

BDR THERMEA GROUP

CORPORATE SOCIAL RESPONSIBILITY REPORT 2017

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About BDR Thermea Group

BDR Thermea Group is a world leading manufacturer and distributor of sustainable and smart climate and sanitary hot water solutions and services, operating in a market worth over € 16 billion of annual sales.

BDR Thermea Group is the name behind many of Europe's leading heating and hot water brands.

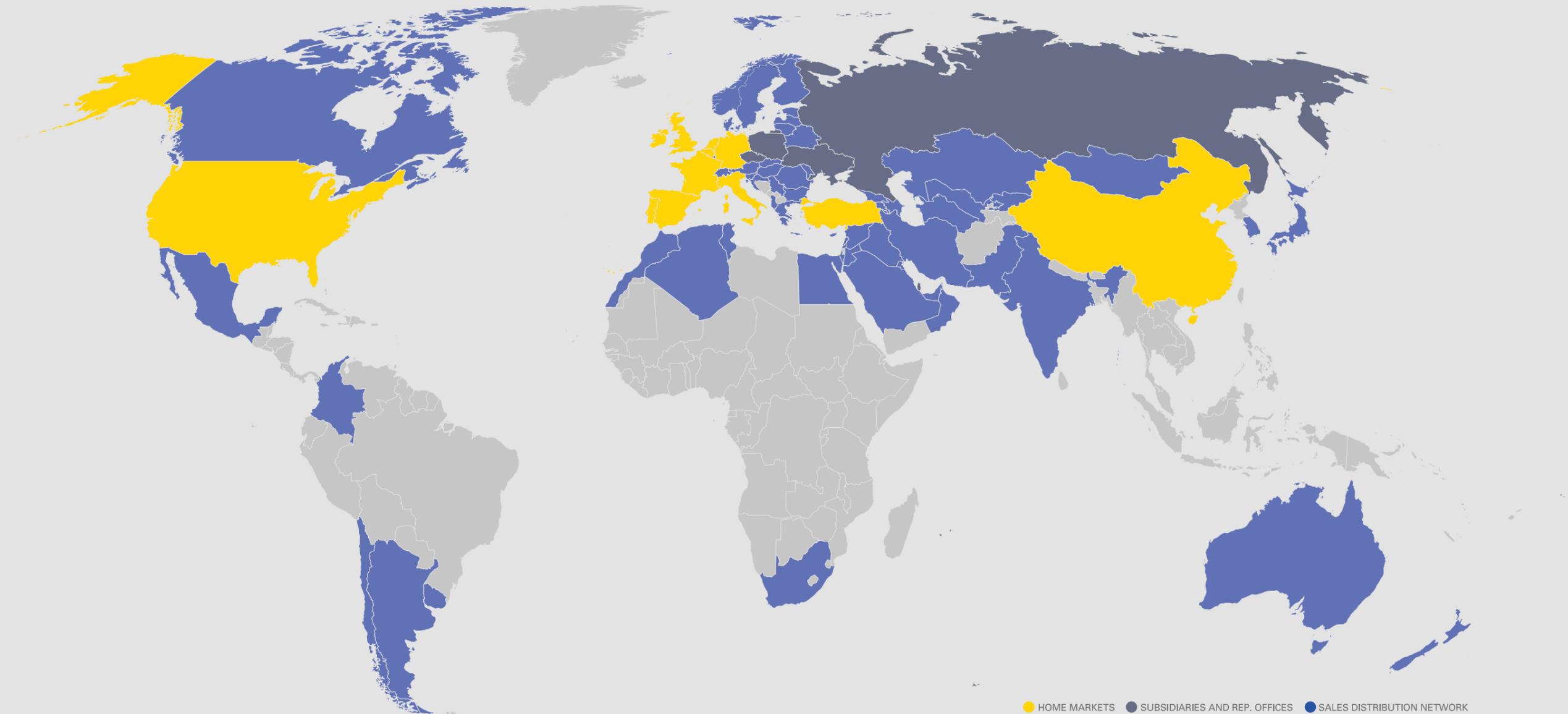
These include De Dietrich, Baxi, Remeha, Brötje, Chappée and Baymak. All of these brands have a long heritage and a unique position in the countries in which they operate.

We employ more than 6,200 people across Europe and have annual sales more than € 1.7 billion. The Group has a top market position in key European countries and strong positions in Turkey, Russia and China.

