

Quicktake

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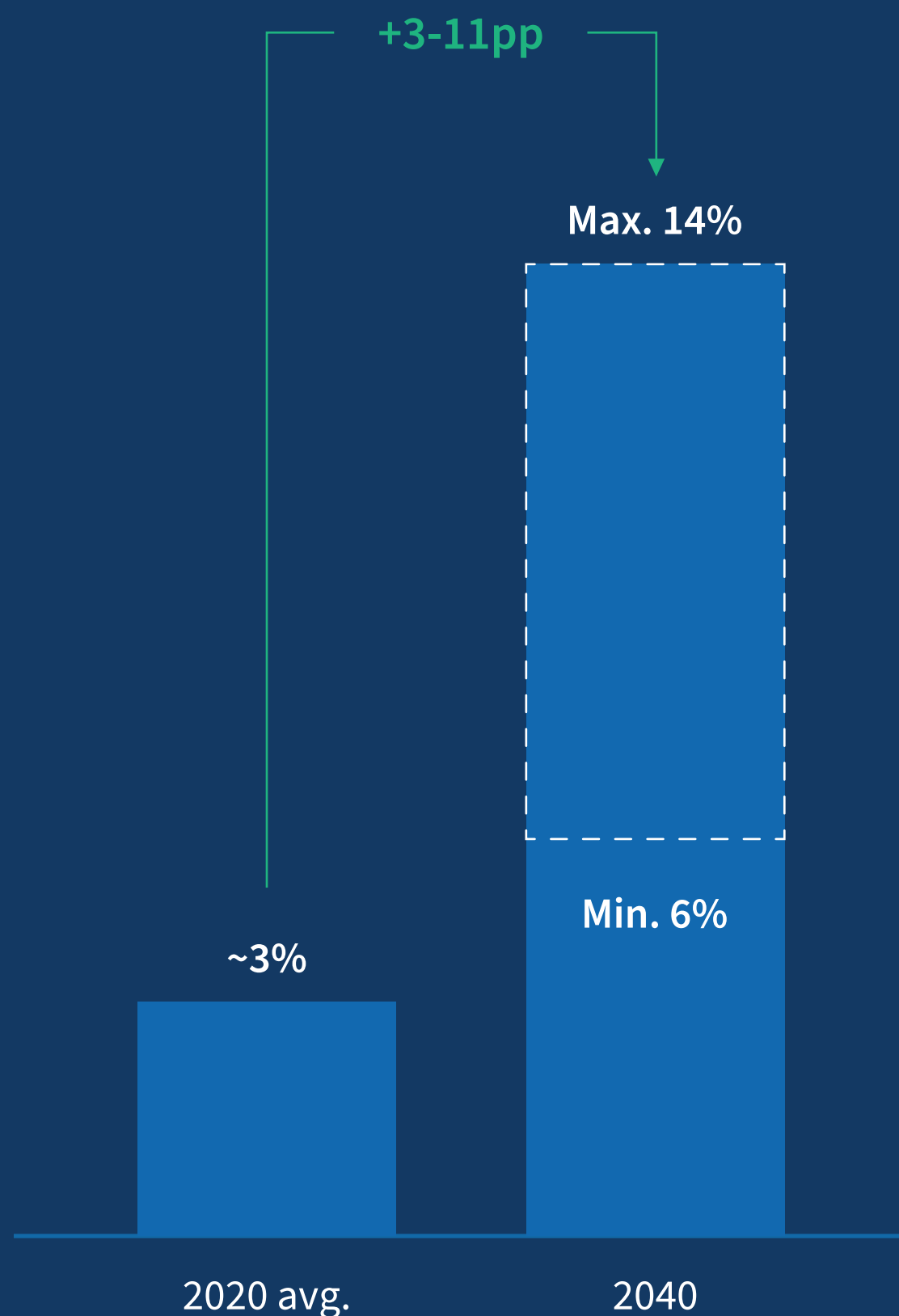


Sustainability in Tech

Key Lessons from Big Tech Companies

Tech sector share of global emissions is expected to surge up to 5x by 2040

Share of global GHG emissions attributed to tech sector¹ (%)



Key Insights



Share of emissions by ICT sector is expected to increase from ~3% to 6%-14% by 2040



Current commitments by tech sector may be **insufficient to compensate for the boom of ICT services**, driven by:



Rise of AI and machine learning operations



Growth of cloud computing and digital services



Acceleration of blockchain and crypto adoption



Increase in demand for high-performing hardware


Note: ¹ Includes technology and telecommunications industry. The technology sector in the context of our discussion includes all hardware and software use cases in the ICT sector, including computing devices, data centers and communication networks. GHG emissions cover Scope 1, 2 and 3 emissions
Sources: UNEP DTU, press research, FTI Delta

