

2018 | 2019

SUSTAINABILITY PROGRESS REPORT

TAKING CARE OF A BETTER CLIMATE.

Inside each home and
the world around it.

Content

- 4 About this report
- 6 S.E.E.D.S. – the Vaillant Group's sustainability programme
- 9 S.E.E.D.S. management system
- 10 S.E.E.D.S. sustainability targets
- 16 UN Global Compact Progress Report 2018 | 2019
 - 18 Human rights and labour standards
 - 20 Environmental protection
 - 22 Fight against corruption

Greetings from the CEO of the Vaillant Group

Taking care of a better climate – both inside and outside our customers' homes. This is our vision – a vision that motivates and drives more than 13,000 employees. When making business decisions, we take not only economic but also environmental and social aspects into account.

The Vaillant Group has had a central Sustainability Management department since 2011. As part of the S.E.E.D.S. sustainability programme, we set binding goals in the focus fields Environment, Employees, Development & Products and Society.

The Vaillant Group's involvement in the UN Global Compact – the world's largest and most important sustainability initiative – also forms part of our S.E.E.D.S. programme. The initiative aims to strengthen the commitment shown by companies in the areas human rights, labour standards, environmental protection and the fight against corruption.

This report contains key sustainability indicators and target attainment levels alongside an annual progress update with an eye to the Global Compact and information on our S.E.E.D.S. programme.

Remscheid, November 2019



Dr.-Ing. Norbert Schiedeck

CEO of the Vaillant Group

THIS REPORT

offers an overview of the progress made by the Vaillant Group with regard to sustainability in 2018/2019. It covers all the essentials in terms of our management approach and defined focus areas, which form the basis of all our sustainability activities, as well as the sustainability targets derived therefrom and the extent to which they have been met. Furthermore, the report presents additional key figures that act as control variables in the field of sustainability. Last but not least it provides the annual progress update, outlining how the Ten Principles of the UN Global Compact are implemented in the day-to-day operations of our family-owned company.

The reporting period for this progress update covers the eighth year of the Vaillant Group's involvement in the Global Compact, from 11 October 2018 to 10 October 2019.

Further information on our sustainability activities can be found on our website:

www.vaillant-group.com

THE TEN PRINCIPLES OF THE UN GLOBAL COMPACT

The United Nations has defined ten principles of socially and environmentally responsible action in its Global Compact. Upon signing up to the Global Compact, the Vaillant Group pledged its commitment to support the implementation of these principles and to publish an annual statement on the progress and milestones we have achieved in this regard.

HUMAN RIGHTS

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights.

Principle 2: Businesses should make sure that they are not complicit in human rights abuses.

LABOUR STANDARDS

Principle 3: Businesses should uphold the freedom of association and effective recognition of the right to collective bargaining.

Principle 4: Businesses should uphold the elimination of all forms of forced and compulsory labour.

Principle 5: Businesses should uphold the effective abolition of child labour.

Principle 6: Businesses should uphold the elimination of discrimination in respect of employment and occupation.

ENVIRONMENTAL PROTECTION

Principle 7: Businesses should support a precautionary approach to environmental challenges.

Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility.

Principle 9: Businesses should encourage the development and diffusion of environmentally friendly technologies.

FIGHT AGAINST CORRUPTION

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

S.E.E.D.S. – THE VAILLANT GROUP'S SUSTAINABILITY PROGRAMME

The Vaillant Group has combined all its sustainability activities into one strategic programme. Under the name S.E.E.D.S., binding, quantifiable targets have been set in the following fields of focus: Environment, Employees, Development & Products and Society. We develop specific measures based on these targets and continuously monitor the results.

For an industrial company that develops environmentally friendly, highly efficient heating technologies, addressing the subject of sustainability seems a logical step. In order to ensure that the company will continue to enjoy economic success and benefit the generations to come, we also look at the environmental and social aspects of our business activities. Our customers, in particular, have clear-cut expectations regarding the energy and resource efficiency of our devices. For us, however, sustainability means more than just marketing particularly energy-efficient products. It means that the strategic and operational decisions taken by a company must consider factors related to sustainability. We therefore always have to ask ourselves what direct and indirect effects a business decision or the company's actions will have on people and the environment.

Sustainability programme

The strategic sustainability programme S.E.E.D.S. is based on the corporate vision of the Vaillant Group, together with its corporate values and a holistic understanding of sustainability. The name S.E.E.D.S.

stands for Sustainability in Environment, Employees, Development & Products and Society and thus identifies the four focus fields Environment, Employees, Development & Products and Society. The Vaillant Group concentrates on these fields when implementing its sustainability strategy. All sustainability activities and all related projects link in with the company's core business. In this regard, the Vaillant Group's Sustainability Management department makes a contribution to ensuring the company's success in the long term. The department forms part of Corporate Communications, Sustainability Management & Politics and reports directly to the CEO of the Vaillant Group.

The team sets sustainability targets in close consultation with the Management Board and the company's individual operational departments and business units, systematically monitors their progress and provides impetus for improving company-wide sustainability performance. In addition, the Group-wide environmental management system, which is compliant with the DIN EN ISO 14001 standard, is also controlled centrally from here.

FOCUS AREAS

Our sustainability strategy comprises four focus areas. We have defined and continuously pursue long-term goals in each of these areas.

