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CSR
REPORT 2016



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Corporate Social Responsibility
Better Together

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Energy optimised, double skin building;
BDR Thermea Group Office in Apeldoorn.

About BDR Thermea

BDR Thermea 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 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 6,250 people 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 total the Group operates in 76 countries worldwide.

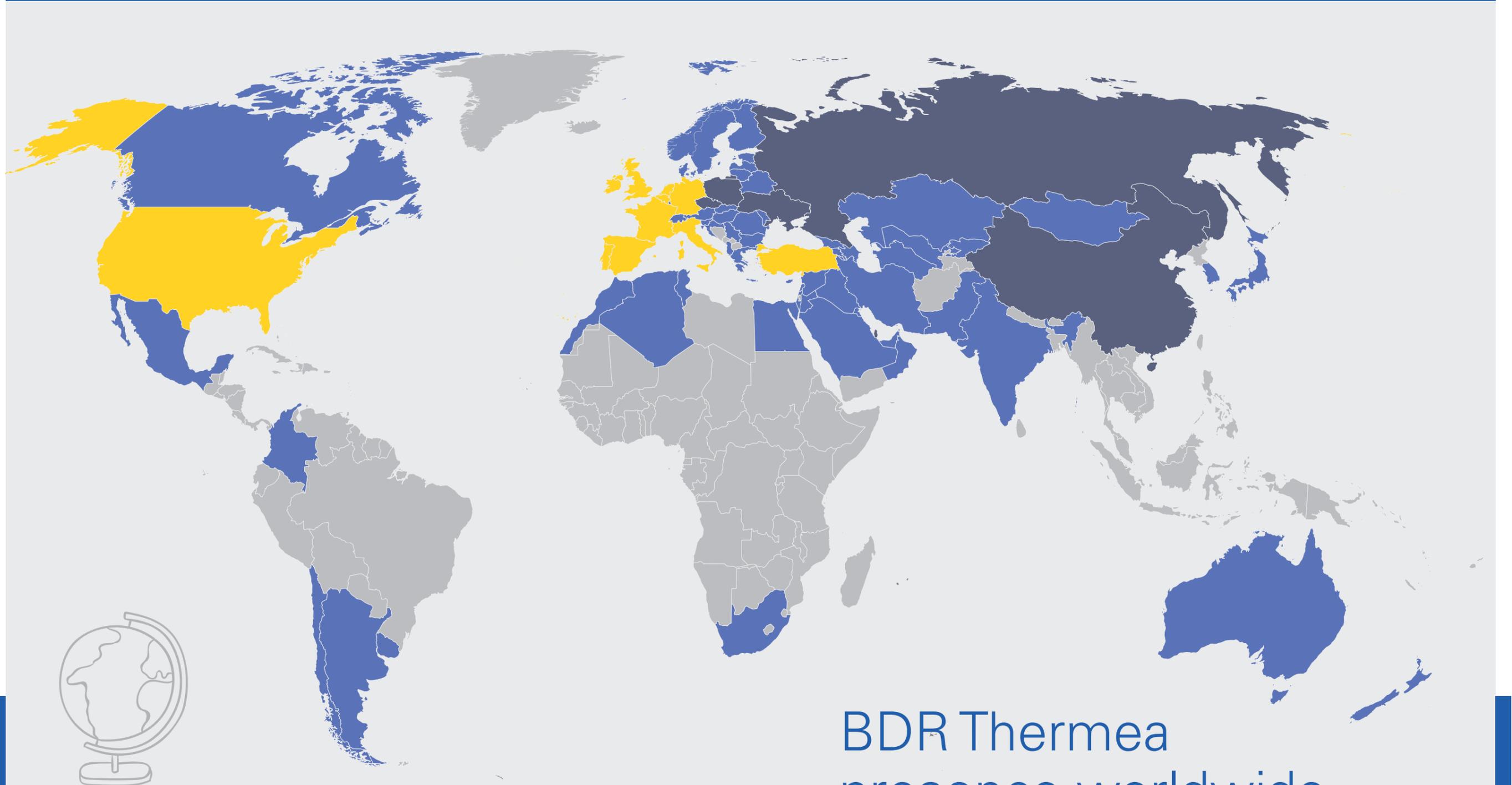
BDR Thermea believes good relations with all stakeholders are vital. So we invest in our employees and we maintain open and sustainable relationships with external stakeholders.

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.

The acquisition of ECR International in 2015 adds brands including Utica and Dunkirk to BDR Thermea portfolio.



Facts 2015: Annual sales: €1.7 billion | Present in 76 countries | 12 Production plants | More than 6.250 employees



BDR Thermea presence worldwide

These brands are part of BDR Thermea:



● HOME MARKETS ● SUBSIDIARIES AND REPRESENTATIVE OFFICES ● SALES DISTRIBUTION NETWORK

Message from Rob van Banning

“2015 was the year in which our CSR strategy ‘Better Together’ took root in the business.”

Welcome to BDRThermea’s second Corporate Social Responsibility (CSR) report. As BDR Thermea has grown, we have been bringing the CSR ethos that has always been a part of our business into the foreground – and in 2015 that commitment became more visible. It was the year in which our CSR strategy ‘Better Together’ took root in the business, guiding the action of our teams on the ground around Europe.

In this report you can read about some of the things that have happened as a result. We have reinforced the strategy itself with new targets to 2020, focusing particularly on where sustainability and our commercial activities align. We’ve put in place a new suite of policies that govern the way we operate, to help keep us true to our commitments. We’ve been pushing on with improving the performance of our suppliers, using the Ecovadis system to ensure that they meet the sustainability standards we expect. We’ve been supporting colleagues by improving their working environments, and with a range of new training and engagement opportunities on sustainability themes. We’ve



Rob van Banning - CEO BDR Thermea

seen them respond brilliantly, with many inspiring activities supporting good causes in their communities and beyond.

But the heart of our business is the products and services we provide, and the potential they have to enable people to live more sustainable lives. As we align our technology platform across the Group with the priorities of sustainability, we are seeing more and more benefits to our customers and our business.

2015 saw a major push on compliance with the European Energy-related Product Directive – and we reached out to installers and customers

through our brands to make sure they saw the opportunities as well as the need to be ready. We also developed mobile connectivity for home heating and cooling, so consumers can better manage energy use in their homes.

“Focusing particularly on where sustainability and our commercial activities align.”

And we continued to improve the carbon and energy performance of our products across the board.

You can read more about some of the work going on around our group of companies in the pages that follow. As I write, 2016 is shaping up to be a year of even greater progress. As well as pushing on with our current actions, we will be exploring opportunities to improve recycling and reuse of our products in line with the EU Circular Economy package; stepping up our work on innovation of smart controls; and improving the sustainability of our supply chain further as more of our major suppliers come on board. We are determined to make highly sustainable low carbon heating and cooling systems affordable to consumers across Europe and beyond – and I look forward to working with you as we make that ambition a reality.



Introducing our CSR strategy: Better Together

How BDR focuses on the issues that really matter

BDRThermea has made ambitious commitments to the environment and to society – not least the thousands of people using our products in their homes and working environments. To ensure these commitments are front and centre for our teams and brands around the world, we've brought them together in our CSR Strategy 'Better Together'.

Better Together is founded on a materiality assessment – a process in which we explored what really matters about sustainability and the future of our business to a range of stakeholders inside and outside the business – the people in our value chain. Our materiality matrix shows the results of that work.

The materiality assessment revealed a clear priority for the business and our stakeholders that our products should maximise their contribution to sustainability. This is where our greatest impact and opportunity lies. The significance of people – to our own future success, and our need to respect the rights and aspirations of everyone in our value chain – also

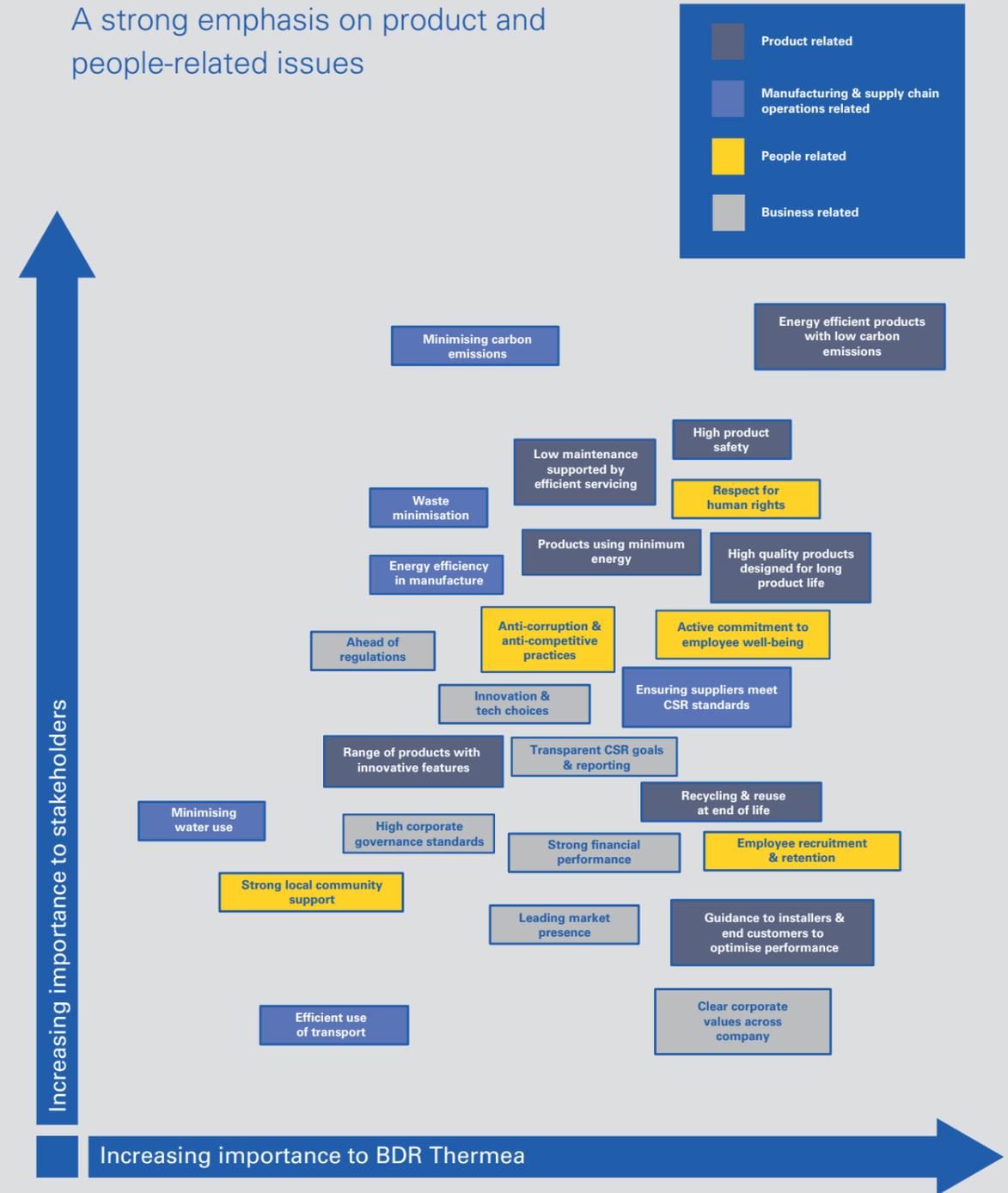
emerged strongly. Making our supply chain and the way our company is governed support these priorities is also a clear secondary focus.