Tech companies are in a good position to capture the full benefits from ESG

Illustrative ESG value bridge



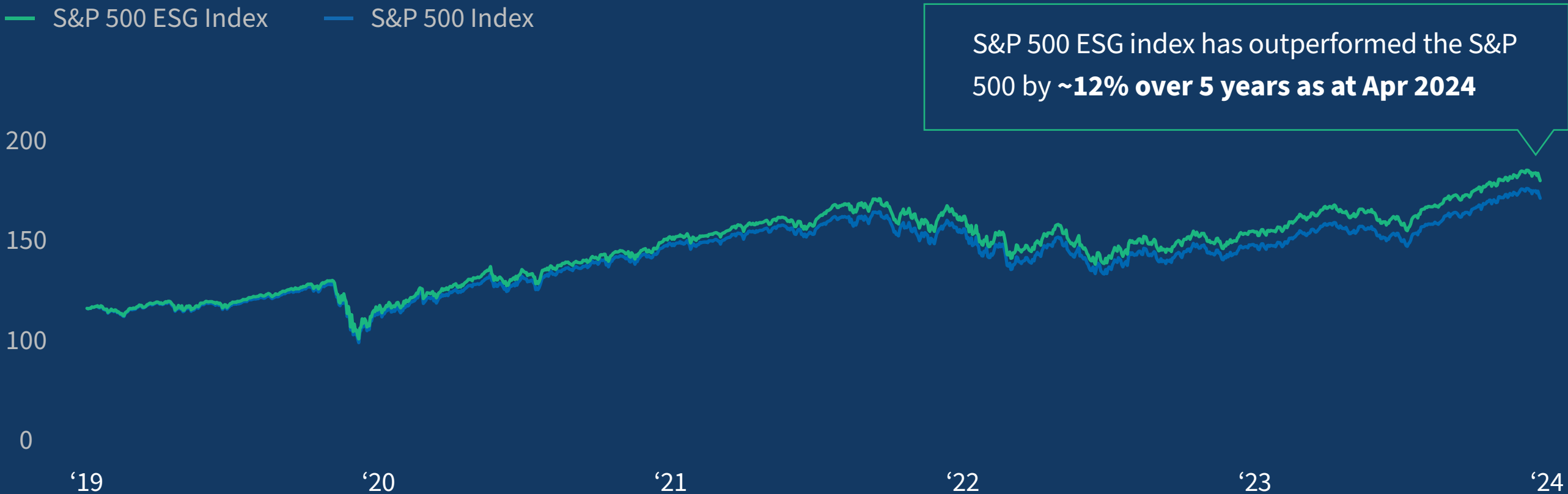
Key Insights

- 1** Enhance brand reputation and gain access to new markets and customers 
- 2** Reduce usage of resources such as energy and water for operations 
- 3** Maximize asset and resource utilization for CAPEX reduction and avoidance 
- 4** Access sustainable investments and financing with favorable interest rates 
- 5** Avoid scandals and penalties by ensuring full compliance with local regulations 
- 6** Attract and retain talent, and develop strong relationship with public entities 

ESG leaders are showing superior returns in capital markets

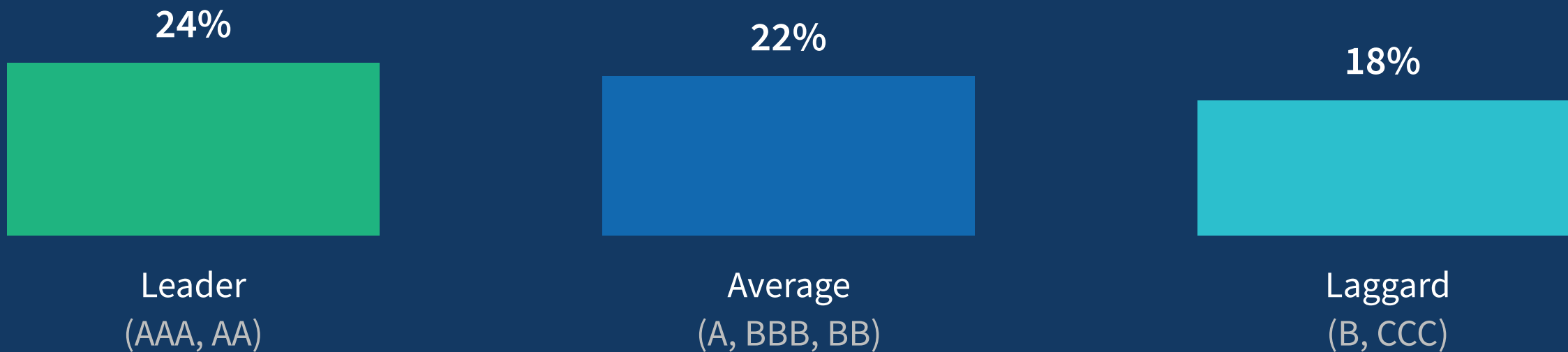
5-year performance of S&P 500 ESG Index vs. S&P 500 Index

