DXC Climate Risk Report

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Introduction to climate risk

The risk posed by climate change is increasingly recognized by institutional investors. Considering this, we at DXC Technology are developing our understanding of climate risk and how best to interpret and disclose it against the growing expectations. We recognize the Task Force for Climate-related Financial Disclosures (TCFD) as a vehicle to disclose consistent climate-related financial risk to investors, insurers and other stakeholders. Therefore, we are taking proactive steps to understand the climate-related impacts to DXC and how they can be disclosed in line with this framework and other reporting mechanisms.

Our business is being a global IT services company, providing consulting services, software and cloud computing services. Relating this to environmental impact and risk, we are aware of our impacts as a business and manage them accordingly through our corporate responsibility and sustainability strategy. Focusing further on our impacts, we operate a large network of properties across the world comprising both office sites and data centers. This means our largest carbon impact is electricity use through our data centers.

From a climate risk perspective, we are not a high-risk company for investors. In fact, with the acceleration of cloud computing technology, DXC can reduce emissions for its clients, and so brings opportunity for global emissions reductions. Our data center energy efficiency program helps to achieve emissions reductions by facilitating the move from inefficient in-house data management toward cloud computing.

DXC achieves energy reductions across its property portfolio through a combination of the following:

- Efficiency initiatives
- Upgrading its leased building stock to those with higher design standards
- A program of green energy procurement, which encourages the increased capacity of renewable energy to national and regional grids

Climate risk identification process

Identifying, assessing and managing climate risk

Climate change issues are identified from the UNFCCC reports and Sixth Assessment Report of the UN IPCC, which spotlight the current themes and locational issues that are arising.* These documents help to not only determine the various climate-related risks but also help to focus on the regions where this will affect DXC in the future. These are captured together as both the risks, in terms of managing them, and the opportunities, as these relate to services and regions in which DXC operates.

DXC Technology's global Enterprise Risk Management (ERM) Program sets the standards, work program and practices for holistic and standardized, company-wide ERM. The ERM Program provides a framework for identifying, assessing and managing risk within acceptable levels to promote achieving the organization's strategy and objectives. When the company speaks of risk time horizons, it determines short term as 0 – 1 years, medium term as 1 – 3 years and long term as 3 – 15 years. Climate risk to the company is recognized as both short term and long term.

Climate risk assessments are updated every 6 months. This guides amendments to the impacts and control methods used to prevent the risks or reduce severity of risk to DXC facilities, operations and business objectives.

Categorization of risk

Identified risks are calibrated against the DXC Enterprise Risk Assessment. These headline categories are: Strategic, Operational, Legal and Compliance, Financial and Reputational.

The risks are discussed between relevant business stakeholders, including the Chief Risk Officer, to determine the level of impact and materiality.

How enterprise risk is rated

Risks that meet the threshold of enterprise level are elevated and reported to the Board of Directors and managed accordingly.

Prior to this, the significance levels of risk are determined based on a 1 to 5 scale and differ in how the impact can be measured. For example, the highest critical level-5 operational risk would pose a financial impact of $100M either at the time of the event or over a 12-month period. Strategic risks would cause a market drop of 10% or create extended negative publicity deemed front-page material that causes severe reputational damage.

This compares to the mid-level risk that has a financial cost of $30M – $50M, or a market share drop of 1% – 5%, with short-term negative publicity and regional reputational impact.

With these examples of residual impacts in mind, climate-change risk is measured and weighed against the control methods that the company uses to mitigate or limit the impacts.

* United Nations Framework Convention on Climate Change
United Nations Intergovernmental Panel on Climate Change

Risk monitoring

Risks and opportunities are monitored in an ongoing process and adhere to a "three-lines-of-defense" approach.

Line 1: Monitoring activities are conducted by risk owners assessing the level of risks. If found significant, a risk can be escalated.

Line 2: The ERM program will challenge the risk owner and can accept the escalation and determine the pathway if deemed significant.

Line 3: Internal audits independently monitor risks.

Climate-related risks, risk management and opportunities identified

The DXC risk assessment has flagged a range of climate-related risks and opportunities for the business, which are summarized in the following table. These risks have been assessed against the DXC Enterprise Risk Assessment. Further information on these risks is provided on the following pages.