In December 2015, BDR Thermea Group acquired ECR International in the United States of America and thereby became a top three player in the USA boiler market. The Group operates in more than 70 countries worldwide.

BDR Thermea Group believes relationships with all stakeholders are vital. So we invest in our employees and we maintain open and sustainable relationships with external stakeholders.

We focus on customer needs regarding innovative climate and sanitary hot water solutions and services, offering integrated systems instead of just single products. High efficiency boilers continue to be our core product, and we have a comprehensive portfolio of low carbon heating technologies including biomass, solar thermal, heat pumps and micro-CHP. Our products are cleverly designed to ensure easy installation and maintenance, as well as lower energy bills and reduced carbon emissions.





Jan van Ooijen, COO | Hubert Schwein, CFO | Peter Snel, CTO

Message from the Management Board

We are operating in an environment of unrelenting change and opportunity.

In 2015, we set out our sustainability ambitions with the creation of our Better Together strategy with its four pillars – Products, Supply Chain, People, and Company. Over the last year, we have seen the strategy truly come to life in our ways of working, allowing us to drive real change across core areas of our business. In this report you can learn about some of the projects that have embodied our Better Together values and allowed us to make good progress towards our ambitious sustainability goals.

We're creating better **products**. Our Energy related Products Directive (ErP) calculation tool is helping customers in 28 countries choose more efficient heating systems and understand and comply with local legislation more easily. We design products and systems that will support the energy transition, with the primary aim of reducing carbon emissions. An example of this is the design of the carbon neutral home of the future.

Most countries produced roadmaps for their digital capabilities and plan to launch more digital products and services. Digital is becoming more global in all areas of the business. Baxi has developed a collection of smart clothing that connects to a home's heating system for the ultimate in home comfort.

Our Baxi range in Iberia and Italy now includes the Baxi Mediterráneo Slim solar thermal collector, the slimmest and lightest panel on the market and The Dutch Consumer Association (DCA) has judged Remeha's Tzerra Plus CW4 'best in test' and Solar Home the number one solar product on the market. These and other innovations

are ensuring that sustainability is built in to our offering, with the quality and reliability our customers expect.

We're improving our **supply chain**. Rolling out the Ecovadis system means we are helping suppliers improve their sustainability standards. A large proportion of our suppliers have adopted the system, and the number is growing, so we are able to monitor our rapidly improving supply chain as we make it a more transparent and collaborative.

These innovations require the skills and engagement of all our **people**. Supporting a diverse and skilled workforce is at the heart of our people strategy and essential to our collaborative culture, with different perspectives powering creative thinking and new ideas. The Baxi Heating UK training programme is a great example of how we are helping our leaders thrive in an increasingly complex and globalised working environment.

A key development for 2016 has been the introduction of performance indicators for sustainability for BDR Thermea Group as a whole **company**. Our brands and markets are now working on localised plans and continuing to engage staff on the ground will be key to implementation. In 2017 we will continue to reinforce our sustainability communications with staff and the outside world, with a new corporate website and reporting communications launched in all our markets.

In 2016 we made important steps towards achieving our sustainability ambitions. In 2017 we will go further. The work is demanding and we don't have all of the answers – but we are optimistic and excited about what the future holds.

CSR strategy: Better Together

Our easy to use, high efficiency boilers and cooling systems are part of a future where performance, efficiency and care for the environment go hand in hand. From manufacturing our products, through to installation, our seamless delivery mechanism ensures a problem-free process and real long-term value for the end customer.

Our CSR strategy - Better Together - has been developed to provide focus for our CSR work within the company and to strengthen our culture around sustainability. It allows us to connect CSR more closely with our core business – it contains four pillars, each of which are underpinned by two clear targets, to be achieved by 2020. The table below shows the multiple initiatives which are underway, or have been completed across the Group, in line with our strategic pillar goals:

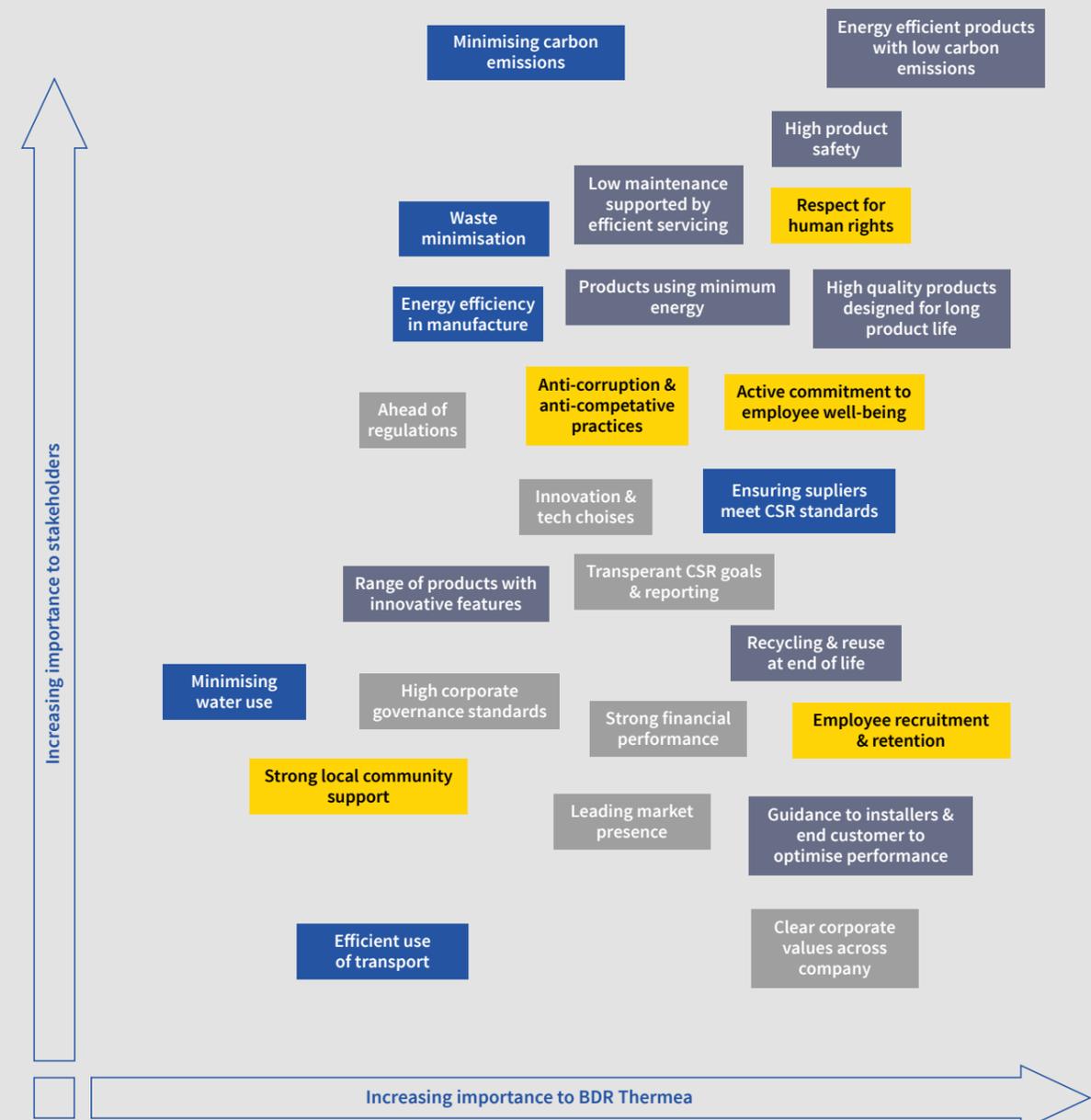
Pillar	Goal (2020)
Better Products	15% of sales come from new & innovative products
	97% of products need no intervention within the first 2 years of service
Better Supply Chain	75% of sites/business are certified to all 3 ISO standards (14001, 18001, 50001)
	100% of preferred suppliers and BDR Thermea Group businesses achieve specific minimum Ecovadis scores
Better People	Employee Satisfaction score at 75%
	100% of all staff go through Health & Safety, CSR training
Better Company	Sales efficiency revenue per employee up 2,5% per year
	100% of all CSR outcomes communicated internally and externally

Materiality matrix

A strong emphasis on product and people-related issues

We carried out our original materiality assessment in 2014. We reviewed the issues that our senior team and suppliers considered significant for the future of the business, and compared them with the priorities identified by sustainability organisations and our peers in the market place. Classifying the types of issues led to the four pillars of our Better Together strategy. We plan to update this materiality assessment in 2017 to ensure continued relevance and priority.