(Rebased to 100)



Compound annual returns of tech companies based on MSCI ESG ratings

(2013-2021)








Tech stocks with higher MSCI ESG ratings **presented higher returns** from 2013 to 2021

Tech ESG leaders have set and progressed on clear environmental goals while investing in environmental R&D

1 KEY ENVIRONMENTAL BEST PRACTICES OF TECH ESG LEADERS

 Deep-dive following

A	 <p>GHG emissions management</p>	<p>Sets ambitious Net Zero goals and makes progress in reducing net emissions</p>	<p>Invests in technologies to reduce carbon emissions</p>
B	 <p>Energy usage and efficiency</p>	<p>Uses 100% renewable energy and invests in more renewable energy PPAs¹</p>	<div style="border: 2px solid green; padding: 10px;"> <p>Optimizes energy usage with AI</p> </div>
C	 <p>Water management</p>	<p>Sets clear water positive goals and makes progress in reducing water usage</p>	<p>Invests in innovative water solutions internally and with partners</p>
D	 <p>Waste management</p>	<p>Sets clear waste goals (e.g., Zero Waste)</p>	<p>Identifies main sources of waste to target waste reduction initiatives</p>
E	 <p>Ecological impact management</p>	<p>Minimizes ecological impact of internal processes that create negative impact</p>	<p>Contributes to broader society through ecological funding and innovation</p>

Note: ¹Power purchase agreements
Source: FTI Delta

AI is progressing to leverage energy consumption

BEST PRACTICE: OPTIMIZES ENERGY USAGE WITH AI

Context



AI has been leveraged to optimize energy usage...



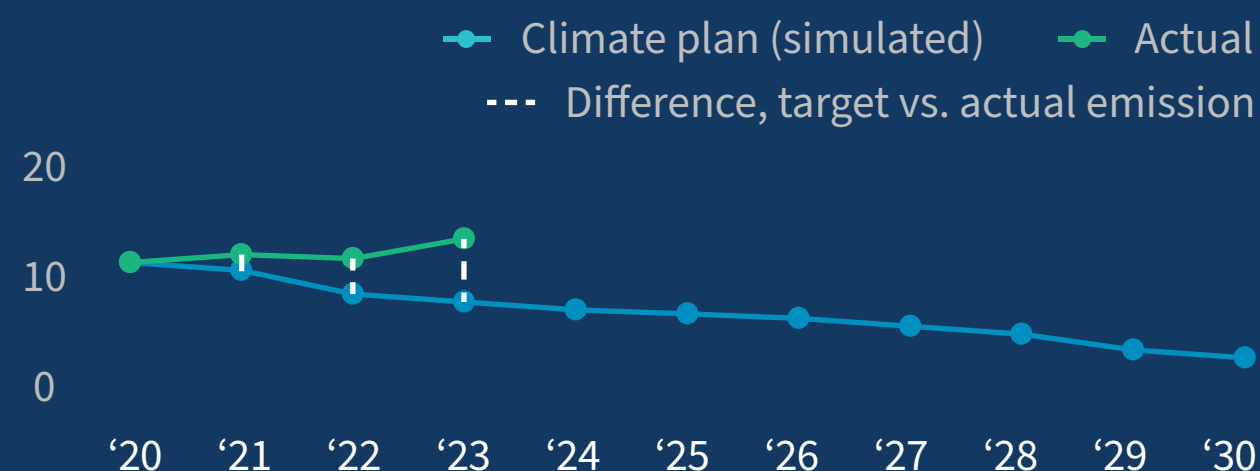
...but AI usage has also drastically increased emissions

Example: Google's DCs PUE with AI optimization



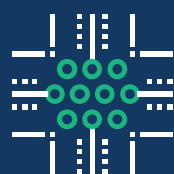
Google's DeepMind AI reduced energy used for cooling Google DCs by **40%**, with a **15% reduction in overall PUE overhead**

Example: Microsoft's emissions after AI surge



AI usage increases energy demands for computing power, resulting in the potential **moving back of Net Zero targets**