Beyond these stand-out areas, there are a range of issues raised by stakeholders that we have to keep focused on. Many of these are matters of compliance – and during 2015 we have refreshed our governance arrangements to ensure we are up to speed on issues such as anti-corruption and modern slavery. You can read about our new governance arrangements on page 24.

Reflecting the materiality assessment and the need to connect CSR with the way our business operates, we have established a CSR strategy with four pillars: Better Products, Better Supply Chain, Better People and Better Company. Over the last year we have been aligning and accelerating CSR work across the Group with this approach, and setting goals and targets to reflect our ambitions to 2020.

Materiality matrix

A strong emphasis on product and people-related issues



Better Products

The targets we have set at the beginning of 2016 are tightly focused on creating both sustainability and business benefits, and overlap with our business targets on quality, efficiency and attracting and keeping the best people. Our commitment to the environment in our operations and supply chain is strengthened with specific targets on achieving standards on our sites and in the supplies we procure through the Ecovadis scheme. Beyond these headline targets there will be further Key Performance Indicators on more specific aspects of performance, as we learn more about where the opportunities and wins lie on issues such as energy, carbon and water.

Although the targets are new, a year in the strategy is already yielding fruit. The following pages set out some of the progress made during 2015 in each of the focus areas. We have deliberately devolved implementing much of the strategy to our brands and markets, where our teams on the ground understand the specific local needs and priorities for sustainability. Though we expect activity across the Group to align further with the strategy in the coming year, this devolved approach will remain a cornerstone of our CSR programme.

Helping energy efficiency with ErP

The EU's Energy-related Products (ErP) directive was implemented on 26th September 2015. This Directive is a major step forward as the EU reaches its '20-20-20' target: reducing energy use by 20% and increasing the share of renewable energy by 20%, by 2020. ErP consists of two components: Ecodesign, which sets the minimum energy performance and environment criteria for energy-related products, and Energy Labelling, which requires that every product below 70kW has an efficiency class from G to A+++ provided on an energy label.

At BDRThermea, we invested heavily in a compliance programme for our products and on

a dedicated training programme to guide and support installers to be sure they understood the new legislation framework. We worked hard in the 28 affected countries that we serve, to test and label more than 6,000 different products, 2,000 package solutions and to train more than 25,000 installers across all our training centres in the EU.

In 2015 we made our portfolio compliant, but more importantly we have strengthened our portfolio with a suite of new products from A to A+++.



Better Together Our CSR vision:

Providing products and services that our customers choose for affordable quality and low impact.

Goals

- Industry-leading customer orientation and satisfaction
- Continuous improvement of products and services
- Europe's most user-friendly heating and cooling products
- Applying international social and environmental standards in all supply contracts
- Highest standards of sustainable labour practice

Better Products targets 2020

- 15% of sales come from new & innovative products
- 97% of products need no intervention within the first 2 years of service

Better Supply Chain targets 2020

- 75% of sites/business are certified to all 3 ISO standards (14001, 18001, 50001)
- 100% of preferred suppliers and BDR businesses achieve specific minimum Ecovadis scores

