

2021

# BDR THERMEA GROUP





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## At a glance

BDR Thermea Group (the name under which Remeha Group B.V. operates) brings a sustainable future closer through smart indoor climate solutions. BDR Thermea Group is a leader in the energy transition, developing and supplying a range of smart, high-quality, innovative and efficient heating and cooling technologies that allow people to reduce their carbon footprint while enjoying comfort in their homes, workplaces and leisure facilities.

Ranging from high-efficiency combi-boilers to innovative heat pump technology and connected services, our products meet and exceed the Energy-related Products Directive (ErP) regulations. They are installed, commissioned and serviced by an international network of professionals and made available through close partnerships with distributors.

Our heat generator portfolio includes electrical and gas heat pumps, high-efficiency gas boilers, biomass boilers and combined heat and power (CHP) systems. We are at the forefront of developing ground-breaking hydrogen boilers and fuel cell technology. Our tanks and tankless water heating systems can use electricity, gas and other energy sources. We offer solutions for residential and commercial use, meeting the needs of one-family dwellings right through to high-rise office blocks.

We work to shape a sustainable future, continuously improving our business and innovating to bring the energy transition to life. We know that practicality and affordability are key to decarbonising heating and cooling of homes, so we work with our customers to develop solutions that are easy to install, easy to use and connectable.

BDR Thermea Group was created in 2009 as a group of three market-leading companies: Baxi, De Dietrich and Remeha. It includes further well-known brands such as Brötje, Chappée and Baymak. We operate in more than 100 countries worldwide, working as one team across countries, business units and functions. We hold a leading position in all European markets, Turkey, Russia and China. Our products are manufactured in 13 different locations in eight countries.

### **BDR Thermea Group brings a sustainable future closer through smart indoor climate solutions.**

In 2021, our Group achieved turnover of € 2.1 billion and employed more than 6,200 people. BDR Thermea Group is a structure-regime company to which the provisions of articles 268-274 of Book 2 of the Dutch Civil Code are applicable. The organisational structure of the Group is based on regional divisions (United Kingdom and Ireland, France, Germany, the Netherlands and Belgium, Turkey, Iberia, Italy, and International). The company has its corporate seat in Apeldoorn, the Netherlands.





An aerial photograph of a wind farm in a lush green landscape. A road with a dashed white line runs diagonally across the foreground. A canal or small river flows through the middle ground. In the background, several large white wind turbines are visible against a hazy, golden sky, suggesting a sunrise or sunset. The overall scene is peaceful and represents sustainable energy in a rural setting.

**Energy transition**

The energy transition keeps gaining momentum, as people's general concern grows about the future of our planet



## Message from the CEO

COVID-19 continued to embroil the world in 2021, although the global economy recovered quickly from the slowdown of 2020. At the same time, consumers felt the effects of stress in production and supply chains, and of resurgent inflation.

Vaccines helped keep COVID-19 under control for most of 2021 until the Omicron variant emerged. Yet the pandemic persisted, and our clear priorities at BDR Thermea remained keeping our people safe and serving our customers in the demanding circumstances.

More customers than ever before chose our solutions and services in 2021, helping to push our Group revenues to € 2.1 billion for the first time. Fulfilling that demand was no easy task, due to global supply chain challenges – especially a shortage of semiconductors. Supply chains were then stressed by a sharp rebound in demand for products where semiconductors are widely used. These shortages were accompanied by record high pricing for key commodities and transport.

We worked with all our supplier partners to maintain production through this period, took an agile approach to prevent lengthy production stops, and worked closely with key suppliers to find solutions in order to keep serving our customers. Yet we could not fulfil demand completely and I apologise to all our customers for that fact. We expect the difficulties to persist at least through the first half of 2022 and we will work hard to catch up in the second half of this year. All teams continue to work closely together to solve this issue as quickly as possible.

### Accelerating energy transition

Last year we finalised the first cycle of our Change with Energy strategy, launched in late 2018. Despite the COVID crisis, we have grown our positions in the fast-growing heat pump market and services business, and installed strong manufacturing capability in China. Our targets for turnover and EBITDA were surpassed. I would like to thank all the teams who made this happen. We are well on our way to transforming the company and bringing a sustainable future closer through smart indoor climate solutions.

In 2021, we defined our core company values, analysed our strategy in depth and redefined our ambitions and path out to 2025. Our core values – one team, customer focus and sustainable future – are the very foundation of our refreshed strategy: Grow Together with Energy.

The key global megatrends of the energy transition, digitalisation and the shift in global economic power continue to affect us, and at an ever-faster tempo. The energy transition keeps gaining momentum, as people's general concern grows about the future of our planet. BDR Thermea Group is aligned with the vision of the EU Green Deal, which targets a carbon-neutral economy by 2050. Our strategy has set clear targets for reduction of scope 1, 2 and 3 carbon emissions and we last year signed an agreement with Climate Neutral Group to compensate unavoidable scope 1 and 2 emissions through a biogas project in Uganda.



**Bertrand Schmitt**  
CEO of BDR Thermea Group



Our business performed well across the board in 2021, with growth in all our operating countries. In many countries, including the Netherlands, UK and Germany, we gained market share in residential boilers. Our heat pump business gained ground in all key markets in Europe. Our services business also grew strongly, with increases in both turnover and the number of service contracts. We made big steps in strategic product development, rolling out the new BDR Thermea boiler platforms, as well as 24 new heat pump solutions.

To better serve our customers in the fast-growing European market for heat pumps and to help us make the energy transition a reality, we welcomed new colleagues in Spain, when we acquired Barcelona-based manufacturer Hitecsa. We also said goodbye to some colleagues as we divested ECR International in the US to sharpen our focus as a company. At board level, we welcomed Lúcia de Lima Veiga-Ermida Moretti as our new Chief Commercial Officer.

## **Gratitude and appreciation**

As the pandemic continued for a second year, it remained crucially important that our people maintained good mental and physical health. We used 'pulse' employee surveys to gauge the health and wellbeing of our employees during 2021.

I am proud of and grateful to all employees for their hard work, persistence and collaboration across teams, departments and countries in this demanding year. My sincere thanks are due to our customers and suppliers for their trusted and professional partnerships and support, and to our shareholder, the SAR, and the Supervisory Board, for their continued support.

BDR Thermea is in a 'critical infrastructure' business that has proven resilient to the COVID-19 crisis, and we are well positioned as a leader in the energy transition as we look ahead to 2022 and beyond. Powered by a refreshed strategy, an accelerating energy transition and our company values, I am confident we will seize the opportunities ahead as we grow together with energy.

On behalf of the Management Board

Bertrand Schmitt



# Report of the Management Board

## Mission

BDR Thermea Group brings a sustainable future closer through smart indoor climate solutions.