Best Practices



Enhance AI energy efficiency by using the latest AI chips and control mechanisms



Use AI to run workloads when renewable energy is plentiful



Use AI to monitor and predict energy usage across business operations

Tech ESG leaders treat social issues as a top priority, proactively improving interactions with society

2 KEY SOCIAL BEST PRACTICES OF TECH ESG LEADERS

 Deep-dive following

A	 <p>Diversity, equity and inclusion</p>	<p>Incorporates DEI as part of business-as-usual corporate strategies</p>	<p>Actively integrates racial and ethnic minorities into the workplace</p>	<p>Improves representation of women in the workplace</p>
B	 <p>Fair wages and benefits</p>	<p>Reports and adjusts employee pay to reach pay equity</p>	<p>Reports and adjusts employee pay to reach pay equity</p>	
C	 <p>Workplace health & safety</p>	<p>Invests in employee health & safety initiatives proactively and ensures workers are treated fairly</p>	<p>Addresses health & safety concerns raised by employees</p>	
D	 <p>Supply chain partnerships</p>	<p>Has solid codes of conduct enforced through audits/checks (e.g., Zero Waste)</p>	<p>Equips suppliers with technology and knowledge to abide by the codes of conduct</p>	
E	 <p>Community engagement</p>	<p>Communicates and collaborates with key stakeholders in wider society</p>	<p>Invests in initiatives catered to local communities to create long-term positive outcomes</p>	

Tech firms have significant impact on communities and will need further buy-in from key stakeholders as they expand

BEST PRACTICE: COMMUNICATE AND COLLABORATE WITH KEY STAKEHOLDERS

Context

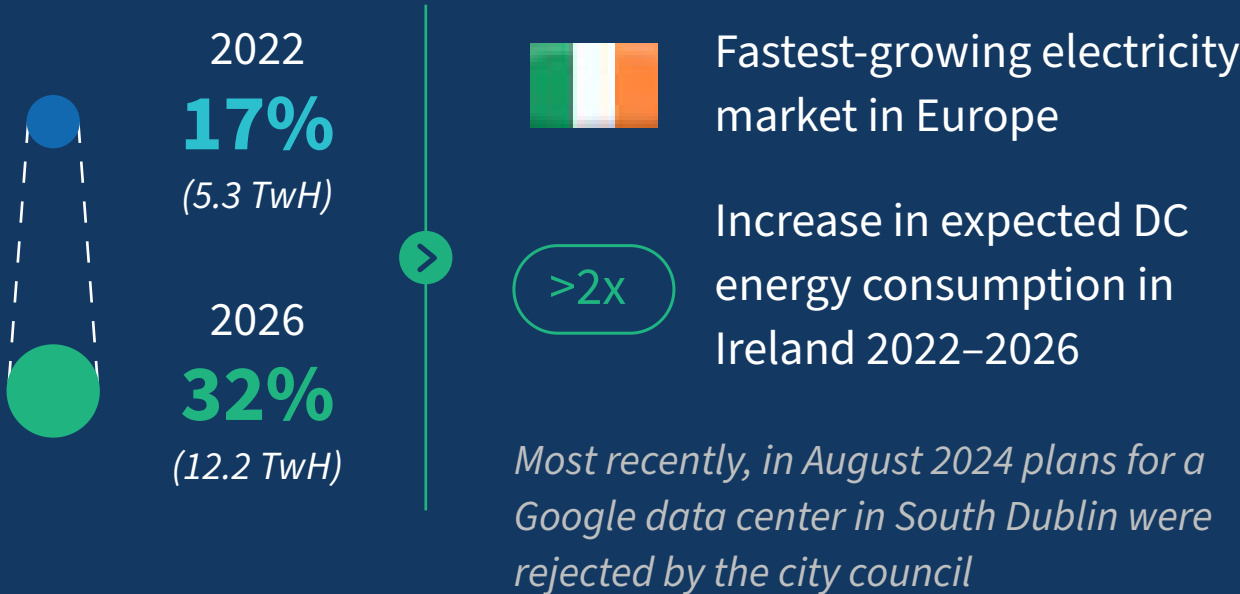


DCs account for a large portion of energy use...



...requiring more stakeholder alignment on several topics

Ireland electricity consumption usage by DCs (%)



Gov't agencies

Stricter regulations on new DC build

Energy providers

Low energy availability and potential moratoriums on new DC build

Tech companies

Potential actions to mitigate concerns about high power consumption

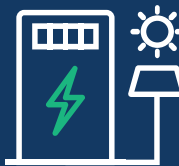
Local residents

Weighing health and environmental concerns vs. potential job creation

Best Practices



Understand key concerns of local communities and devise infra build-out plan to minimize resistance from locals







Form partnerships with energy providers to develop new renewable energy capacity for digital infrastructure operations

Sources: The Irish Times, IEA Electricity 2024, FTI Delta analysis

Tech ESG leaders ensure high regulatory compliance and transparency while protecting their shareholders' interests

3 KEY GOVERNANCE BEST PRACTICES OF TECH ESG LEADERS

 Deep-dive following

A	 <p>Leadership and board structure</p>	Ensures high board independence and diversity	Complies with latest regulations on board independence and diversity
B	 <p>Risk management and compliance</p>	Reports compliance with key regulations in a transparent manner	Publishes voluntary disclosures to improve user confidence
C	 <p>Transparency and disclosure</p>	<div style="border: 2px solid green; padding: 5px;"> <p>Reports transparently and comprehensively on ESG performance, based on latest ESG standards</p> </div>	Engages third-party assurance services for ESG reporting
D	 <p>Business ethics / practices</p>	Commits to comply to ethics in pertinent areas of focus (e.g., AI)	<p>Avoids engaging in anti-competitive behavior</p> <p>Devotes talent to focus solely on ethical practices</p>
E	 <p>Shareholder rights</p>	Avoids concentrating voting power within select groups/ individuals/mgmt	Offers fair and objective evaluations of proposals from minority/retail shareholders

The usage of AI can aid tech firms to streamline and increase the quality of sustainability reporting

BEST PRACTICE: TRANSPARENT AND COMPREHENSIVE ESG REPORTING

Context



AI can help identify key areas to work on...



... and automatically generate sustainability reports

Adoption level

Pain point

AI's role

Frontrunner

Unclear ROI / outcomes from sust.

- Anticipate sustainability risks
- Improve operational performance

Advanced

Lack of industry focus for sust. reporting

- Enhance industry-specific stakeholder management
- Automate reporting process

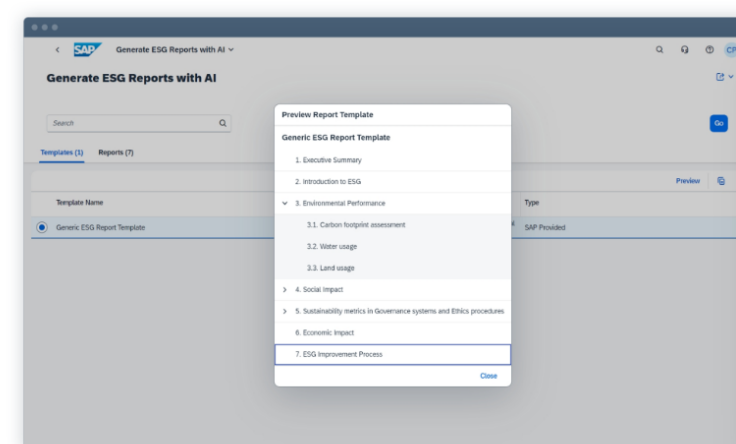
Starter

Unsure how to effectively integrate sust. reporting

- Understanding of regulatory requirements
- Help with procurement

ESG Report Generation with AI

Automate AI-enabled ESG reports, reduce efforts on periodic reports and embed sustainability strategy into programme execution.



Customise ESG report templates

Build on SAP-delivered report templates that follow common ESG reporting standards or customise your own.

Leverage ESG data

Generate automated draft reports for periodic internal or external reporting based on ESG data available in SAP Sustainability Control Tower.

Reduce manual efforts

Significantly reduce time and manual efforts of creating sustainability reports.

Best Practices



Investment in the development of AI tools to automate ESG reporting to comply with reporting requirements¹



Engagement of third-party assurance services on the ESG metrics reported in compliance with, e.g., CSRD²

Notes: ¹Including TCFD, SASB, GRI and CSRD; ²Corporate Sustainability Reporting Directive is an EU regulation that requires companies to report on the impact of corporate activities on the environment and society, and requires the audit (assurance) of reported information

Sources: Company websites, IDC, FTI Delta analysis

In conclusion, there are seven key strategy-to-execution themes among best-in-class ESG leaders



Strategy

Goes beyond environmental factors to **focus on social & governance**

Treats ESG topics not as special projects, but as **top priorities**

Has clearly **committed ESG goals**, with prioritization of progress towards attainment

Commits to ESG from the **top down**, with leadership setting an example



Execution

Ensures **proactive approach to ESG improvement**, while staying **abreast of latest regulations**

Ensures **transparency** in all ESG-related reporting

Provides confidence in ESG reporting through engaging **audit/assurance services**

Reach out to our tech experts to learn more about how FTI Delta can help

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