT TO CLIMATE CHANGE

Xiaomi, as a dynamic global entity, must navigate a complex web of risks, particularly those exacerbated by the increasing prevalence of climate-related impacts. These risks extend across multiple facets of the business, including product and service quality, supply chain management, and storage and logistics operations.

Product and Service Quality Risks:

Market Risks: Xiaomi's product durability and the demand for repairable after-service are crucial in a market increasingly influenced by circular economy principles. There is a growing consumer expectation for sustainable products, which involves managing the lifecycle of products from production to end-of-life recycling or disposal.

Regulatory Risks: Specific product types face distinct regulatory challenges. Mobile devices, for instance, must comply with a variety of international standards and regulations related to energy consumption, emissions during production, and electronic waste. The potential for regulatory shifts poses a risk to maintaining compliance without incurring additional costs or operational complexities.

Supply Chain Risks:

Physical Risks: The stability of Xiaomi's supply chain is vulnerable to physical risks arising from climate change, such as extreme weather events that can disrupt manufacturing processes and the availability of raw materials, leading to cost volatility and uncertainty.

Cost Fluctuations: Climate change may also induce fluctuations in the cost of raw materials, with potential knock-on effects on the production costs of Xiaomi's products. This risk demands a robust supply chain strategy that can absorb and adapt to such economic pressures.

Storage and Logistics Risks:

Resilience to Climate Risks: Storage facilities and logistics networks are exposed to climate risks, including severe weather patterns that can impact the distribution and warehousing of Xiaomi's products. Developing resilient logistics strategies to withstand such disruptions is a priority for Xiaomi.

Product-Specific Risks:

Smartphones: Risks for smartphone products include the rapid technological obsolescence and the need for continuous innovation to meet consumer expectations in an environmentally conscious market.

IoT and Lifestyle Services: These products and services are subject to the risks associated with data privacy and security, as well as the need for energy efficiency and reduced environmental impact.

Internet Services: Risks here are primarily centered around data protection and cyber-security, both of which could be impacted by regulations aiming to curb the environmental impact of data centers.

Electric Vehicles (EV): The EV segment faces risks associated with the high rate of innovation in the industry, evolving regulatory requirements on emissions and battery disposal, and the challenge of integrating EVs into a sustainable transportation ecosystem.

6.2 POSITIONING OF CLIMATE-RELATED RISKS IN XIAOMI'S PROCESSES FOR RISK MANAGEMENT AND MITIGATION STRATEGIES

6.2.1 CLIMATE CHANGE PLAYS A PIVOTAL ROLE IN XIAOMI'S OPERATIONAL RISKS

Climate change risks, including both physical and transition risks, present several significant challenges for corporations like Xiaomi with global supply chain and businesses. These risks are likely to be the primary triggers for Product and Service Quality Risks, Supply Chain Risks, and Storage and Logistics Risks.

Physical Risks:

Extreme Heat: This physical risk can impair production capabilities, reduce the lifespan of equipment, and necessitate additional cooling measures which could increase operational costs.

Water Stress: The availability of water resources is crucial for various manufacturing processes. Water stress can lead to competition for resources, which may disrupt production and increase costs.

Wildfire: The risk of wildfire poses significant threats to physical assets, potentially leading to the loss of infrastructure, increased insurance premiums, and disruptions in manufacturing and logistics.

Transition Risks:

Introduction of Carbon Pricing Mechanisms: The implementation of carbon pricing mechanisms will likely incur additional costs for businesses, impacting profit margins as companies may have to pay for emissions or invest in cleaner technologies.

Regulation-driven Materials and Energy Efficiency Gains and Updates: Compliance with new regulations pertaining to materials and energy efficiency can lead to additional costs in terms of redesigning products, modifying production processes, or implementing new technologies.

Carbon Border Adjustment Mechanism (CBAM) and Climate-related Trade Barriers: CBAM may affect international trade by imposing additional costs on imports and exports based on carbon content, potentially leading to market access restrictions and competitive disadvantages.

Pass-through Cost from Value Chain Decarbonization: Efforts to reduce carbon footprint in the value chain could result in higher costs, as suppliers and logistics providers may pass on the costs of decarbonizing their operations to companies like Xiaomi.

Increasing Stakeholder Scrutiny over Climate Disclosures: As stakeholders increasingly demand transparency in climate-related financial disclosures, failure to meet these demands can lead to a loss of investor confidence and reputational damage.

