

● 2019

COMMUNICATION ON PROGRESS TO THE UNITED NATIONS GLOBAL COMPACT





VAILLANT GROUP

PREFACE BY THE CEO

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

A handwritten signature in black ink, appearing to read 'Norbert Schiedeck', written in a cursive style.

Dr.-Ing. Norbert Schiedeck

CEO of the Vaillant Group



VAILLANT GROUP

ABOUT THIS COMMUNICATION ON PROGRESS

This document's purpose is to provide information on the Vaillant Group's progress with respect to the implementation of the Ten Principles enshrined in the Global Compact in the day-to-day practice of our business. The action we have taken in this field is founded on our expressed corporate principles and our management systems.

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

HUMAN RIGHTS AND LABOUR STANDARDS

GLOBAL COMPACT PRINCIPLE	PRINCIPLES AND MANAGEMENT SYSTEMS	MEASURES	PROGRESS IN 2018/2019
Principle 1: Supporting human rights	<ul style="list-style-type: none"> Strategic sustainability programme S.E.E.D.S. 	<ul style="list-style-type: none"> We place our suppliers under a written obligation to adhere to the principles of the Global Compact. 	<p>The Vaillant Group commits itself in particular to protect human rights.</p>
Principle 2: Eliminating human rights abuses	<ul style="list-style-type: none"> Vaillant Group guideline on the Global Compact 	<ul style="list-style-type: none"> We conduct supplier audits, which are based on questionnaires, in due consideration of social standards. 	<p>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.</p>
Principle 3: Upholding the freedom of association and right to collective bargaining	<ul style="list-style-type: none"> Supplier management system (supplier screening, supplier assessment, general purchasing terms, contractual terms) 	<ul style="list-style-type: none"> With the help of risk assessments, we are able to identify actual and potential human rights violations. 	<p>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.</p>
Principle 4: Elimination of all forms of forced and compulsory labour	<ul style="list-style-type: none"> Vaillant Group principles on social responsibility Vaillant Group Spirit Corporate values entrepreneurship, trust, integrity, passion 	<ul style="list-style-type: none"> 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. 	<p>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</p>
Principle 5: Abolition of child labour	<ul style="list-style-type: none"> Vaillant Group Code of Conduct 	<ul style="list-style-type: none"> The Vaillant Group commits itself to the collective agreements in place at the main sites. Minimum wage regulations are respected in terms of pay. 	
Principle 6: Elimination of discrimination	<ul style="list-style-type: none"> UK Modern Slavery Act 	<ul style="list-style-type: none"> The company expressly recognises the UK's Modern 	

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		<p>Slavery Act.</p> <ul style="list-style-type: none"> The Vaillant Group supports the Fair Company initiative. The member companies guarantee fair conditions for internships. 	<p>to the evaluation allowed us to take an in-depth look at every relevant viewpoint from the different perspectives of the various specialist areas.</p> <p>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.</p> <p>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.</p> <p>The general Vaillant Group Code of Conduct was extensively revised upon introducing a new compliance</p>

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			<p>management system in 2019.</p> <p>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.</p> <p>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.</p>

ENVIRONMENTAL PROTECTION

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Principle 7: Taking a precautionary approach to environmental challenges	<ul style="list-style-type: none"> Vaillant Group vision "Taking care of a better climate. Inside each home and the world around it." 	<ul style="list-style-type: none"> The Vaillant Group carries out annual environmental audits. 	<p>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.</p>
Principle 8: Promoting greater environmental responsibility	<ul style="list-style-type: none"> Multi-site certification pursuant to DIN EN ISO 14001 and DIN EN ISO 45001 	<ul style="list-style-type: none"> All sustainability indicators are continuously recorded across the company and pooled together in a central reporting tool, the Vaillant Group Sustainability Scorecard. 	
Principle 9: Developing and diffusing environmentally friendly technologies	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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. 	<p>In all, the successful implementation of these measures meant that we were able not only to improve our</p>

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	<ul style="list-style-type: none"> Integrating environmentally relevant aspects into processes Vaillant Group product strategy with a focus on high-efficiency technologies, renewable energies, system technology and digital services 	<ul style="list-style-type: none"> 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 	<p>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.</p> <p>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.</p> <p>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.</p> <p>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</p>

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		<p>on business-related climate protection goals.</p> <ul style="list-style-type: none"> 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. 	<p>reporting period, we continuously held training sessions on the use of the 6 Green Rules and supported the implementation of product development projects.</p> <p>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</p>

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			<p>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.</p>

FIGHT AGAINST CORRUPTION

GLOBAL COMPACT PRINCIPLE	PRINCIPLES AND MANAGEMENT SYSTEMS	MEASURES	PROGRESS IN 2018/2019
<p>Principle 10: Measures to fight corruption</p>	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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. 	<p>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.</p> <p>The new Compliance Management System covers four focus areas and is binding for all Vaillant Group employees and companies.</p> <p>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.</p> <p>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</p>

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