- Product related
- Manufacturing & supply chain operations related
- People related
- Business related



Better Products

Dutch consumer association rates Remeha best for boilers and solar thermal

The Dutch Consumer Association (DCA) has judged Remeha's Tzerra Plus CW4 'best in test' and Solar Home the number one solar product on the market.

The DCA found the Remeha Tzerra to be the best 'true all-rounder' of the 17 modern, high efficiency boilers they tested. The boiler performed well for energy efficiency, hot water temperature and electricity consumption. With its relatively low cost, the Tzerra Plus was also rated as the best value-for-money boiler on the market. Remeha's Tzerra M39c Plus CW5, Calenta 40c CW5 and Avanta 28c CW4 also finished in the top 10 (4th, 5th and 9th place respectively).

Remeha's Solar Home was up against strong competition from HR Solar, Nefit, Sonnenkraft, Valliant and Viessmann but achieved the highest marks on reliability and the best overall score.

Remeha Solar Home packages are suitable for many different types of properties. Its range of plug and play solar tanks and small, lightweight solar collectors make the products very easy to install. Its energy outputs are among of the highest in the country, so they qualify for the highest ISDE subsidies.

The DCA also asked more than 6,000 consumers to give their opinions on the boiler market, in terms of reliability and brand satisfaction. Remeha was given the highest rating for satisfaction with brand, the service life of its boilers and for associated reliability.



Group energy related products directive (ErP) calculator

We produced an ErP calculation tool, which we launched when the ErP directive was introduced in September 2015. It enables customers in 28 countries to comply with ErP legislation on energy labelling and help them choose more efficient heating systems.

To help installers and wholesalers generate the energy labels required for BDR Thermea Group's products and accessories, we set up a project team to create an online ErP calculation tool. The project team was made up of representatives from different countries, brands and R&D competence centres.

The process to gather and structure all of the Group's product and R&D data was complex but it provides a fantastic snapshot of energy efficiency across our product range. We are tracking how the tool is used to see where market and brand uptake is greatest. We will also be evaluating user feedback later this year to see where improvements can be made.

New lightweight solar panels

The new Baxi Mediterráneo Slim solar thermal collector: the slimmest and lightest panel on the market

Since solar thermal systems were first introduced, the size and weight of the panels has been a major problem for installers. Our challenge was to maximise the surface area of the panels, while making them lighter by reducing their thickness. That's not easy: a thinner panel means the absorbent laminate is closer to the glass cover, which reduces space for ventilation.

However, Baxi has managed to overcome these problems by developing a new solar collector that is over 45% thinner and 30% lighter than a traditional panel. The new panel, designed in Spain, can be installed by one person, a feat that was impossible with traditional solar collectors. It also offers a significant improvement in solar collection throughout the day, increasing efficiency.

It was also important that we could improve the product without increasing the cost of panels. The higher cost of better insulation and new parts is offset by reduced volume and therefore costs in other materials.

All in all, the Mediterráneo Slim provides a great example of an initiative that has combined our sustainability and commercial objectives seamlessly.

BDR THERMEA GROUP

Fashionable heating innovation

Baxi Spain has developed a collection of smart clothing that connects to a home's heating system for the ultimate in home comfort.

Working in collaboration with the University of La Salle, Baxi Spain's R&D team designed the world's first ever garment capable of measuring the body temperature of the wearer, and sending this information via a mobile app to controls regulating the temperature of the home.

The innovative garment has sensors in four areas to measure body temperature – in the sleeves and under the arms – plus one humidity sensor to collect data about the wearer's comfort levels. The data is then passed via the Cloud and an Android app to either the home's thermostat or air conditioning unit, to create the perfect climate.

The prototype clothes were designed by fashion designer Modesto Lomba, who included them in his collection at Cibeles Madrid Fashion Week. The clothes were worn by top model Martina Klein.

Better Supply Chain

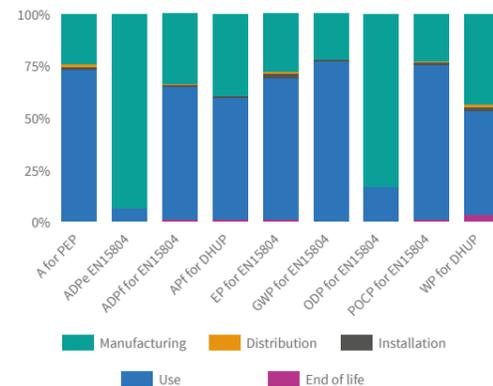
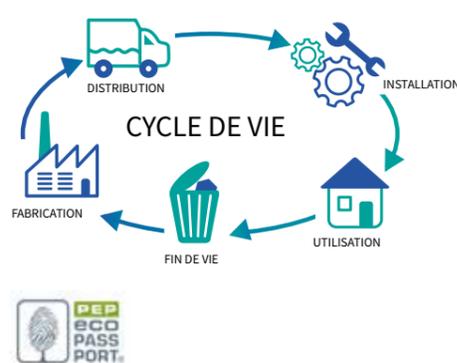
Managing the environmental impact of BDR Thermea France