DXC risk category	Risk name	Climate change context	Type of risk	Impact
Legal and compliance	Emerging regulation	Introduction of new regulations such as a global price on carbon	Transition, emerging regulation	Increased costs to the business
	Non-compliance	Non-compliance with energy and carbon regulations	Transition, current regulation	Reduction in sales pipeline due to not being permitted to bid on large government contracts in non-compliant countries
Operational	Operational cost increases	Warming temperatures bringing increased operational cost of assets	Physical, chronic	Increased costs to the business from continued higher temperatures resulting in increased cooling in data centers and increased maintenance of equipment
	Service disruption	Service disruption from increased extreme weather events	Physical, acute	Extreme weather events that cause loss of power to data centers and service disruptions bring contractual fines

DXC risk category	Risk name	Climate change context	Type of risk	Impact
Strategic	Reduced talent acquisition	Reduced ability to attract talent based on climate reputation	Transition, reputation	Loss of recruitment of top talent aligned with cause-related businesses
	Increased investor action	Action taken by investors if DXC does not manage and report climate risk and action	Transition, reputation	Increased investor action will lead to reputational damage first. A lack of response could be loss of investment through responsible funds.
	Reduced customer preference	Customers preferring services that offer carbon-reduction relating services	Transition, market	Loss of market share based on customer preference for services that include climate change mitigation

Legal and compliance risk

1. The risk of increased taxation through new global carbon pricing

2. Non-compliance with current energy or carbon regulation

Since the Paris Accord was struck in 2015, a movement of pressure has been renewed. Citizen pressure on climate change action is increasing, galvanized by global activists. Corporations are showing action by aligning emissions targets with science-based targets. If widely adopted and achieved, these targets would transition the world to help prevent dangerous levels of climate change of over 1.5C of warming.

Institutional investors are showing their intent through voluntary agreements such as the TCFD. There are even increasing signals from governments. For example, the UK government has called a "National Climate Emergency." This increase in support brings a risk of new climate regulations that, if DXC is unprepared for, would create extra cost for the business. Major global regulation would likely come in the form of a global price on carbon. DXC estimates that a global cost of carbon could be as much as $40 per metric ton. The significant monetary impact per year would be over $30M, based on DXC's scope 1 and 2 verified footprint.

This risk of new regulation is seen as long-term but is coupled with the short-term risk of non-compliance with current regulation. While the fines associated with non-compliance are not significant to the global business, the greater risk comes in the form of access to government tenders. Non-compliance could mean that DXC is barred from government contracts in specific regions of non-compliance. This would have a far greater impact, by reducing the DXC sales pipeline.

Risk management

To manage these risks to the business, DXC combines its energy efficiency, environmental management system, annual reporting and compliance activities into a corporate responsibility program. DXC's risk management includes monitoring and reporting its carbon footprint, using this data to reduce energy from the areas of significant use — in line with its global targets — and comply with global regulations.

Non-compliance is a consistent short-term risk, but managing it effectively through our program significantly reduces the residual risk to the business. The risk of new taxation cannot be alleviated, but the impact is managed through DXC's energy reduction program. There are no current signals that a global price of carbon will manifest in the short term, but the risk is monitored and deemed long-term.

Opportunity

By managing energy compliance and preparing for new global taxes, DXC is bringing yearly operational efficiencies that are delivering cost savings. These can be passed on to the client and make the business more competitive. To give context to this opportunity: Our target of 15% reduction in absolute energy consumption between FY 2017 and FY 2020 has been achieved. Our new target is to achieve an absolute reduction in energy (MWh) of 12% from our data centers and global office portfolio over 3 years. These goals are detailed in our 2019 Corporate Responsibility and Sustainability Report.

Energy savings also mean savings are made through lower taxation within each country that operates regulations. While not wholly significant to the global business, they represent efficiency savings for the bottom line and bring reputational benefits, allowing DXC to bid on major government contracts.

Operational risk

1. Operational asset costs
2. Disruption to services

Several key environmental issues have a major impact through the way the business operates. Energy consumption is a key impact.

A changing climate at both the acute and the chronic level brings the risk of increased property asset operating costs through energy consumption, along with risk of disruption to DXC services through extreme weather events. For example, longer periods of warming weather in specific regions can negatively impact the energy efficiency of data centers and their power usage effectiveness (PUE) value. Higher temperatures require extra cooling to operate servers within the boundaries required, along with an increase in maintenance costs.