TABLE 6-1 CORRELATION BETWEEN CLIMATE CHANGE AND OPERATIONAL RISKS

Risk Category	Physical Risks	Transition Risks
Product and Service Quality Risks	· Extreme heat could affect the durability and functionality of electronic components, leading to quality issues. · Water stress might limit the availability of water needed for certain manufacturing processes, potentially compromising product quality.	· Carbon pricing and regulatory changes might necessitate the use of higher-cost, low-carbon materials or processes, impacting the cost and potentially the quality of the final products. · Increased stakeholder scrutiny could require more rigorous testing and quality assurance to meet sustainability standards, increasing production costs.
Supply Chain Risks	· Extreme heat and water stress could disrupt the operations of suppliers, affecting the availability and quality of raw materials. · Wildfires could destroy supplier infrastructure, leading to supply chain disruptions.	· Global carbon pricing probably increases the cost of raw materials and components, especially if they are sourced internationally, affecting the overall cost structure of the supply chain. · Regulation-driven updates might require suppliers to adapt their practices, potentially causing temporary disruptions or increased costs.
Storage and Logistics Risks	· Extreme weather conditions such as heatwaves and wildfires could damage warehousing facilities and disrupt logistics networks.	· Decarbonization efforts in the logistics sector could increase transportation costs as providers invest in lower-emission vehicles and fuels. · Climate-related trade barriers might complicate international logistics and lead to increased costs and delays.

6.2.2 COMBINING CLIMATE CHANGE RISK MANAGEMENT WITH XIAOMI'S OPERATIONAL STRATEGIES

Integrating climate-related risk management into the core operational strategies of a company is essential for addressing potential financial losses and ensuring operational resilience. For Xiaomi, this integration can be particularly critical for mitigating Product and Service Quality Risks, Supply Chain Risks, and Storage and Logistics Risks.

Combining Climate-Related Risk Management

Product and Service Quality Risks:

- Implementing robust design standards that account for climatic conditions can improve product durability and functionality.
- Climate-resilient features can be introduced in products to withstand extreme weather, addressing the increasing consumer demand for sustainable and durable goods.
- A systematic assessment can identify how climate change may affect service requirements, leading to proactive adjustments in after-sales services.

Supply Chain Risks:

- Climate-informed procurement policies can minimize the risk of supply chain disruptions due to extreme weather events or resource shortages.
- Diversifying supplier base geographically can reduce the reliance on a single source and mitigate the risks of supply shortages.
- Incorporating climate risk into supplier selection and evaluation criteria can ensure more resilient supply chain partnerships.

Storage and Logistics Risks:

- Enhancing the design and location criteria of warehouses to account for climate risks can prevent operational delays and losses due to weather-related damages.
- Logistics planning can include alternative routes and modes of transportation that consider the increased likelihood of extreme weather events.
- Investment in climate-adaptive logistics technology can help in real-time monitoring and response to weather-induced disruptions.

Benefits for Xiaomi's Operations

- **Financial Loss Mitigation:** By actively incorporating climate risk management, Xiaomi can significantly reduce the magnitude of financial losses from climate-related disruptions. The proactive measures can prevent costly downtime, reduce insurance premiums, and avoid loss of market share due to operational failures.
- **Operational Resilience:** The adoption of climate-aware strategies across operations enhances the company's ability to withstand and quickly recover from climate-related events, ensuring continuous service to customers and maintaining supply chain integrity.
- **Competitive Advantage:** In the marketplace, a reputation for reliability in the face of climate challenges can enhance brand loyalty and investor confidence. Xiaomi's attention to climate resilience can also meet the growing market demand for environmentally conscious products, leading to potential increases in market share.

6.2.3 EVALUATING CLIMATE-RELATED RISK MANAGEMENT BY FINANCIAL BENEFITS

Evaluating the benefits of integrating climate risk assessment into Xiaomi's operations, particularly in terms of mitigating financial losses, necessitates a systematic approach that quantifies the potential impacts of climate-related risks. This evaluation can be achieved through several analytical steps and methodologies:

Baseline Financial Impact Assessment:

Establish a baseline that quantifies the historical financial impact of climate-related incidents on Xiaomi's operations. This involves analyzing past events that have disrupted the supply chain, affected product quality, or logistics, and quantifying the associated costs, including production delays, increased operational costs, and lost sales.

Risk Probability and Impact Analysis:

For each identified climate-related risk, assess the probability of occurrence and the potential financial impact. This assessment should consider various climate scenarios, ranging from the most likely to the most severe.

Utilize climate data and predictive modeling to inform the analysis, focusing on risks such as extreme weather events, supply chain disruptions, regulatory changes, and market shifts towards sustainable products.

Cost-Benefit Analysis of Mitigation Strategies:

For each risk mitigation strategy identified, calculate the expected costs of implementation, including upfront investments, operational changes, and ongoing maintenance costs.

Estimate the financial benefits of each strategy, which could include reduced downtime, lower insurance premiums, avoidance of regulatory fines, and increased sales from market demand for sustainable products.

The net benefit is derived by subtracting the total costs from the total benefits, providing a clear financial rationale for each risk management action.

Scenario Simulation:

Use scenario simulation to model the financial impacts under different climate scenarios and risk mitigation strategies. This could involve stress testing Xiaomi's financials under various conditions, such as increased frequency of extreme weather events or stringent carbon pricing mechanisms.

Simulations can help in understanding the order of magnitude of potential financial losses in different scenarios and the effectiveness of various risk mitigation measures.

Performance Metrics and Monitoring:

Establish key performance indicators (KPIs) related to climate risk management, such as reduction in downtime due to weather events, cost savings from energy-efficient operations, and improved supplier resilience.

Regular monitoring and reporting of these KPIs can provide ongoing insights into the financial benefits of the integrated climate risk management approach.

Return on Investment (ROI) Calculation:

Calculate the ROI for climate risk mitigation strategies by comparing the net benefits to the initial investment costs. A positive ROI indicates a successful strategy in financial terms, justifying the integration of climate risk assessment into Xiaomi's operations.

Through this structured evaluation, Xiaomi can quantify the financial benefits of integrating climate risk assessment into its operations, demonstrating how proactive management of climate risks can lead to significant financial savings, enhance operational resilience, and ensure long-term sustainability and profitability.

7 Metrics & Targets

7.1 QUANTITATIVE TARGETS FOR CLIMATE-RELATED PERFORMANCE IMPROVEMENT

Xiaomi's climate change risk management strategy is a testament to our commitment to sustainability and environmental stewardship. Through a series of carefully structured targets, we aim to significantly reduce our carbon footprint and lead by example in the global fight against climate change. Our targets are strategically distributed across near-term, mid-term, and long-term horizons, each with its specific goals and focus areas, ensuring a comprehensive approach to sustainability.

Near-term Targets (by 2030)

In the near term, Xiaomi is focused on making impactful changes within this decade, setting the foundation for our future sustainability efforts:

Scope 1 & 2: We aim to achieve a 70% reduction in GHG emissions from our existing businesses by 2030, using 2021 as our baseline. This target encompasses our primary products, including smartphones, tablets, laptops, watches, and bands products. We are committed to achieving 70% renewable electricity consumption ratio in our operations by 2030.

Domestic Logistics: We are committed to improving the energy efficiency of our logistics, aiming for a 10% increase from 2022 to 2030, which will cover all our smartphones, tablets, laptops, watches, and bands products.

Mid-term Targets (by 2040)

As we move into the mid-term phase, our targets become even more ambitious, reflecting our dedication to long-term sustainability:

Scope 1 & 2: By 2040, we strive for 100% clean heat in operations and to become carbon neutral in our existing businesses.

Scope 3: We aim for a 50% share of packaging materials with near-zero emissions and for all micro and light transportation vehicles used in product transport to be clean energy vehicles by 2040.

Long-term Targets (by 2050)

Looking towards the horizon, our long-term objectives underscore our vision for a sustainable future:

Scope 3: By 2050, we aspire to achieve net-zero emissions across our value chain of existing businesses, encompassing a wide range of products from smart phones to tablets, laptops, watches, and bands.

Xiaomi's journey towards sustainability combines scientific rigor with aspirational goals, embodying our commitment to innovation, responsibility, and environmental leadership. Through these efforts, we not only aim to mitigate our impact on the climate but also to inspire and enable a broader movement towards sustainability within our industry and beyond.

TABLE 7-1 XIAOMI'S CLIMATE-RELATED TARGETS UNTIL 2050

Target Category	Scope	Target	Value	Baseline Year	Relevant Products
Near-term (by 2030)	Scope 1 & 2	GHG emissions reduction of existing businesses	70%	2021	Smartphones, Tablets, Laptops, Watches, Bands
		Energy Efficiency Improvement during Manufacturing	21%	2021	Smartphones, Tablets, Laptops, Watches, Bands
		Renewable Electricity Ratio in Operations	70%	-	-
		Domestic Logistics Energy Efficiency[15] Improvement	10%	2021	Smartphones, Tablets, Laptops, Watches, Bands
Mid-term (by 2040)	Scope 1 & 2	100% Clean Heat in Operations	-	-	-
		Carbon neutral (existing businesses)	-	-	-
	Scope 3	Share of packaging materials with near-zero emissions (CCUS-equipped, hydrogen-equipped)	50%	-	Smartphones, Tablets, Laptops, Watches, Bands
		Share of micro and light transportation vehicles[16] as clean energy vehicles	100%	-	Smartphones Tablets, Laptops, Watches, Bands
Long-term Targets (2040-2050)	Scope 1, 2 & 3	Net-zero Emissions in Value Chain of Existing Businesses	2050	-	Smartphones, Tablets, Laptops, Watches, Bands

[15] Logistics Energy Efficiency=Energy consumption/weight of transported products

[16] Micro and light transportation vehicles=Vehicles used for the transport of products from storage hubs to stores to customers

7.2 METRICS IN LINE WITH XIAOMI'S STRATEGY AND RISK MANAGEMENT PROCESS

Xiaomi envisions a future where our proactive approach to climate change shapes a more sustainable world. Our strategy is rooted in a suite of meticulously chosen metrics, envisioned not as mere targets but as beacons illuminating our path to progress. These guiding stars empower us to gauge our strides toward our ambitious climate aspirations.

Attaining these milestones by the envisioned timelines will not only bolster our confidence in fulfilling our climate targets and commitments but will also serve as a testament to our dedication and resilience. Should we encounter challenges in reaching these milestones, it will only fuel our resolve to redouble our efforts, pushing the boundaries of what's possible in climate action.

Our journey is meticulously mapped out in harmony with the Greenhouse Gas (GHG) Protocol's comprehensive scopes—encompassing direct emissions, indirect emissions from energy procurement, and the broader indirect emissions across our value chain. Each step forward on this journey is a step towards a greener, more resilient future, driven by innovation and unwavering commitment to our planet.

Scope 1 metrics:

Xiaomi is steadfast in our journey towards a brighter, more sustainable future. We are committed to vigilantly overseeing our Scope 1 emissions, ensuring that we not only meet but surpass our ambitious goal of a 70% reduction by 2030. This is merely a milestone on our grander quest to achieve net-zero emissions of Xiaomi's operations by 2040, setting a new standard for environmental stewardship and innovation.

Scope 2 metrics:

For Scope 2 emissions, which pertain to indirect emissions from purchased energy, Xiaomi has identified specific milestones associated with energy efficiency during manufacturing and the use of renewable electricity:

Energy Efficiency Improvement during Manufacturing:

- For products such as smartphones, tablets, laptops, watches, and bands, Xiaomi aims for an 8% improvement by 2025, and a 13% improvement by 2027, with 2021 as the baseline year.

Renewable Electricity Ratio in Operations:

- Xiaomi aspires to achieve a 30% renewable electricity ratio by 2027.

100% Renewable Electricity in Operations by 2035:

- This encompasses the transition of both Scope 1 and Scope 2 emissions towards complete clean energy.

Scope 3 metrics:

Scope 3 emissions, encompassing all other indirect emissions that occur in the value chain, are monitored through several metrics across various stages of Xiaomi's product lifecycle:

Renewable Electricity Ratio during Manufacturing in Supply Chain:

- The annual carbon emission intensity of suppliers decrease 5%, setting a benchmark of 25% renewable energy usage for our smartphones, tablets, laptops, watches, and bands products by 2030, with a goal of 100% renewable energy usage by 2050.

Packaging Material Efficiency[17] Improvement:

- Aiming for a 5% improvement by 2027, with the baseline set in 2021, for our smartphones, tablets, laptops, watches, and bands products.

Domestic Logistics Energy Efficiency[18] Improvement:

- A 5% improvement is set as the benchmarked value by 2027, using 2021 as the baseline for our smartphones, tablets, laptops, watches, and bands products.

Ratio of Transportation by Water and by Railway:

- A ratio of 5% is sought by 2027 for our smartphones, tablets, laptops, watches, and bands products.

Product carbon footprint reduction:

A 30% reduction (cradle-to-grave) is set as the benchmarked value by 2035 for our smartphones, tablets, laptops, watches, and bands products, using 2021 as the baseline year.

[17] Packaging Material Efficiency=Package weight/net weight of a product
[18] Logistics Energy Efficiency=Energy consumption/weight of transported products

8 Implementation & Progress

8.1 PROGRESS MADE ON IMPLEMENTING THE TCFD RECOMMENDATIONS

Xiaomi has made significant strides in aligning its sustainability efforts with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). By focusing on the core areas of Governance, Strategy, Risk Management, and Metrics & Targets, Xiaomi has demonstrated its commitment to transparent and effective climate action. Below is an overview of the progress Xiaomi has made on implementing the TCFD recommendations, structured around four key developments so far:

8.1.1 SETTING OF 2040 CARBON NEUTRAL GOAL

Xiaomi's establishment of a 2040 carbon neutral goal marks a significant milestone in its commitment to sustainability and environmental stewardship. This visionary objective is a clear declaration of Xiaomi's dedication to reducing its environmental footprint and spearheading corporate sustainability efforts on a global scale. The specifics of this goal include achieving carbon neutrality across all of Xiaomi's operations by leveraging 100% clean power and heat, a move that not only underscores the company's resolve to combat climate change but also sets a benchmark for the tech industry at large.

Commitment to Sustainability

Xiaomi's pledge to attain carbon neutrality by 2040 is a testament to its forward-thinking approach and dedication to making a positive impact on the planet. This commitment involves:

100% Clean Power and Heat:

Transitioning to entirely clean power and heat sources in Xiaomi's operations is a bold step towards minimizing the company's carbon footprint. This shift not only involves direct operations but also extends to the broader supply chain and product lifecycle, encompassing manufacturing, logistics, and end-of-life management.