The environmental impact of our products and systems through their entire life cycle has become a focus for BDR Thermea France. Our understanding of this ecosystem continues to grow as we consider the effects of criteria such as global warming, photochemical ozone creation, depletion of abiotic resources, and water and air pollution. We have grown our knowledge of life cycle effects as part of our work to meet and comply with international standards such as ISO14040 and EN 15804, and provide a foundation from which to further reduce their impact.

The first target for BDR Thermea France is to carry out life cycle assessments (LCA) for a group of products, and to

implement tools and processes to facilitate these and further LCAs. We have also set up pilot projects to identify the difficulties in collecting data across the product development and use phases to help us better understand this process for future projects. These initiatives will help better guide our efforts going forwards as we seek to minimise our total supply chain footprint.

At the time of writing, we have completed an LCA for a thermodynamic water heater and are actively participating in an environmental declaration programme (PEP EcoPassport) with the local heating trade union UNICLIMA for boilers, heat pumps, thermodynamic water heaters and radiators.



Baxi Italy Finished goods shipment process review

By reorganising its finished goods warehouse and shipment process, Baxi Italy has improved its efficiency and customer service. During the reorganisation of these processes in 2016, we set ourselves the challenge of improving our performance for customers, as well as improving our own efficiency.

Our project team included the logistics manager, area supervisors, logistics operators, process engineering, health and safety, IT, maintenance shop, LEAN coach and sales department. The team identified various changes they could make to better meet the needs of customers, including a new, more efficient layout, improved multi-order picking list and better processes for managing the loading bays.

As a result of the project, the operators involved in the shipment process can work much more efficiently. We have achieved 20% higher productivity in the consolidation area and around a 25%

reduction in load throughput time. Safety has been improved and the area is generally easier to keep clean and tidy.

We believe that Baxi Italy is now even better placed to meet the needs of the market, which are constantly changing, and is prepared for further changes in the future.



Rolling out sustainable procurement through ecovadis

To align with our Group CSR objective of “Better Supply Chain” we are using the Ecovadis system to perform CSR audits on our supply base.

Our suppliers are being engaged individually, and we are providing training to help our procurement teams convey the Better Together message to suppliers, so that they too understand how important it is to BDR Thermea Group to have a socially responsible supply base. We have arranged training by Ecovadis for the procurement teams to show us how to read suppliers’ scores and give them improvement targets using the Ecovadis tool. As part of this training process, Ecovadis has recently updated its tool to take the UK Modern Slavery Act into consideration.

Ecovadis is a sustainability rating system which aims to make it easier for companies to understand, track and improve the environmental, social and ethical performance of their suppliers. It is currently in use by around 20,000 companies worldwide. We have been ensuring that all of our preferred suppliers sign up to the Ecovadis platform with the aim of completion by March 2017.

GOLD RECOGNITION LEVEL



SILVER RECOGNITION LEVEL



Radiateurs Industrie Investment

Radiateurs Industrie has invested 3 million euros in radiator development in a drive to upgrade and replace trichloroethylene surface treatment to a more environmental friendly chemical process.

The new process improves the quality and the lifetime of radiators, provides better anti-corrosion coating and includes better aesthetic finishing of the product. It also

generates many other environmental benefits including removal of pollution risks and hazardous paint waste. Waste water is reprocessed by the on-site sewage plant.

Radiateurs Industrie is a part of BDR Thermea located in La Chartre-sur-le-Loir in France. The site developed and produce nearly 450 000 water radiators per year and holds 43% of market in France.



Better People

Baxi heating receives Investors in People award

Baxi Heating has been rewarded for its efforts in developing and supporting employees across UK and Ireland with a prestigious Investors in People accreditation.

As the only quality standard of its kind in the UK, the Investors in People scheme celebrates businesses that show dedication to the development of their workforce, through better business practices, training programmes and an approach that puts colleagues first.

