



CONSOLIDATED
**NON-FINANCIAL
STATEMENT**

2020



CAREL

2020 Consolidated Non-financial Statement

**Prepared in accordance with
Legislative decree no. 254/2016**

Translation from the Italian original which remains the definitive version

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CEO's letter to the stakeholders

Dear stakeholders,

One of the most challenging years we have ever experienced has just come to an end. The year saw the global spread of the Coronavirus, from east to west and north to south, and the enormity of its economic and social repercussions is still to be seen. This scenario has once again confirmed the interconnectedness of different areas of the world, not only from an economic point of view, and, in turn, has highlighted the need for us to fully commit to making our existence on Earth more sustainable. In this regard, the companies that have successfully maintained good performances are those which have adopted a resilient and indeed sustainable business model, capable of developing strategies which take into account the demands of a number of different stakeholders. This is a particularly apt description of Carel, whose strength lies in its resilience, sustainability and multi-stakeholder approach.

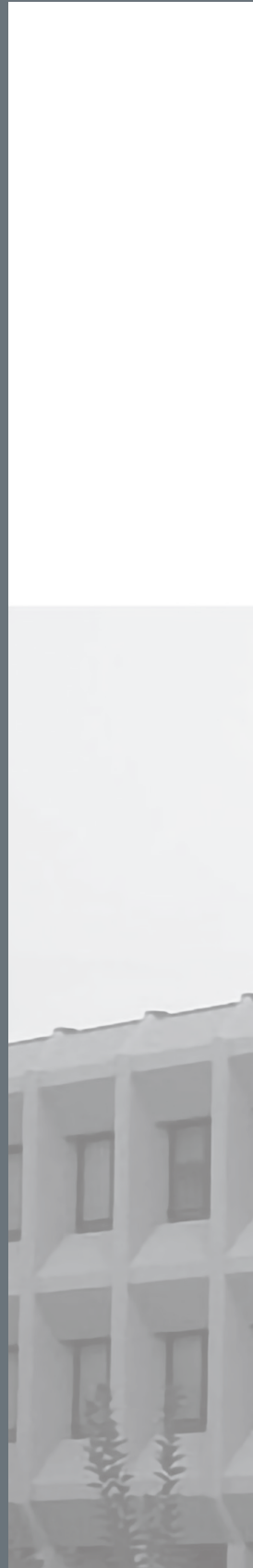
Carel's resilience, meaning its ability to promptly adapt to fast-paced and unexpected changes, derives from its long-term production "mirroring" project, which entails duplicating production processes at several production sites in order to simultaneously assemble the same product at a minimum of two production sites. This made it possible for production to be quickly moved from one site to another when lockdowns were introduced by public authorities around the world, allowing Carel to continue supplying its customers, experiencing only slight delays.

Sustainability is the group's north star when it comes to designing its development strategies and researching increasingly efficient control solutions. Indeed, in 2020, the use of our products saved around 4,570 GWh, equal to 1,256,947 tonnes of CO2 atmospheric emissions avoided. This is more or less equal to the total annual CO2 emissions produced by the Maldives (which has a population of 475,512). Therefore, we are actively contributing to mitigating climate change. Again this year, like in the past, the group has invested approximately 5.3% of its revenue (equal to around €17.5 million) in R&D projects largely focused on systems aimed at saving energy and effectively supporting the ongoing transition towards refrigerant gases which contribute less to global warming ¹.

The concept of sustainability regards not only "what we do" but "how we do it". In fact, 2020 was the first full year in which the electricity used at Carel's headquarters derived entirely from renewable sources: today, therefore, over half of the electricity used by the group around the world comes from sources which respect the environment.

Resilience and sustainability are therefore fundamental, but general attention is also paid to the group's main stakeholders, namely through the preparation of a materiality matrix built using the responses to the questionnaire sent to over 870 people, including employees, customers, suppliers and investors. As a result, we now have an updated idea of the essential ESG (Environmental, Social and Governance) areas to take into consideration in preparing our next development plans. In order to connect the material topics and the strategic plans, in mid-2020, an interfunctional "ESG team" was created, tasked with raising and spreading awareness about sustainability within the group. Within this current context of uncertainty and complexity, people remain at the centre of our attention. At the parent, we have set up a Covid-19 committee for the prompt development and management of safety protocols in order to guarantee all possible actions to protect our employees both in terms of health and safety and in terms of employment.

¹ Source: CO2 Emissions - Worldometer (worldometers.info), 2016





To this end, remote working has been adopted at all offices where it is compatible with work activities. We have also developed specific initiatives, implementing a welfare platform for employees in order to make the services provided for by national and internal labour agreements more readily available, offering maximum flexibility and decision-making autonomy.

Carel has also undertaken a long-term mission to increase the number of female employees (and adjust the gender balance in managerial positions), which in 2020 equalled 37%, up 5% on the previous year.

In 2020 Carel awarded its fifth series of scholarships, granting 74 scholarships to eligible children of employees, worth €62 thousand.

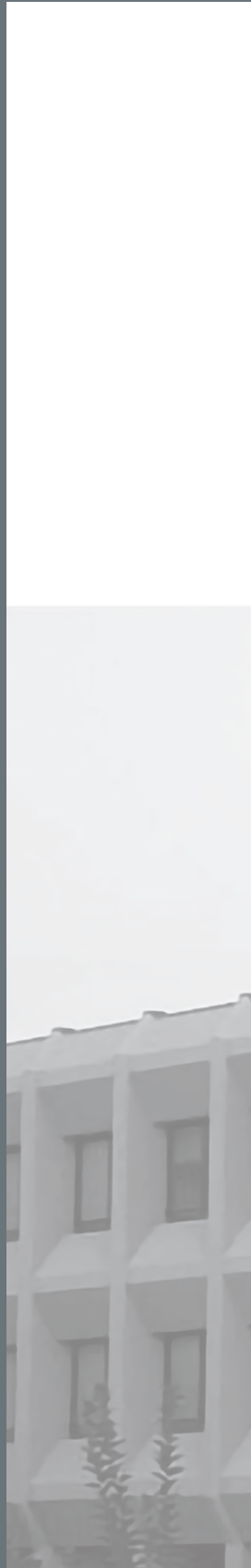
The group then turned its attention to creating a sustainable supply chain. Indeed, we included aspects related to protecting the environment, occupational health and safety and compliance with international regulations regarding the use of chemicals in the new supplier screening and selection process. In order to extend its engagement along the supply chain, it has also asked group suppliers to apply the same standards to their own supply chains. As proof of this commitment, in 2020, the group joined the Responsible Minerals Initiative (RMI) to support the responsible sourcing of minerals.

Listening to customers has become even more important within the context of the pandemic. To this end, a series of webinars have been organised to keep in close and direct contact with our partners and with the market in general.

Lastly, the group focused particularly on the financial markets. In a year in which business visits and trips were cancelled due to the pandemic, the group always stayed in touch with its current and potential shareholders, largely thanks to its participation in more than ten important national and international virtual events, while also ramping up the publication of press releases. This is how it promptly reported the impacts of Covid-19 on the group's production trends and highlighted the goals achieved during such a complicated year, such as receiving a score from the CDP (formerly the Carbon Disclosure Project), a global not-for-profit charity that runs the global disclosure system which monitors, inter alia, companies' performance in the fight against climate change.

In conclusion, in 2020, Carel further strengthened its sustainability profile through strategic initiatives with long-term benefits. In order to measure and highlight the effectiveness of these initiatives and those due to be implemented in coming years, it has chosen to analyse each of its strategic positions and their compliance with both the 17 Sustainable Development Goals and the 169 targets detailed below. It has and will continue to measure its performance using the main ESG metrics in order to be increasingly effective and rigorous in the development of a business model which uses innovation and the environment as a means of creating value for all stakeholders.

Francesco Nalini
Amministratore Delegato





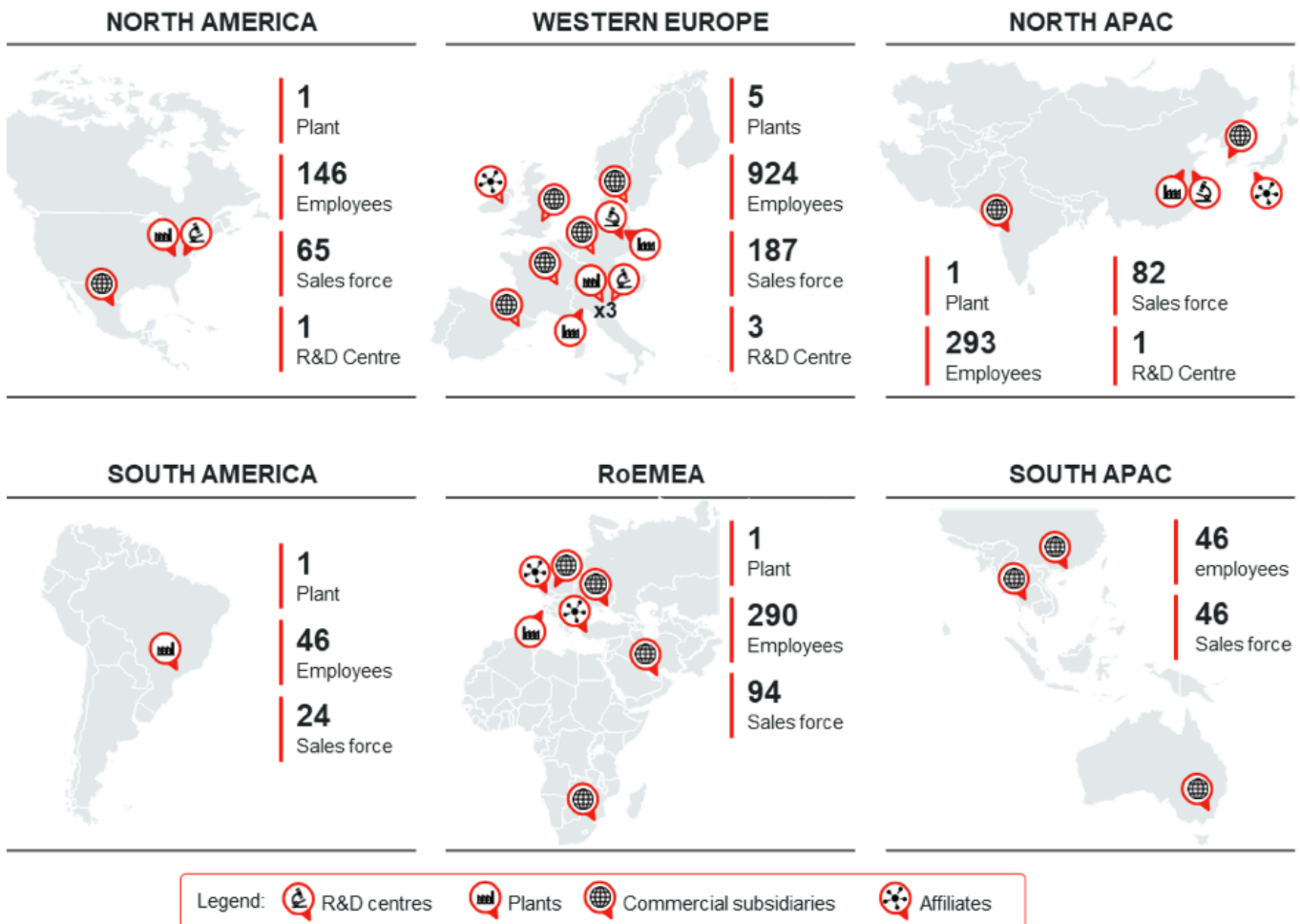


Carel Industries Group

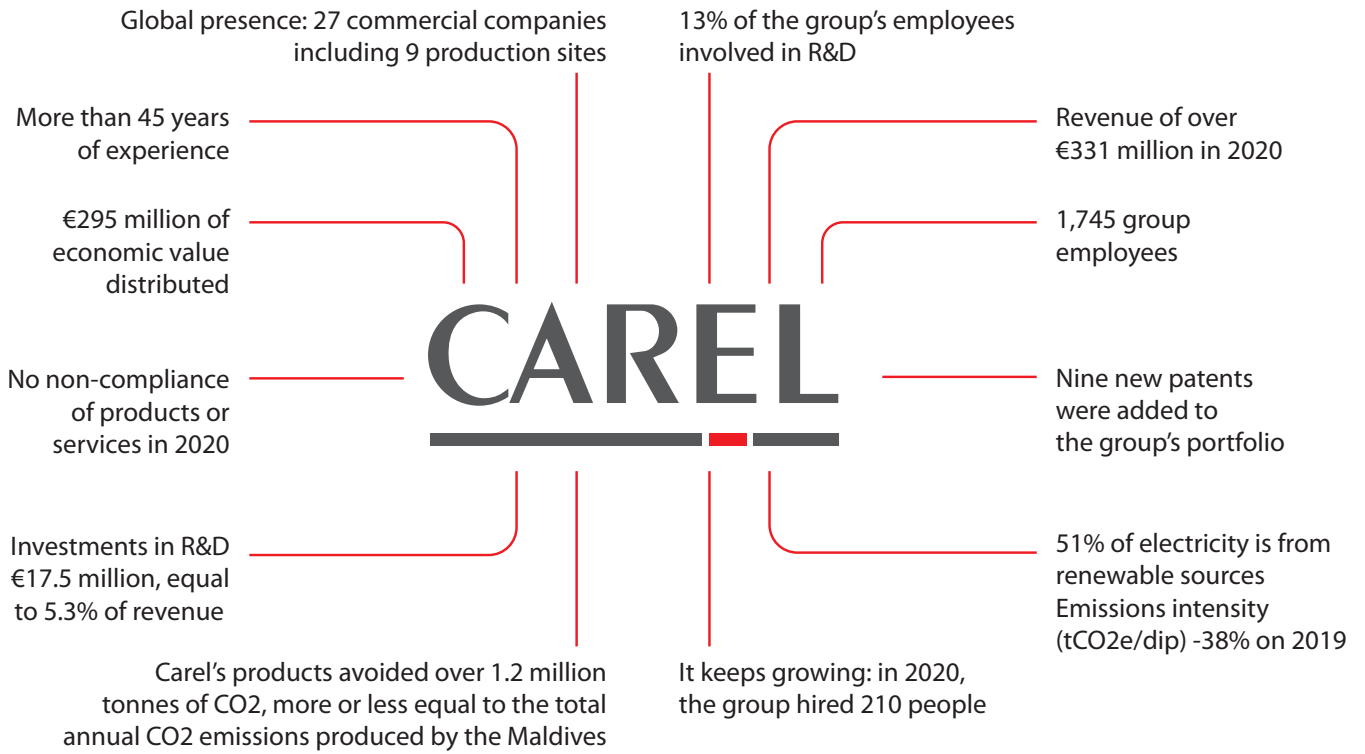


Incorporated in 1973, Carel recorded consolidated turnover of €331 million in 2020 (+1.3% on 2019). Carel has always been known for advanced control systems offering innovative solutions for the HVAC/R sector. Its high efficiency solutions are a certainty for environmental protection thanks to their optimised and integrated control systems, which allow for significant energy savings and, as a result, a smaller environmental impact. Roughly

80% of its sales take place outside Italy where the group has a widespread customer sales and support network. Specifically, Carel operates in the Americas (North, Central and South), Asia, Australia, Africa and Europe. It has 27 commercial companies and nine production sites. It also works with partners and distributors in another 75 countries.



Carel in figures



A story 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 computer room air conditioners
- 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 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 on 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

- Carel Ibérica, Carel India, Carel South Africa and RemoteValue are established
- Carel wins the Mediobanca 2008 Prize awarded to the most dynamic businesses that stand out for high levels of 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 "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 Alfaco Polska sp.z o.o., a Polish distributor which effectively becomes a commercial company

2018

- In June, the parent was 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

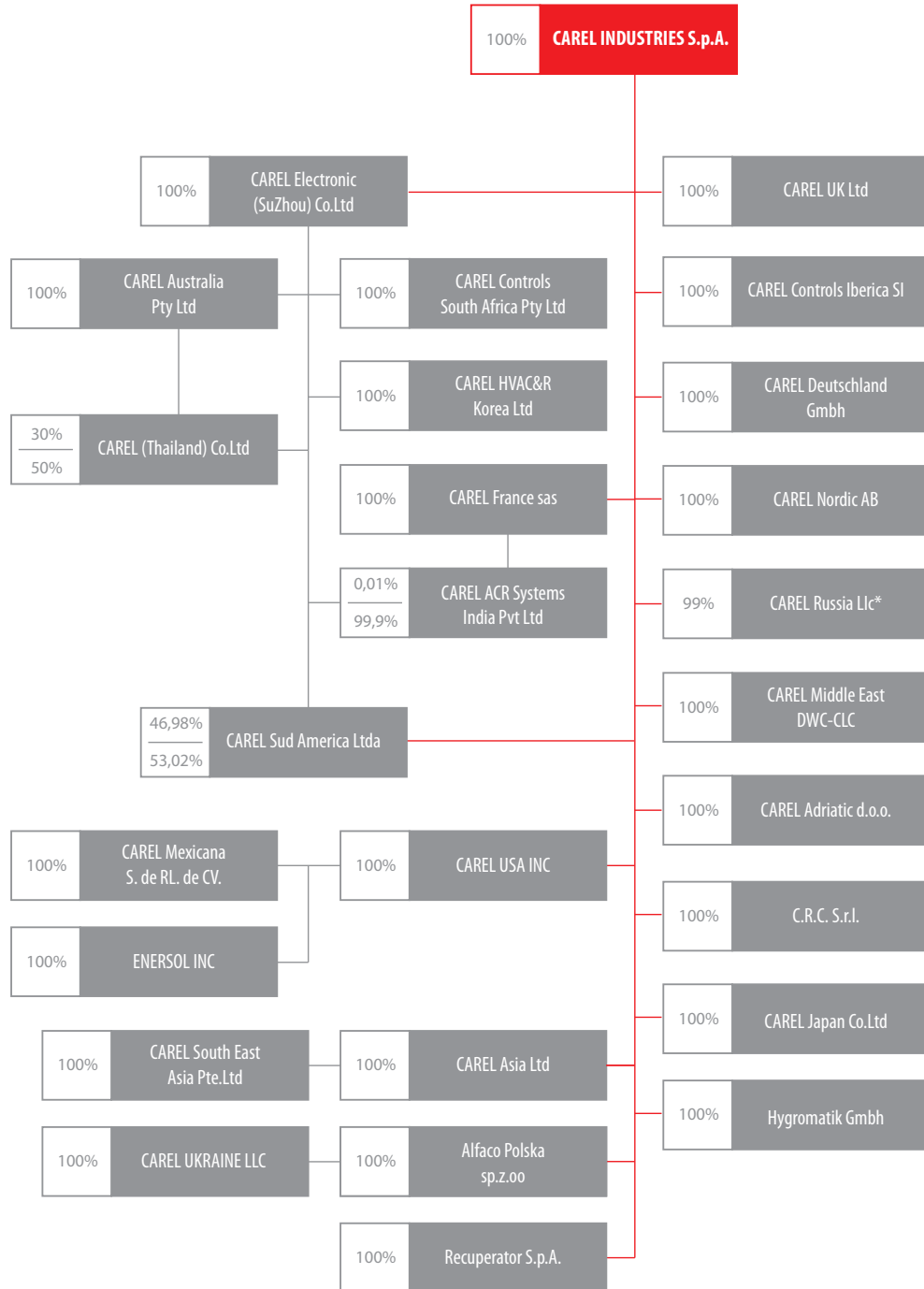
2019-2020

- Carel consolidates its presence in Eastern Europe by 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
- In 2020, Carel places in the "Awareness" category of the CDP - Carbon Disclosure Project Climate Change.
- Carel wins the 2020 Business Excellence award in the "Internationalisation" category.

Group structure

The chart shows the group companies and the parent's investments therein at 31 December 2020. This statement

includes the information of the parent (Carel Industries S.p.A.) and its consolidated subsidiaries.



* = 1% hel by CAREL France sas

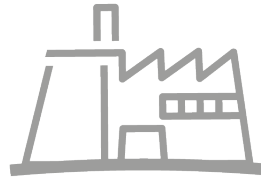
Business and markets

The group is active in the design, manufacturing and global distribution of technologically advanced components and solutions (hardware and software) to achieve energy-efficient control and regulation of control and humidification solutions.

The group is well consolidated on an international level (80% of sales take place outside Italy) where it operates directly with its subsidiaries and through a network spread throughout around 80 countries.



Residential



Industrial



Commercial

ITALY (x3)



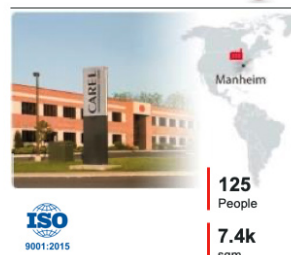
Brugine (Padua)
Established in **1996**
Covering the whole portfolio production (programmable and parametric controls, valves, inverters, humidifiers and panels)
Reference market: mainly **Europe**

RECUPERATOR



Rescaldina (Milan)
Established in **1973**
Dedicated to the design, production and marketing of air-to-air heat exchangers
Reference market: mainly **Europe**

US



Manheim (Pennsylvania)
Established in **2004**
Assembling humidifiers, programmable controls and electrical panels
Reference market: **North America**

BRAZIL



Valinhos (Sao Paulo)
Established in **2010**
Specialised in the production of parametric controls
Reference market: **South America** (also serving North America)

CROATIA



Albona (Labin)
Established in **2015**
Producing electronic expansion valves and related drivers and inverters, controls and electric panels
Reference market: **Europe**

CHINA



Suzhou (Jiangsu)
Established in **2005**
Focused on the manufacturing of parametric controls and humidifiers
Reference market: **APAC**

HYGROMATIK



Hamburg (Germany)
Established in **1970**
Design and assembly of humidifiers
Reference market: **Europe**

Over the years, the group has designed systems and applications for vertical market niches with very specific needs requiring highly tailored solutions. In all market segments, the main challenges include energy saving, human-machine interaction, growing usability and cloud connection.