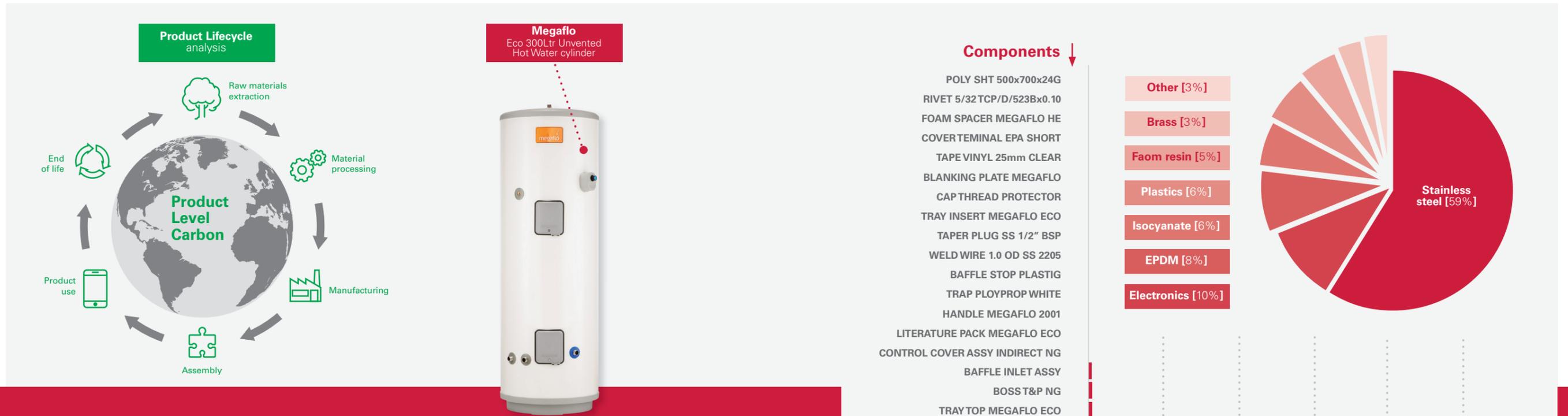
Better People targets 2020

- Employee Satisfaction score at 75%
- 100% of all staff go through Health & Safety, CSR training

Better Company targets 2020

- Sales efficiency revenue per employee up 2,5 % per year
- 100% of all CSR outcomes communicated internally and externally





Product Life Cycle Assessment: Baxi UK

Life Cycle Assessments (LCAs) are an increasingly common approach to assessing the sustainability performance of a wide range of products. Baxi UK is learning about LCA methodology for its products, and in 2015, the UK CSR team carried out its first an LCA on a Megaflo eco 300Ltr Unvented Hot Water cylinder.

LCA and carbon footprint calculations begin with data collection. The data we needed was in several categories:

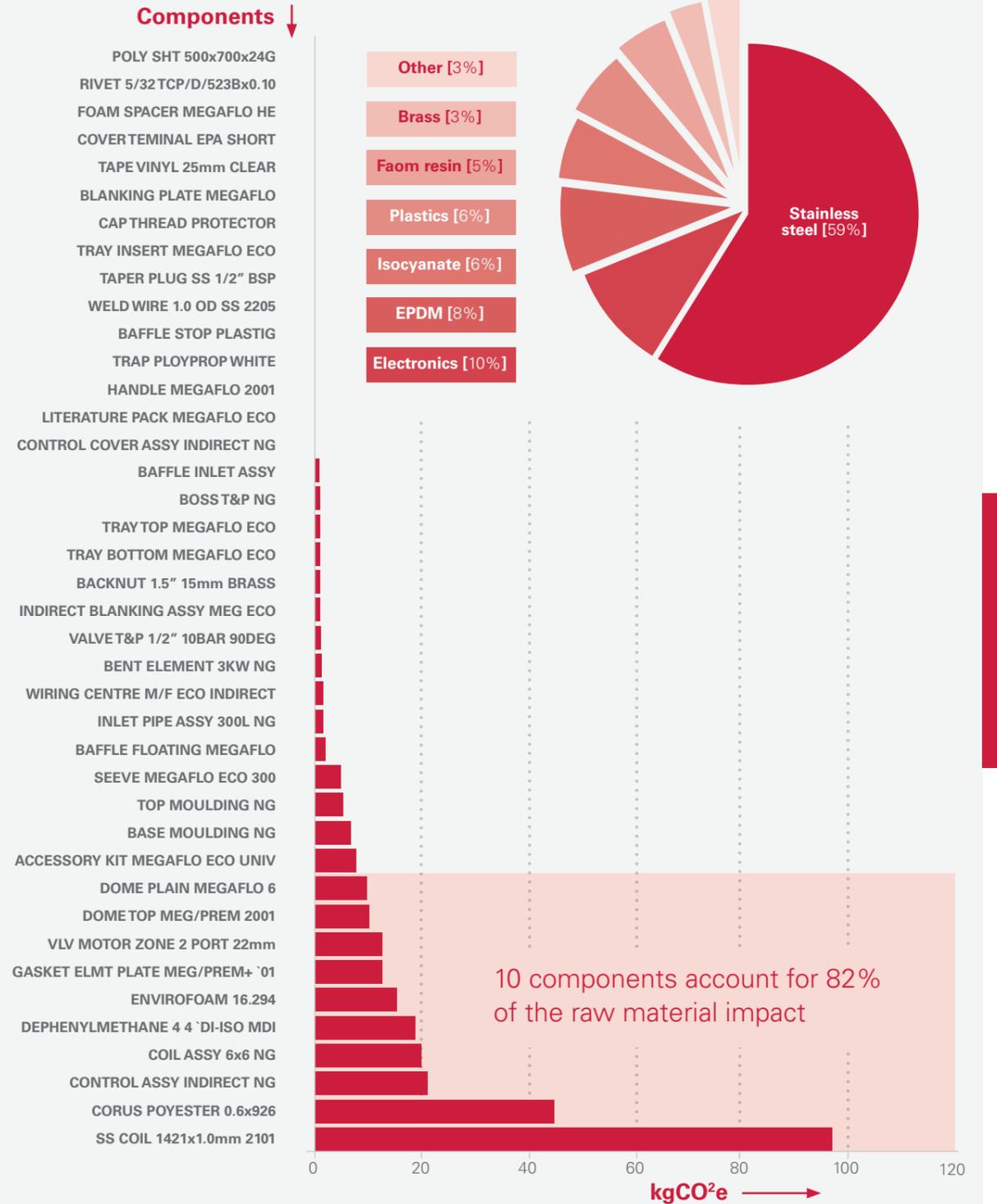
- Raw materials and associated transport
- Production
- Distribution
- Use phase
- End of life

Our data gathering exercise began with analysis of the costs of production and transport of the raw materials. We also gathered data on energy used in manufacturing, fuel use for distribution, energy used in the home, transport for engineers,

and disposal and recycling of products at the end of their useful lives.

This data enabled the Baxi team to see the points in the life of the product where energy use and carbon emissions are at their greatest. It means we can now focus our efforts on improving energy and carbon performance where it matters, and making sure innovations add value during the full product life cycle.

Learning from this first LCA, our focus for 2016 will be on applying life cycle analysis to a further group of products. The data gathered will enable us to plan where to focus our innovation efforts whether it is improving efficiency through design or reducing environmental impact at any stage through the life cycle of the product. The key remains finding the most effective and reliable ways of gathering and using the data, and ensuring the process reduces the total cost of owning our products.



Life cycle assessment of our Megaflo 300 ltr tank showed how different components make up the greenhouse gas emissions (measured as Kg of CO² equivalent) of the product during its life.



Baxi Iberia
launches cool
new products



The wall hung Baxi AC domestic unit brings sustainable technology into the home with attractive aesthetics that incorporate DC Inverter technology to offer an energy rating A++/A+ due to its efficiency high efficiency ratio in cooling (SEER=6.1) and heating (SCOP=4.0). It has a low noise level of only 20 dB.

Baxi Iberia worked closely with Baxi Italy and BDR Thermea in Turkey on the development of the AC range, making a successful launch far easier in 2015. This collaboration across the group and our shared technology platform has boosted both the commercial value of the project and the sustainability performance of the technology.

This is a long-term project and there are already plans to introduce WIFI control for domestic sets and extend the AC range to include solutions for commercial sector.

Collaboration between countries and brands within the BDR Thermea Group is a growing part of our approach to CSR. Baxi Iberia has recently added high efficiency air conditioning products to its portfolio, to complement its wide product offer with cooling solutions. As a consequence Baxi becomes a player in the heating and cooling sector as well as enhancing the Baxi brand to end users and improving installers' perception with a "close to user" product.

Better Supply Chain

Making heating and hot water equipment requires large quantities of raw materials. Like many manufacturers, we source parts and components from a diverse group of suppliers around the world. So how these suppliers perform is critical to whether we can deliver products and services that meet our expectations for energy and materials performance at every stage of our product lifecycle. The carbon, energy and waste impacts of manufacturing, and the need for our suppliers to meet CSR standards are important issues for our future sustainability.

Rolling out sustainable procurement through Ecovadis

Our preferred suppliers have all been approached and are currently being signed up to the Ecovadis platform. 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, currently in use by around 20,000 companies worldwide. BDR Thermea has now been granted Ecovadis Gold Recognition Level based on the Company's CSR rating.

Our Suppliers are being individually engaged and we are providing training to help our procurement teams get the message across to suppliers about how important it is to BDR Thermea to have a socially responsible supply base.



Working with suppliers in 2016

In 2016 our target is to have our complete preferred supplier list of over 100 suppliers signed up to Ecovadis and have a CSR audit score available. We have started identifying areas where suppliers are not performing to the standard we expect and will ask them to improve. We're keen to support improvements, and we are also implementing a programme of meetings with suppliers to improve our shared understanding of the issues and our joint CSR performance. Ultimately suppliers who fail to achieve a minimum rating on the Ecovadis platform will be moved off our preferred supplier list.



BDR Thermea has now been granted Ecovadis Gold Recognition Level based on the Company's CSR rating.

Remeha Lean principles

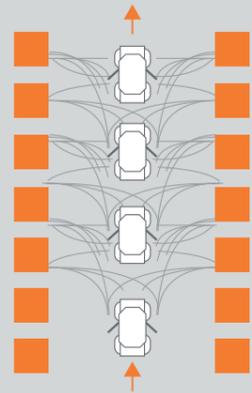
BDRThermea's Remeha brand has been working with 'Lean' principles since 2004. The Lean system aims to sharpen the focus on creating value for the end user of products at every step of production, and efficiency is a major component. The first steps at Remeha were reducing stock and movement, by introducing a pull system for stock with our suppliers, and a 'Kanban' scheduling system for the delivery of parts to the production lines.

In 2014 Remeha held workshops to develop ideas for the 'ultimate factory'. Our goal was one-day stock and having all parts delivered directly to assembly lines, eliminating warehousing of parts and associated transport.

Transforming the Tzerra assembly line from traditional material provision in batch sizes to one piece flow was the next step in this journey to 'the ultimate factory'. Instead of choosing items from flow racks around the production line during assembly, the parts for one boiler are collected from a parts 'supermarket' and supplied to the line in a special product carrier. In this way all parts for one boiler are within reach during assembly. By separating the logistics handling from the assembly line, walking movements during assembly are eliminated and ergonomics and quality are improved.

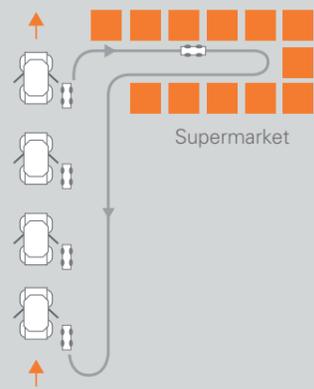
Due to the changes in assembly, Remeha can increase the output for the Tzerra line from approximately 750 boilers to 1100 boilers per shift. At max speed a boiler is produced every 28 seconds. To ensure picking at high speed and quality, we introduced 'Pick to Light' system in the supermarket. Lights located on storage slots guide pickers to the items required in the best sequence, and information is exchanged in real time with the materials management system.

Traditional material provision



Material provision in batch sizes

Supermarket and commissioning



Material provision according to the flow principle



Better People

People are our greatest resource, so taking care of employee wellbeing makes a positive contribution to our commercial success. But sustainability means more than that. We know that our CSR values and how we live them increasingly define our brand, determine whether we succeed in recruiting the best people, and are an important part of why customers trust our products.

We aim to be the employer of choice, and we want to maximise our positive contribution to the wellbeing of our communities and customers.

What we did in 2015

We have continued to help to build the industry's understanding of boilers and hot water systems, and we have extended our scope to include energy efficiency and total heating solutions. Innovating with new technology, such as apps to enable remote access to home systems, all add to our drive to influence the environmental impact of our industry.

We treat our people fairly and ethically and work to ensure they gain the 'green skills' needed at BDRThermea, and get actively involved in our CSR approach.

Solidarity with Nepal

The earthquake in Nepal on 25th April 2015 earthquake killed over 8,000 people and injured more than 21,000. Employees of Baxi Italy were particularly moved by this disaster and the plight of people affected.

Baxi Italy and the trade unions decided to work with a local non-profit called the Sidare Onlus Association (www.sidare.it) to support a Nepalese school that had been badly affected.

Thanks to Baxi Italy and its employees, € 4.000 has been donated to help restore and improve the school and the quality of education provided.

With the money raised by Baxi Italy, Sidare Onlus Association has been able to provide medical expenses, new furniture, bedding, toiletries, winter clothing, and a range of teaching equipment.





Remeha and the Midwinter Marathon

On Sunday, February 7th, 2016, a hundred Remeha runners assembled at the start of the Midwinter Marathon.

It was the culmination of training that had begun in October 2015, with two athletes holding weekly professional training sessions for colleagues at every level, all in preparation for a special event to raise money for diabetes.

International volleyball player and Olympic champion Bas van de Goor comes from Remeha's home town of Apeldoorn in the Netherlands. When he retired from the sport

in 2006 he established a charitable foundation focused on diabetes. His aim was to improve the quality of life for people with diabetes through sport and exercise. Inspired by Bas and a cause that's close to home for many employees, Remeha chose to support the Foundation by running in the Apeldoorn Midwinter Marathon, joining over 14000 runners from around the world.

The Remeha team were accompanied by Bas van de Goor himself –running 1,200 kilometres for charity. Every kilometre was rewarded by Remeha a sponsorship contribution to the foundation.



New architecture for a modern factory: Brötje

Brötje's Master Plan 'Gläserne Fabrik' is a major renovation project and green makeover for our factory and offices in Rastede. The project started in 2015 and will be completed during 2016.

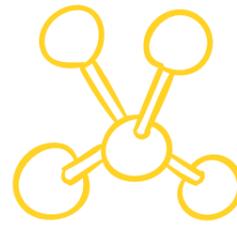
As well as improving working conditions for employees, the renovation is about raising awareness of the Brötje brand and our commitment to CSR.

As part of the refurbishment, Brötje will construct a new BDR Werkservice after sales service building and reorganise the existing buildings. All relevant departments will be brought closer so they can work better together.

The project also supports our efficiency objectives with the construction of an 'ultimate factory' (see 'Better products' page 18) which will be able to respond to customer demand as flexibly as possible and help us implement a standardised Lean process along the whole supply chain.

The Gläserne Fabrik project is being completed in three main stages:

- 1 Rebuilding the shipping area and implementing a logistics process with fewer handling steps, by bringing together the logistics management, demand and raw material planning, warehouse management and incoming goods inspection offices.
- 2 Demolition of approximately 15,000 square metres of old warehouse buildings and redesigning the area to provide an environmentally friendly, green landscape.
- 3 Construction of the new BDR Werkservice building and a new modern main entrance with a welcoming reception area for customers, visitors and employees.



Better Company

How does BDR Thermea manage its CSR commitments?

Investors understand that companies with robust management arrangements for sustainability tend to outperform those with less impressive credentials. A systematic focus on efficiency, cost reduction, waste minimisation and innovation is bound to yield positive financial results.

To deliver these benefits, it is important that BDR Thermea has good systems in place,

and that these systems are well understood and communicated by all stakeholders in the business and beyond. As a trusted global business with high corporate governance standards and clear company values, in 2015 we made sure that our commitment to CSR fits into our company structure and is part of the commercial strategy.

Diversity charter for BDR Thermea France

Promoting diversity and seeking inclusiveness through recruitment and career development are an important way to improve efficiency and keep a positive working environment. Diversity also has an impact on the way our company is viewed by customers, suppliers and consumers and potential recruits.

To show our commitment to these principles, BDR Thermea France signed the French Diversity Charter. on 10 December 2015,



The Diversity charter can be signed by any company that wishes to ban discrimination in the workplace work towards creating diversity so that their workforce reflects the diversity of French society

BDR Thermea France is aligned with the commitments of the Diversity Charter, and we will continue to

- Raise awareness of non-discrimination and diversity issues among top management and staff involved in recruitment, training and career development and to educate them in these matters.
- Apply the principle of non-discrimination at every stage of human resources management.
- Endeavour to reflect the diversity of French society, at every level of our workforce.
- Keep employees informed about our commitments and their results, directly and via their representatives.
- Report annually on our diversity commitments and achievements.

Several topics will be developed in 2016 to take better account of gender equality in our business, to combat stereotypes and unfounded prejudice,

to fight all forms of discrimination and to better integrate people with disabilities.

Baymak breaks new ground with a private pension campaign

In April 2015, BDR Thermea's Baymak brand began a ground-breaking savings campaign in Turkey. Our Private Pension System (PPS) campaign ensures that for each new-generation, energy efficient Baymak combi boiler that is sold, retailers make a contribution to the pension scheme. These contributions attract a state subsidy of 25%, and as a result dealers and installers have a better opportunity to save money for their retirement.

Private pensions are still relative rare in Turkey, and many people are unaware of the opportunity to benefit. The Baymak team is visiting dealers throughout Turkey to explain the importance of having a pension and how the system works.



Baymak offers the PPS in collaboration with Garanti Retirement, one of Turkey's leading pension brands, and the campaign has attracted a great deal of attention especially in the Anatolia region. Nearly two thousand dealer and installers have joined the scheme so far. The work helps guarantee the future of the huge Baymak family and also supports the commercial objectives of dealers. We aim to have 10,000 dealers and installers signed up by 2017.

BDR's Governance Framework

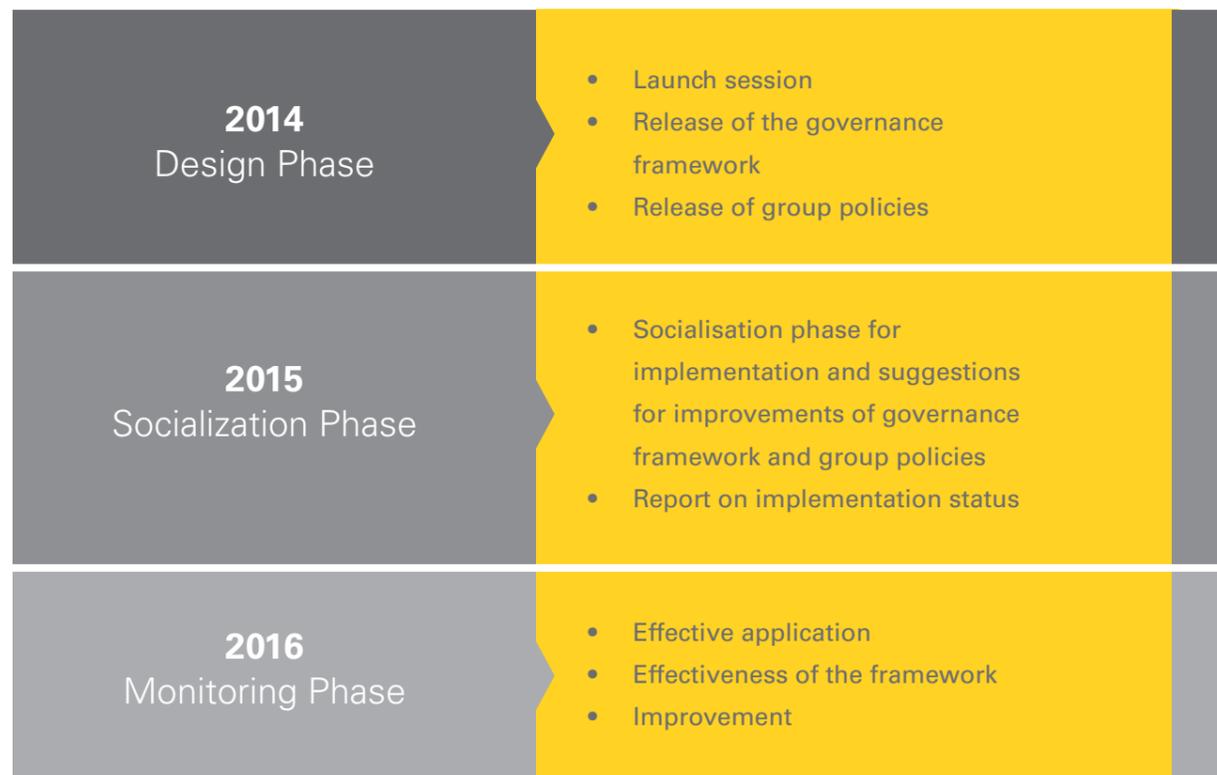
In 2014 BDRThermea worked with Price Waterhouse Coopers on new governance guidelines and group policies. The new Governance Framework system we have implemented as a result specifies the distribution of rights and responsibilities among the different participants in the organisation across a broad spread of issues, including CSR.

In 2015, after the release of the updated Governance Framework, began sharing and testing the approach with staff, and embedding

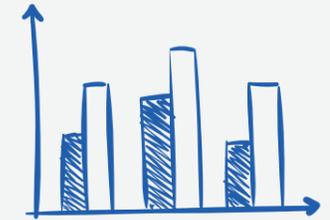
the Framework in our internal governance arrangements and the group policies. This structured socialization of the Framework also means we are able to monitor progress on implementation and gather suggestions for further improvements.