At BDR Thermea Group, we provide end-users with a broad choice of technologies that allow them to reduce their environmental footprint while enjoying comfort in their homes, workplaces and leisure facilities. Our digital solutions improve the customer experience along the value chain.

## Strategy

In 2018, we launched our Change with Energy strategy, which set out how we would adapt to the changes caused by the global megatrends that most affect BDR Thermea Group: the energy transition, digitalisation and the shift in global economic power. These megatrends continue to impact us, and at ever-increasing speed.

The shift to renewables presents opportunities as it becomes ever more significant for politicians, policymakers, businesses and consumers. Increasingly aware end-users want to make their homes part of the energy transition, so need guidance and tools to help them navigate the fast-moving environment and make the right choices. Installers, who are in short supply across Europe, need tools and training so they can work with maximum efficiency and reskill for the energy transition. Remote customer interaction is accelerating as installers and end-users become ever more tech-savvy and demand strong support and smooth online service. Geopolitical shifts make it important for us to grow outside our traditional European markets.

After updating our strategy in 2020, we fundamentally refocused it in 2021. Our Grow Together with Energy 2021-2025 plan sets our ambitious strategic path for the coming years. It is built on our company values: customer focus, one team and sustainable future.

## Ambitions to 2025

Our mission – to bring a sustainable future closer through smart indoor climate solutions – is the basis for the following ambitions. This is where we want our company to be in 2025:



**1**  
We are a leader in the energy transition.



**2**  
We are our customers' first choice.



**3**  
We care for the health and safety of our people and business partners.



**4**  
We are the employer of choice.



**5**  
We achieve sustainable growth of our company.



These are our updated strategic priorities:



**1**  
To drive the energy transition with integrated HVAC solutions.



**2**  
To strengthen our customer intimacy.



**3**  
To be a responsible business partner.



**4**  
To improve our capabilities and competitiveness.

In line with our refreshed strategic priorities, we updated our strategic projects. These include building capabilities to develop and sell integrated HVAC solutions; developing and implementing our sustainability agenda; strengthening our customer NPS across markets; and realising e-commerce channels.

#### Business development units

To speed up development of products, and to drive focus, collaboration and shared ownership throughout the company, six Business Development Units (BDUs) began operating in early 2021. The BDUs have clear roadmaps to strengthen our offering in coming years. The BDUs are Residential Boilers, Commercial Solutions, Heat Pumps & Air Conditioning, Hot Water & Solar Solutions, Services & Spares and Digital & Controls. BDUs are responsible for delivering the products and services that local countries will market and sell.

#### Regional action plans

A major strength of our company is customer intimacy and our ability to adapt to local market conditions. Regional teams and their engagement are therefore crucial to our Group strategy: they translate the strategic priorities into local action plans such as

marketing campaigns, sales programmes, product launches and cost programmes.

### Sustainability ambitions

We aim to minimise our contribution to climate change. We are committed to the Fit for 55 programme, contributing to the ambition of making Europe the world's first climate-neutral continent by 2050 through the EU Green Deal, and reducing 55% of Europe's carbon emissions by 2030.

Through our mission and our commitment to the 10 UN Global Compact principles, we strive to create stability and trust for all stakeholders. We aim to reach climate neutrality in 2050 at the latest.

With buildings responsible for 40% of energy consumption in the EU and around 30% globally, climate action is a key topic for the whole industry. BDR Thermea is a member of the European Heating Industry (EHI) and we fully support the industry association's Vision 2030-2050 launched in 2020, which charts a path towards carbon-neutral buildings by the middle of this century.

We aim to reduce our direct (scope 1) and indirect (scope 2) emissions from our operation by 5% annually as from 2019 towards 2030, in line with Fit for 55 (to achieve 55% carbon emission reduction by 2030). We will achieve carbon neutrality in our operations by offsetting our carbon emissions as from 2021.

Furthermore, we strive to reduce the indirect emissions (scope 3) in our supply chain and in the user phase:

- Reduce supply chain (upstream) emissions (kgCO<sub>2</sub>e) by 30% in 2030
- Reduce user phase (downstream) emissions (kgCO<sub>2</sub>e) by 30%<sup>1)</sup> in 2030

These targets will help us contribute to the Paris Agreement goal of limiting the global temperature rise to 2°C.

1. KPI x = total emissions / total units sold

## General and financial performance 2021

### Market environment

After declining during 2020, all Western European residential boiler markets grew significantly in 2021. The market increase was driven by cold weather in the first quarter of 2021, so-called 'lockdown heating' and governmental incentives in several countries. The latter especially applies to Italy, where the market increased by 40% driven by the 'Eco & Super bonus' subsidy scheme on sustainable home improvement. Double-digit growth was also seen in the UK (12%), France (22%) and Spain (21%), with more modest growth in Germany (4%) and the Netherlands (1%). However, growth potential was – especially in the second half of 2021 – restricted by worldwide supply chain constraints and the limited availability of components. Most of the residential boiler markets outside Western Europe also grew last year. Market conditions were favourable in Russia, Poland, the Czech Republic and China. Turkey experienced a market decline as dealers were affected by continued lockdown measures.

Commercial boiler markets recovered during 2021 from the steep decline in 2020 following the COVID outbreak and the resulting decline in the commercial real estate market, with lower utilisation of commercial buildings such as hotels, offices and meeting places. All Western European markets grew by more than 10% in 2021.

The overall heat pump market in Western Europe grew by 55%, supported by legislation, continued government incentive programmes and consumer spending, which – partly due to lockdowns – shifted to sustainable home improvement. France, which is the biggest market in Western Europe representing around 40% of the total, increased by more than 50%. Italy became the second-biggest heat pump market with 170% growth, driven by the 'Eco & Super bonus' subsidy schemes. The markets in both Germany and Spain increased by around 30%, and the Netherlands by 16%.

### Financial performance

BDR Thermea Group realised net sales of € 2.1 billion in 2021, which represented an 18% increase in turnover compared with 2020. All our major sales destinations grew. Besides the market increases, sales growth was driven by our strengthened market position in several countries. Currency developments had a negative impact of € 26 million, mainly driven by adverse movements of the Turkish lira versus the euro.

We delivered more than 1.5 million residential boilers to customers worldwide, representing 12% growth versus 2020. We strengthened our solid market position in residential boilers in the UK, the Netherlands and Spain. In most of the main markets outside Western Europe - Russia, Poland and the Czech Republic - we continued growing strongly. Commercial boiler volumes increased by 10%.

Our heat pump business grew by more than 50% compared to 2020, supported by market growth and expansion of our market position in all Western European countries where we are active in heat pumps.

Air conditioner sales increased by 30%. Sales of water heaters, radiators and solar panels also climbed.

Service income increased by 31%, consisting of 7% organic growth and € 7 million in sales from acquisitions included in 2021 for the first full year. Sales of spares were higher than in 2020.

EBITDA totalled € 221 million in 2021, which was € 34 million higher than in 2020. Improvement was driven by sales and gross margin increases and structural cost reduction programmes. This was partly offset by rising purchase costs and higher indirect costs in other areas such as investments in our strategic programme and strengthening the R&D organisation, higher variable sales costs and higher personnel costs linked to performance.

This resulted in an EBITDA margin (% versus net sales) of 10.5%, which was slightly higher than the 2020 level of 10.4%.

Our net profit climbed significantly in 2021 to € 60.3 million from € 17.8 million in 2020. The major contributor was the € 34 million increase in operational result (EBITDA). Moreover, the net result in 2020 contained several one-off costs for restructuring programmes that were accelerated in response to the pandemic, and impairment losses on goodwill and brands following the restructuring of Sofath in France.

We continued to generate strong operational cash flow. This totalled € 134 million in 2021, although € 73 million lower than in 2020. From a cash flow perspective, the € 34 million increase in operational performance (EBITDA) was more than offset by € 9m higher outflow on taxation (payment obligations postponed from 2020 to 2021) and € 96 million higher net outflow on working capital. Working capital as per December 2021 remained at similarly low levels to December 2020, but had significantly reduced during 2020.

This resulted in a further decrease in the leverage ratio (net financial debt/EBITDA) from 0.84 at the end of 2020 to 0.44 at the end of 2021. The current ratio slightly decreased to 1.29 (2020: 1.34), while solvability increased to 31.9% (2020: 30.1%).





### Sustainability

With buildings responsible for 40% of energy consumption in the EU and around 30% globally, climate action is a key topic for BDR Thermea Group





## Sustainability

### Our approach and organisation

BDR Thermea Group uses an ESG reporting framework to explain our impact on society, containing our main ambitions and KPIs for all the operating companies in our Group.

We are working on applying the Global Reporting Initiative (GRI) standards for our sustainability reporting. In 2020, we took a first step in building a reporting system, starting to collect data on some main KPIs for Group consolidation. The materiality assessment process is under development, and we began rolling out a materiality questionnaire in January 2022.

Although the exact shape of the EU Corporate Sustainability directive, due in 2023, is not yet clear, we last year began taking the necessary steps to be prepared and compliant. We will further develop our carbon strategy, roadmaps and targets in 2022.

We use Life Cycle Analyses to quantify the potential environmental impacts associated with a product, all the way from raw material extraction through processing, manufacture, distribution, use and repair/maintenance, to disposal or recycling. For residential boilers, we have performed 29 LCAs so far. The aim is to complete LCAs for all new residential boiler ranges by 2024.

All our plants have passed the surveillance or renewal audits for their quality management systems certifications (ISO 9001) and their environmental management system (ISO 14001). Our operating companies in Turkey, Germany and the Netherlands have obtained energy management systems certification (ISO 50001).

Last year saw the appointment of a dedicated sustainability manager to oversee the overall sustainability programme of BDR Thermea Group. A three-person sustainability team became fully operational in January 2022.

Dedicated sustainability leads were appointed in all our operating companies and BDUs to manage local sustainability activities and align with the central team. An expert Life Cycle Assessment Team was created to optimise knowledge sharing and to develop a standardised BDR Thermea LCA process that can be used by all our business units.

To ensure continuous improvement and monitoring at the highest management level, we have a Sustainability Steering Team. This consists of our Chief Financial Officer (the sustainability sponsor in the Management Board), Chief Technology Officer and Group Quality Director.

To enable the integration of relevant sustainability activities in our business, we have created 10 internal workstreams.



**1** | Strategy development & programme management (incl. material assessment)

**2** | Develop & implement our carbon reduction strategy (scope 1,2 & 3)

**3** | Gain insights in our complete environmental footprint and develop circularity / ecodesign approach

**4** | Develop a sustainable packaging system and concept

**5** | Provide a healthy and safe place to work

**6** | Foster diversity and inclusion for our employees and gain insights on human rights for our value chain

**7** | Understanding the communities where we do our business

**8** | Engage all important stakeholders in our value chain: raise awareness & develop training

**9** | Ensure good governance in all parts of the Group

**10** | Monitoring & reporting on ESG data & performance for the whole Group



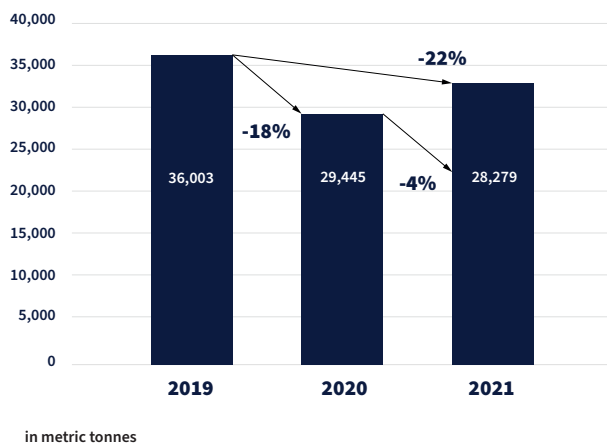
## Carbon neutrality

### Achieving carbon neutrality for all our sites & buildings (scope 1 & 2)

In 2021, our total emissions for scope 1 & 2 were 28,279 mtCO<sub>2</sub>e (metric tons of carbon dioxide equivalent), with an absolute reduction of 22% compared to 2019. This was based on energy usage, specifically on fuel consumption and purchased electricity. With this, we are on track with our target of 5% annual reduction from 2019 towards a total of 55% carbon reduction by 2030, which is in line with Fit for 55. To further improve our carbon footprint, all operating companies took initiatives to be part of our journey towards net-zero operations.



Total annual carbon reduction (%)



### Carbon-neutral operations by offsetting scope 1 & 2 emissions

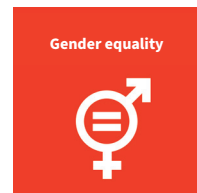
We are working to increase renewable energy generation at our manufacturing facilities. In 2021, we generated 2,271,539 kWh of renewable electricity through solar panels. Since 2021, we have compensated unavoidable CO<sub>2</sub> emissions. By offsetting them, we make all our operations carbon neutral.

To this end, we invest in a project that helps small farm owners in Uganda use biogas for more of their everyday energy needs. The Uganda Biogas project installs domestic biogas systems at farms in rural areas and areas next to towns. It aims to establish a sustainable and commercially viable biogas sector in Uganda, improving livelihoods and quality of life. This is a Gold Standard project, meaning that it features the highest levels of environmental integrity and contributes to sustainable development.

Uganda Biogas contributes to several UN Sustainable Development Goals. It supports gender equality, no poverty and economic growth because women spend less time collecting firewood and can spend more time with families or finding employment. It supports health and wellbeing because using biogas means fewer deaths due to indoor

pollution caused by open fire cooking, plus fewer neck, back and abdominal problems. It benefits the environment: making wood and charcoal for cooking and lighting obsolete is good for biodiversity, combats deforestation and reduces greenhouse gases.

### Contributing to various UN Sustainable Development Goals



### Scope 3 carbon reduction

Where we can really make a difference in terms of environmental impact is through our products and solutions. When we design our solutions, we look at both carbon emissions and environmental impact in terms of areas such as energy management and waste. We strive to reduce impact throughout the value chain, and especially in the user phase of our products.

Our aim is to reduce scope 3 carbon emissions per device by 30% by 2030 versus 2019 levels. In October 2021, we began a deep dive to gain detailed insights into scope 3 carbon emissions throughout our supply chain. Based on the outcome, we will work towards net zero in 2050.

### Leading customers towards the energy transition

Our portfolio includes high-efficiency boilers and heat pumps. Heat pumps play a key role in the decarbonisation of the built environment: by harnessing air and groundwater to generate sustainable heating, they enable buildings to be heated without emitting CO<sub>2</sub>. Heat pumps are especially suited to new-builds.

For existing buildings, hybrid solutions are a growing segment in which we play an active role in many countries. Hybrid configurations – pairing a heat pump with an existing gas or fuel-based boiler – immediately reduce fossil fuel consumption without the need for large-scale renovations to homes. All our residential boilers have the highest efficiency ratings and can be used in hybrid configurations to cut emissions even further.

Connectivity allows the full integration of our appliances into the building ecosystem, which helps users to optimise their energy usage and reduce their carbon emissions.

Practicality and affordability are key in decarbonising home heating and cooling, and that means all parts of the ecosystem working together. We collaborate on financial schemes geared at encouraging more consumers towards hybrid systems, while giving them peace of mind over service and maintenance.

To enhance the adoption of carbon-free solutions such as heat pumps, which usually take more time to commission than gas boilers, it is vital that installers can efficiently install and commission them. We therefore develop smart connected apps and give installers training and support to make installation and commissioning easier.

As well as these solutions available to customers today, we are hard at work on shaping the sustainable energy future. We are making ground-breaking developments in hydrogen boilers, fuel cells and combined heat and power (CHP). We collaborate with a range of stakeholders, including utilities and grid providers, on several pilots and trials involving hydrogen, the emission-free fuel of the future. We are also investing in our BDR Thermea digital platform so our products



We continuously strive to make our offering more attractive and complete, followed up by expert service and maintenance over the lifetime of the product.

Last year, we introduced 24 new heat pump solutions. Heat pumps will play an important role in the energy transition as they are efficient and offer the opportunity to decarbonise heat at the point of use.

In France, we signed an agreement with modular homebuilder Booa to supply plug-and-play heat pumps that do not require a specialised plumber to install and configure.

We launched our Commissioning Wizard App to make it simpler and faster for installers to configure heat pumps. This Bluetooth-powered app guides installers quickly through the commissioning process, reducing two hours of work to 30 minutes. The app also cuts paperwork by generating an automated commissioning report, allowing installers to focus on their core tasks.

Our Remeha business joined forces with Dutch scale-up eonic to enable customers to rent our Elga Ace hybrid heating system in the Netherlands. Reducing financial barriers to making homes more sustainable is the aim of eonic, which invests in energy systems and then rents them out via a subscription service. As part of its Remeha partnership, eonic aims to make 40,000 homes more sustainable in the next few years – in part due to our Elga Ace.

We began participating in the UK Hydrogen Home project. These demonstration houses are open to the public for the next three years, so people can see how 100% hydrogen can fuel their homes in the future. In France, we helped the historic commune of Châteauneuf-sur-Loire take a leap into the future with the installation of our 100% hydrogen boiler – the first of its kind in France.



## Reducing environmental footprint

### Active waste management

Our aim is to avoid and reduce operational waste in all our manufacturing activities, and our policy is to reduce, reuse and recycle as much as possible. Local policies and waste plans differ per operating company. We have begun collecting waste data at Group level, so we can start measuring and monitoring Group performance in the near future and develop a company-wide waste strategy.

We realise that we have an impact on waste throughout our value chain: from the production process, to packaging for our operations, and at our installers and customers. As a starting phase in developing waste and circularity strategy and roadmaps, and a Group policy and environmental system, we last year set ambitions to reduce all our waste by 50% by 2025, and to make 50% of our packaging materials recyclable by 2025.

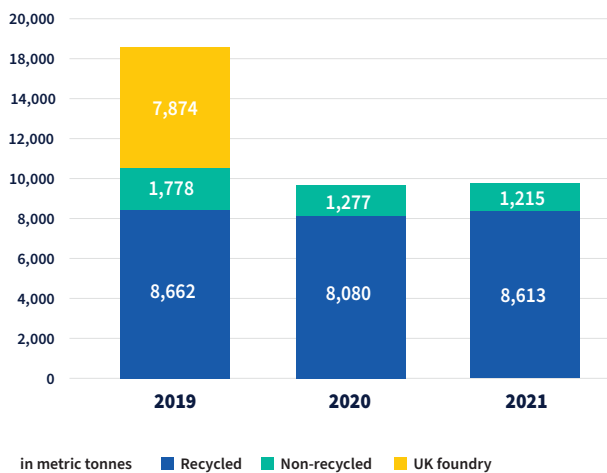
Our approach is to gain insights into the quantity, type and quality of the waste we generate during the activities involved in creating our products and services and their subsequent consumption. Though data collection is still at an early stage, we so far have the following insights:

In 2021, compared to 2020, there was an increase in total waste of 246 tonnes (3%), due to an 8% increase in the units sold. Compared to our base year, 2019, total waste declined by 885 tonnes (8%). The top three waste streams for the Group were paper and cardboard, metal, and wood.

Starting in 2022, we will strive to follow Global Reporting Standard GRI-306, to create our waste inventory through secure, trustworthy, transparent data collection and reporting. This will allow us to minimise the negative environmental footprint from our waste, prevent waste generation and manage the significant impact from the waste we do generate.

To progress towards our goal of 50% recyclable packaging, we are working on projects including returnable packaging for spare parts and reviewing our use of materials in various R&D projects.

#### Total waste from own operations



## Best practices for waste management

We have best practices for waste management and monitoring that we strive to implement and replicate throughout the Group. Here are some examples:

Our facility in Bassano del Grappa, Italy, performed exhaustive waste data reporting to understand and mitigate its water footprint and waste production. It also implemented a system to recover water from industrial processes.

Bassano del Grappa developed and implemented a returnable packaging pilot project together with two of our preferred suppliers. The pilot aims to reduce packaging in the supply of our components and to contribute to SDG 12, responsible consumption and production.

Our Residential Boiler BDU started to investigate alternative materials for product packaging. It will work on the ecodesign of its products, to support a carbon reduction strategy. Plans are to investigate low-impact materials (recycled plastics) for boiler components, develop a fully hybrid systems range, use renewable fuels, and implement connectivity and smart controls to reduce energy consumption.

### Promoting greater environmental responsibility in our supply chain

Sustainability performance is part of our supplier management process. We include sustainability in our vendor rating process to monitor suppliers' sustainability performance and regularly give feedback.

Our supplier excellence manual, available on our website, lays out how we work with suppliers. This includes working with them to identify their level of sustainability, using the Ecovadis sustainability audit tool, and encouraging them to improve year on year. We ask suppliers to comply with 10 principles via a sustainability policy that is part of the supplier excellence manual.

BDR Thermea strives for a sustainable supply chain by making climate-smart decisions in the procurement process. During 2021, 80% of our key suppliers improved their score and 39 new suppliers were enlisted. We plan to roll out a supplier sustainability programme during 2022, with the aim of further improving sustainability in our supply chain.

### Enhancing social impact in our value chain

BDR Thermea is a socially responsible multinational, with products and solutions that add value to society. The success of all our activities starts with the wellbeing of our own people and those in our value chain. We strive to enhance positive impact throughout our value chain, manufacturing activities, and our policy is to reduce, reuse and recycle as much as possible. Local policies and waste plans differ per operating company. We have begun collecting waste data at Group level, so we can start measuring and monitoring Group performance in the near future and develop a company-wide waste strategy.

We realise that we have an impact on waste throughout our value chain: from the production process, to packaging for our operations, and at our installers and customers. As a starting phase in developing waste and circularity strategy and roadmaps, and a Group policy and environmental system, last year we set ambitions to reduce all our waste by 50% by 2025, and to make 50% of our packaging materials recyclable by 2025.

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We have the following insights so far:

- Zero safety incidents
- 100% of employees trained on sustainability by 2025



## Safe and healthy workplace

We launched several projects in 2021 to improve employees' health, safety and wellbeing. One of the year's priorities was to improve reporting of proactive indicators such as hazards, near misses and property damage. This will enable us to address issues before they become lost time injuries (LTIs).

Nevertheless, 114 colleagues were regrettably injured in work accidents during 2021, which is 35 more than in 2020. Although much was done last year and there are plenty of fresh ideas for 2022, this is unacceptably high. Workload, stress and increasing targets mean employees sometimes push themselves to the limit, or beyond. This makes it key to watch for signs of fatigue, dissatisfaction and physical discomfort.

Our UK business last year launched the 'Safety Matters – make time for it' strategy, which aims to reduce LTIs. The first results were promising: LTIs in the UK fell by 67% compared to 2020 and safety has become everyone's responsibility. We therefore decided to roll out Safety Matters across BDR Thermea: our first Group-wide strategy around health and safety.

## Training and awareness to bring a sustainable future closer

We invest in developing our people, providing them appropriate, practical training that equips them to deliver sustainable outcomes for customers and helps make our own operations and solutions more sustainable.

Last year, the whole BDR Thermea sustainability community undertook a three-day sustainability strategy & training programme in Amsterdam. This raised the awareness needed to train employees effectively, and we have since begun training relevant teams on sustainability and carbon management.

Most European markets experience a significant shortage of installers and technical people, which is a bottleneck for the acceleration of the energy transition. Therefore we continuously educate installers at our training centres worldwide, teaching them the best ways to install our energy-efficient and near-zero carbon products.

Our shareholder, the BDR Thermea Shareholder Foundation (SAR), contributes to long-term employment and opportunities at the Group with its social impact ambition. Together with BDR Thermea, the SAR has defined an education strategy consisting of three pillars: external development of partners; personal development of employees; and sustainability & innovation. On the third pillar, we are developing dedicated videos and e-learnings to raise awareness across the Group and start training people on the basics of sustainability in 2022.

One of the SAR's key objectives is to help improve the quality of education for people in the communities where we are present. For example, the SAR enthuses primary school pupils about becoming installers or engineers via the Jeugdeducatiefonds (Youth Education Fund), sponsors an initiative to make primary school pupils aware of energy and water consumption (Rijdende Badkamer) and sponsors professorships on energy transition at the University of Twente and Windesheim University of Applied Sciences.





A photograph of two women in a professional setting. The woman on the right is in the foreground, looking upwards and to the right with a thoughtful expression. She has long brown hair and is wearing a colorful, patterned sweater. The woman on the left is slightly out of focus, smiling gently. She has dark hair and is wearing a dark blazer over a patterned blouse. The background is a bright, modern office space with large windows and white pillars.

**Diversity**

We believe increased diversity benefits the quality of our decision-making and our business operations



## Our people

Our people are our most important asset, and their health, safety and wellbeing are central. In 2021, the second year of COVID-19 and lockdowns, safeguarding employee welfare became even more crucial. Despite the pandemic, we involved all employees in a successful initiative to define BDR Thermea's core cultural values. These will guide us as we transform our company, ensuring it is equipped to seize the opportunities and tackle the challenges of the accelerating energy transition.

### Culture programme

Last year saw us make strides in further developing our company culture. In a broad collaborative effort, we developed company-wide values for the first time in BDR Thermea's history. Our three core values – customer focus, one team and sustainable future – will drive a one company culture, help us grow, and unite us around a shared vision for the future.

The process to choose our values started with a survey among all employees, in which we asked what they felt our culture values already were, and what they should be. We then ran almost 40 workshops, with participation by more than 300 colleagues, which produced a shortlist that was submitted to the Management Board for discussion and a final decision.

A robust culture programme will now help us embed the values throughout BDR Thermea. Our culture and values will act as enablers for all our strategic projects, guiding behaviour and decision-making across the company. Values will be integrated into performance management reviews, as well as embedded in other policies, procedures and processes, such as recruitment.

### Health, wellbeing and engagement

We worked hard to keep employees safe, healthy, motivated and engaged despite the challenges of a pandemic that kept many working from home in 2021, separated from colleagues and at risk of feeling isolated.

Some offices remained closed while others returned with safety procedures in place. Production sites and logistics centres worked in shifts, in line with country guidelines. For service technicians, we maintained a range of safety measures and worked in accordance with local regulations.

After replacing our traditional biennial engagement survey in 2020 with a more flexible 'pulse' survey, focusing on topics such as mental health and wellbeing, we conducted two such pulse surveys in 2021. Our three main actions coming out of the survey results are:

- Mental health & wellbeing: focus activities around workload and work/life balance.

- Hybrid (flex) working: implement policy/framework on hybrid working.
- Office design/redesign: adjust the office to create more focus, collaboration and socializing space, in line with relevant local restrictions.

### Diversity & inclusion

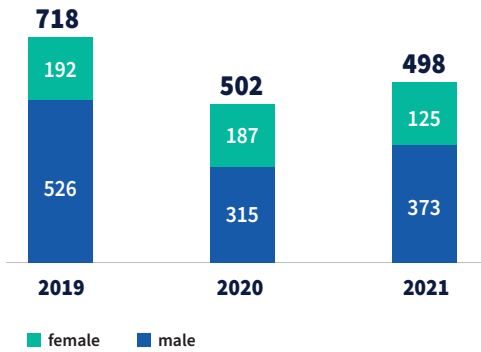
Having a diverse and inclusive workplace is part of our ESG agenda at BDR Thermea. We employ many nationalities and stimulate collaboration across the Group, sharing different perspectives and expecting openness and integrity from everyone.

We believe that increased diversity – of gender, cultures, nationalities, views and more – benefits the quality of our decision-making and business operations. An inclusive approach also ensures we can attract and retain the most talented people in society, and so perform better as a company. We participate in the UNGC Target Gender Equality programme.

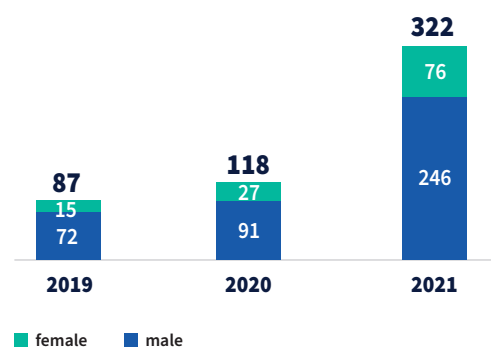
Gender equality, one of the SDGs we are contributing to, is without doubt a challenge in our male-dominated industry, but we are committed to gradually narrowing the gender gap at BDR Thermea. Our gender ratio is 76.8% male to 23.2% female. Half of our Management Board and almost 30% of our Supervisory Board are female. Nearly 30% of our Group leadership team are women.

We are committed to reaching the target of 30% women across the organisation. In that sense, we are focusing our recruitment efforts on female candidates and actively promoting our flexible working policy. At present, 8% of employees work part-time, but we want to encourage people to voice their personal needs, so we can accommodate them. Some 25% of our new hires are female, as are 24% of internal promotions.

## Starters



## Promotions



From an age demographic perspective, we have good representation across generations, albeit that 38% of our people are aged over 50. In our talent management plan, we are therefore focusing on succession planning and talent pipeline visualisation to ensure we are prepared for the future.

As regards tenure, 34% of employees have been with the company for under four years. This means we have a good influx of fresh talent. It is our ambition to ensure they have opportunities to consistently grow within BDR Thermea.

We continue to work towards making sure our workplace is fully inclusive, respecting the richness of all the different cultures we have at our international company.

The average number of employees (excluding temporary workers) on the payroll in 2021, expressed in full-time equivalents, was 6,127, compared to 6,209 in 2020.

## Attracting and developing talent

We work hard to attract, manage and develop talent, with the strategic ambition of being an employer of choice. Last year, we further enhanced the employee journey from recruitment to onboarding and development. For example, we implemented virtual onboarding for all employees, to smooth their start at BDR Thermea Group in the pandemic.

We have made our company values part of how we define the talent we are looking to recruit. This is especially helpful for attracting people to newer, increasingly important areas such as digital and sustainability.

A lifetime of learning is critical to our approach. We continue to build out our BDR Thermea Academies, which already offer training in leadership and sales & marketing, and to which we will add further training courses in 2022.

We welcomed seven graduates to our graduate programme last year and 10 graduates as part of our international technology graduate programme launched in 2019. The graduates rotate in a one-year programme between head office and a local country. Nine graduates from the 2019 programme and seven of last year's programme have been employed by BDR Thermea Group.

Last year we participated in the United Nation's Global Compact Young Professionals Programme and we will continue offering young managers with at least three years of working experience to join.

## IT strategy

In 2021, we made further progress on the four main areas of the IT strategy that we defined in 2019.

- Our multi-year Streamline programme supports the harmonisation and standardisation of BDR Thermea-wide key business processes and data across our different countries. It consolidates our wide variety of legacy IT systems into a single enterprise resource planning environment, creating better efficiency and integration of activities. We implemented the services for our head office in the first quarter of 2021. During the year, we continued to build and enrich the group kernel systems.
- As part of our Develop Sales and Marketing Excellence and Realise E-Commerce Platforms strategic projects, we defined three new projects and launched them in 2021. This is the starting point for further development and growth of our e-commerce capabilities and business.
- For the new future-proof IoT Azure platform, which connects our digital and control platforms, we made enhancements to accommodate the migration of more than 180,000 devices and the first migration of existing legacy IoT platforms to Azure IoT. This platform is scalable, robust and secure for the hosting of future connected products.
- To protect BDR Thermea Group's intellectual property, data and IT systems against ever-increasing cybersecurity threats, we continued to invest in a range of improvement programmes in 2021. These multi-year projects will improve our resilience to, detection of and protection from these threats, and will include improving awareness among end-users.

## Risk management and compliance

### Governance and management control

We use the so-called three lines of defence model for the implementation and monitoring of our management control system. The model's starting point is that the first line (line management) is responsible for managing both strategic and operational risks within their own processes that could potentially threaten the achievement of company objectives.

The second line is formed by departments that support and advise the first line. We are on a journey to strengthen the second line function and to this end have appointed local SPOCs (single points of contact) in the local markets. The SPOCs' roles and responsibilities release capacity at Group level and enable local resources to evolve their expertise and leverage their knowledge to expand local internal control awareness. Having local SPOCs ensures that the Risk function is close to business operations and can properly address the specific internal control environment of local markets. This is balanced by a small central team to ensure sharing of functional best practices and knowledge.

The third line consists of Internal Audit, which assesses the operation of the risk management and control system by means of operational audits, and reports on this to the Audit Committee of the Supervisory Board.

### Risk management

Risk management is a continuous process carried out at all levels of the organisation. The Management Board is ultimately responsible for risk management within the company and is accountable for this to the Supervisory Board. The Management Board is supported by the Group Risk and Compliance Manager. The Supervisory Board regularly discusses management control with Management Board members, including the main risks to the company and the results of operational audits.

### Strategy and risk appetite

While accepting a certain level of risk is a prerequisite for achieving strategic objectives and financial targets, BDR Thermea Group manages risks prudently. This prudent attitude is determined by our strategy, values, code of conduct, global policies and procedures. The risk appetite statement was reviewed and revised in 2021. It was adopted and shared with management at different levels of the company. We categorise our risks into strategic, health & safety, operational, financial & reporting, compliance (regulatory and reputational), information security, and sustainability.

### General principles

We strive to prevent unsafe situations that could endanger our employees, contractors or the environment. We act based on the highest safety standards in our industry. We do our utmost to prevent material errors in financial systems or external reports. We are not prepared to take risks that could limit our access to financial markets.

We attach great importance to compliance with the law. We may be confronted with dilemmas in our operational activities and we deal with them in a transparent manner. We try, as much as possible, to avoid risks that could damage our reputation.

### Instruments

We have several tools to identify and manage all our risks:

- **Top10 Risk Analysis (Top10)**  
The Top10 annually analyses the most important opportunities and risks associated with our strategic objectives. The Top10 transcends business units and local entities. The time horizon of the risks relates to the medium to long term and is an integral part of BDR Thermea Group's strategic plan.
- **Entity Risk Analysis (ERA)**  
The most relevant risks for local entities are specified in the ERA. As well as corporate risks, this consists of risks that specifically apply to the individual local entities. The time horizon of these risks is short to medium term. This is an integral part of the local entities' business plans.
- **Project Risk Analysis (PRA)**  
Project risk analysis is performed during the different phases of the strategic projects and serves to support decision-making. The main project risks are identified, and corrective actions are taken within the project. The strategic projects are also evaluated to highlight which Top10 risks are addressed through each strategic project.
- **Operational risks & strategic risks**  
In operational, health & safety and compliance risks, the focus is on prevention through the correct application of internal management controls. To manage these risks, we have adequate existing management processes and are continually looking to further improve. Regarding strategic risks, on the other hand, the focus is on making choices, and strategic positioning with optimum resilience.



## Financial risks

### Currency and interest risks

BDR Thermea Group's non-euro operations constituted approximately 40% of consolidated net revenue in 2021. Currencies that have the largest impact on our consolidated income statement and balance sheet include the Turkish lira, the British pound and the Russian rouble.

As we report in euros, our operating results and other items in our Group income statement can be affected by movements versus the euro in the currencies of non-euro countries where we operate. We do not hedge the currency exposure of expected non-euro results or operating cash flow.

Currency movements can also affect the value of our assets, liabilities, equity and related balance sheet ratios. Translation differences in equity are not hedged, but the impact of possible currency movements on assets is mitigated by financing through debt in corresponding non-euro currencies.

BDR Thermea Group also has currency risk exposure on trading transactions as, in several cases, components and products are purchased and sold in different currencies. Considering the general economic uncertainty and the lingering effects of Brexit, we decided to hedge a significant part of the expected euro purchase exposure of our British operating company for 2021 and 2022.

The Group's exposure to the risk of changes in market interest rates relates primarily to our non-current portion of external borrowings with floating interest rates. BDR Thermea Group aims to have part of the non-current portion of external borrowings at fixed interest rates, mainly by using interest rate swaps. At the end of 2021, none of our net external debt was structured as debt at fixed interest rates, considering the ongoing low interest rate level.

We monitor interest rate developments, to enable the Group to act if needed. An increase or decrease of 0.1% in market interest rates would result in a decrease or increase in profit before tax of approximately €0.3 million on an annual basis. On top of the interbank offered rates, we pay an interest spread determined by a pricing grid that is primarily set by the level of total net debt divided by EBITDA.

For a description of the financial instruments and risk management, please refer to the relevant paragraph in the Notes to the consolidated financial statements.

### Risks related to pension plans

BDR Thermea Group is involved in a number of defined benefit pension plans, the largest of which covers the majority of our employees in the United Kingdom, which at year-end 2021 showed a funding surplus. Our pension plan assets principally consist of long-term debt instruments, equity instruments and investment funds. Future market developments may affect assets of our defined benefit pension plans and the plans' compliance with mandatory coverage ratios, causing higher pension charges, pension premiums and contributions payable. In addition, defined benefit pension plans are sensitive to interest rates, price inflation and other actuarial risks. Future adverse developments in these areas may require us to make significant contributions.

### Risks related to debt financing

In certain circumstances, the impact of BDR Thermea Group's operational gearing could possibly lead to a default situation in our financial facilities, as declining EBITDA might lead to a situation where the related covenant ratios could no longer be met. This could lead to a situation that would require BDR Thermea Group to repay debt before its originally scheduled maturity.

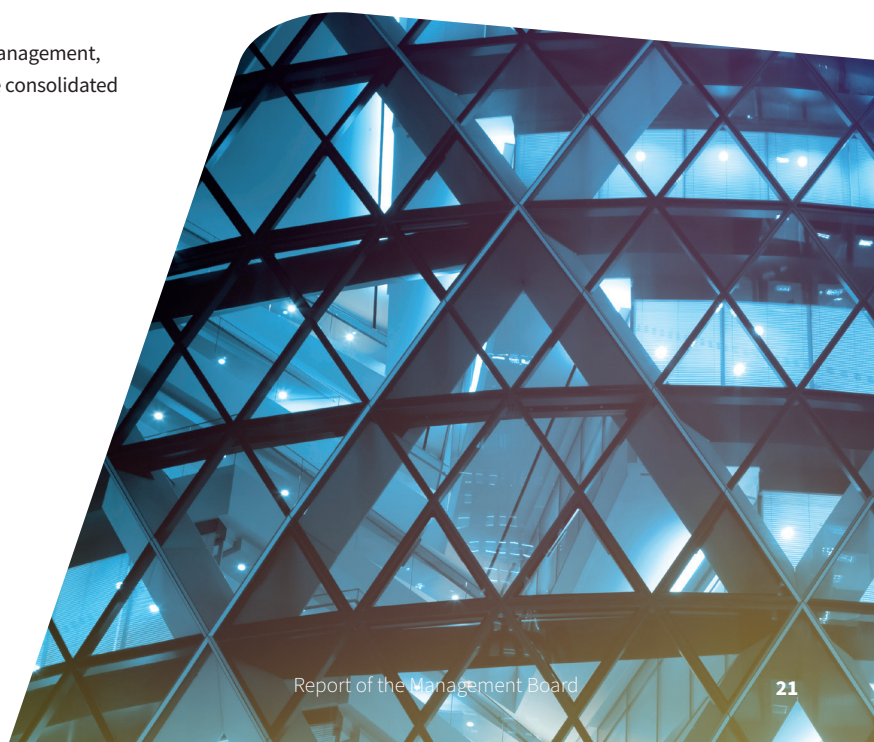
We manage this risk by targeting our key covenant ratios, such as net financial debt divided by EBITDA, as well as the interest cover ratio, to remain at levels that allow for reasonable levels of adverse fluctuations in the components of these covenant ratios.

### Financial reporting and position risks

We are averse to any risk that could jeopardise the integrity of our financial statements. Besides employing trained professionals, we have effective control frameworks in place to minimise the risk of material misstatements and errors in our financial statements.

### Law and regulation risks

We strive to comply with all applicable laws and regulations wherever we do business.



## COVID-19

We have closely monitored the evolution of COVID-19 as it has continued to impact different countries to varying degrees over time and adapted our risk profile as required. We continue to maintain close contact with local health authorities as government agencies in all our geographies, so that we minimise the risk to BDR Thermea Group, our operations and employees.

During the early stages of the pandemic, we prioritised the health, safety and wellbeing of our workforce and the immediate needs of customers and governments. We ensured our critical infrastructure, resources and activities were organised to provide continuity of our operations. We now no longer consider the COVID-19 pandemic as an individual risk, but rather monitor how the pandemic amplifies our principal, emerging and operational risks.

The section below summarises the impact the pandemic had on the different risk categories.

### *Strategic*

We have continued to build stronger relationships and partnerships with our stakeholders, industry players and governments when managing strategic risks. We continue to monitor external impacts caused by COVID-19, including any disruptive market factors. The pandemic has increased the importance of digitalising our sales channels, services and products at an unprecedented speed. In addition to digitalisation, decarbonisation will drive the pace and our channels into the market, supported by consumer sentiment and legislation.

### *Health & Safety*

We maintain a global restriction on travel and continue to offer employees flexible working options. We work hard to balance the needs of employees with the needs of the company.

### *Operational*

Global supply shortages and increased raw material prices have affected our business. To some extent, we have mitigated this through strong stakeholder management with our critical suppliers and service providers. We continue to monitor inventory levels to optimise the allocation of global inventory.

Lockdowns, social distancing and other COVID-19 constraints restricted our ability to physically serve customers. We accelerated and increased our digital transformation projects to provide a better customer experience and to capture opportunities as consumer confidence and markets rebounded.

### *Financial*

The pandemic caused significant volatility in financial markets. Although this can affect both our access to capital markets and the cost of debt, BDR Thermea Group has not been adversely affected in this area. We continued robust cash flow monitoring last year.

### *Compliance (regulatory and reputational)*

We continued to monitor potential adverse changes in regulations or further scrutiny by regulatory authorities.

### *Information security*

All organisations have seen an increase in the number of phishing cybersecurity attacks as cyber criminals attempted to exploit the vulnerabilities of the pandemic. BDR Thermea Group has not been adversely affected in this area. We continue to raise awareness among employees.



## Compliance management

Compliance at BDR Thermea focuses on promoting and maintaining compliance with national/international regulations, standards and internal rules, guided by our Code of Conduct. The purpose of compliance is to safeguard the integrity of our organisation, protect the Management Board and employees, and avoid legal and regulatory penalties, material financial loss and reputational damage to the company.

As a first line of defence, line managers are responsible for compliance in their local market or department. The Group Risk and Compliance Department has an independent role as second line of defence and reports directly to the Management Board. Compliance progress is reported annually to the Supervisory Board via the Audit Committee.

The Code of Conduct sets out what we expect from employees in terms of integrity. This includes regulations on respectful dealings with colleagues, side work, accepting gifts, using alcohol and drugs, dealing with commercially sensitive information and using social media.

Our whistleblowing process ensures that employees can confidentially report undesirable behaviour or integrity issues. There is an internal committee of inquiry that investigates reports and advises the Management Board on them.

## Internal Audit

The mission of Group Internal Audit is to provide independent assurance to the Supervisory Board and Management Board regarding the effectiveness of the company's system of internal controls. In executing its mission, Internal Audit aims to improve the company's operations through its systematic, transparent and risk-based approach to evaluating the effectiveness of control processes, risk management and compliance.

Internal Audit obtains its authority from the Supervisory Board and maintains its independence and objectivity by reporting to the Chair of the BDR Thermea Group Audit Committee, with a dual reporting line to the Chief Financial Officer.

Internal Audit accomplishes its mission through:

- Developing and executing a risk-based audit plan, which is subject to approval by the Audit Committee;
- Performing an independent assessment of the adequacy and effectiveness of controls over a given process;
- Agreeing relevant management actions to improve internal controls, risk management and governance;
- Reporting the results of its work to management and supplying a summary to the Audit Committee;

- Maintaining a competent audit team that is well trained, experienced and has sound business understanding;
- Applying a rigorous quality assurance process to all its work and deliverables.

## In control statement

The Management Board is responsible for the design, implementation and operation of the Group's risk management and internal control systems. This comprises policies, processes, tasks, behaviours and other aspects of the Group that, taken together, facilitate the achievement of objectives and prevent or ensure early identification of potential material errors and losses and misrepresentation of circumstances.

Our risk management and internal control systems can, however, never provide absolute assurance regarding the achievement of corporate objectives, or entirely prevent material errors, losses, fraud or violation of laws or regulations.

Considering the above-mentioned constraints, our risk management and internal control systems give a reasonable degree of certainty during the year that the financial reporting does not contain material inaccuracies. We have no reason to believe that these systems did not function properly during 2021 and at this moment there are no indications that the systems will not function properly in 2022. The above-mentioned risk management and internal control systems also provide insight into the extent to which strategic and operational objectives are achieved and laws and regulations are complied with.



## Outlook 2022

The Russian invasion in Ukraine is currently disrupting the world stability and economy. The consequences at this moment in time are unpredictable. We will monitor global developments closely. Our top priority is the safety of employees in Ukraine, where we have a small sales & service office. We are in constant contact with our colleagues in Ukraine and Russia, and are supporting them in any way we can. At this stage it is unknown to which extent the Group may be affected, however we are taking the appropriate measures to manage the difficult situation and mitigate the adverse impact. The Group has a strong and diversified global presence and a strong financial performance, which is mitigating our financial exposure in Ukraine/Russia. In 2022 the global energy transition will gather speed, driven by the expectation that the EU and national governments will link measures to relaunch the economy to carbon reduction targets, and the ambition to decrease EU dependency on Russian fossil fuels given the current situation in Ukraine. Residential housing markets are expected to grow both in new-build and renovation, as people spend more times in their homes than they did before the pandemic.

BDR Thermea Group expects to take advantage of its complete portfolio to satisfy market demand and to grow sales in 2022, especially in the dynamic heat pump market.

Geopolitical developments, supply disruptions, and rising energy prices have resulted in higher and more broad-based inflation. Our procurement and supply chain teams are responsible for ensuring the continuity and competitiveness of operations in regard to these challenges.

We will continue to invest in new products, services and the rollout of our IT roadmaps in the countries where we operate. Connectivity of our products and digital tools will allow us to better serve our customers and improve the energy performance of our offering.

The average number of employees at BDR Thermea Group is expected to total around 6,200 (excluding temporary workers) in 2022, which is in line with the 2021 level.

We intend to maintain a high level of profit and to generate cash, allowing us to invest in our company.

Apeldoorn, 24 March 2022

**Bertrand Schmitt** Chief Executive Officer

**Carolina Wielinga** Chief Financial Officer

**Peter Snel** Chief Technology Officer

**Lúcia de Lima Veiga-Ermida Moretti** Chief Commercial Officer



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Chief Technology Officer



**Lúcia de Lima Veiga-Ermida Moretti**  
Chief Commercial Officer

Smart thermal comfort solutions  
with near zero carbon footprint  
for buildings owners and users.

## **Colofon**

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