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. Carel has adopted a disaster recovery plan whereby at least two production sites manufacture most of its products. This means it can guarantee supplies in














extreme situations.

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.



Product platforms

Programmable controls  Electronic controls easily programmable and customizable	HMI and unit terminals  User interfaces for units and systems	Parametric controls  Entry level electronic controllers	Heat exchangers  Heat exchangers for AHU	Isothermal humidifiers  Steam production systems
Adiabatic humidifiers and evaporative coolers  Pressure water atomizers	Power solutions  Electrical panels	Sensors and protection devices  Temperature/humidity and air quality sensors	Electronic expansion valves & drivers  Electronic valves for the modulation of refrigerant flow	
Speed controllers & inverters  Speed control devices for BLDC compressors	Compressors¹  BLDC compressors	Remote management, monitoring systems, IoT  Solution for local / remote management monitoring and optimization	Services  Innovative services based on the IoT capabilities	

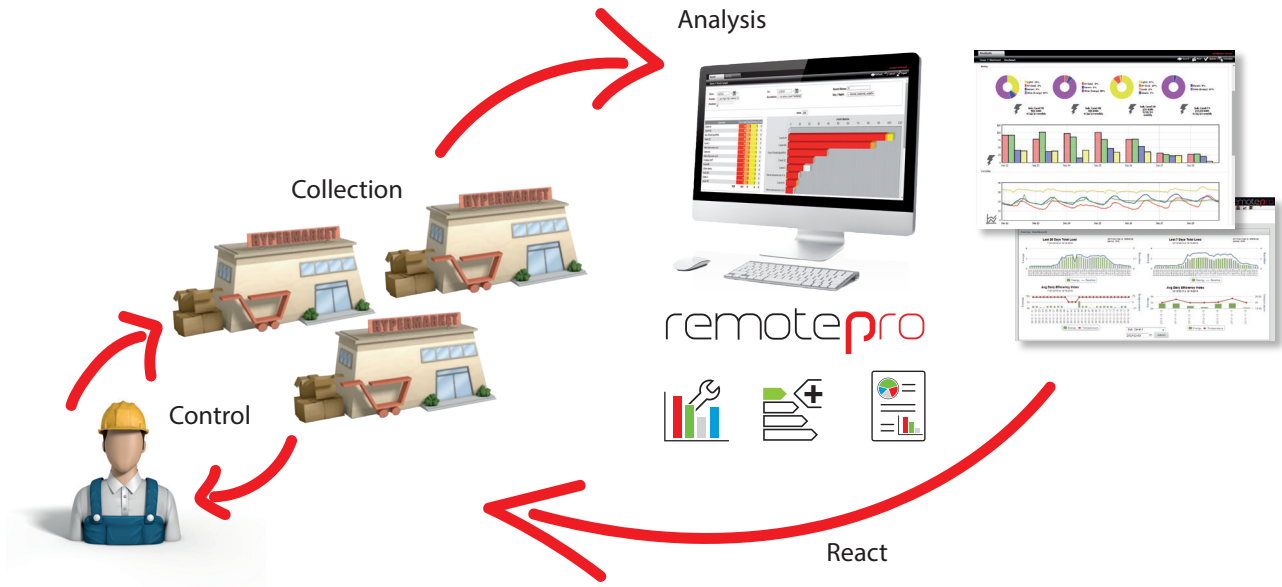
The group's offering is rounded off by services associated with its products such as: commissioning activities or contract work, remote operation and monitoring of HVAC/R systems and components to facilitate engagement between the company service centres and end users, subscriptions for dedicated remote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

The IoT area 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 around 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 volume of data collected are increasing.

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



The group implemented its communication strategy using an integrated multimedia 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 as well as organising events and campaigns. Furthermore, traditional communication was dramatically reimagined

in the wake of the pandemic. In this context, Carel's social media presence has become particularly important, specifically its Youtube channel, which is filled with new content including product presentations and interviews and which has reached over 450,000 views and over 3,800 subscribers.

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

BETTER BETTER

CONTROL ENVIRONMENT

The “Better control, better environment” slogan sums up Carel’s refreshed mission statement: systems compatible with natural, low GWP (Global Warning Potential) refrigerants, high energy efficiency, digital services related to the monitoring of systems and control solutions for the Food Service world.

Research, innovation and technology are the cornerstones of the Carel Group’s success. For over 45 years, it has placed the customer 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.

Carel has combined its skills regarding technological innovation with sustainable development thanks to the

introduction over time of products which ensure the growing efficiency of systems. 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.

In 2020, the group launched a project strongly geared towards sustainability, which involved a number of group stakeholders. This will allow the group to reflect on its expectations and approach in order to design its **business purpose** which will not only look at the group’s values and history, but also that which it wishes to represent in response to global market challenges, guaranteeing **sustainable success** and creating **long-term value** for all stakeholders.

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

CUSTOMER FIRST
ACHIEVEMENT
RESPECT
EVOLUTION
LEARNING



Sustainability



Carel and sustainability

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.

The evolution of the group's brand strategy 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. In addition, Covid-19 has brought to light which companies were able to combine a vision for the future with great resilience. These are the characteristics of companies whose strategies are led by good governance and sustainability. For this reason, the financial markets' focus on sustainability issues increased in 2020 and they will remain a key theme in the near future.

The group's increased integration of sustainability into its strategy is shown by its commitment, starting in 2020, to contributing to the UN's Sustainable Development Goals (SDGs) under the 2030 Agenda. The 17 Sustainable Development Goals and the 169 objectives detailed below represent an incentive to integrate **economic growth**, **social inclusion** and **environmental protection**. In developing its business model Carel is aware that it has the power to make a positive contribution through investments, innovation, technological development and by creating collaborations. The key element for the group in its journey towards sustainable development is combining **product innovation** and **sustainability**, as a springboard for identifying new business opportunities, improving stakeholder engagement and identifying, managing and monitoring risks.

In order to gather, develop and bring together all the ESG incentives from relevant stakeholders, a multifunctional ESG Team has been created, which is responsible, among other things, for the following:

- coordinating and monitoring the achievement of ESG targets set out by the group in the pursuit of the SDGs;
- proposing sustainability and climate change goals and targets;
- coordinating the group's foreign companies in preparing the information and data required for non-financial reporting;
- overseeing the stakeholder engagement project and updating the materiality analysis in order to align reporting with the material topics identified;
- reporting social, environmental and governance performance in a transparent manner to stakeholders;
- overseeing the management of the main risks and opportunities related to sustainability and climate change.

For more details, reference should be made to the section on sustainability governance.

Carel has summarised its operating practices in its Code of Ethics and its Policies on Diversity, Human Rights, the Environment and Occupational Health and Safety to emphasise its commitment to comply with the highest sustainability standards and to define reference principles for social and environmental topics. These act as guidelines for the group companies. The group has also defined values and conduct rules specifically for the topic of anti-corruption in its Organisational, management and control model as per Legislative decree no. 231/01 and its Code of Ethics.

These policies 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 policies related to the social-environmental topics defined by Legislative decree no. 254/2016 are summarised below.

The following sections provide suitable disclosures on the group's policies, commitments and practices.

Diversity policy	Human rights policy
<p>The Carel Group commits to:</p> <ul style="list-style-type: none"> • respect private life and all individuals, avoid discriminatory practices, free from any form of harassment, offence or other conditioning that could make the work environment hostile and intimidating; • guarantee equal opportunities in all work environments through respect for the physical and moral integrity of individuals; • encourage inclusion and integration of individuals, avoid any form of discrimination based on mental or physical limitations or diversity; • acknowledge and respect personal dignity, private life and the rights of all individuals promoting values like trust, dialogue, mutual respect, well-being and work-life balance; 	<p>The Carel Group commits to:</p> <ul style="list-style-type: none"> • non-engagement in child labour; • refuse all forms of forced or compulsory labour and all forms of physical or physiological constraints; • non-tolerance of personal, sexual or other harassment or offence; • eliminate all forms of discrimination including distinction, exclusion or preference that denies or affects equal opportunities or treatment at work; • acknowledge workers' rights without any restrictions to their decisions or limitations to collective bargaining; • protect employee health and safety; • consider the expectations of local communities, contribute to their development, respect their cultural and environmental heritage; • respect the confidentiality of personal information; • respect personal dignity, private life and the rights of all individuals; • encourage the professional development and growth of each employee through respect for their physical and moral integrity; • request 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 implement, control and regularly assess, when necessary, its environmental and occupational health and safety management systems; • regularly set security and environmental protection goals; • engage with stakeholders, shareholders, local communities and administrations for occupational health and safety issues; • protect the environment and natural resources as priorities; • minimise its environmental impact; • promptly identify potential risks using a system to prevent pollution, environmental incidents and environmental emergencies to minimise their impact on the environment; • act in accordance with the ruling laws and regulations to reduce pollution and protect the environment; • pursue exemplary results concerning environmental issues and promote scientific development and sustainable technology; • focus on minimising waste, improving resources management, limiting hazardous substance spillages, rationalising water resources, limiting its impact on biodiversity, optimising the use of raw materials; • consider 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; • rationalise energy consumption and ensure security by improving processes; • adopt an injury prevention system; • provide for the technical design of work environments, equipment and processes; • encourage workers to play an active role in preventing risks; • closely comply with established security and prevention measures.

Two-year ESG plan

In 2020, Carel continued to implement the two-year ESG plan started in 2019 to communicate its sustainability targets and strategies to the group's stakeholders. On 11 November 2019, the parent's board of directors approved the plan, which includes ESG targets and the formalisation of the plan's governance.

The plan sets out Carel's environmental, social and governance (ESG) targets. It is 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 helps the board of directors to analyse and assess 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 ESG plan confirms the targets set out in previous years for 2020 and beyond; due to the Covid-19 pandemic, the timeframes for some of these targets have been adjusted. A summary of the targets set out in the two-year ESG plan and results achieved in 2020 is provided below.

GOVERNANCE		
	Targets	2020 results
	Stakeholder engagement on material topics and social responsibility in order to update and integrate the materiality analysis.	The stakeholder engagement project, which involved a sample of 870 stakeholders was launched and completed in order to update the materiality analysis in compliance with the requirements set out in the GRI standard guidelines.
	Implementation of a tool for the computerised management of sustainability reporting and the update of the related operating procedure.	The target was rescheduled to 2021 in order to make the reporting more efficient using the new internal unit set up in 2020.
	Supplier ESG survey	A survey sent to a set of 20 important suppliers with questions on ESG issues to map their main social and environmental policies. Integration of the Code of Ethics in the contractual standards of some suppliers.
	Improve transparency regarding the procurement of so-called conflict minerals.	The group adopted a policy for controversial sourcing in 2019. This policy was updated in 2020, creating a long-term project aimed at aligning the group with the OECD guidelines. The policy will be available on the website. The group also joined the Responsible Minerals Initiative (RMI), one of the resources most used and respected by companies which are involved in the responsible procurement of minerals in their own supply chains.
SOCIAL		
	Targets	2020 results
	Training courses about GDPR for foreign European subsidiaries were provided in addition to anti-corruption training at foreign offices.	Classroom training courses for employees were suspended due to the pandemic and have been rescheduled on the HCM (Human Capital Management) system for 2021.
	A resource engagement programme to improve the work environment with initiatives to benefit employees.	The "Retune & Explore" HR project was launched, aimed at implementing initiatives and programmes to improve the work environment with initiatives to benefit employees. These were developed in line with the areas of improvement which emerged during the previous Change For Better project, but also taking into account the changing working conditions due to Covid-19.
	The HCM software for master data on human capital was rolled out.	Oracle software covering 98.5% of group personnel was adopted to manage employee information and remote training data at group level.
	Compliance in materia di REACH & RoHS	Estensione della compliance di prodotto alle normative REACH & RoHS a Recuperator, e raccolta informazioni sulle materie prime utilizzati da CAREL INDUSTRIES con emissione dei primi report ai clienti sulla eventuale presenza di SVHC (sostanze chimiche pericolose)

The action plan created following the survey carried out at HQ during Covid-19 was implemented	The action plan created following the new survey related to Covid-19 carried out at HQ was implemented, in order to maintain and improve employee engagement during and after the pandemic. The survey had a response rate of 82%.
Compliance with California Proposition 65	A first assessment was completed with the support of a specialised third party company, which ascertained that there is no risk of exposure to dangerous chemical substances from Carel's products
Compliance with REACH & RoHS	Product compliance with the REACH regulation and RoHS directive was extended to Recuperator and information about raw materials used by Carel Industries was collected, with the first reports being issued to customers about the potential presence of SVHW (substance of very high concern) Net promoter score (NPS). The Net Promoter Score process was implemented at the group's commercial companies in Italy through the involvement of a homogeneous sample of 33 customers

ENVIRONMENT		
	Targets	2020 results
Join the Carbon Disclosure Project (CDP) for disclosure of the group's impact on climate change	The group joined the CDP climate change programme to support the commitment to combating climate change and limiting its impact. The target is to improve the management of environmental risks by leveraging transparency. Carel scored a "C".	
Creation of a waste management plan	An assessment related to the current management methods for special and urban waste in CID plants in order to improve the disclosure of the group's environmental impacts and the traceability of the waste chain was launched.	
Assessment of the SCOPE 3 emissions of the logistics department (e.g., purchase/sales)	A cooperation programme was launched with the leading Italian logistics providers aimed at mapping out and calculating the indirect impacts in terms of (Scope 3) emissions. The emissions generated by transporting 2,645 tonnes of Carel products have been estimated.	
Energy efficiency upgrades and procurement of energy from renewable sources (at the group's sites and foreign offices)	The group's adjustment to alternative and renewable energy sources was set out in addition to energy efficiency issues and a dedicated energy management team was created. The group's procurement of plant from certified renewable sources was mapped out.	
Mapping and monitoring of water consumption	The water consumption at production sites was mapped. The monitoring activities allowed for the collection of more complete and reliable data about water consumption. The group's water footprint will continue to be monitored even though withdrawals have not increased.	
Integration of ISO 9001:2015 multi-site quality certification	Recuperator S.p.A. was integrated into the Quality system of the multi-site scheme	

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 collection, 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 preparation of

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, in 2020 Carel rolled out a project to fine-tune its **medium to long term vision** for post-2020 in line with its business strategy, which will support the **sustainability goals and specific targets**, including the sustainable development guidelines to which the group actively contributes, either directly or through organisations with which it works.

This project will allow the group to increase its awareness about sustainability, laying the foundations for the creation of a **long-term sustainability plan**, which will

also promote communication with stakeholders about the group's commitment and performance.

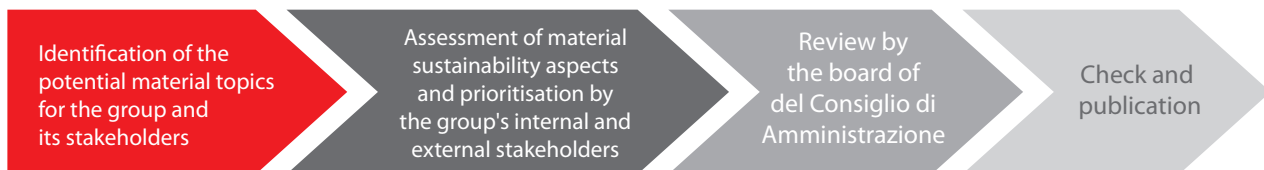
Materiality analysis

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 ESG team coordinated the materiality 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 (sustainability issues) and external stakeholders. The materiality analysis process was organised as follows:



The first step was to identify information which may be used to update the potential material topics for Carel by analysing various sources, in order to align the sustainability strategies with the market's best practices.

The main sources 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.

This preliminary analysis allowed the group to rationalise sustainability issues, cutting the 37 material sustainability issues identified in previous years down to 21 issues, by establishing five pre-conditions at the base of the sustainability model:

1. creation of economic value that is sustainable over time;
2. adoption of an efficient and transparent governance system to support business;
3. ongoing focus on regulatory compliance issues;
4. adoption of a risk management system for the management of ESG risks, specifically those related to climate change;
5. brand reputation protection.

One of the main changes brought about by the materiality update is the introduction of the new material topics: "diversity, equal opportunities and inclusion" and "human rights". Furthermore, the issue of environmental impact was included in the newer, broader area of "environmental impact, pollution and climate change".

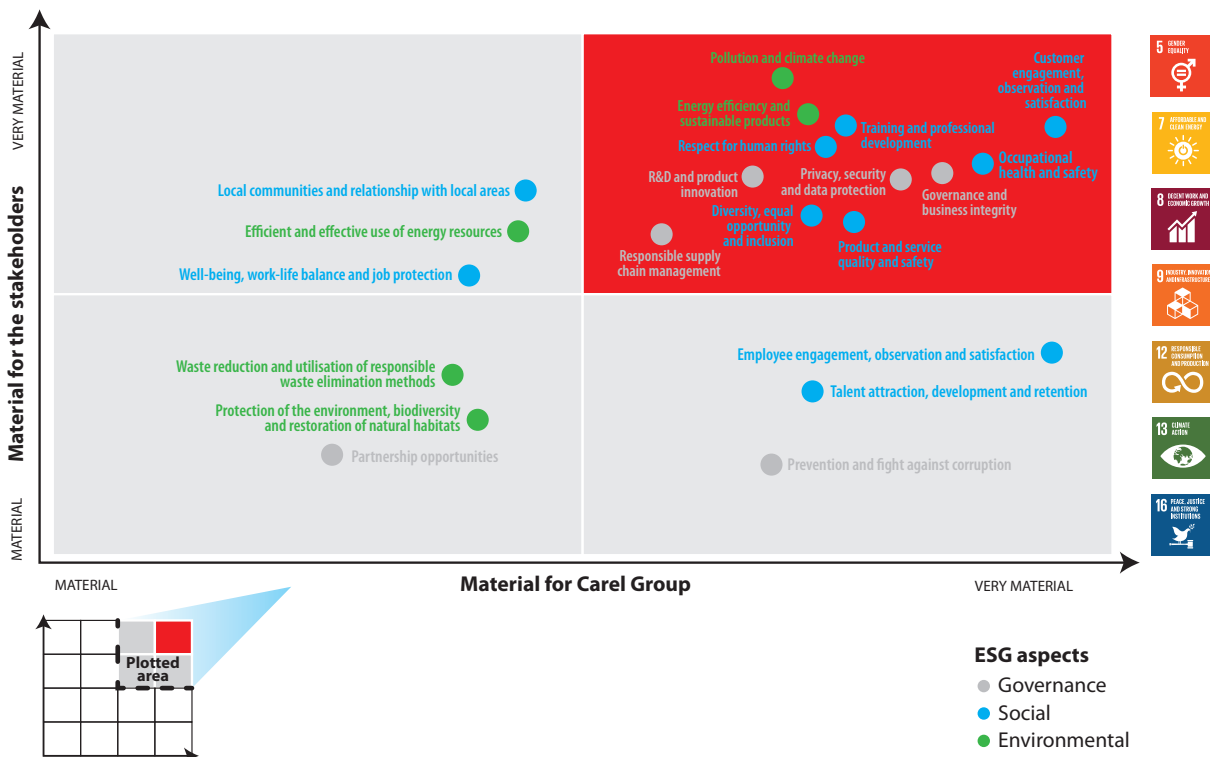
During the assessment and prioritisation phase, the materiality of each sustainability topic for the main stakeholders was assessed based on the results of the aforementioned preliminary analyses, which were supplemented by the results of the sustainability survey carried out in 2019 and 2020. The issues, which were broken up into three categories: governance, environmental and social, 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.

In 2019, around 20 managers from Carel’s main foreign offices acted as representatives of the group’s global vision of processes and activities, assessing the topics from the group’s points of view. In 2020, stakeholder engagement involved over **870 external stakeholders** in Italy and abroad, divided into the following categories: **employees, customers, suppliers, investors, sector associations**

and the community.

In both cases, the survey aimed to investigate respondents’ perception of the group’s activities and performance in terms of sustainability and material topics which should have been covered by the non-financial statement.

The joint consideration of the internal and external importance gathered from stakeholder engagement (2019-2020) led to the identification of 12 material topics, and nine additional sustainability issues, for a total of 21, which Carel used to update its materiality matrix. The graph reflects the materiality of the non-financial issues during the year and matches some of the UN’s Sustainable Development Goals (SDGs). Specifically, the group classified seven SDGs as material for its business. As trends can change over time, the matrix is regularly updated. The topics identified have been presented to the control, risks and sustainability committee and the board of directors.



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 about the fight against corruption..

MATERIAL TOPICS 2020	
1	Customer engagement, observation and satisfaction
2	Training and professional development
3	Energy efficiency and sustainable products
4	Environmental impact, pollution and climate change
5	Occupational health and safety
6	Data privacy, security and protection
7	Respect for human rights
8	Governance and business integrity
9	Product and service quality and safety
10	R&D and product innovation
11	Diversity, equal opportunities and inclusion
12	Responsible supply chain management
13	Employee engagement, observation and satisfaction
14	Local communities and relationship with local areas
15	Efficient and effective use of energy resources
16	Well-being, work-life balance and job protection
17	Talent attraction, development and retention
18	Waste reduction and utilisation of responsible waste elimination methods
19	Prevention and fight against corruption
20	Protection of the environment, biodiversity and restoration of natural habitats
21	Partnership opportunities

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

Stakeholder engagement

The group's ongoing engagement and the active involvement of internal and external stakeholders show 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. To this end, Carel will formalise

and adopt a specific stakeholder engagement policy as set out in the recommendations of Borsa Italiana's Code of Conduct for Listed Companies. Carel has identified its stakeholders through internal and benchmark analyses as parties that are affected by its operations. Accordingly, in 2020, the group continued its stakeholder engagement project started in 2019 with the involvement of a sample of managers from Carel's main foreign offices, as set out 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 engagement channels and tools with its principal stakeholders is set out below:

Stakeholder	Engagement tools and channels
Shareholders, investors and analysts	Shareholders' meeting Press releases Financial disclosures to the market Institutional websites Daily telephone calls and emails Conference calls Road shows
Financial institutions	Financial disclosures to the market Regular meetings with banks
Customers	Liaising with sales personnel and subsidiaries' employees 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 magazine (Display – CAREL People Magazine) Internal communication via meetings, email and web media
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 control quality 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.

- **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 not-for-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 China 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 took part in Euroshop in February 2020, presenting its new-generation digital platforms, created through synergies between Carel's different technological and application expertise: systems compatible with natural, low GWP refrigerants, high energy efficiency, digital services related to the monitoring of systems and control solutions for the Food Service world.

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 2020, due to Covid-19, the main risks in relation to the reduced lobbying/networking and association activities are essentially correlated with the suspension of work travel and the cancellation of public and sector events. The effectiveness of group work activities within the various associations also declined as they are now only performed remotely. However, Carel continued to take part in some sector initiatives online. In March 2020, Carel was a speaker at the webinar organised by the Centro Studi Galileo on the "CIRCULAR ECONOMY AND GREEN SOLUTIONS APPLIED TO THE HVAC/R SECTOR" to which 515 people signed up and around 350 people took part. Several sector experts took part in the event, together with companies operating at various levels as manufacturers, installers, planners and trainers. Carel's contribution focused on the use of evaporative cooling in air conditioning systems as a supplement or sustainable alternative to mechanical cooling, or rather, cooling which requires electricity.

On 26 June 2020, as part of World Refrigeration Day, Carel also participated in the super webinar organised by the Centro Studi Galileo about "The Latest Air Conditioning and Refrigeration Technologies for the post Covid-19 era", with a presentation which demonstrated the advantages, in terms of energy efficiency, of using technologically advanced Building Automation and Control Systems (BACS) together with the skilled use of humidification and evaporative cooling technologies, providing concrete examples and simulations in a variety of climatic conditions.

In September 2020, Carel was a speaker at the webinar organised by Eurovent Middle East: "Covid-19: Air Handling Units and Air Recirculation". Led by sector experts, the webinar was designed for engineers and people operating in the HVAC-R sector in the Middle East. Carel's contribution looked at energy recovery solutions, based on integration between humidifiers and heat exchangers, focusing on the R&D activities of the group company Recuperator. The event represented Carel's strong commitment to air quality, specifically during such a delicate moment in history, in which it is important



to make communities more aware of air quality, as also shown by the recent opening of a site entirely dedicated to healthcare and indoor air quality.

The year ended with Carel's web event about natural refrigerants and the related know-how. 277 people from over 50 EMEA and APAC countries signed up to the event, which was held as a Q&A session which expanded on regulatory, technological and application issues regarding the use of carbon dioxide, propane and ammonia. This event highlighted the group's commitment to using natural liquids with a very low environmental impact.

Other virtual events were organised in collaboration with the Centro Studi Galileo, SHECCO and the organisers of the CHILLVENTA exhibition. Carel was a main speaker at all these events, discussing energy efficiency, regulations regarding the use of refrigerants and air quality.





Transparent and effective
communications with
stakeholders







The 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 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, primarily 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 (SRIs). 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.

2020 was characterised by the spread of the Covid-19 pandemic, one of the many effects of which was the slowdown of international mobility. This, of course, had a material impact on the Investor Relations Unit's reporting and communication activities. Specifically, the initiatives hit hardest by the spread of the virus were those which required face-to-face contact with investors and analysts, namely road shows and headquarters visits. The former were replaced with a number of virtual events which allowed the group to keep the channel to the financial world open, also via its use of quarterly presentations. During the year, senior management and Investor

Relations management took part in more than ten events and over 100 meetings with investment funds based in major European and non-European financial hubs.

Investor and shareholder visits to the registered office were suspended and will start up again when it is safe to do so. During such a challenging year, press releases were fundamental to effective financial communication. In fact, the group constantly kept its stakeholders up to date on the impact that the spread of Covid-19 had on its production sites, specifically during the first part of the year, when sites had to be closed in China and Italy as a result of the lockdowns introduced by the respective public authorities.

However, these disclosures did not only regard financial aspects, but also focused on elements related to ESG issues, concentrating in particular on sustainability. To this end, in 2020 the group took part in the CDP scoring process for the first time. The CDP is a global not-for-profit organisation that runs the global disclosure system which monitors, inter alia, companies' performance in the fight against climate change. Carel scored a "C", in line with the reference sector and companies. Carel also increased its MSCI ESG rating by one "notch" in 2020, progressing from "B" to "BB".

The banks that backed Carel in 2020 are the same as in 2019, 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 procedures 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 Investor Relations Unit also depends on interpersonal and professional relations and the spread of Covid-19 has led these to be conducted remotely/virtually. The lower impact of virtual contact compared to in-person meetings may lead certain investors to become detached or to lose interest in the group in the long term. This is compounded by the fact that potential shareholders/investors cannot visit the company and as such cannot properly appreciate

the innovative nature of the group's business and the underlying passion.

In any case, despite the challenging vision of the future, in view of the prolonged nature of the pandemic, Carel is committed to maintaining its business goals via new communication channels, in order to be increasingly transparent with stakeholders.

Creation of value for stakeholders

This has two dimensions: value created for the group and value generated for its shareholders and society at large. The group performed well in 2020, recognising revenue of €331.61 million, up 1.3% on the previous year.

Economic value generated and distributed by the group in 2020 can be used to interpret the financial data included in the directors' report and the consolidated financial statements from a stakeholder's point of view

and to understand the group's economic impact and the distribution among its stakeholders. In 2020, the Carel Group generated around €338 million, up from €335 million in 2019. Economic value distributed by the group amounts to €295 million, which is in line with 2019. Specifically, 87% of its economic value generated was distributed to internal and external stakeholders.

DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED (€/000) [GRI 201-1]	2020	2019	2018
Economic value generated by the group	338,126	335,657	286,454
Revenue	331,610	327,358	280,220
Other income	4,891	4,031	3,532
Financial income	351	534	833
Impairment of financial assets	208	177	15
Impairment of loans and receivables	-287	-63	-130
Exchange rate losses	-921	-152	-352
Net losses on the sale of property, plant and equipment and intangible assets	47	-803	-117
Depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets	2,227	2,970	2,453
Economic value distributed by the group	-295,725	-295,186	-255,440
Operating costs	-182,567	-186,392	-165,899
Distributions to employees	-88,557	-83,359	-70,718

DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED (€/000) [GRI 201-1]	2020	2019	2018
Distributions to lenders	-1,841	-1,965	-969
Distributions to investors ¹	-12,000	-12,000	-10,000
Distributions to public administrations	-10,452	-10,828	-7,666
Distributions to bodies/associations	-220	-525	-131
Donations ²	-87	-118	-58
Economic value retained by the group	42,402	40,471	31,014
Amortisation, depreciation, provisions and impairment losses	-19,283	-17,424	-10,262
Other reserves	-23,118	-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 2020 Annual Report.

1 When approving the draft financial statements, the board of directors resolved to distribute dividends of €0.12 per share

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

Economic impact of the pandemic

Carel has implemented all possible actions to protect its employees both in terms of health and safety and employment. To this end, it has set up a Covid-19 committee at the parent for the management of the employee healthcare protocol, with the aim of providing policies and guidelines to be used in a standardised way across all group offices, in compliance with the regulations in place in each country. One of the measures adopted is the group's use, where possible, of remote working, which it has supported by providing the necessary IT equipment and promoting flexibility, in order to reduce risks and make social distancing easier in work areas. The complex uncertainties brought about by the spread of the virus and compounded by the restrictions applied have affected global market trends, also influencing the group's business. Control and refrigeration solutions experienced a downturn in 2020 as a direct and tangible result of the spread of the Covid-19 pandemic. This decline mainly affected the food service segments, while the impact on the HVAC sector varied between different market segments. The commercial segment saw a slowdown in the comfort, hospitality and wellness market, offset by investments in healthcare and a new awareness of the importance of indoor air quality, an area in which HVAC systems play a prominent role. With regard to the industrial segment, the considerable acceleration of pre-existing trends on the market, such as remote working and the development of cloud services such as streaming, boosted the vitality of refrigeration systems in the data centre sector. Finally, with regard to the residential sector, the trend of implementing and spreading more environmentally sustainable technologies such as heat pumps continued.

In the first quarter, certain supplies of raw materials, mainly from China, were delayed due to the extended lockdown in the country. Consequently, the group had to speed up the process which had been under way for a few years, for so-called "double sources", i.e., the approval of a second supplier in addition to the first. In tandem with this

process, the group is implementing so-called production "mirroring", i.e., duplicating processes and technologies at several production sites in order to guarantee business continuity for the greatest number of products.

Despite the systemic crisis caused by the spread of the Covid-19 virus, Carel was able to consolidate its positioning in certain market segments, leading to overall growth in revenue of +1.3% compared to 2019.



Transparent and effective communications with stakeholders |





Focus on the environment



CLEAN AND
ACCESSIBLE
ENERGY



RESPONSIBLE
PRODUCTION AND
CONSUMPTION



FIGHT AGAINST
CLIMATE CHANGE



Environmental protection and climate change ¹

The group contributes to the promotion of scientific and technological development for the protection of the environment and natural resources in the appropriate fora and during the performance of its activities. The commitment to protecting the environment is rooted in the group's Code of Ethics, which states that protection of the environment and natural resources are priorities for Carel. 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 area.

In line with previous years, in order to guarantee long-term business growth, Carel is committed to performing its activities responsibly, striving to protect the environment and natural resources, as set out in its Environmental and occupational health and safety policy, which reflects the principles and values set out in its Code of Ethics.

The foreign production sites have their own policies, drawn up in accordance with their local situations and the parent's guidelines.

Its centralised management system allows the group to identify potential risks in advance and is backed up by this policy which represents the commitment of the parent, its direct and indirect subsidiaries, its partners and stakeholders to protection of the environment.

Specifically, dedicated resources at Carel Industries S.p.A., HygroMatik and Carel Electronic (Suzhou) Co. Ltd. manage environmental issues as these sites have the international ISO 14001:2015 certification and, accordingly, draw up specific environmental policies to accompany the policy defined at group level.

In January 2020 a group HSE manager position was created to improve, increase and oversee the management of environmental and occupational health and safety matters at all group production sites, specifically environmental issues such as consumption, emissions and waste. In addition, standards and forms (e.g., check-lists and models) to support operating activities were drawn up and shared. Sustainability is fundamental to the group and underpins every decision it takes. A key objective is to guarantee the efficiency of its own processes and the solutions provided to customers, and each year, the group strives to achieve the best possible results in terms of energy efficiency. Specifically, Carel is committed to the following objectives:

- ongoing improvement of its processes to reduce their impact on the environment, the local community and climate change;
- compliance with the applicable legal requirements and other signed agreements;
- adoption of a system to prevent pollution and environmental incidents, to protect the environment and biodiversity;
- introducing energy efficiency to the criteria for production equipment, vehicles used to transport people and things and technical and technological systems.

Carel shares this commitment with its suppliers and customers, both of which are essential to and an integral part of its development. In 2020, the group raised awareness about the importance of environmental, health and, in particular, safety issues in the development of Carel Industries S.p.A., putting into action its formalised commitment to achieving the sustainability targets set out in its two-year ESG plan.

Carel has identified the possible environmental impacts of its business, specifically those contributing to climate

¹ 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.

change: atmospheric emissions (e.g., greenhouse gases, ozone depleting gases and other pollutants though to a lesser extent), consumption of natural resources, such as electricity, natural gas, raw materials and, to a lesser extent, water, which is mainly used for sanitary purposes and not in the production process. It regularly monitors and manages these impacts to ensure compliance with

the ruling legal requirements of the countries where it operates. As confirmation of this commitment, in 2020, the group was not found guilty of or summonsed to appear in court for environmental crimes or violations of occupational health and safety regulations. It did not receive any complaints in this respect during the year.

Energy consumption and emissions

The group's energy consumption is driven by its manufacturing plant, lighting, heating and cooling of the work environments. In addition, it also consumes fuel for its fleet of company cars and logistics vehicles used for internal transport between the different buildings of the same production site. The available energy sources vary depending on the operating requirements and geographical areas in which the group's production sites are located. In 2020, a number of structural initiatives were carried out in conjunction with foreign production sites, such as:

- reducing primary energy consumption through the installation of low-consumption LED bulbs;
- replacing heating/cooling systems with energy efficient heat pumps;
- procuring certified "green" energy from the market (Carel HQ, Recuperator, and HygroMatik).

The direct and indirect emissions of Italian and foreign production sites are monitored centrally via the regular analysis of the primary energy consumption, such as natural gas for heating and electricity for buildings.

With regard to the use of cars belonging to the company fleet, the group is steadfast in its commitment to more sustainable mobility through the use of full-hybrid or hybrid plug-in vehicles. Monitoring is carried out on a yearly basis and the emissions are added to the direct emissions calculation.

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 0.97 GJ/m² equal to emissions of roughly 0.07 t CO₂e/m² considering the gross surface area and 33.4 GJ/employee equal to emissions of about 2.23 t CO₂e/employee considering the number of employees. The group's emissions intensity per employee has decreased by **38%** compared to the previous year.

The group increased its **energy consumption from renewable sources to 51%**, or rather, by more than three-fold compared to the previous year, thanks to the complete transition to the procurement of energy from entirely renewable sources in Italy and partly in Croatia. This result highlights how sustainability is of the utmost importance to the group.

Direct and indirect consumption and energy intensity (GJ) [GRI 302-1 | GRI 302-3]²

Consumption	2020	2019	2018
Total direct consumption from non-renewable sources	22,303.1	29,716.9	23,363.3
Natural gas	12,058.0	12,268.0	6,663.5
Diesel			
of which: for logistics vehicles	38.9	55.8	20.6
of which: for company fleet	4,576.3	9,681.0	10,959.9
Petrol for company fleet	4,887.1	7,069.9	4,631.4
CNG for company fleet	-	0.4	-
LPG	742.7	641.7	1,088.0
Total indirect consumption	36,006.5	35,373.3	26,964.2
Electrical energy from renewable sources	18,527.1	6,044.7	2,118.5
Electrical energy from non-renewable sources	17,479.5	29,328.6	24,845.7
Energy intensity (GJ/m²)	0.97	1.1	1.4
Energy intensity (GJ/emp)	33.4	38.8	42.8
TOTAL	58,308	65,090	50,328

Direct and indirect emissions and emission intensity (tco_{2e}) [GRI 305-1 | GRI 305-2 | GRI 305-4]^{3 4 5}

Emissions	2020	2019	2018
Total direct emissions from non-renewable sources	1,279.7	1,786.4	1,457.4
Natural gas	615.9	626.5	340.5
Diesel			
of which: for logistics vehicles	2.6	3.8	1.4
of which: for company fleet	305.8	658.2	754.4
Petrol for company fleet	311.1	459.6	296.2
CNG for company fleet	-	0.02	-
LPG	44.3	38.2	64.8
Electricity - Location-based	2,188.3	3,950.6	-

2 Direct consumption by the company fleet includes that of the subsidiaries. Specifically, in line with ABI 2020 guidelines, the following was considered:

- Mixed use cars: where an employee's usage of a mixed use car can be distinguished between business use and personal use, 70% of total consumption is attributed to the company;
- Company cars: 100% of consumption was considered, as they belong to the group

3 The figures used to calculate the direct emissions were published by the Department for Business, Energy & Industrial Strategy (DEFRA) in 2020.

4 The factors used to calculate the indirect emissions are:

- 2020: Location-based Terna 2018; Market-based: European residual mix 2019 (AIB 2020), where available, otherwise Terna 2018;
- 2019: Location-based Terna 2017; Market-based: AIB 2018, where available, otherwise Terna 2017;
- 2018: Department for Environment Food & Rural Affairs (BEIS) in 2015.

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

Emissions	2020	2019	2018
Electricity - Market-based	2,603.8	4,223.9	2,418.8
Carbon intensity (tCO₂e/m²)	0.07	0.10	0.11
Carbon intensity (tCO₂e/dip)	2.23	3.58	3.30
TOTAL	3,883.4	6,010.4	3,876.2

In 2020, total energy consumption approximated 58,308.6 GJ, down by 10% on the previous year despite an 13% rise in the total number of hours worked. Direct and indirect energy consumption approximated 3,883 tonnes of CO₂e (scope 1 and scope 2 - market-based). These energy savings were achieved thanks both to the group's commitment to finding energy-efficient solutions (e.g., LED bulbs in operating areas, replacing air conditioning systems with high-efficiency equipment) and through the procurement of electricity from renewable sources.

Specifically, with regard to **market-based emissions**, the use of energy from renewable sources contributed substantially to the reduction in indirect emissions, which fell by **38%** compared to the previous year.

One effect of the Covid-19 emergency has been a decrease in the emissions created by business trips or car journeys. In line with local regulations, company protocols have severely limited national and international travel, in addition to in-person meetings with internal and third-party personnel.

Transport and logistics

In 2020, the indirect emissions scope was widened. In order to do this, a detailed analysis was developed to measure emissions caused by transporting goods produced at the Italian site. This study was carried out thanks in part to the group's renewed focus on topics related to the environment and climate change, which came about when it joined the CDP's climate change programme in

2020. This first measurement aimed to create a calculation method which can also be used at other production sites.

The procedure takes into account the total amount of goods produced and transported by land, sea and air from Carel's HQ in Italy. It considered an average journey to the final destinations.

Indirect transport emissions - Scope 3 (tco₂e) [GRI 305-3] ⁶

Mode of transport	2020
Land	200.4
Air	1,351.5

⁶ The figures used to calculate the emissions were published by the Department for Business, Energy & Industrial Strategy (DEFRA) in 2020. The data on transported goods is extracted from the company IT system (Oracle). For deliveries which are not listed on the company IT system, data is assumed based on an estimate of the amount transported by land. Specifically, the following assumptions were made:

- land transport: it is assumed that 100% is transported in heavy goods vehicles (DEFRA 2020 - Freightings Goods - HGV ALL DIESEL - ALL HGVs tonne.km 100% land);
- air transport: distances are calculated with the help of <https://www.airmilescalculator.com/distance/mxp-to-pvg/>. (DEFRA, 2020 - Freightings goods - Freight flights - International, to/from non-UK);
- sea transport: distances are calculated with the help of <https://sea-distances.org/>. (DEFRA, 2020 - Freightings goods - Freight cargo - container ship 8000+ teu)

Mode of transport	2020
Sea	24.8
Total	1,576.7

Carel monitored emissions from the transport of an annual total of 2,645 tonnes of goods and raw materials, which produced total emissions of around 1,577 tonnes of CO₂e. Even though 83% of goods were transported by land, based on the amount of emissions generated, the worst impact is caused by air transport, which was used for just

10% of goods but is responsible for 84% of total emissions. In 2020, air transport was mostly used to guarantee delivery of goods to customers during periods of logistical issues caused by the pandemic which affected road transport. In 2021, these assessments will be extended to the group's other production sites.

Other 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. Therefore, differences in the sites and legislation impose scope limitations and require clarification about atmospheric emissions. For example, the ozone depleting substances considered vary depending on the sites and the refrigerants used. Specifically, no consumption of refrigerants was recorded for the sites in South America and the US in 2020. However, no emissions of fluorinated gases from air-conditioning systems' normal usage were recorded. 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. During the replacement of heating/cooling systems with more energy efficient heat pumps, almost all the refrigerant gases were recovered apart from a small

amount of R-22 (5kg).

In 2020, Carel engaged an external expert to help it analyse the NO_x, SO_x and other significant atmospheric emissions from the main chimneys. The analyses were finetuned to determine the amount of each pollutant with greater precision, as shown in the table below.

In Italy, the parent's analyses of emissions from the chimneys of its production units show levels far below the limits established by the related authorisations and in 2020, through further analysis of the smoke, more was found out about the types of pollutants. In Croatia, the incinerators of Carel Adriatic are subject to regular maintenance and emissions are analysed periodically to comply with the legal requirements for environmental protection. With regard to emissions monitoring in China, a third party expert is required to carry out sample tests at Carel Suzhou. For production sites for which there is no data about polluting emissions, investigations will be performed in order to choose a reporting method.

NOx, SOx and other significant emissions (kg) [GRI 305-7]

Emissions	2020	2019	2018
Nitrogen oxides (NOx)	500.2	29	54.2
Sulphur oxides (SOx)	236.3	1	2.6
Persistent organic pollutants (POP)	0.3	-	-
Volatile organic compounds (VOC)	586.6	1,741	827
Hazardous air pollutants (HAP)	89.7	-	-
Particulate matter (PM)	614.2	179	51

Initiatives to reduce energy consumption

In 2020, the group carried out works to reduce energy consumption at production sites. These initiatives entailed the replacement of lighting systems with LED technology at Italian production sites, which led to total energy savings of 168,845 KWh, 72% of which was attributable to Carel Industries S.p.A. and the remaining 28% to Recuperator S.p.A.. LED light bulbs also have a significantly

higher average lifespan, improving the durability of the investment. These works are part of a broader energy efficiency plan which the group is implementing in the knowledge that energy consumption due to inefficient plant contributes to climate change. This plan includes replacing heating/cooling systems, the benefits of which will be seen in 2021.

Reduction of energy consumption and emissions [GRI 302-4 | 305-5] ⁷

Type of work	2020	
	Estimated reductions (KWh)	Estimated reductions (tCO ₂ e)
Replacement of lighting systems with LED technology	168,845	78.6
Total	168,845	78.6

Thanks to the works described, the group enjoyed a number of advantages, not only from an energy efficiency standpoint, but also in terms of avoided emissions from such consumption based on the assumption that such consumption uses electricity generated from fossil fuels.

Specifically, thanks to the works carried out in 2020, the group avoided 78 tonnes of CO₂e, equal to around double the emissions generated by LPG powered plant during the same year.

⁷ The factors used to calculate the emissions avoided are market-based in Italy: AIB 2020.

Packaging and waste

Efficiency is an intrinsic part of the Carel solutions: both the means to the end and the end itself. 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 FSC certified cardboard and wooden boxes. Furthermore, the group also expects to include FSC certifications in the standards for designing new packaging.

Waste generated by Carel mainly refers to packaging and scrap from production sites. For this reason, Carel is committed to selecting logistical packaging and it has launched an overall assessment to identify areas of improvement across the whole production chain, in accordance with the two-year ESG plan.

Through its environmental policy and thanks to its implementation of an environmental management system, Carel Industries promotes the correct management of waste. In the break areas of its offices and in certain production areas, there are specific bins for the disposal of separated waste.



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. 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. Packaging is also an integral part of Carel's R&D activities: starting in 2020, the group launched a project to assess the availability of post-consumer recycled (PCR) or post-industrial recycled (PIR) plastics with suitable chemical-physical characteristics which can be used for packaging instead of virgin plastics obtained directly from the fossil-fuel source. Specifically, for the headquarters in Brugine, a solution inspired by circular economy principles is being examined which would recycle the site's scrap plastics via closed-loop recycling with the suppliers of moulded plastic components (post-industrial recycling). 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

The group is committed to the rational use of water at all of its sites. Considering the fact that fresh water consumption is used for sanitary rather than industrial purposes, management monitors usage in order to detect any leakages and to safeguard water resources. Water is mainly obtained from the municipal water supply for each production site, only one site has a well, and bills are checked regularly to ascertain that consumption has not changed and, therefore, that there are no defects or leakages. In 2020, the group's total water consumption was roughly 15 megalitres, in line with the previous year⁸, when its consumption was around 14 megalitres.

Starting in 2020, production sites' consumption is also monitored with reference to any areas of water stress where they are located. This measurement shows that consumption has not increased and is in line with past trends. The site in China, which is responsible for 35% of total consumption, is located in an area of water stress. However, such consumption is exclusively linked to sanitary use, and therefore tied to the number of employees and hours worked.

At the parent's headquarters, a portion of the water withdrawn is used in the laboratory to carry out tests on machinery prototypes. In this case, consumption is calculated taking into account the official figures reported in the water supplier's documentation. In order to accurately monitor the volume of water sent to public sewers, a specific meter will be installed. Bearing in mind the importance of keeping the discharge of industrial effluents within the legal limits and considering the water used for laboratory testing, which is standardised, the characteristics of the effluents are monitored in accordance with a plan for regular precise chemical analyses, regulated by a specific monitoring and control procedure for effluents, managed by the operating unit.

Water effluents from the group's offices and production sites in general are discharged to the public sewer system regulated by a specific contract which also sets out the acceptable limits in compliance with the ruling legislation. Effluents are, therefore, discharged to the public purification system and no industrial effluents are directly discharged to a body of water.

Water withdrawal by source (ML) [GRI 303-3]⁹

Sources	2020	
	All areas	Water stress areas
Groundwater	0.5	-
<i>Fresh water</i>	0.5	-
<i>Other water</i>	-	-
Water withdrawn from the municipal water supply	14.8	3.9
<i>Fresh water</i>	14.8	3.9
<i>Other water</i>	-	-
Total	15.3	3.9





⁸ Fresh water means water with total suspended solids concentration (TSS) $\leq 1,000$ mg/L; other water (TSS $> 1,000$ mg/L). In order to pinpoint which units are located in areas of water stress, the group used the World Resources Institute's Aqueduct Water Risk Atlas tool. The Carel Suzhou production site is located in an area of high water stress (40-60%) and its water is withdrawn from the municipal water system which uses surface water.

⁹ In 2020, no water was withdrawn from surface water, produced water, seawater or other water sources.

Energy efficient and sustainable products and services

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, as a result, a smaller environmental impact. The group is committed to reducing negative effects on the environment and climate change. 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.

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;
-  data monitoring and analysis 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 EGSs (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 their power supply. The transition from traditional gas or fossil fuel heating systems to electric heat 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.

In 2020, Carel's control solutions proved to be a big success in Japan at Benirei Logistics, a refrigerated warehouse at the port of Osaka, used to stock cold-chain and frozen food, which was equipped with an innovative CO₂ refrigeration system designed and built by Panasonic Appliances. The site has ten 80HP air treatment systems and four 40HP air treatment systems. All of the systems use CO₂ as a refrigerant and are managed using Carel's pRack 300T controller.

Carel not only optimises systems but also designs solutions that allow system optimisation, including by completely adjusting the technological architecture, 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 2020 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 4,570 GWh, up 6% from 4,301 GWh in 2019. The following table summarises the estimated energy savings. The calculation method was used for all the products considered, selected from Carel's entire product portfolio for their excellent energy efficiency. The group modelled the reference working conditions for each selected product to calculate the average energy performance obtainable with equivalent traditional technologies. It estimated the energy savings obtained by using the Carel solutions to identify the differences with the traditional solutions. Compared to 2019, a new product family was introduced: the Chillbooster (adiabatic system). This product, which until last year was only used on the HVAC market, has started to be used in refrigeration systems, specifically as a CO₂ booster. The introduction of the Chillbooster has increased the adiabatic system production by 66%. Around 68% of the energy savings were thanks to the EXVs, included ejectors, which are Carel's main products, counting over 300 thousand pieces per year.

Reduction of electricity consumption (%) by product family [GRI 302-5]

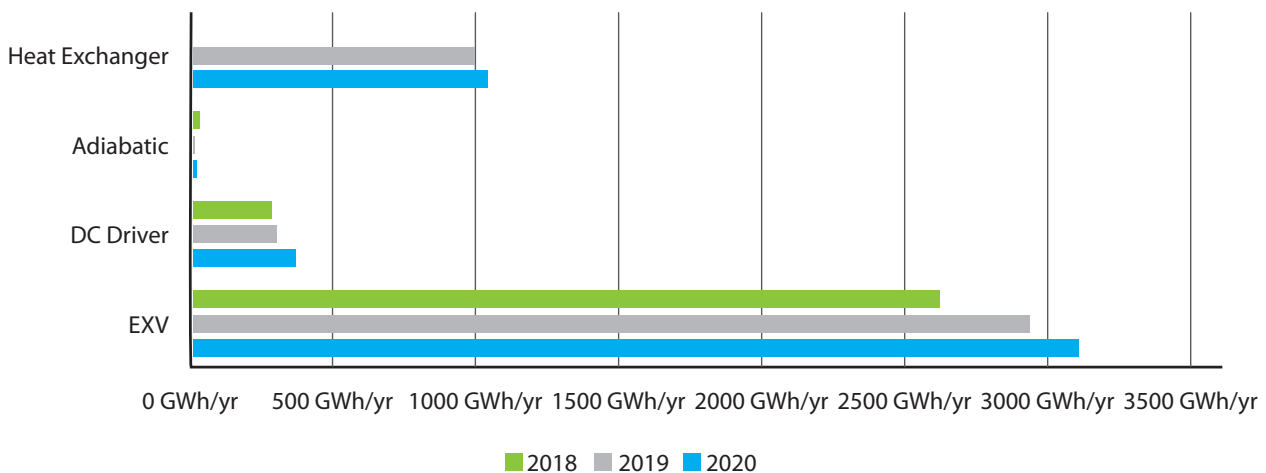
PRODUCT	Application	Saving (%)	2020	2019	2018
			Total savings (GWh/yr)	Total savings (GWh/yr)	Total savings (GWh/yr)
Electronic expansion valve (EXV)	HVAC/REF	17%	3,124	2,955	2,640
DC Drive and Heez	REF	30%	371	310	286
Adiabatic system	HVAC	60%	26	21	37
Heat exchanger	HVAC	50% ¹⁰	1,049	1,015	n,a
Total			4,570	4,301	2,963

Products made by Recuperator, which manufacturers extremely energy-efficient air-air heat recovery systems and which was bought by the group at the end of 2018, complete Carel's ventilation application portfolio (e.g., AHU and roof top systems). Carel's customers' use of these heat recovery systems for the aforementioned applications generated savings of 1,049 GWh during the year, equal to

23% of total applications.

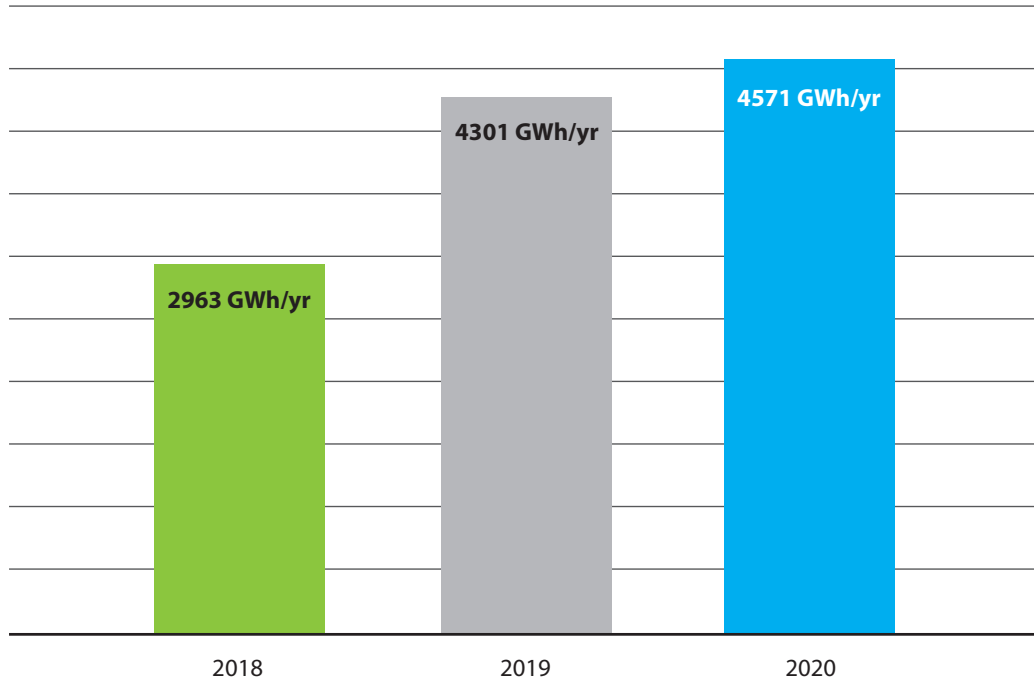
The graphs below provide a comparison of the energy savings of CAREL products in the 2018-2020 three-year period. The higher savings in 2020 are attributable to the fact that the market is increasingly inclined to favour solutions which guarantee greater energy sustainability.

Reduction in electricity consumption by product (GWh/yr)



¹⁰ Average annual efficiency includes both heating and cooling

Total reduction in electricity consumption (GWh/yr)



Lastly, the group calculated the GHG emissions avoided by customers as a result of the energy savings: in 2020 ¹¹, 1,256,947 tCO₂e were avoided, more or less equal to the total annual ¹² CO₂ emissions produced by the Maldives (which has a population of 475,512). Therefore, it is actively contributing to mitigating climate change. For these

emissions to be absorbed, a woodland¹³ larger than the metropolitan area of Milan (equal to around 2,149 Km²) would be required, which would be the size of the seventh largest rainforest, between Daintree in Australia (1,200 Km²) and Xishuangbanna, Asia.

Reduction in electricity consumption by product family [GRI 305-5]

		ExV	DC Drivers	Adiabatic	Heat Exchanger	Totale
2020	Emissions avoided (tCO₂e/yr)	859,186	101,907	7,259	288,595	1,256,947
2019	Emissions avoided (tCO₂e/yr)	874,612	91,870	6,202	300,476	1,273,160

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 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

¹¹ In order to calculate avoided emissions, the conversion coefficient of 0.000275 tCO₂e/Kwh was used (source: European Environmental Agency EEA, 2019)

¹² Source: CO₂ Emissions - Worldometer (worldometers.info), 2016

¹³ In order to calculate the equivalent wooded area, a coefficient of 630 TonCO₂/km² yr was used (source: <http://www.treesintrust.com/environmental.shtm>)

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

The system can also be optimised by coordinating the working of the various devices making up the system depending on their use, the environmental conditions

or the use of the system itself. Introduction of an advanced control system in even the simplest cases allows significant savings in the machines' and systems' energy requirements thanks to functions like, for example, optimisation of switching on and off or 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 so as to further decrease their cost and environmental impact. In fact, Carel uses carbon dioxide (CO₂) in its refrigerants.

Carbon dioxide is an economical, widely available refrigerant that is 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 refrigerants. 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 2020, 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 growth potential, thanks to the success garnered by the first installations in 2018. With regard to this area, Carel took part in a number of

initiatives: the ATMOsphere event, as a presenter at the forum about natural refrigerants, held virtually; and the “Solutions portfolio for natural refrigerants” webinar, at which it took an in-depth look at high-efficiency solutions using natural refrigerants for all applications.

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.

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, mainly led by the trends in Europe, but with strong drivers in Japan, New Zealand, Australia and South Africa too. In recent 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.

Cold chain sustainability

Some of the 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 food.

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 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 highest 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.



Employment



8 DECENT WORK AND
ECONOMIC GROWTH



9 INDUSTRY, INNOVATION
AND INFRASTRUCTURE



5 GENDER
EQUALITY



Training and protecting human resources

At the heart of Carel are its people, who are key drivers of sustainable development. For this reason, the group works in compliance with its code of conduct and group policies adopted to ensure the respect of human rights and diversity. The group is guided by legislation and international principles and is committed to maintaining a climate of trust and respect, which promotes inclusion and team spirit.

The policies set out the ethical principles and conduct standards required in running the group's business. 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.

The importance of its people for Carel's sustainable development is further highlighted by the number of sustainability goals included in the two-year ESG plan aimed at capitalising on opportunities to improve internal strategies for the efficient and effective management of human resources.

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.

In the long term, Carel aims to adjust the gender balance in managerial positions. In order to achieve this goal, in 2020 some initiatives to increase the number of women working for the group were launched. For example, the parent took part in recruitment and employer branding initiatives aimed at female students studying STEM subjects, keeping in mind that the group's reference industrial sector has historically been male dominated.



The Covid-19 emergency and the resulting restrictions placed on meeting students has made it more difficult to take part in these types of events, as they are now exclusively online.

Also in 2020, the group decided to set itself a target related to the hiring of women through the use of permanent contracts. This will be measured as the percentage of female white collars hired in 2021 compared to total hirings and the target is 25%.

As part of the process which started with the preparation of a long-term sustainability plan, the actions necessary to ensure that the target is met will also be defined.

In 2020, women made up 37% of the workforce and held 10% of the executive positions.

A positive work climate at all group offices and sites 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 uniform and tend to be amended consistently to ensure standard interaction and communication within the group.

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 or leave to care for sick relatives, etc.). In order to mitigate the risk of strikes or other forms of abstention from work, or trade union tensions, the group provides that relations and negotiations with the trade unions are handled directly by each group company.

Industrial relations in the group have always been carried out in a transparent and positive way. This was highlighted in 2020 when six days of strikes were announced at the parent, four of which for reasons strictly linked to the public health emergency and two to national trade unions' actions related to the renewal of the national labour contract. An average of 14.4% of employees took part.

In 2020, 44% of the group's employees were covered by collective bargaining agreements. The rest were hired under company or individual contracts covered by the local market regulations and practices. In 2020, at Carel Industries S.p.A., 14.8% of workers were members of a trade union and disputes were minimal. Specifically,

there were five individual cases in 2020 that led to trade union disputes. These occurred at Carel USA (two at the Canadian subsidiary ENERSOL) and Carel South America. These disputes basically regard violations of the Code of Ethics (inappropriate behaviours and relations between co-workers and/or regarding a superior). Two of them were already resolved in 2020, while the remaining three are close to resolution.

In 2020, a report about discrimination was made, which was handled by the group and resolved via disciplinary measures.

In order to overcome the complex uncertainties related to the performance of the business due to the spread of the virus, combined with the restrictions applied to workforces and the need to apply strict safety protocols in order to mitigate the risk of contagion, the parent set up a Covid-19 committee. It comprises the HR manager, HSE manager, the company doctor, trade union representatives and safety representatives. The team met up regularly to update the emergency plan and the employee healthcare protocol, assess the best policies for employee access to offices while balancing the use of remote working, and provide policies and guidelines to be used as standards at group's production sites and foreign subsidiaries in compliance with local regulations and the ruling legislation of each country.

Composition of the workforce

At 31 December 2020, the group had 1,745 employees, an increase of 4% compared to the previous year end thanks to the group's continuous growth. Total employees increase to 1,813 if temporary workers are included.

The parent in particular has dedicated inclusion policies for employees with disabilities in accordance with Italian law. Employees with disabilities numbered 38 at year end. The largest professional category is that of the white collars (roughly 60%) followed by blue collars (36%).

Management make up around 4% of the total workforce.

In 2020, there was a 5% increase in the number of female employees while the percentage of female managers was in line with 2019. 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 ¹ (n.) [GRI 405-1]

	2020			2019			2018		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Managers	56	6	62	55	6	61	42	2	44
White collars	795	264	1.059	772	272	1.044	690	224	914
Blue collars	257	367	624	243	331	574	198	300	498
Total	1,108	637	1,745	1,070	609	1.679	930	526	1,456

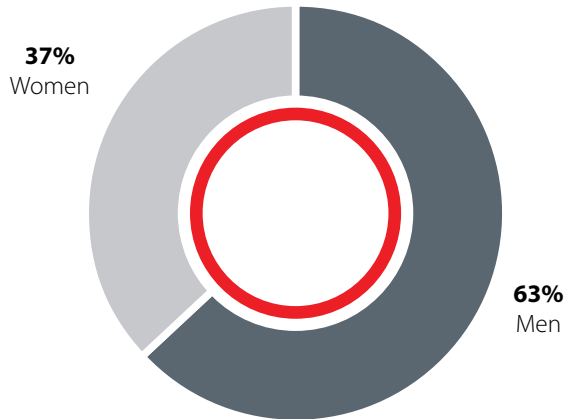
Percentage of employees by professional category and gender ¹ (%) [GRI 405-1]

	2020			2019			2018		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Managers	3.2	0.3	3.6	3.3	0.3	3.6	2.9	0.1	3.0
White collars	45.6	15.1	60.7	46.0	16.2	62.2	47.4	15.4	62.8
Blue collars	14.7	21.0	35.7	14.5	19.7	34.2	13.6	20.6	34.2
Total	63.5	36.5	100	63.7	36.3	100	63.9	36.1	100

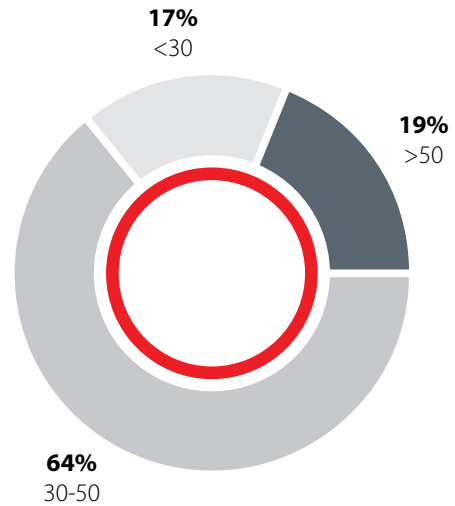
Most employees are in the 30-50 age bracket with an average age of around 40 (41 for men and 40 for women). A breakdown of the employees by professional category and age bracket shows that this trend is constant in both years with most of the white collars and blue collars in the 30-50 age bracket, while the managers fall into an older age bracket.

¹ In addition to the new hires 2020, the increase in the workforce is a direct consequence of the inclusion of Enersol in the consolidation scope

Employees by gender %



Employees by age bracket %



Percentage of employees by professional category and age bracket ² (%) [GRI 405-1]

	2020				2019				2018			
	<30	30-50	>50	Total	<30	30-50	>50	Total	<30	30-50	>50	Total
Managers	-	2	2	4	-	2	2	4	-	1	2	3
White collars	9	41	11	61	10	42	10	62	10	43	9	62
Blue collars	7	22	7	36	7	22	6	34	8	22	5	35
Total	19	64	17	100	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 stable employment can be seen from the service seniority (roughly 42% 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%). Workers with temporary contracts number 68, including 49 men and 19 women, a decrease of 21% on the previous year.

² In addition to the new hires, the increase in the workforce is a direct consequence of the inclusion of Enersol in the consolidation scope

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

	2020					
	Permanent employment contracts		Fixed-term contracts		Total	
	Men	Women	Men	Women	Permanent	Fixed-term
Western Europe	626	283	12	3	909	15
Rest of Europe, Middle East and Africa	91	96	23	80	187	103
North America	105	32	6	3	137	9
South America	24	22	0	0	46	-
North Asia	55	19	131	88	74	219
South Asia	35	11	0	0	46	-
Total	936	463	172	174	1,399	346

	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. In 2020, roughly 2% of its workforce were working part-time hours (mostly women, also because of their needs related to different stages of their life, e.g., maternity leave).

The parent has a supplementary contract that provides more favourable conditions to all its employees (i.e., over

a third of the group's workforce) compared to the national employment contract, covering issues such as daily and weekly flexible work hours, part-time work and paid leave when children are born.

Across the group, as also shown below in the breakdown of benefits, parental support via special policies is an aspect which the group pays close attention to.

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

	2020			2019			2018		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Full-time	1,106	600	1,706	1,066	569	1,635	928	495	1,423
Part-time	2	37	39	4	40	44	2	31	33
Totale	1,108	637	1,745	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 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 in achieving this objective is the assessment of employees and development of their skills over their career path as well as acknowledgement of their merits.

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. 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.

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.

Furthermore, the continued physical growth of the foreign subsidiaries and the parent means that management needs to upgrade its skills and show its leadership abilities in both technical applications and commercial aspects but 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 an assessment exercise once a year using a list of standardised skills which ends with discussions about new development and training opportunities.

In 2020, the group ³ hired 210 people, of which 47% were

women. The hiring rate was approximately 12% and, specifically, around 21% for blue collars, 7% for white collars and 2% for managers. The new hires included 81 in the under 30 age bracket, 109 in the intermediate bracket (30-50), while the remaining 20 are over 50. A geographical breakdown of the new hires shows that 81 people were hired in Eastern Europe, the Middle East and Africa, 49 were hired in Western Europe, 44 in North America, 21 in North Asia, 13 in South America and 2 in South Asia.

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

	2020					
	Men	Women	Total	<30	30-50	>50
Hiring rate	10.11	15.38	12.03	28.33	9.53	6.08
Departure rate	7.40	11.30	8.83	15.36	8.01	5.78

	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]

	2020					
	Western Europe	Rest of Europe, Middle East and Africa	North America	Sud America	Nord Asia	Sud Asia
Hiring rate	5.30	27.93	32.84	22.41	7.17	4.35
Departure rate	5.52	10.34	23.13	22.41	8.53	8.70

³ New hires and departures include one intragroup transfer.

	2019					
	Western Europe	Rest of Europe, Middle East and Africa	North America	Sud America	Nord Asia	Sud 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	Sud America	Nord Asia	Sud 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 position (%) [GRI 401-1]

	2020			2019			2018		
	Blue collars	White collars	Managers	Blue collars	White collars	Managers	Blue collars	White collars	Managers
Hiring rate	21.47	7.08	1.61	20.91	15.41	10.00	30.52	19.34	9.30
Departure rate	13.46	6.42	3.23	15.68	9.00	1.67	22.89	13.33	9.30

In 2020, 154 people left the group (82 men and 72 women) with a departure rate of 9%; specifically, 13% for blue collars, 6% for white collars and 3% for managers. Once again in 2020, there was a high turnover rate, particularly at the group's production sites, confirming the fierce competition on the global labour market.

Outgoing resources included 43 in the under 30 age bracket, 92 in the 30-50 age bracket, and 19 over 50, which also includes some employees who retired. A breakdown by geographical area shows that 51 people left the group in Western Europe, 30 in the rest of Europe, Middle East and Africa, 25 in North Asia, 31 in North America, 13 in South America and four in South Asia.

Carel has reviewed its remuneration strategy for its key resources compared to the market and has created policies and applied competitive remuneration practices aimed

at retaining talented employees, 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.

In this regard, it has developed a remuneration policy designed to merge the interests of the shareholders and management by pegging the remuneration of key personnel to the group's performance. Its objectives also include attracting, motivating and retaining key resources and best talents through a rewarding competitive remuneration approach.

Carel's remuneration policy hinges on the following principles:

1. **Equality, diversity and inclusion**
2. **Sustainability**
3. **Competitiveness**
4. **Transparency**

Its remuneration policy for the positions with the most responsibility includes pegging part of their remuneration to achievement of performance goals that are set beforehand using an annual incentive or management by objectives (MBO) system and a long-term incentive plan (LTI).

Specifically, for senior management and key resources, the remuneration packet is supported by and integrated not only into performance goals related to operating management, but also ESG (Environment, Social, Governance) sustainability targets, via the use of incentive systems which are both short-term (MBO) and long-term (LTI). Specifically, the aforementioned target of increasing the number of women working for the group which seeks to hit a certain percentage of "women hired in 2021" will be included in the 2021 incentive plan.

Carel offers its employees a remuneration packet which includes a wide variety of benefits depending on their organisational role. As a general rule, there is no distinction between full-time and part-time workers. Specifically, at the group's production sites, a number of benefits aimed at improving the professional and personal well-being

of employees are available. The main benefits include supplementary insurance policies, healthcare, disability insurance, additional parental leave to that provided for by the law, company cars and welfare systems.

In April 2019, the parent signed the renewed second level internal additional employment agreement for the 2019-2021 three-year period. 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. At the beginning of 2020, Carel also set up a welfare platform available to all employees, 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. ⁴

In addition to purchasing goods, employees can also use services related to the individual, family management and recreation, sports and well-being, as well as accessing training sessions and/or events.

Furthermore, given the current public health emergency in Italy, in 2020, the parent decided to introduce financial assistance for employees at Italian offices by signing an insurance policy covering Covid-19.

Remote working

In order to improve the work-life balance of its employees and to make the group more attractive to potential candidates, in July 2019, Carel introduced a remote working pilot. 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.

The Covid-19 emergency led the group to change its plans, significantly speeding up their implementation. The group encouraged remote working, at least in part,

⁴ Excluding managers.

at all of its offices, making remote working the norm for most of its white collar employees. By working from the safety of their homes and equipped with the necessary IT equipment, the group was able to guarantee the continuity and efficiency of its work activities. Most of the group's production sites and subsidiaries introduced remote working for all employees who were able to do so, namely white collars.

Specifically, almost all of the parent's white collars not involved in production or logistics activities worked remotely during the lockdown in March. At the beginning this involved 100% of white collars, then remote working was alternated with in-person days regulated by safety protocols. White collars therefore gradually returned, until 60% had returned to site. At the end of 2020, 40% of work was in-person in line with the development of the epidemic.

In May 2020, white collars working at the headquarters were given a questionnaire to rate the management of remote working and the **level of personnel engagement** considering the critical nature of the period. 82% responded, generally rating the remote working experience very positively, while highlighting the difficulty of keeping up with the group's goals and maintaining good communication among the work team as areas to be addressed.

In order to support its employees and in line with the its engagement and retention targets, the group launched a project called "**HR Re-tune and Explore**", split into different operating improvement projects, with the goal of not only addressing the critical issues highlighted, but also stimulating the redesign of the whole system of values and principles that the group works towards. In line with plans

made in previous years included in the ESG plan and with the **renewal of Carel's Employer Value Proposition**, the group has worked to redefine the **key principles** upon which the **Corporate Culture** is based.

The first management project, called the "**Culture Manifesto**", was launched with the aim of designing and sharing the group's guiding values, in order to present a shared group identity capable of fostering cohesion and cooperation among people to achieve strategic goals.

Other areas included in the plan and implemented by the interfunctional teams were:

- **Workplace redesign** and proposal of new work organisational models in order to restore the value of office work, by identifying the methods and investments needed to improve communication and the safety of sharing offices.
- **Internal communication:** with the explosion of Covid-19, communication became the key to guaranteeing engagement, cohesion and team spirit. Specifically, the group strengthened its social media presence and use of videos and webinars to reach all group employees, in order to cultivate the sense of community endangered by physical distance and travel bans. At the end of 2020, as a result of this project, a new interfunctional team was created with the task of improving internal communication processes and initiatives at the headquarters and throughout the group.
- **It tools to support collaboration:** with the aim of improving collaboration and making it easier to share information at a time when there is increasing physical distance between people, the group worked to promote awareness and knowledge of useful digital tools.

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 philosophy is that "results are obtained through improved processes and the development of people". All the internal processes are affected by the adoption of lean 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 work with 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:

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 function, this centre monitors the skills of all group employees and updates the skills map for the main Carel technologies and products.

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.

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.

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 company and internal and external training courses.

Lean Academy



LEAN ACADEMY

The group launched the Carel Lean Academy programme in 2020 to continue its lean philosophy project rolled out in 2007 and to provide employees with tools to tackle and adapt to this new situation full of instability and uncertainty. The purpose of the academy is to promote lean principles and the lean philosophy, always considered a strategic asset for business growth at group level.

The Lean Academy is a training programme with four levels called belts based on the classic structure of Lean Six Sigma courses. The goal is to create a training programme to share a reference framework for aspects related to the ongoing improvement and adaptability of the business from an employee development standpoint.



**BLACK
BELT**



**GREEN
BELT**



**YELLOW
BELT**



**WHITE
BELT**

In 2020, the Lean team developed the content for the White Belt course. This is the first level and is provided via a self-paced e-learning course with a duration of three hours. It provides a general overview of the lean principles and the basic techniques adopted by the group, and aims to develop a common language needed to effectively contribute to the group's initiatives. The course which is intended for all of the group's white collars, is provided via the HCM e-learning platform and was rolled out at the end of 2020: starting in November for Carel Industries and European subsidiaries and in December at the APAC, North American and South American companies. At Recuperator's and HygroMatik's sites, the HCM system was rolled out at the end of 2020 and they will join the course from 2021.⁵



Due to Covid-19 and the resulting social distancing and lockdown measures, the group had to quickly adapt to new training methods in order to ensure the ongoing growth and development of employees, which are essential for motivation, development and consolidation

of know-how and which are a strategic driver of business. The pandemic and the growing demand for distance training compelled the group to prioritise the roll-out of the e-learning platform in order to give all group employees access to it. The greater focus on the project

⁵ Except for Enersol, CRC and Ukraine.

allowed the group to complete the implementation of the e-learning platform at all of the sites which use the HCM system.

For this reason, and in line with the ESG plan, in order to make the management of processes and information regarding personnel more uniform, in 2020, the group rolled out its HCM system, involving 24 of its companies from around the world, and thus 98.5% of the group's total personnel, making it possible for them to access the e-learning platform.

The first course delivered via HCM was the White Belt course, which is the first level of the new Lean Academy. It was made available to all white collars working at the European subsidiaries in November, then to all the white collars at the APAC, North American and South American

companies.

The group swiftly transformed courses traditionally provided in classrooms into a distance learning format. These included induction courses for new hires, provided for the first time through live webinars on 14 and 15 July 2020, and HVAC and sales training courses.

In 2020, over 28 thousand hours of training were provided within the group. This decrease compared to 2019 is a natural consequence of the limitations introduced in response to the public health emergency, as these made it impossible to provide in-person training. The group's continued investment in training nevertheless allowed it to reach over 10,000 hours of training for white collars and blue collars and over 750 hours for managers.

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

	2020			2019			2018		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Managers	694	98	792	481	78	559	649	-	649
White collars	11,821	2,976	14,797	23,978	5,949	29,927	18,839	4,064	22,903
Blue collars	5,359	7,875	13,235	6,070	12,172	18,242	2,741	5,532	8,273
Total	17,874	10,949	28,823	30,529	18,199	48,728	22,229	9,596	31,825

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

	2020			2019			2018		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Managers	12.4	16.3	12.8	8.7	13.0	9.0	15.5	-	14.8
White collars	14.9	11.3	14.0	31.1	21.9	28.7	27.3	18.1	25.1
Blue collars	20.9	21.5	21.2	25.0	36.8	31.9	13.8	18.4	16.6

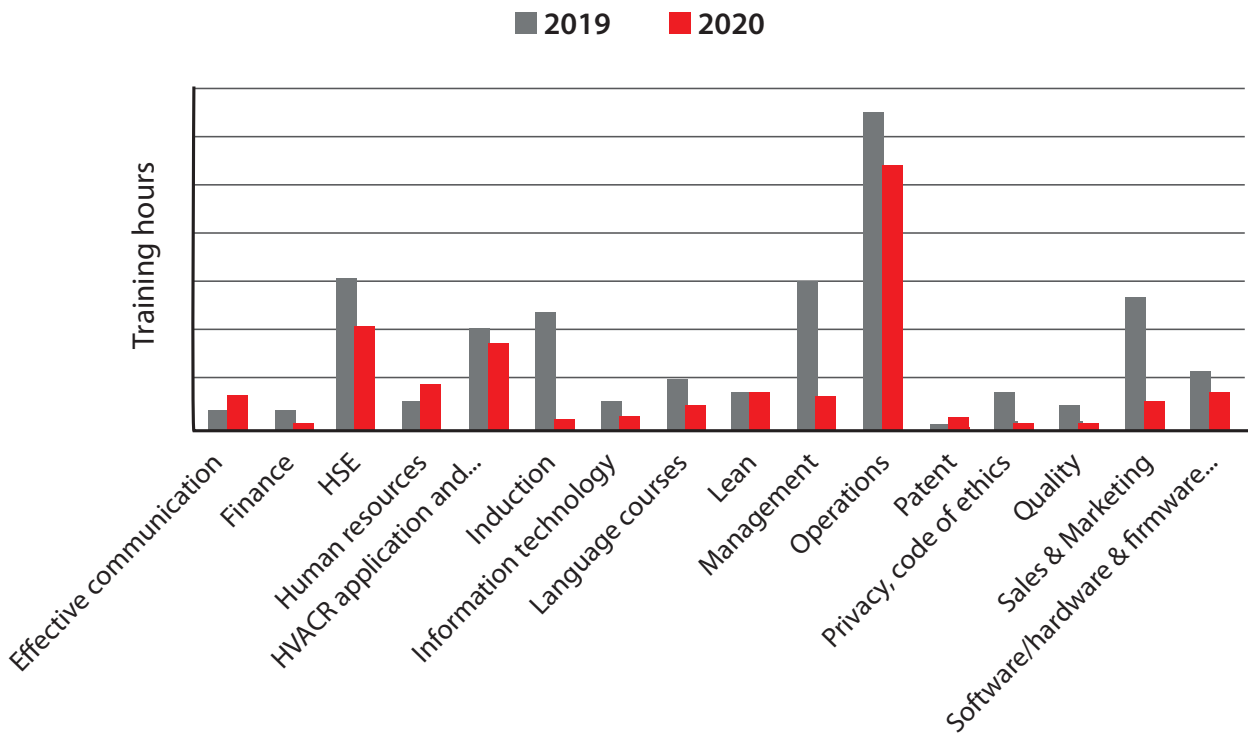
The main training projects carried out in 2020 focused on operations (34% of the total training hours provided in 2020). Other areas for which training courses were provided were quality, safety and the environment (HSE) and HVACR applications and solutions.

In order to provide support about managing the public health emergency, in 2020, 2,356 hours of training related to issues which became more important as a result of the pandemic were provided at 17 of the group's offices.

Out of which, 795 hours referred to issues strictly related to management and administrative aspects (such as training about company policies, safety protocols and mandatory training required by the law). A further 1,551 hours were provided with the aim of providing employees

with tools which are useful for managing the new work organisational model (such as managing remote working, successfully holding remote meetings, leading at a distance, managing flexibility with remote/hybrid teams).

Training hours by course



In order to cope with the pandemic, Carel has introduced a specific training programme: at most production sites/subsidiaries, training about Covid-19 was provided both

with reference to safety measures and to managing remote work, with an average of 87 hours of training per office.

Number of specific training hours by professional category (h)

	2020			
	Managers	White collars	Blue collars	Total
Specific training about Covid-19	53	452	291	795
Training related to organisational models	89	1.322	140	1.551
Total	135	1,780	441	2,346

Partnerships with training institutes and communities

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 Center, collaborates with the local universities and schools to carry out research activities, to share knowledge and best practices and to offer internships to students. In 2020, Covid-19 made these partnerships more difficult and also the number of internships decreased to 18. Most interns were placed at the parent, where 17 students went, 9 of which were university students, and one student was placed at Carel Suzhou.

Fostering and supporting a passion for studying and learning and supporting the families of employees by offering learning and training opportunities to their

children is something which is very dear to the group. The group pursues this by providing assistance and contributing to the payment of tuition fees for schools of all types and levels, focusing on young people in order to motivate them by providing scholarships directly to them.

In 2020, Carel awarded its fifth series of scholarships. On 5 September 2020, at the headquarters in Brugine, a ceremony attended by the co-founder and chairman, Luigi Rossi Luciani, the CEO, Francesco Nalini, and the head of human resources, Carlo Vanin, was held to award scholarships to eligible children of employees.

In 2020, 74 scholarships were awarded. Specifically, 30 young people from middle schools, 35 from high schools and nine university students.

Carel distributed a total of €62 thousand for scholarships and contributions towards crèche costs.



Furthermore, 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.

Due to the pandemic, the 2020 Padua Marathon, of which Carel is a Gold Sponsor, was postponed. In the meantime, Assindustria organised a virtual initiative which gave everyone a chance to take part in a day of sport to support a good cause: a 24 hour non-stop run to raise money for charity, which took place in compliance with the social distancing regulations, giving people the option to choose

a 5, 10, 15 or 20 km non-competitive run that they could do when and where they wanted during the day.

In 2020, the group's resources devoted to supporting

communities amounted to over €25 thousand, which brings total donations to €87 thousand. It believes that these projects play a major role in a community's financial well-being.

Occupational health and safety

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 deems that occupational health and safety is fundamental in ethical-social terms and it fully complies with the relevant local regulations applicable in the countries where it operates. Considering its international vocation which means that different laws are applicable at local level, the parent has drawn up a "Policy for the environment and occupational health and safety" which summarises the principles and rules designed to reduce and eliminate the probability of injury and accidents.

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 its stakeholders to occupational health and safety.

In the context of the Covid-19 pandemic, the group raised awareness about the importance of health and, in particular, safety issues in order to minimise related risks. Technical designs of the workplace, equipment and processes based on the highest levels of compliance with the ruling occupational health and safety regulations are prepared and the group also has specific internal policies. These actions arise from the ongoing discussion between

operating departments and the relevant parties (worker safety representatives) starting with the involvement of individual workers in identifying unsafe conditions, near-misses and opportunities to improve production processes and workplaces.

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

In compliance with the ruling legislation, an employee healthcare protocol was set up with the company doctor. The protocol regards all workers, with specific health check-ups based on the activities they perform and the consequent risk. During the check-ups, with the aim of promoting health, the doctor will use the information collected to give the worker general advice about healthy eating (getting enough fruit and vegetables) and physical

exercise to improve their health, benefiting their personal and work life. As a result of the pandemic, these check-ups continued during the year in order to offer support to workers, particularly high-risk workers. In addition, specific health insurance was taken out for Italian employees in order to offer guarantees and services such as hospital admissions and recovery indemnities, in addition to a post-hospital service.

Carel Industries S.p.A. and HygroMatik have implemented occupational health and safety management systems in accordance with ISO 45001:2018 (certification confirmed for 2020) and BS OHSAS 18001:2007, respectively.

Since January 2020, the group has also had an HSE function in charge of occupational health and safety, environmental aspects and emergencies. In addition to identifying targeted and immediate actions with the heads of the operating areas affected by the event, the function analyses aggregated and/or historical data in order to identify specific areas of improvement. The function defined a system for HSE procedures which comprises 15 procedures related to worker safety (such as risk assessment, the management of near-misses and unsafe conditions, contracted works) and health (such as DPI and health surveillance).

In 2020, one point lessons (“OPL”) were intensified at the operating units. These provide visible and immediate lessons about the main methods for employees to operate safely in their work areas. In addition to this, still with regard to operating areas, the manager’s diary was introduced to trace preventative actions for which the heads of the unit are responsible (such as information/training activities, supervision, etc.). Other aspects of the function regard the creation of preventative and protective measures and specific safety procedures. The management of emergencies is also of crucial importance to Carel through the preparation, maintenance and efficacy testing of the emergency and evacuation plans. In this regard, in compliance with the Covid-19 protocols, emergency trials were carried out at all Italian production sites in 2020.

The progress of activities related to health, safety and the environment is checked regularly by the internal audit unit, which then provides information to senior management and the company committees, and specific audits carried out by the parent’s internal audit unit. Furthermore, the quality of Carel’s processes is guaranteed by a series of internal and external checks. Due to the ISO 45001 and BS OHSAS certifications, the group’s production sites are audited internally and by a third-party every year. These regular checks, together with the surveillance activities assigned to managers, are part of an improvement plan which is subject to progress checks.

In accordance with specific group standards, if any worker sees a near-miss or an unsafe condition, they can report it by filling out the relevant form and placing it at the collection point provided. Particular importance is given to the description of the event (what happened, when it happened, what was the situation at the time of the event and other useful information) or the unsafe condition observed, in order to analyse and classify the event and identify the root cause. The events are discussed and shared at regular meetings (weekly for operating areas, as mentioned above) in which different unit managers are involved. The HSE function also carries out cross-unit analyses to identify areas of improvement in workplaces. Through the safety refresher training provided in 2020, in compliance with the limitations imposed by Covid-19, the importance of identifying and reporting the aforementioned situations was instilled in workers.

In compliance with legislative restrictions (Legislative decree no. 81/2008) and group polices, at Carel Industries S.p.A., workers cannot carry out or continue with activities if there are serious and immediate dangers in the work environment. When workers join the group, they are given the Carel Handbook, which contains, among other things, information about occupational health and safety.

Despite the restrictions imposed by the Covid-19 emergency, in accordance with the regulations ruling in each geographical area, a training plan was rolled out

at each production site and commercial company in 2020. The plan is updated regularly and provides mostly classroom courses on occupational health and safety depending on the employee's training needs and legal

requirements. In the second part of the year, training focused mainly on updates to occupational health and safety issues, also including a specific section on the Covid-19 risk.

Work-related injuries [GRI 403-9]

	2020	2019	2018
Work-related injuries	4	13	20
Injury frequency rate ⁶	1.28	4.68	7.28
Hours worked	3,135,671	2,778,399	2,746,783
Deaths due to injuries at work	-	-	-
Injuries with serious consequences	-	-	-

In 2020, the frequency rate of work-related injuries improved (by over 70%) compared to the previous year, even though the total number of hours worked increased by around 13% on 2019.

There were four workplace injuries, of which only two led to lost work days. The other two can be classified as

“medical treatment” and did not affect work.

With regard to workers who are not employed directly by the group (for example, consultants), no injuries were recorded.

Covid-19

The risk analysis conducted at the start of the Covid-19 emergency in late February 2020 involved all levels of the group, with particular regard to production areas.

Give the risk to workers' health and safety, the main elimination measures were identified and, where this was not possible, contagion risk mitigation actions were identified in order for the group to ensure the safe continuation of work activities in the laboratory and the office, in compliance with the ruling legislation of the relevant countries.

To this end, the group developed an emergency plan split into three main areas: general measures, specific measures and preventative measures:

- *General containment measures (as indicated by the WHO):* personal hygiene measures, supplemented by hand sanitiser provided at the busier work areas, and information measures (using notices/signs in all work areas);
- *Specific containment measures:* for example extending the use of remote working, re-defining work shifts, respecting minimum social-distancing requirements 1-1.5mt (reviewing the position of work stations in order to avoid crowding), use of video conferences instead of in-person meetings, especially with third-party personnel, limiting the maximum number of people per meeting room, blocking travel, distributing masks to all personnel and getting them to use them, adopting gradually stricter limitations for external transporters and services, general sanitisation of all work areas using

⁶ Injury frequency rate: (number of injuries/total number of hours worked) x 1,000,000. For 2018 injuries requiring less than three days of treatment were excluded.

spray products and measuring body temperature in all entrances into the group's premises.

- *Preventative measures:* sanitising work stations with a suitable product on a daily basis, increasing air circulation every two hours, tracing movements between different units, banning travel between sites without specific authorisation or keeping it to a minimum, replacing the served canteen service with the use of pre-made meals and limiting access to break areas, taking out Covid-19 insurance for workers and developing a protocol with the company doctor for high-risk cases.

To ensure that all employees were and are aware of the risks and measures in place to contain the virus, an ongoing information campaign was developed, including through the use of videos and pamphlets. The scope of the campaign was extended to include suppliers and the main logistics partners.

The information campaign was developed using the following steps and the main materials were also shared abroad.

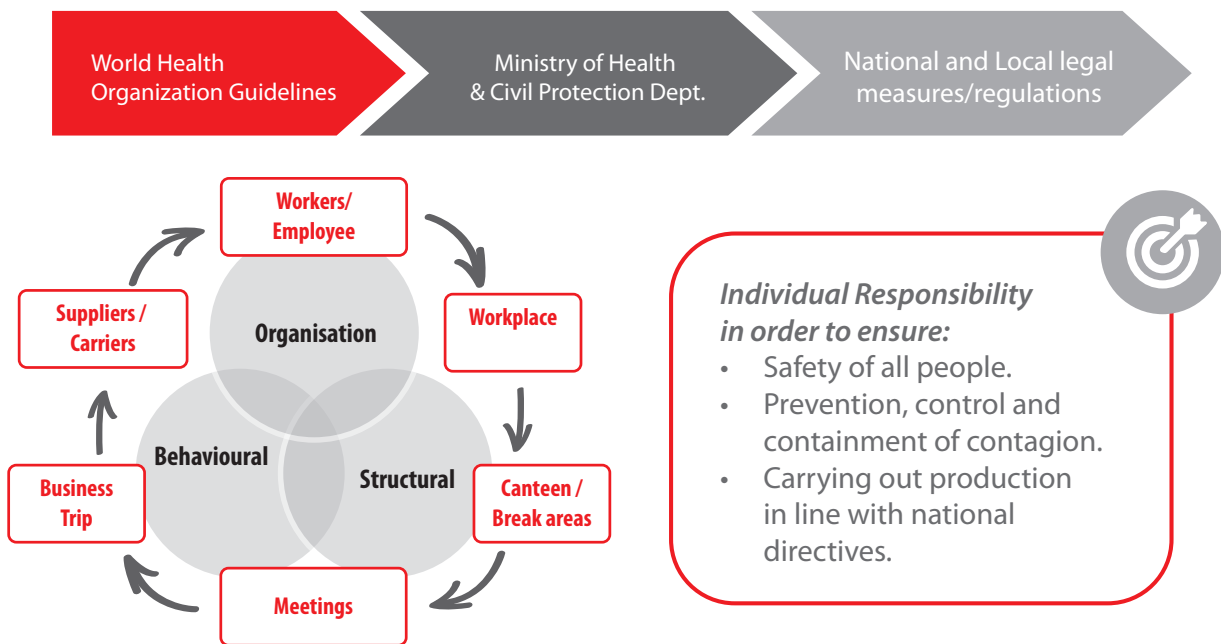
Communication plan and guidelines 2020



Risk analysis developed by workers which considered all internal and external elements. It took into account the following three types of work:

- Organisational (e.g., management of production personnel and offices)
- Structural (e.g., management of internal spaces)
- Behavioural (e.g., information and spreading awareness about risk)

Analysis of COVID-19 risks



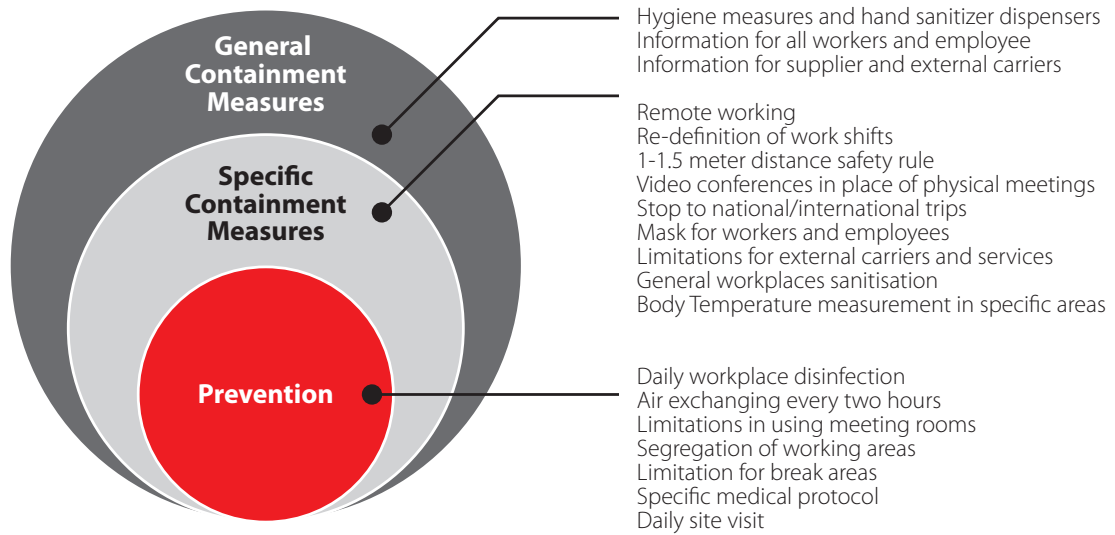
From an operations point of view, as mentioned above, the following took place:

- activities were adapted to comply with the group’s ruling anti-Covid protocols for the health and safety of workers;
- production plans were reviewed due to legal requirements during a specific period of 2020, limited to the production of material only for so-called essential supply chains (e.g., hospitals, large retail chains, data centres, etc.);

- certain initiatives to improve air conditioning systems in some work areas were sped up, not only in order to address sanitisation issues, but also to harness the opportunity and the synergy with energy efficiency and sustainability aspects (cutting primary energy consumption and/or replacing the use of fossil fuels such as natural gas for heating).

Work methods for the management of the group’s internal and external interactions were completely reviewed and contemplated in the aforementioned emergency plan:

COVID-19 emergency plan



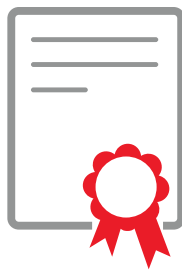
Customer importance and service excellence

Business relations with customers are a fundamental part of Carel's assets. They refer to the group's fundamental values which puts 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, not one that has 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 by 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 cornerstones 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 nine production sites in four continents and a network of 27 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.

The group faces 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. In addition there are also risks related to new competitors, both in terms of new market players and new technologies which may affect the current or potential choices of customers, thus limiting the group's profitability and increasing the level of competition.

Furthermore, the group is aware of the potential risks related to the electrical components market. Specifically, the commercial refrigeration market experienced a downturn in 2020 as a direct and tangible consequence of the Covid-19 pandemic and the restrictive measures adopted to curb the spread of the virus. The market contraction was mainly seen in the food service segment

linked to the business models of the hospitality industry. The segment's end operators suffered huge slumps which naturally swept through the entire refrigerator unit OEM and dealer network.

The food retail segment was certainly less impacted at the top of the decisional chain, with the sales of large retail chains rising sharply during the first waves of lockdowns in 2020. Restrictions of movement and the switch in spending habits from food away from home to food at home led to a surge in retail and e-commerce sales. However, the supply chain comprised mainly of OEMs, contractors and system integrators saw investments plummet due to uncertainty and caution in the segment. Indeed, efforts and investments were more focused on improving safety and the buying experience during the pandemic.

The HVAC market was also impacted by the pandemic, though with varying effects depending on the specific market segment. The commercial segment saw a considerable slowdown in the comfort, hospitality and wellness market, offset by investments in healthcare and a new awareness of the importance of indoor air quality, an area in which HVAC systems play a prominent role.

With regard to the industrial segment, the acceleration of pre-existing macrotrends on the market (e.g., remote working, usage of video-conferences, development of cloud services) boosted the vitality of the data centre sector. Finally, the residential segment continued to enjoy a development trend thanks to the implementation and spread of more environmentally sustainable technologies. Listening to customers has become even more important within the context of the pandemic. To this end, a series of initiatives have been implemented to take advantage of digital communication channels and stay in close and direct contact with current (and potential) customers, partners and the market in general. The various webinars provided have played an important role, organised in collaboration with other sector companies, and the group has also taken part in seminars and virtual events.

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. This report is shared with the executive committee once a month with the aim of sharing and developing improvement plans aimed at elevating relationships with customers.

Since June 2020, with the aim of increasing the accuracy and efficacy of monitoring, the list of customers being monitored was extended to include key customers of Recuperator S.p.A., which was completely integrated into the scope of the quality system of the group's ISO 9001:2015 multi-site scheme.

For the group, the whole of 2020 was affected by the pandemic, starting at the Chinese production site, then spreading to all the group's sites. The group handled it with determination, by introducing and spreading directives aimed at protecting all its workers and partners,

while closely monitoring its customers' demands and needs through the widespread monitoring of the global sales network, with the goal of not only preventing the loss of market shares, but in fact, taking advantage of the opportunities arising from the situation.

In 2020, Carel extended its customer satisfaction assessment process with the Net Promoter Score ¹ (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 initially

used the model for four key accounts (headquarters and branches) starting from 2019. It sent surveys tailored for the area being assessed to obtain detailed feedback explaining the responses to the NPS questions. It sent out 21 surveys in five countries.

In 2020, the NPS process was implemented at the group's commercial companies in Italy by involving of a sample of 33 similar customers by market/channel (HVAC OEM, HVAC Projects, REF OEM and REF Dealers). 33 customers were interviewed in the acquisitions/logistics and technical area and the main critical issues and/or best practices were identified. 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 in 2021.

¹ 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 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 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 2020, a number of investments were made to improve the safety of products, specifically with reference to products used in appliances which use natural gases as refrigerants, as these are subject to strict regulations given the risk of explosion linked to potential gas leaks.

The different phases of the development of more technologically-advanced products or machinery designed specifically for a customer or to meet market requests can cause the risk of defects, damage or malfunctioning to increase 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/CQE, 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]

	m.u.	2020	2019	2018
Total new products that entered production and underwent health and safety testing	n°	19	16	10
Total new products that entered production	n°	19	16	10
Percentage of products covered by the health and safety tests	%	100%	100%	100%

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

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

	m.u.	2020	2019	2018
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	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 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 use of these substances and, therefore, it

has to pass many REACH authorisation levels.

Another objective of REACH authorisation is to guarantee that the substances of very high concern (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 aware 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 producers.

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 gathered from 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.

As planned in the two-year ESG plan, in 2020, Carel addressed the compliance of its products with the US regulation, applied in California, **Proposition 65** which regulates the use of toxic or cancer-causing substances.² In accordance with the regulation, the State of California maintains and updates a list of regulated chemicals and, if a product contains one of the listed chemicals at the regulated levels, with which the customer could come into contact, it must include a warning.

Carel was involved in:

- selecting the chemicals impacting its business (the OEHHA list includes over 900 chemicals, many of which are used in food and cosmetics)³
- identifying the parts of products which may act as a vehicle for such chemicals, either by contact or inhalation;
- asking suppliers for feedback about the chemicals listed by OEHHA contained in the different raw materials

provided;

- engaging a third party to analyse the spread of chemicals on plastics passed between individuals, and provide a detailed report on the results.

In order to comply with these regulations, Carel Industries engaged a third-party expert in chemical compliance to assess the risk to human health of certain substances contained in the products (articles or components of articles). In accordance with the Proposition 65 requirements, a risk assessment was carried out for all the chemicals listed, comparing the exposure to a chemical, also based on an estimate using a suitable tool, with the related "safe harbor levels" threshold.

The risk assessment focused on workers who come into contact with components of articles on a daily basis. In the different scenarios in which the users are exposed, including dermal exposure, the duration of the exposure was also taken into account.

The products that Carel Industries supplies to customers do not contain chemical substances listed in Proposition 65 at a concentration liable to cause exposure levels exceeding the "safe harbor levels" or other safety levels. Therefore, it is not required to include a warning label on its products.

Carel Industries will continue to monitor Proposition 65 to keep up to date with any new chemicals added and will compare them to the materials used in its finished products. If relevant, it will inform its customers about the risks related to exposure to the chemicals listed and, if necessary, will include the necessary warning labels.

² Proposition 65, officially called the Safe Drinking Water and Toxic Enforcement Act of 1986, decreed in paragraphs 25249.5-14 of the California Health & Safety Code

³ Office of Environmental Health Hazard Assessment (California)

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 regulation and the RoHS Directive.

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 2020 whose labelling has been tested for health and safety reasons 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]

	m.u.	2020	2019	2018
Total new products that entered production and underwent health and safety testing of their labels	n°	19	16	9
Total new products that entered production	n°	19	16	9
Percentage of products covered by the health and safety tests	%	100%	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 2020.



Employment |





Responsible governance



PEACE, JUSTICE
AND SOLID
INSTITUTIONS



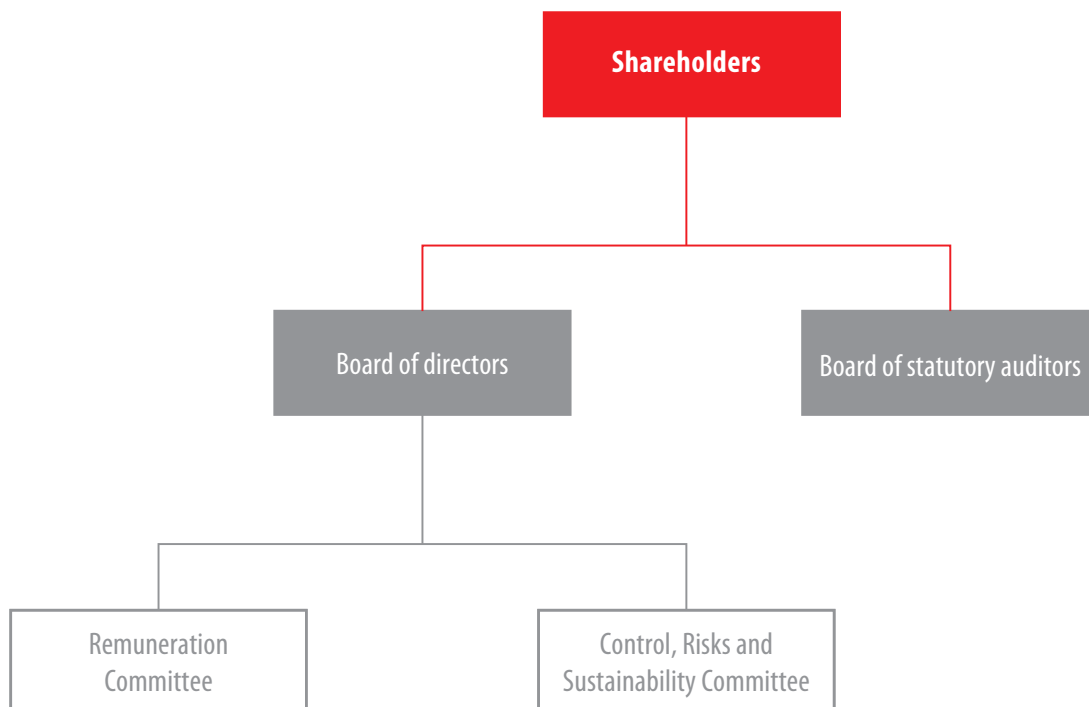
INDUSTRY,
INNOVATION AND
INFRASTRUCTURE



Carel Industries S.p.A. is the parent of the Carel Group.

At 31 December 2020, the parent's share capital of €10,000,000, split into 100,000,000 ordinary shares without a nominal amount, is held by Luigi Rossi Luciani S.p.a. (LRL) (36.17%), Luigi Nalini S.p.a. (LN) (23.58%), Capital Research & Management Company (8.13%), 7 Industries B.V. (4.93%) and other shareholders (27.19%), in addition to 168,209 treasury shares. It has a traditional corporate governance model comprising:

- **Shareholders**, authorised to resolve on all matters reserved to them by the law or by-laws;
- **Board of directors**, which oversees the parent'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 running;



Control, Risks and Sustainability Committee

- which, following adequate investigations, is in charge of supporting the board of directors' assessments and decisions on the internal control and risk management system and, inter alia, 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;
- it also carries out duties and functions related to sustainability



Remuneration Committee

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

Sustainability governance

In order to gather, develop and bring together all the ESG incentives from relevant stakeholders, a multifunctional ESG team has been created, which integrates sustainability management into all the group's areas. The team, which is led by the CFO, reports directly to the CEO and regularly meets up with the members of the control, risks and sustainability committee, guaranteeing consistency throughout activities underway and improvements made. The team is responsible for coordinating all sustainability activities: it prepares the consolidated non-financial statement and spreads a sustainability culture throughout the group. The ESG team engages with stakeholders, to meet the requests of the sustainability rating agencies and, thus, the expectations of the socially responsible investors (SRI).

The ESG team handles risks related to sustainability in collaboration with the competent functions, and helps the

different internal areas to identify areas of improvement, thus contributing to the creation of sustainable success. Specifically, the ESG team will support the board of directors in the creation of goals, metrics and targets to be included in the long-term sustainability plan, in addition to monitoring the progress towards achieving such goals. Furthermore, over the coming years, Carel will be committed to assessing its position with regard to the recommendations made by the Task Force on Climate-related Financial Disclosure (TCFD), in order to further improve its sustainability profile and the quality and depth of its disclosures. Specifically, the group will consider performing an analysis of the climate situation in order to develop a strategic long-term vision which takes into account physical risks and risks related to the transition, in addition to opportunities connected to combating climate change.

The highest level of responsibility in relation to sustainability issues, including climate change, is entrusted to the control, risks and sustainability committee set up by the parent's board of directors in compliance with the provisions of the Borsa Italiana's Code of Conduct for Listed Companies approved by the Corporate Governance Committee of Listed Companies. The control, risks and sustainability committee comprises three members of the board of directors, all non-executive and at least two independent directors (currently all members are independent), and it meets up when requested to do so by the chairperson or on their behalf, at least every three months. It provides consulting, research and advisory support and it does not limit the board of directors' decisional power and responsibility. The committee carries out relevant investigations in order to support the board of directors in performing assessments related internal controls and risk management and in approving the non-financial statement pursuant to Legislative decree no. 254/2016. The committee also assists the board of directors in overseeing sustainable development issues, including climate change, through inquiries, assessments and decisions related to the management of risks related to adverse events which have come to the board of directors' attention, including environmental, social and governance risks. It also assists the board of directors with its research, consulting and advisory functions, in performing assessments and making decisions about sustainability, also monitoring the performance of group activities and dynamics with stakeholders, by defining and suggesting guidelines about sustainability and monitoring compliance with conduct standards adopted by the group and its subsidiaries. It ensures that amendments to laws and regulations pertaining to sustainability are suitably understood and assessed in terms of the potential impact on business, assigning specific tasks and responsibilities for their implementation. Furthermore, it monitors international sustainability initiatives and keeps the board of directors up to date, in order to consolidate the group's international reputation. In 2020, the committee carried out a number of activities, such as the approval of the ESG

master plan which set out a two-year sustainability plan and the resolution of the new long-term incentive plan (LTI Plan).

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-laws¹.

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 structure and size of the parent, its ownership structure and the list voting mechanism provided for in its by-laws, which ensures the transparent election and balanced composition of the board of directors, on 27 February 2020, the board of directors confirmed its decision taken on 7 March 2019, when it did not deem it necessary to adopt policies/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 by candidates belonging to the same gender, whether male or female, but must contain a

¹ More information is available at <https://cg.carel.com/it/documenti-societari/>

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,

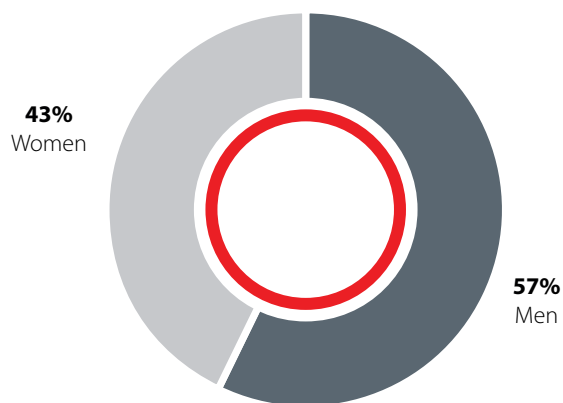
which complies with Application Criterion 2.C.3 of the Code of Conduct.

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

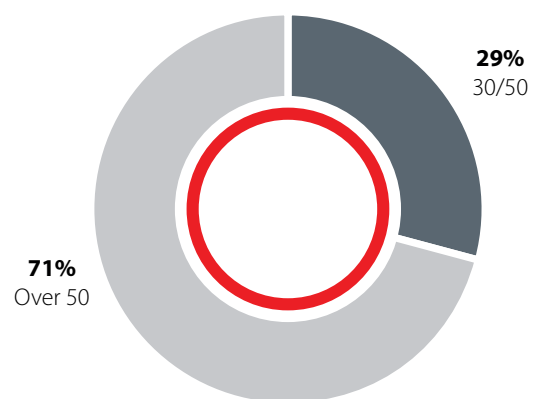
Composition of the board of directors and committees [GRI 102-22 | GRI 405-1]

	2020		
	Board of directors	Control and risks committee	Remuneration committee
No. of directors	7	3	3
Executive	4	0	0
Non-executive	3	3	3
<i>(of whom, independent)</i>	(3)	(3)	(3)
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.

The system is used to identify, measure, manage and monitor key risks to which the group is exposed. Also contributing to guaranteeing compliance with the group's goals, also from a medium-long term sustainability standpoint, in environmental, social and governance (ESG) terms, among other things.

Aspects, impacts, risks, opportunities, activities, resources and deadlines to identify any changes or developments are regularly reviewed. For every material or very material aspect/impact, procedures or standards to control and monitor it may be introduced.

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 Italiana's Code of Conduct for Listed Companies² and, more generally, national and international best practices.

The guidelines provide general principles to manage 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:

- protect the group's assets;
- efficient and effective management of the group 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.

² The current version is that approved by Borsa Italiana's Corporate Governance Committee in January 2020.

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 control and risk committee, remuneration committee, the director in charge of the system, the board of statutory auditors, the supervisory body, the internal audit unit and the manager in charge of financial reporting as per article 154-bis of the Consolidated Finance Act.

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.

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.

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 control 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.

Operating risks tied to:

- 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 cost;
- protection of intellectual property;
- management of innovative and development projects;
- country risk.

Compliance risks tied to:

- general changes in the legislative framework and introduction of limitations to the group's business;
- environmental topic;
- occupational health and safety regulations;
- administrative liability of entities ad per Legislative decree no. 231/2001;
- cyber security and ICT system;
- personal data precessing.

Risks related to stakeholder engagement:

- 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 stakeholders, 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.

Climate change risks

Carel is aware of the need to implement measures aimed at preventing and mitigating the consequences of climate change and the risk of average global temperatures rising by over 1.5 degrees. Therefore, it has decided to provide information related to the main risks related to climate change and the measures rolled out as part of its business model in order to prevent these risks and mitigate their effects. This disclosure is prepared in compliance with the European Commission's Task Force on Climate-related Financial Disclosure (TCFD) guidelines.³

The disclosure aims to describe the main risks over different time horizons in order to reflect the uncertainties in the short, medium and long term and the potential commercial implications, contextualising the information in terms of progress towards achieving set goals.

Carel's focus on sustainability and its will to create a

resilient business model has led it to look at climate change from the point of view of the group, assessing risks, opportunities and impacts. Risks related to climate change and services offered are characterised by a high level of uncertainty and the potential impacts may negatively affect operating and strategic activities, products and the group's entire value chain.

In this context, Carel defined its methods for identifying the aspects of its activities which are related to climate change. For each environmental impact identified, the level of materiality is measured, in addition to the potential risks and opportunities and the actions required to avoid such risks.

³ https://ec.europa.eu/finance/docs/policy/190618-climate-related-information-reporting-guidelines_en.pdf



Physical risks

Physical risks are associated with an increase in costs and financial losses caused by an increase in the severity and frequency of extreme weather related to climate change. These include **acute physical risks**, i.e., those arising from particular environmental events, which may severely damage the group (e.g., floods, heatwaves, whirlwinds). The group is potentially exposed to **acute events** such as these and may not be able to perform its operating activities if a site were hit, which would in turn make it impossible to fulfil orders. The group's production sites in Italy, China, Brazil, the US, Croatia and Germany all aim to optimise production, as they are also potential disaster recovery centres. This decision confirms the group's intention to plan ahead and prepare itself to face catastrophic events, which could shut down production at the group's main site in Italy, where the parent has its registered office.

To this end, the group has extended its mirroring strategy for core products and, in light of the Covid-19 pandemic, the strategy was also extended to the whole of the value chain through the use of dual sourcing on the supply chain in order to mitigate further risks of production disruption. Therefore, the Coronavirus epidemiological phenomenon could be seen as a sort of "stress test" for the group in the case of natural disasters hitting its sites.



Transition risks

Transition risks are those which arise from the transition to a low-carbon economy and are closely linked to social, economic and political development, in addition to changes to CO2 tariffs and regulatory restrictions. The group is exposed to **risks related to ruling legislation and new regulations** and must comply with Legislative decree no. 254/2016 (Directive 2014/95/EU) which regards disclosure of non-financial information, including environmental impacts such as the use of energy resources and GHG emissions. Should the group omit information or provide incorrect information about issues set out in the legislation, it may incur steep financial sanctions. In order to guarantee production continuity, which could be jeopardised, for example, by the legal implications of an environmental crime, in compliance with Italian legislation regarding corporate criminal liability (Legislative decree no. 231/2001), the parent has set out certain measures aimed at preventing this type of crime. Furthermore, Carel is exposed to the **risk of missing information about ruling environmental regulations/legislation**. In order to reduce the group's exposure to this risk, it monitors environmental legislative requirements, including those related to climate change (for example, the energy efficiency of buildings, the evolution of appliances and GWP refrigerants). The group may be affected by the risk of failing to make the most of **technological innovations** which could improve its offer, also with regard to its environmental commitment.

As its customers are increasingly aware of environmental and climate change issues, the group is exposed to **market risks** such as being unable to keep up with market developments and to respond to customers' changing needs and expectations. In order to mitigate the risk of not satisfying customers' needs by failing to identify changes in their preferences and the technological innovation on the markets, along with 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. The group oversees business risks deriving from the **market** also by focusing on **technological innovation**, believing that finding innovative technological solutions is the key to increasing competitiveness.



Opportunities

As the group is aware of the importance of risks related to climate change, it aims to capitalise on the **market opportunities** and to promote the transition towards sustainable development in its sector, guaranteeing a good market position for its products from an environmental point of view. Efforts to mitigate and adapt to climate change are in line with Carel's mission to develop products "**for a better environment**". Therefore, the group's focus on **energy savings** should be regarded as a good opportunity in terms of R&D, production and commercial strategy. The Carel Group can gain a competitive advantage by looking into developing new technologies and rolling-out new products and highly **energy efficient products**. **Product and process innovation** are key success factors and the group's ability to quickly respond to market changes is thanks to its ongoing research and release of new products, solutions and/or services, or new and updated versions of its products and services which satisfy and incorporate significant technological innovations.

The group believes that a strategy to promote **high-efficiency solutions** is necessary to reduce the effects and risks of climate change. To this end, the group engages in applied research and development, focusing on solutions to improve **energy efficiency**, reduce its environmental impact and cut back on the use of natural refrigerant gases to maintain its leadership position in the HVAC/R market niches.



Physical risks

The group is also exposed to **chronic physical risks** (such as rising sea levels and ocean acidification) which could also affect business, as they could make it impossible to meet the demands of internal/external customers and suppliers within the requested time frame. Carel Industries is aware of the climate context within which it operates. Its registered office is located in Brugine which is in climate zone E, with 2,360 degree days. The climate classification makes it possible to regulate the use and period of use of heating systems in buildings, in order to minimise energy consumption. Specifically, Carel has a limit of 14/h per day for heating systems.



Transition risks

Carel is exposed to **reputation risks** which may affect its image. In this regard, the group pays close attention to the quality of its stakeholder relations, as also set out in its Code of Ethics. Carel has identified its stakeholders through internal and benchmark analyses as parties that are affected by its operations, particularly with regard to environmental aspects. Accordingly, the group aims to guarantee effective and transparent environmental information through the availability of information about the correct use of products (including the disposal of packaging and waste). Furthermore, in order to prevent reputation risk, Carel has developed an internal three-year **brand reputation plan** which aims to increase stakeholders' knowledge about Carel. The plan includes non-financial information, expanding the group's business profile to cover ESG aspects, including climate change, carbon emissions, atmospheric pollution and biodiversity.



Opportunities

Therefore, it always stays in touch with customers, competent bodies and suppliers, in the hunt for new technological solutions to save energy and improve sustainability. To this end, the group performs internal tests at its laboratories and case studies related to the performance of the applications developed with customers to ensure that the products it offers are capable of satisfying the needs of its customers, while respecting the environment.

Ethics and integrity

An essential factor for the group's 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 (the "231 model") as provided for by Legislative decree no. 231/01, the reference Italian legislation regarding corporate criminal liability, consisting of a general part and several special parts, most recently updated in July 2020 and approved at the beginning of 2021. The 231 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.

In addition to the 231 model, the company approved a Code of Ethics 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. Loyalty, morality, honesty, equality and professionalism are some of the principles and values included in the Code of Ethics adopted by the parent and shared with its subsidiaries.

The supervisory body, appointed by the parent's board of directors, is responsible for implementing the 231 model and the Code of Ethics. It also monitors the 231 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 231 model and the Code of Ethics. It also receives any reports of violations of either the 231 model or the Code of Ethics (whistleblowing), which are duly processed.

In managing relationships with the public administration and other private bodies, there is the risk of misconduct which could lead to corruption. Such misconduct could take place directly during the year during the numerous company activities (acquisitions, sales, management of sponsorships, treasury activities, etc.) or indirectly through third parties (suppliers, partners, customers, consultants, etc.).

Within the aforementioned context, in order to mitigate the risk of corruption, on 28 February 2019, the parent adopted an anti-corruption procedure, which aims to offer its recipients a reference framework of the regulations and procedures in place to combat corruption in the public and private sectors. 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 conduct rules 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 of 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.

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. The course also covered corporate social responsibility issues and included 108 hours of training provided through the e-learning platform and roughly 43 hours of training via video-conferences on the procedures related to the 231 model, for a total of 151 hours of training. In addition, 125 hours of general training about compliance were provided to foreign subsidiaries.

However, due to the Covid-19 pandemic, the group was unable to provide its foreign subsidiaries with the anti-corruption training aimed at spreading awareness about the anti-corruption procedure and implementing

protections and controls to ensure procedural compliance. These activities, which were planned to be carried out in person in 2020, will be rescheduled to 2021 and will be provided to all subsidiaries via e-learning using Carel's HCM platform, with the support of the group's external partner, Skilla.

Everyone who works directly or indirectly for or on behalf of the group may report violations, irregularities or suspected violations of the 231 model and the Code of Ethics using the whistleblowing system provided for in the procedure shared with all recipients. No such reports were received in 2020 nor were there any reports of alleged corruption within the group.

As proof of the group's ongoing commitment to guaranteeing ethical behaviour and integrity in its business, there were no reports and/or complaints received about non-compliance with laws or regulations or legal actions for anti-competitive behaviour, anti-trust or monopoly violations either in or out of court in 2020.

Tax transparency

Carel believes taxes to be an integral part of its economic contribution to the various countries in which it operates, and as such it is within the scope of the corporate social responsibility which the group owes to its stakeholders. Tax reporting is based on GRI 207: Tax.

The group's approach to tax is founded on compliance with the relevant legislation in the various countries in which Carel operates, in accordance with the principles and values of legality, honesty and transparency set out in the Code of Ethics. Indeed, the group is committed to acquiring the necessary knowledge about tax laws and to adopting interpretations which are coherent with the responsible management of tax risk. Furthermore, the group collaborates transparently with the tax authorities

of the countries in which it operates and does not obstruct their checks and controls.

Governance of tax and the control model for tax risks is assigned to the group CFO (GCFO), the parent's manager in charge and a member of the executive committee set up by the parent.

In order to oversee tax aspects in the different countries in which the group operates, the management of taxes is actively monitored by local finance managers at each subsidiary which may avail themselves of external consultants to calculate direct and indirect taxes, to prepare the reports and to comply with the related tax requirements.

The tax management policies adopted by the group were prepared directly by the parent under the direct supervision of the GCFO and are based on the OECD's international principles and standards, which were prepared with the assistance of leading tax firms. These policies aim to mitigate tax risk, while still pursuing tax efficiency processes, ee.g., avoiding double taxation.

Tax risks are regularly monitored throughout the year by the parent in its preparation of the quarterly closing entries and, at least once a year, all subsidiaries are required to prepare a specific report about current risks, any developments in the ruling tax legislation of each

country and any tax assessments underway/completed and the related potential risks.

In designing the group's business strategies, management also considers tax aspects, as it is aware that consolidated income and the consequent group taxes are generated almost entirely by its production sites. Indeed, its commercial companies mainly perform distribution and agency activities, therefore the risks incurred by these companies are minimal. Over the coming years, the group will gradually develop the tax reporting included in its non-financial statement .

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 using these data.

To this end, the parent has appointed a Data Protection Officer (DPO), in order to strengthen its compliance with regard to protecting personal data. Furthermore, the group is considering appointing a DPO for its European subsidiaries.

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). Specifically, 106 hours of training about privacy were completed via HCM, mostly by new hires.

However, as part of the parent's and European subsidiaries' implementation of the GDPR, due the Covid-19 pandemic, it was not possible to provide the planned in-person training at the European subsidiaries' premises. These activities will be rescheduled to 2021 and will be provided

to European subsidiaries using Carel's HCM platform, with the support of the group's external partner for its European subsidiaries.

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.

Lastly, on 16 December 2020, the company approved an Information & Cyber Security Policy which sets out the group's approach to managing information & cyber security issues and contains the guiding principles and responsibilities required to safeguard the Carel Group's information systems, products and services.

By sharing the policy, which is binding in all geographical areas in which the group operates, and which is supplemented by the procedures and guidelines that regulate similar aspects, the parent aims to create the same conditions for all recipients so that they are aware of, recognise and implement the principles required by the organisational system and act in compliance with the ruling legislation. In 2020, it did not receive any complaints about data protection violations or data loss from consumers.

Research, development and innovation

For Carel, efficiency is the starting point and finishing line for the process of inventing, manufacturing and distributing its systems. In order to remain faithful to this mission, every year, the group invests an average of 5.5% of its consolidated turnover in research and development. This refers to applied research, aimed at testing technological innovations at the group's laboratories, in addition to

broader research aimed at knowledge acquisition to boost in-house know-how.

It is this second type of research which is included in the white papers. Presented as veritable technical articles, these papers take an in-depth look at topics which are key to the sectors in which Carel operates. Ranging from humidification applications to international

regulations, commercial refrigeration, data centres and air conditioning, they are well structured studies which Carel freely makes available to the scientific community with the aim of sharing know-how and knowledge.

Research and development are at the heart of Carel's business. It earmarks 5.3% 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 1,745 employees engage in R&D activities for an average of 224 resources in 2020. 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 refrigerant 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.

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.

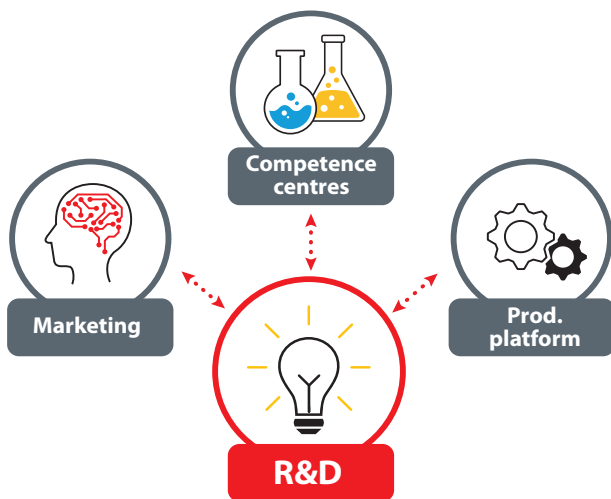
Carel's trademark skills are in the areas of development of integrated solutions for the use of the cooling cycle to control the temperature and humidity and the use of isothermal and adiabatic humidification to control humidity and, in some cases, temperature to adapt the products to different market 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.

Carel's solutions which have historically been dedicated to high energy efficiency contribute to reducing the impact on the environment and improving air quality in buildings. In order to achieve these results, constant investments are required, in addition to Carel's innovations which set it apart, not only in terms of energy efficiency but also for natural refrigerants, in digital & field services and in the IoT. R&D activities are also carried out through long-standing partnerships with 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 the Environment), AICARR (Italian Association of Air Conditioning, Heating and Refrigeration), AHRI (Air-Conditioning, Heating and Refrigeration Institute) and EHPA (European Heat Pump Association). More information about these sector associations is provided in the stakeholder engagement section.

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 2020, the group's R&D department has 224 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	2020		2019		2018	
	no.	%	no.	%	no.	%
Italy	157	70%	157	70%	140	72%
Europe	4	2%	4	2%	-	-
United States	12	5%	12	5%	11	6%
China	51	23%	52	23%	42	22%
Total	224	100%	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 5.5% of its revenue in R&D in the

last three years.

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

Investments in research and development

Tipologia	2020	2019	2018	2017	2016
€'000	17,575	18,060	16,035	14,494	14,392
Percentage of revenue	5.3%	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 45 patents (requested or granted), nine of which are for innovative solutions designed in 2020. 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.

**“Our laboratories
are at the heart
of our business”**

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. In 2020, the Covid-19 emergency affected the R&D

structure, requiring the reorganisation of many activities. Development activities were prioritised, promoting operating continuity of production lines and supporting the business areas with the highest demand. With reference to business, risks arose for the sectors worst hit by the pandemic which experienced a drop in demand. These risks led to the postponement of project activities. In other cases, the acceleration of business in the sectors in which demand increased led to more energy and resources being dedicated there.

Responsible supply chain management

In order to strengthen its commitment to sustainable development, the group shares its Code of Ethics with all its suppliers with the aim of defining the reference principles for social and environmental topics and to propose a set of conduct rules. The parent also shares the Code of Ethics with the managers of the foreign production sites so that they can distribute it to their supply chains.

In 2020, the in-scope group companies purchased operations materials from a total of 532 suppliers. The new group companies, Recuperator and HygroMatik, work with 48 and 170 suppliers, respectively, all based in Europe.

In 2020, faced with the disruption caused by the pandemic, Carel re-focused its sourcing policy, with the aim of guaranteeing business continuity. The group promotes the use of suppliers with regional production or logistics bases for all of its production sites. The goal is to guarantee a better service and supplier continuity, also as a means of overcoming logistical issues, natural events or lockdowns in foreign countries. As a direct consequence of this policy, the group has used less intercontinental transport and in turn reduced its environmental impact. At the same time, it has worked to make all production sites

independent of each other from a sourcing point of view, thus reducing the risk of a remote disruption affecting the related destination market. Actions implemented in 2020 focused on American and Chinese production sites.

In 2020, the supply chain localisation index was introduced, which shows regional acquisitions (from the same continent as the production site) as a percentage of the production sites' total acquisitions, net of intercompany trading. With reference to acquisitions in 2020, over 95% of European acquisitions are now from regional suppliers, in North America it is 45%, in South America 22%, and in Asia 79%. On average, there was a 2% increase with improvement spikes of 10% in North America and Asia compared to the previous year. This distribution is due to the fact that different European and Chinese suppliers still support both regional and non-EU production sites.

The inclusion of Recuperator and HygroMatik has not changed this configuration. They work with suppliers who are 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.

Proportion of spending on local suppliers by geographical area [GRI 204-1] ⁴

Geographical areas	2020	2019
	% of spending	% of spending
Carel Industries - Europe	90%	88%
Carel Adriatic - Europe	83%	83%
Carel US - North America	45%	33%
Carel Brasil - South America	22%	31%
Carel China - Asia Pacific	79%	70%
Group average	89%	81%

Carel selects its supplies 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 screening process for new suppliers was recently reviewed, introducing a series of preliminary checks related to the organisation and processes of the candidates. Specifically, the group now requests proof of structured processes aimed at guaranteeing compliance with the business' sustainability and ethics principles as mentioned above.

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 within the requested timeframes. This interaction takes different forms: visits by technical staff and quality control specialists and IT platforms used to share information, including the management and update of orders.

Human rights and workers' rights, health and safety have been added to the new supplier screening and selection process. The sustainability assessment carried out in 2020 included workers' rights (child labour, salaries, working hours, freedom of association), the conflict minerals policy, occupational health and safety for employees and contractors. The sustainability assessment will be included in the supplier evaluation.

Environmental protection, occupational health and safety and compliance with international regulations regarding chemicals were included in the new supplier screening and selection process. The sustainability assessment carried out in 2020 includes compliance with applicable regulations, such as REACH/RoHS, and values initiatives to reduce the environmental impact of business activities (reducing the carbon footprint, water consumption, packaging and waste).

⁴ The 2019 figures have been restated using a more precise calculation process for the purposes of greater comparability. The rate is based on the acquisition volumes of each code, based on the procurement regulations at each year end.

The group's suppliers are asked to apply the same rules and assessments to their supply chains.

These policies are included in the new contractual format for the provision of goods introduced in 2020 and the new general acquisition conditions which will be introduced in 2021. In July 2020, Carel created a new sustainability survey for its supply-chain, as set out in the two-year ESG plan.

Suppliers were asked to fill out a self-assessment questionnaire, with the goal of promoting awareness about social responsibility and environmental responsibility in order to collect information about their systems and management practices. The aim of the questionnaire is to create a metric and a point of reference in relation to the suppliers' accreditation and, to increase their awareness about sustainability issues on the supply chain.

The questionnaire is qualitative and is made up of four sections: compliance with applicable legislation and regulations; existence of structured processes; initiatives to improve or reduce impact; involvement of their own supply chains. The score related to the different sections is on a scale of 0 to 100, with a threshold target of 60.

20 first level suppliers, which account for around 30% of the group's turnover for acquisitions, took part in the survey. During the year, the analysis also involved seven new suppliers, which scored well. Overall, the questionnaire had a good response rate of 90%. 100% of respondents highlighted their respect for compliance requirements and substantial awareness of sustainability issues.

Furthermore, the survey provided a measurement metric and a point of reference for specific improvement initiatives and future expansion of the scope. The parent's supply chain function intends to supplement the qualitative areas with measurable KPIs, in addition to increasing the reach to a further 20 or 30 suppliers. Furthermore, follow-up activities will be evaluated, such as documented checks during audit activities with the aim of

assessing compliance with the requirements set out in the self-assessment survey, in accordance with the restrictions introduced as a result of the pandemic.

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, healthcare and 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 timeframe 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 to manage these risks include supplier screening and initial checks of their structure by visits to make sure they meet the group's standards. These checks include a technical inspection of the equipment and plant and a review of the work environment.

Although the group does not have a standard systematic control procedure, no complaints were received in 2020 related to alleged violations of human rights or non-compliance with environmental regulations by its supply chain.

Controversial Sourcing

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.

As proof of its commitment, in 2020, the group joined the Responsible Minerals Initiative (RMI), one of the resources most used and respected by companies which are involved in the responsible procurement of minerals in their own supply chains.

Furthermore, the group voluntarily complies 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, Rwanda, Burundi, Angola, the Central African Republic, Sudan, Tanzania, Uganda and Zambia) as part of the Dodd-Frank Wall Street Reform Act.

The group therefore adopted a policy on conflict minerals, which are tin, wolframite, coltan and gold ore (3TGs), and an internal standard for the collection and processing of data about these minerals. This procedure was updated in 2020, starting a long-term project aimed at aligning the group with the OECD guidelines and reaching the target of the two-year ESG plan. Based on this standard, it has identified the macro categories of articles that may contain 3TGs so as to facilitate the 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) and the Conflict Minerals Sourcing Policy for components manufacturers. Specifically, the group uses a procedure

to collect a certificate of origin for the smelters/refineries from suppliers of at least one of the four conflict minerals, following the OECD framework (steps 1 and 2). Based on the available information, a level of risk will be assigned to each supplier of minerals, based on which any follow-ups will be organised. With this information, Carl was able to prepare its CMRT, which includes around 400 smelters and refineries certified in its supply chain.⁵

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 3TGs, which include, for example, tin alloys for welding, electronic microchips, tantalum capacitors or LCD displays. The initial supplier assessment/screening 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:

- 93 suppliers, which work with 274 manufacturers, for an equivalent of €75.6 million of materials purchased for production;
- 35 suppliers, which work with 38 manufacturers, for an equivalent of €19.7 million of materials purchased for resale;
- seven suppliers which are also manufacturers, for an equivalent of €268.8 thousand of materials purchased pertaining to Recuperator S.p.A.;
- 56 suppliers of raw materials which may contain 3TGs for an equivalent of €3.19 million of materials purchased pertaining to HygroMatik GmbH.

⁵ Partially excluding HygroMatik and Recuperator

Carel measures the progress of the assessment ⁶ of its supply chain started in 2019 using two KPIs: (i) the Euro equivalent of purchases of articles/materials containing

3TGs; and (ii) the number of manufacturers of articles containing 3TGs. It considered both indicators using four criteria, assigned on the basis of 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 and Policy) ⁷
Not satisfying	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
Not complete replies	The manufacturer has not supplied complete feedback (CMRT and Policy)
Not satisfying	Irrelevant documentation received from manufacturer
No reply	The manufacturer has not provided feedback

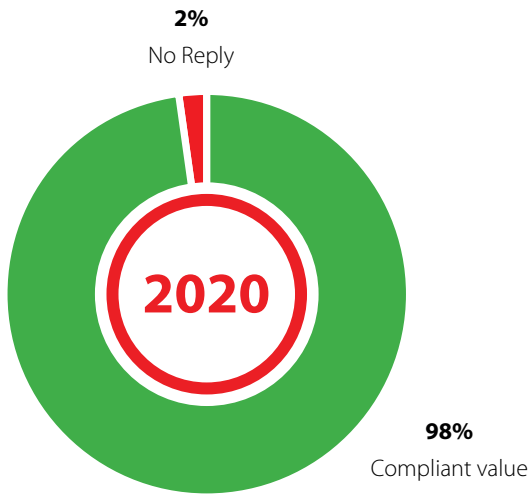
The charts below show that, in 2020, 98% of the value of products purchased by the group, including Recuperator and HygroMatik, were manufactured using smelters; 98% of the manufacturers of components purchased provided at least the correctly completed CMRT, which

allows for the mapping of smelters present on their supply chains, as set out in steps 1 and 2 of the OECD's Due Diligence Guidance for Minerals, which the group uses as a reference.

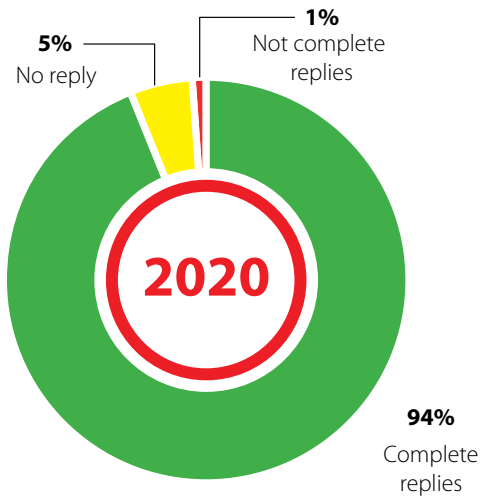
⁶ Progress analysed at 30 January 2020.

⁷ The supplier responded with details about the smelters on its supply chain, but did not adopt the relevant policy

Value of articles and materials including 3TGs



Number of manufacturers of articles containing 3TGs





Responsible governance |





Methodological note



Reporting standards

The Carel Group's 2020 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 active and passive anti-corruption topics, useful to gain an understanding of the group's operations, performance, results and its 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 254/2016 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. With regard to GRI 403 (Occupational health and safety) and GRI 303 (Water and effluents), the most recent versions from 2018 were adopted. Additionally, where relevant the group also considered the European Commission's "Guidelines on non-financial

reporting". The GRI Content Index is set out on page 96 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 31 to 33), 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 2019 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 2020. 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, including Enersol Inc in 2020. Any limitations to such scope are indicated in the document.

Reporting practice

Preparation of the group's 2020 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 2020 consolidated financial statements. The heads of the internal units were asked to contribute to the identification of 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 2020 draft consolidated financial statements on 4 March 2021;
- 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.

Presentation Principles

Identification and presentation of the material topics included 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.

Bridging table

Table bridging the material topics of the Carel Group, the aspects of Legislative decree no. 254/2016 and the GRI Standards

BRIDGING TABLE

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 302-5)	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
Respect for human rights	Personnel, human rights	Incidents of discrimination and corrective actions taken (GRI 406-1)	The entire group	Employees, trade unions, worker representatives, suppliers, communities
Customer engagement, observation and satisfaction	Society	Stakeholder engagement (GRI 102-43, 102-44)	The entire group	Customers
Training and professional development	Personnel	Training and education (GRI 404)	The entire group	Employees, trade unions, worker representatives
Product and service quality and safety	Society	Customer health and safety (GRI 416) Marketing and labelling of products and services (GRI 417)	The entire group	Customers, shareholders, investors and analysts, suppliers
Governance and business 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, bodies and institutions, 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
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, pollution and climate change	Environment	Energy (GRI 302) Water and effluents (GRI 303) Emissions (GRI 305)	The entire group	Communities and future generations
Diversity, equal opportunity and inclusion	Personnel, society	Diversity and equal opportunity (GRI 405)	The entire group	Employees, trade unions, worker representatives

GRI content Index

Disclosure	Indicator	Page number/Note	Omissions
GRI 102: GENERAL DISCLOSURES 2016			
ORGANISATIONAL PROFILE			
102-1	Name of the organisation	P. 99	
102-2	Activities, brands, products, and services	P. 19-22	
102-3	Location of headquarters	Last page	
102-4	Location of operations	P. 13	
102-5	Ownership and legal form	P. 99	
102-6	Markets served	P. 19	
102-7	Scale of the organisation	P. 14, 99	
102-8	Information on employees and other workers	P. 71-72	
102-9	Supply chain	P. 115-120	
102-10	Significant changes to the organisation and its supply chain	P. 115-120; 125-126	
102-11	Precautionary Principle or approach	P. 103-107	
102-12	External initiatives		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) P. 128
102-13	Membership of associations	P. 35-37	
STRATEGY			
102-14	Statement from senior decision-maker	P. 6-8	
ETHICS AND INTEGRITY			
102-16	Values, principles, standards, and norms of behavior	P. 22-23; 108-109	
GOVERNANCE			
102-18	Governance structure	P. 99-102	
102-22	Composition of the highest governance body and its committees	P. 102	
STAKEHOLDER ENGAGEMENT			
102-40	List of stakeholder groups	P. 33-34	
102-41	Collective bargaining agreements	P. 68	
102-42	Identifying and selecting stakeholders	P. 31-34	
102-43	Approach to stakeholder engagement	P. 31-34	
102-44	Key topics and concerns raised	P. 34	
REPORTING PRACTICE			
102-45	Entities included in the consolidated financial statements	P. 125	
102-46	Defining report content and topic Boundaries	P. 31-33; 126	
102-47	List of material topics	P. 33	
102-48	Restatements of information	P. 125-126	
102-49	Changes in reporting	P. 125	
102-50	Reporting period	P. 125	
102-51	Date of most recent report	2019	
102-52	Reporting cycle	Annual	
102-53	Contact point for questions regarding the report	Last Cover Page	

Disclosure	Indicator	Page number/Note	Omissions
102-54 /	Claims of reporting in accordance with the GRI	P. 125; 128-130	
102-55	Standards and GRI content index		
102-56	External assurance	P. 134-137	
ECONOMIC PERFORMANCE: TOPIC-SPECIFIC STANDARDS			
GRI 201 ECONOMIC PERFORMANCE 2016			
GRI 103	Management approach 2016	P. 42-43	
201-1	Direct economic value generated and distributed	P. 42-43	
GRI 204: PROCUREMENT PRACTICES 2016			
GRI 103	Management approach 2016	P. 115-117	
204-1	Proportion of spending on local suppliers	P. 116	
GRI 205: ANTI-CORRUPTION 2016			
GRI 103	Management approach 2016	P. 108-109	
205-3	Confirmed incidents of corruption and actions taken	P. 109	
GRI 206: ANTI-COMPETITIVE BEHAVIOUR 2016			
GRI 103	Management approach 2016	P. 108-109	
206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	P. 109	
00102}ENVIRONMENTAL PERFORMANCE: TOPIC-SPECIFIC STANDARDS			
GRI 302: ENERGY 2016			
GRI 103	Management approach 2016	P. 50-53; 57-61	
302-1	Energy consumption within the organisation	P. 51	
302-3	Energy intensity	P. 51	
302-4	Reduction of energy consumption	P. 54	
302-5	Reductions in energy requirements of products and services	P. 59	
GRI 303: WATER AND EFFLUENTS 2018			
GRI 103	Management approach 2016	P. 56	
303-1	Interactions with water as a shared resource	P. 56	
303-2	Management of water discharge-related impacts	P. 56	
303-3	Water withdrawal	P. 56	
GRI 305: EMISSIONS 2016			
GRI 103	Management approach 2016	P. 50-54; 57-61	
305-1	Direct (Scope 1) GHG emissions	P. 51	
305-2	Energy indirect (Scope 2) GHG emissions	P. 51	
305-3	Other indirect GHG emissions (Scope 3)	P. 52-53	
305-4	GHG emissions intensity	P. 52	
305-5	Reduction of GHG emissions	P. 54; 60	
305-6	Emissions of ozone-depleting substances (ODS)	P. 53	
305-7	Nitrogen oxides (NOX), sulphur oxides (SOX), and other significant air emissions	P. 54	

Disclosure	Indicator	Page number/Note	Omissions
SOCIAL PERFORMANCE: TOPIC-SPECIFIC STANDARDS			
GRI 401: EMPLOYMENT 2016			
GRI 103	Management approach 2016	P. 72-75	
401-1	New employee hires and employee turnover	P. 73-74	
GRI 403: OCCUPATIONAL HEALTH AND SAFETY 2018			
GRI 103	Management approach 2016	P. 82-87	
403-1	Occupational health and safety management system	P. 82-84	
403-2	Hazard identification, risk assessment, and incident investigation	P. 82-84	
403-3	Occupational health services	P. 82-84	
403-4	Worker participation, consultation, and communication on occupational health and safety	P. 82-84	
403-5	Worker training on occupational health and safety	P. 82-84	
403-6	Promotion of worker health	P. 82-84	
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	P. 82-84	
403-9	Work-related injuries	P. 84	
GRI 404: TRAINING AND EDUCATION 2016			
GRI 103	Management approach 2016	P. 77-80	
404-1	Average hours of training per year per employee	P. 79	
GRI 405: DIVERSITY AND EQUAL OPPORTUNITY 2016			
GRI 103	Management approach 2016	P. 69-72; 100-102	
405-1	Diversity of governance bodies and employees	P. 69-71; 102	
GRI 406: NON-DISCRIMINATION 2016			
GRI 103	Management approach 2016	P. 108-109	
406-1	Incidents of discrimination and corrective actions taken	P. 68	
GRI 416: CUSTOMER HEALTH AND SAFETY 2016			
GRI 103	Management approach 2016	P. 91-93	
416-1	Assessment of the health and safety impacts of product and service categories	P. 92	
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	P. 92	
GRI 417: MARKETING AND LABELLING 2016			
GRI 103	Management approach 2016	P. 94	
417-1	Requirements for product and service information and labelling	P. 94	
417-2	Incidents of non-compliance concerning product and service information and labelling	P. 94	
GRI 418: CUSTOMER PRIVACY 2016			
GRI 103	Management approach 2016	P. 110-111	
418-1	Substantiated complaints regarding breaches of customer privacy and losses of customer data	P. 111	







Independent auditors' report

Independent auditors' report

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INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED NON-FINANCIAL STATEMENT PURSUANT TO ARTICLE 3, PARAGRAPH 10 OF LEGISLATIVE DECREE No. 254 OF DECEMBER 30, 2016 AND ART. 5 OF CONSOB REGULATION N. 20267/2018

To the Board of Directors of
Carel Industries S.p.A.

Pursuant to article 3, paragraph 10, of the Legislative Decree no. 254 of December 30, 2016 (hereinafter "Decree") and to article 5 of the CONSOB Regulation n. 20267/2018, we have carried out a limited assurance engagement on the Consolidated Non-Financial Statement of Carel Industries S.p.A. and its subsidiaries (hereinafter "Carel Group" or "Group") as of December 31, 2020 prepared on the basis of art. 4 of the Decree and approved by the Board of Directors on March 4, 2021 (hereinafter "NFS").

Responsibility of the Directors and the Board of Statutory Auditors for the NFS

The Directors are responsible for the preparation of the NFS in accordance with articles 3 and 4 of the Decree and the "Global Reporting Initiative Sustainability Reporting Standards" established by GRI (hereinafter "GRI Standards"), which they have identified as reporting framework.

The Directors are also responsible, within the terms established by law, for such internal control as they determine is necessary to enable the preparation of NFS that is free from material misstatement, whether due to fraud or error.

The Directors are moreover responsible for defining the contents of the NFS, within the topics specified in article 3, paragraph 1, of the Decree, taking into account the activities and characteristics of the Group, and to the extent necessary in order to ensure the understanding of the Group's activities, its trends, performance and the related impacts.

Finally, the Directors are responsible for defining the business management model and the organisation of the Group's activities as well as, with reference to the topics detected and reported in the NFS, for the policies pursued by the Group and for identifying and managing the risks generated or undertaken by the Group.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the compliance with the provisions set out in the Decree.

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Roma Torino Treviso Udine Verona

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Auditor's Independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the *International Ethics Standards Board for Accountants*, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Our auditing firm applies *International Standard on Quality Control 1 (ISQC Italia 1)* and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditor's responsibility

Our responsibility is to express our conclusion based on the procedures performed about the compliance of the NFS with the Decree and the GRI Standards. We conducted our work in accordance with the criteria established in the "*International Standard on Assurance Engagements ISAE 3000 (Revised) – Assurance Engagements Other than Audits or Reviews of Historical Financial Information*" (hereinafter "*ISAE 3000 Revised*"), issued by the *International Auditing and Assurance Standards Board (IAASB)* for limited assurance engagements. The standard requires that we plan and perform the engagement to obtain limited assurance whether the NFS is free from material misstatement. Therefore, the procedures performed in a limited assurance engagement are less than those performed in a reasonable assurance engagement in accordance with ISAE 3000 Revised, and, therefore, do not enable us to obtain assurance that we would become aware of all significant matters and events that might be identified in a reasonable assurance engagement.

The procedures performed on NFS are based on our professional judgement and included inquiries, primarily with company personnel responsible for the preparation of information included in the NFS, analysis of documents, recalculations and other procedures aimed to obtain evidence as appropriate.

Specifically we carried out the following procedures:

1. analysis of relevant topics with reference to the Group's activities and characteristics disclosed in the NFS, in order to assess the reasonableness of the selection process in place in light of the provisions of art.3 of the Decree and taking into account the adopted reporting standard;
2. analysis and assessment of the identification criteria of the consolidation area, in order to assess its compliance with the Decree;
3. comparison between the financial data and information included in the NFS with those included in the consolidated financial statements of the Carel Group as of December 31, 2020;

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4. understanding of the following matters:

- business management model of the Group's activities, with reference to the management of the topics specified by article 3 of the Decree;
- policies adopted by the entity in connection with the topics specified by article 3 of the Decree, achieved results and related fundamental performance indicators;
- main risks, generated and/or undertaken, in connection with the topics specified by article 3 of the Decree.

Moreover, with reference to these matters, we carried out a comparison with the information contained in the NFS and the verifications described in the subsequent point [5], letter a) of this report;

5. understanding of the processes underlying the origination, recording and management of qualitative and quantitative material information included in the NFS.

In particular, we carried out remote interviews and discussions with the management of Carel Industries S.p.A. and with the employees of Carel Adriatic d.o.o., Carel Eletronic (Suzhou) Co.,Ltd. and Carel USA Inc. and we carried out limited documentary verifications, in order to gather information about the processes and procedures which support the collection, aggregation, elaboration and transmittal of non-financial data and information to the department responsible for the preparation of the NFS.

In addition, for material information, taking into consideration the Group's activities and characteristics:

- at the group level:
 - a) with regards to qualitative information included in the NFS, and specifically with reference to the business management model, policies applied and main risks, we carried out interviews and gathered supporting documentation in order to verify its consistency with the available evidence;
 - b) with regards to quantitative information, we carried out both analytical procedures and limited verifications in order to ensure, on a sample basis, the correct aggregation of data.
- for the following companies Carel Industries S.p.A., Carel Adriatic d.o.o., Carel Eletronic (Suzhou) Co.,Ltd. and Carel USA Inc., which we selected based on their activities, their contribution to the performance indicators at the consolidated level and their location, we carried out remote meetings, during which we have met their management and have gathered supporting documentation with reference to the correct application of procedures and calculation methods used for the indicators.

Deloitte.

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Conclusion

Based on the work performed, nothing has come to our attention that causes us to believe that the NFS of the Carel Group as of December 31, 2020 is not prepared, in all material aspects, in accordance with article 3 and 4 of the Decree and the GRI Standards.

DELOITTE & TOUCHE S.p.A.

Signed by
Cristiano Nacchi
Partner

Padua, Italy
March 26, 2021

This report has been translated into the English language solely for the convenience of international readers.



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