Baxi Heating was presented with the Investors in People Standard accreditation following assessment against cri-

teria such as working culture, employee engagement and quality of leadership. A strong acceptance of and belief in Baxi Heating's values (Positive and Passionate, Safety, Reliable and Responsive, Trust and Respect, and Innovation) was evident across the workforce.

As part of its range of employee benefits and development programmes, Baxi Heating offers training opportunities throughout the business at every level, an innovation platform which allows all colleagues to share ideas and a Beyond the Call of Duty recognition scheme.



Left to right: Andrew Keating, David Pinder, Paul Hardy, Lee Robinson, Sarah Bailey

Baxi Heating management training programme recognition

The Baxi Heating UK and Ireland management training programme was shortlisted in the Management Education category of the UK Business Awards in November 2016.

The management training programme has run for three years, improving the senior management team skills, behaviours and values to ensure that teams are engaged, motivated and encouraged to carry out their roles to the best of their abilities.

Being selected as a finalist for the UK Business Awards has confirmed that the UK management training programme makes better use of people's skills and talents, supporting the Company's progress towards a more empowering culture, where people are at the heart of the business.



France Promoting diversity, generating enthusiasm

We believe promoting diversity brings great benefits for our company. Different people bring different opinions, ideas and solutions that make it possible to be more innovative. A commitment to diversity also helps us cultivate openness and progress. Our approach in France invites employees to encourage others to bring new experiences and skills to discussions. We believe it also helps us attract the best recruits.

As part of this commitment, we constantly challenge people's attitudes and managerial skills to ensure we are building a more effective, human and sustainable environment.

In 2016, we launched a humorous campaign to raise employee awareness of diversity issues, including a quiz and diversity guide which was distributed to all employees in France. The guide aimed to help employees understand how stereotypes and prejudices are formed in order to better combat them.

We will continue to promote diversity in 2017, implementing an action plan for people with disabilities, and developing a joint approach with Trade Unions on our sites to promote gender equality.

Better Company

Remeha designs the carbon neutral home of the future

Remeha has been developing and testing a concept that could make CO₂ neutral homes a reality.

The governments of Europe have agreed to targets that will see all buildings carbon neutral by 2050. To make the CO₂ neutral home a reality, Remeha has designed a concept which includes PV panels, a battery pack and an eVita micro-CHP boiler. In combination with the PV panels, the boiler can produce enough electricity for the household all year round, as well as providing central heating and hot water. The battery regulates any peaks or troughs in output.

With this configuration, the electricity meter will almost always remain at zero throughout the day, in summer as well as winter, reducing its environmental impact to an absolute minimum. Once natural gas is replaced with synthetic or green gas, this will represent a fully sustainable living concept in which CO₂ emissions are truly at zero.

To trial the concept, a number of homes have been installed with the panels, boiler and battery pack. Initial results show that minimal electricity needs to be taken from, or supplied back to the grid. Some homes will be connected through a charging station (e-mobility). Further results and analysis will be published soon.



BDR THERMEA Employee Engagement Survey 2016

We believe that listening to what our employees have to say is the best way to understand what matters most to them. Our Group Employee Satisfaction Survey asks the same questions in all the countries that are part of BDR Thermea Group. It is run every three years and in June of 2016 was completed for the second time for the whole Group (excluding USA).

ETS, an external HR consultancy company, carried out this survey on our behalf to manage all answers and information

confidentially. The information collected has allowed us to implement actions aimed at improving the satisfaction and engagement index of our employees, increasing their motivation and ensure that we are all aligned with the Group's mission and strategic plans.

The results of the survey will help us to make strategic decisions across all areas of the business over the coming year and to improve on our lowest scoring areas which are most important for our people.



Brötje factory makeover

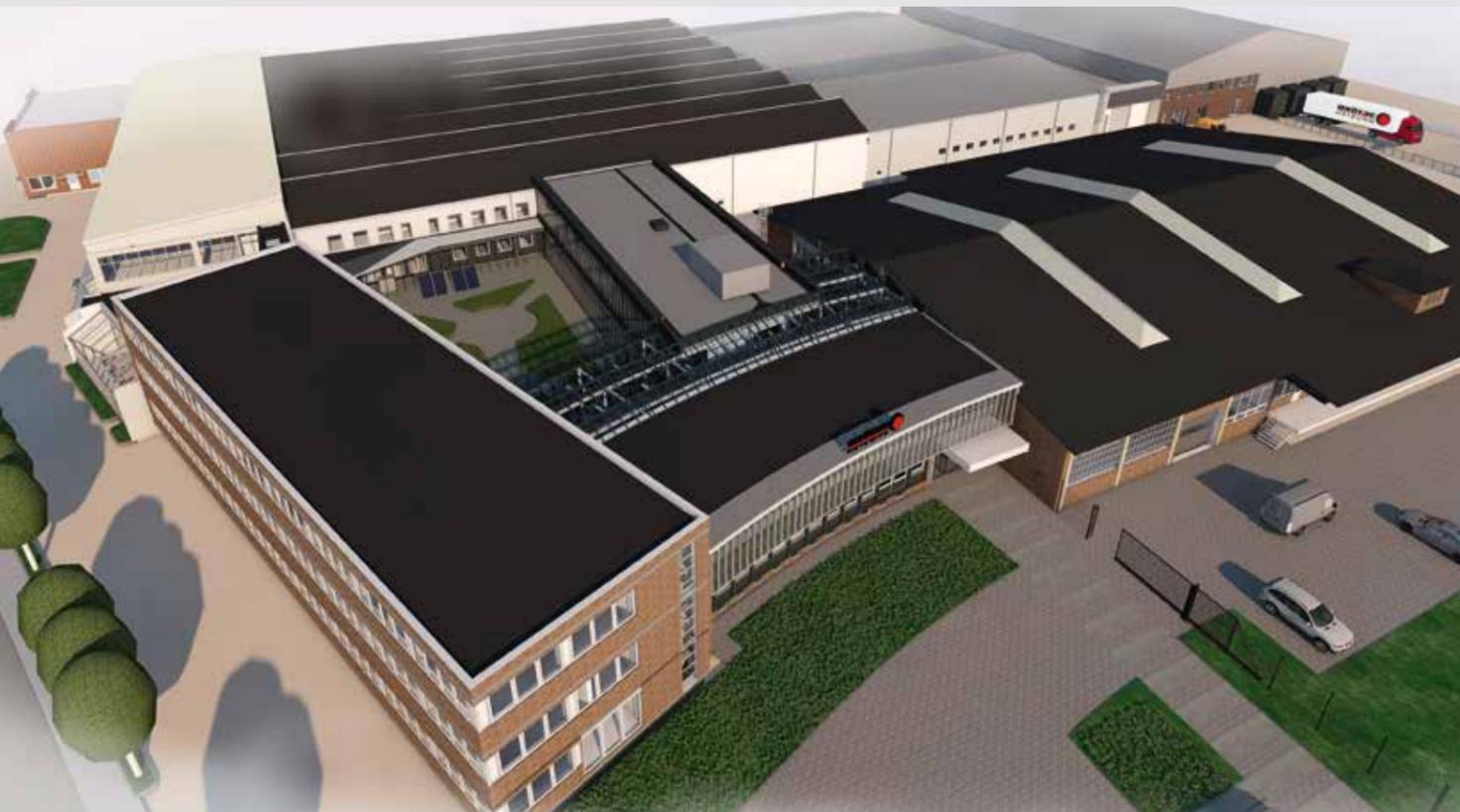
Brötje is currently carrying out a major refurbishment in Rastede

A new factory building is being built in the courtyard, and a new logistics area has just been completed. The new building has an innovative, future-oriented, lean factory layout to improve efficiency and quality.

The new site will also create a clear separation between production and logistics and introduce a one way

route between warehouse and production. This, in turn, will improve our flexibility to meet customer demand, improve the internal process flow, reduce inventories and increase the turnover rate.

Our ultimate factory will be completed in April 2017.



CSR ambition for the new factory

The ultimate factory is related to each of the “Better Together” pillars

Better Company

New building for the after sales service. Factory layout in operations and administration in line with an excellent Lean Process Flow.

Better People

New and modern working environment; Complete reorganisation of all departments; internal move of more than 100 employees to achieve lean process flow.

Better Supply Chain

New logistic centre; improve internal process flow, introduce tigger train, implement super-market, one way routing between warehouse and production, extend inventory system and ship to line.

Better Products

New production lines with focus on lean management.

Baymak lifts the barriers

Sefa Telli began his sporting career as a football player in 2003 at Kaynarca Sports Club and later played for Zeytinburnu, Istanbul and Halic Sports Clubs. He continued to be successful in a range of sports during his military service.