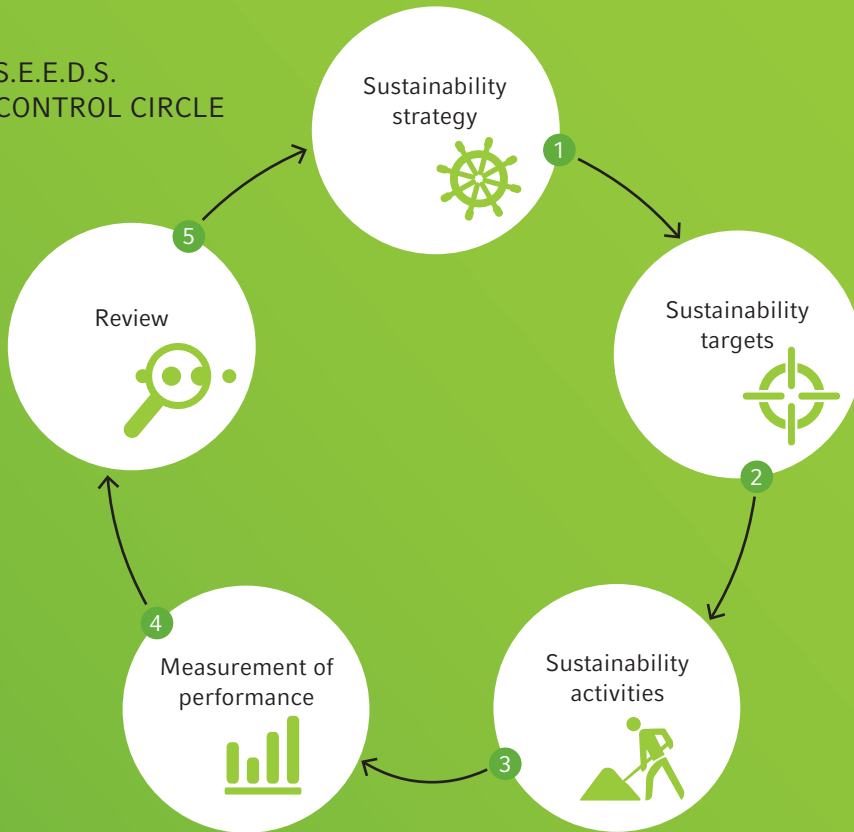


ORGANISATIONAL STRUCTURE

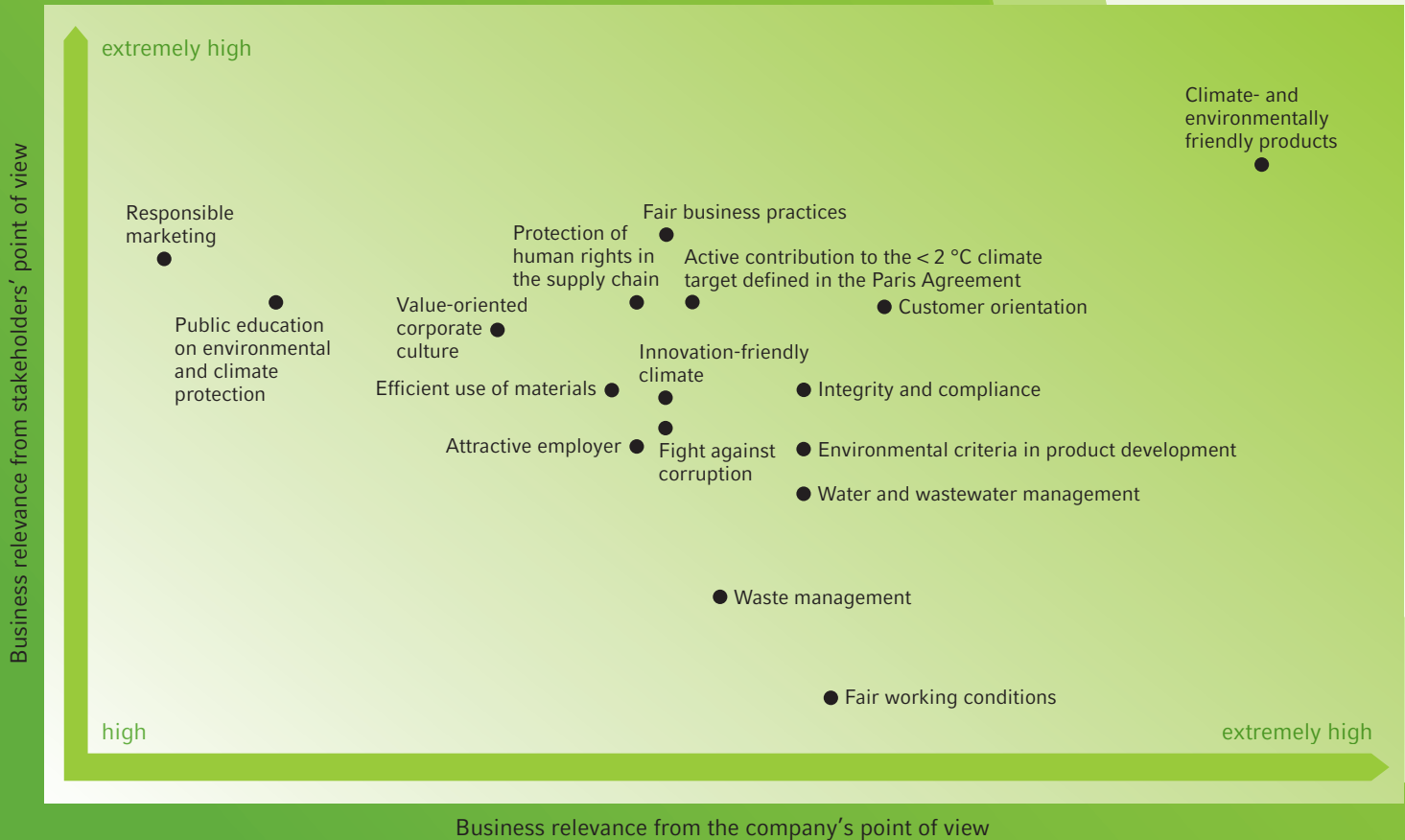
The Vaillant Group has a Group-wide sustainability management function which is firmly anchored in its corporate structure.



S.E.E.D.S. CONTROL CIRCLE



MATERIALITY MATRIX (2019)



S.E.E.D.S. MANAGEMENT SYSTEM

Management approach

We manage our sustainability performance using an established approach: the classic control circle applied to corporate management systems. On the basis of the sustainability strategy ①, binding and verifiable targets ② are set for all four fields of focus in the S.E.E.D.S. programme. For example, reducing CO₂ emissions by 25 per cent in the field of environment. In order to meet these targets we then implement operational measures ③ in all relevant areas of the company. In order to test how effective these measures are, key performance indicators (KPIs) and a target figure ④ are established for all targets. Every quarter, we survey all relevant data on a Group-wide basis to calculate the individual KPIs. These are brought together in a central control tool, the Vaillant Group Sustainability Scorecard. When interpreting the figures, we take into account specific factors such as changes to production capacities, current production volumes and production minutes. By comparing figures from the same period in the previous year against the long-term targets during the annual review ⑤, we are able to gain an accurate picture of the current state of our sustainability performance.

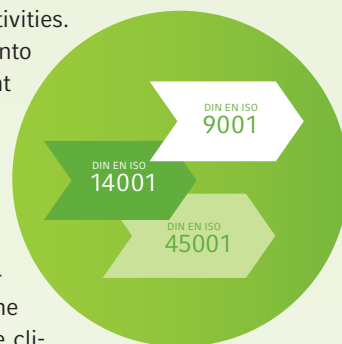
Materiality analysis

There are few business-related topics that affect more areas than sustainability does. This means that we do not only need a clear strategy whose success is measured against binding targets. We must also be clear about which areas of activity are particularly important – from the point of view of both the company and its stakeholders. As part of a materiality analysis we carried out another systematic survey of customers, partners, suppliers, employees, owners and other relevant stakeholders in 2019 and thus precisely defined the sustainability-related topics that are most

important for our business activities.

These topics are aggregated into fields of focus in the Vaillant Group Materiality Matrix.

Climate- and environmentally friendly products, resource conservation and the ability to meet our customers' ever-growing demands on comfort lie at the heart of our activities. Alongside climate protection and the respective two-degree global target, topics such as promoting sustainability along the supply chain and protecting human rights are also gaining in significance.



Systems and processes

Driving the sustainability balance forward in an international company requires a common language in the form of processes. This is because Group-wide processes are needed to lay down standards that ensure sustainability aspects are taken into account throughout the value chain. There are three processes that affect product development and consider the phase from product strategy to market launch. The topic of sustainability is inherent in all of these processes.

To manage company performance in terms of environmental protection, occupational health and quality, the Vaillant Group uses differentiated management systems that are determined by standards valid internationally. The Vaillant Group regularly has the implementation of these systems audited by independent institutes as part of certification processes. All of our production and development sites have been certified as compliant with quality standard DIN EN ISO 9001, environmental standard DIN EN ISO 14001 and international health and safety standard DIN EN ISO 45001.

S.E.E.D.S. SUSTAINABILITY TARGETS

In spring 2011, the Vaillant Group set itself the first binding, verifiable targets in all focus fields within the S.E.E.D.S. programme. These goals are an indication of the direction we shall be taking until 2020. Until then we are resolved to be transparent – not only about where we are on track, but also about where we need to become even better.

The year 2010 is taken as a basis for comparison.

ENVIRONMENT CO₂ emissions

Target value for 2020:

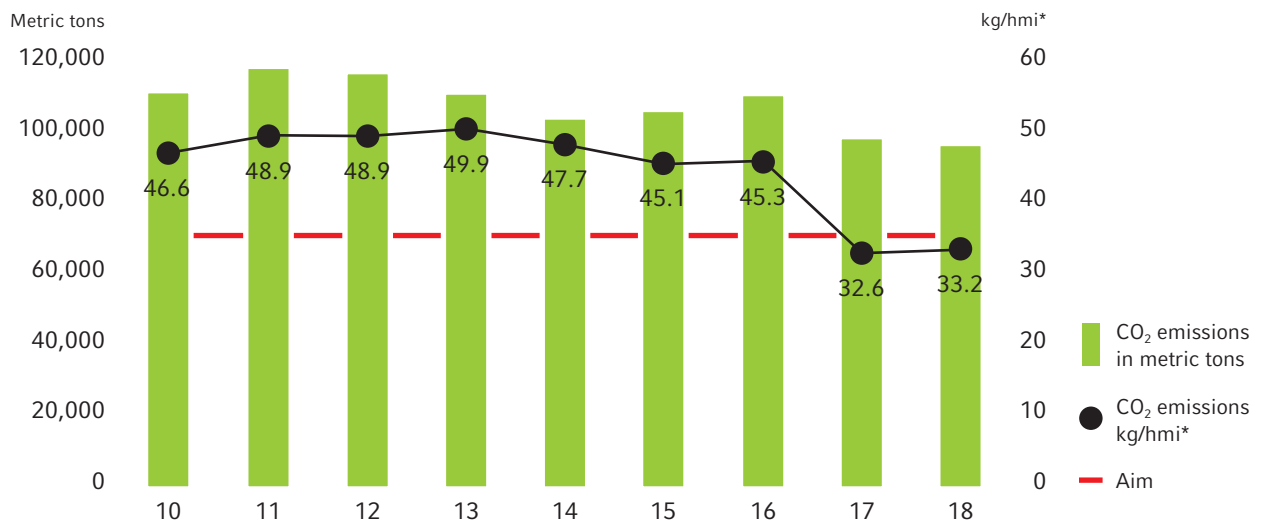
–25%

35.0 kg/hmi*

Current value:

–29%

33.2 kg/hmi*



When determining CO₂ emissions, we take into account the amount of electricity, oil and gas consumed at the manufacturing and development sites. Besides this, we record the CO₂ emissions that arise through logistics processes, employees' air travel and the fuel consumed by our vehicle fleet.

*hmi = 100 production minutes

All changes compared to 2010

We have already achieved all of our environmental targets for 2020 after successfully reducing our energy and water consumption as well as our waste volume. In the remaining focus areas Employees, Development & Products and Society, all performance indicators point towards a positive development.



ENVIRONMENT

Energy consumption

Target value for 2020:

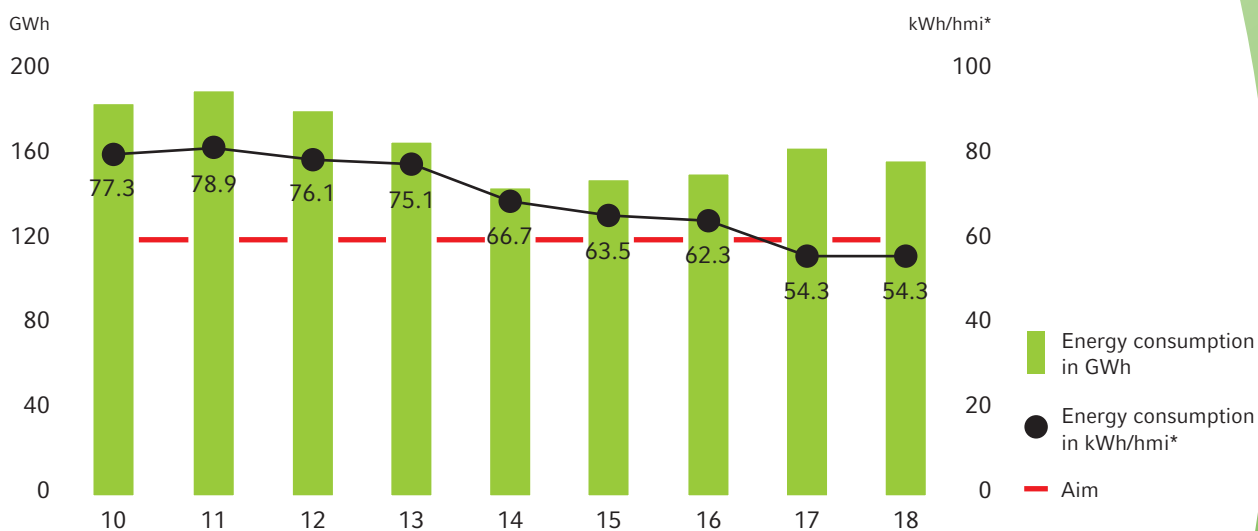
-25%

58.0 kWh/hmi*

Current value:

-30%

54.3 kWh/hmi*



Total energy consumption describes the amount of electricity, oil and gas consumed at the manufacturing and development sites. Initial savings were made with the introduction of the environmental management system. The slight rise in absolute figures that followed was due to an increase in production capacities. In Production, further improvements were seen in production minutes.

The Vaillant Group lists all key figures relating to sustainability on a scorecard so we can manage our activities in this field. As we are constantly working to improve the quality of data and make our figures more meaningful by successively expanding their scope, changes may have been made to the previous year's figures since the publication of last year's report.

ENVIRONMENT

Water consumption

Target value for 2020:

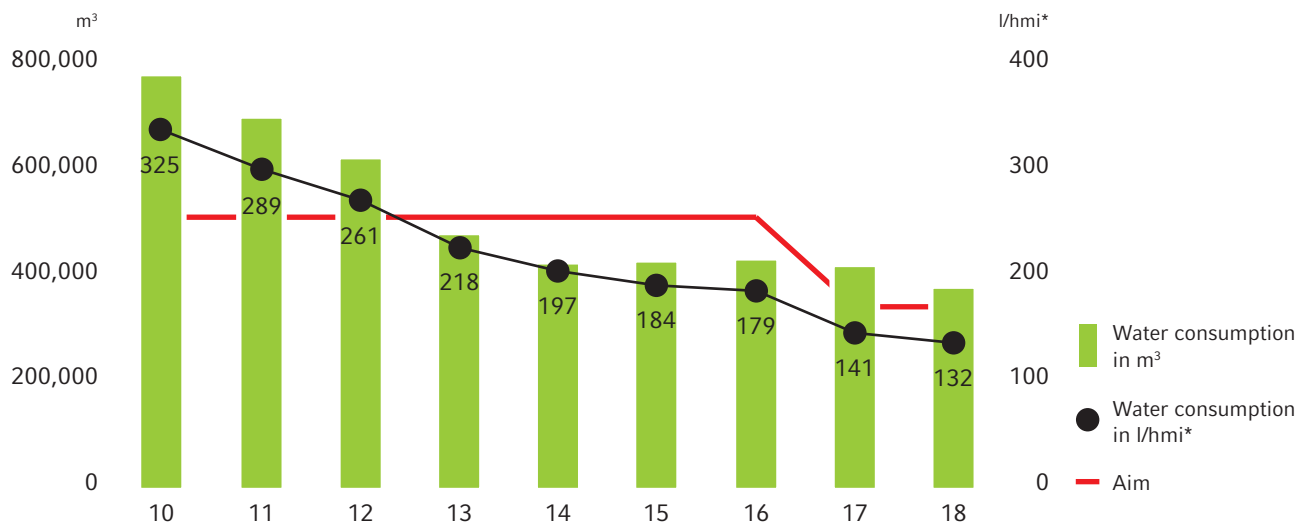
-50%

163 l/hmi*

Current value:

-59%

132 l/hmi*



This key performance indicator shows the amount of water consumed across all manufacturing and development sites. Over the years, water consumption at the Vaillant Group has continuously and significantly sunk. This is why we adjusted the savings target in 2016 from the original -25 per cent to -50 per cent. This new savings target was already met in 2018.

*hmi = 100 production minutes

All changes compared to 2010

ENVIRONMENT

Waste production

Target value for 2020:

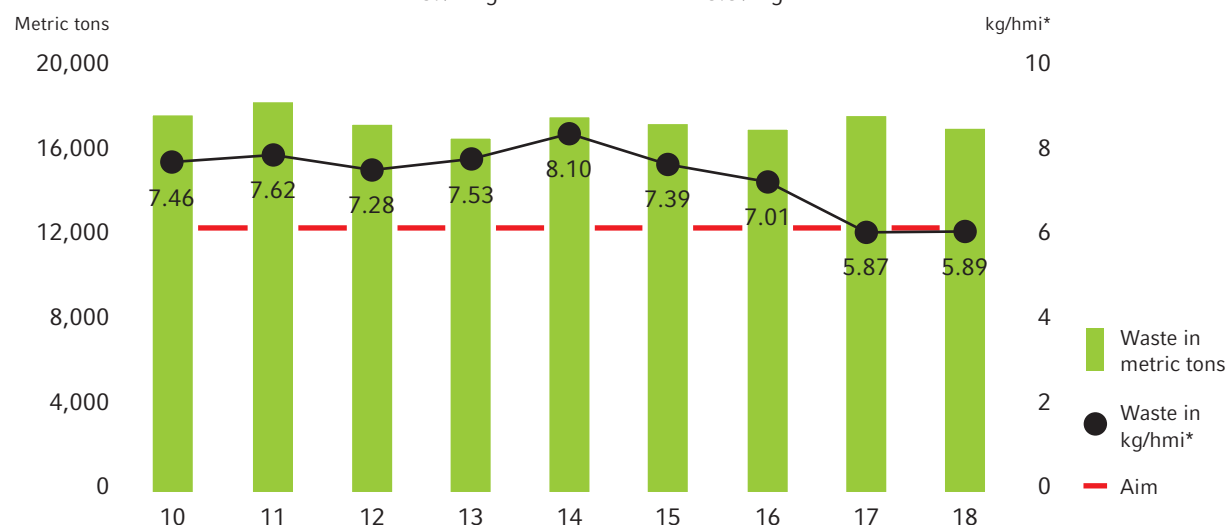
-20%

5.97 kg/hmi*

Current value:

-21%

5.89 kg/hmi*



We record the waste volume across all manufacturing and development sites. Scrap metal makes up for around 60 per cent of our waste here. The rest is largely attributed to packaging waste. Overall, the waste volume remained near-constant despite increased manufacturing capacities. In relation to production minutes, we have already reached our 2020 target.

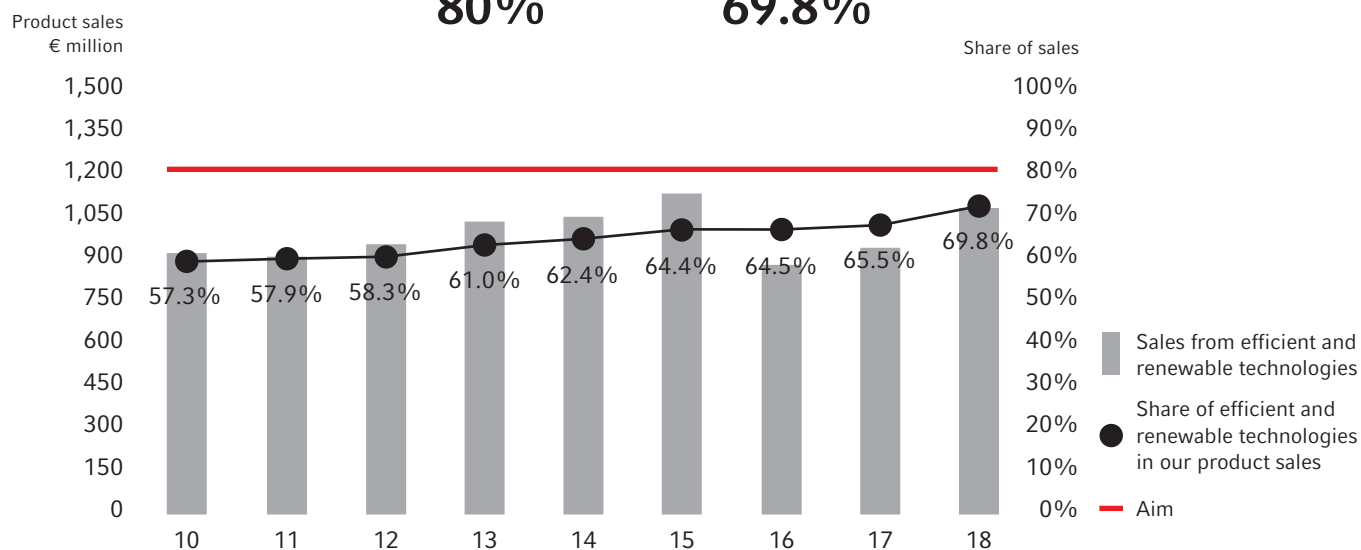
DEVELOPMENT & PRODUCTS

Share of efficient and renewable technologies in our product sales

Target value for 2020:

80%

Current value:

69.8%

Product sales comprise the sales figures from heat generators. Heat generators based on condensing technology and all products that are operated using renewable energies such as heat pumps, solar thermal and photovoltaic systems are classed as efficient and renewable technologies.

EMPLOYEES

Employer of choice

82%

The extent to which we achieve our goal of being employer of choice is dependent on the level of staff satisfaction. General staff satisfaction was most recently recorded as part of the SENSOR staff survey. Carried out in 2018, the survey gave a satisfaction rating, referred to as the engagement index, of 82 per cent.

EMPLOYEES

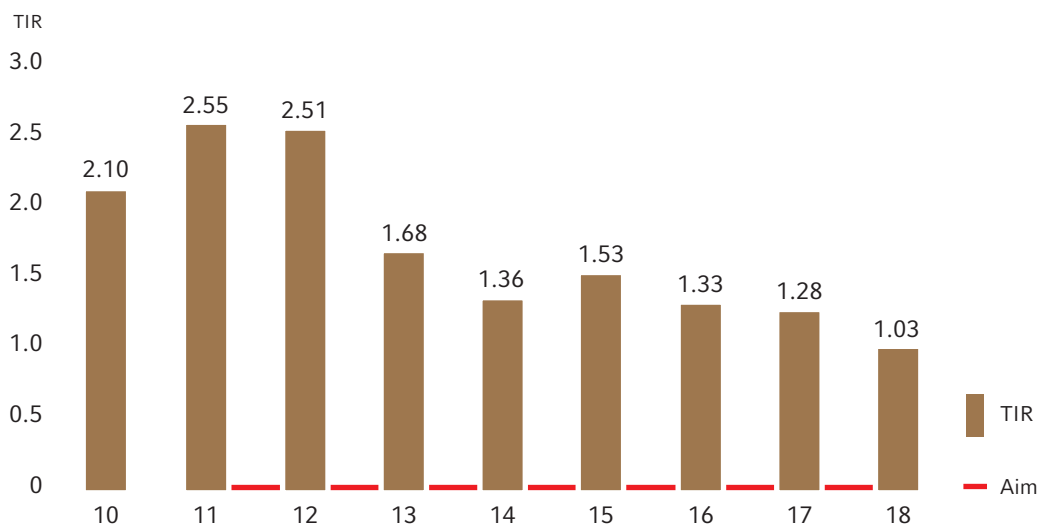
Accidents at work

Target value for 2020:

0

Current value:

1.03



The indicator for accidents at work is known as the total injury rate (TIR, accidents per 200,000 hours worked). The number of accidents at the company has been on the decline for years. Our occupational health and safety management system is certified in accordance with DIN EN ISO 45001. All employees are actively incorporated in occupational health measures.

SOCIETY

Adherence to the UN Global Compact Principles **237 supplier audits in 2018**

Recognition of the ten principles on the part of our suppliers forms part of our general purchasing terms. The topic of Global Compact is also integrated in supplier audits and covered by the Sustainability Scorecard.

Strategic orientation of social engagement **Partnership with “SOS Children’s Villages worldwide”**

In 2013, the Vaillant Group entered into a strategic partnership with the children’s charity “SOS Children’s Villages worldwide”. This was driven by the desire to create a more systematic approach to the company’s social engagement initiatives that ties in directly with its business activities. The partnership concentrates first and foremost on equipping SOS facilities with energy-saving and environmentally friendly heating technology. Projects have been realised in around 20 countries since the initiative began. In 2018, the partnership was extended by a further five years.

UN GLOBAL COMPACT PROGRESS REPORT 2018 | 2019

The focus fields of our S.E.E.D.S. sustainability strategy correlate with the Ten Principles of the UN Global Compact. All ten principles are of equal importance to our company. As the Vaillant Group is a global company operating in the heating, ventilation and air-conditioning sector, it makes sense to place the most emphasis on measures and progress in the field of environmental protection. In terms of labour standards and the fight against corruption, we have continuously developed the applicable standards within our organisation. The Vaillant Group promotes and ensures the protection of human rights within its immediate sphere of influence.



HUMAN RIGHTS AND LABOUR STANDARDS

PRINCIPLES AND MANAGEMENT SYSTEMS

- Strategic sustainability programme S.E.E.D.S.
- Vaillant Group guideline on the Global Compact
- Supplier management system (supplier screening, supplier assessment, general purchasing terms, contractual terms)
- Vaillant Group principles on social responsibility
- Vaillant Group Spirit
→ Corporate values entrepreneurship, trust, integrity, passion
- Vaillant Group Code of Conduct
- UK Modern Slavery Act

MEASURES

- We place our suppliers under a written obligation to adhere to the principles of the Global Compact.
- We conduct supplier audits, which are based on questionnaires, in due consideration of social standards.
- With the help of risk assessments, we are able to identify actual and potential human rights violations.
- We have put an electronic violation reporting system in place for employees, customers and business partners, which helps them to report violations of laws and internal regulations.
- The Vaillant Group commits itself to the collective agreements in place at the main sites. Minimum wage regulations are respected in terms of pay.
- In Germany, over 80 per cent of employees at Vaillant GmbH are covered by collective agreements.
- The company expressly recognises the UK's Modern Slavery Act.
- The Vaillant Group supports the Fair Company initiative. The member companies guarantee fair conditions for internships.