Likewise, increases in the severity of extreme weather can also bring disruption to DXC services. Extreme weather can include prolonged periods of drought followed by heavy storms and rainfall, causing heavy damage to building assets and/or power supplies, bringing disruption to services. Disruption of services to data centers and consultancy services brings contractual breaches and fines. Likewise, consulting staff can be impacted by travel or power shortages. This could have an impact on our relationship with clients across the world in the regions affected.

Risk management

DXC has ISO 50001 certification for several strategic global data centers. This helps us manage the efficiency of our data centers, which will mitigate spikes in energy consumption that could occur from extra cooling requirements at certain times of the year. DXC also runs a flexible approach to property management that incorporates environmentally friendly building portfolio standards.

The majority of DXC properties are leased buildings. This means we have the flexibility to shift to new premises that attain high, internationally recognized sustainability building standards such as BREEAM and LEED.* The company also operates an agile way of working for staff to reduce disruptions to consulting services. The cost impacts of extreme weather events are not significant at an enterprise level, as any disruptions will be localized to individual facilities and not across the global real estate of the business.

Opportunity

Managing the operational efficiency of the business' assets is a key part of our environmental plan. The opportunity that our energy efficiency management system brings us are the cost savings associated with energy spend, along with the reduction in various taxation costs directly linked with energy consumption throughout different countries and regions.

Improving the resilience of our business assets to acute climate risk, such as extreme weather events, also allows us to improve our reputation with our clients by offering a secure service that holds lower risk of disruption. The extra resilience, along with being able to make cost savings from the bottom line, provides DXC with further competitive advantage as a reliable supplier.

* BREEAM and LEED are two widely recognized sustainability assessment methods and rating standards for infrastructure and buildings.

Strategic risk

1. Talent acquisition
2. Investor relations
3. Customer preference

The market dynamics associated with climate change can impact a variety of stakeholders, such as institutional investors, clients and current or future staff. Awareness of climate change varies considerably within each group of stakeholders. Therefore, the risk associated with each stakeholder also varies considerably. However, the awareness is growing each year as global impacts from climate change occur, and major political and inter-governmental events lead to new progress (for example, the Paris Accord 2015, global climate marches and UN climate conferences).

Climate change affects our stakeholders in different ways:

Staff — Our company's positive corporate responsibility reputation is likely to affect some current staff and future talent's decision to join DXC.

Clients — With new regulations pushing energy efficiency and carbon measurements in corporations, over time our clients may seek added value in services we offer to help them monitor carbon emissions.

Investors — Institutional investors are increasingly recognizing in their portfolio decisions the risk of climate change. As such, they are supporting initiatives such as the TCFD to be able to understand how to measure and scenario plan for climate risk.

These stakeholders are all along a learning curve, with some more advanced than others. DXC's environmental sustainability ethos is simple: to robustly manage our material environmental impacts, leverage environmental management to enhance client delivery and stakeholder value, improve our profitability, maintain compliance and ensure integration with our supply chain.

Risk management

We seek to deliver exceptional value to clients by aligning with their sustainability goals. Using digital services through DXC will help our clients reduce their own impact. For example, shifting to DXC digital solutions and cloud computing offers a reduction in impact for clients, offering the opportunity of energy reductions. This in turn gives investors confidence that we are part of the solution of transitioning to a low-carbon future.

The risk associated with not acting is loss of market share, loss of investment in the long term and loss of a talent pool for the future. However, DXC can manage these risks through its Global Environmental Plan to ensure that we do not increase the risk in the future. DXC recognizes the change in the market dynamics across the different stakeholders and is adapting to it in our reporting approaches and corporate responsibility program so that we can deliver to market expectations.

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Opportunity

The strategic opportunities from an effective corporate responsibility management and reporting program are not measurable at this stage, but with global environmental campaign trends such as plastics reduction, climate emergencies and net zero campaigns, the scrutiny is greater than ever, and we can see potential opportunities. Market share penetration opportunities are opening within each group of stakeholders as climate change is managed effectively.

For example, reports from 2019 state that the "socially responsible investments market" has grown significantly to over $30 trillion. Access to these funds will be determined by ratings agencies and investor scrutiny, so the opportunity for DXC arises in the growth of these funds and DXC's ability to be a part of them. Clients are also shifting their preferences, and we predict this will continue to happen as government and global regulations increase. It is likely that customers will expect the measurement of environmental impact savings to be made standard. So DXC has an opportunity to adapt its services to meet these needs and grow its market share.

The opportunities are being monitored and explored to understand how the business can take advantage of them in the medium and long terms.

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