BDRThermea aim to continually review, measure and improve the approach to their Group Corporate Social Responsibility Policy, to have strong CSR governance inserted in the business and recognized strategic CSR targets.

Governance Framework Road Map



2016 and beyond

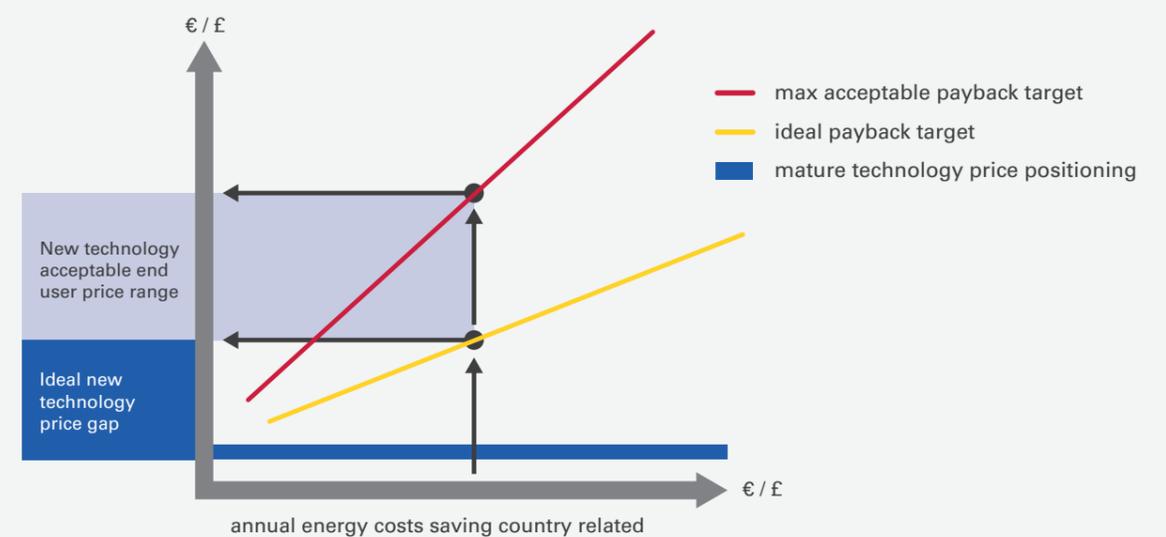


As we work on our 2020 targets, we are already in the thick of a wide range of action in 2016

For **Better Products**, there are several elements to BDRThermea's approach, but the key is making new efficient and renewable technology available at a price consumers can afford. That price varies around Europe, with payback dependent on a range of factors from energy costs to interest rates. The diagram below shows what this means for pricing and our innovation focus. As we explore the innovation potential of

new approaches to heating and cooling we map the contribution of efficiency, energy storage, renewables, different primary energy sources and other trends, but always from the perspective of the value proposition for the consumer. This focus on the end-user benefit means that more of our innovations reach the market and benefit customers at lower cost.

End-user payback and price target for new technology appliances



Across Europe there are over 80 million low efficiency boilers in operation. With our continuous focus on innovation we are investing to ensure new products are always more efficient than the ones they replace (from A to A+++), as seen in our Prime HT, NeOvo, the gas and oil condensing hybrids and the Dachs Innogen being launched across Europe this year. And with the new digital technologies available we are developing more intelligent controls, enabling remote use of our systems and delivery of energy advice to consumers for greater user efficiency.

We're also improving the life cycle of our products at the end of their life, for example ensuring that products in the Dutch market reach the requirements of the EU WEEE directive for 45% of products to be recycled at the End of Life by 2018.

Our **Better Supply Chain** plans include implementation of standards in line with our 2020 target. For example, we expect Baxi Iberia to achieve ISO 14001 for Environmental Management Systems, and our Rastede plant to achieve ISO 50001 for energy management during 2016.

Better People remains a priority, with the focus on supporting colleagues' development and engaging them in a range of projects in the communities around our factories. We have plans to embed our CSR innovation focus in staff training in the UK. Baxi in Italy will be running employee sessions on healthy eating, smoking and alcohol reduction and a range of other wellbeing themes. In the Netherlands a new policy on staff wellbeing will come into force. And our philanthropic work will continue to include support for local and national charities such as Marie Curie Cancer Care, and the Bas van de Goor Foundation.

And making BDR a **Better Company** will continue to underlie our approach. The ongoing integration of our CSR plan with our business strategy is now underscored with goals and targets that align sustainability with our commercial objectives. A wide range of specific projects focused on energy reduction in our plants will be rolled out – for example Baxi Italy is focusing on reduced energy consumption by installation of automatic air conditioning switch off systems, adjusting air compressor plant, and motion sensitive LED lighting. The modernisation of the Rastede plant will improve its energy

We will also be pushing forward on our target to improve supplier performance through the Ecovadis scheme, with our UK operations for example aiming to improve the Ecovadis rating for UK brands during 2016, and Remeha in the Netherlands aiming to bring all key suppliers into the scheme.

performance and make it a better place to work. New CSR policies and reports will be published in the UK, France, Netherlands and Iberia, and we will overhaul our online communications to reflect our CSR commitments at Group level as well as in some markets.



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