Global Compact Principles

- 1 Supporting human rights
- 2 Eliminating human rights abuses
- 3 Upholding the freedom of association and right to collective bargaining
- 4 Elimination of all forms of forced and compulsory labour
- 5 Abolition of child labour
- 6 Elimination of discrimination

PROGRESS IN THE REPORTING PERIOD

The Vaillant Group commits itself in particular to protect human rights.

As a way of expressing our corporate responsibility, we drafted a **declaration of principles to respect human rights** in the past reporting period. This will be published towards the end of 2019. In connection with the declaration of principles, an analysis was carried out to identify all of the interest groups concerned. We also defined assessment criteria for a risk assessment. In doing this, we focused on aspects such as the probability of human rights being violated, the severity of potential human rights abuses and the possibility of the Vaillant Group having a counteractive or preventive influence.

We evaluated the **countries in which we source our goods with an eye to potential risks**. The results were then analysed by internal task groups, made up of people from different departments within the company – including the functional areas Sustainability, Purchasing and HR – and the works council. This interdisciplinary approach to the evaluation allowed us to take an in-

depth look at every relevant viewpoint from the different perspectives of the various specialist areas.

In order to fulfil our duty of care to protect human rights also within our supply chain, we organised several **training sessions for supplier auditors** on the topic “social audits of suppliers” in November 2018 and June 2019.

Moreover, we reviewed our standardized questionnaire used in the supplier audits and updated the sections on human rights and labour standards, occupational health, environmental protection and the fight against corruption. In 2018, a total of **237 supplier audits** were carried out.

As well as the progress report for the UN Global Compact, the Vaillant Group also publishes a **statement on the UK's Modern Slavery Act** once a year. This formal declaration is published with the goal of identifying and preventing human rights abuses along the value chains. The statement was published for the third time in 2019.

The general **Vaillant Group Code of Conduct** was extensively revised upon introducing a new compliance management system in 2019. Besides a number of company-wide applicable and binding principles of conduct, the Code of Conduct also defines a catalogue of employees' rights and key aspects of company co-determination, which the Vaillant Group acknowledges and promises to protect.

In the reporting period, the Vaillant Group introduced an **electronic violation reporting system**. Employees, customers and business partners can use the system to flag up grievances or report violations of laws or internal regulations without any risks being posed to the person submitting the report.

ENVIRONMENTAL PROTECTION

PRINCIPLES AND MANAGEMENT SYSTEMS

- Vaillant Group vision "Taking care of a better climate. Inside each home and the world around it."
- Multi-site certification pursuant to DIN EN ISO 14001 and DIN EN ISO 45001
- Strategic sustainability programme S.E.E.D.S.
- Vaillant Group principles on environmental policy
- Vaillant Group principles on social responsibility
- Group-wide, binding sustainability targets for 2020 in the focus field Environment: reducing CO₂ emissions by 25 per cent, increasing energy efficiency by 25 per cent, reducing water consumption by 50 per cent and waste volume by 20 per cent
- Group-wide, binding sustainability targets for 2020 in the focus field Development & Products: generating 80 per cent of sales through high-efficiency products, reducing greenhouse gas emissions from the product portfolio by 15 per cent
- Integrating environmentally relevant aspects into processes
- Vaillant Group product strategy with a focus on high-efficiency technologies, renewable energies, system technology and digital services

MEASURES

- The Vaillant Group carries out annual environmental audits.
- All sustainability indicators are continuously recorded across the company and pooled together in a central reporting tool, the Vaillant Group Sustainability Scorecard.
- Waste prevention: we are increasing the amount of recyclable packaging for our production materials.
- Energy efficiency: we generally equip our own buildings and production sites solely with heaters based on high-efficiency condensing technology; furthermore, we install technologies at our sites that are operated using renewable energies. Existing systems and lighting technology are gradually being modernised.
- The Vaillant Group maintains an internal global network of sustainability representatives (S.E.E.D.S. Ambassadors) who record and assess sustainability aspects in the core areas every year.
- We place our suppliers under an obligation to comply with the applicable statutory environmental standards.
- We carry out supplier audits at regular intervals.
- Environmental compatibility aspects play an ever greater role when selecting suppliers and service providers.
- We train new employees on the topic of "sustainability at the Vaillant Group".
- The Vaillant Group champions the responsible use of natural resources in various initiatives and networks. The company is a partner of the German National Sustainability Day, member of the German Association of Environmental Management (B.A.U.M. e. V.) and of the Sustainability Leadership Forum overseen by B.A.U.M. e. V. / Centre for Sustainability Management at Leuphana University Lüneburg.
- The company is a member of the steering committee of the German dialogue forum *Wirtschaft macht Klimaschutz* and moderates the working group on business-related climate protection goals.
- The Vaillant Group is a strategic partner of the international children's charity "SOS Children's Villages worldwide".
- The Vaillant Group has a business unit dedicated to expanding and strengthening the heat pump and renewable energies business.
- We are constantly developing our portfolio of high-efficiency and eco-friendly product technologies.
- We offer technology training courses for installers.