Leadership in Corporate Sustainability:

By setting such an ambitious target, Xiaomi positions itself as a leader in corporate sustainability, aiming to inspire other companies within the tech sector and beyond to adopt similar environmental goals.

Strategic Planning

The integration of the carbon neutral goal into Xiaomi's long-term strategic planning signifies a holistic approach to sustainability that permeates every level of the company:

Comprehensive Integration:

Environmental considerations are now a fundamental component of Xiaomi's strategic planning processes. This ensures that sustainability is not an afterthought but a core consideration that influences decision-making across all business units and functions.

Operational and Decision-Making Processes:

From product development to supply chain management, Xiaomi's commitment to carbon neutrality influences its operations and strategic decisions. This includes investing in renewable energy, optimizing energy efficiency in products and processes, and working with suppliers who share Xiaomi's sustainability ethos.

In setting up its 2040 carbon neutral goal, Xiaomi not only commits to a sustainable future but also embeds this vision into the very fabric of its strategic planning and operational processes. This approach exemplifies Xiaomi's role as a responsible global corporate citizen, dedicated to making a significant and positive environmental impact.

8.1.2 PUBLICATION OF XIAOMI CORPORATION WHITE PAPER ON CLIMATE ACTION

The publication of the Xiaomi Corporation White Paper on Climate Action represents a pivotal moment in Xiaomi's sustainability journey, particularly as it was unveiled during the influential COP28 in December 2023. This strategic disclosure serves as a testament to Xiaomi's dedication to fostering transparency and engaging in open dialogue about its environmental initiatives and aspirations.

Communication and Transparency

Timely Release

The timing of the White Paper's release during COP28, a global climate summit, underscores Xiaomi's commitment to contributing to the global dialogue on climate change and sustainability. It aligns Xiaomi's efforts with international climate action goals and frameworks, showcasing the company's role as an active participant in the global sustainability agenda.

Engagement with Stakeholders

By publicly sharing the White Paper, Xiaomi aims to inform and engage a broad spectrum of stakeholders, including customers, investors, regulatory bodies, and the global community. This act of transparency is designed to build trust and foster partnerships that can amplify the impact of sustainability efforts.

Comprehensive Overview

Holistic Approach to Climate Action

The White Paper offers an exhaustive account of Xiaomi's multi-faceted approach to tackling climate change. It articulates the company's overarching sustainability commitments, the strategic frameworks it has adopted, and the tangible actions undertaken to minimize its environmental footprint.

Mitigation and Opportunity

Xiaomi's White Paper goes beyond just addressing the risks associated with climate change; it also highlights the opportunities that a sustainability-focused strategy presents. From innovating in green technologies to enhancing operational efficiencies and engaging with the supply chain on sustainability practices, the document outlines how Xiaomi is turning challenges into drivers of business innovation and growth.

8.1.3 ASSESSMENT OF CLIMATE CHANGE RISKS

Xiaomi's approach to managing the implications of climate change on its business is both thorough and proactive, as evidenced by its comprehensive climate change risk assessment. This assessment is a critical component of Xiaomi's broader sustainability strategy, designed to navigate the complexities and uncertainties presented by global climate dynamics.

Risk Identification and Assessment

Xiaomi has undertaken a detailed evaluation of the risks and opportunities associated with climate change, ensuring a well-rounded understanding of how these factors could impact its operations and strategic direction.

- **Physical Risks:** The assessment meticulously considers the potential impacts of extreme weather events and long-term climate changes. These include risks to Xiaomi's manufacturing facilities, disruption to supply chains, and the broader implications for market demand and consumer behavior. By identifying these physical risks, Xiaomi can develop strategies to enhance resilience and adaptability across its operations.
- **Transition Risks:** Xiaomi also acknowledges the risks associated with the global shift towards a low-carbon economy. New regulations and policies aimed at reducing carbon emissions could impose additional operational costs or require significant changes in business practices. The rapid development and adoption of green technologies may necessitate substantial investment in new technologies and processes. Changes in consumer preferences and market demand towards more sustainable products could impact Xiaomi's product portfolio. Xiaomi recognizes the importance of maintaining a positive public image in relation to its environmental efforts, understanding that failure to meet sustainability expectations could affect its brand and stakeholder relationships.

More details about the climate change risks reviewed by Xiaomi are demonstrated in ***Chapter 5 Strategy***.

Informed Decision-Making

The insights derived from Xiaomi's climate change risk assessment are instrumental in shaping the company's strategic planning and risk management frameworks. This comprehensive understanding allows Xiaomi to:

Proactive Risk Mitigation: Implement strategies designed to mitigate identified risks, such as investing in more resilient infrastructure, diversifying supply chains, or adopting more sustainable materials and processes.