But in 2012 he suffered brain damage, probably as a result of intense collisions in the past, which hospitalised him for two months. It left him visually impaired by 90%. Despite his disability, Sefa Telli went on to win national and international medals in 100m and 200m, and his ambition now is to change attitudes to disabled sports in Turkey. Baymak picked up on the passion and commitment of Sefa Telli and became his main sponsor, reflecting a shared attitude to overcoming disability. Baymak sponsorship covers all his expenses enabling him to represent Turkey worldwide.

Sefa visits the Baymak head office once a week, and spends time with our employees. In 2017, he will take part in the Turkish Paralympics, and begin his preparation for the 2020 Paralympics in Tokyo.

NATIONAL ACHIEVEMENTS OF SEFA TELLI

- 2011** 100 m and 200 m Turkey Champion and record holder (Antalya)
- 2012** 100 m and 200 m Turkey Champion and record holder (İzmir)
- 2015** 100 m and 200 m Turkey Runner-Up (Denizli)
- 2016** 100 m Turkey Winner (Mersin)



BAXI gives back on its 150th anniversary with a charitable £150k boost to marie curie

As part of its 150th anniversary celebrations in 2016, Baxi in the UK beat its £150,000 fundraising target for its national charity partner Marie Curie.

Staff have sprinted, baked, gamed and climbed their way to hitting their goal for the charity, which will help to fund 7,500 hours of care and guidance for those living with terminal illnesses and their families.

Marie Curie has been Baxi's charity partner for three years, and colleagues have gone the extra mile to show support for the work it does and the much-needed help it provides. Fundraising events have included a sponsored walk across Hadrian's Wall, a night time cycle ride around London, a Mud Run, a 75-mile cycle ride around the Lake District, a 24-hour computer gaming session, a Baxi Great British Bake Off, and a Diwali Indian food sale.



BAXI Iberia supports the new Pere Tarrés Foundation social-educational centre in Barcelona

As part of our support for communities, Baxi Iberia has donated equipment to the new Pere Tarrés Foundation project in Barcelona. The project is a social-educational centre in Barcelona's Poblenou district that is used by 114 children and meets the needs of an area with a range of social and economic problems.

Renovations have made it possible to increase the number of children using the centre by 58% and it can now accept teenagers. Secondary education student waiting lists have been reduced and the centre is also supporting families, of which 20% are single-parent families and 33% have an annual income of under 5,000 euros.

The boilers donated by Baxi have helped to improve the renovation of this space that is used every day by children and families in vulnerable situations.



BAXI Iberia works with the Red Cross to fight energy poverty

BAXI Iberia has donated money to the Red Cross, to help its project to fight against energy poverty. This programme consists of providing financial support to families at risk of social exclusion and guaranteeing their access to basic utilities, including water, electricity and light and the conditioning of their homes. We estimate that 20 households will be helped by the contribution.

The economic crisis and the consequent job instability in Spain have led to thousands of families having problems with paying their electric bills. The elderly are those who suffer most from this situation as, according to Red Cross data, 54% of this group cannot keep their homes in habitable conditions.

Outlook for 2017 and beyond

Our Better Together framework will continue to drive innovative projects, enabling us to fulfil our ambitious goals.

Our top priority is to make energy efficient and innovative products at prices that our customers can afford. In 2016 we focused on end-user payback. In 2017 we will add to this work with a new focus on life cycle assessments (LCAs). We have identified the need for product LCAs as part of our response to information requests from customers, but they will also help us develop an evidence-based approach for innovation and new products. Add link to the old report

“ In 2017 we will add to end-user payback work, with a new focus on life cycle assessments ”

The facilities in which we manufacture our products, and reducing their associated impact on the environment, will also be core to our future plans. We will continue to roll out our supply chain implementation plan, increasing the number of sites which meet ISO14001 and ISO50001 criteria.

Our Better People focus will continue to be a priority. The Group will work to widen employee understanding of our sustainability objectives and how they align with and support commercial requirements. Communication materials, training and e-learning modules will support our work to improve staff skills and engagement, and our sustainability ambassadors will hold roadshows across the Group's local operations.

During 2017 we will be making our progress more visible both internally and to the wider world through an enhanced website. We will be looking to check with our stakeholders that we are on the right track and to learn from best practice from elsewhere to make BDR Thermea Group a better company, and one that is preferred by its customers.

“ Our Better People focus will continue to be a priority ”



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