Global Compact Principles

- 7 Taking a precautionary approach to environmental challenges
- 8 Promoting greater environmental responsibility
- 9 Developing and diffusing environmentally friendly technologies

PROGRESS IN THE REPORTING PERIOD

The Vaillant Group has an environmental management system certified in accordance with DIN EN ISO 14001 for all production and development sites. In the reporting period we conducted a total of **15 internal system audits** besides making a number of improvements to energy efficiency and putting measures in place to reduce CO₂ emissions. This included updating parts of the building technology at our production site in Bergheim. Moreover, so-called Green Value Walks were held at several sites. These systematic, regular inspections aim to identify where energy and other resources are being wasted. Further site-specific improvements were made, for instance, in Belper, UK, which is now powered by renewable energies just like all of its German counterparts. At our headquarters in Remscheid, preparatory work was carried out for the installation of additional charging stations for electric vehicles.

In all, the successful implementation of these measures meant that we were able not only to improve our environmental performance indicators across the board, but that we had in fact already **met our 2020 environmental targets in full** by the end of 2018. We are currently working on the continuation of the S.E.E.D.S. programme, which includes defining new target values in our focus areas for 2030.

In 2018, high-efficiency technologies and renewable energies once again made up the largest share of the Vaillant Group's product sales at 69.8 per cent.

In March 2019, the Vaillant Group presented its first **heat pump with natural coolant** at the leading international industry trade fair ISH. As this natural coolant exhibits a particularly low global-warming potential compared with conventional coolants and as the heat pump can also be installed in existing buildings, the product helps substantially reduce CO₂ emissions.

In order to allow sustainability criteria to be systematically observed from the very start of product development, we compiled the 6 Green Rules in 2017, which are now firmly anchored in our product development processes. In the reporting period, we continuously held **training sessions on the use of the 6 Green Rules** and supported the implementation of product development projects.

The Green iQ product range was expanded by a further heat pump model. Green iQ products satisfy elevated sustainability criteria throughout their entire life cycle, from production all the way through to recycling at the end of a product's service life.

In order to raise awareness of sustainability at the company and among the workforce, **sustainability training forms part of the induction schedule** for new employees at the company headquarters in Remscheid. Besides this, the annual S.E.E.D.S. Ambassador Meeting was held in June 2019. The meeting was attended by employees who are responsible for sustainability activities in their business units or national sales companies.

The partnership with the international children's charity "SOS Children's Villages worldwide" has long been a key part of our company's social engagement. The Vaillant Group equips the children's villages with environmentally friendly and energy-efficient heating technology. In 2018, nine SOS Children's Villages were fitted with modern heating technology. Moreover, in one of the largest projects carried out to date, the Vaillant Group fitted two newly built SOS Children's Villages in France with 30 heat pumps.

FIGHT AGAINST CORRUPTION

PRINCIPLES AND MANAGEMENT SYSTEMS

- Vaillant Group
Corporate Governance Policy
- Vaillant Group Code of Conduct
- Vaillant Group Compliance
Management System
- Vaillant Group Anti-Corruption Policy
- Vaillant Group Spirit
→ Corporate values entrepreneurship,
trust, integrity, passion

MEASURES

- We conduct Group-wide compliance training on the topic of fighting corruption.
- Group-wide, internal approval is required for gifts and benefits above a certain threshold that are to be granted to individuals.
- Adherence to the Group Anti-Corruption Policy is reviewed and monitored by the Internal Audit department and the Group Compliance Committee.
- We have put an electronic violation reporting system in place for employees, customers and business partners, which helps them to report violations of laws and internal regulations.
- Communicating the fundamental corporate values (Vaillant Group Spirit) forms a firm part of welcome and induction events for new employees.

Global Compact Principle

10 Measures to fight corruption

PROGRESS IN THE REPORTING PERIOD

In order to protect and promote mutual corporate targets, the Vaillant Group launched a new, Group-wide **compliance management system** on 1 July 2019. The system launch was accompanied by an internal information and communication campaign to raise awareness among employees.

The new Compliance Management System covers four focus areas and is binding for all Vaillant Group employees and companies.

A key part of the Compliance Management System is the comprehensive **Code of Conduct**. This is based in particular on two of the Vaillant Group's corporate values: trust and integrity. The Code of Conduct helps our company make sure that everyone acts in accordance with the rules, in keeping with all applicable laws and company regulations.

Besides publishing the Code of Conduct, an updated and more precisely defined **Group Anti-Corruption Policy** was also released. With the aid of approval specifications and release restrictions, it is ensured that gifts and benefits are only granted or accepted if they are permissible and within the law. Gifts and benefits are also recorded transparently.

Our internal guidelines serve to protect both our employees and our company from experiencing any criminal repercussions or other disadvantages. All employees have access to instructions, detailed information and e-learning programmes on the Vaillant Group intranet.

Other areas covered by the Compliance Management System are antitrust law, data protection and anti-money laundering. Group policies have also

been issued for each of these areas. All Vaillant Group employees can refer to these policies to help them decide which situations are of particular relevance when dealing with our business partners and when the responsible Compliance Officer should be consulted.

The implementation of the Compliance Management System and its effectiveness are also subject of external evaluations and audits.

Published by
Vaillant GmbH
Berghauser Straße 40
42859 Remscheid
Germany

www.vaillant-group.com
info@vaillant.de

VC Corporate Communications,
Sustainability Management & Politics
Phone +49 2191 18-2754
Fax +49 2191 18-2895

Design
gerlach & partner, Cologne