Leveraging Opportunities: Identify and seize opportunities presented by the transition to a low-carbon economy, such as the development of energy-efficient products or the expansion into new markets driven by sustainability trends.

8.1.4 DISCLOSURE OF NEAR-TERM, MID-TERM AND LONG-TERM TARGETS

Xiaomi's commitment to transparency and accountability in its sustainability journey is exemplified by its clear disclosure of near-term, mid-term, and long-term metrics and targets. This structured approach not only reflects the company's dedication to environmental stewardship but also provides a framework for tracking and communicating its progress.

Structured Approach to Sustainability

Comprehensive Framework: Xiaomi's establishment of distinct time-bound targets across different phases of its sustainability journey allows for a focused and phased approach to achieving its environmental objectives. This structured methodology ensures that efforts are not only aligned with long-term goals but are also adaptable to evolving technological and market landscapes.

Transparency and Accountability: By publicly setting and disclosing specific metrics and targets, Xiaomi holds itself accountable to stakeholders, including customers, investors, and regulatory bodies. This transparency is crucial for building trust and fostering collaboration towards shared environmental goals.

Metrics and Targets

Xiaomi's sustainability targets are categorized into near-term, mid-term, and long-term objectives, each with specific focus areas and goals:

Near-term Targets (by 2030):

Xiaomi aims to significantly reduce greenhouse gas emissions within this decade, setting concrete reduction percentages to guide its efforts. Enhancing energy efficiency in manufacturing processes and across operations is a key priority, with specified improvement targets. The company is focused on improving the sustainability of its logistics operations, aiming for measurable improvements in efficiency and reduced environmental impact.

Mid-term Targets (by 2040):

Achieving 100% clean heat in operations marks a significant mid-term goal, emphasizing the transition to renewable energy sources and cleaner technologies. Xiaomi's ambition extends to becoming carbon neutral in its existing businesses, a milestone that would mark a significant achievement in its sustainability journey.

Long-term Targets (by 2050):

The ultimate goal of achieving net-zero emissions across the entire value chain of existing businesses by 2050 underscores Xiaomi's long-term commitment to environmental sustainability and its role in combating global climate change.

Xiaomi's disclosure of these metrics and targets is a testament to its proactive and forward-looking approach to sustainability. By setting clear, measurable objectives, Xiaomi not only charts a path towards a more sustainable future but also encourages transparency and accountability in the broader corporate landscape. This strategic disclosure serves as both a roadmap for internal efforts and a benchmark for industry-wide environmental practices.

8.2 CHALLENGES AND OPPORTUNITIES IN ALIGNING WITH TCFD GUIDANCE

As Xiaomi embarks on its journey to align with the TCFD guidance, it navigates a landscape filled with both challenges and opportunities. These efforts reflect Xiaomi's commitment to a sustainable future and its role as an industry leader in addressing climate change.

8.2.1 IMPROVEMENT OF ENERGY EFFICIENCY AND ELECTRIC VEHICLES (EVS) PRODUCTION

Xiaomi's journey towards enhancing energy efficiency and venturing into the production of electric vehicles (EVs) epitomizes its forward-thinking and aspirational approach to sustainability and technological innovation.

Aspirational Approach to Energy Efficiency

Xiaomi is deeply committed to elevating energy efficiency across its entire operational spectrum. Recognizing the dynamic nature of technological advancements and the uncertainties in forecasting future energy needs, Xiaomi embraces these challenges as vital catalysts for continuous improvement and innovation. The company's dedication to refining its processes is not just about achieving incremental gains in energy efficiency but is aimed at realizing substantial reductions in overall energy consumption. This endeavor is seen not merely as a responsibility but as an opportunity to drive growth, enhance operational sustainability, and set new industry standards for energy efficiency.

Commitment to Continuous Improvement:

- Xiaomi's pledge to enhance energy efficiency is an ongoing commitment, reflecting a holistic approach that spans from product design and manufacturing to logistics and end-user engagement.

Innovation as a Catalyst:

- The pursuit of higher energy efficiency is intertwined with Xiaomi's broader innovation strategy, pushing the boundaries of what is technologically possible to reduce energy consumption while maintaining high-performance standards.

Scaling EV Production

The foray into electric vehicle production represents a strategic expansion for Xiaomi, aligning with global trends towards sustainable transportation. While the nascent stage of Xiaomi's EV production presents challenges, notably the lack of extensive historical emissions data, Xiaomi is undeterred. The company recognizes the immense potential of the EV market and is committed to overcoming these initial hurdles. Xiaomi envisions its entry into the EV space not just as a business expansion but as a critical component of its sustainability strategy, aiming to incorporate EV-related emissions into its overall greenhouse gas (GHG) reduction efforts.

