

# Tipico Climate Risk Management

## Background

In 2015, the Financial Stability Board established the Task Force on Climate-related Financial Disclosures (TCFD). It was developed to implement recommendations for voluntary but still efficient climate-related disclosures. The Task Force's recommendations are structured around four thematic areas of how organizations operate: governance, strategy, risk management, and metrics and targets. The TCFD recommendations provide a framework intended to help investors and stakeholders in the financial community to understand and assess climate-related risks and opportunities. These are relevant for informed investment, credit and insurance underwriting decisions. Tipico uses the TCFD recommendations to increase transparency regarding climate-related risks and opportunities with the help of a globally accepted and supported framework.

## Governance

The members of the Tipico Board oversee our overall strategy, including our management of climate-related topics. In fulfilling this responsibility, the Board observes our Group-wide approach to major risks facing the company, and in collaboration with the CR team and the internal audit and risk team identifies strategic opportunities.

To ensure that the Board has knowledge of all relevant information, the CR team, accountable for the management of climate-related topics and the implementation of according measures directly reports to the Chief Regulatory Officer (CRO). On top of monthly reporting to the Board and shareholders, regular meetings are held to discuss prospective challenges, opportunities and impacts, to present proposals, and to receive strategic guidance. Thus, the active commitment of the Board and all business units can be guaranteed. Through this framework, we can assure that all impacts are taken into consideration and coordinated centrally within the Tipico Group.

## Strategy and risk adaption

At Tipico, the relevance of Corporate Responsibility, the focus on this topic and our performance in this area have constantly increased over the last years. Around 92% of Tipico employees consider it important to work for a responsible company and 88% of our employees believe that Tipico is a responsible and trustworthy operator. These results show that CR is ranked as one of the most important attributes by our employees<sup>1</sup>.

This attitude mirrors our company values. At Tipico we are convinced that economic success goes along with responsible, trustworthy business practices. For that purpose, Tipico conducted its second formal materiality analysis in 2020 to prioritize fields that have the highest impact on its ESG performance, based on a consultation of internal and external stakeholders. The relevance and performance regarding environmental aspects such as climate change is therefore reviewed every second year as part of this analysis.

As an operator of sports bets, our climate-related impacts are comparably low and arise mainly from CO<sub>2</sub> emissions as result of energy consumption. Nevertheless, we are aware of the importance of the

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<sup>1</sup> Tipico (2020). Employee satisfaction survey

European green deal and the objective to be climate-neutral by 2050. Tipico therefore strives to become climate-neutral even prior to that date. As part of our climate strategy, our focus lies on collaborations to pioneer for practicable solutions and tracking and reduction of emissions resulting from energy consumption, the usage of data centers and the business travel of employees.

In order to discover potential climate-related business impacts, Tipico is working on a scenario analysis to evaluate its exposure to physical and transition risks in its operations and use this information to build mitigation strategies. In terms of physical risks, Tipico uses the different Representative Concentration Pathway (RCP) scenarios, to investigate several plausible future scenarios from RCP 2.6 which consider stringent actions and prompt declining of emissions to the 8.6 scenario with comparatively high greenhouse gas emissions, to understand several potential business impacts. Tipico further uses the International Energy Agency World Energy Outlook Sustainable Development Scenario (SDS) in order to explore transition risks and opportunities. The SDS is fully aligned with the Paris Agreement and limits the temperature rise to below 1.8 °C with a 66% probability.

Tipico identified three main areas of improvement regarding its climate-related business impacts:

- **Sourcing of renewable energy:** Tipico has several offices around the world as well as around 230 shops. The Tipico shop concept combines innovative technology with a sporty stadium design, and brings retail and online experience even closer together. It incorporates numerous highlights, such as the video cube attached to the ceiling paired with a strong integration of our campaign, which rounds off the Tipico brand experience. As a result, the electricity consumption of Tipico shops is relatively high. In order to keep the customer experience at the highest level while reducing environmental impacts, the sourcing of renewable energy in all Tipico shops was identified as major opportunity.
- **Reduction in business travel:** Communication is key. Therefore, business travel is relevant in order to foster cooperation across locations and get the best results possible. Nevertheless, wherever achievable, we rely on alternative systems in order to minimise consumption of time and CO<sub>2</sub>e. Thus, we offer our employees various channels for communication. Virtual online meetings are used very frequently. In 2019, we increased the number of virtual meetings by around 30%, resulting in a total of around 10,000 virtual meetings. In 2020, the number increased even up to more than 40,000 virtual meetings, while emissions from business travel decreased dramatically. For example, in terms of travel by plane we have been able to reduce the emissions by around 58% compared to 2019. As this extraordinary reduction was positively affected by the pandemic and the according travel restrictions, Tipico set itself the target to further decrease emissions from business travel compared to the pre-COVID-19 level.
- **Storing our data responsible:** As a result of the huge customer base and its extensive online offers, Tipico's data servers do have an impact. As there are dedicated servers for our digital services, the number of servers must be adjusted to the highest demand and load (e.g. around big sports events). During times of lower demand, unused servers become redundant, while still running. Tipico therefore decided to shut down own servers in order to reach a higher scalability. At the same time, Tipico chose an operator with a high share of renewable energy, thus emissions resulting from Tipico's use of data servers has already decreased dramatically and is expected to further decrease in the future.

