

2019

CAREL

**CONSOLIDATED
NON-FINANCIAL STATEMENT**

Prepared in accordance with
Legislative decree no. 254/2016



CAREL



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Translation from the Italian original which remains the definitive version

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Chief Executive Officer's letter to the stakeholders

Our group has undergone significant change in recent years, culminating with its stock market listing. CAREL is recognised for its strong propensity to constant innovation, focused above all on environmental sustainability and internationalisation, both of which are fundamental characteristics that have underscored our group's history and will undoubtedly be at the centre of our future development.

The group continued its successful international growth trajectory in 2019, the first year after CAREL's stock market listing, acquiring two new commercial companies in Ukraine and in Canada and opening new sites in China and the US.

This year, CAREL was recognised by the 2019 European Small and Mid-Cap Awards as the company with the best performance internationally, due to both its expansion into new markets as well as consolidation of its existing ones. Its shrewd international development strategy, combined with the ability to grasp innovation opportunities to service energy efficiency and environmental sustainability, was the main reason why the award went to the company. These results are even more gratifying given the adverse global economic situation characterised by great uncertainty as well as signals of possible far-reaching change in economic and political terms.

"... we are facing the ultimate long-term problem. We don't yet know which predictions about the climate will be most accurate, nor what effects we have failed to consider. But there is no denying the direction we are heading. Every government, company, and shareholder must confront climate change." - Laurence D. Fink, CEO of BlackRock

We are actively committed to a development path that respects environmental sustainability and have been so for some time. Our goal is to make our business more sustainable in a growing sector that has a strong impact on the environment. We design solutions to make our systems more efficient, which generate energy savings and decrease the environmental impact of our customers' machines and systems.

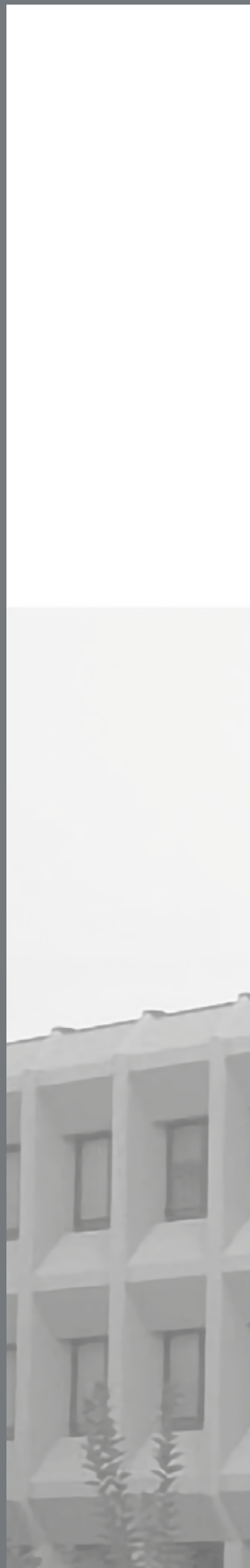
Thanks to our solutions sold all over the world in 2019, we have avoided CO2 emissions equal to 20 trips to the moon.

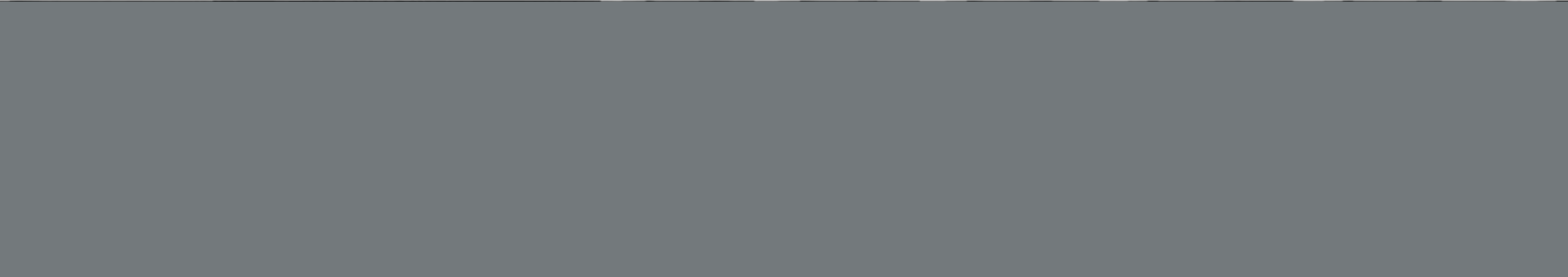
The fight against climate change is one of the greatest challenges of this century and involves the entire global community. We are aware of our social role and strongly believe in sustainable development, which is in fact one of the pillars of our business. We have identified the risks we generate so as to limit their fall-out and to safeguard the environment and the world's resources.

Investors' growing awareness and increasing concerns about sustainability are reflected in the greater importance they attribute to the ESG (environmental, social, governance) rating when making investment valuations and choices.

In 2019, the group stepped up its commitment to sustainable development to deal with these concerns and wrote up its ESG profile and a two-year ESG plan, setting numerous goals to improve its social, environmental and governance performances. This plan of action includes the decision to use energy solely generated by renewable sources at the Brugine headquarters in Padua.

Our philosophy is continuous improvement. Accordingly, in recent years, the group has earmarked





over €18 million to research and develop new solutions to meet our customers' requirements and, very importantly, cut our energy consumption. These new solutions hinge on technological innovation, which we believe is fundamental when designing and creating new products. In November 2019, we were involved in opening the Light Commercial Industry Innovation Centre in China to improve the technological features of light commercial equipment, including refrigeration and air-conditioning equipment. We intend to supply products that can reduce our carbon footprint and contribute to energy savings thanks to their intelligent components.

We have adopted the goals defined during COP21, we actively support international associations that contribute to the development of policies for long-term environmental sustainability and we have worked with associations and bodies for many years to promote the use of refrigerants with less global warming potential. In 2019, solutions with natural refrigerants have gained popularity, driven by strong market demand. Thanks to our informed use of the DC inverter technology together with our experience in natural refrigerants, we have been able to blend great efficiency with environmental sustainability.

2019 also saw us intensify our partnerships with universities and technical colleges to create growth opportunities and provide training, which we believe is essential for a company's growth, especially in terms of technological development.

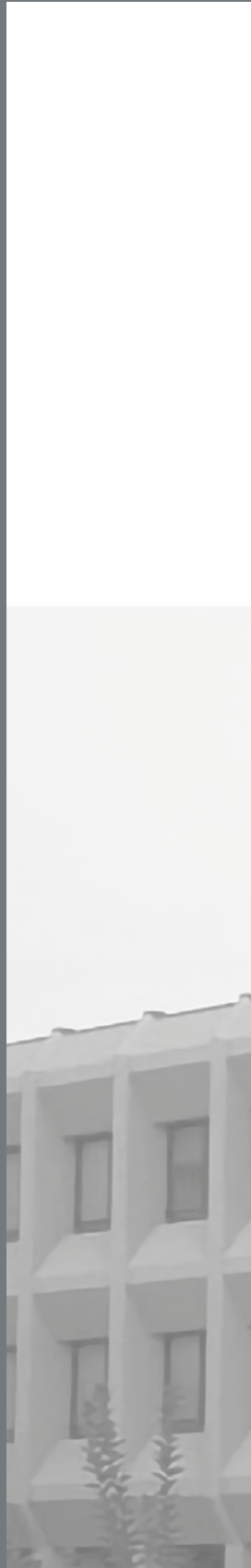
Shared objectives and collaboration are key to sustainable development. Accordingly, we have worked with and actively promoted associations and bodies over the years. Since 2019, Carel partners Geofit, a research project on smart geothermal technologies funded by the European Union.

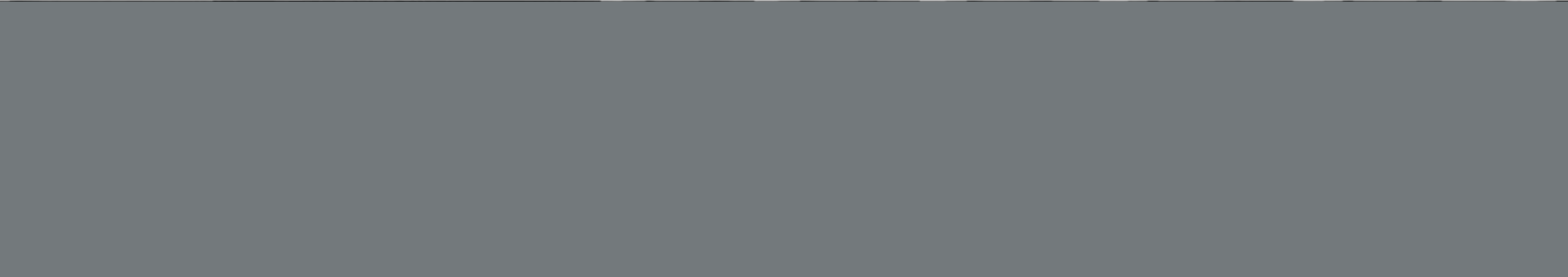
We consider our human capital to be a cornerstone of our business. Therefore, in 2019, the group has emphasised the importance of training and provided many hours of courses, especially on occupational health and safety, the environment and operating issues. During the year, two new foreign sites joined the group and they will be run in line with the highest efficiency standards and with a focus on the workplace as a key factor to keep employee satisfaction high. In addition, the group's new remuneration policy has pegged part of the managers' remuneration to performance objectives (which include ESG goals).

An objective for the near future is to tie each of our strategic positions to both the 17 Sustainable Development Goals and the 169 targets. We will measure our performance using the main ESG metrics to be ready to deal with risks in an informed manner, to capitalise on market opportunities and promote the transition to sustainable development in our sector.

Francesco Nalini
Chief Executive Officer

Francesco Nalini





A grayscale photograph of a modern building. In the foreground, a large, light-colored rectangular sign is mounted on a dark base. The sign features the word "CAREL" in a large, white, serif font. The building behind the sign has a glass facade on the right side, reflecting the sky and some foliage. To the left, there is a concrete structure with several rectangular windows. The overall scene is captured in a monochromatic, high-contrast style.

CAREL



Methodological note

Reporting standards

The CAREL Group's 2019 Consolidated Non-financial Statement (the "Statement"), prepared in accordance with articles 3 and 4 of Legislative decree no. 254/2016 (the "decree"), presents information on environmental, social, personnel, human rights and anti-corruption topics, useful to gain an understanding of the group's operations, performance, results and impact. The Statement reports on the material topics as per article 3 of the decree in order to provide a thorough understanding of the group's operations, performance, results and impact.

This Statement is prepared once a year in accordance with the decree and the GRI Standards (using the "core option"), published in 2016 by the Global Reporting Initiative. They are currently the best-known and recognised standards at international level on non-financial reporting. The GRI Content Index is set out on pages 86 to 88 to assist the readers in finding the information in this Statement.

The presentation of non-financial information reflects the principle of materiality, which is provided for by the reference regulations and is key to the GRI Standards. The topics discussed herein are those that, after an analysis and assessment of materiality (see pages 32 to 34), have been considered material as they reflect the social and environmental impact of the group's operations or can influence its stakeholders' decisions. Where possible, prior year data is provided to ensure a comparison over time. In addition, in order to correctly present the group's performance and guarantee data reliability, the use of estimates has been limited as much as possible. If they are provided, they have been made using the best methods available and are properly identified. The Statement presents both positive and negative aspects fairly with a comment on the results when appropriate. The 2018 data have not been restated, unless this is expressly specified.

Reporting scope

The qualitative and quantitative data and information presented in the Consolidated Non-financial Statement refer to the group's performance in 2019. As required by article 4 of Legislative decree no. 254/2016, this statement includes the data of the parent (Carel Industries S.p.A.) and its fully consolidated subsidiaries, except for ENERSOL INC, as it was acquired near year end and it was not possible to organise the

collection and classification of its non-financial information in a timely and efficient manner. Therefore, its non-financial information will be included starting from 2020.

Recuperator S.p.A. and HygroMatik GmbH have been included in the 2019 reporting scope. Any other limitations to the reporting scope are described appropriately herein.

Reporting practice

Preparation of the group's 2019 Statement was based on a structured reporting practice formalised in line with a specific internal procedure that defines the roles, duties and operating methods of the employees at the parent and

its subsidiaries to ensure the correct management of the qualitative information and quantitative data necessary to prepare this statement. The reporting process extrapolates data from the existing information systems used by the main

internal functions, integrated by specific data collection forms supported by operating manuals which establish how to record the indicators. Specifically, the data and information included herein are taken from the information system used for the group's management and accounts and a non-financial reporting system (data collection forms) introduced specifically to comply with Legislative Decree no. 254/2016 and the GRI Standards. The data were processed through extrapolations and calculations or, when specified, estimates. The financial data and information were taken from the 2019 consolidated financial statements. The heads of the internal units were asked to contribute to the identification and

assessment of the material topics and the significant projects/initiatives to be described and to assist with the collection, analysis and assembly of the data, checking all the information set out in the Statement related to their activities. The process also included:

- the Statement's approval by the board of directors in their meeting held to approve the 2019 consolidated financial statements on 5 March 2020;
- issue of a compliance report on the Statement by Deloitte & Touche S.p.A. after its review;
- publication of the Statement on the parent's website to make it available to all stakeholders in a transparent manner.

Reporting standards

Identification and presentation of the material topics presented in this Statement were based on the GRI standards of materiality, inclusivity, sustainability and completeness. The group also applied the GRI balance principle for the reporting of positive and negative aspects, comparability, accuracy, timeliness, clarity and reliability when defining the information quality criteria and the reporting scope.

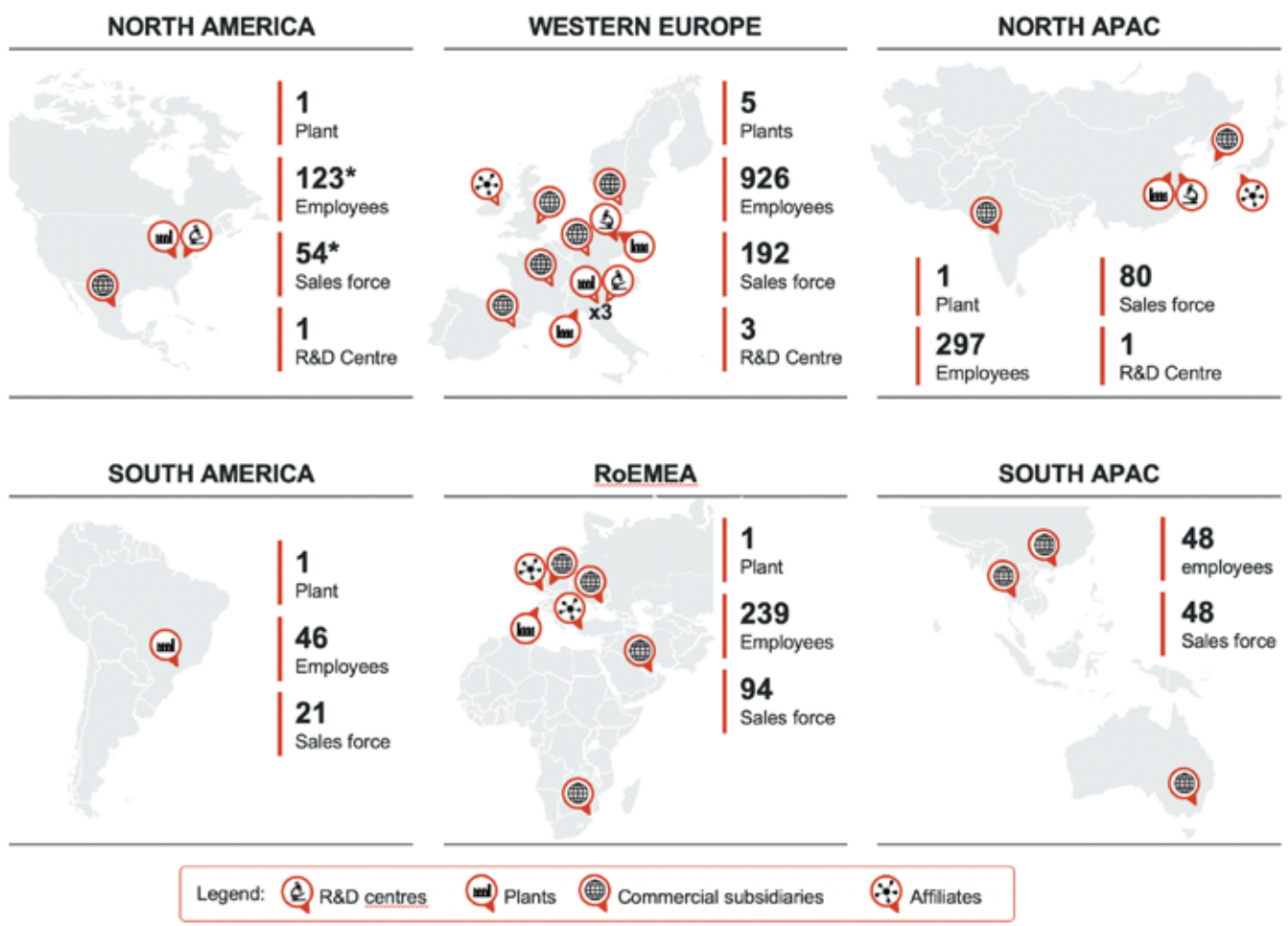
CAREL



CAREL INDUSTRIES group

Incorporated in 1973, CAREL recorded consolidated turnover of **€327.35 million in 2019 (+16.8% on 2018)**. CAREL has always been known for advanced control systems offering innovative solutions for the HVAC/R sector. Its high efficiency solutions are a certainty for environmental protection thanks to their optimised and integrated control systems, which allow for significant energy savings and, in turn, a related smaller environmental impact. Roughly 80% of its sales

take place outside Italy where the group has a widespread customer sales and assistance network. Specifically, CAREL operates in the Americas (North, Central and South), Asia Pacific, Africa and Europe. It has 20 commercial companies and nine production sites. It also works with partners and distributors in another 75 countries. In 2019, CAREL has nearly 4,000 partners, 6,200 products and annual production of over 7.4 million pieces.



An history of innovation



1973-79

- CAREL is set up in the province of Padua
- CAREL starts manufacturing steam humidifiers.

1980-89

- Design and production of a microprocessor controller for precision air-conditioners in computer rooms
- CAREL creates the first monitoring system for air-conditioning units
- Design and production of programmable controllers for air-conditioning
- SMD technology and in-circuit testing introduced into the production process
- Design and production of controllers for refrigeration
- New programmable electronic board developed, complete with CAREL proprietary programming tools (EasyTools).

1990-99

- CAREL introduces serial communication on its entire range of controllers
- The first subsidiary, CAREL France, is established in Lyon
- CAREL receives ISO 9001 certification
- CAREL DEUTSCHLAND, CAREL UK and CAREL South America are established.

2000-2004

- The CAREL Group reaches sales of €55 million
- CAREL China, CAREL Australia and CAREL USA are set up
- ksa.carel.com, the web site with services for users of CAREL software products, goes on line
- CAREL adopts the ORACLE ERP system
- CAREL Centre for Experimental Thermodynamics is founded, dealing, among other things, with the experimentation of control techniques for refrigeration appliances, with special focus on new technologies.

2005

- CAREL starts production at the new facilities in Suzhou (around 100 km from Shanghai). The new factory makes electronic solutions for the air-conditioning and refrigeration sectors to the same quality standards as the parent, and was established to respond to the growing demand of the Chinese market, as well as to ensure continuity of service to CAREL's western partners who have manufacturing facilities in China.

2006

- CAREL Company of excellence, among the first one hundred companies of excellence in Italy. This is what emerges from the report entitled Our Excellence by Eurispes, the renowned institute of social studies working in the field of political, economic and social research. This recognition adds to the prestigious special mention in the 2006 F.I.O.R.E. prize (Farnell InOne RoHS Elected), in the RoHS compliant manufacturing technology category, and the Innovation Award as part of the Quality in Development Prize promoted by the Rotary Club, Unindustria Padova, the Chamber of Commerce, Ucid (the Christian Business Union), and the Register of Chartered Accountants.

2007-2008

- Incorporation of CAREL Ibérica, CAREL India, CAREL South Africa and RemoteValue
- CAREL wins the Mediobanca 2008 Prize awarded to the most dynamic businesses that stand out for high growth and good profitability.

2009

- Corporate restructuring of the CAREL Group, with operational, industrial and commercial functions passing to a new entity: CAREL INDUSTRIES S.r.l., controlled by CAREL S.p.A.
- New CAREL office in Russia

- CAREL wins the Marco Polo 2009 prize, awarded by the Veneto region Unioncamere, as the company that showed the highest level of commitment and the most significant results in foreign trade in 2008
- At the 2009 China Awards, CAREL wins the prize in the "Creators of Value" category (electronics sector), as the company that achieved the best performance with China in 2008.

2010-2011

- New production site in Brazil
- Special Mention in the fourth edition of the "Business Innovation Prize" (Ixl - Imprese x l'Innovazione), established by Confindustria (the main Italian organisation representing manufacturing and services companies) in collaboration with APQI (Italian Quality Awards Association). CAREL was assessed positively after an accurate analysis of the performances of its organisational and strategic model, specifically oriented towards company growth through innovation.

2012

- CAREL INDUSTRIES S.r.l. changes its legal form to a company limited by shares (S.p.A.)
- Innovation prize awarded by "Amici della ZIP", Padua
- CAREL receives ISO 14001:2004 certification.

2013 - 2014

- CAREL Nordic and CAREL Middle East are founded
- CAREL receives OHSAS 18001:2007 certification for its occupational health and safety management system.

2015

- Opening of commercial companies in Mexico and Thailand
- Opening of our seventh plant in Labin, Croatia.

2016-2017

- CAREL acquires C.R.C. S.r.l., an Italian company specialised in the distribution of industrial compressors, and Alfacò Polska sp.z o.o., a Polish distributor which effectively becomes a commercial company.

2018

- In June, the parent is listed on the STAR segment of Borsa Italiana's stock market with an initial capitalisation of €720 million
- In November, CAREL acquires Recuperator S.p.A., which designs, produces and sells air-air heat exchangers

- In December, CAREL finalises its acquisition of Hygromatik GmbH, which designs, manufactures and sells steam and adiabatic humidifiers.

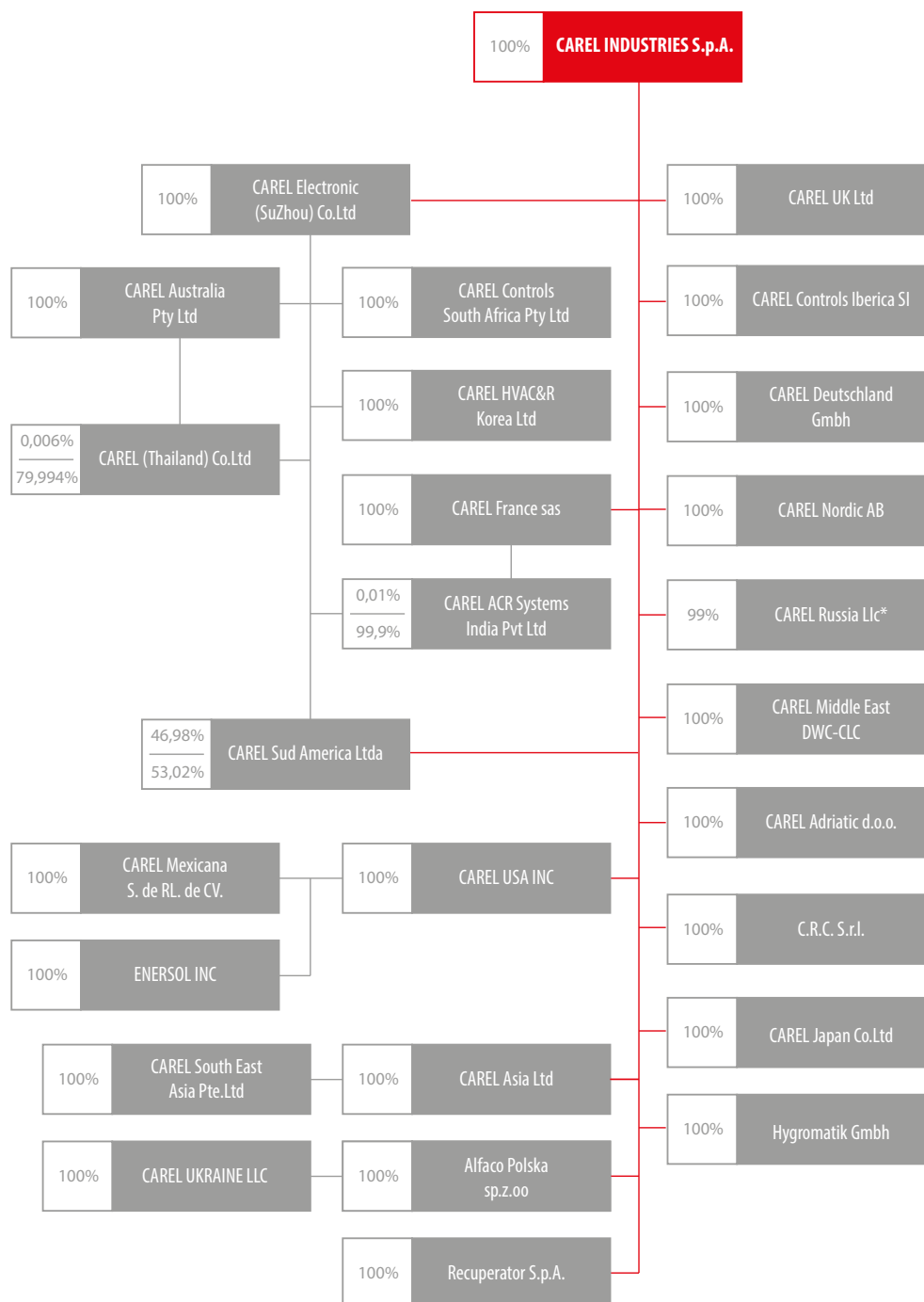
2019

- CAREL consolidates its presence in Eastern Europe opening a new commercial company in Kiev, Ukraine
- Expansion of the production footprint continues with new investments at the North American and Chinese sites; acquisition of ENERSOL Inc, a Canadian Quebec-based distributor of humidification systems completed in September.

Group structure

The graph shows the group entities and the parent's investments therein at 31 December 2019. This Statement includes the information of the parent (CAREL INDUSTRIES

S.p.A.) and its fully consolidated subsidiaries except for ENERSOL INC. as it was acquired near the year end.



Business and markets

The CAREL Group designs, manufactures and sells high tech components and solutions (hardware and software) on a global level for high energy efficiency in the control and regulation of air conditioning systems and equipment (“HVAC”)

and refrigeration sectors (together “HVAC/R”). Specifically, CAREL designs, manufactures and distributes control and humidification solutions for the following segments:



Residential



Industrial



Commercial

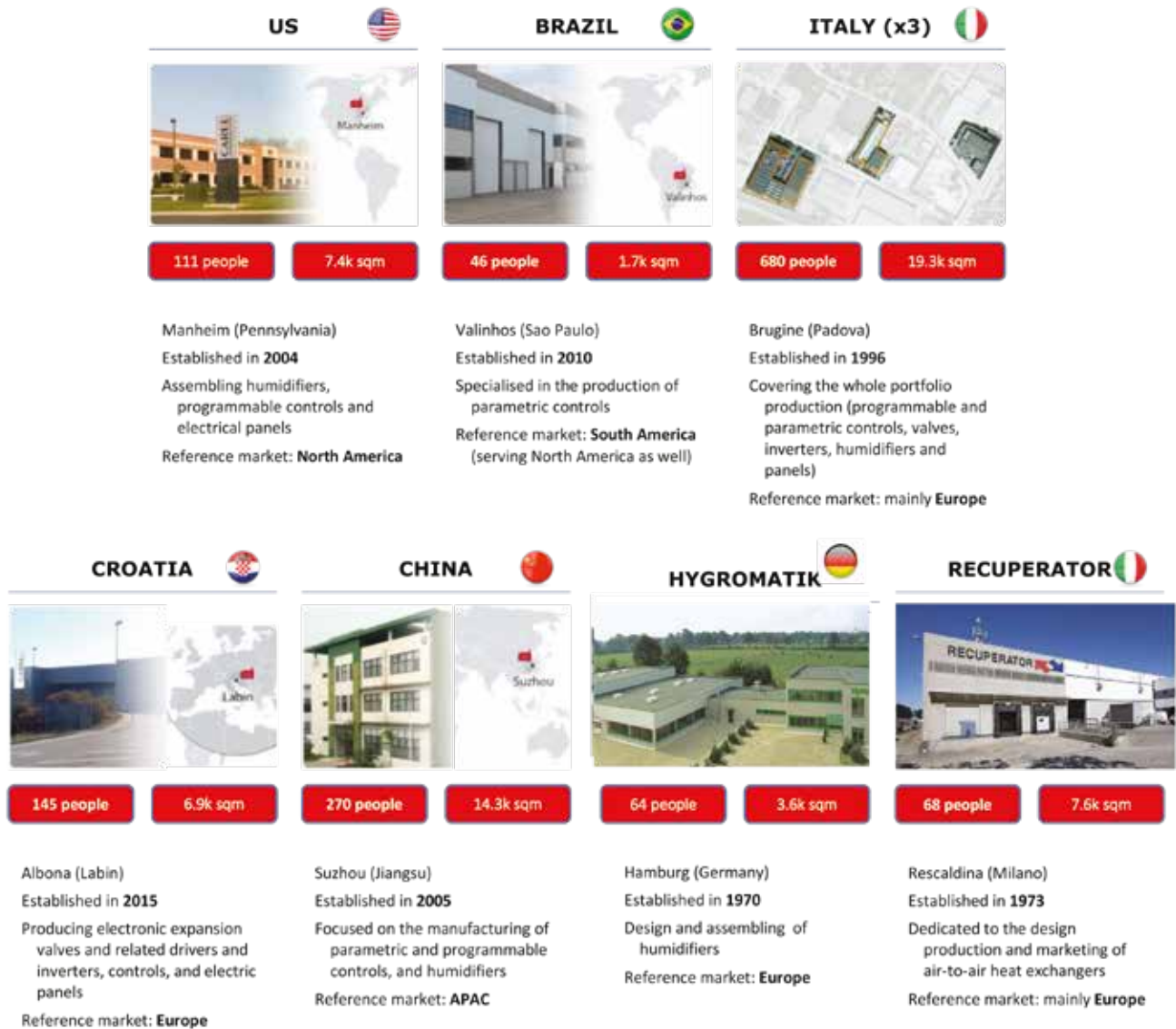
The group operates on a global basis with 20 commercial companies and 9 production sites, of which two in Italy and the others spread across four continents.

During the year, the group continued its international expansion, strengthening its hold on the Eastern Europe market by opening a new commercial company in Kiev, Ukraine. This move is designed to strengthen the group’s presence in the local market, build up commercial partnerships and engage directly with end customers. The new company will be able to provide more timely and targeted assistance to Ukrainian customers, including through greater assistance with system integration, post-sales assistance and training activities.

In July 2019, the group opened its new site in Suzhou, one of China’s most innovative and important technological

districts. A large part of the over 15 thousand square metre facility will be dedicated to research & development, which CAREL Electronic Suzhou excels in. The site has an innovative laboratory where new technologies will be developed. About 50 R&D technicians will ensure that the new research centre becomes a real key competence hub for the development of cutting-edge solutions that meet the requirements of all CAREL customers in China and the APAC region.

In September 2019, Carel Usa opened the new wing of its site in Mannheim, doubling its surface area. This is part of the US company’s strategy to increase its production footprint and meet its growth objectives in the US market. The wing houses a new logistics unit and new production lines for the programmable control platform, which includes products designed mainly for the air-conditioning (HVAC) market.



the years, the group has designed systems and applications for vertical market niches with very specific needs requiring highly tailored solutions.

Products manufactured by CAREL make up roughly 2% to 10% of the finished product's value, depending on the application. As they are hard to replace, **the group has a disaster recovery plan whereby at least two production sites manufacture most of its products.** This means it can guarantee supplies in extreme situations.

Specifically, the group designs, manufactures and distributes

control and humidification solutions for the residential, industrial and commercial segments in the HVAC market. It offers solutions for each application segment to be integrated into (i) individual units, like heat pumps, shelters, rooftops, computer room air conditioners (CRAC), chillers and air treatment systems as well as (ii) complex systems such as but not limited to entire systems for shopping centres, supermarkets, museums and data centres.

It designs, manufactures and distributes control and humidification systems in the food retail and food service

segments of the refrigeration market. Like for the HVAC market, the group designs, manufactures and offers solutions to be integrated into (i) individual units, like bottle coolers, plug-in refrigerators, multiplexed refrigerators, compressor racks and condensing units as well as (ii) complex systems such as but not limited to entire systems for supermarkets of

all sizes, convenience stores and restaurants.

The following diagrams summarise the HVAC and refrigeration market segments and the control solutions offered by the CAREL Group. Following its acquisition of Recuperator, its product portfolio now also includes AHU heat exchangers..



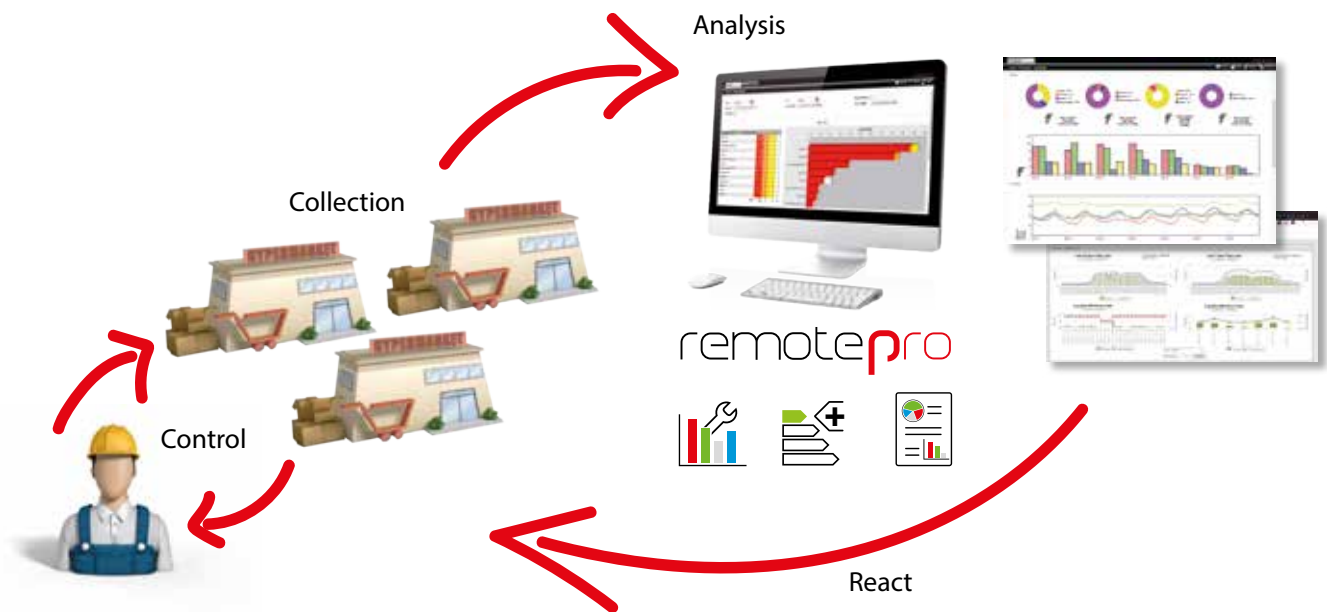
The group's offering is rounded off by services associated with its products such as: commissioning activities or contract work, remote operation and monitoring of HVAC/R systems and components to facilitate engagement between the company service centres and end users, subscriptions for dedicated remote systems and machinery operation and control services that process data using the **Internet of Things** (IoT) properties.

The IoT range has been developed to integrate the specific HVAC and refrigeration market solutions using cloud and on premise solutions. They include benchmarks, statistics, alerts and standard reports to help users optimise their daily

activities and more efficiently achieve their service, energy, quality and marketing goals. Development of these activities is of strategic interest to the group, including with a view to the future.

The market is keenly interested in remote connectivity and data analysis solutions that allow sector operators to decrease the cost of operating refrigeration systems and units located in different areas of Italy. This interest is not limited to specific applications but is widespread and growing, as anticipated by all the main analysts. Indeed, the number of connected devices and related data volumes collected are increasing.

Examples of IoT solutions for *the HVAC and refrigeration markets*:



Mission and values



Mission

We lead the evolution of control technology and humidification for air conditioning and refrigeration.

Our products support customers with the most efficient energy savings solutions.

Data-driven services through our IoT platform grant personalised value

The “Better control, better environment” motto sums up CAREL’s refreshed mission statement. Research, innovation and technology are the cornerstones of the CAREL Group’s success. For over 45 years, it has placed its customers first, offering functionally and aesthetically different solutions with a view to constant improvement. As an innovative consultant

and technological partner, CAREL anticipates market needs and proposes high performance solutions that also guarantee efficient energy savings to benefit the environment.

The values at the root of the group’s business activities that guide its daily decisions are:

CUSTOMER FIRST
ACHIEVEMENT
RESPECT
EVOLUTION
LEARNING

Creation of value for stakeholders

2019 was a positive year for the CAREL Group, which saw a 16.8% increase in revenue to €327.35 million.

The acquisitions of Recuperator S.p.A. and Hygromatik GmbH towards the end of 2018 contributed revenue from sales of €18.9 million and €16.2 million, respectively. Like-for-like growth, i.e., excluding the revenue contributed by the Canadian distributor acquired in September 2019, is 5.1% at constant exchange rates.

Non-current assets increased by €36.6 million from €131.4 million at the end of 2018 to €168.0 million, mostly due to investments and the impact of the initial application of IFRS

16. Excluding right-of-use assets, the group made investments of €23.6 million compared to €11.8 million in 2018.

Economic value, which is an organisation's ability to create wealth and distribute it to its stakeholders, generated and distributed by the group in 2019 approximates €335 million compared to €286 million in 2018. Economic value distributed by the group amounts to €259 million compared to €255 million in 2018. Specifically, 89% of its economic value generated was distributed to internal and external stakeholders.

DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED (€/000) [GRI 201-1]	2019	2018
Economic value generated by the group	335,657	286,454
Revenue	327,358	280,220
Other income	4,031	3,532
Financial income	534	833
Impairment of financial assets	177	15
Impairment of loans and receivables	(63)	(130)
Exchange rate losses	(152)	(352)
Net losses on the sale of property, plant and equipment and intangible assets	(803)	(117)
Depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets	2,970	2,453
Economic value distributed by the group	(295,186)	(255,440)
Operating expenses	(186,392)	(165,899)
Distributions to employees	(83,359)	(70,718)
Distributions to lenders	(1,965)	(969)
Distributions to investors ⁽¹⁾	(12,000)	(10,000)
Distributions to public administrations	(10,828)	(7,666)
Distributions to bodies/associations	(525)	(131)
Donations ⁽²⁾	(118)	(58)
Economic value retained by the group	40,471	31,014
Amortisation, depreciation, provisions and impairment losses	(17,424)	(10,262)
Other reserves	(23,047)	(20,752)

More information about the group's performance and its financial position is available in the Directors' report, which is

included in the 2019 Annual Report.

(1) When approving the draft financial statements, the board of directors resolved to propose a dividend pay-out of €12 million to the shareholders.

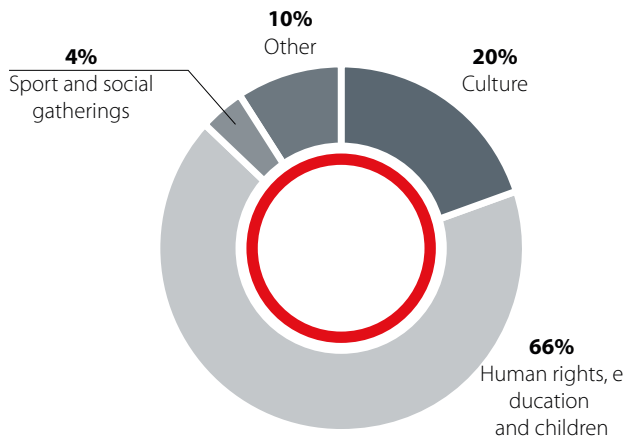
(2) Donations include scholarships granted to deserving children of employees and a contribution towards crèche costs (see the "Support to communities" section).

Support to communities

Over the years, the group has built up a close relationship with the areas where it operates. It fosters a spirit of shared solidarity and support within the communities it engages with on a daily basis and contributes to their social, economic and environmental development.

The group promotes social-welfare type projects and the enhancement of the local areas' cultural heritage through donations to projects for social assistance and integration, and local community and cultural development. It believes that these projects play a major role in a community's well-being, including of an economical nature. During 2019, the group earmarked over **€64 thousand** for community projects as shown in the following graph.

2019 donations by project type (%)



In order to encourage and stimulate social inclusion, CAREL makes donations to independent organisations like Save the Children and the Robert F. Kennedy Foundation. It works with local educational institutions sponsoring events at the Liceo Einstein di Piove di Sacco (Padua). It also contributed €5 thousand to the national voluntary association Cornelia de Lange Onlus (Puglia) and gifted computers to Spiritus Mundi Onlus (Padua), which is active in the environmental protection and development field.

Another key project close to the Group's heart is the promotion of the local areas where it operates. In 2019, CAREL sponsored the "Saccisica in mostra" exhibition organised by the Saccisica municipalities³ together with the sector associations, such as the Padua provincial artisans union. The event promoted the local companies' produce.

The group also donated roughly €16 thousand to various projects in the Labin area in Croatia. Specifically, it contributed towards the renovation of Circollo Theatre (Trieste) and events for children either of a sporting nature or tied to festivities like Christmas.

Overseas, Carel USA gifted computers worth more than €30 thousand to the Thaddeus Stevens College of Technology in Lancaster, Pennsylvania.

³ They include the Piove di Sacco, Arzegrande, Bovolenta, Brugine, Codevigo, Correzzola, Legnaro, Polverara, Pontelongo and S. Angelo municipalities in the Padua Province.

Its main donations to social and pro bono projects in 2019 include:

BENEFICIARY	PROJECT	AMOUNT DONATED (€)
Save the Children	Children	1,500
Fondazione Robert Ff Kennedy	Human rights	3,000
Saccisica in mostra	Local produce	2,000
Liceo Einstein Piove di Sacco	School event	500
Cornelia De Lange Onlus	Voluntary association	5,000
Labin Small Theater	Renovation of the theatre in Labin	10,732
City Labin	Christmas event for children in Labin	2,012
NK Raša children football team	Childrens' football team	598
SŠ MATE BLAŽINE Balkan Junior competition	Youth basketball competition	671
Football club Iskra Vinež	Football team	1,073
Basketball club Rudar Labin	Basketball team	268
Elementary school Matija Vlačić	Elementary school	268
Creative academy - Labin	Arts academy	268
Thaddeus Stevens College of Technology (USA)	College	30,064
Other	-	6,650
TOTAL		64,606

In addition to these donations, CAREL set aside **€53 thousand** for scholarships granted to deserving children of employees and a contribution towards crèche costs for a grand total of **€118 thousand**.

CAREL



Responsible governance

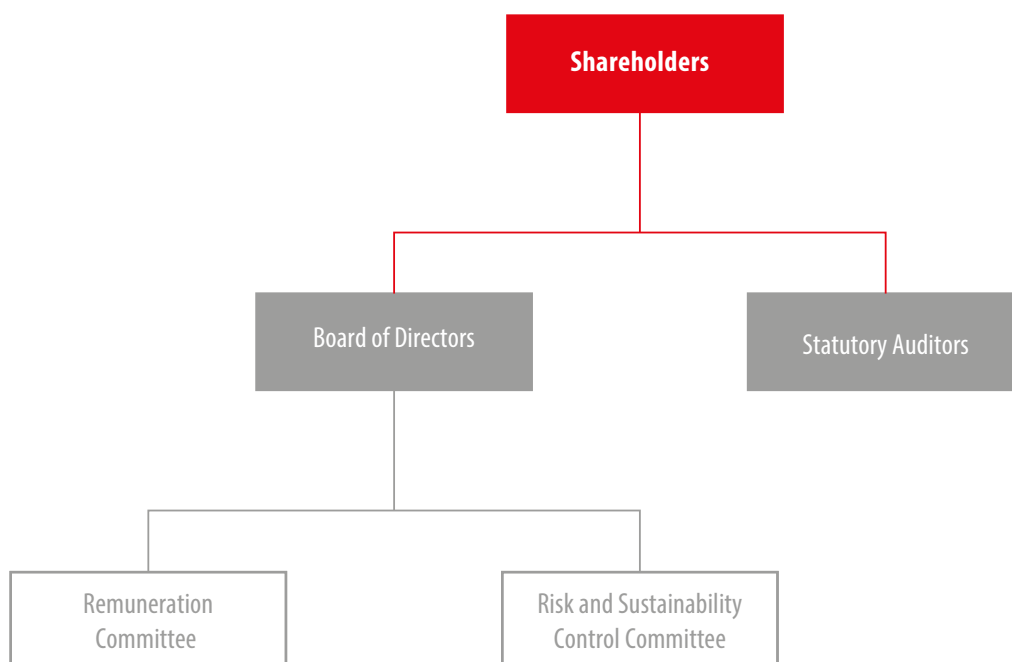
Governance

CAREL Industries S.p.A. is the parent of the CAREL Group. At 31 December 2019, the parent's share capital of €10,000,000, split into 100,000,000 ordinary shares without a par value, is held by Luigi Rossi Luciani S.p.a. (LRL) (36.17%), Luigi Nalini S.p.a. (LN) (23.58%), Capital Research & Management Company (9.95%) and other shareholders (30.22%) with treasury shares accounting for another 0.08%.

It has a traditional corporate governance model comprising:

- **Shareholders' meeting**, authorised to resolve on all matters reserved to it by the law or by-laws;
- **Board of directors**, which oversees the entity's running;
- **Board of statutory auditors**, whose tasks comprise

monitoring (i) compliance with the law and by-laws and correct administration principles, (ii) the internal controls and administrative-accounting system, and the latter's reliability in properly presenting the parent's operations, (iii) the proper implementation of the corporate governance rules established by the Code of Conduct, (iv) the adequacy of the instructions given to the subsidiaries about the disclosure of inside information, and (v) the financial reporting process, the efficiency of internal controls, internal audit and risk management systems, the statutory audit of separate and consolidated financial statements and the independence of the independent auditors.



The board of directors has two committees, each with three non-executive, independent directors: **the control, risks**

and sustainability committee and **the remuneration committee**.



Board of Directors

- which oversees the company's social management.



Control, risks and sustainability committee

- which, following adequate investigations, supports the board of directors' assessments and decisions on the internal control and risk management system and its approval of the periodic financial reports;
- provides input about transactions with related parties;
- has advisory and investigatory powers with regard to the board of statutory auditors concerning statutory audits in compliance with the requirements of Legislative decree no. 39 of 27 January 2010 and assists the board of directors with equity investments;
- is expert in sustainability issues.



Remuneration committee

- provides advisory support and recommendations to the board of directors about remuneration;
- since 2019, has included the ESG objectives to encourage management to meet the sustainability;
- prepares the documentation to be provided to the board of directors for the adoption of the resolutions concerning remuneration.

The directors shall have widespread and diversified skills to ensure a balanced combination of profiles and experience. They shall be able to carry out their duties in accordance with the ruling regulations and by-laws and, specifically, they shall meet the eligibility, professionalism and honourability requirements established by the current regulations and the by-laws*.

CAREL's board of directors and its two committees comply with the guidelines set out in Borsa Italiana's Code of Conduct for Listed Companies. On 12 December 2018, the board of directors adopted a diversity policy, which defines standards and commitments to ensure respect for diversity, inclusion and equal opportunities in the workplace. This policy is applicable to the parent and all the group companies so they can contribute to creating sustainable value through a professional, legal, moral, dignified and fair approach.

Given the parent's structure and size, as well as its

ownership structure and list-based voting system provided for by the by-laws, which guarantees transparent elections and a balanced composition of the board of directors, in its meeting of 7 March 2019, the board of directors did not deem it necessary to adopt specific diversity policies and/or practices with respect to the composition of the boards of directors and statutory auditors and the age, gender and educational and professional background of the various members.

However, article 17 of the by-laws guarantees transparent elections and a balanced composition of the board of directors as it establishes that, unless provided otherwise by mandatory laws or regulations, when a director is elected, the lists of candidates cannot be composed, if containing a number of candidates equal to or greater than three, only of candidates belonging to the same gender, whether male or female, but must contain a number of candidates of the less represented gender to ensure

the presence of a number of directors of the less represented gender at least equal to one third of the total number of directors.

At least one third of the parent's current board of directors is made up of members of the less represented gender, which complies with Application

(*) More information is available at <https://cg.carel.com/it/documenti-societari/>

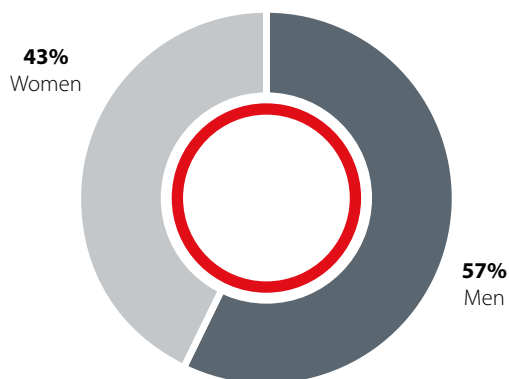
Criterion 2.C.3 of the Code of Conduct.

The parent's board of directors in office at 31 December 2019 was elected by the shareholders on 29 March 2018 with a three-year term, i.e., until approval of the financial statements at 31 December 2020.

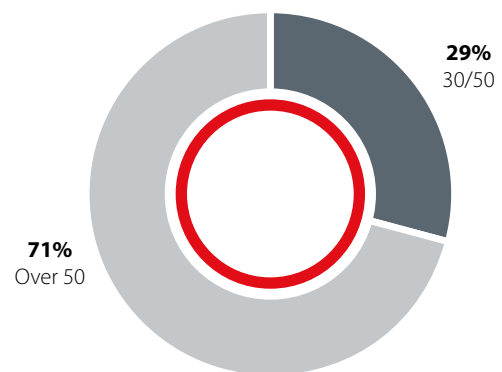
Composition of the board of directors and committees [GRI 102-22 | GRI 405-1]

	2019		
	Board of Directors	Control, risks and sustainability committee	Remuneration committee
No. of directors	7	3	3
Executive	4	0	0
Non-executive	3	3	3
<i>(of whom, independent)</i>	<i>(3)</i>	<i>(3)</i>	<i>(3)</i>
Women	3	2	2
Men	4	1	1
< 30 years	0	0	0
30-50 years	2	0	0
> 50 years	5	3	3

Board of directors by gender



Board of directors by age bracket



Internal control and risk management system

The CAREL Group has developed an internal control and risk management system to identify, manage and monitor the main risks. It has been designed to ensure the group operates in line with the board of directors' objectives.

The system is used to identify, measure, manage and monitor the key risks the group is exposed to as well as the reliability, accuracy and timeliness of financial reporting. It also helps to ensure that the group operates in line with its objectives, including from a medium to long term sustainability viewpoint - in economic, equity, financial and environmental, social and governance (ESG) terms. It protects the group's assets and the efficiency and effectiveness of its processes and ensures compliance with the relevant regulations and respect for human rights and the environment. Moreover, starting from 2019, CAREL's risk management framework also includes ESG risks and the related procedures to manage them.

The integrated risk management model identifies all types of risk that could impede the group's achievement of its strategic objectives or damage its reputation or brands, etc.. The model is considered when strategic decisions are taken and in key decision-making processes. It covers both internal and external risks, the latter in particular are tied to the group's sector and market and its stakeholders' perception of how it operates.

On 7 March 2019, the parent issued internal control and risk management system guidelines as part of its coordination of the group companies. Their objective is to summarise all the various aspects of the system applicable to the parent and those applicable to its subsidiaries, while retaining independence for the definition and operation of their own

internal control and risk management system.

CAREL's internal control and risk management system complies with the principles set out in the current version of Borsa Italian's Code of Conduct for Listed Companies and, more generally, national and international best practices⁵.

The guidelines provide general principles to mitigate the group's main risks, in line with its strategic objectives, as well as instructions on how to coordinate the parties involved (listed below) to maximise the system's effectiveness and efficiency.

The system comprises rules, procedures and units put in place to contribute to the following through a suitable process to identify, measure, manage and monitor the key risks:

- protecting the group's assets;
- its efficient and effective management in line with the strategies defined by the parent's directors;
- the reliability and accuracy of the information provided to the company bodies and the market and, more generally, compliance with the ruling legislation and regulations.

In accordance with the regulations and reference best practices, the internal control and risk management system comprises the following levels:

Governance

The company bodies that define, approve and oversee the system are responsible for its governance, namely the board of directors, the risk and sustainability committee, remuneration committee, the competent director, the board of statutory auditors, the supervisory body, the internal audit unit and the manager in charge as per article 154-bis of the Consolidated Finance Act.

⁵ The current version is that approved by Borsa Italiana's Corporate Governance Committee in July 2018

First level controls

They comprise all the controls performed by the individual operating units over their processes to ensure they are performed correctly. This level is the responsibility of line management and the controls are an integral part of all internal processes. The operating units are the first line of defence for internal controls and risk management. During their daily work, they identify, measure or assess, monitor, mitigate and report risks generated by normal business activities in accordance with the applicable risk management process and internal procedures.

Second level controls

They are entrusted to non-operating units and cover the definition of governance policies and risk management (identification, measurement and control). Second level controls include monitoring business risks, internal controls and risk management guidelines and the related control systems, their adequacy to ensure efficient and effective

operations, appropriate controls over risks, prudent business practices, reliable information, compliance with the relevant regulations, instructions and internal procedures.

Third level controls

These controls are performed by the internal audit unit, which provides independent assurance about the adequacy and effective operations of the first and second level controls and, in general, the internal controls and risk management system. The internal audit unit checks the completeness, adequacy, working and reliability of the internal controls in terms of their efficiency and effectiveness. It also identifies any violations of the procedures and applicable regulations.

Risks related to the material topics are dealt with in the relevant sections. In addition to financial risks (e.g., credit risk, currency risk, etc.), the risk assessment also identifies non-financial risks, the most important of which are shown in the next table.

Operating risks tied to:	Compliance risks tied to:	Risks related to stakeholder engagement:
<ul style="list-style-type: none"> • technological change and product obsolescence; • product liability (e.g., defective products etc.); • availability and cost of components necessary to carry out the business; • production plant capacity and business continuity; • reducing energy costs; • protection of intellectual property; • management of innovative and development projects; • country risk.. 	<ul style="list-style-type: none"> • general changes in the legislative framework and introduction of limitations to the group's business; • environmental topics; • occupational health and safety regulations; • administrative liability of entities as per Legislative decree no. 231/2001; • cyber security and ICT system; • personal data processing. 	<ul style="list-style-type: none"> • management of relations with suppliers; • management of relations with customers; • ability to attract new customers; • management of relations with distribution operators; • management of relations with trade unions; • management of relations with related parties; • retention of senior management and key personnel.

REPUTATION RISK

The entire group is exposed to this risk. Management of relations with stakeholders, employees, the community, suppliers and shareholders, day-to-day operations and working of the IT systems as well as compliance with regulations are all areas that could affect the group's reputation and market standing.

Ethics and integrity

An essential factor for success, a tool to promote its reputation and an indispensable asset is the adoption of behaviour inspired by high ethical standards when carrying out business. To this end and in accordance with Italian regulations, on 30 March 2017, the parent introduced an organisational, management and control model as provided for by Legislative decree no. 231/01 (the "231 model"), consisting of a general part and several special parts, most recently updated at the end of 2018. This is the Italian legislative tool for companies' administrative liability. The Model is designed using an analysis of the areas where predicate crimes could be committed. Specifically, CAREL carried out a risk self-assessment of its organisation and assessed its internal processes.

The supervisory body, appointed by the parent's board of directors, is responsible for implementing the Model. It also monitors the Model's effectiveness and efficiency and proposes updates or amendments to align it with changes in the parent's structure or legislation, including through periodic checks of the areas at risk. The supervisory body also ensures compliance with, and the correct functioning and application of the Model and the Code of Ethics. It receives any requests for information or reports of violations of either the Model or the Code of Ethics (whistleblowing).

Loyalty, morality, honesty, equality and professionalism are some of the principles and values included in the parent's Code of Ethics shared with its subsidiaries. This Code is designed to regulate the parent's activities and those of all the parties that operate for and on behalf of the group through established norms of behaviour. It also provides that CAREL shall consider all available information about the background and reputation of third parties during management of its relationship with its stakeholders and before starting up a relationship, transaction or project with third parties. It

assesses, inter alia, potential corruption risks arising from factors such as the country in which the collaboration will take place, the characteristics of the transaction or the project, the third party's commercial partners and its possible effects. In addition to the 231 Model and the Code of Ethics, the parent adopted an anti-corruption procedure on 28 February 2019 to ensure compliance with the principles of integrity, ethics and transparency in business. This procedure's aim is to offer its recipients a reference framework of the regulations and procedures in place to prevent crime and combat corruption in the public and private sectors as additional support to the anti-corruption topic. The parent has introduced suitable controls and general and specific checks to mitigate the risk of illegal conduct and ensure compliance with the code's principles.

The board of directors issued the anti-corruption procedure after consulting the control, risks and sustainability committee. It is based on the principles and norms of behaviour set out in the parent's Code of Ethics and endorses the anti-corruption requirements and practices in regulations about companies' administrative liability (Legislative decree no. 231/01) and the legal requirements for non-financial reporting (Legislative decree no. 254/16).

In addition, the procedure is in line with the principles of the Italian Code of Criminal Procedures and the toughest international regulations, such as the Foreign Corrupt Practices Act (FCPA), the UK Bribery Act, the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions and the UN Convention against Corruption.

The 231 model, the Code of Ethics and the anti-corruption procedure are based on the main guidelines and international

standards on responsible business behaviour and are disseminated to all recipients through appropriate training and information activities.

The CAREL Group's commitment to the prevention and fight against corruption includes the dissemination of the above internal documents to all group companies and the scheduling and holding of training courses to increase employees' awareness of the issue.

To this end, in line with the provisions of the two-year ESG ⁶ plan, CAREL circulated its anti-corruption procedure to all the group's related parties, inviting them to adopt its content and principles.

The parent also provided its employees with classroom and e-learning courses on the main contents of Legislative decree no. 231/01, the 231 model and the anti-corruption procedure in line with the legislative requirements for management and

non-management personnel.

The course also covered corporate social responsibility issues and included 346 hours of training provided through the e-learning platform and roughly 92 hours of classroom training on the 231 model, for a total of 438 hours.

Everyone who works directly or indirectly for or on behalf of the group may report violations or suspected violations of the Model and the Code of Ethics using the whistleblowing system provided for therein and available on the parent's website. No such reports were received in 2019 nor were there reports of alleged corruption within the group.

As proof of the group's ongoing commitment to ethical behaviour and integrity in its business, there were no reports and/or complaints received about non-compliance with laws or regulations or legal action promoted for anti-competitive behaviour, anti-trust or monopoly violations either in or out of court in 2019.

Transparent and effective communications to the market

The CAREL Group's objectives include creating value for its stakeholders. It is also committed to ensuring transparent, complete, true and timely disclosures to the markets using various tools such as press releases, its website and direct contacts with analysts, investors and lenders.

The parent's board of directors resolved to set up an Investor Relations Unit on 29 March 2018 before its stock market listing. This Unit's task is to liaise with the financial markets, and in primis analysts, investors and shareholders, either through press releases or announcements on the parent's website.

The Unit engages with the stakeholders partly to meet the requests of the sustainability rating agencies and, thus, the expectations of the socially responsible investors (SRI). It uses numerous tools such as:

- daily telephone calls and emails;
- conference calls attended by senior management;
- financial press releases;
- road shows.

Specifically, road shows include visits to the major European and non-European financial hubs to meet current and potential investors directly in their home cities.

The Unit also participates in important conferences and meetings organising one-to-one or one-to-many meetings between management and the investors as part of the road shows.

The number of road shows was significantly higher in 2019 compared to the previous year. In addition to the major financial hubs already visited in 2018 such as Milan, London,

⁶ More details on the plan are given in the "Two-year ESG plan and ESG corporate profile" section on page 29 of this statement.

Paris and Frankfurt, the group also presented its equity story in Madrid, Brussels, Amsterdam and New York garnering significant interest. During the year, the Unit met roughly 100 investment funds as well as many fund managers that preferred to come directly to the parent's Italian headquarters in Brugine to meet the group's management team and founders. Their visits also took in the production site and the R&D department.

The banks that backed Carel in 2019 are the same as in 2018 being, namely, Alantra, Goldman Sachs and Mediobanca (the latter two were part of the syndicate that assisted the group during its listing process).

The Investor Relations Unit also manages the insider dealing and inside information procedures. The Investor Relations Manager is responsible for ensuring that the recipients and relevant shareholders are aware of the procedure and keeps a register of their names. With respect to inside information management, the Unit keeps an insider register and the relevant information list. It also manages the special loyalty shares register.

The road shows will be stepped up in 2020 and will take place in a bigger number of financial hubs. The group will also focus more on its non-financial reporting aspects, mostly those linked to sustainability which has always been of fundamental importance to it.

CAREL and sustainability

BETTER BETTER CONTROL ENVIRONMENT

Innovation is an essential part of CAREL that has drawn on its innovativeness to promote its sustainable development thanks to the introduction of products that make its air-conditioning systems highly efficient. Its focus on the environment is an intrinsic part of its business and an ongoing daily commitment, allowing it to look to the future of our planet with confidence. The CAREL Group's sustainability policy blends environmental needs, in accordance with local and international regulations, with its system of values and responsibilities. The group's commitment is translated into compliance with standards and regulations by all its sites, in line with the relevant actions and best practices.

The group's brand strategy's evolution reflects its commitment to sustainability. The new "Better control, better environment"

motto has been conceived to give value to the concepts of social responsibility, energy savings and respect for the environment.

Two-year ESG plan and ESG company profile

Senior management plays a key role in prioritising sustainability. Together with the competent units, they assess the related risks to identify areas for improvement, thus creating long-term value and ensuring sustainable success for the group. In 2019, CAREL drew up a two-year ESG plan to communicate its sustainability goals and strategies to the group's stakeholders. On 11 November 2019, the parent's board of directors approved the plan, which includes two-year ESG targets and how the plan will be implemented.

The plan sets out CAREL's ESG targets. It will be reviewed once a year to incorporate new opportunities for improvement made possible by changes in the sustainability scenario and to reflect the external stakeholders' expectations about reporting, sustainability and reference good practices.

The control, risks and sustainability committee also reviews the plan and assists the board of directors in analysing and assessing its content to make sure that it complies with the group's strategies. The board of directors is required to express its opinion on the plan and provide its definitive approval.

The following table summarises the goals set in the two-year ESG plan and the results achieved in 2019.

GOVERNANCE	
Goals	2019 results
Stakeholder engagement on material topics and social responsibility	Stakeholder engagement project launched with the participation of the managing directors of the main group companies
Adoption of an operating procedure for sustainability reporting	Operating procedure designed and adopted to manage the non-financial reporting process, which included identification of an inter-departmental team and the roles, responsibilities and timing for the preparation of the non-financial statement; operating instructions for the data owners
Tightening of the group's position on corruption	Anti-corruption procedure disseminated to all the group's branches. E-learning training provided with final tests.
Adoption of a new remuneration policy which includes ESG goals for management	ESG goals included in the variable remuneration to encourage management to aim for the company social responsibility objectives
SOCIAL	
Goals	2019 results
Training on sustainability, GDPR, anti-corruption, the Code of Ethics and the 231 model and induction course for the directors and members of the control, risks and sustainability committee on CSR	Classroom and/or e-learning training courses provided with final tests on the 231 model, the Code of Ethics, privacy/GDPR, anti-corruption and sustainability
Inclusion of the net promoter score (NPS) model	NPS used alongside the current customer satisfaction assessment process; 21 surveys were carried out in five countries
Partnerships with schools, universities and training colleges	Partnerships agreed with research centres and international universities. Commencement of work experience and collaborations with PhD students, thanks to partnerships with local universities. Organisation of school visits to the company and other activities for students, partly to attract talents
Definition of remedial actions based on the survey on the internal climate at the headquarters	Work group set up as part of the Change for Better project which analysed and made recommendations for change in several areas (e.g., work/life balance, work and professional development) and reported regularly to senior management
Resource retention programme	Actions rolled out to improve engagement with employees and retain white collars and managers
ENVIRONMENT	
Goals	2019 results
Estimate energy savings of the CAREL products and services, which include the Recuperator products	Model developed to estimate the energy savings generated by the CAREL solutions, which include the Recuperator products, and GHG emissions avoided
Responsible management of controversial sourcing	Conflict minerals (i.e., 3TGs) policy and an internal procedure for the collection and processing of data about the conflict minerals adopted
Reach & RoHS compliance	Compliance of 15,000 raw materials with the RoHS Directive analysed. Process introduced to maintain compliance with REACH and the application sector regulations as a follow-on consequence
Supplier ESG survey	Survey commenced for suppliers with questions on ESG issues to map their main social and environmental policies
Energy efficiency	Energy efficiency upgrades at the group's Italian sites and offices including, for example, the installation of photovoltaic panels. Purchase of certified renewable energy for the Italian sites and offices
Transition from OHSAS 18001 to ISO 45001:2018 for the Italian sites	Transition from OHSAS 18001 certification to ISO 45001:2018 certification in Italy completed

In 2019, the group clarified its ESG performances and goals in its ESG company profile. This document's objective is to facilitate an understanding of CAREL's social responsibility for its stakeholders.

Furthermore, to guarantee greater consistency in the preparation of the Consolidated Non-financial Statement pursuant to Legislative decree no. 254/2016, the group formalised and approved a bespoke reporting procedure that defines the roles and individual responsibilities for the collation, checking and confirmation of the non-financial data and information included in the Statement. The procedure also establishes who is in charge of preparing, approving and checking the Statement. The parent identified the employees who will act as the key owners of the process to deploy the procedure and prepare the report while the board of directors assigned the task of coordinating the reporting process to the chief financial officer.

As part of its sustainable development policy, CAREL is

checking the consistency of its two-year ESG plan goals with the 17 SDGs defined by the United Nations. It will identify a number of goals that the group can actively contribute to achieving as part of the 2030 Agenda, either directly or through organisations with which it works. The group will also roll out a project to fine-tune its medium to long term vision after 2020 in line with the European Commission's sustainable development guidelines. This project will blend its quantitative sustainability strategic objectives with those of a qualitative nature and identify specific goals.

CAREL has summarised its operating practices in its Code of Ethics and the following policies: a diversity policy, a policy on human rights, an environment, occupational health and safety policy and a management policy. These reflect its commitment to complying with the highest sustainability standards and the group's intention to define internal guidelines for social and environmental issues that the group companies can refer to.

Diversity policy	Human rights policy
<p>The CAREL Group commits to:</p> <ul style="list-style-type: none"> • respecting private life and all individuals, avoiding discriminatory practices, free from any form of harassment, offence or other conditioning that could make the work environment hostile and intimidating; • guaranteeing equal opportunities in all work environments through respect for the physical and moral integrity of individuals; • encouraging inclusion and integration of individuals, avoiding any form of discrimination based on mental or physical limitations or diversity; • acknowledging and respecting personal dignity, private life and the rights of all individuals promoting values like trust, dialogue, mutual respect, wellbeing and work/life balance; 	<p>The CAREL Group commits to:</p> <ul style="list-style-type: none"> • not engaging in child labour; • refusing all forms of forced or compulsory labour and all forms of physical or physiological constraints; • not tolerating personal, sexual or other harassment or offense; • eliminating all forms of discrimination including distinction, exclusion or preference that denies or affects equal opportunities or treatment at work; • acknowledging workers' rights without any restrictions to their decisions or limitations to collective bargaining; • protecting employee health and safety; • considering the expectations of local communities, contribute to their development, respecting their cultural and environmental heritage; • respecting the confidentiality of personal information; • respecting personal dignity, private life and the rights of all individuals • encouraging the professional development and growth of each employee through respect for their physical and moral integrity; • requesting its business partners to act in accordance with identical principles in accordance with the regulations ruling in the countries where they operate.

Environmental and occupational health and safety policy
<p>The CAREL Group commits to:</p> <ul style="list-style-type: none"> • effectively implementing, checking and regularly assessing, when necessary, its environmental and occupational health and safety management systems; • regularly setting security and environmental protection goals; • engaging with stakeholders, shareholders, local communities and administrations for occupational health and safety issues; • protecting the environment and natural resources as priorities; • minimising its environmental impact; • promptly identifying potential risks using a system to prevent pollution, environmental incidents and environmental emergencies to minimise its impact on the environment; • acting in accordance with the ruling laws and regulations to reduce pollution and protect the environment; • pursuing exemplary results concerning environmental issues and promoting scientific development and sustainable technology; • focusing on minimising waste, improving resources management, limiting hazardous substance spillages, rationalising water resources, limiting its impact on biodiversity, optimising the use of raw materials; • considering the potential impact of its systems, processes and products over their lifetime on the environment and, especially, during their utilisation stage and after their useful life; • rationalising energy consumption and ensure security by improving processes; • adopting an injury prevention system; • providing for the technical design of work environments, equipment and processes; • encouraging workers to play an active role in preventing risks; • closely complying with established security and prevention measures.

Conscious of its position as a manufacturing company fully engaged with its international and local social and economic context, aware of the needs of its customers, consultants and the environment, the parent has published and circulated a management policy which sets out its specific local objectives

for quality management, the environment and health and safety. CAREL shares its commitment with its consultants, suppliers, customers and all its stakeholders, as they are fundamental to its development.

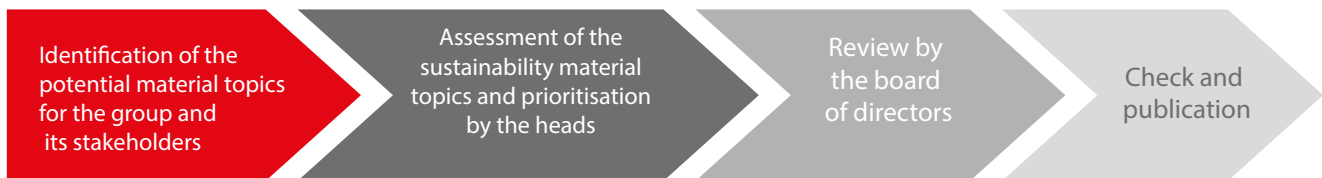
Materiality analysis

CAREL has identified the most important non-financial topics for it and its stakeholders that it will focus on constantly. It also defined the content of this Statement in line with the GRI Sustainability Reporting Standards.

The outcome of its materiality analysis was the definition of a materiality matrix that identifies the more material topics that could generate economic, social and environmental impacts and that are priorities for sustainability management and

reporting as they affect stakeholders' expectations, decisions, assessments and actions.

The finance unit coordinated the analysis with the assistance of an external expert. It consisted of a structured assessment involving management in charge of the potential material non-financial topics. The materiality analysis process was organised as follows:



During the identification phase, the finance function selected the potential material topics by analysing various sources, the main ones of which were:

- the GRI Sustainability Reporting Standards, and the legislative requirements for non-financial information (Legislative decree no. 254/2016 which transposed Directive 2014/95/EU on the disclosure of non-financial information by the European Commission into Italian law);
- internal documents, including, for example, the Code of Ethics, internal policies and commitments;
- international multi-stakeholder standards/initiatives, such as the Global Compact;
- external documents like reports analysing scenario changes prepared by, inter alia, the World Economic Forum, assessment questionnaires of rating agencies for inclusion in responsible investment indices;
- benchmarking analysis of the main competitors;
- media searches.

During the assessment and prioritisation phase, the unit heads checked, analysed and prioritised the individual topics.

As representatives of the group's global vision of processes and activities, these function heads assessed the individual topics from both the group's and stakeholders' points of view. The function heads that liaise with the stakeholders on a daily basis presented their views as well. The topics were analysed using different criteria: compliance with the group's strategy, economic and environmental impact, reputation risks and impacts and consistency with the group's internal policies.

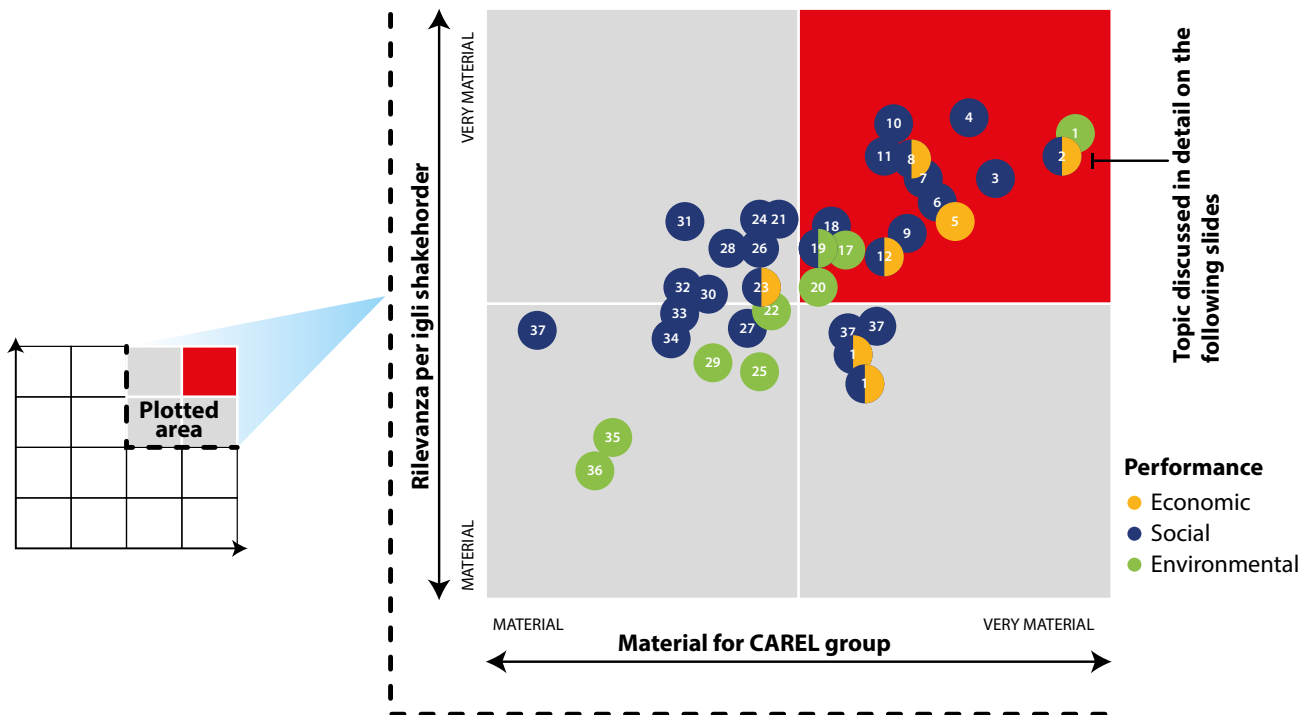
They identified 37 topics of which 16 are material and were included in the materiality matrix identifying three pre-conditions based on the sustainability model:

- creation of economic value that is sustainable over time;
- adoption of an efficient and transparent governance system to support business;
- ongoing focus on regulatory compliance issues.

The board of directors reviewed the materiality matrix.

During 2019, the group launched a stakeholder engagement project which involved the managing directors, and it plans

to extend this to other stakeholder categories in 2020. Once the sample involved is sufficiently extensive, the group will update its materiality matrix..



The following table shows the material topics relevant to the group and its stakeholders and included in this Statement, which comments briefly on the group's approach to the other topics included in the matrix, given their social importance. Moreover and in accordance with Legislative decree no.

254/2016 on non-financial reporting, specific information is provided on the following:

- anti-corruption;
- respect for human rights.

MATERIAL TOPICS	
1 Energy efficiency and sustainable products	20 Environmental impact and pollution
2 R&D and product innovation	21 Employee engagement, observation and satisfaction
3 Product and service compliance	22 Sustainable procurement policies and practices
4 Customer engagement and satisfaction	23 Risk management
5 Brand reputation protection	24 Talent attraction, development and retention
6 Customer safety	25 Waste reduction and utilisation of responsible waste elimination methods
7 Training and professional development	26 Well-being, life/work balance and worker protection
8 Quality and product safety	27 Labour relations
9 Ethics and integrity	28 Engagement with the communities and local institutions
10 Occupational health and safety	29 Fight against climate change and reduction of greenhouse gas emissions
11 Privacy, security and data protection	30 Diversity, equal opportunities and inclusion
12 Engagement with investors and fair trade practices	31 Remuneration, incentive systems and benefits
13 Respect for human rights	32 Corporate governance
14 Partnership opportunities	33 Protection of human rights in the supply chain
15 Disaster management	34 Prevention and fight against corruption
16 Responsible advertising and marketing	35 Efficient use of water, reduction of water consumption and water discharge monitoring
17 Efficient and effective use of energy resources	36 Protection of the environment, biodiversity and restoration of natural habitats
18 Dialogue and internal communication	37 Community involvement and development
19 Responsible supply chain management	

(the topics of greater relevance to the group which it has reported on are highlighted in red)

Stakeholder engagement

The group's ongoing engagement and the active involvement of internal and external stakeholders represents its responsibility for its local social context. Its focus on the quality of engagement with stakeholders, provided for in the Code of Ethics and designed to ensure an understanding of their expectations and needs translates into a proactive approach with all its stakeholders that it interacts with regularly in numerous ways. The group is aware that this interaction is an opportunity for mutual growth and enrichment as well as being essential to create long-term value. CAREL has identified

its stakeholders through internal and benchmark analyses as parties that are affected by its operations. Accordingly, in 2019, the group rolled out a stakeholder engagement project for its managing directors as provided for in the two-year ESG plan. The objective was to discover the external stakeholders' expectations about CAREL's social responsibility.

A summary of the main channels and tools for engaging with its principal stakeholders is set out below:

[GRI 102-40]

Stakeholder	Engagement tools and channels
Shareholders, investors and analysts	Shareholders' meeting Press releases Financial disclosures to the market Institutional websites Daily telephone calls and/or emails Conference calls Road shows
Financial institutions	Financial disclosures to the market Regular meetings with banks
Customers	Liaising with sales personnel and branches Institutional websites Customer satisfaction surveys (Voice of Customer) Online analysis of the brand's reputation and social media
Employees	New hires onboarding programme (CAREL Group Induction Process) Performance appraisals Intranet Internal social network (Tibbr) Internal magazine (Display – CAREL People Magazine)
Trade unions, worker representatives	Regular meetings with trade union representatives
Suppliers and business partners	Ongoing dialogue and transfer of good practices and skills Definition and agreement of standards Regular visits to production sites Certification and auditing of suppliers (CAREL Supplier Audit Check-list) Liaising with quality control personnel Order management software
Media	Interviews with senior management Press conferences Events Press Area of the website
Bodies and institutions (local bodies, public administration, regulators, sector associations)	Meetings with representatives of local institutions
Communities and future generations (local communities and NGOs, schools and universities)	Supporting and sponsoring social initiatives Dialogue with universities and schools

Organisations and associations

The group participates in and supports activities organised by national and international organisations. It offers its point of view on innovation, sustainable development, climate change, new refrigerants, etc.. The key organisations in which it participates are:



- European Partnerships for Energy and the Environment – EPEE:** this is the most influential European energy and environment association. Its mission is to promote sustainable development in the HVAC/R sector. The group plays a key role in this association as it participates in the definition of legislative policies, including to improve current regulations, and sector trends.
- European Heat Pump Association – EHPA:** this represents most of the operators of the European heat pump sector. Its main objective is to promote awareness and proper deployment of heat pump technology in the European market and to provide technical and economic assistance to the European authorities. The group is part of the association and participates in the drafting of standards at European Parliament level.
- American Society of Heating, Refrigerating and Air-Conditioning Engineers – ASHRAE:** this international society promotes the community's well-being through sustainable technologies for the environment. The society and its members focus on construction, energy efficiency, internal air quality and refrigeration systems and the sustainability of sector technologies. CAREL, as a member of the CEC (Conference & Exposition Committee) coordinates the conferences on sustainability, the economy and/or finance to raise awareness and facilitate the understanding of these topics' importance. CAREL is also a member of the technical committee for humidification and plays an active part in updating and maintaining technological standards for humidification equipment.

- **Air Conditioning, Heating and Refrigeration Institute**
 - **AHRI:** this is one of the largest sector associations for the HVAC/R sector in the US. CAREL participates in the definition of sector trends through discussions with the EPA (Environmental Protection Agency) and the DOE (Department of Energy), which provide legislative guidance.
- **Eurovent:** this association represents operators in the European HVAC, cooling and cold chain technologies for food sectors. It has more than 1,000 members based in Europe, the Middle East and Africa. CAREL is actively involved in the association which promotes and influences the sector through the creation and review of sector studies, rules and standards for the ventilation, air conditioning and refrigeration sectors, focusing on ecodesign and the efficient use of energy. The association includes an independent certification body which has certified some of the CAREL Group's products.
- **Eurovent Middle East:** this association is based in Dubai, in the Middle East and represents operators in the indoor climate (HVAC), process cooling and food cold chain technologies industry. It engages in lobbying and the updating of standards in line with international regulations. It also liaises with other associations active in Europe and worldwide. CAREL is actively involved in the association and, specifically, promotes and influences the sector through its participation at conferences and technical workshops, mostly focused on energy efficiency and environmental sustainability.
- **Italian Association of Air Conditioning, Heating and Refrigeration – AICARR:** this association follows issues related to the conscious use of energy, natural resources and innovation in energy infrastructures. CAREL participates in its core activities, providing assistance during workshops and training.
- **China Refrigeration and Air-conditioning Industry Association - CRAA:** this is a non-profit Chinese organisation that represents the manufacturers and

distributors of the HVAC/R sector. It contributes to making regulations and the design and adoption of standards. The purpose of CAREL's membership is to gain an awareness of medium to long-term trends in the Chinese market.

- **The Chinese Association of Refrigeration - CAR:** this is a Chinese association of air conditioning and heating system operators that is part of the Chinese Institute of Science and Technology. CAREL's participation in the Light commercial equipment innovation centre committee is fundamental for the group's future in Asian markets.

CAREL works with these international associations to promote the market's proper understanding of refrigeration and air-conditioning and to promote long-term sustainability. In 2019, the Chinese Association of Refrigeration (CAR), recognised CAREL as a member of excellence, principally for its considerable support to the association and its commitment to the promotion and development of the entire sector.





A grayscale photograph of a modern building. In the foreground, a large, rectangular sign is mounted on a dark base. The sign features the word "CAREL" in a large, white, serif font, with a horizontal line underneath the letters. The building behind the sign has a facade of large glass windows and a concrete structure. The sky is a uniform light gray. A large, solid white rectangular area is present on the right side of the image, partially overlapping the building's facade.

CAREL



Customer first

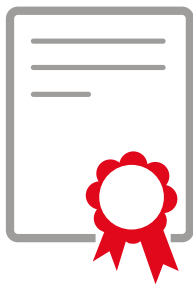
Customer importance and service excellence

Business relations with customers are a fundamental part of CAREL's assets. They refer to the group's fundamental values which put the customer first. In order to strengthen customers' view of and confidence in the group, its relations are based on the principles of legality, morality, professionalism and honourability set out in its Code of Ethics.

The group has adopted the lean philosophy, designed to maximise the creation of value for customers and minimise waste. CAREL has interpreted this philosophy as an ongoing project rather than one with a beginning and an end. It is not hinged on just the tools or individual projects but is a method

that involves the group's people giving them key roles in achieving improvement.

The group adopted the lean philosophy in 2007 and has extended the model to several production sites over the years. It is an ongoing process, which has an effect on other internal processes as well, and is a strategic tool to ensure the ongoing improvement of quality, efficiency and delivery times of the group's solutions. The linchpins of CAREL's value creation model are its lean philosophy, product quality and safety and product chemical safety.



Quality



Lean



Laboratories

The most important customer category is that of the original equipment manufacturers (OEM), which manufacture complete units for applications in the HVAC/R markets.

Customer intimacy and direct engagement are key factors for the group, based on a strategy implemented over time and ensured by its global presence with 9 production sites in four continents and a network of 20 commercial companies.

Over the years, the group has created a network of partnerships with customers (co-development) to achieve a better understanding of their needs, promote innovation and maximise the length of their relationship for the supply of

critical components, enhancing the customer lifetime value.

To mitigate the risk of not meeting customer needs by identifying changes in their preferences and technological innovation in their markets, as well as the risk of not attracting new customers, the group monitors its customers' satisfaction levels by analysing market performance and through a structured ("Voice of Customer") process. As it is difficult to properly assess customer satisfaction in the B2B sector or, when it is possible to reach the right customer departments, unanimous feedback is not always obtained, CAREL has decided to monitor the "voice of the customer" by asking a group of key accounts, who are in almost daily contact

with their principal customers, to provide feedback about customer satisfaction. Satisfaction is assessed on two levels: Quality, i.e., the quality of the products and solutions offered to the customer, as well as everything else included in the group's offer, and Service, i.e., mainly the level of the logistics and shipping service rendered.

The rating has three grades shown as a set of traffic lights to allow a visible assessment of customer satisfaction trends. The group quality manager assembles customer opinions once a month using the information provided by the local quality representatives of the four main sites with ISO 9001 certification. One of the requirements of this certification is the monitoring of each customer's satisfaction based on its needs and expectations to an extent that is feasible for the supplier. The survey findings are summarised in the Customer Monthly Report showing the percentage of red and orange ratings for each production site in terms of both quality and service/logistics.

In 2019, CAREL integrated its current customer satisfaction assessment process with a new model, the Net Promoter Score⁷ (NPS), as provided for in its two-year ESG plan. This management tool is used to measure loyalty in a supplier-customer relationship. CAREL deems it important to have a dashboard that can regularly supply immediate information about customer satisfaction levels without consulting the sales network.

The NPS model eliminates the need for traditional customer satisfaction questionnaires, which are often too complicated and have a low response rate. CAREL used the model for four key accounts (headquarters and branches) for the first time in 2019. It sent surveys tailored for the area being assessed (R&D, purchasing, logistics or marketing) to obtain detailed feedback explaining the responses to the NPS questions. It sent out 21 surveys in five countries and the next phase will see the roll out of a problem solving activity applying the Deming cycle (Plan Do Check Act) to the collated data.

⁷ The NPS model can be used to assess the loyalty level in a company-customer relationship. It has a scale of 1 to 10 based on replies to the question "How likely is it that you would recommend this product/service/site to a friend or colleague?". The customers' replies (from 0 to 10) are classified using the global NPS index (from 0% to 100%).

Product and service quality and product safety

The CAREL Group's products comply with national, EU and international safety standards. Specifically, the CAREL products bear the CE mark in Europe, confirming their compliance with the EU safety requirements. The group's products are certified for safety by authorised laboratories of third party national or international bodies.

The group manufactures and sells control products and systems that can also be customised to meet a customer's specific requirements or needs. They are used for various applications, including very complex ones, where the precision of the control systems over humidity, temperature or other environmental parameters could have a fundamental effect on manufacturing safety, product quality and operating efficiency as well as compliance with environmental regulations.

Before it launches new products, CAREL has its products tested by international accredited laboratories and certification bodies to check their compliance with the regulations and standards applicable from time to time. This also ensures greater impartiality and reliability of the analyses and tests. In 2019, it extended this process to Recuperator and HydroMatic, acquired at the end of 2018, to ensure a standardised group-wide approach.

The development of more sophisticated projects or machinery designed specifically for a customer or to meet market requests can cause an increased risk of defects, damage or malfunctioning due to the introduction of new technologies. Accordingly, during approval of a product development project (value proposition), the group identifies the international health and safety regulations applicable to the utilisation scenario and the countries where the product will be distributed.

Specifically, each new product developed by CAREL is assessed for its risks to the health and safety of its users. The group's

quality system includes all the guidelines in this respect, with three different test levels:



- **Level 1 - internal standards:** reliability assessments, useful life assessments, DFMEA, FPMEA, higher acceptance levels than those of international regulations, product checks and validation plans (for hardware and software, including with automated tests) to collate the experience gained in-house;
- **Level 2 - legal requirements:** obligations imposed by the law, directives and regulations at national, EU and international level depending on where the products will be sold; the group usually performs all the tests necessary to use the CE mark or other mandatory marks, including on products that will be added to;
- **Level 3 - voluntary health and safety product certifications,** provided by a third party notified/accredited expert (IECEE CB, UL, TUV, CCC/COE, EAC); these certifications ensure that the product is safe in electrical and mechanical terms.

The following table shows the percentage of new products for which health and safety aspects have been tested to obtain, inter alia, the CE, cULus, cURus and cETLus marks compared to

the number of projects completed in the year. The assessment does not include projects exclusively for software, as it is not applicable.

Products assessed for health and safety purposes [GRI 416-1]

		2019	2018
	U.M.	Quantity	Quantity
Total new products that entered production and underwent health and safety testing	n°	16	10
Total new products that entered production	n°	16	10
Percentage of products covered by the health and safety tests	%	100%	100%

The next table shows cases of products and services that were not in compliance with the laws and regulations covering health and safety.

Non-compliant products and services [GRI 416-2]

		2019	2018
	U.M.	Quantity	Quantity
Cases of non-compliance with laws, mandatory and/or voluntary regulations covering the effect of products and services on health and safety during their life time	n°	0	0

Chemical Safety

As part of its customer health protection measures, the group has always ensured its compliance with the relevant European regulations and that of its entire value chain. These include the European regulation REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) and the RoHS (Restriction of Hazardous Substances) Directive.

REACH is an EU regulation (no. 1907/2006 and subsequent amendments) that covers the registration, evaluation, authorisation and restriction of chemicals depending on their potential impact on both human health and the environment. Its objective is to raise stakeholders' awareness about the risks and potential dangers of using these chemical substances. The Substances of Very High Concern (SVHC) are relevant to CAREL as its business sector makes uses of these substances and, therefore, it has to pass many REACH authorisation levels. Another objective of REACH authorisation is to guarantee that the SVHC will be gradually phased out by less hazardous

substances or technologies, when this is possible in technical and financial terms. As it is well known that the electronics devices sector is one of the most exposed to phase-out risks during the REACH authorisation process, the group is readying procedures to mitigate these risks by adopting the safest solutions when possible. Moreover, the group's dedicated chemicals compliance team regularly checks implementation of the procedures required by the regulation using the REACH compliance statements of its manufacturers.

In addition, CAREL is compliant with EU Directive 2011/65/EU (RoHS) and the Commission Delegated Directive (EU) 2015/863 of 31 March 2015 (and amendments) on the restriction of the use of certain hazardous substances in electrical and electronic equipment.

The chemicals compliance team analysed the information supplied by suppliers about more than 15,000 raw materials and will continue to update this information during their

phase-in process. As a result, CAREL can state its RoHS compliance not only for the electrical and electronic products included in the Directive's scope from when it was issued but

also for the isothermal and adiabatic humidifiers, which were not previously envisaged by the RoHS Directive.

Product information

Customer health and safety is a key aspect of CAREL's business model. The group even tests the materials used to build the components to ensure they comply with the EU regulations and especially the REACH Directive and the RoHS Regulation. These tests check all the information on the labels and specifically:

- the product's identification;
- traceability (lot, production date and series number);
- mandatory quality marks (e.g., CE mark and other legally-required marks);
- product utilisation ratings;
- information about how to install the product or its safety.

The certification bodies usually check the product documentation (instructions leaflet and installation manual). After the tests are performed during introduction or approval of the components, CAREL's quality system includes specific requests for updates of the information received from suppliers and a list of materials deemed to be dangerous.

The following table shows the percentage of new products that entered production in 2019 for which health and safety aspects have been tested for their labelling compared to the number of projects completed in the year. The assessment does not include projects exclusively for software, as it is not applicable.

Products whose labelling has been tested for health and safety reasons [GRI 417-1]

		2019	2018
	U.M.	Quantity	Quantity
Total new products that entered production and underwent health and safety testing of their labels	n°	16	9
Total new products that entered production	n°	16	9
Percentage of products covered by the health and safety tests	%	100%	100%

It is normal practice that 100% of the products meet the legal requirements for the marks to be included in the label and/or user instructions (manual/instructions/online guide). The labels are made of materials that comply with the requirements

of the standards for durability and marking indelibility. There were no cases of non-compliance with the law and mandatory and/or voluntary regulations about the information and labelling of products and/or services in 2019.

Respect for confidentiality and protection of personal data

The group is well aware that maintaining the confidentiality and protection of data (including personal data) is fundamental and essential for its relations with its stakeholders and to ensure that important data is processed in accordance with the current regulations. Protection of CAREL's intellectual property, including patents, trade secrets, trademarks, distinctive marks, technical and scientific knowledge, know-how and skills acquired over time is crucial to ensure the group's competitive edge.

This implies that IT infrastructure appropriate to the needs of an international group like CAREL is indispensable, also to ensure the highly efficient performance of the group's activities. Its operations could be adversely affected by service discontinuities caused by IT systems or unauthorised access attempts by hackers that could lead to the potential loss of data, damage to intellectual property and, more in general, risks related to the working of the IT systems.

The group processes data subjects' personal data in compliance with the law and in a correct and transparent manner, protecting their rights (e.g., right of access, right to rectification, right to erasure and the right to restriction of processing). The group introduces the appropriate technical and organisational measures to protect personal data from their accidental or unlawful destruction, loss, alteration or unauthorised access.

In order to ensure maximum transparency about data management and processing, the CAREL website has a "Privacy" section which contains information for its suppliers in accordance with articles 13 and 14 of Regulation (EU) no.

2016/679 (the General Data Protection Regulation, GDPR) and an internal privacy policy about data protection pursuant to article 13 of the GDPR and the Data Protection Authority's guidelines for the protection of personal data and the use of cookies. These disclosures are designed to confirm to the stakeholders that information and personal data obtained by CAREL is kept confidential and that CAREL acts in strict accordance with the current data protection and processing legislation when processing these data.

The group has internal procedures and measures to monitor access to data by its employees and their processing to mitigate the above risks that could also damage its reputation or lead to fines from the Data Protection Authority should the data be damaged, lost, stolen, disclosed or processed for reasons other than those for which consent was given.

CAREL introduced a training course for its employees on personal data protection issues as part of their work activities to raise their awareness of the fundamental privacy principles. The parent's employees were provided with e-learning courses on the content of the GDPR and Legislative decree no. 101/2018 (the Italian privacy code).

The group has disaster recovery and business continuity plans to deal with a breakdown or discontinuity of its IT services. It stores personal data and data of its customers and other parties it works with or that use CAREL products and solutions in dedicated internal and external data centres

In 2019, it did not receive any complaints from consumers about data protection violations or data loss.

Brand reputation protection

The CAREL trademark has historically stood for innovation, reliability and technology. Its growth strategy hinges on continuous technological innovation and its success is the result of its ongoing focus on products and the introduction of solutions that can guarantee increasingly higher energy efficiency compared to the traditional solutions.

In recent years, the company's brand strategy has evolved by focusing on social responsibility issues, energy savings and respect for the environment. Its "Better control, better environment" motto will be an intrinsic part of its brand strategy in coming years.

Starting from 2018, the group has rolled out a number of actions to improve its reputation and increase familiarity with its brand in Italy and abroad.

After its stock market listing in 2018, CAREL drew up an organic and articulated corporate communication plan aimed at promoting its corporate image. This proactive and diversified institutional and marketing communication campaign was designed to promote CAREL with a wider public. In fact, it fostered trading of the parent's shares on the stock market and significantly increased visibility of the group and its operations on its reference markets. The group has continued this strategy to protect and enhance its reputation enabling it to maintain a high brand awareness level again in 2019.

The group implemented its communication strategy using a multimedia, integrated plan blending traditional and digital channels to reinforce its leading role in the Italian and international technological sector. It involved its employees and partners as brand ambassadors and organised events and campaigns.

CAREL's web communication activities included the ongoing refreshing of its website, which can be accessed from desktop

and mobile devices (smartphones, tablets, etc.). This has generated excellent results in terms of accesses, with over 4,000,000 pages visited by more than 800,000 visitors during the year.

Starting from 19 February 2019, CAREL has extended its presence on social media to include Facebook, with specific content about the group and market trends. Its page also includes information about the business, events, accolades and awards as well as news about innovative products and projects.

During the year, CAREL's followers on digital channels increased steadily. Specifically, LinkedIn followers grew steadily (to over 20,000 in 2019), partly thanks to the advertising campaigns, and the number of impressions more than doubled in the year.

CAREL's Youtube channel was enriched with new content and it now includes over 140 videos and more than 100,000 views. All these web activities augmented CAREL's online reputation, which has grown steadily over the years. The sentiment of the conversations is positive and mainly regards corporate and financial news and products.

The industrial design and marketing communication unit has also played a part in promoting the integration of Recuperator and HygroMatik (acquired at the end of 2018) into the group's corporate identity. In 2019, the group (specifically Carel Industries, Carel Electronic Suzhou, Recuperator and HygroMatik) filed 37 patent applications thanks to its innovative technological edge, including six as a result of ground-breaking projects carried out for 2019. The group constantly engages in actions to combat counterfeiting to protect the authenticity of its brand and image. This fight against counterfeiting mostly consists of ongoing monitoring, concentrating on specific channels and competitors.





CAREL



Focus on technology and
innovation

Research, development and innovation

Research and development are at the heart of CAREL's business. **It earmarks 5.5% of its consolidated revenue to this sector to pre-empt customer needs and provide cutting edge solutions.** CAREL also has two laboratories (a thermodynamic one and a humidification one), which are centres of excellence in their fields.

Roughly 13% of the group's over 1,670 employees engage in R&D activities for an average of 225 resources in 2019.

The group engages in applied research and development focusing on solutions to improve energy efficiency, reduce the environmental impact and cut back on the use of natural refrigerator gases to maintain its leadership position in the HVAC/R market niches. These research goals are supplemented by the emerging automation sector related to remote connections, where the group is developing data-driven solutions and services to provide customers with bespoke services using IoT platforms).

The group's skillset has expanded to include heat recovery and humidification in niche sectors with the acquisition of Recuparator and HygroMatik.

Product and process innovation is a key success factor that has contributed to the group's growth in recent years and will be strategic for its future development. The group's ability to quickly respond to market changes relies on its capacity to continuously introduce new products, solutions and/or services or new and updated versions of its products and services that meet or incorporate technological innovations. The intrinsic nature of these products and services and

their development means that the group has to constantly upgrade them along with its performance, characteristics and the reliability of its technology.

To this end, CAREL has adopted a modular approach to product development in the different areas (electronics, mechanics and software) to promote as far as possible the ongoing introduction of innovative solutions by reusing different modules to reduce development times, ensure greater reliability and lower product costs.

The group's products are the result of very scrupulous research, design, development and industrialisation activities. It decides whether to develop a new product to offer the market new and better products in line with the requests and needs of its customers.

CAREL's trademark skills are in the areas of development of integrated solutions for the use of the cooling cycle to control the temperature and humidity and the use of isothermal and adiabatic humidification for controls of humidity and, in some cases, the temperature to adapt the products to different market requirements. A market approach that does not offer individual products but rather integrated solutions to fully respond to the requirements of an application is very innovative.

Thanks to its investments in R&D, technological innovation and continuous growth, CAREL was recognised again as one of the top 100 Italian companies with revenue of between €120 million and €500 million.

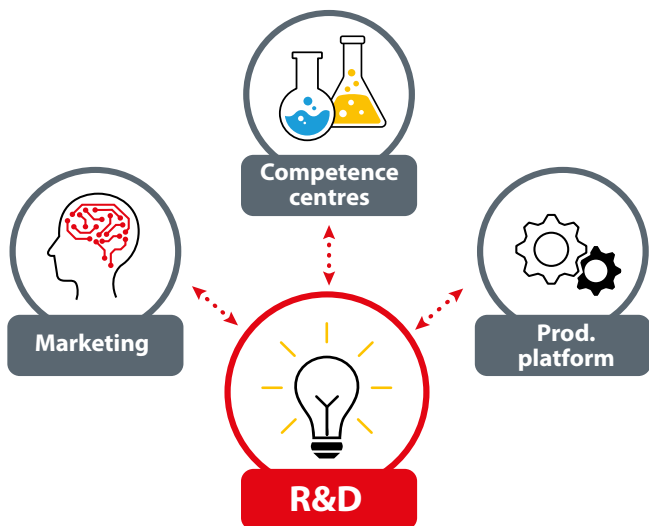
Laboratories

Technological innovation is the result of ongoing dialogue between the various areas involved in product development, i.e.:

- **the marketing function**, which provides information about the customer's specific requirements and market trends;
- **the product platforms function**, which defines the

product structure to meet both market needs and those of the different application segments in which the group operates;

- **the Competence Centres**, which define the technological solutions that meet the customers' requirements in an innovative manner.



“Customise solutions to stand out from competitors and create additional evolved functions and performances based on our know-how and research into our customers”

CAREL R&D activities are carried out at three dedicated sites in Italy, China and the US, specialised in HVAC/R, humidification, electronics, power electronics and precision mechanics applications. Each R&D centre has five competence centres focused on developing technical knowledge in five areas. The thermodynamic competence centre is part of the knowledge centre, which is where new technologies are researched and products are tested, such as for example the new natural refrigerants.

The laboratories in Italy, China and the US play a fundamental role in developing innovation. There are 11 of them: three thermodynamic laboratories, three humidification laboratories, two electronics laboratories, two power electronics laboratories and one valves laboratory.

At 31 December 2019, the group's R&D department has 225 engineers and technicians, equal to 13% of its workforce.

The following table shows the number and percentage of R&D employees by geographical area at year end.

Breakdown of R&D employees by geographical area

Country	2019		2018	
	n°	%	n°	%
Italy	157	70%	140	72%
Europe	4	2%	-	-
USA	12	5%	11	6%
China	52	23%	42	22%
Total	225	100%	193	100%

The group's commitment to continuous innovation in designing high efficiency solutions reduces the environmental impact of machinery and plant and increases the efficiency of its customers' systems. It has invested an average of 5.8% of

its revenue in R&D in the last four years. Investments in R&D increased by 12.6% in 2019 compared to the previous year.

The next table shows investments in R&D over the four years as a total and as a percentage of revenue.

Investments in research and development

Type	2019	2018	2017	2016
€'000	18,060	16,035	14,494	14,392
Percentage of revenue	5.5%	5.7%	5.7%	6.2%

In addition to the actual R&D employees, the commercial companies have software developers who build the upgrades necessary to make the software compliant with the local markets and who have the technical skills necessary to ensure efficient and prompt post-sales assistance.

The availability of integrated software development environments is essential to develop integrated solutions that allow the group's customers to put the solutions into immediate use.

Over the last three years, the R&D unit has worked on more than 20 product development projects a year and over 600 customisation projects for customers. The group's intellectual property is protected by 37 patents (requested or granted), six of which are for innovative solutions designed in 2019. They also cover new applications for other environments which CAREL applies to solutions of interest to its customers.

It follows that the group has had to deal with the risks

related to protection of its intellectual property, or rather its potential inability to properly protect its intellectual property, technological know-how and trademarks.

The group responds to this risk by keeping the know-how deemed essential to maintain its competitive edge in-house, limiting the use of external developers (who have to sign a confidentiality agreement as part of their contract) to a minimum.

Intellectual property protection is also governed by the Code of Ethics, which provides that the employees are required to protect, maintain and defend CAREL's rights and to respect the intellectual property rights of other parties.

R&D activities are also carried out through long-standing partnerships with the Padua University (in areas ranging from analogue and digital electronics to power electronics, system and control theory, thermodynamic applications, technical physics and mechanical production processes to data statistical analyses), the CNR (National Research





Institute) and the most important sector associations such as EPEE (European Partnership for Energy and Environment), AICARR (Italian Association of Air Conditioning, Heating and Refrigeration), ASHRAE (American Society of Heating and Air-Conditioning Engineers), AHRI (Air-Conditioning, Heating and Refrigeration Institute) and EHPA (European Heat Pump Association).

In 2019, the Polish group company Alfaco Polska Sp. z o.o. signed an agreement with the Warsaw University of Technology for cooperation in research and development in the fields of refrigeration and air conditioning. Together with

the Croatian distributor MB Frigo Grupa, CAREL also provided University of Rejika with the materials needed to build a CO₂ installation to allow students to gain familiarity with the new BLDC technology that uses the natural refrigerant CO₂. As a supplier of light commercial solutions, CAREL was one of the founders of the Light Commercial Industry Innovation Centre in China. This centre will work on introducing and developing new technologies and, specifically, will liaise with the national commercial refrigeration equipment quality supervision and inspection centre to update the national regulations about light commercial equipment.

Energy efficiency and sustainable products and services

Commitment to sustainability and respect for the environment have always been part of CAREL's DNA. When developing and improving integrated solutions designed for various market segments, CAREL's approach is solution rather than product based. It pays close attention to sustainability issues, and has research programmes for:

-  energy efficiency;
-  use of natural refrigerants;
-  cold chain sustainability;
-  monitoring and analysis of data and system optimisation.



CAREL continues its commitment to protecting the planet with energy-efficient technologically-innovative solutions. It is a partner of Geofit, a research project for smart geothermal technologies funded by the European Union to develop innovative EGS (Enhanced Geothermal Systems).

Energy efficiency

The increased efficiency of CAREL's conditioning and refrigeration systems is one of its cornerstones. In addition to its move towards less energy intensive systems, CAREL also pays close attention to such systems' supply. The transition

from traditional gas or fossil fuel heating systems to electric pump solutions should allow for the better use of renewable sources. The main new designs and innovations of recent years of HVAC/R technologies have led to:

- optimisation of refrigeration systems and circuits;
- introduction of variable speed compressors using BLDC technology, facilitating greater efficiency in applications like heat pumps;
- specific devices for CO₂ refrigerant applications making the systems more efficient and extending the use of these applications in hotter geographical areas;
- the Heez system, which was then used to build the most efficient bottle cooler integrated control system in the world. It is a variable speed propane application that allows beverage distribution applications to reduce their environmental impact.

CAREL not only optimises systems but also designs solutions that allow system optimisation like the HEOS (High Efficiency Showcase) system, where supermarket refrigeration is radically transformed from a centralised refrigerated liquid production system to a distributed system in which each cabinet can be optimised to minimise the system's consumption.

In the HVAC sector, the group focuses on adiabatic

humidification, which allows the production of humidity using less energy compared to isothermal humidification. One related application is evaporative cooling, with more efficient temperature controls especially in air treatment applications. The group continued its market approach in 2019 whereby it offers integrated solutions that provide a complete response to an application's needs rather than providing individual products. With respect to sustainability and respect for the environment, the group has analysed the annual consumption of electricity of a refrigeration unit housing a CAREL component, selecting a range of solutions. It calculated consumption using standard design criteria (e.g., refrigerant, working hours, efficiency, average work load, component oversizing). It then applied the energy savings to this electrical component, obtained as the average of internal case studies for that Carel component and for a specific application in the cold chain or air-conditioning sectors.

During the year, CAREL's customers saved **6,562 GWh..**

The following table summarises the estimated energy savings per CAREL product, scope of application and average savings

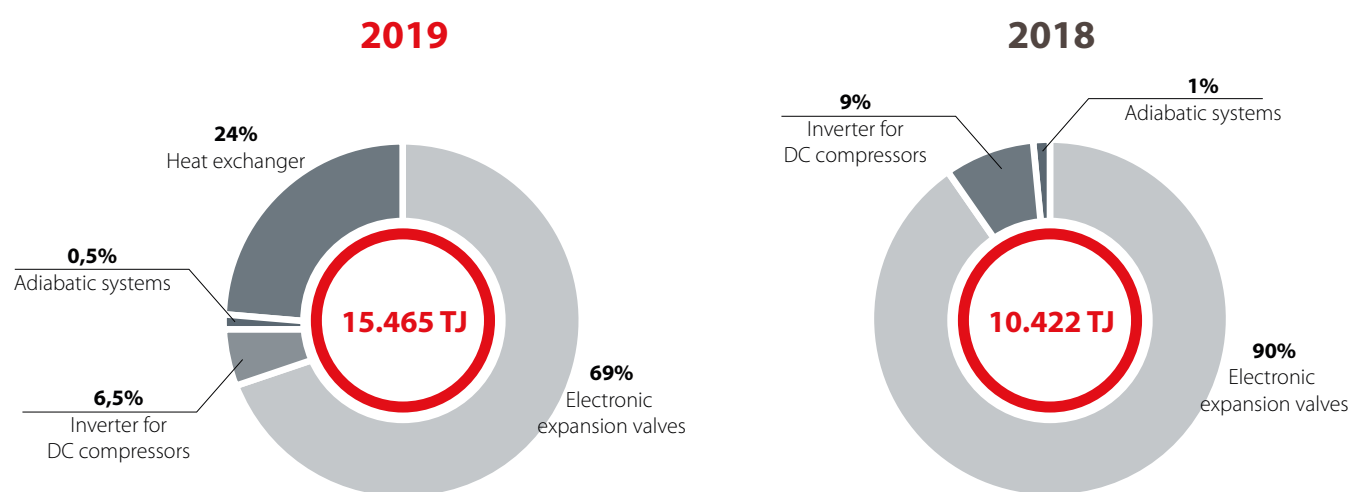
PRODUCT	Application	Pieces per year	Saving (%)	Reference conditions	Total savings (GWh/yr)
Electronic expansion valve	HVAC	293,259	17%	R134a, 2/40°C, TEV	2,949
DC Drive	REF	66,167	30%	fixed speed compressor	310
Adiabatic system	HVAC	316	60%	Electric humidifier	21
HEEZ	HVAC / REF	42	47%	R290, standard controller	0.01
Ejector	REF	311	11%	CO ₂ booster + Parallel C.	3,281

The group's acquisition of Recuperator, which manufactures air-to-air heat exchangers, at the end of 2018 perfectly fits the above strategy. It has allowed the group to offer air-to-air heat exchangers which complete its ventilation application portfolio (e.g., AHU and roof top systems). CAREL customers'

use of these applications generated savings of 1,015 GWh during the year. The following table summarises the estimated energy savings of the Recuperator products and their scope of application.

PRODUCT	FAM	Application	Pieces per year	Average annual efficiency ⁸	Thermal energy savings (KWh/yr)	Electrical energy savings (KWh/yr)
Heat Exchanger	Cross Flow	HVAC	22,417	50%	2,629,073,698	876,357,899
Heat Exchanger	Thermal Wheel	HVAC	1,984	50%	416,291,473	138,763,824

Reduction in electrical energy consumption (%)



The case study also calculated the GHG emissions avoided by customers as a result of the energy savings: ⁹**1,273,160 tCO₂e** in 2019.

	EXV	DC drive	Adiabatic	Heez	Ejectors	Heat Exchanger	Total
Energy savings (GWh/y)	2950	310	21	0.011	5	1,015	4,301
Emissions avoided (tCO ₂ e/yr)	873,176	91,867	6,202	3	1,436	300,476	1,273,160

⁸ Average annual efficiency includes both heating and cooling.

⁹ A conversion rate of 0.000296 tCO₂/Kwh was used to calculate the energy savings (Source: EEA, <https://www.eea.europa.eu/data-and-maps/daviz/co2-emission-intensity>)

Monitoring and analysis of data and system optimisation

The new IoT division has allowed the group to concentrate on solutions that allow more evolved system optimisation solutions alongside the traditional monitoring of systems and alarm management. The system's functioning data provide the energy managers with additional information about the system's output.

It also allows for the assessment of any drops in performance which is essential to implement scheduled maintenance programmes. The group also has system monitoring and optimisation services, where data from other similar systems

are compared to align the performances of the less efficient systems with those of the best-performing systems.

System optimisation can also be coordinated using devices making up the system depending on its use, the environmental conditions or use of the system. Introduction of an advanced control system in the simpler cases allows significant savings in the machines' and systems' energy requirements thanks to functions like, for example, optimisation of switching on and off rather than using it only when strictly necessary.

Natural refrigerants

The effects of traditional refrigerants on the environment and their banning in some geographical areas has made it fundamental for CAREL to use low environmental impact natural refrigerants like propane (R290), carbon dioxide (R744) and ammonia (R717), sometimes in tandem with variable speed compressor technologies.

CAREL has focused on developing industrial and commercial refrigeration systems that can use natural refrigerants in each application niche served with its main compressor manufacturer partners in recent years.

Another area the group focuses on is that of solutions that use fewer synthetic refrigerants to decrease their cost and environmental impact. In fact, CAREL uses carbon dioxide (CO₂) in its refrigerants.

Carbon dioxide is an economical refrigerant that is widely available and easily obtainable from hydrocarbon combustion. It is completely environmentally-friendly: it has an ODP of zero and a GWP of 1 and is used as a factor in assessments of GHG effects.

In sustainability terms, the use of carbon dioxide is the most environmentally-friendly choice compared to any other HFC/HFO refrigerant. In addition, compared to other natural refrigerants, it is not inflammable like the hydrocarbons (e.g., R290), nor is it toxic (unlike NH₃) but it is potentially less efficient. Thanks to the Kigali Agreement and the consequent steady elimination of the HFC/HFO gases, carbon dioxide will gradually become the standard refrigerant.

Experience, know-how and innovation are the linchpins of CAREL's solutions. Its control technology is characterised by



reliability and efficiency for this type of system, especially in warmer climates where energy savings are affected by the low critical temperature (31°C).

CAREL offers comprehensive solutions for the optimal regulation of refrigeration applications that use CO₂ as their refrigerant fluid. These innovative solutions can manage the system's complexity due to pressure involved, climatic conditions and the required cooling capacity.

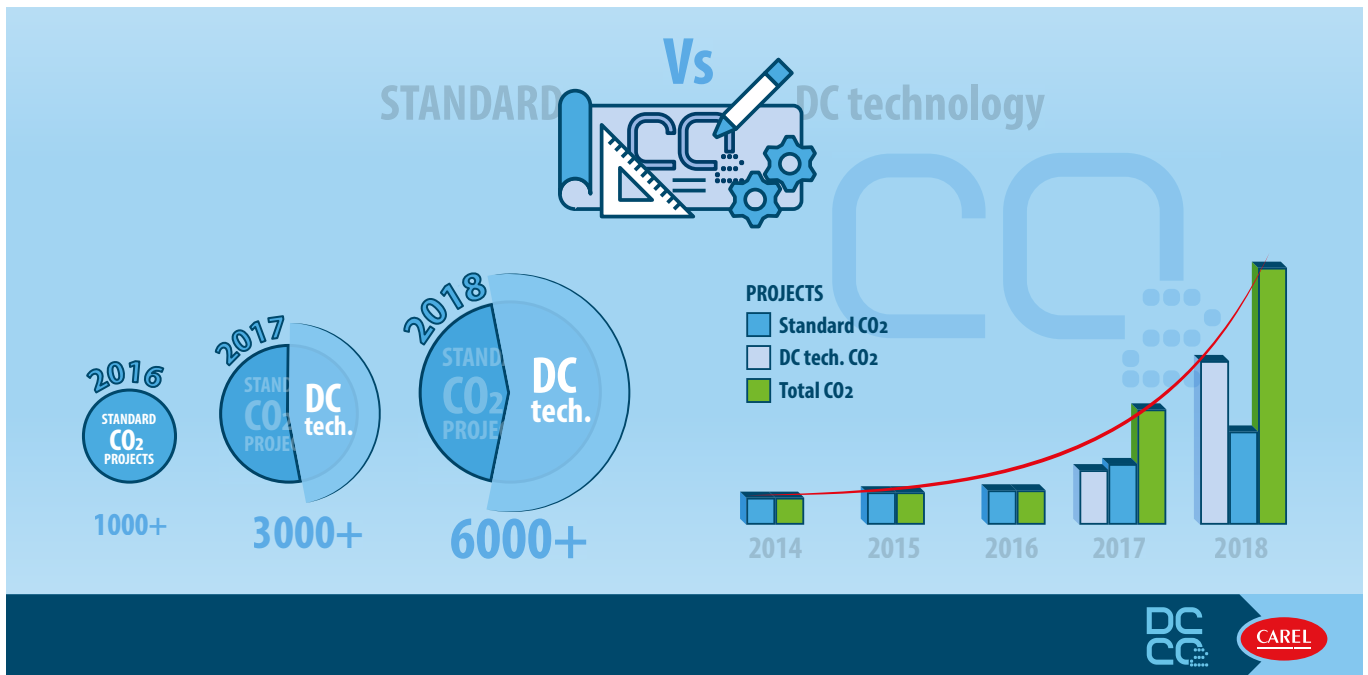
In 2019, the group extended its range of installations with natural refrigerants, partly to meet the strong demand from the South African, Australian and Asian markets. China in particular has great growth potential, thanks to the success garnered by the first installations in 2018.

The Hecu system is CAREL's high efficiency solution for condensing units in commercial refrigeration systems with a move towards natural refrigerants and integrating the management of DC inverter compressors for CO₂ refrigerants. This system uses DC inverter compressors to provide effective modulation of the cooling capacity, thus allowing low energy consumption, especially in the case of part loads. The excellent performances that can be achieved with CO₂ comply with the Eco-design Directive for energy performances and meet the limits set by the F-Gas Regulation for applications with condensing units.

China Refrigeration has acknowledged Hecu CO₂ as the Innovation Product 2019 in the Refrigeration category, recognising it as a cutting-edge solution for the efficient use of natural refrigerants and emphasising the potential of this system for widespread use in China.

CAREL's commitment is shown by the progress made on its projects for refrigeration systems in the retail food sector which, as shown in the next chart, are steadily transitioning towards CO₂ solutions and, especially, from the traditional technologies to the more efficient variable speed solutions. Installations with natural refrigerants are gaining popularity constantly throughout the world, driven by the trends in Europe and Japan. Over the last three years, CAREL has tripled the number of its CO₂ projects using the DC inverter technology which guarantees high efficiency with the use of natural refrigerants as well.

CAREL's aim is to contribute to spreading an energy saving culture and refrigeration practices that are more environmentally-friendly. As a result, it has undertaken various sustainability projects, such as the workshop held with University of Zagreb in 2019 on the correct utilisation of natural refrigerants, funded by the EU's LIFE Programme



Cold chain sustainability

The CAREL control systems are HACCP International certified for the safety of food in food processes. This is a **value added voluntary quality certification**. It goes beyond the Directive's standards and means that CAREL's solutions lead the field in safety terms. This certification provides reassurance to manufacturers, distributors and consumers.

Food wastage leads to economic losses and significant unsustainability issues. Its prevention implies acting responsibly to avoid behaviour that can be detrimental to global energy with a "green" approach to the management of materials, machines, electronic systems and all the processes that make up the production, transportation and distribution of good.

The modern food distribution chain is very complicated and its sustainability is closely tied to food safety issues.

The improvement of food safety at certain crucial points of the cold chain is essential and represents innovation in sustainability terms.

The aim is to obtain a balance between food safety and the energy costs necessary to maintain the right refrigeration and conservation temperatures.

Refrigerated showcases and cold rooms are two symbolic locations of food safety. The closely connected issue is sustainability in the cold chain. A potential risk for food in terms of preservation times, temperatures which are too

high or too low or non-optimal relative humidity, can be measured and traced in these environments. This is where here CAREL systems **guarantee reliability and accuracy of the measurements at the origin**, becoming a precious tool in terms of food safety and quality: the lower the stress on the products, the better the preservation conditions. Food lasts longer and all organoleptic characteristics remain intact.

CAREL offers both point-to-point solutions among the most high-performance ones available on the market and a **top-of-the-range global solution**.

It guarantees better food preservation and higher energy saving. **Expenses are cut and food is preserved better and longer.**

CAREL



The environment and occupational health and safety

The group has recently refreshed its “Environmental and occupational health and safety policy” in line with the principles and values set out in its Code of Ethics to ensure steady business growth and achieve exemplary results in the sector in terms of environmental protection and occupational health and safety. Its prevention system allows the group to identify potential risks in advance and is backed up by this policy which becomes part of the system and represents the commitment of the parent, its direct and indirect subsidiaries, its partners and stakeholders to protect the environment and health and safety at work. The foreign production sites have their own policies, drawn up in accordance with their local situations and the parent’s guidelines, which supplement the parent’s integrated policy.

The group continues its search to reduce negative effects on the environment. This includes the ongoing research into solutions for systems and plant regulation and control that use low environmental impact refrigerants as well as solutions that provide customers with the maximum possible energy efficiency.

Specifically, the group has avoided the consumption of CO₂, equal to 20 trips to the moon, thanks to its solutions sold around the world in 2019. Sustainability is fundamental to the group and underpins every decision it takes. A key objective is to guarantee the efficiency of its customers’ machines and systems, and each year, the group strives to achieve the best possible results in terms of energy efficiency. In addition, CAREL is committed to the following objectives:

- ongoing improvement of its processes to reduce their impact on the environment, the local community and health and safety in the workplace;
- compliance with the applicable legal requirements and other signed agreements;
- adoption of a system to prevent pollution, environmental incidents, injuries and occupational diseases.

CAREL shares this commitment with its suppliers and customers, both of which are essential to and an integral part of its development.

Aware of the importance of the environment and health and safety for its sustainable development, in 2019, the group formalised its commitment to achieving the sustainability objectives set in its two-year ESG plan. It intends to capitalise on those opportunities to improve its strategies for the effective and efficient management of environmental issues and occupational health and safety. Specifically, it has prioritised these issues when defining its goals, dedicating nearly half of its plan goals to them.

Moreover, the ongoing improvement of processes is fundamental to minimise occupational health and safety risks. Technical designs of the workplace, equipment and processes based on the highest levels of compliance with the ruling regulations on safety and hygiene in the workplace are prepared and the group also has specific internal policies.

Dedicated resources at the parent and CAREL Electronic (Suzhou) Co. Ltd. manage environmental aspects as both sites are ISO 14001:2015 certified while the Italian site’s dedicated resources also manage occupational health and safety aspects given that it obtained the OHSAS ISO 45001:2018 certification in 2019 as planned in 2018. The group will introduce a group HSE manager position in 2020 to improve and increase the management of environmental and occupational health and safety matters at all its production sites.

In 2019, the group was not found guilty or summonsed to appear in court for violations of the occupational health and safety regulations or for environmental crimes. It did not receive any complaints in this respect during the year

Environmental protection ¹⁰

The group's Code of Ethics states that protection of the environment and natural resources are priorities. Specifically, the Code states that the group and all its employees shall act in compliance with the ruling laws and regulations when carrying out their duties to protect the environment, reduce pollution and contribute to the achievement of exemplary results in this sector. In addition, the group contributes to the promotion of scientific and technological development for the protection of the environment and resources at the appropriate levels and during the performance of its activities. As already noted, dedicated resources at the parent and CAREL Electronic (Suzhou) Co. Ltd. manage environmental issues as both sites have the international ISO 14001:2015 certification and, accordingly, draw up specific environmental policies to accompany the policy defined at group level. The group plans to introduce a group HSE manager position in 2020 to improve and extend the management of environmental and occupational health and safety matters to all its production sites.

Although it is not exposed to particularly significant risks, CAREL has identified possible environmental impacts as atmospheric emissions (harmful ozone gas, greenhouse effect, pollutants) and consumption of natural resources (electrical energy, natural gas, water, raw materials). It monitors and manages these impacts constantly to ensure compliance with the ruling legal requirements of the countries where it operates.

Management's current approach is to assess the energy efficiency of production equipment, vehicles used to transport people and things and technical and technological systems before it purchases them. As required by the current legislation, the parent carried out a second energy audit in 2019 and its findings will be evaluated during the first few months of 2020.

Energy consumption and emissions

The group's energy consumption is driven by its manufacturing plant and the lighting, heating and cooling of the work environments. In addition, its fleet of company cars and logistics vehicles used for internal transport between the different buildings of the same production site also contribute. The available energy sources vary depending on the operating requirements and geographical areas in which the group's production sites are located. The parent agreed a contract with a provider at the end of 2019 for the supply of electricity solely generated from renewable sources to comply with its policy.

In 2019, total energy consumption approximated 65,090 GJ and CO₂e emissions for total energy consumption (Scopes 1 and 2 - market based) were roughly 6,010 tCO₂e with about 17% coming from renewable sources. Compared to 2018, the percentage of electricity provided from renewable sources increased, thanks in part to the fact that it was entirely obtained from renewable sources in Italy.

In 2019, the group fine-tuned its method to calculate indirect emissions (Scope 2) using location-based and market-based methods. The former considers the contribution of the average emissions from the distribution network used by an organisation for its own electricity consumption. The market-based method considers the emissions that an organisation intentionally chooses to make by contract (or does not choose to make) for its electricity consumption.

The increase in gas consumption and related emissions in 2019 is partly due to the larger consolidation scope, which includes the two new HygroMatic and Recuperator sites, as well as the extension of the sites in China (CSZ, CAREL Electronic, Suzhou) and in the US (CUS, CAREL United States), despite the fact that the extensions were designed to include high efficiency plants. A comparison shows the emissions

¹⁰ The environmental data presented in this section refer to all the group's production sites. They do not include the commercial companies which are deemed immaterial given the small number of employees engaged or their non-engagement in production activities. Any other exceptions or limitations to the scope are specified in the note.

avoided by the group as a result of its energy saving decisions. Moreover, CAREL calculated its energy intensity rate considering the gross surface area of its sites and number of employees to monitor its energy utilisation trends. The rate is 1.08 GJ/m² equal to emissions of roughly 0.10 t CO₂e/m²

considering the gross surface area and 38.77 GJ/employee equal to emissions of about 3.58 t CO₂e/employee considering the number of employees. The group's energy footprint has improved slightly compared to the previous year.

Direct and indirect consumption and energy intensity (GJ) [GRI 302-1 | GRI 302-3]

Consumption	2019	2018
Total direct consumption from non-renewable sources ¹¹	29,716.9	23,363.3
Gas naturale	12,268.0	6,663.5
GPL	641.7	1,088.0
Diesel		
- of which: for logistics vehicles	55.8	20.6
- of which: for company fleet	9,681.0	10,959.9
Petrol for company fleet ¹²	7,069.9	4,631.4
CNG for company fleet	0.4	-
Total indirect consumption	35,373.3	26,964.2
Electrical energy from renewable sources	6,044.7	2,118.5
Electrical energy from non-renewable sources	29,328.6	24,845.7
Energy intensity (GJ/m²)	1.08	1.38
Energy intensity (GJ/dip)	38.77	42.79

Direct and indirect emissions and emission intensity (tCO₂e) [GRI 305-1 | GRI 305-2 | GRI 305-4]

Emissions	2019	2018
Total direct emissions from non-renewable sources ¹³ (scope 1)	1,786.4	1,457.4
Natural gas	626.5	340.51
GPL	38.23	64.82
Diesel		
- of which: for logistics vehicles	3.8	1.42
- of which: for company fleet	658.2	754.4
Petrol for company fleet	459.6	296.2
CNG for company fleet	0.02	-
Total indirect emissions ¹⁴ (scope 2)	4,223.9	2,418.8
Electricity - Location Based	3,950.6	-
Electricity - Market Based	4,223.9	2,418.8
Greenhouse gas emissions intensity ¹⁵ (tCO₂e/m²)	0.10	0.11
Carbon intensity 10 (tCO₂e/emp)	3.58	3.30

¹¹ Direct consumption by the company fleet include that of the commercial companies.

¹² For the purposes of comparability, it should be noted that the 2019 data referring to the petrol consumption of the company fleet for Carel USA Lcc has significantly increased due to the greater business-related activities and to a more punctual collection of the data

¹³ The figures used to calculate the emissions were published by the Department for Business, Energy & Industrial Strategy (DEFRA) in 2019.

¹⁴ The factors used to calculate the emissions are:

- 2019: Location-based Terna 2017; Market-based: AIB 2017, where available, otherwise Terna 2017 ISPRA;

- 2018: Department for Environment, Food & Rural Affairs (BEIS) in 2015.

¹⁵ Carbon intensity based on direct and indirect market-based emissions.

While it continues to be a priority for the group, protection of the environment and natural resources is given greater or lesser importance by the foreign production sites and commercial companies depending on their location, the local regulations and availability of resources. T

herefore, differences in the plants used and legislation impose scope limitations and require clarification about atmospheric emissions. For example, the ozone depleting substances considered vary depending on the plants and refrigerants used.

Specifically, no consumption of refrigerants was recorded for the sites in South America and the US in 2019. However, emissions from air-conditioning systems' normal usage that led to the need to upgrade them for 57 kg of fluorinated gases were recorded for the sites.

Regular maintenance is carried out at all sites in line with an annual plan to ensure the highest efficiency levels and to

reduce the consumption of ozone depleting gases.

With respect to emissions of NO_x, SO_x and other significant atmospheric emissions, the Brazilian site (CSA, Carel South America) does not emit VOC.

There is no information about polluting emissions in the US (CUS) yet. The parent's analyses of emissions from the chimneys of its production units show levels slightly below the limits established by the related authorisations. The incinerators of Carel Adriatic (CHR) are subject to regular maintenance and emissions are analysed periodically to comply with the legal requirements for environmental protection. I

n China, a third party specialist is required to carry out sample tests at Carel Suzhou (CSZ).

The group's emissions of NO_x, SO_x and other significant atmospheric emissions in 2018 and 2019 are shown below:

NO_x, SO_x and other significant emissions (kg) [GRI 305-7]

Emissions ¹⁶	2019	2018
Nitrogen oxides (NO _x)	29	54.2
Sulphur oxides (SO _x)	1	2.6
Persistent organic pollutants (POP)	-	-
Volatile organic compounds (VOC)	1,741	827
Hazardous air pollutants (HAP)	-	-
Particulate matter (PM)	179	51

Packaging

Efficiency is an intrinsic part of the CAREL solutions: a means to the end and the end. Efficiency is intended as energy savings and added value for the customer's business, in terms of precision and caring for resources.

As part of this approach, CAREL has developed a project with its packaging suppliers to develop certified green packaging. The new green packaging is just one of the measures designed to make the group's solutions 100% efficient thanks

to the sequencing of the content into the container. Much of the plastic packaging has been replaced by certified paper boxes and the group is also evaluating how to decrease the size of the boxes to avoid all possible waste.

¹⁶ The VOC shown in the table refer to the Chinese production site. NO_x and SO_x refer to the Croatian production site. The PM refer to the Croatian and Italian production sites. No significant atmospheric emissions were recorded for the other sites in 2019. The VOC and PM data for the Italian sites were not available in 2018.



CAREL and its suppliers have devised a solution for safe and resilient packaging which respects the environment. They have made new coloured packs using a water-based colour, free of acrylic paints and which use starch glues instead of vinyl glues.



Specifically, the red and white colours of the new CAREL packaging are guaranteed by the GREENGUARD Certification Program which certifies that the products inside the packaging comply with the established chemical emission thresholds. CAREL can thus contribute to creating a healthier environment for its employees and customers.

¹⁷ As the group was able to fine-tune its water consumption calculation method thanks to an improvement in the reporting system, it restated the 2018 cubic metre consumption to allow a better comparison of the two years

The project was trialled at the parent’s headquarters and will be extended to the other production sites, gradually replacing all the group’s existing packaging.

The group has continued to reduce its total waste output generated by manufacturing and especially the mixed packaging waste. It has defined indicators considering total production

Water

Management has not provided for monitoring or other initiatives to reduce water consumption to date given that it almost exclusively refers to the restrooms. Water is obtained from the public aqueduct for each production site and bills are checked regularly to ascertain that consumption has not changed and, therefore, that there are no leakages.

In 2019, the group’s total water consumption was roughly 14,217 cubic metres, up on the previous year¹⁷, when its consumption was around 12,955 cubic metres. The increase is due to the inclusion of HygroMatik and Recuperator in the reporting scope.

Specifically, the sites of the previous reporting scope decreased their water consumption by 9% in 2018 while the sites in China and the US reported higher consumption due to the increase in their production. Overall, the consumption trend was stable.

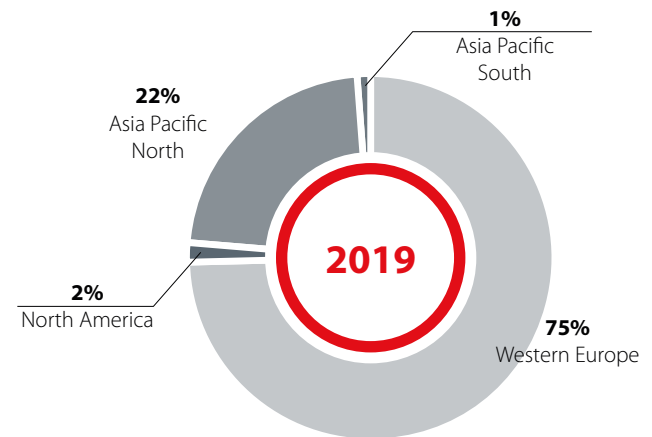
Responsible supply chain management

The group sent the Code of Ethics to all its suppliers as a clear message of the group's commitment to scientific development and sustainable technology. Its aim was to define the reference principles for social and environmental topics and to propose a set of conduct rules to the suppliers. The objective was also to consolidate the dissemination throughout the group of transversal principles that consider the different social, cultural and geographical contexts in which the group operates and which are strongly based on the group's values of legality and morality, to be achieved through compliance with the principles of dignity, equality, professionalism and honesty. The parent also sent the Code of Ethics to the plant managers of the foreign production sites so that they could distribute it to their local suppliers.

During the year, the in-scope group companies worked with 540 suppliers of which, in terms of turnover, the manufacturers make up 72% of the volumes purchased while the distributors accounted for the other 28%, in line with the previous year.

The group promotes the use of local suppliers. Specifically, roughly 75% of its suppliers are located in Europe, roughly 22% in Asia and 3% in America, the Middle East and Africa, based on its total purchases made in 2019¹⁸. This allocation is due to the fact that the European and Chinese suppliers work with both EU and non-EU sites. The CAREL Suzhou site centralises its purchases of materials from Chinese and Asian suppliers to then distribute them to all the group's production sites. The inclusion of Recuperator and Hygromatik has not changed this confirmation. They work with 59 and 182 suppliers, respectively, all based in Europe to guarantee quality and prompt deliveries and reduce the risk of supply discontinuities and non-compliance with the principles of sustainability.

Percentage of spending on local suppliers (€ %)



CAREL selects its suppliers based on principles of impartiality, competence, competitiveness and price, as well as transparency and excellence in accordance with the highest quality standards. The supply transactions comply with the law and regulations about labour, human rights, health and safety, the environment and anti-corruption ruling in the different countries and the principles set out in the Code of Ethics. Each supplier is required to ensure compliance with fundamental human rights, the principles of equal treatment and non-discrimination and prevention of child and forced labour.

The group screens its suppliers considering their technical skills, the quality of their goods/services, delivery times, prices and payment conditions and the purchase conditions in general. It requires high performance standards in terms of costs, quality, service and sustainability and, specifically, its suppliers' quality management systems must be ISO 9001:2015 certified.

The group deems it fundamental to have ongoing dialogue with its suppliers and the exchange of good practices and skills as this is essential to obtain quality products and services

¹⁸ Total purchases were calculated using the data in the report on purchases received and invoiced for the period from 1 January to 31 December 2019. The data for the commercial companies were excluded as they are immaterial given the limited number of employees and the lack of manufacturing activities.

within the requested timeframes. This interaction takes different forms: visits by technical staff and quality control specialists and IT platforms (e.g., IUNGO, etc.) used to share information, including the management and update of orders. In October 2019, CAREL presented its sustainability approach to an initial panel of 20 key suppliers, based in Europe that manufacture components. These stakeholders were requested to complete a questionnaire to analyse their position vis-à-vis environmental and social sustainability and compliance with CAREL's ethical norms. Their feedback was expected in early 2020.

A complex supply chain like that of CAREL's, comprising national and international suppliers, requires constant supervision and updates given the significant intrinsic risks and the fact that CAREL relies heavily on its suppliers for components necessary for its production. In order to ensure availability of the materials for its production phases, to diversify risks and guarantee the necessary time to market, the group schedules its production carefully and provides that a growing part of its components are supplied by at least two suppliers. Other risks relate to the protection of the environment, human rights and occupational health and safety. Specifically, the group is exposed to the risk that its suppliers may not comply with its quality standards or the regulations about employment and healthcare, occupational health and safety or that they may deliver raw materials or components that are defective or do not comply with the established standards.

Another risk is that the suppliers are unable to deliver the raw materials or components within the agreed time-frame for any reason whatsoever (for example, but not limited to, the scarcity of the raw materials, financial difficulties, issues related to the quality of the raw materials, strikes) which could adversely affect the group's production cycle and cause delays in deliveries to customers, with a negative effect on the

group's reputation.

The group's current tools for managing these risks include supplier screening and initial checks of their structure by visits to check they meet the group's standards. These checks include a technical inspection of the equipment and plant and a review of the work environment.

With respect to supplier screening and checks of their ability to protect and manage human rights, occupational health and safety and the environment, it should be noted that, at the date of this report, none of the suppliers has been screened using environmental or social criteria and a formalised and documented process.

Although the group does not have a standard systematic control procedure, no complaints were received in 2019 related to alleged violations of human rights or non-compliance with environmental regulations by its supply chain.

Controversial Sourcing

The group has voluntarily chosen to comply with regulations on the use of conflict minerals (minerals from countries undergoing conflict or with extensive violations of human rights, such as the Democratic Republic of the Congo and its neighbouring countries, Ruanda, Burundi, Angola, the Central African Republic, Sudan, Tanzania, Uganda and Zambia) as part of the Dodd-Frank Wall Street Reform Act.

CAREL is committed to implementing a socially responsible supply policy that respects human rights and avoids contributing to conflict through minerals procurement decisions and practices within its supply chain. It intends to reduce the quantity of raw materials that are not fully traceable as defined by law.

The parent¹⁹ wrote a Conflict Minerals Policy (the 3TGs: tungsten, tantalum, tin and gold ore), which are tin, wolframite, coltan and gold ore, and an internal standard for the collection

¹⁹ Excluding HygroMatik and Recuperator

and processing of data about these minerals. It has identified the macro categories of articles that may contain the 3TGs so as to facilitate its assessment. It subsequently requested its production units and suppliers to provide information about their use of conflict minerals and used the feedback to draw up a CMRT (Conflict Minerals Reporting Template) which includes over 600 smelters and refineries certified in its supply chain.

CAREL oversees its supply chain on a continuous basis to minimise risks related to the purchase of materials that include conflict minerals or mining activities involved in the violation of human rights.

Accordingly, the group commenced a project to assess the suppliers of raw materials used by the four production sites

that use the 3TGs, which include, for example, tin alloys for welding, electronic microchips, tantalum capacitors or LCD displays. The initial supplier assessment/endorsement phase already includes a check of the components and the information provided by the supplier is entered into the quality system. Specifically, starting from October 2019, CAREL has checked 98 suppliers, which work with 285 manufacturers, for an equivalent of €75.6 million of purchased materials²⁰.

CAREL opted to measure the assessment²¹ of its supply chain using two KPIs: (i) the Euro equivalent of purchases of articles/materials containing the 3TGs; and (ii) the number of manufacturers of articles containing the 3TGs. It considered both indicators using four criteria, assigned using the replies received:

COMPLIANT VALUE	Value of products purchased from a compliant manufacturer that has received the CMRT and Policy
NOT COMPLETED	Value of products purchased from a manufacturer that has not provided complete feedback (CMRT + Policy)
NOT SATISFACTORY	Value of products purchased from a manufacturer that has not provided the relevant documentation
NO REPLY	Value of products purchased from a manufacturer that has not provided feedback

COMPLETE REPLIES	The manufacturer has supplied the CMRT and Policy
INCOMPLETE REPLIES	The manufacturer has not supplied complete feedback (CMRT and Policy) ²²
NOT SATISFACTORY	Irrelevant documentation received from manufacturer
NO REPLY	The manufacturer has not provided feedback

The graphs below show that, in 2019, 94% of the value of products purchased did include 3TGs from conflict-free sources, although some suppliers did not complete all the requested documentation. This is equal to 86% of the components manufacturers that use conflict-free 3TGs and state that they are committed to monitoring their upstream

supply chain.

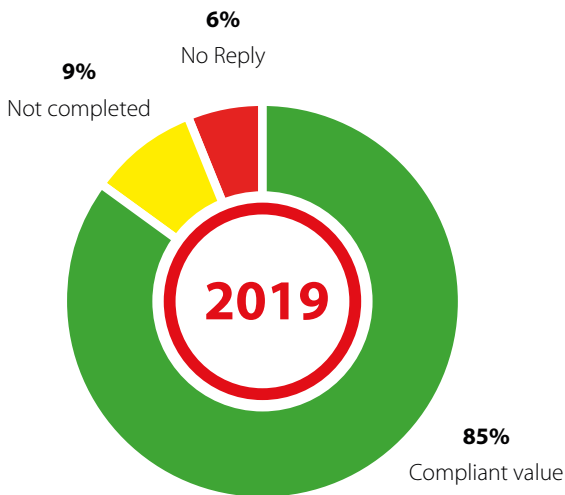
The 3TG data refer to the parent, while the policy will be extended to Recuperator and HygroMatik in 2020 with the collection of conflict minerals data from them.

²⁰ Data analysed at 22 November 2019.

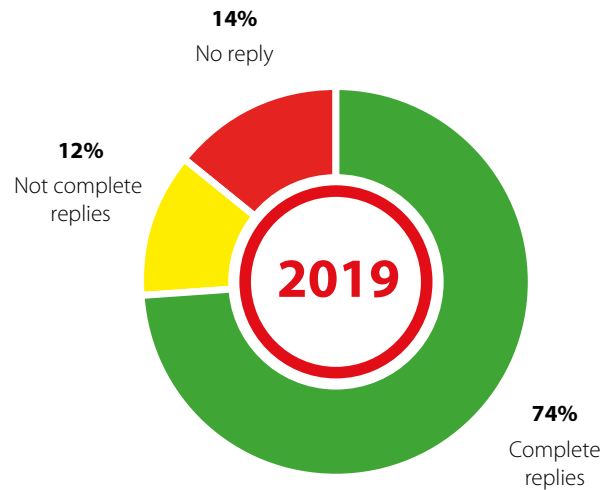
²¹ Progress analysed at 30 January 2020.

²² The supplier replied indicating the origin from conflict-free sources but provided not all the documents requested

Value of articles and materials including 3TGs



Number of manufacturers of articles containing 3TGs



Occupational health and safety

Il The group protects and promotes the health and safety of workers (including those in the supply chain) by adopting preventive measures and spreading an internal culture of the highest respect for the applicable legal requirements and other provisions agreed for occupational safety and hygiene. Its aim is to ensure maximum attention to reduce risks and constantly improve processes.

The group is aware that its responsibility with regard to its employees and colleagues makes it mandatory to do all it can to reduce risks. Accordingly, the technical designs of the work places, equipment and processes must be based on the highest respect for the ruling regulations about occupational safety and hygiene. Specifically, each CAREL employee shall pay utmost attention when carrying out their tasks and shall closely comply with all the established security and

prevention measures to avoid all possible risks for themselves and their colleagues and to minimise the risk of injury in the workplace and occupational diseases.

The CAREL Group deems that occupational health and safety is fundamental in ethical-social and practical-economic terms. A significant injury in the workplace firstly has a biological, moral and economic impact on the injured person and their family but it also damages the group's reputation and finances. Accordingly, management is committed to reducing risks to employees' health and safety in the workplace and provides them with suitable and properly maintained equipment and work methods. Employees also have collective and individual protection devices in line with the products available through technical and scientific progress.

The group fully complies with the relevant local regulations

applicable in the countries where it operates. Although its international vocation means that different laws are applicable at local level, the parent has drawn up an environmental and occupational health and safety policy which summarises the principles and rules designed to reduce and eliminate the probability of injury and accidents. The parent's board of directors recently approved the policy and it will be distributed to each production site and commercial company around the world. The policy will also be applicable to the group's suppliers, consultants, stakeholders, etc..

When designing work stations, the group takes into account the workers' ergonomic needs. In addition and to guarantee the greatest possible involvement of all the workers, the group has a system to report and manage near misses and hazards so it can identify and promptly resolve issues that could pose a risk to the workers' health and safety, thus improving safety levels at work over time.

At least once a year and as required by the ruling Italian legislation, at the parent's premises:

- the competent doctor carries out a general inspection, accompanied by the prevention and protection service manager, to update the existing healthcare protocol;
- the designated prevention system officers (the employer, delegated managers, safety representatives, competent doctor and the prevention and protection service manager) participate in the periodic meeting required by Legislative decree no. 81/2008.

Specially trained employees regularly perform integrated internal audits (quality, health, safety and environment). At least once a year, qualified external experts carry out an audit to check compliance with the law and the environment and safety management system. Their findings are managed in accordance with the procedures established by the management systems of the parent's Italian production site, which is OHSAS 18001:2007 certified. In 2019, it completed

its transition to the new ISO 45001:2018 for its occupational health and safety management system.

During the year, the group completed projects to improve the safety of its employees, specifically:

- installation of presence sensors in the aisles and light indicators on the forklifts in the warehouse;
- improvement of suction flow in CID plants (CAREL1 and CAREL3) on reprocessing stations;
- installation of sunshades at production sites (VS1-3) to improve the comfort of the working environment;
- introduction of adjustable benches to improve the ergonomics of some workstations;
- complete overhaul of the layout and of the material flows in the Chinese site to improve working conditions in the production units;
- the US site extended its building and also concurrently reorganised it internally with a clearly-cut segregation between the areas accessible to the forklifts and the pedestrian routes;
- the Recuperator production site introduced new measures to increase worker safety and provided the related training about the use of man down alarms, including a DAE defibrillator, and an elevating platform to safely carry out plant maintenance. The site is also installing blue safety warning lights on the most frequently used forklifts for greater visibility and this project will be completed in 2020.

In accordance with the regulations ruling in each geographical area, the group's sites and commercial companies have a training plan, which they update regularly, to provide mostly classroom courses on occupational health and safety depending on the employees' training needs and legal requirements. The group reiterated its commitment to providing its employees with occupational health and safety courses during the year. Specifically, it provided more than 3,800 hours of occupational health and safety training in 2019.

Occupational health and safety management activities are carried out by the dedicated resources at the parent, as its site is ISO 45001:2018 certified and subject to Legislative decree no. 81/2008. The group plans to set up an occupational health and safety management unit at group level to be headed by a group HSE manager.

The parent does not have particularly significant risks. However, it has identified the following risks related to occupational health and safety: accidents involving goods-handling machinery, electric shock, ergonomic risks due to the manual handling of loads and high frequency repeated movements, injuries in general, fire and explosion (the latter

risk is limited to certain specific areas) and work-related stress. In 2019, no fatal injuries or occupational diseases were recorded. The total absenteeism rate was 2.37%. The following tables show the injuries and related injury rates recorded for CAREL employees in 2019:

The number of injuries contracted by roughly 20% in 2019. Specifically, the number of injuries in the workplace decreased by 20 to 13 while commuting injuries remained stable. The injury severity and frequency rates improved as a result of the smaller number of injuries, especially the frequency rate which went from 12.4% to 9.7%.

Number of injuries broken down by gender and geographical area [GRI 403-2]

Number of injuries ²³	2019			2018		
	Men	Women	Total	Men	Women	Total
In the workplace	5	8	13	10	10	20
Western Europe	1	5	6	3	2	5
Rest of Europe, Middle East and Africa	1	-	1	1	-	1
North America	3	2	5	6	7	13
South America	-	-	-	-	-	-
Asia Pacific North	-	1	1	-	-	-
Asia Pacific South	-	-	-	-	1	1
Commuting	7	7	14	7	7	14
Western Europe	4	2	6	5	3	8
Rest of Europe, Middle East and Africa	-	-	-	-	-	-
North America	-	-	-	-	-	-
South America	3	5	8	2	4	6
Asia Pacific North	-	-	-	-	-	-
Asia Pacific South	-	-	-	-	-	-
Total	12	15	27	17	17	34

²³ The figures for the parent were taken from the injury register and cover the entire workforce (white and blue collars). Injuries with under three days sick leave are not included in the calculation.

Injury rates and absenteeism rate (%) [GRI 403-2]

	2019			2018		
	Men	Women	Total	Men	Women	Total
Injury severity rate ²⁴	0.12	0.39	0.22	0.14	0.27	0.19
Western Europe	0.03	0.17	0.07	0.09	0.06	0.08
Rest of Europe, Middle East and Africa	-	-	-	0.02	-	0.01
North America	0.03	2.96	0.86	0.02	0.82	0.23
South America	-	-	-	-	-	-
Asia Pacific North	-	0.04	0.04	-	-	-
Asia Pacific South	-	-	-	-	0.05	0.01
Injury frequency rate ²⁵	6.72	15.13	9.72	9.75	16.93	12.38
Western Europe	5.32	18.68	9.13	8.97	14.04	10.42
Rest of Europe, Middle East and Africa	5.73	-	2.48	6.07	-	2.87
North America	19.38	32.94	23.20	37.24	122.15	59.52
South America	62.25	87.15	75.78	45.32	60.42	54.38
Asia Pacific North	-	4.05	1.55	-	-	-
Asia Pacific South	-	-	-	-	48.36	11.53
Absenteeism rate ²⁶	1.90	3.21	2.37	2.58	4.71	3.32
Western Europe	2.44	4.51	3.05	2.66	5.88	3.62
Rest of Europe, Middle East and Africa	1.61	0.29	0.86	3.09	0.78	1.87
North America	0.07	2.48	0.78	0.14	0.18	0.15
South America	1.20	5.57	3.57	1.17	4.90	3.41
Asia Pacific North	1.32	3.42	2.13	11.63	76.42	22.39
Asia Pacific South	2.51	3.65	2.80	0.96	1.26	1.04

With respect to workers not employed directly by the group (for example, consultants), the following table shows the events that led to the temporary inability of these workers and the related injury rates.

As the group is aware of the dangers of driving (for work and to and from work)²⁷, it has started actions aim to encourage

“smart working” in some business area. At the same time it is preparing data on commuting injuries to formulate road safety guidelines for its employees to raise their awareness and understanding of this specific risk. It hopes to have a direct impact on their behaviour through tailored communications in this respect..

²⁴ Injury severity rate: (number of days lost due to injuries at work/total number of hours worked) x 1,000

²⁵ Injury frequency rate: (number of injuries/total number of hours worked) x 1,000,000

²⁶ Absenteeism rate: (number of days off work/total number of days worked) x 100

²⁷ The World Health Organisation (WHO) has estimated that around 40% of the serious accidents on the roads in the European Union involve workers at the wheel either travelling for work or to and from work.

Number of injuries broken down by gender and geographical area - Other workers [GRI 403-2]

Number of injuries ²⁸	2019			2018		
	Men	Women	Total	Men	Women	Total
In the workplace	-	1	1	2	1	3
Western Europe	-	-	-	1	1	2
Rest of Europe, Middle East and Africa	-	-	-	1	0	1
North America	-	-	-	-	-	-
South America	-	-	-	-	-	-
Asia Pacific North	-	1	1	-	-	-
Asia Pacific South	-	-	-	-	-	-
Commuting	3	5	8	-	-	-
Western Europe	-	-	-	-	-	-
Rest of Europe, Middle East and Africa	-	-	-	-	-	-
North America	-	-	-	-	-	-
South America	3	5	8	-	-	-
Asia Pacific North	-	-	-	-	-	-
Asia Pacific South	-	-	-	-	-	-
Total	3	6	9	2	1	3

Injury rates (%) – Other workers [GRI 403-2]

Injury frequency rate ²⁹	2019			2018		
	Men	Women	Total	Men	Women	Total
Injury frequency rate²⁹	7.35	14.52	10.96	6.15	2.26	3.91
Western Europe	-	-	-	13.92	27.70	18.53
Rest of Europe, Middle East and Africa	-	-	-	20.39	-	4.98
North America	-	-	-	-	-	-
South America	62.25	87.15	75.78	-	-	-
Asia Pacific North	-	4.40	2.49	-	-	-
Asia Pacific South	-	-	-	-	-	-

28 The figures for the parent were taken from the injury register and cover the entire workforce (white and blue collars). Injuries with under three days sick leave are not included in the calculation.

29 Injury frequency rate: (number of injuries/total number of hours worked) x 1,000,000



CAREL



Human capital

CAREL is committed to encouraging a climate of trust and respect and the inclusion and integration of its personnel, including through its Code of Ethics and policies to ensure respect for human rights and diversity. These documents set out the ethical principles and conduct standards that the group requires its resources comply with during their daily activities. They include legality, morality, professionalism, dignity and equality. The group also promotes their circulation along its value chain to ensure compliance with these values and conduct standards by all its stakeholders.

In 2019, the group formalised its commitment to achieving the sustainability goals set in its two-year ESG plan as it is fully aware of the importance of its people for CAREL's sustainable development. It intends to capitalise on those opportunities to improve internal strategies for the efficient and effective management of human resources. Specifically, it has prioritised its human capital by assigning it over one third of the plan's targets.

A positive work climate is ensured through dialogue and the sharing of opinions and ideas, which is why the group guarantees unrestricted membership of trade unions and the right to collective bargaining, always in compliance with respect for human rights and diversity. The organisational model and roles at the various production sites and commercial companies are consistent and are amended consistently to ensure standard interaction and communication within the group.

As a multinational organisation, the group has people with different nationalities, genders and cultures who work together day-by-day in a climate of mutual respect. Its objective is to foster an increasingly inclusive approach to encourage the creativity and innovation that a multi-cultural

human capital with different backgrounds and characteristics can contribute.

As part of its two-year ESG plan, the parent continued a gender diversity project during the year and various proposals were made to management. A feasibility study is planned for 2020 after which initiatives will be introduced to promote female managers within the group and to encourage young talents to study the STEM subjects, although it must be considered that the group's reference industrial sector has historically been male dominated. Female employees make up 36% of the group's workforce, including roughly 10% in management positions.

The group guarantees work hours in line with the maximum number established by the application regulations and ensures that its workers' needs are met throughout the employment relationship (e.g., maternity leave, paternity leave, sick leave for employees or their relatives, etc.). In order to mitigate the risk of strikes or other forms of absenteeism, or trade union tensions, the group provides that relations and negotiations with the trade unions are handled directly by each group company.

In 2019, 45.1% of the group's employees were covered by collective bargaining agreements³⁰. In 2019, 14.3% of the parent's employees were members of a trade union and disputes are minimal. Specifically, six complaints about work issues were presented in 2019 at the production sites in the US and South America. They mainly referred to non-compliance with the conduct rules prescribed by the Code of Ethics in relations between colleagues and between managers and employees. Four of these complaints were resolved in 2019 while two are still pending.

30 The employees of the Italian group companies, i.e., CAREL Industries S.p.A. and Recuperator S.p.A., are covered by collective bargaining agreements.

Composition of the workforce

At 31 December 2019, the group has 1,679 employees, an increase of 6% compared to the previous year end thanks to the group's continuous growth and the inclusion of two new companies HygroMatik GmbH and Recuperator S.p.A.. Total employees increase to 1,765 if temporary workers are included. Employees with disabilities numbered 39 at year end.

The parent in particular has dedicated inclusion policies for employees with disabilities in accordance with Italian law.

The largest professional category is that of the white collars (roughly 62%) followed by blue collars (34%). Management make up around 4% of the total workforce.

In 2019, there was a 7% increase in the number of female employees as well as a greater percentage of female managers. The professional category classification set out below reflects the relevant Italian legislation. Managers include all the directors of the group companies, even when this is not actually provided for in their contracts.

Number of employees by professional category and gender ³¹ (n.) [GRI 405-1]

	2019			2018		
	Men	Women	Total	Men	Women	Total
Managers	55	6	61	42	2	44
White collars	772	272	1,044	690	224	914
Blue collars	243	331	574	198	300	498
Total	1,070	609	1,679	930	526	1,456

Percentage of employees by professional category and gender ³² (%) [GRI 405-1]

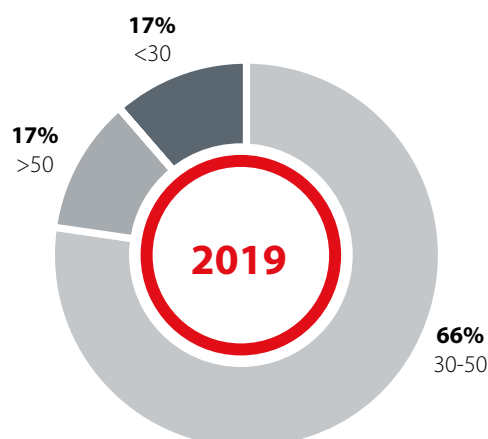
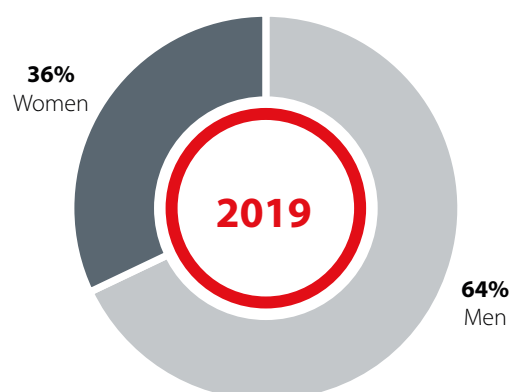
	2019			2018		
	Men	Women	Total	Men	Women	Total
Managers	3.3	0.3	3.6	2.9	0.1	3.0
White collars	46.0	16.2	62.2	47.4	15.4	62.8
Blue collars	14.5	19.7	34.2	13.6	20.6	34.2
Total	63.7	36.3	100	63.9	36.1	100

Most employees are in the 30-50 age bracket with an average age of around 40 (41 for men and 39 for women). A breakdown of the employees by professional category and age bracket

shows that this trend is constant in both years with most of the white collars and blue collars in the 30-50 age bracket, while the managers fall into an older age bracket.

³¹ 3.4% of the increase in the workforce is a direct consequence of the inclusion of the new companies in the reporting scope (HygroMatik, Recuperator)

³² The 2018 figures have been restated using the new classification of professional categories adopted by the group for the purposes of greater comparability according to the new classification adopted by the Group. For previously published data, please refer to the Consolidated Non-Financial Statement 2018, published in the Sustainability section of the website www.carel.it

Employees by age bracket (%)

Employees by gender (%)

Percentage of employees by professional category and age bracket ³³ (%) [GRI 405-1]

	2019				2018			
	<30	30-50	>50	Totale	<30	30-50	>50	Total
Managers	-	2	2	4	-	1	2	3
White collars	10	42	10	62	10	43	9	62
Blue collars	7	22	6	34	8	22	5	35
Total	17	66	17	100	18	66	16	100

CAREL's growth is evident from the fact that 52% of employees have been hired in only the past five years. In addition, the group's commitment to long-term permanent employment can be seen from the service seniority (roughly 43% of its employees have been with the group for a period of between

six and 25 years) and the high percentage of employees with permanent contracts (80%). In 2019, these contracts increased by 20% over the previous year. Workers with temporary contracts number 86, including 55 men and 31 women, a decrease of 27% on the previous year.

³³ The 2018 figures have been restated using the new classification of professional categories adopted by the group for the purposes of greater comparability.

Number of employees by contract type and gender [GRI 102-8 | GRI 405-1]

	2019					
	Permanent employment contracts		Fixed-term contracts		Total	
	Men	Women	Men	Women	Permanent	Fixed-term
Western Europe	627	291	7	1	918	8
Rest of Europe, Middle East and Africa	91	81	11	56	172	67
North America	82	33	6	2	115	8
South America	21	25	0	0	46	-
North Asia	34	11	155	97	45	252
South Asia	36	12	0	0	48	-
Total	891	453	179	156	1,344	335

	2018					
	Permanent employment contracts		Fixed-term contracts		Total	
	Men	Women	Men	Women	Permanent	Fixed-term
Western Europe	507	230	29	6	737	35
Rest of Europe, Middle East and Africa	73	51	17	73	124	90
North America	79	31	2	-	110	2
South America	22	25	-	-	47	-
North Asia	29	10	137	87	39	224
South Asia	35	13	-	-	48	-
Total	745	360	185	166	1,105	351

To ensure work/life balance, CAREL provides its employees with solutions to best meet their personal needs. Roughly 3% of its workforce in 2019 have part-time jobs (mostly women, also because of their needs related to different stages of their life cycle, e.g., maternity leave). The parent has a supplementary

contract that provides more favourable conditions to all its employees (i.e., nearly half of the group's workforce) compared to the national sector employment contract, covering issues such as daily and weekly flexible work hours, part-time work and paid leave when children are born.

Number of employees by type of job [GRI 102-8]

	2019			2018		
	Men	Women	Total	Men	Women	Total
Full-time	1,066	569	1,635	928	495	1,423
Part-time	4	40	44	2	31	33
Total	1,070	609	1,679	930	526	1,456

Personnel incentive and retention systems

CAREL has always invested in its human capital: it recognises the individual as being central to the group's development. Accordingly, it ensures as far as possible that its employees' aptitudes match the group's objectives and challenges. A key factor to achieving this objective is the assessment of employees and development of their skills throughout their career path as well as acknowledgement of their merits.

Talent selection and retention is of great importance to CAREL. Activities to improve its reputation and attractiveness on the market are essential to compete on the labour market (talent acquisition). The group's future growth and success depend on its ability to hire and retain qualified personnel with a high level of skills and understanding of the group's products and markets, which are essential to carry out their activities.

In addition, the ongoing physical growth of the foreign group entities and the parent means that management needs to upgrade its skills and show its leadership abilities in both technical applications and commercial aspects and also in a strict management sense. The management team shall be able to optimise the output of their resources, engage and motivate them to adopt a positive approach to change and innovation and thus drive the ongoing improvement of internal activities and processes (leadership and people engagement).

In fact, the group has standardised tools (some of which are customised locally) to assess the performance of those employees who assist managers in assessing the results obtained by their colleagues compared to their goals and in identifying areas of improvement and people with high professional growth potential. The white collars, junior managers and managers are required to participate in a self-assessment exercise once a year using a list of standardised skills which ends with discussions about new development and training opportunities.

The group is exposed to the risk of losing certain senior managers and/or key figures as well as the risk of not being able to attract and/or retain highly qualified personnel. It is also exposed to the risk of strikes or other forms of absenteeism or trade union tensions.

The group introduced its "Ready to change" project in June 2019 to mitigate this risk and tackle the challenges inherent in the growth of a business and its greater management complexity. It intends to analyse the profiles of a group of corporate unit employees, i.e., the senior and middle managers who report to the group chief officer to identify and provide training to the managers who will move up the ranks (succession pipeline) to take senior management positions and tackle the new management challenges that the group will face. It engaged a specialist, Governance Consulting, to assess more than 20 managers through tests, one-on-one and group interviews and to evaluate their leadership profile, their propensity to change, motivation and how closely their values match those of CAREL. The specialist presented their findings to the parent's management and the individual participants to stimulate their professional growth. In 2020, follow-up plans will be evaluated, prioritised and introduced to build up the management and leadership skills of the participants. The "Ready to change" project was the first step towards mapping the professional profiles of the parent's employees, which will be extended to other categories of the growing workforce in future years.

The HR function has guidelines for the retention of white collars and managers which mainly cover preventive measures to be implemented to maintain a low turnover rate, assessment tools which consider the importance of the position held and the impact of the person's departure and counter measures to avoid departures.

In 2019, the group hired³⁴ 287 people, of which 39% were women. The hiring rate was approximately 17% and, specifically, around 21% for blue collars, 15% for white collars and 10% for managers. The new hires included 115 in the under 30 age bracket while 149 are in the intermediate

age bracket (30-50). A geographical breakdown of the new hires shows that 89 were hired in Western Europe, 74 in the North Asia, 68 in the Rest of Europe, Middle East and Africa, 41 in North America, 11 in South America and four in South Asia.

Turnover rate by gender and age bracket (%) [GRI 401-1]

	2019					
	Men	Women	Total	<30	30-50	>50
Hiring rate	16.26	18.56	17.09	38.72	13.66	7.09
Departure rate	10.62	11.84	11.06	19.53	9.99	6.19

	2018					
	Men	Women	Total	<30	30-50	>50
Hiring rate	21.83	24.71	22.87	51.99	16.68	12.87
Departure rate	16.02	17.30	16.48	32.49	12.69	12.87

Turnover rate by geographical area (%) [GRI 401-1]

	2019					
	Western Europe	Rest of Europe, Middle East and Africa	North America	South America	North Asia	South Asia
Hiring rate	9.61	29.31	33.33	23.91	24.92	8.33
Departure rate	6.05	18.53	24.39	26.09	13.47	8.33

	2018					
	Western Europe	Rest of Europe, Middle East and Africa	North America	South America	North Asia	South Asia
Hiring rate	14.38	33.18	31.25	36.17	33.84	20.83
Departure rate	7.38	20.09	29.46	31.91	31.94	16.67

Turnover rate by position³⁵ (%) [GRI 401-1]

	2019			2018		
	Blue collars	White collars	Managers	Blue collars	White collars	Managers
Hiring rate	20.91	15.41	10.00	30.52	19.34	9.30
Departure rate	15.68	9.00	1.67	22.89	13.33	9.30

³⁴ New hires and departures include three intragroup transfers.

³⁵ The 2018 figures have been restated using the new classification of professional categories adopted by the group for the purposes of greater comparability.

In 2019, 185 people left the group (113 men and 72 women) with a departure rate of 11% and, specifically, 15% for blue collars, 9% for white collars and 1.67% for managers.

Outgoing resources included 58 in the under-30 age bracket and 109 in the 30-50 age bracket. A breakdown by geographical area shows that 56 people left the group in Western Europe, 43 in the Rest of Europe, Middle East and Africa, 40 in North Asia, 30 in North America, 12 in South America and four in South Asia.

CAREL has reviewed its remuneration strategy for its key resources compared to the market and given the importance of encouraging retention through the creation of career paths that best enhance its employees' potential. It was assisted by leading consultancy companies specialising in remuneration analyses and benchmarking and in actuarial and pension services. As a result, it drew up a remuneration policy designed to both align the shareholders' and managers' interest by pegging the key employees' remuneration to the group's performance and to attract, motivate and retain key resources and top talents through competitive remuneration practices.

CAREL's remuneration policy hinges on the following principles:

- 1. Attractiveness and motivation**
- 2. Transparency:**
- 3. Performance-based**
- 4. Engagement**
- 5. Sustainability.**

The remuneration policy for these key resources pegs part of their remuneration to performance goals that are set beforehand using an annual incentive or management by objectives (MBO) system and a long-term incentive (LTI) plan. Specifically, the short-term variable remuneration is pegged to achievement of defined financial and non-financial objectives

(the latter include ESG goals).

In 2016, the parent introduced a procedure for welfare agreements and tools and this is reflected in the recently revised second level internal additional employment agreement.

In April 2019, the revised second level internal additional employment agreement for the 2019-2021 three-year period was signed. This lays the groundwork for the reorganisation and extension of the social support measures offered to group employees. Specifically, the criteria for parental leave were revised, as were those for advances on post-employment benefits, contributions to the cost of crèches and playschools, contributions to school costs for low-income families and a supplement to the INPS (the Italian social security institution) share of the allowances for optional maternity leave. CAREL also undertook to set up a welfare platform to be made available to all employees³⁶, in order to optimise decisions about the services that national and internal labour agreements will offer to all workers with maximum flexibility and decision-making autonomy.

The group has always provided individual solutions (e.g., flexible working hours, part time for working mothers when they return from maternity leave, contributions and assistance with crèche costs, etc.) for their professional development and achievement of personal objectives that facilitate the work/life balance.

In 2019, it launched three praiseworthy projects to analyse and improve employee engagement with the medium term objective of revising the CAREL employee value proposition and matching company requirements to those of its employees.

³⁶ Excluding managers.

Change For Better

In Italy, CAREL introduced the “Change For Better” project, which is still in place and was devised to deal with certain critical issues that it had identified: an employee turnover rate that was significantly higher than its traditional trend, the difficulty in hiring sought-after talents in a timely manner and the perception of a professional satisfaction level of some employee categories that did not reflect the parent’s positive results.

As a key part of the analysis, CAREL performed an engagement survey of a large part of its white collars, junior managers and managers, followed up by focus groups. In June and July, 150 employees were given the opportunity to state their level of satisfaction and propose improvements to the following areas: work/life balance, physical environment (at the company offices), leadership, organisation and processes, work and professional development. They were assisted by an external specialist. In addition, the project team comprised of employees from various departments and led by HR employees analysed the above issues and made proposals for actions to be taken. It reported regularly to senior management.



Participation in the project was very high (more than 90%) and the main findings showed a high level of satisfaction with issues such as open and helpful communication with colleagues, management encouragement in taking responsibility and independent decision-making, flexible work hours and welfare services. However, while the open space structure facilitates cooperation, employees also find it hinders concentration. The survey also identified how the ratio between the employees’ contribution to CAREL and their remuneration could be improved, as could information about professional development paths and cooperation among the various units.

The team discussed CAREL’s attractiveness to potential employees in Italy and made suggestions based on the needs and interest of targets, pinpointed as being two important sectors: managers with B2B experience and young STEM university graduates.

The main findings showed the need to revise and restructure CAREL’s employee value proposition to improve the effectiveness of communications with the market (e.g., by strengthening its ability to reach and attract candidates using existing communication tools or social media) and better match CAREL’s strengths (e.g., informal atmosphere, the possibility to work on innovative, high quality products, its financial strength) to those elements deemed highly important by the targets (e.g., work/life balance, remuneration, belonging to a company with a mission that resonates with “millennials”).

At the end of 2019, the team presented its proposals to senior management (also based on recommendations from the employees) and the planning and implementation stage will take place in 2020 after evaluating its feasibility and priorities.

In addition, to improve the internal space issue, two designs were presented for the head office to adapt the work spaces to the growing workforce. The first design is for a new building

and has already been authorised with work slated to start in April 2020. It will house the knowledge centre, a showroom, a conference room and a canteen for a total of 1,700 square metres on three floors. The second design extends other internal areas and has yet to be approved. Work is expected to start in the second half of 2020.

Engagement Survey USA

A similar project was undertaken at the US company CAREL USA in the fourth quarter of 2019 as local management wished to investigate the reasons for the high employee turnover of the last six-month periods. It engaged an external specialist to perform a survey of all production and office workers. Staff participation was positive at nearly 80% and the main findings were that the relationships at work are positive, employees are aware of their role and their contribution to the company's objectives and managers and workers have a good respectful relationship. More negative aspects included management's disinclination to listen to proposals for improvement from the bottom, internal communications about the company and cooperation among the various units. Local management completed its analysis of the findings around year end with the assistance of the parent and will draw up an action plan for the more critical issues.

Smartworking

In July 2019, the parent introduced a smartworking pilot to improve the work/life balance for its employees and its attractiveness to potential candidates. This provides for the possibility to work from home one day a week with more flexible hours in accordance with a signed and agreed-upon regulation. Given the positive feedback, this project

was extended to around 100 employees in December 2019 (including those from the ITC department, CAREL Central & Southern Europe, the IoT department, the HR department and the platforms department). In April 2020, the situation will be reassessed and the group will decide whether to extend it to a larger base of white collars.

One of the advantages of the project is the smaller number of people in the office which fosters a better internal climate.

Training and professional development

Training is a key part of the group's industrial philosophy and is essential given the fast changes in the HVAC/R markets and technologies. As a result, the group has always provided its employees with training and development courses, including to ensure maximum professionalism at all levels.

In 2007, the group rolled out a lean philosophy project, which is a management approach designed to maximise the creation of value for customers. CAREL's objective is that "results are obtained through improved processes and the development of people". All the internal processes are affected by the adoption of lean philosophy principles which direct ongoing improvement and the circulation of a leadership culture through coaching, on-the-job learning, sharing of skills and a multi-disciplinary approach.

Training is a tool to maintain an advanced level of technical-application and managerial skills while also providing employees with considerable room for personal development. It includes "transversal skills", team working capabilities and propensity to change, which are all essential to working at a group like CAREL, where competitiveness is a lever for development.

Group projects for the training and professional development of its employees are described below:

Join the Future: started in 2008, CAREL's graduate programme selects new highly talented scientific university graduates and provides them with fast track entry into the group with projects in different internal areas, lean philosophy process improvement, a two-month international secondment at a group entity and internal and external training courses.

Job Rotation e International assignment: aware of the importance of cultivating its employees' talents, CAREL encourages job rotation and international assignments each year to facilitate the development of an international mindset and skills in different internal areas

CAREL Group induction process: each white collar, junior manager and manager hired by the group is provided with a three-day induction course held in Italy, the US and China to introduce the new hire to the group's history, values, strategies, products and applications and internal processes.

Knowledge Center: a centre which provides training courses to group employees. Set up in 2015, this dedicated unit provides technical and application refresher courses to CAREL employees. Assisted by the Sales&Marketing unit, this centre monitors the skills of all group employees and updates the skills map for the main CAREL technologies and products.

a total of 6,700 hours on new products, technologies and applications to 277 employees from different geographical areas. The participants are mostly from the commercial, technical support and R&D areas. The Knowledge Centre increased its training courses on offer by more than 40% in 2019, proof of CAREL's strong commitment to developing technical and application skillsets.

During the year, group employees received more than 50%

more training hours than in 2018 (48,728 hours), which was both a reflection of the group's ongoing investment in training activities and the induction and orientation courses provided to the new hires.

The very considerable rise in hours of training benefited the blue collars, more than doubling on the previous year, mostly as a result of the investments made to support the growth of the group's production sites during the year.

Number of training hours by professional category and gender [GRI 404-1]

	2019			2018		
	Men	Women	Total	Men	Women	Total
Managers	481	78	559	649	-	649
White collars	23,978	5,949	29,927	18,791	4,064	22,903
Blue collars	6,070	12,172	18,242	2,742	5,532	8,273
Total	30,529	18,199	48,728	22,229	9,596	31,825

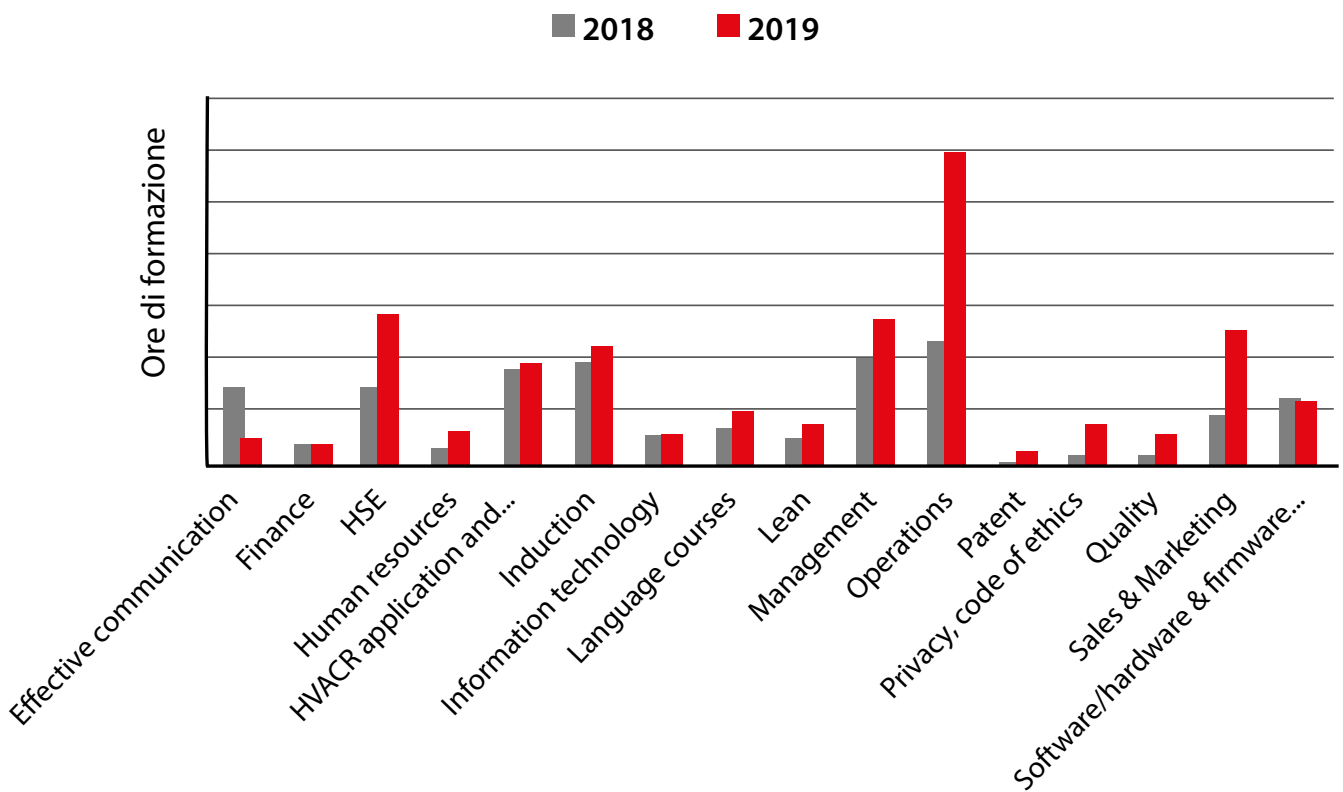
Average number of hours of training by professional category [GRI 404-1]

	2019			2018		
	Men	Women	Total	Men	Women	Total
Managers	8.7	13.0	9.0	15.2	-	14.2
White collars	31.1	21.9	28.7	25.9	15.8	23.3
Blue collars	25.0	36.8	31.9	11.3	17.9	15.0

The main training projects carried out focused on operations (24% of the total training hours provided in 2019). Other areas for which training courses were provided were sales and

marketing, quality, safety and the environment (HSE), patents and induction courses for new hires

Training hours by course



During the year, in order to standardise the management of HR processes and data, the group continued to roll out the HCM (human capital management) system, with 20 companies now involved and roughly 90% of its employees. The platform includes a pilot project for e-learning courses.

The pilot trialling at the parent's offices focused on training about privacy, data protection as per the 231 model, the non-financial statement (NFS) and the anti-corruption model to disseminate awareness of these issues and the related

compliance requirements.

At year end, over 75% of the parent's white collars had taken part in e-learning courses on these issues and the parent intends to introduce the HCM system at other group offices over the coming years for training management.

Partnerships with training institutes

Given the significant know-how developed and applied to the group's products and processes, the group's relationships

with universities and schools are of particular importance to it. The Italian parent, which has the main R&D competencies and the Knowledge Centre, collaborates with the local universities (mainly Padua University as well as Udine University and the Milan Polytechnic):

- **RESEARCH PROJECTS:** mainly on **energy efficiency technologies** (such as, for example, power electronics applied to motor control or electronic valves in heat pumps), production process improvements (e.g., laser welding of some products) and predictive maintenance (by sponsoring a PhD scholarship);
- **COLLABORATION WITH INNOVATION NETWORKS:** CAREL is a partner of **SMACT**, a competence centre specialised in Industry 4.0 technologies, and has worked with **Unismart**, the in-house company of Padua University which manages technological transfer and provides consultancy services to businesses.
- **KNOWLEDGE SHARING AND BEST PRACTICES:** CAREL employees, mostly senior managers, liaise with the universities to provide practical knowledge as part of university courses or conferences in endorsement roles. In 2019, they spoke on the relationship between a company's strategies and financial indicators, the threat of Chinese competition, risk management, measurement of Industry 4.0 performances and HR performance management. CAREL also frequently welcomes university students who visit the offices to gain an insight into R&D and operations. The group has practised the **lean management approach** for over ten years and is a reference point in its local

area, with visits from university and business school (e.g., CUOA) students who participate in the "Lean Italian Tour". CAREL was also asked to advise Padua University on a new course in law and technology as part of the discussions with the social bodies.

- **BRANDING AND RECRUITING:** STEM university graduates are CAREL's main targets and as a consequence it has participated regularly at the main career fairs at the local universities, as proven by the award received in 2019 for the "Best Talent Hunter 2019: Best Recruiting Activities on Campus" from Padua University.

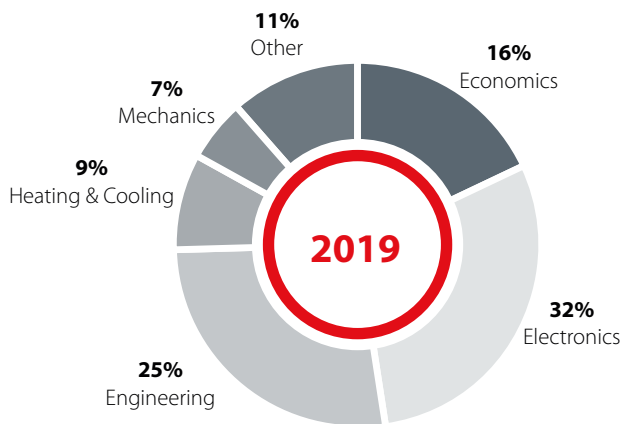
Internships

The group's relationships with universities and schools are of particular importance to it. It works closely with the local universities and hosts many students every year, providing work experience and assistance with their dissertations, especially for courses on engineering, lean management and finance. At international level, the group sponsored internship projects with Penn Technology College and Pennsylvania State University in the US and with Suzhou University and Shanghai Jiaotong University in China. CAREL also works with top class business schools to provide its managers and professional staff with refresher courses (SDA Bocconi - School of Management, the Milan Polytechnic and CUOA - Business School).

In 2019, the group provided internships to more than **40** high school and university **students**, who were mostly placed with the parent but also Carel Adriatic, Carel Suzhou, Carel Sud

America and Recuperator. More than 55% of the interns have either an electronic or technical-engineering background. Roughly half of the internship takes place in the school or university and more than half the university students write their dissertations on their experience with CAREL.

Internship profiles



Bridging table

Table bridging the material topics of the CAREL Group, the aspects of Legislative decree no. 265/2016 and the GRI Standards.

Material topics identified by the CAREL Group	Aspects of Legislative decree no. 254/2016	Topic-specific reference GRI Standards	Boundary of impacts	
			Internal	External
Energy efficiency and sustainable products	Environment	Energy (GRI 302)	The entire group	Communities and future generations, customers
R&D and product innovation	Society	Material topic not directly related to a Topic-Specific GRI Standard, for which the management approach adopted and related indicators are explained in this Statement	The entire group	Communities and future generations, customers, suppliers
Product and service compliance	Society	Marketing and labelling of products and services (GRI 417)	The entire group	Customers, shareholders, investors and analysts, suppliers
Customer engagement and satisfaction	Society	Stakeholder engagement (GRI 102-43, 102-44)	The entire group	Customers
Brand reputation protection	Society	Material topic not directly related to a Topic-Specific GRI Standard, for which the management approach adopted and related indicators are explained in this Statement	The entire group	Shareholders, investors and analysts
Customer security	Society	Customer health and safety (GRI 416)	The entire group	Customers
Training and professional development	Personnel	Training and education (GRI 404)	The entire group	Employees, trade unions, worker representatives
Quality and product safety	Society	Customer health and safety (GRI 416)	The entire group	Customers
Ethics and integrity	Society, personnel, environment, human rights, anti-corruption, supply chain	Organisational profile (GRI 102-12), Ethics and integrity (GRI 102-16) Anti-corruption (GRI 205-3)	The entire group	Employees, customers, shareholders, investors and analysts, communities and future generations
Occupational health and safety	Personnel, human rights	Occupational health and safety (GRI 403)	The entire group	Employees, trade unions, worker representatives
Privacy, security and data protection	Society	Consumer privacy (GRI 418)	The entire group	Employees, customers, suppliers
Engagement with investors and fair trade practices	Society	Anti-competitive behaviour (GRI 206)	The entire group	Shareholders, investors and analysts, bodies and institutions
Efficient and effective use of energy resources	Environment	Energy (GRI 302) Emissions (GRI 305)	The entire group	Communities and future generations
Dialogue and internal communication	Personnel	Governance (GRI 103-2)	The entire group	Employees, trade unions, worker representatives
Responsible supply chain management	Supply chain, human rights	Organisational profile (GRI 102-9) Procurement practices (GRI 204)	The entire group	Suppliers and business partners
Environmental impact and pollution	Environment	Energy (GRI 302) Water (GRI 303) Emissions (GRI 305)	The entire group	Communities and future generations

GRI content Index

Disclosure	Indicator	Page number/Note	Omissions
GRI 102: GENERAL DISCLOSURES 2016			
ORGANISATIONAL PROFILE			
102-1	Name of the organisation	Pag. 35	
102-2	Activities, brands, products, and services	Pag. 24-27	
102-3	Location of headquarters	Ultima di copertina	
102-4	Location of operations	Pag. 24-25	
102-5	Ownership and legal form	Pag. 35	
102-6	Markets served	Pag. 24-25	
102-7	Scale of the organisation	Pag. 19; 24-25	
102-8	Information on employees and other workers	Pag. 104	
102-9	Supply chain	Pag. 88-90	
102-10	Significant changes to the organisation and its supply chain	Pag. 13-14	
102-11	Precautionary Principle or approach	Pag. 38-40	
102-12	External initiatives		Il The group does not adhere to external initiatives. However, it complies with the International Labour Standards included in the fundamental conventions of the International Labour Organisation (ILO). Pag. 116
102-13	Membership of associations	Pag. 51-53	
STRATEGY			
102-14	Statement from senior decision-maker	Pag. 6-8	
ETHICS AND INTEGRITY			
102-16	Values, principles, standards, and norms of behaviour	Pag. 28; 40-42	
GOVERNANCE			
102-18	Governance structure	Pag. 35-37	
102-22	Composition of the highest governance body and its committees	Pag. 37	
STAKEHOLDER ENGAGEMENT			
102-40	List of stakeholder groups	Pag. 49-50	
102-41	Collective bargaining agreements	Pag. 101	
102-42	Identifying and selecting stakeholders	Pag. 47	
102-43	Approach to stakeholder engagement	Pag. 47	
102-44	Key topics and concerns raised	Pag. 47-50	
REPORTING PRACTICE			
102-45	Entities included in the consolidated financial statements	Pag. 13-14	
102-46	Defining report content and topic boundaries	Pag. 13-14; 47-50	
102-47	List of material topics	Pag. 49	
102-48	Restatements of information	Pag. 13-14	
102-49	Changes in reporting	Pag. 13-14	
102-50	Reporting period	Pag. 13	
102-51	Date of most recent report	2018	
102-52	Reporting cycle	Pag. 13	
102-53	Contact point for questions regarding the report	Last page	
102-54 /			

Disclosure	Indicator	Page number/Note	Omissions
102-55	Claims of reporting in accordance with the GRI Standards and GRI content index	Pag. 13; 116-118	
102-56	External assurance	Pag. 122-124	
ECONOMIC PERFORMANCE: TOPIC SPECIFIC STANDARDS			
GRI 201: PERFORMANCE ECONOMICA 2016			
GRI 103	Management approach 2016	Pag. 29; 115	
201-1	Direct economic value generated and distributed	Pag. 29	
GRI 204: PROCUREMENT PRACTICES 2016			
GRI 103	Management approach 2016	Pag. 88-89; 115	
204-1	Proportion of spending on local suppliers	Pag. 89	
GRI 205: ANTI-CORRUPTION 2016			
GRI 103	Management approach 2016	Pag. 41-42; 115	
205-3	Confirmed incidents of corruption and actions taken	Pag. 42	
GRI 206: ANTI-COMPETITIVE BEHAVIOUR 2016			
GRI 103	Management approach 2016	Pag. 41-42; 115	
206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	Pag. 42	
ENVIRONMENTAL PERFORMANCE: TOPIC SPECIFIC STANDARDS			
GRI 302: ENERGY 2016			
GRI 103	Management approach 2016	Pag. 73-74; 84-85; 115	
302-1	Energy consumption within the organisation	Pag. 85-86	
302-3	Energy Intensity	Pag. 85-86	
302-5	Reductions in energy requirements of products and services	Pag. 73-75	
GRI 303: WATER 2016			
GRI 103	Management approach 2016	Pag. 84; 88; 115	
303-1	Interactions with water as a shared resource	Pag. 88	
GRI 305: EMISSIONS 2016			
GRI 103	Management approach 2016	Pag. 84-87; 115	
305-1	Direct (Scope 1) GHG emissions	Pag. 86	
305-2	Energy indirect (Scope 2) GHG emissions	Pag. 86	
305-4	GHG emissions intensity	Pag. 86	
305-6	Emissions of ozone-depleting substances (ODS)	Pag. 86	
305-7	Nitrogen oxides (NOX), sulphur oxides (SOX), and other significant air emissions	Pag. 87	
SOCIAL PERFORMANCE: TOPIC SPECIFIC STANDARDS			
GRI 401: EMPLOYMENT 2016			
GRI 103	Management approach 2016	Pag. 105-107; 115	
401-1	New employee hires and employee turnover	Pag. 106-107	

Disclosure	Indicator	Page number/Note	Omissions
GRI 403: OCCUPATIONAL HEALTH AND SAFETY 2016			
GRI 103	Management approach 2016	Pag. 92-96; 115	
403-2	Hazard identification, risk assessment, and incident investigation	Pag. 94-96	
GRI 404: TRAINING AND EDUCATION 2016			
GRI 103	Management approach 2016	Pag. 110-112; 115	
404-1	Average hours of training per year per employee	Pag. 111	
GRI 405: DIVERSITY AND EQUAL OPPORTUNITY 2016			
GRI 103	Management approach 2016	Pag. 37; 101-104; 115	
405-1	Diversity of governance bodies and employees	Pag. 37; 102-104	
GRI 416: CUSTOMER HEALTH AND SAFETY 2016			
GRI 103	Management approach 2016	Pag. 59-61; 115	
416-1	Assessment of the health and safety impacts of product and service categories	Pag. 60	
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	Pag. 60	
GRI 417: MARKETING AND LABELLING 2016			
GRI 103	Management approach 2016	Pag. 61-62; 115	
417-1	Requirements for product and service information and labeling	Pag. 62	
417-2	Incidents of non-compliance concerning product and service information and labelling	Pag. 62	
GRI 418: CUSTOMER PRIVACY 2016			
GRI 103	Management approach 2016	Pag. 62-63; 115	
418-1	Substantiated complaints regarding breaches of customer privacy and losses of customer data	Pag. 63	





CAREL



Independent auditors' report

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Deloitte.

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**RELAZIONE DELLA SOCIETÀ DI REVISIONE INDIPENDENTE
SULLA DICHIARAZIONE CONSOLIDATA DI CARATTERE NON FINANZIARIO AI SENSI
DELL'ART. 3, C. 10, D.LGS. 254/2016 E DELL'ART. 5 REGOLAMENTO CONSOB ADOTTATO CON
DELIBERA N. 20267 DEL GENNAIO 2018**

**Al Consiglio di Amministrazione di
Carel Industries S.p.A.**

Ai sensi dell'articolo 3, comma 10, del Decreto Legislativo 30 dicembre 2016, n. 254 (di seguito "Decreto") e dell'articolo 5 del Regolamento CONSOB n. 20267/2018, siamo stati incaricati di effettuare l'esame limitato ("*limited assurance engagement*") della dichiarazione consolidata di carattere non finanziario di Carel Industries S.p.A. e sue controllate (di seguito "Gruppo Carel" o "Gruppo") relativa all'esercizio chiuso al 31 dicembre 2019 predisposta ex art. 4 del Decreto, e approvata dal Consiglio di Amministrazione in data 5 marzo 2020 (di seguito "DNF").

Responsabilità degli Amministratori e del Collegio Sindacale per la DNF

Gli Amministratori sono responsabili per la redazione della DNF in conformità a quanto richiesto dagli articoli 3 e 4 del Decreto e ai "*Global Reporting Initiative Sustainability Reporting Standards*" definiti nel 2016 dal *GRI - Global Reporting Initiative* (di seguito "GRI Standards"), da essi individuati come standard di rendicontazione.

Gli Amministratori sono altresì responsabili, nei termini previsti dalla legge, per quella parte del controllo interno da essi ritenuta necessaria al fine di consentire la redazione di una DNF che non contenga errori significativi dovuti a frodi o a comportamenti o eventi non intenzionali.

Gli Amministratori sono responsabili inoltre per l'individuazione del contenuto della DNF, nell'ambito dei temi menzionati nell'articolo 3, comma 1, del Decreto, tenuto conto delle attività e delle caratteristiche del Gruppo e nella misura necessaria ad assicurare la comprensione dell'attività del Gruppo, del suo andamento, dei suoi risultati e dell'impatto dallo stesso prodotti.

Gli Amministratori sono infine responsabili per la definizione del modello aziendale di gestione e organizzazione dell'attività del Gruppo, nonché, con riferimento ai temi individuati e riportati nella DNF, per le politiche praticate dal Gruppo e per l'individuazione e la gestione dei rischi generati o subiti dallo stesso.

Il Collegio Sindacale ha la responsabilità della vigilanza, nei termini previsti dalla legge, sull'osservanza delle disposizioni stabilite nel Decreto.

Deloitte.

2

Indipendenza della società di revisione e controllo della qualità

Siamo indipendenti in conformità ai principi in materia di etica e di indipendenza del *Code of Ethics for Professional Accountants* emesso dall'*International Ethics Standards Board for Accountants*, basato su principi fondamentali di integrità, obiettività, competenza e diligenza professionale, riservatezza e comportamento professionale. La nostra società di revisione applica l'*International Standard on Quality Control 1 (ISQC Italia 1)* e, di conseguenza, mantiene un sistema di controllo qualità che include direttive e procedure documentate sulla conformità ai principi etici, ai principi professionali e alle disposizioni di legge e dei regolamenti applicabili.

Responsabilità della società di revisione

È nostra la responsabilità di esprimere, sulla base delle procedure svolte, una conclusione circa la conformità della DNF rispetto a quanto richiesto dal Decreto e dai GRI Standards. Il nostro lavoro è stato svolto secondo quanto previsto dal principio "*International Standard on Assurance Engagements ISAE 3000 (Revised) - Assurance Engagements Other than Audits or Reviews of Historical Financial Information*" (di seguito "*ISAE 3000 Revised*"), emanato dall'*International Auditing and Assurance Standards Board (IAASB)* per gli incarichi *limited assurance*. Tale principio richiede la pianificazione e lo svolgimento di procedure al fine di acquisire un livello di sicurezza limitato che la DNF non contenga errori significativi. Pertanto, il nostro esame ha comportato un'estensione di lavoro inferiore a quella necessaria per lo svolgimento di un esame completo secondo l'*ISAE 3000 Revised ("reasonable assurance engagement")* e, conseguentemente, non ci consente di avere la sicurezza di essere venuti a conoscenza di tutti i fatti e le circostanze significativi che potrebbero essere identificati con lo svolgimento di tale esame.

Le procedure svolte sulla DNF si sono basate sul nostro giudizio professionale e hanno compreso colloqui, prevalentemente con il personale della società responsabile per la predisposizione delle informazioni presentate nella DNF, nonché analisi di documenti, ricalcoli ed altre procedure volte all'acquisizione di evidenze ritenute utili.

In particolare, abbiamo svolto le seguenti procedure:

1. analisi dei temi rilevanti in relazione alle attività e alle caratteristiche del Gruppo rendicontati nella DNF, al fine di valutare la ragionevolezza del processo di selezione seguito alla luce di quanto previsto dall'art. 3 del Decreto e tenendo presente lo standard di rendicontazione utilizzato;
2. analisi e valutazione dei criteri di identificazione del perimetro di consolidamento, al fine di riscontrarne la conformità a quanto previsto dal Decreto;
3. comparazione tra i dati e le informazioni di carattere economico-finanziario inclusi nella DNF e i dati e le informazioni inclusi nel Bilancio Consolidato del Gruppo Carel;
4. comprensione dei seguenti aspetti:
 - modello aziendale di gestione e organizzazione dell'attività del Gruppo, con riferimento alla gestione dei temi indicati nell'art. 3 del Decreto;
 - politiche praticate dall'impresa connesse ai temi indicati nell'art. 3 del Decreto, risultati conseguiti e relativi indicatori fondamentali di prestazione;
 - principali rischi, generati o subiti connessi ai temi indicati nell'art. 3 del Decreto.

Relativamente a tali aspetti sono stati effettuati inoltre i riscontri con le informazioni contenute nella DNF e effettuate le verifiche descritte nel successivo punto 5, lett. a);

5. comprensione dei processi che sottendono alla generazione, rilevazione e gestione delle informazioni qualitative e quantitative significative incluse nella DNF.



3

In particolare, abbiamo svolto interviste e discussioni con il personale della Direzione di Carel Industries S.p.A. e con il personale di Carel Adriatic d.o.o., Carel Eletronic (Suzhou) Co.,Ltd. e Carel USA Inc. e abbiamo svolto limitate verifiche documentali, al fine di raccogliere informazioni circa i processi e le procedure che supportano la raccolta, l'aggregazione, l'elaborazione e la trasmissione dei dati e delle informazioni di carattere non finanziario alla funzione responsabile della predisposizione della DNF.

Inoltre, per le informazioni significative, tenuto conto delle attività e delle caratteristiche del Gruppo:

- a livello di capogruppo e società controllate:
 - a) con riferimento alle informazioni qualitative contenute nella DNF, e in particolare a modello aziendale, politiche praticate e principali rischi, abbiamo effettuato interviste e acquisito documentazione di supporto per verificarne la coerenza con le evidenze disponibili;
 - b) con riferimento alle informazioni quantitative, abbiamo svolto sia procedure analitiche che limitate verifiche per accertare su base campionaria la corretta aggregazione dei dati;
- per le società Carel Industries S.p.A. e Carel USA Inc., che abbiamo selezionato sulla base delle loro attività, del loro contributo agli indicatori di prestazione a livello consolidato e della loro ubicazione, abbiamo effettuato visite in loco nel corso delle quali ci siamo confrontati con i responsabili e abbiamo acquisito riscontri documentali circa la corretta applicazione delle procedure e dei metodi di calcolo utilizzati per gli indicatori.

Conclusioni

Sulla base del lavoro svolto, non sono pervenuti alla nostra attenzione elementi che ci facciano ritenere che la DNF del Gruppo Carel relativa all'esercizio chiuso al 31 dicembre 2019 non sia stata redatta, in tutti gli aspetti significativi, in conformità a quanto richiesto dagli articoli 3 e 4 del Decreto e dai GRI Standards.

DELOITTE & TOUCHE S.p.A.



Cristiano Nacchi

Socio

Padova, 27 marzo 2020

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