Navigating Initial Challenges:

- The early stages of Xiaomi's EV production are marked by challenges in establishing a comprehensive emissions baseline. However, these challenges are met with a proactive and strategic response, aimed at gathering relevant data and insights to inform future sustainability efforts.

Strategic Integration into Sustainability Goals:

- As Xiaomi scales up its EV production, the integration of EV-related emissions into the company's broader GHG emissions reduction strategy is a key priority. This approach underscores Xiaomi's commitment to not only advancing in the EV market but also ensuring that this advancement contributes to its overall sustainability objectives.

8.2.2 CLEAN SUPPLY CHAIN

Xiaomi's vision for a clean supply chain is anchored in the concept of innovative logistics, aiming to significantly reduce the environmental impact of its global operations. This vision reflects a deep-seated commitment to sustainability, addressing the carbon footprint of logistics through strategic and forward-thinking initiatives.

Innovative Logistics

Xiaomi's strategy to enhance the sustainability of its supply chain logistics involves a multifaceted approach, focusing on the optimization of transportation modes and the exploration of future sustainable technologies:

Increasing Sea and Train Transportation:	In the near term, Xiaomi is dedicated to shifting a larger portion of its logistics operations towards sea and train transportation. This move is strategically aimed at reducing emissions, as these modes of transport are generally more carbon-efficient compared to air and road freight. By setting a milestone to increase the share of transportation by sea and train, Xiaomi is taking concrete steps towards minimizing the environmental impact of its supply chain logistics.
Future Focus on Air Transport Sustainability:	While immediate targets for air transport sustainability have not been set, Xiaomi is keenly aware of the potential for future innovations to make air freight more environmentally friendly. The company is closely monitoring advancements in sustainable aviation fuels and transportation technologies, anticipating that these developments will offer significant opportunities to further reduce the carbon footprint of its logistics operations.
Long-Term Vision:	Xiaomi views these initiatives not just as operational adjustments but as integral components of its long-term vision to revolutionize its supply chain. The commitment to exploring and adopting sustainable aviation fuels and cutting-edge transportation technologies underscores Xiaomi's proactive stance on environmental stewardship and its ambition to lead by example in the creation of a more sustainable future for global logistics.

8.2.3 LOW CARBON BEHAVIORS OF USERS

Xiaomi's endeavor to promote low-carbon behaviors among its users embodies a nuanced approach to sustainability, recognizing the significant role that consumer habits play in the broader environmental landscape. This initiative, however, is not without its challenges and opportunities.

Challenges in Engaging Consumers

Quantifying Emissions from User Behaviors: One of the primary challenges Xiaomi faces is the difficulty in accurately measuring the carbon emissions directly attributable to the usage patterns and behaviors of its consumers. The diversity in user habits, product usage contexts, and the geographic spread of its consumer base add layers of complexity to this task.

Directing Users Towards Cleaner Energy Practices: Beyond quantification, influencing user behaviors to adopt more sustainable practices presents its own set of challenges. Changing established habits requires not only awareness and education but also providing viable, attractive alternatives that align with sustainable living principles.

Opportunities in Consumer Engagement

Innovative Product Design: Xiaomi views these challenges as opportunities to innovate and reimagine its product design and service offerings. By integrating energy-efficient features and functionalities into its products, Xiaomi can directly influence the energy consumption patterns of its users, steering them towards lower carbon footprints.

Educational Initiatives: Engaging with users on the importance of low-carbon behaviors and the impact of their choices offers a pathway to cultivate a more environmentally conscious consumer base. Through targeted educational campaigns, Xiaomi can raise awareness about sustainable practices and the tangible difference individuals can make.

Community Building: Xiaomi has the opportunity to build a community of eco-conscious users, fostering a sense of collective responsibility and action towards sustainability. By leveraging social platforms, forums, and user groups, Xiaomi can encourage the sharing of best practices, tips, and experiences related to low-carbon living, thereby creating a supportive ecosystem that champions sustainability.

8.2.4 INCORPORATING CLIMATE-RELATED RISKS INTO FINANCIAL STATEMENTS

Incorporating climate-related risks into financial statements is a sophisticated endeavor that Xiaomi is actively navigating, in line with the recommendations and findings of this TCFD Report. This process presents both challenges and opportunities for Xiaomi as it seeks to enhance its financial reporting practices.

Navigating Financial Integration

Complex Challenges:

The integration of climate-related risks into financial statements involves navigating a complex landscape of estimating potential financial impacts due to various climate scenarios, regulatory changes, and shifts in market dynamics. Xiaomi recognizes the intricacies involved in accurately and transparently quantifying these risks, which range from direct operational impacts to more nuanced, long-term financial implications.

Methodological Development:

To address this challenge, Xiaomi is investing in the development of robust methodologies that can more accurately quantify climate-related risks. This involves leveraging advanced analytical tools, scenario analysis, and engaging with experts in climate science and financial analysis to ensure that the methodologies adopted are both scientifically sound and aligned with best practices in financial reporting.

Opportunity to Lead:

Xiaomi views this challenge not merely as a compliance exercise but as a strategic opportunity to lead by example in the realm of financial reporting transparency. By developing and implementing cutting-edge methodologies for integrating climate-related risks into its financial statements, Xiaomi aims to set new standards for transparency and accountability in corporate financial reporting.

Stakeholder Engagement:

Xiaomi believes that providing stakeholders with a clearer understanding of the financial implications of climate risks is essential for informed decision-making. This transparency is crucial for investors, customers, and other stakeholders who are increasingly considering sustainability and climate risks in their evaluations and decisions related to the company.

Xiaomi's approach to incorporating climate-related risks into its financial statements exemplifies its commitment to transparency, accountability, and leadership in addressing the financial implications of climate change. By developing innovative methodologies and leading by example, Xiaomi is not only enhancing its own financial reporting practices but also contributing to the broader discourse on the integration of climate risks into corporate financial statements, aligning with the global momentum towards more sustainable and resilient business practices.

8.3 FUTURE PLANS FOR CONTINUOUS IMPROVEMENT IN CLIMATE-RELATED DISCLOSURES

In Xiaomi's pursuit of aligning with the TCFD guidance, the company is crafting a roadmap for the evolution of its climate-related disclosures. This strategic vision prioritizes transparency, stakeholder engagement, and the integration of sustainability into its corporate ethos. The plans for enhancing disclosures are underpinned by Xiaomi's ongoing initiatives in energy efficiency, EV production, supply chain sustainability, and user engagement.

Enhanced Disclosure Framework

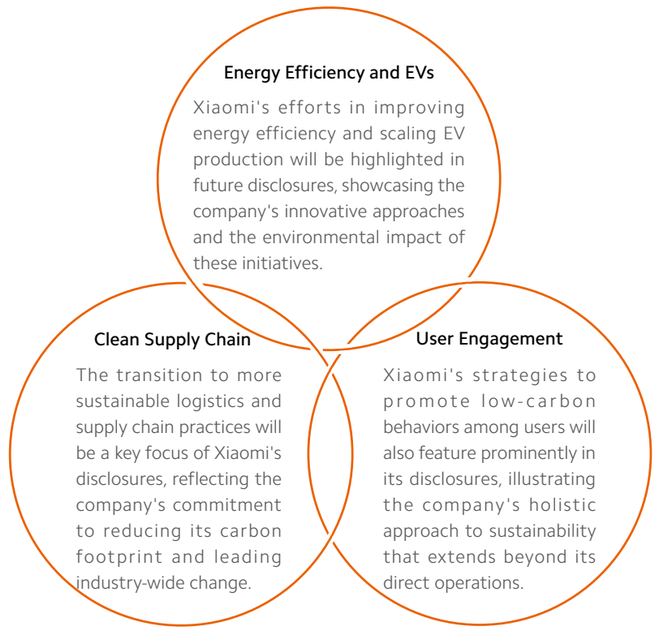
Xiaomi's future plans are centered around developing a more robust and comprehensive framework for climate-related disclosures:

Comprehensive Reporting: Xiaomi aims to broaden the scope of its climate disclosures, providing a more detailed and comprehensive view of its sustainability efforts, challenges, and progress. This includes a deeper dive into the company's strategic approach to energy efficiency, the expansion of its electric vehicle lineup, and initiatives for a cleaner supply chain.

Data-Driven Insights: The company plans to leverage advanced data analytics to offer more granular insights into its GHG emissions, energy usage, and the efficacy of its sustainability initiatives. This data-driven approach will enhance the accuracy and relevance of Xiaomi's disclosures, making them more informative for stakeholders.

Integration of Supporting Initiatives

The following key components of Xiaomi's operational visions serves as a foundation for Xiaomi's disclosure enhancement plans, offering context and demonstrating the company's commitment to sustainability:



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Future Disclosure Initiatives

Scenario Analysis and Risk Management:

Xiaomi plans to incorporate more detailed scenario analysis and risk management strategies into its disclosures, outlining how the company anticipates and prepares for various climate-related risks.

Stakeholder Engagement:

Recognizing the importance of stakeholder input, Xiaomi intends to enhance the dialogue around its sustainability efforts, incorporating feedback into its reporting practices to ensure they meet the needs and expectations of a diverse stakeholder base.

Xiaomi's future plans for continuous improvement in climate-related disclosures are designed to provide stakeholders with a clear, comprehensive, and actionable understanding of the company's sustainability journey. By integrating its ongoing initiatives into a more robust disclosure framework, Xiaomi aims to lead by example in corporate transparency and accountability, fostering trust and collaboration in the pursuit of a more sustainable future.