Further, Tipico is participating in the UN Global Compact (UNGC) since 2018. In the course of this participation, we signed a statement in which we committed to comply with the ten principles of the UN Global Compact – one of the first participants within our sector to do so. The UN Global Compact is the world’s largest corporate sustainability initiative with more than 12,000 participating companies in 2020. It enables companies to align strategies and operations with the universal principles of human rights, labor, environment and anti-corruption, and takes action in these areas. Tipico is ambitious to support the science-based targets of the UNGC Business Ambition Pledge to help limit global temperature rise to 1.5 °C and achieve net-zero emissions by 2050.

## Climate-related Risks and Opportunities

### Transition Risks

	Risks	Possible impacts
Policy and legal	<ul style="list-style-type: none"> <li>– Increased pricing of GHG emissions</li> <li>– Enhanced emissions reporting obligations</li> </ul>	<p>Increased pricing in GHG emissions could affect Tipico’s operating costs.</p> <p>Similar impacts are possible if enhanced reporting obligations increase. These could affect the workload of the compliance team and thus be a cost factor as well.</p>
	<ul style="list-style-type: none"> <li>– Mandates on and regulation of existing products and services</li> </ul>	<p>Regulation of energy consumption of existing products and services could lead to asset impairment, and early retirement of existing assets. Nevertheless, due to state-of-the-art technology, and modern energy-efficient office spaces, impacts of such mandates are expected to be low.</p>
Technology	<ul style="list-style-type: none"> <li>– Costs to transition to lower emissions technology</li> </ul>	<p>As a service provider, costs for research and development expenditures in alternative technologies are negligible to Tipico, yet minor costs for adopting new processes might occur.</p>
Market	<ul style="list-style-type: none"> <li>– Uncertainty in market signals</li> <li>– Increased cost of raw materials</li> </ul>	<p>As an operator of around 230 Tipico shops across Germany and Austria, increased operating costs due to changing input prices (e.g., energy, water) and output requirements (e.g., waste treatment) are to be considered.</p>
Reputation	<ul style="list-style-type: none"> <li>– Increased stakeholder concern or negative stakeholder feedback</li> </ul>	<p>If climate related aspects would be disregarded, it could lead to reduction in capital availability due to the high expectations of banks and shareholders. Further negative impacts on workforce management and planning (e.g., employee attraction and retention) could occur.</p>

### Physical Risks

Acute	<ul style="list-style-type: none"> <li>– Increased severity of extreme weather events such as cyclones and floods</li> </ul>	<p>Severe weather conditions might lead to increased capital costs (e.g., damage to facilities) and increased insurance premiums and potential for reduced availability of insurance on assets in “high-risk” locations</p>
Chronic	<ul style="list-style-type: none"> <li>– Changes in precipitation patterns and extreme variability in weather patterns –</li> <li>– Rising mean temperatures –</li> <li>– Rising sea levels</li> </ul>	<p>Chronic changes such as rising temperatures might lead to higher costs from negative impacts on workforce (e.g., health, safety, absenteeism) in some of Tipico’s business locations.</p>

As a technology company, climate-related risks have not been proven to be material for Tipico's business operations. Nevertheless, they are an essential part of Tipico's CR strategy as they influence investment decisions of internal and external stakeholders and are likely to have steadily growing operational and financial impacts. Main possible transitional risks are seen in the potential increase of energy costs and costs for GHG emissions, due to the high number of well-equipped Tipico offices and shops and well as reputational risks if standards would be ignored.

With our headquarters on Malta, an isle in the Mediterranean sea, in accordance with IPCC's Fifth Assessment Report (WGII AR5) our operations might further be vulnerable to a sea level rise, tropical storms an increase of temperatures and altered rain patterns. More extreme weather conditions could make Malta a less attractive environment for our diverse workforce including employees of around 40 different nationalities. Extreme weather conditions could further lead to damages and temporary closure of the office as well as increased operating costs due to a higher level of energy usage (e.g. for air conditioning or heating). All findings from the risk assessment are taken into consideration and influence our climate strategy.

## Metrics and targets

Tipico is committed to reporting its emissions in its CR report on an annual base since 2018. Over the years, strategies have been implemented to expand the scope of entities included in the reporting of emissions. In 2020, we further adjusted our tracking systems to meet all the scopes as suggested by the GRI standards. That means, we did not stop at focusing on impacts directly generated by the company such as emissions caused by company vehicles (Scope 1) and emissions as a result of electricity consumption (Scope 2) but further included the data of external parties, which could be traced back to the business activities of Tipico. These included Scope 3 emissions due to business travel (including flights, taxis, and trains) and the usage of external data centers.

We intent to constantly increase the share of renewable energy in our energy mix. This target ensures that our direct operations align with an emissions trajectory of 1.5 °C and that net-zero emissions are achieved even before 2050. All metrics and targets can be reviewed in the CR report via the following link: