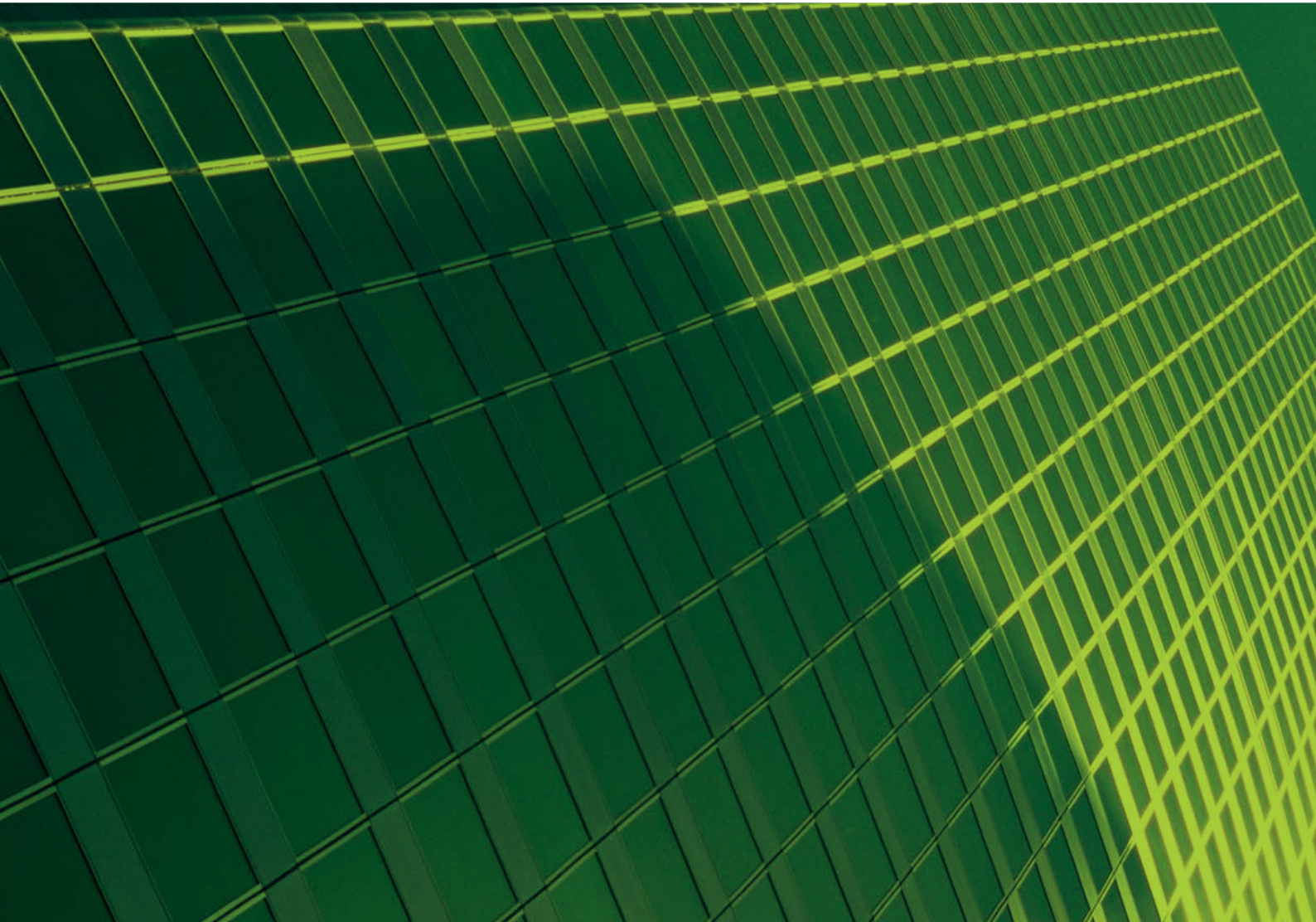




2022

**CONSOLIDATED
NON-FINANCIAL
STATEMENT**



(Translation from the Italian original which remains the definitive version)

2022 CONSOLIDATED NON-FINANCIAL STATEMENT

Prepared in accordance
with Legislative decree no. 254/2016

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LETTER TO THE STAKEHOLDERS

Dear stakeholders,

The three-year period just ended was one of the most complex in recent history. It was characterised by one of the most extensive pandemics of the last century and the recent conflict between Russia and Ukraine which led to enormous economic and social repercussions that cannot yet be fully assessed. In addition to this, the shortage of both electronic and energy raw materials and other factors led to a sharp increase in prices mainly in Europe (and the United States).

In this tough context, and despite the macroeconomic difficulties, we managed to perform extremely well, with revenue growth close to 30% in both 2021 and 2022 and an EBITDA margin exceeding 20%. These figures, which mark an all-time high for Carel, reflect our ability to constantly and consistently implement the strategic business guidelines that have been organically incorporating all ESG (environmental, social and governance) aspects for a few years now. This enabled us to adhere, in July 2022, to the United Nations Global Compact initiative, which pursues the application of ten universal principles relating to human rights, labour, the environment and the fight against corruption with which Carel complies.

With respect to the environment, significant efforts were made to combat climate change: in 2022, we managed to cut emissions by a significant 45.5% compared to the previous year, down by 60.2% on 2019 (benchmark year). This result was achieved by implementing energy efficiency initiatives which reduced energy consumption and, above all, by procuring electricity from completely renewable sources, which accounted for 85% of the total electricity purchased. In addition, the approval of investments in photovoltaic systems will enable us to further reduce emissions as early as 2023.



These figures...reflect our ability to constantly and consistently implement the strategic business guidelines that have been organically incorporating all ESG (environmental, social and governance) aspects for a few years now

Our commitment to a more sustainable future entails the implementation of projects to decarbonise our production processes and also translates into increasingly efficient and innovative products. In 2022, by using these products, customers saved 6,220 GWh, avoiding a total of 1,710,441 tCO₂e. The sustainability of our products is also confirmed by the analysis carried out in accordance with the EU Taxonomy, a framework of stringent rules adopted by the European Union to classify green activities: about 60% of Carel's analysed revenue is taxonomy aligned.

Therefore, environmental sustainability is now part of one of the historical pillars of our development, namely careful management of current and potential human capital. Specifically, in 2022, the parent confirmed its commitment to gender rebalancing in white collars and manager positions, bringing the percentage of white-collar women hired on a permanent basis to 23% of the total workforce. In line with the corporate culture, we focused considerably on training, delivering more than 19 hours per employee per year and reaching the goal set in the long-term sustainability plan approved at the end of 2021. Training covered, in part, the respect for human rights, integrity and legality, and compliance and privacy. In addition, the parent engaged some offices in a learning path on Diversity & Inclusion.

Finally, we acknowledge that sustainability goes beyond the company gates; indeed, it must cover the entire value chain in which we operate and of which we are part. In this respect, at the end of 2022, the Suppliers' Code of Conduct was approved, outlining principles and standards of conduct in ethical and responsible business, protection of workers and human rights, and care for the environment and communities with which the Group's suppliers and subcontractors must comply.

The efforts of the past few years have also been rewarded by external ESG Rating providers. Specifically, Carel further increased its score in the "MSCI ESG rating assessment", obtaining the "AA" score that places it in the "Leader" category, i.e., the group of companies that, in their sector, best manage ESG-related risks and opportunities. In addition, ECOVADIS (the world's largest sustainability rating provider with around 100,000 companies assessed), awarded the Group a silver medal. Finally, CDP (formerly the Carbon Disclosure Project) acknowledged the Group's efforts in combating climate change. Indeed, CDP, the global non-profit organisation that monitors, inter alia, corporate performance in combating climate change, has improved Carel's rating from "C" in 2021 to "B-" in 2022, placing it in the "Management" category, i.e., the group of companies that work to minimise their environmental impact.

Based on the above, 2022 has been a year full of initiatives during which we achieved excellent results that enabled us to proudly celebrate our first 50 years! Indeed, this year we reach half a century, half a century of challenges, innovation, development and growth. Half a century which, as is always the case, we do not see as the end of our journey but rather a beginning to consolidate "sustainable success" based on our most important assets: over 2,000 people who every day put their commitment and passion into making Carel even bigger, more inclusive and more sustainable.

CEO
Francesco Nalini

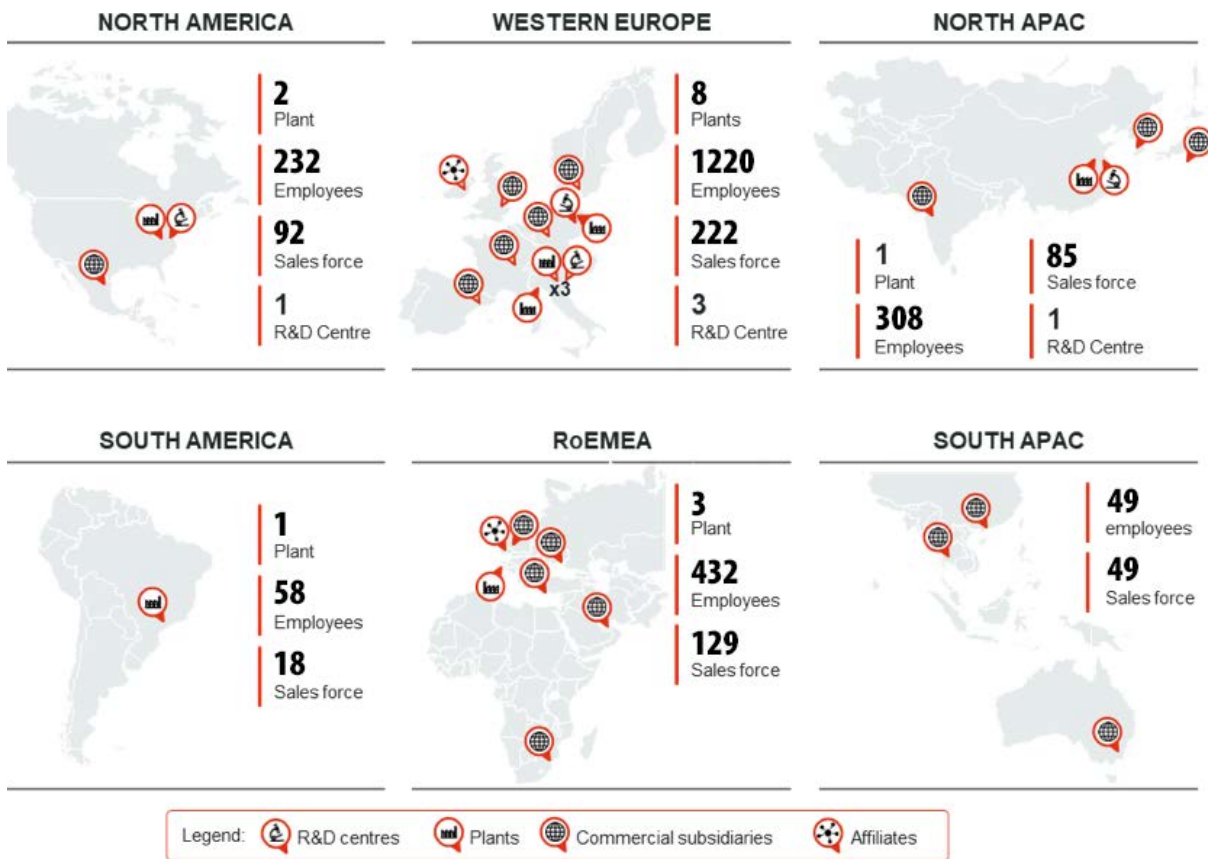
Director with ESG powers
Carlotta Rossi Luciani

CAREL INDUSTRIES GROUP

Incorporated in 1973, Carel has always been known for advanced control systems and 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.

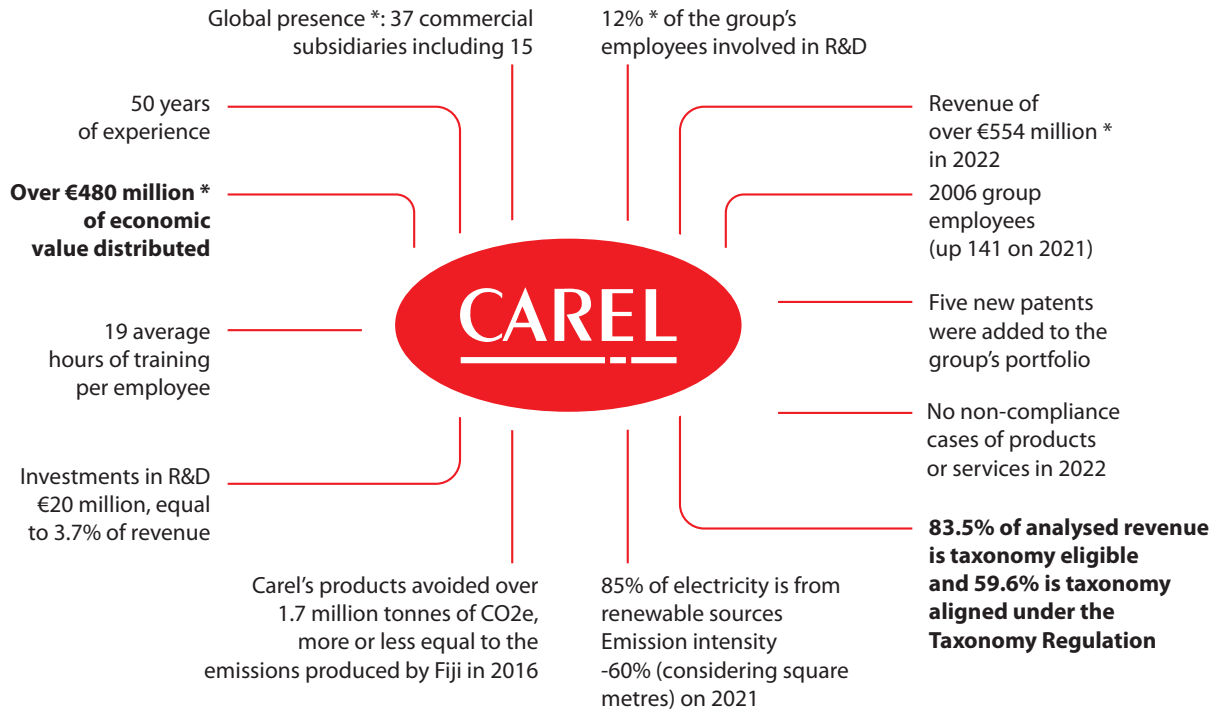
Roughly 80% of its sales take place outside Italy where the Group has a widespread customer sales and support network. Specifically, Carel operates globally, notably in North, Central and South America, Asia, Australia, Africa and Europe. It has 37 commercial subsidiaries and 15 production sites. It also works with partners and distributors in another 75 countries*.

For information about the group’s structure, reference should be made to the consolidated financial statements.



*Scope 31/12/2022

CAREL IN FIGURES



*Scope 31/12/2022

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 website with services for users of Carel software products, goes on-line;
- Carel adopts the ORACLE ERP system;
- Carel Centre for Experimental Thermodynamics is founded, dealing, among other things, with the experimentation of control techniques for refrigeration appliances, with special focus on new technologies.

2005

Carel starts production at the new facilities in Suzhou (around 100 km from Shanghai). The new factory makes electronic solutions for the air-conditioning and refrigeration sectors to the same quality standards as the parent, and was established to respond to the growing demand 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 the fourth edition of the “Business Innovation Prize” (Ixl - Imprese x l’Innovazione), established by Confindustria (the main Italian organisation representing manufacturing and services companies) in collaboration with APQI (Italian Quality Awards Association). Carel was assessed positively after a thorough 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 subsidiaries 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 subsidiary.

2018

- In June, the parent is listed on the STAR segment of Borsa Italiana's stock market with an initial capitalisation of €720 million;
- In November, Carel acquires Recuperator S.p.A., which designs, produces and sells air-air heat exchangers;
- In December, Carel finalises its acquisition of Hygromatik GmbH, which designs, manufactures and sells steam and adiabatic humidifiers.

2019-2020

- Carel consolidates its presence in Eastern Europe by opening a new commercial subsidiary 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.

2021

- In 2021, the Carel Group completes two major acquisitions: CFM, Carel's historical partner and distributor in Turkey, and Enginia, which manufactures components for air handling units;
- The first sustainability-linked loan is subscribed. This €20 million loan includes a mechanism that provides for the reduction of the interest rate upon the achievement of social sustainability annual quantitative targets;
- The first long-term sustainability plan, which may be summarised with the motto Driven by the Future - Sustainability in action, is approved.

2022

2022 was a particularly important year for the Group as significant acquisitions were finalized. Specifically:

- it acquired 30% of Arion, a company specialising in the production of sensors, in which Carel Industries already held a 40% investment;
- it acquired 70% of Sauber S.r.l., a company based in Lombardy and specialising in on-field services;
- it acquired 100% of Klingenburg GmbH (and its three subsidiaries) and Klimgenburg International Spzoo; these companies specialise in the production of heat recovery systems;
- it acquired 100% of Senva Inc, a company specialising in the production of sensors.

For additional information about the business and the nature of the acquisitions carried out in 2022, reference should be made to the consolidated financial statements.

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.

Manheim (Pennsylvania)
Established in **2004**
Assembling humidifiers, programmable controls and electrical panels

Reference market:
North America



Valinhos (Sao Paulo)
Established in **2010**
Specialised in the production of parametric controls

Reference market:
South America
(also serving North America)



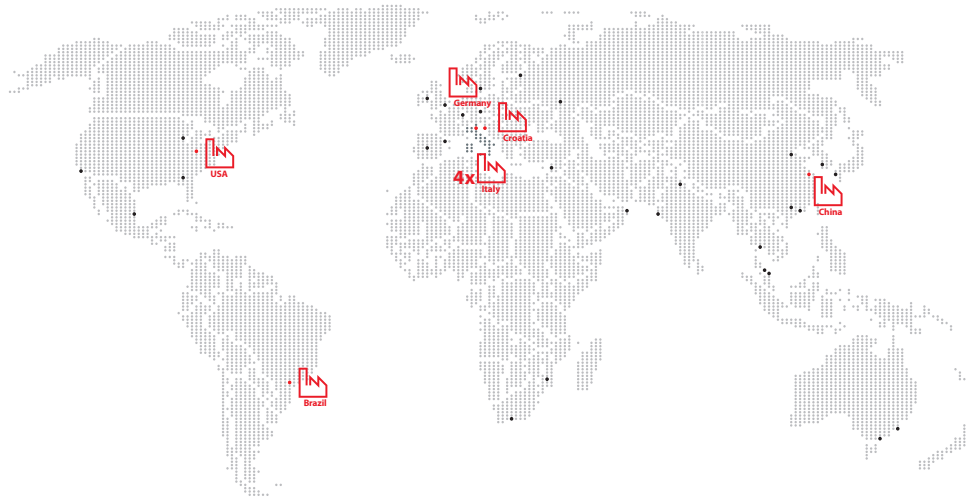
Albona (Labin)
Established in **2015**
Producing electronic expansion valves and related drivers and inverter, controls and electrical panels

Reference market:
EUROPA



Sozhou (Jiangsu)
Established in **2005**
Focus on the manufacturing of parametric controls and humidifiers

Reference market:
APAC



Brugine (Padua)
Established in **1973**
Covering the whole portfolio production (programmable and parametric controls, valves, inverters, humidifiers and panels)

Reference market:
mainly EUROPE



Rescaldina (Milan)
Established in **1996**
Dedicated to the design, production and marketing of air-to-air heat exchangers

Reference market:
mainly EUROPE



Trezzo sull'Adda (Milan)
Established in **1997**
Dedicated to production of non use equipment household for machines of air handling units.

Reference market:
mainly EUROPE



Hamburg (Germany)
Established in **1970**
Design and assembly of humidifiers

Reference market:
mainly EUROPE



REFRIGERATION



AIR CONDITIONING



HUMIDIFICATION



HEATING



IOT

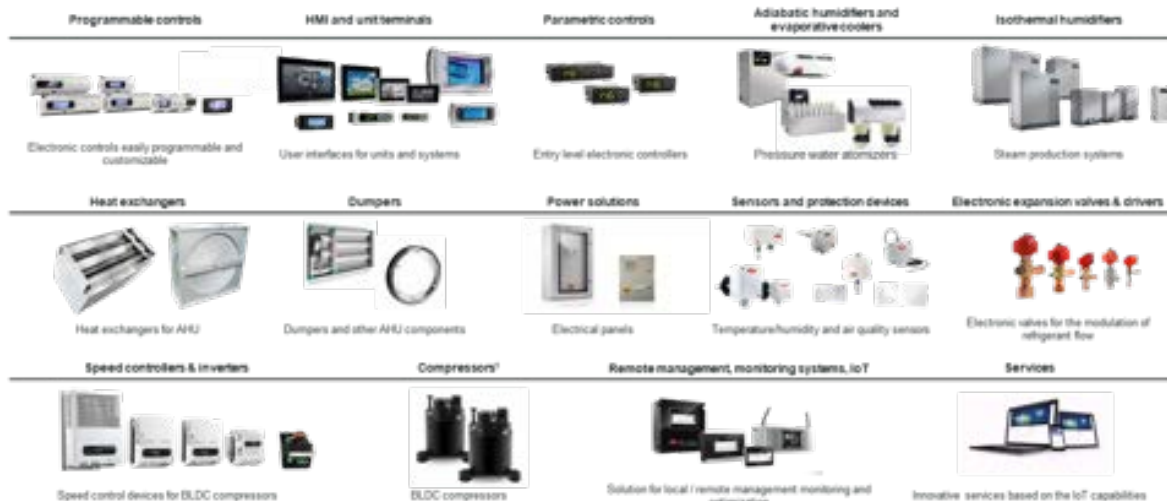
Over the years, the Group has designed systems and applications for vertical market niches with very specific needs requiring highly tailored solutions. In all market segments, the main challenges include energy saving, human-machine interaction, growing usability and cloud connection.

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

It designs, manufactures and distributes control, humidification and cooling 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.





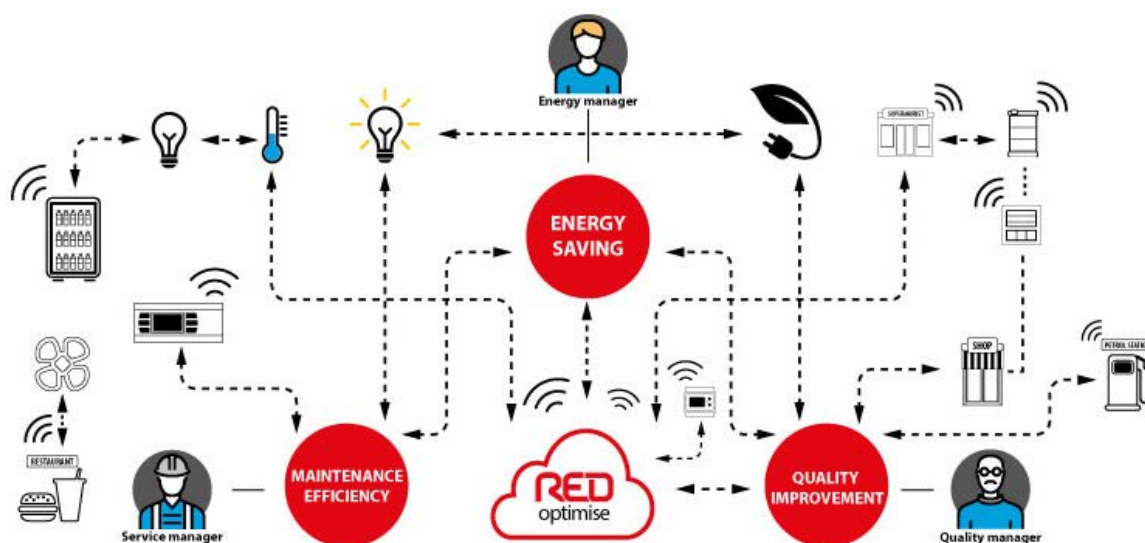
DISTINCTIVE ABILITY TO MEET CUSTOMER DEMAND FOR CUSTOMIZED INTEGRATED SOLUTIONS USING STANDARD PLATFORMS

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:



VISION AND MISSION

In 2022, the company continued its project strongly geared towards sustainability, both internally and externally. This project began in 2020 with a series of events that enabled the Group to share its business purpose at all levels, which not only looks 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.

<p>We lead the innovation of control technology and humidification for air conditioning and refrigeration.</p>	<p>Our products & services support customers with the most efficient & sustainable solutions.</p>	<p>Data processing provided by our IoT platform enables valuable customer services during the whole system's life through solutions for Climate Control Industry</p>
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Research, innovation and technology are the cornerstones of the Carel Group's success. For almost 50 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 guarantee efficient energy savings to benefit the environment.

The Group's brand strategy has also evolved by focusing on corporate social responsibility issues, energy savings and respect for the environment. To this end, two ESG-related advertising campaigns have been launched on social networks, showing that attention to the environment and sustainability is a pillar of the Group's business and a day-to-day commitment necessary to look to the future with more confidence.



Vision

Being the innovation our planet needs through solutions for the Climate Control Industry.

Driven by knowledge, inspired by human well-being.

Now and for future generations.

These campaigns received a lukewarm response from users. Conversely, the ads of the sponsored sustainability campaign reached more than 2 million users and were viewed over 6 million times.

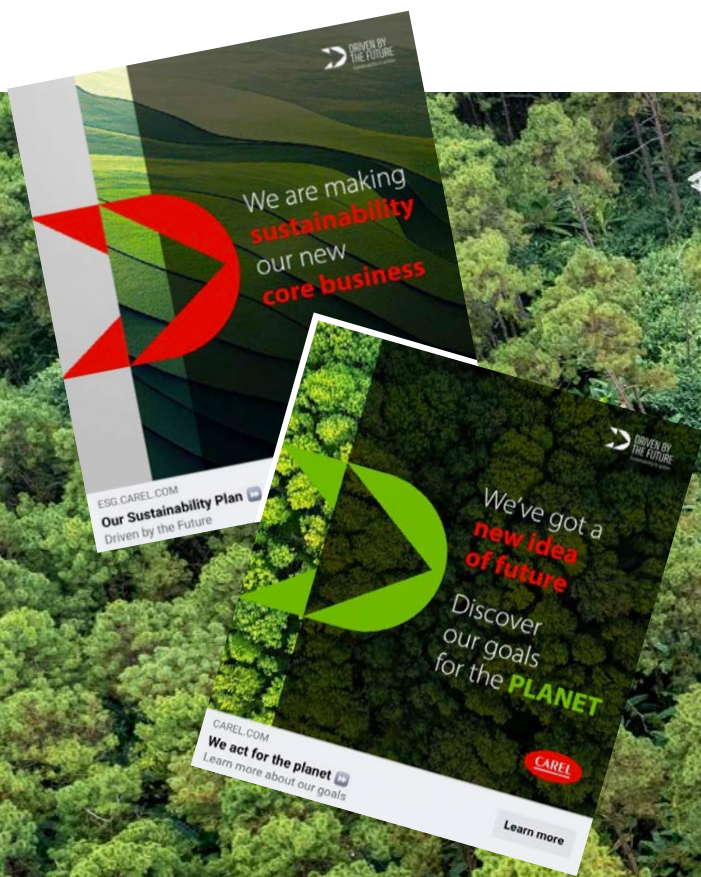
Users generally showed an interest in the proposed topics, delving into them on the Carel website (7,233 clicks). Corporate sustainability generated the greatest interest, with 4,654 clicks on the Driven by the Future ads. LinkedIn, in particular, as well as Facebook, welcomed environmental and environmental-related topics (Act for the planet).

BRAND REPUTATION

During 2022, about 200,000 mentions of the name CAREL were registered on the web (down from the previous year, registering -25%), all with positive or neutral sentiment. The positive sentiment is mainly due to budget news, acquisitions, and corporate actions in the area of sustainability. Among the words most associated with the brand, mentions of technological contribution of the solutions offered, data management, and the theme of sustainability, particularly energy efficiency in the HVAC sector.

The focus on digital communication, which began in 2021 in order to assert the Group's presence in the national and international technology sector, continued effortlessly in 2022. In this respect, Carel has continued to increase its presence on social networks, with LinkedIn still the best-performing social media. The performance indicators of the LinkedIn page were all up on the previous year and the figures showing the growth of organic impressions and the average number of interactions per post (the sum of likes, comments, shares and clicks, divided by the total number of posts published) were particularly positive. The average number of organic impressions per post also grew, up to 3,452 from 2,611 in 2021.

Carel's followers are up by 19% on 2021. In 2022, the investments planned to help the page achieve new target users and increase its visibility achieved their goal, generating significant increases in May, June and September, during the advertising campaigns promoting meetings on humidification and health within the Italian target.



Content is delivered on social media, also thanks to the activities of Carel employees, and to sector publications. In this context, Carel's YouTube channel has become increasingly important. In 2022, it was regularly filled with new content including product presentations and interviews (over 20 videos), reaching over 750,000 views (up 20% on 2021).

In 2021, the pandemic had a severe impact on the company's external communication, with attendance at in-person events dropping significantly. Conversely, 2022 saw a partial return to normal pre-pandemic activities. Indeed, in-person events have increased on the previous year, though their numbers are still far from pre-Covid levels (18 in-person events in 2022 compared to 5 in 2020 and more than 50 in 2019).

KPI	2022	2021	Δ %
Total followers	38,887	32,688	18.96%
New followers	6,345	6,007	5.63%
Number of posts published	326	313	4.15%
Total impressions	1,594,718	918,611	73.60%
Organic impressions	1,125,267	817,224	37.69%
Average interactions/post	317	101	213.32%

CAREL NEW BUILDINGS

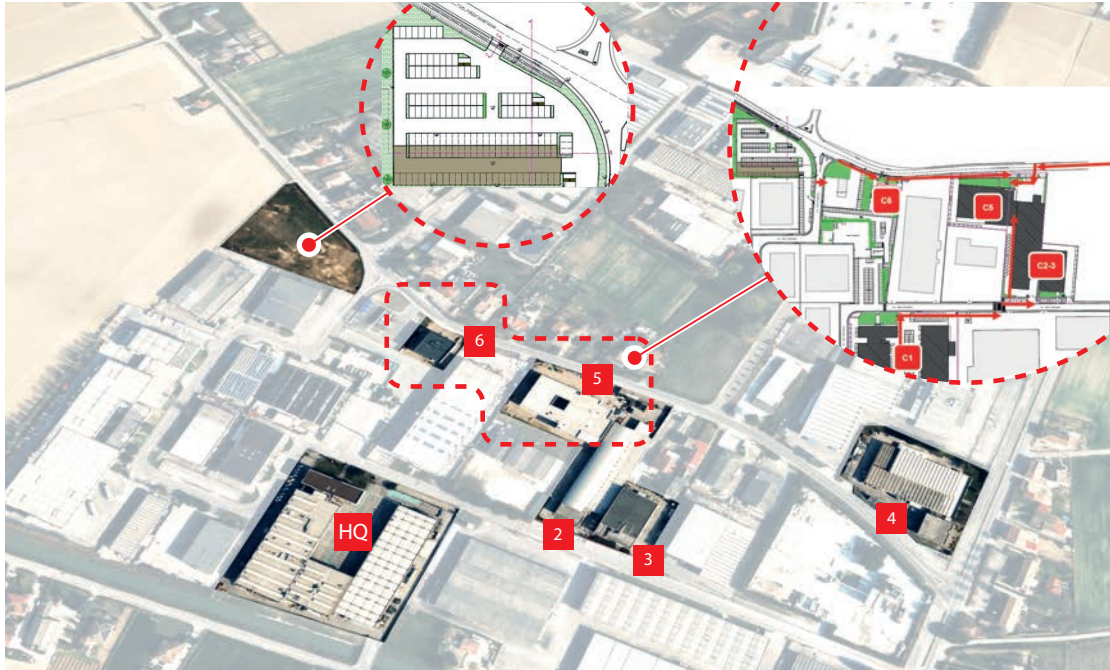
In addition to the production plant in Croatia, which increased its overall capacity, two new buildings at the parent's headquarters were inaugurated in 2022:

- "CAREL5 – Knowledge Center", a multi-purpose building housing the large company canteen, the new HVAC/R laboratory, a conference room and several training areas.
- "CAREL6 - New Office Building", with three floors housing new office spaces designed with innovative layouts, extremely bright and flexible spaces in order to encourage maximum collaboration between the different areas.

These buildings were constructed also based on the principles of the Carel Culture Code, which drove the development of both internal and external construction projects:

- "Experiment" was the basis for thinking about interior spaces, flows and the arrangement of areas;
- "Care", on the other hand, promoted the attention to detail to the benefit of the people and all those who will be working and/or attending events at the different areas;
- "Be open" reflects the nature of areas for both colleagues and all Carel customers and partners, who will be able to see and learn about the excellence produced in person;
- "Think customer first" is a pillar for both the Knowledge Center areas and the new office building;
- "Make the difference", since these buildings want to make a difference, as excellent and unique places that enhance the work of the Group, the time spent and how products and services are presented to customers.

Thanks to the launch of these two new buildings and the construction of a new car park, the total area covered is approximately 25,200 square metres.



CAREL 5 – CAREL CENTRE OF EXCELLENCE

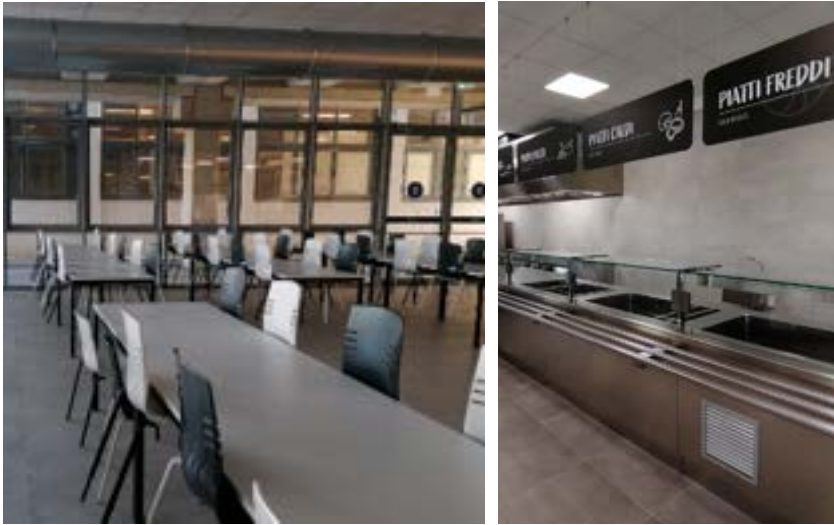


Multifunctional building of approximately 4,000 square on two floors.



Training rooms, exhibition rooms, webinar rooms.

Meeting room with over 90 seats - training and exhibition rooms.



Company canteen of 600 square metres with almost 240 places and two meal distribution lines.

The building was designed and will operate in the near future in full compliance with environmental sustainability and with very limited consumption.



Schucko' windows with high-efficiency selective.



Photovoltaic panels on the roof for a power of 54 kWp, allowing energy self-generation for the canteen based on average use



All systems and equipment include controls for maximum efficiency and energy saving and maximum automation of the building.



Three rainwater collection tanks for a total of 50 cubic metres for all non-drinking water consumption and an 11 cubic metre fire-prevention tank.

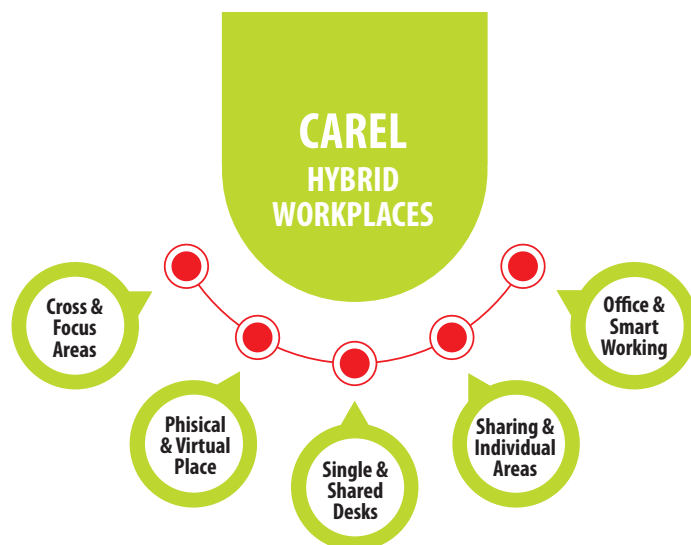
Overall, about ten contracting companies worked for more than 70,000 hours on the construction site without recording any accidents or first-aid interventions or without encountering any environmental or licensing issues.

CAREL 6 – NEW OFFICE SPACES FOR “EXPERIMENTING AND INNOVATING”

The building relies on the idea of “experimenting”, especially in terms of workflows: each floor is a large open-plan area with glass partitions that make the offices extremely bright. The meeting rooms boast the latest video conference technology and are located over the three floors with different sizes in order to meet different needs.

Spaces and details have been designed to best facilitate the now widespread hybrid working mode.

The building includes management systems for best temperature, air quality and energy saving.





Building of approximately 1,300 square metres on three floors.



Working areas, meeting rooms and new break areas.



Schucko windows with high-efficiency selective double glazing. Outside, automatic sunshade systems have been installed to reduce heat during the warmer months.

All systems is equipped with Carel controls. Humidity control systems. Air sanitisation is also planned.

The building is equipped with a 12kWp photovoltaic system which allows energy self-generation.

Similarly to the other building, overall, about ten contracting companies worked for more than 30,000 hours on the construction site without recording any accidents or first-aid interventions or without encountering any environmental or licensing issues.

Because of their construction and plant engineering features, both buildings have been classified as low-energy buildings. Furthermore, they do not use non-renewable resources as they are powered only by 100% renewable energy.



Carel and sustainability

SUSTAINABILITY POLICIES AND COMMITMENTS

The strategy that drives innovation within the Group relies on environmental sustainability as its main target. This strategy is pursued through two different but converging paths: on the one hand, maximising energy efficiency with increasingly smart and interconnected products and, on the other, contributing significantly to the transition to the use of natural refrigerant gases and fluids with a low environmental impact. This is particularly important since more than a fifth of the energy consumed every year refers to the Group's main uses and traditional refrigerant gases (HFCs) which, if released into the atmosphere, can produce a greenhouse effect thousands of times more harmful than carbon dioxide.

Based on its commitment to complying with the highest environmental sustainability standards and to ensure their respect for the principles of social responsibility, the Group companies adopted a set of conduct rules guiding operating activities for certain areas considered to be of key importance. Carel has summarised these rules in its Code of Ethics and its policies on diversity, human rights, the environment and occupational health and safety.¹ 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. 231/01² (approved in 2017 and updated by resolution of the board of directors in 2018 and, most recently, in 2021). To this end, reference should be made to the section "Business ethics and integrity and the fight against corruption" and to the relevant anti-corruption procedure.

The anti-corruption procedure, approved by the board of directors in 2019 and updated in 2021, and the Policies on Diversity, Human Rights, the Environment and Occupational Health and Safety, approved by the board of directors in 2018, following the Group's listing on the Stock Exchange in June of the same year, apply to all Carel group companies in all the regions in which they operate and target employees, collaborators (e.g., consultants, agents), corporate officers (chairperson, CEO, members of the board of directors and the board of statutory auditors, general manager), and the Group's main stakeholders, i.e., as all those who act in the name of and on behalf of group companies and their top suppliers.

The content of the anti-corruption procedure and of these policies were used to draft the Suppliers' Code of conduct in 2022. For additional information, reference should be made to the section on "Promoting social and environmental sustainability principles in the supply chain".

Furthermore, in 2022, in accordance with the UK Modern Slavery Act, Carel UK prepared a Statement in which it describes the measures taken to prevent slavery and human trafficking in its business activities and supply chain. Although this legislation applies only to Carel UK, the Statement has been developed with a view to its future adoption by the Carel Group. Indeed, the measures described therein apply to the entire Group.

The anti-corruption procedure, which was defined in accordance with Legislative decrees no. 231/01 and 254/2016 and the Policies on Diversity, Human Rights, the Environment and Occupational Health and Safety, is summarised below. The following sections provide suitable disclosures on the Group's policies, commitments and practices:

1 These policies are publicly available, in Italian and English, on the company website at the following link "www.carel.it/legal-notice".

2 At 31 December 2022, Carel Industries and Recuperator adopted the Organisational, management and control model

ANTI-CORRUPTION PROCEDURE

The Carel Group commits to:

- Monitor donations, benefits or other gifts offered or received, establishing criteria and limits to their receipt and offering, in accordance with section 3.1. of the Code of Ethics; Specifically: donations must comply with the internal policies of Carel and its subsidiaries on deciding and approving spending limits concerning donations, in addition to recording requirements; - any donations, gifts or offers, including hospitality and meals, (i) may not consist of payments in cash or cash equivalents (e.g., gift cards or vouchers), (ii) must comply with the criteria of suitability and reasonableness in light of the actual circumstances, (iii) must be motivated only by reasons of courtesy in business relations; - “modest value” means €150 per gift or offer and a total amount of €600 per year, where each gift, with an individual modest value, is part of a regular series of gifts offered or received - donations, gifts, benefits and offers for the family members of a public officer who, as part of their activities, deals or has dealt with matters related to the Carel Group and of a private employee or collaborator of a business partner or supplier shall be considered as made to the latter; donations from family members shall also be considered as given by the same person.
- Monitor the payment of contributions and financing to political parties, committees, foundations and movements and their candidates and representatives, providing that, in accordance with section 3.6. of the Code of Ethics, only corporate officers authorised by the by-laws or the corporate bodies may provide, transparently and impartially, economic contributions to political parties and movements in the name of Carel or its subsidiaries, in line with the regulations on financing political parties applicable in each jurisdiction in which the company and its subsidiaries operate. Contributions to trade unions and trade union bodies are governed exclusively by national regulations on labour relations and the organisation of trade union activities.
- Monitor sponsorships and contributions to charitable organisations (e.g., non-profit making associations and organisations) or charities, providing that Carel and its subsidiaries comply with the procedure for approving the budget for sponsorship and charitable activities and the system of proxies and controls governed by the company’s 231 model, as applicable. In addition, under the anti-corruption procedure, for all beneficiaries of contributions and donations: - their goal must be consistent with the sponsorship purposes of Carel and its subsidiaries: to this end, each sponsorship request and each proposed donation must provide the characteristics of the sponsored or financed activity; the competent corporate function must in any case perform a due diligence on the beneficiary; - if in cash, they must be disbursed exclusively by means of payment to a current account in the body’s name, duly recorded in Carel’s internal accounts and the supporting documentation must be stored for ten years; - they must be disbursed to bodies with a proven reliability and reputation in the non-profit and social service sector, which can demonstrate that they have the certifications and meet the operating requirements imposed by applicable regulations.
- Monitor relations with the media, prohibiting donations, fees, offers, gifts and any other benefit to journalists and other media operators. In any case, relations with the media must be maintained exclusively by the relevant people who must always comply with the principles of professionalism, morality and diligence set out in the Code of Ethics, assisted by the Legal Affairs Unit.
- Set specific recruitment rules, requesting that employees and collaborators are selected and managed solely on the basis of their merit, ensuring that Carel and its subsidiaries select resources who meet the integrity requirements, gathering all useful information on references, previous work experience, assessments of suitability for the position, the existence of criminal records or pending criminal or preventive proceedings, as well as civil and administrative sanctions that may be relevant when judging the ethical-professional suitability or the adequacy to the vacant position, and the existence of any conflicts of interest, even potential, of the candidates.
- Provide for specific accounts management rules so that Carel and its subsidiaries comply with the reporting standards in line with current regulations in order to fairly present each economic transaction carried out, giving a true, accurate, precise, exhaustive and transparent view of operations. Therefore, in accordance with applicable tax laws and industry best practices, costs, charges, revenue, proceeds, payments, commitments and expense reimbursements – regardless of their significance for accounting purposes – are promptly recorded as financial information together with the relevant supporting documentation, and are made available to the independent auditors for subsequent checks. Furthermore, Carel and its subsidiaries adopt accurate accounting record and internal control procedures, in accordance with section 6 of the Code of Ethics and the company’s 231 model, in order to prevent or, in any case, minimise the risk that fraud, errors or omissions in the recognition procedure result in hidden assets or reserves, affecting the reliability of the company’s annual and interim reports.
- Apply the principle of segregation of duties and implement an internal control system

In adopting the environmental and occupational health and safety policy, the Carel Group made reference to:

- Italy’s Code of Criminal Procedure;
- Legislative decree no. 231/2001;
- the Foreign Corrupt Practices Act (FCPA);
- the UK Bribery Act;
- the anti-corruption laws of the individual countries in which the company and its subsidiaries operate;
- the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions; and
- the UN Convention against Corruption

DIVERSITY POLICY

The Carel Group commits to:

- 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 dialogue, mutual respect, well-being and work-life balance;

HUMAN RIGHTS POLICY

The Carel Group commits to:

- not engage in child labour;
- refuse all forms of forced or compulsory labour and all forms of physical or physiological constraints;
- not tolerate 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;
- 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;
- consider the expectations of local communities, contribute to their development, respect their cultural and environmental heritage.

In adopting the Diversity and Human Rights policies, the Carel Group made reference to:

- the United Nations International Bill of Human Rights, including the UN Universal Declaration of Human Rights, the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights;
- the Declaration on Fundamental Principles and Rights at Work of the International Labour Organisation (ILO) and its Follow-up;
- the European Convention on Human Rights;
- Legislative decree no. 231/2001.

ENVIRONMENTAL AND OCCUPATIONAL HEALTH AND SAFETY POLICY

The Carel Group commits to:

- effectively implement, control and regularly assess, when necessary, its environmental and occupational health and safety management systems, aiming at high safety standards for its employees;
- 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, while periodically carrying out emergency simulations in order to raise awareness and train operational staff and all employees;
- 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, focusing, in particular, on employees' awareness and proactivity in reporting unsafe conditions and near misses and proposing solutions for improvement;
- provide for the technical design of work environments, equipment and processes;
- encourage workers, safety officers and managers to play an active role in preventing risks;
- closely comply with established security and prevention measures;
- share group guidelines on minimum safety requirements as applied during the Covid-19 emergency

In adopting the environmental and occupational health and safety policy, the Carel Group made reference to:

- the international standard UNI EN ISO 14001 on Environmental Management Systems;
- the international standard OHSAS 18001 on Occupational Health and Safety Management Systems;
- the laws, regulations and guidelines of each country in which Carel operates;
- Legislative decree no. 231/2001

The board of directors is responsible for supervising the implementation of these policies, while the day-to-day responsibility for implementing each of the commitments envisaged by said policies lies with the Human resources and the HSE functions. Finally, the Legal function and the Supervisory body (the "SB") are responsible for checking compliance with these commitments.

When hired, all Carel employees receive specific training on these policies via the Group's e-learning platform. Furthermore, with respect to parent, the success of training on the Code of Ethics and anti-corruption is checked by sending questionnaires that investigate the level of awareness and understanding of these commitments. When the minimum score is not achieved, the course must be repeated.

Furthermore, business partners and other third parties are informed and asked to comply with these policies through reminder clauses in the general terms and conditions of purchase and sale agreements and in contracts.

Since 2022 Carel has been a member of the UN Global Compact initiative, which indicates the commitment to contribute to a new phase of globalisation, characterised by sustainability, international cooperation and partnership. By participating in this initiative, Carel has embraced a set of principles on human rights, labour, the environment and anti-corruption, that promote the values of sustainability in the long term through political actions, business practices and responsible social and civil behaviour taking into account also future generations.

Specifically, the organisations participating in the UN Global Compact initiative commit to:

- make the ten principles an integral part of their business strategy, day-to-day operations and organisational culture;
- incorporate the ten principles in decision-making processes at the highest levels;
- support the goals of the United Nations, including the Sustainable Development Goals (SDGs);
- report annually to their stakeholders on progress in implementing the ten principles;
- advance the UN Global Compact and the case for responsible business practices through advocacy and outreach to partners, customers, consumers and all stakeholders.

FOUR-YEAR ESG PLAN

Several years ago, the Group developed a multi-level governance structure consisting of the ESG team, the control, risks and sustainability committee and a member of the board of directors. They have each been entrusted with specific duties: the ESG team, an inter-departmental committee, mainly assigned operational duties, headed by the CFO; the control, risk and sustainability committee, with main functions including advising the board of directors on sustainability issues, and the board member Carlotta Rossi Luciani, entrusted with ESG delegated powers in order to report on sustainability and governance issues to senior management. In 2021, the interaction between these bodies and the willingness to further develop the Group's medium- to long-term vision resulted in the first long-term sustainability plan, which can be summarised with the motto: Driven by the Future - Sustainability in action.

This plan sets out six areas of engagement (environmental policies, innovation and technology, people, communication and sustainable development of local communities, sustainable strategy and governance) and consists of 55 sustainability goals (of which 22 social, 22 environmental and 11 governance related).

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.

2022 was the second year in which the Group was committed to pursuing the ESG objectives set out in its sustainability plan. The main objectives achieved and envisaged in the plan are listed below:

- formalise and adopt the Suppliers' Code of conduct;
- perform a quick Lifecycle Assessment (LCA) for a Carel product family (inverters);
- expand Scope 3 reporting; specifically, reporting covered the following categories: waste at group level, purchased services at group level, packaging, inbound logistics and commuting at parent level;
- join the UN Global Compact initiative;
- extend the ISO 14001 and 45001 certifications to Recuperator S.p.A.;
- include Code of Ethics, human rights and anti-corruption policy-related topics in employee training, including those for executive resources, and standardise training on these topics for new hires;
- increase by 62% the percentage of electricity from renewable sources compared to the previous year and by more than 500% compared to 2019 (benchmark year). Achieve a percentage coverage of the year's total consumption of 85%.

STAKEHOLDER ENGAGEMENT

The Carel Group's ongoing engagement and the active involvement of internal and external stakeholders show its responsibility for the social and economic context in which it operates. Furthermore, they enable it to identify and share the main development and market trends, considering both the risks and the opportunities arising from the evolution of the HVAC/R industry, downstream, and the electronics industry, upstream. Its focus on the quality of engagement with stakeholders, also provided for in the Code of Ethics and designed to ensure an understanding of their expectations and needs, translates into a proactive approach and ongoing interaction. 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 (2020) and the long-term sustainability plan approved at the end of 2021. Carel has identified its stakeholders through internal and benchmark analyses as parties that are affected by its operations.

Stakeholders are continuously informed about the company's activities through the engagement tools and channels summarised below:

[GRI 2-29]

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
Financial institutions	Road shows
	Financial disclosures to the market
Customers	Regular meetings with banks
	Liaising with sales personnel and subsidiaries' employees
	Institutional websites
	Trade fairs, events, seminars
	Trade associations
	Customer satisfaction surveys (Voice of Customer)
Employees	Online analysis of the brand's reputation and social media
	Blogs
	New hires onboarding programme (CAREL Group Induction Process)
	Performance appraisals
	Intranet
Trade unions, worker representatives	Internal magazine (Display – CAREL People Magazine)
	Internal communication via meetings, email and web media
Trade unions, worker representatives	Regular meetings with trade union representatives

[GRI 2-29]

Stakeholder	Engagement tools and channels
Suppliers and business partners	Circulation of the Suppliers' Code of conduct
	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	Vendor evaluation procedure
	Interviews with senior management
	Trade fairs and events
	Press Area of the website
Influencer	Social media
	Liaising with sales personnel and subsidiaries' employees
	Institutional websites
	Trade fairs, events, seminars
	Trade associations
	Customer satisfaction surveys (Voice of Customer)
Bodies and institutions (local bodies, public administration, regulators, sector associations)	Online analysis of the brand's reputation and social media
	Blogs
	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

During the year, Carel involved a total of 111 internal and external stakeholders in the updating of the materiality analysis through specific workshops and questionnaires, as shown below:

Stakeholders engaged	Type of engagement
International executive committee and Middle management	Organisation of specific workshops
Employees	Questionnaire
Investors, banks and analysts	Questionnaire
Customers	Questionnaire

In view of the evolution of the reporting standards (GRI Standards), Carel has launched a process of progressive engagement of the different categories of stakeholders with respect to the materiality analysis in order to keep it updated given the rapid evolution of sustainability framework.

MATERIALITY ANALYSIS

The materiality analysis is part of a broader process whose aim is to integrate sustainability into strategic decisions, while considering the expectations of all stakeholders, which also provides for the identification of material topics for Carel's operations and stakeholders. Material topics reflect stakeholders' interests and can be used to identify areas for improvement and possible developments in defining future strategic actions related to sustainability.

In the second half of 2022, the ESG Team began and coordinated the activities necessary to update the materiality analysis in view of the new GRI 3 "Material topics", assessing the impacts of Carel's operations on the economy, people and the environment.

Specifically, the material topics process was organised as follows:



IDENTIFY IMPACTS

The impacts of the Group's operations were first identified, considering, in addition to the reference sector and context, Carel products, its geographical areas of operation, risks and possible reputational impacts, the Group's policies and stakeholder expectations. The impacts were subsequently clustered into areas and classified by positive or negative, real or potential.

ASSESS THE MATERIALITY OF IMPACTS

The identified impacts were assessed with the direct involvement of the stakeholders through interactive workshops and specific online questionnaires.

Impacts were assessed considering their materiality and likelihood of occurrence.

With respect to materiality, the stakeholders considered the following for each impact:

- Magnitude: i.e., the magnitude of the negative impact or the benefits generated by the positive impact;
- Extension: i.e., the extension (with respect to the parties involved or the territory concerned);
- Non-remediation: for negative impacts only, the difficulty of remedying the damage caused by the impact was also assessed.

A rating scale of 1 to 4 was used, where 1 means not very material and 4 very material.

A rating scale of 1 to 4 was also used for the likelihood of occurrence of the impact, where 1 means an impact occurring very rarely or not at all and 4 an impact that occurs regularly.

The combined assessment of materiality and likelihood of occurrence resulted in a materiality rating for each impact.

PRIORITISE IMPACTS

The assessments collected in the previous phase were analysed and processed, considering positive and negative impacts and impacts separately to avoid offsetting. Impacts were prioritised by grouping them by topics, thus determining a materiality rating for each topic, shown below in the order of priority identified.

After identifying the materiality threshold (greater than the 75th percentile), Carel obtained the following list of prioritised material topics. Each material topic is accompanied by an explanation of the real and potential positive and negative impacts identified.

R&D and product innovation

Thanks to its activities Carel can contribute to the development of innovative technological solutions, providing its customers with new products, solutions and/or services, or new and updated versions of its products/services that are increasingly efficient in terms of consumption and performance.

Data protection and cybersecurity

Carel is aware that the increased digitalisation of operations and processes may entail risks arising from cyber attacks, such as the loss of sensitive data, which may also affect business continuity. In addition to implementing appropriate technical measures, Carel is also aware of the need to train its employees so that they are able to promptly identify risks and threats to company security.

Customer engagement, observation and satisfaction

Carel monitors its customers' satisfaction levels through a structured ("voice of customer") process in order to limit complaints. In addition, the Group has developed a partnership relationship with customers in order to involve them in the product development phase, allowing a better understanding of their needs.

Furthermore, since incorrect product information can also lead to cases of non-compliance, Carel is committed to transparency, completeness and accuracy in product communication and labelling.

Training and skills development

The Carel Group acknowledges the training and professional development of its employees as a crucial element, which can have a positive impact on the employees themselves and their degree of satisfaction and their contribution to the Group. For this reason, it organises and promotes many training activities aimed at maintaining a high level of technical-management skills and fostering personal growth, by including activities that increase awareness of Carel's values, focusing, in particular, on ESG issues.

Product and service quality and safety

For the Carel Group, the ability to offer safe, reliable and durable products and quality services is of fundamental importance. In order to manage the risk of non-compliance of its products, before it launches new products, Carel has them tested by certification laboratories and bodies to check their compliance with the regulations and standards applicable from time to time.

Energy efficiency and sustainable products

By offering efficient products, which enable customers to save energy, and by proposing refrigeration systems that use natural refrigerants, Carel has a positive impact on the environment, limiting global warming, and actively contributes to sustainable development.

Employee well-being, observation and satisfaction

Carel is aware of the importance of a stimulating work environment that looks after the well-being of its employees and, therefore, it is committed to ensuring an adequate work-life balance, promoting inclusion and equal opportunities, offering competitive benefits and listening to employees' opinions in order to generate a positive impact on both its employees and their families.

Environmental impact, pollution and climate change

As part the performance of its ordinary business activities, Carel has an inevitable negative impact on the environment. However, the Group is highly committed to limiting this impact by procuring green energy and by implementing energy efficiency initiatives. Similarly, the activities along the Group's value chain inevitably contribute to generating a negative environmental impact, which Carel has progressively committed to quantify in terms of GHG emissions released into the atmosphere.

Because of the materials they are made of - some of which may contain hazardous substances - Carel products may also generate a potential negative impact on the environment. In order to limit this impact, Carel carefully selects its suppliers and periodically checks the materials purchased.

Energy consumption and use of natural resources

As part of the management of the impacts generated by the use of natural resources and energy, Carel limits its environmental impact by taking remedial actions, such as relamping, energy efficiency and purchasing renewable energy, in addition to setting specific targets to cut consumption.

Waste reduction and utilisation of responsible waste elimination methods

Carel is aware of its environmental impact caused by waste production and is committed to reducing the total waste generated by its production activities, specifically, mixed packaging waste. Furthermore, it is committed to promoting responsible waste management, with a focus on recovery actions.

Talent attraction, development and retention

The identification and development of talent, as well as talent attraction and retention, represents a major challenge for the Group. Carel's growth is based on the ability to recruit, retain and develop qualified personnel with a high level of expertise and knowledge of the products and markets in which the Group operates.

Development of local communities and relationship with local areas

Carel's positive impact on the development and promotion of the community comprises donations and sponsorships which contribute to its socio-economic well-being.

Furthermore, Carel's positive impact on the community and its people is also witnessed by the relationships it establishes with local schools and training institutes in order to provide guidance to students.

Sustainable governance

For Carel, combining environmental and social issues into its business is crucial to creating long-term value. Therefore, it assigns specific ESG duties to its governance bodies, establishes fair and transparent relations with its stakeholders and designs tools to manage ESG risks and opportunities.

With respect to the topics identified in the materiality analysis conducted during 2020, it should be noted that the following are not included in the list of 2022 material topics the following themes: Occupational health and safety, Respect for human rights human rights, Diversity, equal opportunity and inclusion, Responsible supply chain management; these themes however, have been reported in this statement.

Instead, the following new material themes were included: employee well-being, listening and satisfaction, Energy consumption and natural resource commitment, Waste reduction and utilisation of responsible waste elimination methods, Talent attraction, development and retention, and Local communities and relationship with local area.

FORMALISE THE LIST OF MATERIAL TOPICS

As part of its analyses, Carel also considered and assessed the possible impacts of its business operations and relationships on human rights, based on the provisions of Legislative decree no. 254/16 and the new GRI Standards 2021.

Carel acknowledges the central role of the respect for human rights in the performance of its operations and, in this respect, in 2022, it joined the United Nations Global Compact initiative whose principles include the promotion of and respect for universal human rights, preventing direct and indirect complicity in human rights abuses.

Because of its need for raw materials, such as minerals and metals, whose procurement requires a global supply chain, the Carel Group is exposed to risks related to the protection of human rights.

Specifically, the following safeguards have been implemented with respect to the risks affecting the supply chain:

- several supplier vetting procedures certified by the ISO 9001:2015 Quality Management System;
- the human rights policy;
- the Group's Code of Ethics;
- the Suppliers' Code of conduct.

The latter, in particular, includes a special section on the protection of workers and human rights with respect to the supply chain.

EVOLUTION OF THE MATERIALITY ANALYSIS

Financial materiality was assessed based on the best practices and guidelines that currently interpret the CSRD and EFRAG provisions - currently non-binding - available at the time the analysis was performed, using a gradual approach.

Considering the evolution of the sustainability and regulatory frameworks, in order to improve its reporting, as part of its materiality analysis Carel has launched a progressive non-financial reporting process as outlined by the Corporate Sustainability Reporting Directive (CSRD)³ and the related standards developed by the European Financial Reporting Advisory Group (EFRAG).

The main new features include the introduction of the concept of double materiality, whereby the materiality analysis must cover, on the one hand, impact materiality (from an inside-out perspective), which provides information about the impact of an organisation's operations on sustainable development, and on the other, financial materiality (from an outside-in perspective) which, conversely, shows how environmental, social and

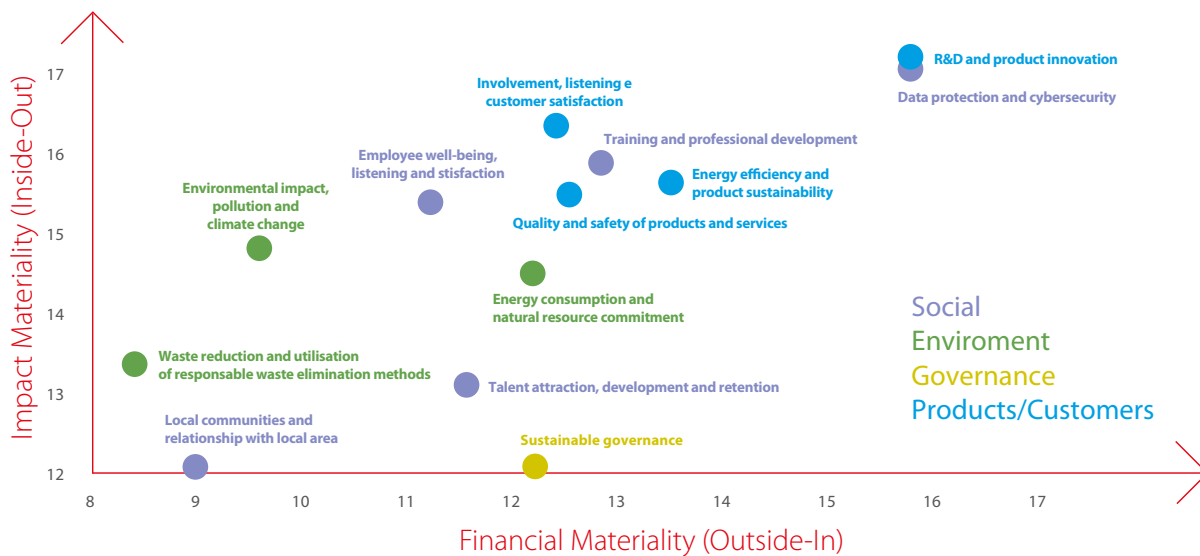
³ Directive (EU) 2022/2464. For Carel Industries, the provisions of this directive will apply as of 1 January 2024 and will cover the non-financial statement which will be published in 2025.

governance topics can have a positive or negative impact on an organisation’s development, performance, future cash flows and positioning and, ultimately, create or erode its value.

Against this backdrop, Carel performed the materiality analysis by combining both the impact materiality and financial materiality perspectives, as described early.

Thanks to this analysis, Carel captured the materiality of impacts, also with respect to their ability to contribute positively or negatively to the creation and/or preservation of corporate value in the short, medium or long term. Therefore, the stakeholders also commented on the financial materiality and likelihood of occurrence of the impacts based on a four-level qualitative assessment.

In order to understand this assessment, the topics deemed material in terms of impact materiality, financial materiality or both, are shown in the matrix below. All topics included in the materiality analysis, which was carried out in accordance with GRI 3 “Material topics” (impact materiality), were deemed relevant also in terms of financial materiality.



TRANSPARENT AND EFFECTIVE COMMUNICATIONS WITH STAKEHOLDERS

The board of directors resolved to set up an Investor Relations Unit on 29 March 2018 before its stock market listing.

This unit’s main task is to liaise with the financial markets, in addition to meeting 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 events organising one-to-one or one-to-many meetings between investors and management as part of the road shows.

In 2022, especially in the second half, the restrictive measures introduced to counter the Covid-19 pandemic were eased and there was a gradual return to in-person meetings and events. Indeed, the contact team resumed visits to major financial hubs in Italy and abroad, specifically Milan, London, Paris, Frankfurt and, for the first time, Copenhagen. Furthermore, by participating in virtual meetings, the Group maintained its contacts with many US investment funds. Finally, the visits to the headquarters by managers to meet with various representatives and examine the Group's production processes continued to attract interest. Thanks to these contact opportunities, senior management and the Investor Relations department met with more than 100 investment funds to explain Carel's main features.

Disclosure to the market entailed the accurate and prompt communication of financial information through specific press releases describing the Group's most important events: mainly the quarterly financial results, certain non-recurring financial operations and the most significant performances in terms of sustainability. For the third year in a row, Carel improved its MSCI ESG rating (from "A" to "AA"), joining the ESG Leaders category, i.e., those companies that best manage ESG risks and opportunities. In 2022, it also improved its CDP (formerly Carbon Disclosure Project) - the global not-for-profit organisation that monitors, inter alia, corporate performance in the fight against climate change - rating from "C" to "B-", joining the "Management" category, which includes companies that work to manage their environmental impact. Finally, in 2022, the Group took part in the ECOVADIS rating process for the first time, obtaining a silver medal and ranking in the top 23% of organisations in its sector. This rating is particularly important for the supply chain; indeed, it is often considered a prerequisite for being selected as a supplier.

The banks that backed Carel in 2022 are: Goldman Sachs and Mediobanca (that were part of the syndicate that assisted the Group during its listing process), joined by Kepler Cheuvreux in September. Kepler Cheuvreux is a leading international broker with a global footprint, which began backing Carel as part of a sponsored research contract.

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.

CAREL AND THE EUROPEAN TAXONOMY

Regulation (EU) 2020/852, known as the Taxonomy regulation, as part of the EU framework to facilitate sustainable and inclusive investment, plays a central role as it sets out the criteria for determining whether an economic activity can be classified as environmentally sustainable in order to channel investment into sustainable activities.

The European Union has developed an ambitious strategy for sustainable development and the transition to a low-carbon economy, in line with the 2015 Paris Climate Agreement and the UN 2030 Agenda with its 17 Sustainable Development Goals (SDGs), and is committed to becoming the first climate-neutral continent by 2050 and to reducing greenhouse gas emissions by at least 55% by 2030.

The Taxonomy regulation plays a central role in the overall strategy outlined by the European Commission to finance sustainable growth. Indeed, it harmonises at European level the criteria for defining environmentally sustainable economic activities with respect to certain environmental objectives. The European Taxonomy establishes six environmental objectives: climate change mitigation, climate change adaptation, the sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control and the protection and restoration of biodiversity and ecosystems. In this first phase, the Taxonomy and technical criteria cover only two of the six environmental and climate objectives, for which technical screening criteria are specified based on the substantial contribution of each specific economic activity to climate change mitigation and climate change adaptation.

Therefore, an economic activity is environmentally sustainable, according to the principles of Taxonomy, if it:

- a. contributes substantially to one or more of the six environmental objectives;
- b. does not significantly harm any of the environmental objectives;
- c. complies with minimum safeguards (i.e., the procedures implemented by a company that carries out economic activities in alignment with the OECD Guidelines for Multinational Enterprises and UN Guiding Principles on Business and Human Rights);
- d. complies with the technical screening criteria adopted by the Commission which describe, in practice, that set out in the Regulation as to the substantial contribution of an economic activity to the environmental objectives while avoiding significant harm to any of these objectives.

The analysis of the Taxonomy KPIs was updated in 2022 - the second year of application of the regulation. It covered the consolidated companies at 1 January 2022, i.e., excluding the economic activities of the companies acquired during the year (Sauber, Klingenburg and Senva), whose products are still subject to in-depth investigations.

However, Arion's revenue, costs and investments were included in the 2022 report since, although it was acquired during the year, the related analysis was completed in time for its inclusion in the reporting scope.

The analysis was carried out in three stages, each covering the above three KPIs, in line with 2021.

Therefore, all revenue of the year was analysed, net of the above elements and of intragroup transactions.

Revenue was broken down by platform (or product family), further divided into product sub-families.

The main product platforms to which revenue relates are listed below: programmable controls, interface terminals (HMI), parametric controls, heat exchangers, isothermal humidifiers, adiabatic humidifiers, power solutions, sensors, electronic expansion valves, inverters and speed controls, compressors, remote control systems and services.

The analysis did not cover the revenue generated by marketed products, including compressors, gas detectors and some sensors, which was excluded in accordance with the relevant regulation. However, it qualifies as sustainable economic activities for the suppliers as it also meets the eligibility and alignment requirements.

After defining the scope of the analysis, each product sub-family was analysed to check its eligibility. The characteristics of each eligible sub-family were compared with the technical screening criteria set out in the delegated act also in order to identify the subset of taxonomy-aligned revenue per sub-family. Most of the families and sub-families fall under more than one chapter of the delegated act covering climate change mitigation; indeed, Carel products are designed and manufactured for different types of applications. The main chapters analysed in order to identify aligned revenue were "3.5 Manufacture of energy efficiency equipment for buildings" as "key components", "7.3 Installation, maintenance and repair of energy efficiency equipment" with respect to components that increase the energy saving of new and existing plants, "8.2. Data-driven solutions for GHG emissions reductions" relating to monitoring systems for controlled plants and their consumption and, finally, "9.1 Close to market research, development and innovation" which includes R&D activities that have always been focused on designing environmentally-friendly solutions for our end markets.

Of the total revenue of €544.8 million, €430.1 million, or 78.9% of the total, is included in the taxonomic analysis. Indeed, as mentioned earlier, part of the group revenue derives from products purchased and resold and the business of the acquired companies in 2022 was excluded from the analysis.

Based on the scope of the analysis, 83.5% of revenue is eligible (82.7% in 2021), of which 59.58% is eligible and aligned (60.4% in 2021), and the remaining 16.5% is non-eligible.

Aligned revenue includes programmable controls, sensors and valves, electronic controls and heat exchangers, while eligible but not aligned revenue comprises parametric controls and part of the services. Ineligible revenue mostly refers to isothermal humidifiers.

With respect to OpEx (i.e., the costs incurred during the year), the consolidated costs incurred during the year by each production site of the group were analysed, therefore net of intragroup costs.

Eligible production process and research and development costs were identified and checked in accordance with the EU regulation. The main cost categories included in the scope of the analysis are research and development costs, maintenance costs for production sites and short-term leases related to production processes.

Total identified costs amount to approximately €22.2 million (€20 million in 2021). Their eligibility was checked based on the product platforms specifically developed at each production site. Product platforms are also used to analyse revenue.

According to this analysis, 83.7% of the costs incurred and analysed are eligible, in line with 2021, and 61.3% are also aligned (59.6% in 2021). The remaining 14.6% is not eligible.

Finally, with respect to the third KPI, i.e., investments, the Group's consolidated investments, amounting to €33.59 million (of which €6.7 million related to the adoption of IFRS 16), were analysed. Of this amount, investments in the production process and capitalised research and development costs (excluding OpEx) were analysed, for a total of approximately €25.5 million. The analysis did not consider the investments in commercial subsidiaries. As for the second KPI, in order to check whether the investments are eligible, the production at each site was analysed with a view to understanding the relationship between investments and products.

Of the total investments, 66.5% are eligible, of which 50.2% are both eligible and aligned (2021: 66.8% were eligible, of which 49.5% were both eligible and aligned); 9.4% are ineligible and the remainder, as described above, was not analysed.

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 and energy transition.

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, indoor air quality and refrigeration systems and the sustainability of sector technologies. As a member of the CEC (Conference & Exposition Committee), Carel 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 supports 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 responsible 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 Chinese not-for-profit 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 works with these international associations to promote the market's proper understanding of refrigeration and air-conditioning and to promote long-term sustainability.

Also in 2022, the reduced lobbying/networking and association activities are essentially correlated with the suspension of work travel and the cancellation of public and sector events due to Covid-19. Furthermore, the effectiveness of work group activities within the various associations also declined as they were only performed remotely.

However, Carel continued to take part in some work groups, specifically those related to the revision of the F-gas regulation. This revision, a draft version of which was issued in April 2022 and is expected to be voted on in parliament by March 2023, has attracted the attention of all the associations that have created work groups in order to voice their position thereon. Thanks to the cross-cutting nature of its products and its participation in all the main associations, Carel expressed its position and obtained an understanding of that of the other members of the associations. Accordingly, it channelled some investments towards natural refrigerants - covered by the revision that plans for their more extensive use - consolidating its leadership built up in recent years and covered by marketing campaigns and dedicated product lines.

Other topics of interest that were constantly monitored include:

- LifeCycle Assessment (LCA), as a business organisation and product design tool related to circular economy policies. These are of particular interest to the European Commission which intends to regulate them around 2025;
- RepowerEU, as a highly influential directive for the heat pump market;
- Energy Performance of Buildings Directive (EPBD), as a significant directive for the market of monitoring systems and electronics for air conditioning and heating systems in general.

Finally, Carel joined the *Unione del Caldo e del Freddo Green*, sponsored by Legambiente, a work group made up of 15 major Italian companies operating in the heating and cooling sector. Its aim is to promote the use of natural refrigerants by organising public meetings and providing training and information, also to institutions.

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 2022, recognising revenue of €544.85 million, up 29.6% on the previous year (a total increase of 64.3% on 2020).

Economic value generated and distributed by the Group can be used to interpret the main 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 2022, economic value distributed by the Group amounts to €480.57 million, up considerably on 2021 (+29.3%). Specifically, 87% of its economic value generated was distributed to internal and external stakeholders.

DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED (€/000) [GRI 201-1]	2022	2021	2020
Economic value generated by the Group	552,351	427,375	338,126
Revenue	544,852	420,418	331,610
Other income	7,226	6,482	4,891
Financial income	838	319	351
Impairment of financial assets	2,360	508	208
Impairment of loans and receivables	(600)	(369)	(287)
Net exchange rate losses	(861)	(1,430)	(921)
Net gains on the sale of property, plant and equipment and intangible assets	66	326	47
Depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets	(1,530)	1,121	2,227
Economic value distributed by the Group	(480,572)	(371,708)	(295,725)
Operating costs	(319,634)	(241,441)	(182,567)
Distributions to employees	(118,412)	(99,309)	(88,557)
Distributions to lenders	(4,011)	(2,675)	(1,841)
Distributions to investors ⁴	(18,000)	(15,000)	(12,030)
Distributions to public administrations	(20,143)	(12,975)	(10,452)
Distributions to bodies/associations	(263)	(218)	(220)
Donations ⁵	(109)	(91)	(87)
Economic value retained by the Group	71,779	55,666	42,402
Amortisation, depreciation, provisions and impairment losses	(24,980)	(21,578)	(19,283)
Other reserves	(46,799)	(34,088)	(23,118)

More information about the Group's performance and its financial position is available in the directors' report, which is included in the 2022 Annual Report.

⁴ When approving the draft financial statements, the board of directors resolved to distribute dividends of €0.15 per share.

⁵ Donations include scholarships granted to deserving children of employees and a contribution towards crèche costs (see the "Support to communities" section).

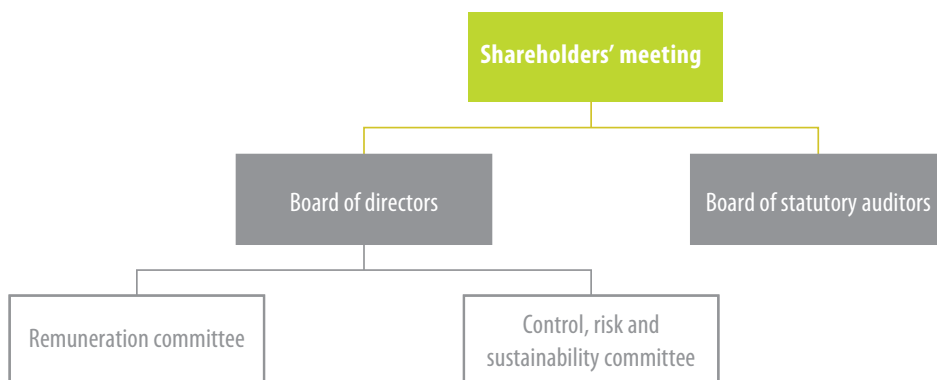


Responsible governance

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

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	<p>oversees the parent’s running.</p>
CONTROL, RISKS AND SUSTAINABILITY COMMITTEE	<ul style="list-style-type: none"> • 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; • carries out duties and functions related to sustainability.
REMUNERATION COMMITTEE	<ul style="list-style-type: none"> • 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; • given the structure and size of the parent, its ownership structure and the list voting mechanism provided for in its by-laws, guarantees transparent elections and a balanced composition of the board of directors for prepares the documentation to be provided to the board of directors for the adoption of the resolutions.

SUSTAINABILITY GOVERNANCE

BOARD OF DIRECTORS

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.

The composition of Carel's board of directors is based on diversity criteria, including gender diversity, in compliance with the priority objective of ensuring adequate skills and professionalism of its members. Given the structure and size of the parent, its ownership structure and the list voting mechanism provided for in its by-laws, on 2 March 2023, the board of directors decided to adopt policies and/or practices with respect to diversity in the composition of the boards of directors and statutory auditors and the age, gender and educational and professional background of the various members. In their extraordinary meeting of 20 April 2021, Carel shareholders approved the proposed amendments to articles 17 and 23 of its by-laws in compliance with Budget law no. 160/2019 containing provisions on gender quotas in the boards of directors and boards of statutory auditors of listed companies. The current 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, if containing a number of candidates equal to or greater than three, cannot be composed only by candidates belonging to the same gender, whether male or female, but must contain a number of candidates of the less represented gender to ensure the presence of a number of directors of the less represented gender at least equal to one third of the total number of directors. Furthermore, the board of directors was appointed taking into account the guidance on the composition of the new board of directors expressed by the outgoing board of directors on 4 March 2021 as part of its annual self-assessment process. The guidance included the hope that, in presenting the lists, the shareholders would maintain a similar quality level of the board in terms of expertise and experience, taking into account the characteristics, including gender, of the candidates. It also highlighted the opportunity for the shareholders to assess the potential inclusion of individuals with management experience in listed companies or companies comparable to Carel in terms of size, complexity, internationalism and/or business, with a view to further enriching the board member's backgrounds, professionalism and expertise. Reference should be made to the sub-section "Diversity criteria and policies for the board of directors and the company's organisation" in section 4.3 of the Corporate governance report for more details.

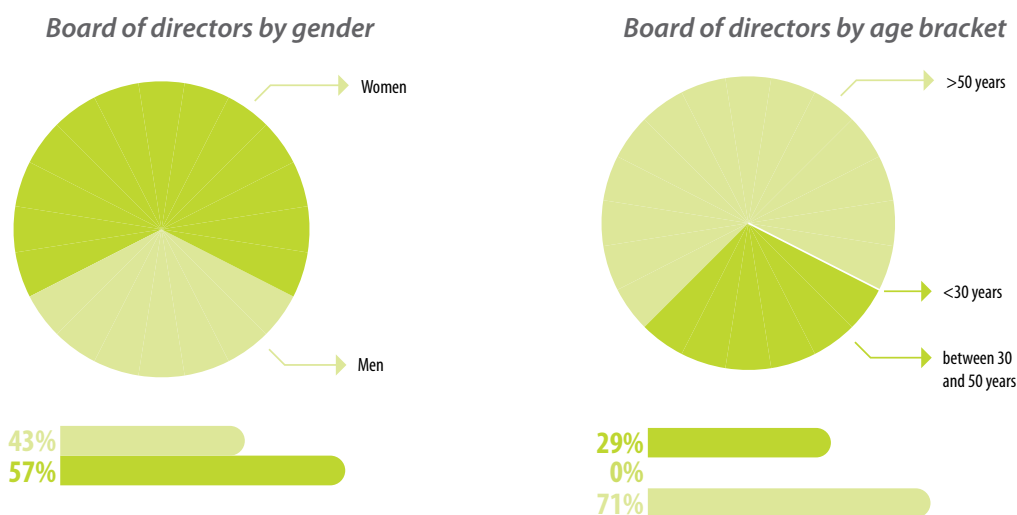
The voting procedures and the subsequent formation of the board depend on the number of lists submitted and are accurately defined according to whether two or more lists, a single list or no lists are submitted. Reference should be made to section 4.2 of the Corporate governance report for additional information on the rules for submitting lists and the subsequent voting procedures.

The current board of directors, appointed by the shareholders in their meeting of 20 April 2021, consists of at least two fifths of directors of the less represented gender, in accordance with the current regulations on gender balance in the corporate bodies of listed companies.

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

COMPOSITION OF THE BOARD OF DIRECTORS AND COMMITTEES [GRI 2-9 | GRI 405-1]

	2022		
	Board of directors	Control and risks committee	Remuneration committee
No. of directors	7	3	3
Executive	4	-	-
Non-executive	3	3	3
(of whom, independent)	(3)	(3)	(3)
Women	4	3	3
Men	3	-	-
< 30 years	-	-	-
30-50 years	2	-	-
> 50 years	5	3	3



The board of directors considers the results of overseeing the parent’s due diligence and other processes to identify and manage the ESG impacts by approving the consolidated non-financial statement every year and the three-year sustainability plan on 30 September 2021.

In addition to the tasks assigned to the board of directors, sustainability is also part of the above-mentioned annual self-assessment process, in which members are invited to assess whether, during their term of office, they organised initiatives aimed at providing adequate knowledge of the sector in which the parent operates and of its trends and evolution, also with a view to sustainable development.

Furthermore, during the year, the parent organised an in-person induction course on governance issues for the members of the board of directors and strategic executives.

In order to promote and implement sustainable development policies internally, in 2021, the board of directors entrusted a board member with specific sustainability duties. Specifically, in collaboration with the CEO, the relevant duties included: defining the Group's corporate policies on the sustainability vision and strategy and the sustainability governance system, defining periodic improvement goals and checking their effective implementation through constant monitoring.

These duties also include supporting the integration of sustainability activities in the business plan, in collaboration with the CEO and the relevant corporate functions (specifically, the ESG Team and Legal Affairs&Compliance Office), and identifying tools and methods for measuring value creation in the medium and long term following the implementation of sustainability plans.

Because of the importance of their contribution, this board member is expected to participate, upon invitation, in the control, risks and sustainability committee meetings in order to assess sustainability activities and risks and the related organisational structure, and, upon invitation by the Remuneration committee, in the definition of ESG objectives in remuneration policies.

Furthermore, being responsible for overseeing the progress of the group's sustainability activities, this board member must also regularly inform the board of directors thereon. Finally, the definition and coordination of engagement policies and the related communication channels (including the corporate website) with stakeholders have also been delegated. For additional information, reference should be made to section 4.6 of the Corporate governance report, sub-section "Other executive directors".



CONTROL, RISKS AND SUSTAINABILITY COMMITTEE

The highest level of responsibility in relation to sustainability issues, including climate change, is entrusted to the control, risks and sustainability committee (CCRS) set up by the parent's board of directors (BoD). The CCRS carries out relevant investigations in order to support the BoD in performing assessments related to internal controls and risk management and in approving the non-financial statement pursuant to Legislative decree no. 254/2016. The CCRS also assists the BoD in overseeing sustainable development issues, including climate change, through inquiries, assessments and decisions regarding the management of risks related to adverse events which have come to the BoD's attention, including environmental, social and governance risks. It also assists the BoD 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 codes of conduct 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. Finally, it monitors international sustainability initiatives, including the Group's participation therein, and keeps the BoD up to date, in order to consolidate the Group's international reputation. In 2022, the CCRS continued implementing the long-term sustainability plan and monitoring the actions contained therein.

ESG TEAM

In order to gather, develop and bring together all the ESG incentives from relevant stakeholders, an inter-departmental 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 supports 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. To this end, it regularly meets up with the members of the control, risks and sustainability committee, guaranteeing consistency throughout activities underway, the developments of the sustainability plan and the results achieved. The ESG Team also meets periodically with the senior management for updates on the sustainability plan and on ESG issues in general (including regulatory developments and ratings).

Furthermore, the ESG Team:

- is responsible for coordinating all sustainability activities: it prepares the consolidated non-financial statement and spreads a sustainability culture throughout the Group;
- engages with stakeholders, to meet the requests of the sustainability rating agencies and, thus, the expectations of the socially responsible investors (SRI);
- 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.

At the end of 2022, the ESG Team involved the company's senior management, such as the chairperson, deputy chairperson, CEO and the executive director in charge of sustainability, in order to update the materiality analysis and bring material ESG issues to the key executives' attention.

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 that 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, the efficiency and effectiveness of its processes and ensures compliance with the relevant regulations and respect for human rights and the environment.

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. Starting from 2019, the Group's risk management framework also includes ESG risks and the related procedures to manage them. Aspects, impacts, risks, opportunities, activities, resources and deadlines are periodically reassessed to identify any changes or developments. For every material or very material aspect/impact, procedures or standards to control and monitor may be introduced. Reference should be made to section 9 of the Corporate governance report for additional information on the Internal control and risk management system.

The internal audit unit provides independent assurance about the adequacy and effective operations of the internal control and risk management system. To this end, each year, the unit prepares an action plan which, after discussion with the internal audit manager and the control, risks and sustainability committee, is approved by the board of directors. The scope of the activities includes operational and compliance audits on the parent's and group companies' processes according to the priorities and critical issues identified during the risk assessment carried out at the beginning of the year, when the plan was being prepared, which, indeed, is aimed at defining the planning of internal audit activities using a risk-based approach.

The aim of the audit activities is to check, on the one hand, that the operational activities carried out by the companies are in line with the applicable procedures and, on the other, that the procedures are periodically updated and made available to the various bodies. As of 2022, the inclusion of sustainability issues within audit activities was planned and approved. Specifically, surveys were conducted to increase the knowledge, awareness and dissemination of the sustainability plan approved by the parent's board of directors, as well as the reporting process of non-financial information.

During the year, three audits were conducted on the parent's processes and two audits on the Group's foreign companies, in addition to several follow-up activities related to the audits carried out in previous years. In 2022, the audit activities focused, in particular, on certain aspects relating to the HSE and ICT/ICS areas and processes and the management of intragroup relations and transactions relating to the parent, while with respect to group companies audited in 2022, they involved a general review of the procedures relating to the main existing processes. Specific activities were also carried out in order to check compliance with corporate principles and values, focusing, in particular, on the content set out in the Group's policies and other relevant documentation including, inter alia and where applicable, the anti-corruption procedure, the human rights policy, the Code of Ethics and the 231 model.

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 identified non-financial risks, the most important of which are shown below.

OPERATIONAL RISKS RELATED TO:

- technological evolution and product obsolescence;
- product liability (e.g., product defects, etc.);
- availability and cost of the components necessary to carry out the business activities;
- production capacity and business continuity;
- energy costs;
- protection of intellectual property;
- management of innovative and development projects;
- countries in which the Group operates.

COMPLIANCE RISKS RELATED TO:

- general evolution of the regulatory framework with the introduction of limitations to the Group's operations;;
- environmental issues;
- legislation on occupational health and safety;
- administrative liability of legal persons under Legislative decree no. 231/2001;
- IT security and ICT systems;
- personal data processing.

RISKS RELATED TO MANAGING STAKEHOLDER RELATIONSHIPS:

- management of relationships with suppliers;
- management of relationships with customers;
- ability to attract new customers;
- management of relationships with distributors;
- management of relationships with unions;
- management of relationships with related parties;
- retention of senior figures and key personnel.

REPUTATION RISK

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



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 started a process of assessing 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 ² Task Force on Climate-related Financial Disclosure (TCFD) guidelines.

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.



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) and chronic physical risks.

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.



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 global warming potential (GWP) refrigerants).



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 Group can gain a competitive advantage by looking into developing new technologies and rolling-out new products and highly **energy efficient** products.

² https://ec.europa.eu/finance/docs/policy/190618-climate-related-information-reporting-guidelines_en.pdf



Physical risks

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.

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.³

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

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 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.

The Group is exposed to **reputation risks** which may affect its image. In this regard, it 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

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 the use of natural refrigerant gases to maintain its leadership position in the HVAC/R market niches.

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.

These risks and opportunities have been assessed and appropriately reflected in the long range plans that the group prepares in order to assess its profitability and investment policies.

³ The “Degree Day” of a location is the sum, extended to all days of a conventional annual heating period, of only the daily positive differences between the ambient temperature, conventionally set at 20°C, and the average daily external temperature. Of the six existing climate zones (designated from A to F), Carel’s headquarters is located in zone 5 (E).

BUSINESS ETHICS AND INTEGRITY AND ANTI-CORRUPTION

In order to guarantee ethics and integrity in all group companies, Carel has implemented three tools inspired by the main guidelines and international standards on responsible business management: the 231 model, the Code of Ethics and the anti-corruption procedure. The parent's supervisory body, appointed by the board of directors, performs control functions on their correct implementation and operation.

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. A further update of the 231 model is planned in 2023.

With the board of directors' resolution of 12 November 2018, the parent's 231 model was supplemented with provisions on the protection of persons who report violations, or in any case irregularities (whistleblowers). Indeed, all those who operate, directly or indirectly, in the name of or on behalf of the Carel Group may report violations, irregularities, or suspected violations of the 231 model and/or the Code of Ethics through the whistleblowing system. The whistleblowing system is governed by the applicable procedure, with which the parent intends first and foremost to guarantee full protection and utmost confidentiality for whistleblowers. Indeed, Carel plans to remove any factor that may hinder or discourage the use of the whistleblowing system to report crimes or irregularities, such as uncertainties as to how to use the available channels or fears of retaliation or discrimination. Accordingly, the purpose of the procedure is also to provide the whistleblowers with clear instructions on the reporting subject, contents and methods, and to highlight the forms of protection made available by the national legislation. At the same time, the parent prohibits the conduct of those who make false, misleading or otherwise unfounded reports. Under the procedure, once the report has been received, the supervisory body conducts a first screening on the admissibility to assess whether the reported conduct can be considered a breach of Carel's 231 model and/or the Code of Ethics. Should the supervisory body decide that the report deserves attention, it shall include it in its annual or interim report to the board of directors, or, should it deem it appropriate, it shall prepare a specific report to be submitted to the board of directors. In 2022, only one whistleblowing report deemed relevant was received (relating to an alleged episode of discrimination), which turned out groundless and was therefore not escalated to the board of directors.

In addition to the 231 model, the parent 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 has also approved and disseminated, at group level, an anti-corruption procedure, which is inspired by the principles and rules of conduct set out in the parent's Code of Ethics and incorporates the principles, provisions and requirements applicable to anti-corruption of both the regulations on the administrative liability of entities (Legislative decree no. 231/01) and those on non-financial reporting provided for in 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. Specifically, via the anti-corruption procedure and the control of the supervisory body, Carel aims to preserve integrity and fairness in the performance of its activities and to ensure compliance with laws, regulations, guidelines and best practices in the sector, applicable in the various countries in which it operates. This procedure provides all its recipients with a comprehensive reference framework of the provisions and procedures in force governing the prevention of the risk of unlawful practices and combating corruption, both in the public and private sectors.

Conflicts of interest are one of the aspects governed by the Code of Ethics, the 231 model and the anti-corruption procedure. The consultants, collaborators and employees of the group companies, when performing their activities, must avoid conflicts of interest that could be caused, for example, by holding company positions at or operating for customers or suppliers or having economic and financial interests in the operations of suppliers or customers (including, for example, the acquisition of direct or indirect investments). Any situation that could potentially generate a conflict of interest, or in any case affect the ability of consultants, collaborators or employees to decide in the best interests of Carel, must be immediately reported by them to their manager, or by the manager or company representative to the supervisory body, and determines, for the person involved, the obligation to refrain from performing actions connected to that situation. This is without prejudice to the rules on conflicts of interest applicable to members of the board of directors and board of statutory auditors pursuant to the law. Furthermore, under the 231 model, when performing their duties, the members of the supervisory body must not be in situations, even potential, of conflict of interest arising from any personal, family or professional reasons. Should this be the case, they must immediately inform the other members of the body and must abstain from participating in the relevant resolutions. Finally, the related party procedure requires compliance with the governing quorums and voting required by law or possibly set out in the by-laws for shareholders' meeting resolutions and the legal provisions on conflict of interest for resolutions on significant transactions.



Carel's commitment to the prevention of and fight against corruption includes the dissemination of the 231 model, the Code of Ethics and the anti-corruption procedure to all group companies, including by holding appropriate training courses, both in-person and online, aimed at raising the level of awareness of all its people.

Similarly to 2021, in 2022, the parent organised an in-person compulsory training course for management and non-management personnel on Legislative decree no. 231/01, the Code of Ethics and the anti-corruption and whistleblowing policies. In this respect, a new series of e-learning courses was also provided to employees at all levels. This course, together with a privacy course, is also made available to all new employees on a regular basis, including all new hires. Prior to launching the latest e-learning training cycle, the parent submitted a questionnaire to all employees to check their level of awareness of the aforementioned issues.

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, antitrust or monopoly violations either in or out of court in the 2020-2022 three-year period.

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.



Confidentiality and protection of data, including personal data, are fundamental and necessary principles for relationship management.

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, e.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 subsidiaries mainly perform distribution and agency activities, therefore the risks run by these companies are minimal.

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.

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 disruptions caused by IT systems or unauthorised access attempts by hackers that could lead to the potential loss of data, or, more in general, risks related to the working of the IT systems.

Referring to privacy protection, the Group processes data subjects' personal data in compliance with the law and in a correct and transparent manner, protecting their rights. 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, its 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.

To this end, the parent has appointed a Data Protection Officer (DPO) in order to strengthen its compliance with regard to protecting personal data. In 2021, the parent appointed the DPO to perform coordination and control functions also on its European subsidiaries and sent them all the procedures necessary for the correct management of privacy-related issues (data breach management procedure, data retention procedure, data subject rights management procedure, privacy by design procedure, DPIA procedure and record of processing activities update and annual review procedure). In 2022, the parent confirmed the appointment of the same DPO.

The Group has internal procedures and measures to monitor access to data by its employees and their processing to mitigate the above risks.

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 and European subsidiaries' employees were provided with e-learning courses on the content of the GDPR and Legislative decree no. 101/2018 (the Italian privacy code).

With respect to safety measures, 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.

On 16 December 2020, the parent 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 2022, it did not receive any complaints about data protection violations or incidents of leakage, theft or loss of customer data.

In 2022, all Information & Cyber Security policies were updated. Furthermore, three policies (Logical and physical access control policy, ICT/OT/IOT asset management policy and Business continuity management Policy) were also approved.





Customers and products

RESEARCH, DEVELOPMENT AND INNOVATION

For Carel, energy efficiency, natural refrigerant qualification and system efficiency are the starting point and finishing line for the process of innovating, designing, manufacturing and distributing its systems.

For Carel, research and development activities consist of applied research, aimed at testing technological innovations within 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 the Group operates which Carel makes them freely available to the scientific community with the aim of sharing know-how and knowledge, ranging from humidification applications to international regulations, commercial refrigeration, data centres and air conditioning.

In 2022, 3.8% of its revenue was allocated to this sector to pre-empt customer needs and provide cutting edge solutions.

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 has always put R&D at the centre of its business to retain its leadership position in the niches of the HVAC/R market, ensure its competitive edge and launch technologically innovative solutions at increasingly competitive prices, providing its customers with 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.

In order to consider their needs, customers often participate in product development activities. For example, in 2022, the effects of the Covid-19 pandemic caused a shortage of electronic components which forced the R&D unit to partially redesign some products in order to avoid production bottlenecks. These activities were carried out in constant communication with customers during the verification and validation phase of the redesigned products.

Carel's trademark skills are in the areas of development of integrated solutions for the use of the cooling cycle to control 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.

There was also considerable growth in the services offered, both on field - driven by the Group's expertise in the various applications covered - and digital services, used to collect information from plants and subsequently produce reports and descriptive analytics to improve and optimise refrigeration and air-conditioning plant management.

R&D activities are also carried out through long-standing partnerships with universities and research institutions. Indeed, Carel constantly involves the skills and knowledge of university and research institutions in its developments, acknowledging that new and more advanced ideas are necessary to achieve the increasingly challenging energy efficiency and environmental sustainability goals set by the Group.

Therefore, periodically and based on market needs, Carel seeks out the best partners to collaborate with. These include Padua University (in areas ranging from analogue and digital electronics to power electronics, system and control theory, thermodynamic applications, technical physics, mechanical production processes and data statistical analyses), the SMACT competence centre and Udine and Verona Universities to improve the energy efficiency of six ultrasonic atomisation systems, the Danish Technological Institute to characterise the performance and efficiency of ejectors for CO₂ systems, the Fraunhofer Institute with respect to the reliability of high-efficiency air conditioning and heat pumps, the CNR (National Research Institute) and the most important sector associations, such as EPEE, AICARR, AHRI, EHPA, ASHRAE, CRAA and CAR.



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

LABORATORIES

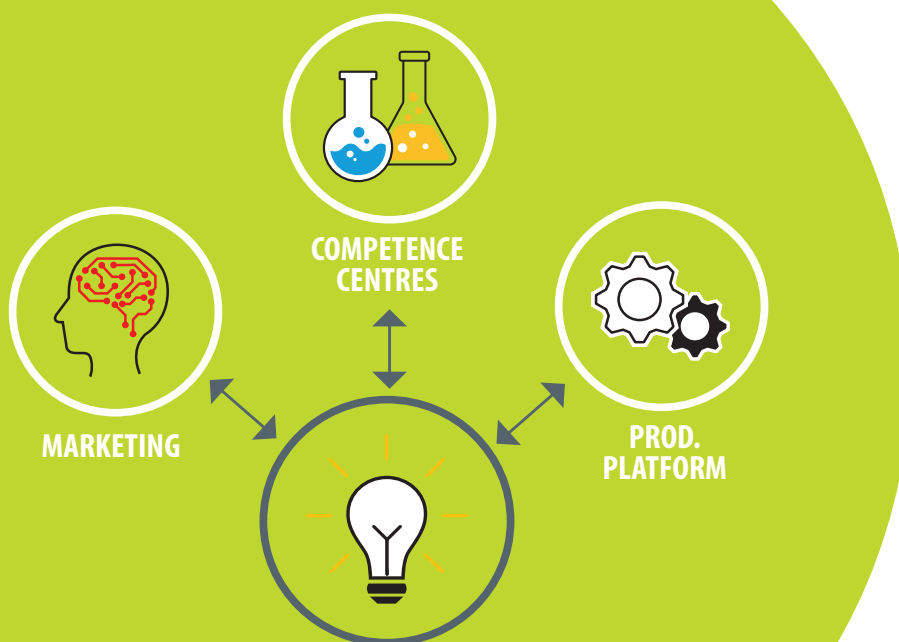
Technological innovation is the result of ongoing dialogue between the various areas involved in product development, i.e.:

- 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.

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, precision mechanics, cloud-based applications, smart Edge data collection and gateways. Each R&D centre has six competence centres (electronics, mechanics, digital, software solution designer, air treatment and humidification) focused on developing technical knowledge in six areas. The thermodynamic competence centre is part of the Knowledge Center, 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 12 of them: three thermodynamic laboratories, three humidification laboratories, two electronics laboratories, two power electronics laboratories, one software and one valves laboratory.

At 31 December 2022, the Group's R&D department has 225 engineers and technicians, equal to 12% 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	2022		2021		2020	
	no.	%	no.	%	no.	%
Italy	150	67%	158	70%	157	70%
Europe	9	4%	4	2%	4	2%
United States	14	6%	12	5%	12	5%
China	53	23%	50	23%	51	23%
Total	225	100%	224	100%	224	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 4.5% 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			
Type	2022	2021	2020
€'000	20,002	19,034	17,499
Percentage of revenue	3.8%	4.5%	5.3%

In addition to the actual R&D employees, the commercial subsidiaries 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 10 product development projects a year and over 900 customisation projects for customers. The Group's intellectual property is protected by 61 patents (requested or granted), five of which are for innovative solutions designed in 2022. They also cover new applications for other environments which Carel applies to solutions of interest to its customers.

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

R&D activities are carried out in line with the Group’s product development process, where the main parameters, i.e., project lead times and product costs, are constantly monitored to meet the market demand. The production of patents, which measures the effectiveness of the Group’s R&D activities, is also regularly monitored and promoted in the various R&D phases. Because of the variety of innovative activities, the results achieved throughout the years are difficult to compare; indeed, these are significantly influenced by the Group’s ability to anticipate technological developments and acquire and apply new knowledge. However, on average, there is a good alignment between that planned in the feasibility phase and that achieved at the end of the development projects. The lessons learnt as part of the development activities play an important role in the consolidation of know-how and are turned into knowledge pills or lead to changes in processes and procedures, integrations or new design standards.

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, as set out in Carel’s New Culture Code, which was recently formalised. In order to strengthen customers’ view of and confidence in the Group, 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; indeed, 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 the 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 the ongoing search for innovative solutions.

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. However, over time, there has been an increased focus on the development of relationships with other players such as designers, contractors and end users, whose importance is constantly growing in an ever-changing world.

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 15 production sites in four continents and a network of 37 commercial subsidiaries.

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. Customers are involved both when the machines are being designed and when certifying the unit incorporating Carel products.

Furthermore, 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, or when it is possible, but feedback is not always unanimous, 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 sales representatives of the regions in which Carel operates. The monitoring of each customer's satisfaction based on its needs and expectations to an extent that is feasible for the supplier is a requirement of the ISO 9001:2015 standard. The survey findings are summarised in the Customer Monthly Report showing the percentage of ratings for the Group and each region in terms of both quality and service/logistics. This report is discussed with the executive committee once a month with the aim of sharing and developing improvement plans aimed at elevating external relationships.

With the aim of increasing the accuracy and efficacy of monitoring customers' expectations, the list of customers being monitored was extended to include Recuperator S.p.A. and Enginia S.r.l. (the former has now been completely integrated into the scope of the quality system of the Group's ISO 9001:2015 multi-site scheme, while the latter is currently being integrated).

A further improvement in Voice of Customer management began in 2022, thanks to the implementation and active management of a new after sales & services management tool, which will improve contact with customers by receiving their needs in real time and tracking the progress of improvements.

Finally, since 2020 Carel has extended its customer satisfaction assessment process with the Net Promoter Score¹ (NPS). This management tool is used to measure loyalty in a supplier-customer relationship. Carel deemed it important to have a dashboard that can regularly supply immediate information about customer satisfaction levels without consulting the sales network. Carel initially used the model for four key accounts (parent and commercial subsidiaries) starting from 2019. 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 similar customers by market/channel (HVAC OEM, HVAC Projects, REF OEM and REF Dealers). In 2021, the process was extended to the entire European region, involving customers from the German, Spanish, French, Scandinavian and Eastern European branches. A total of 233 surveys were carried out, covering all markets and channels managed by Carel. In 2020, a process was also defined which, starting from data collection, adopts the necessary improvement actions to fill in the most critical gaps. In 2022, the analysis was extended to the entire APAC North region (China, South Korea and India), interviewing 105 customers, delivering a total of 2,010 surveys and covering all markets and channels. Some critical issues were similar to those identified for the European region, while others were specific to the local organisation and market. Based on the relevant results, a local improvement action plan was defined and the final summary was submitted to management in order to address the most urgent issues.

In order to adequately address the critical issues identified, the NPS committee was set up, comprising representatives of the internal functions most affected by the issues uncovered by the surveys, i.e., Marketing, Operations and After Sales. Each representative will be responsible for studying in-depth the relevant issue(s) and activate, where necessary, a possible escalation process based on all useful supporting information.

The Group quality manager and the S&M process development manager (process owner) are also part of the

¹ The NPS model can be used to assess the level of loyalty in a company-customer relationship. It has a scale of 1 to 10 based on replies to the question "How likely are you to 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%).

NPS committee. During the year, this committee met three times and analysed the results of the commercial subsidiaries, investigating internally the main critical issues identified in order to provide exhaustive information to support management decisions.

Based on the above, in 2022, the Customer satisfaction process was formally updated and released internally within the Group.

With respect to VoC monitoring, the critical situations affecting Quality and Service levels were regularly reviewed during the monthly management reviews, with a twofold effect: improving the customer perceived quality indicator, on the one hand, and reviewing the structured analysis process of customer claims, on the other, in order to identify and eliminate the causes behind product/process issues.

Also 2022 was characterised by a market situation strained between two opposing trends: the shortage of electronic components (specifically, semiconductors and power electronics) on the one hand, and strong expansionary demand from Carel's end markets on the other. The entire Group was strongly committed to addressing the tensions generated by the shortage and high cost of electrical material on the business and on the ability to meet market demand. Carel managed to cope with the tensions affecting the electronic components market also thanks to its long-term diversification strategy regarding products, industrial footprint, channels and supply partners. This was further strengthened by investing heavily in order to enable the validation of additional sources and alternative designs (chip pivoting), adapt raw material warehouses and increase capacity, independence and flexibility in production lines, thus minimising delivery delays as much as possible while safeguarding product quality. Special attention was also paid to the definition of a Vendors mid & long term capacity plan based on a risk analysis, which facilitates signing strategic agreements with strategic partners in the supply chain. At the same time, work also continued on duplicating production lines at the Group's various sites with the twin goal of increasing production flexibility in the various regions in which it operates and expanding available production capacity. Continuous and transparent dialogue with stakeholders was also fundamental in order to jointly identify the most strategic areas and projects to be safeguarded and on which to focus efforts, thus defining common priority criteria.



PRODUCT AND SERVICE QUALITY AND SAFETY

Carel's offering mainly consists of electrical appliances and devices, which can potentially pose risks to the health and safety of people and property if not manufactured in compliance with essential safety requirements. Therefore, Carel is strongly committed to ensuring the highest level of safety of its products.

The Carel Group's products comply with national, EU and international standards on safety, electromagnetic compatibility and ecodesign, implementing best practices in order to improve quality and reliability. Specifically, the Carel products bear the CE mark in Europe, confirming their compliance with the EU safety requirements and, often, they also obtain additional voluntary certifications.

During the design phase, and in any case 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 in each case. Included in the investment budgets of the individual products, these checks also ensure greater impartiality and reliability of the analyses and tests.

In 2022, a number of investments were made to improve the safety of products, specifically with reference to products used in appliances which use refrigerant gases (flammable), as these are subject to strict regulations given the risk of explosion linked to potential gas leaks.

Carel's quality system provides for three different testing levels:



The following table shows the percentage of projects for new products or improvements thereto, for which health and safety aspects have been tested to obtain, inter alia, the CE, cULus, cURus, cETLus and VDE 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.	2022	2021	2020
Total new products* that entered production and underwent health and safety testing	no.	12	11	19
Total new products* that entered production	no.	12	11	19
Percentage of products covered by the health and safety tests	%	100%	100%	100%

* i.e., new projects of product families

In 2020-2022, there were no cases of non-compliance with laws or mandatory and/or voluntary regulations covering the effect of products and services on health and safety during their life-time.

In order to ensure that Carel's policies on product compliance with respect to safety, quality, reliability and performance are effectively applied, its Quality system provides for the performance of internal audits, both specific to processes/projects and periodic, to ensure that the specifications defined at the beginning of a new product development project, in terms of applicable standards and regulatory instruments, are effectively adopted and assessed. In 2022, as a result of the audits carried out, the Product compliance test plan - an important tool used in R&D - was revised and subsequently improved and enhanced. In particular, additional specific project phases were implemented which, inter alia, include product safety aspects, which are checked and validated by an independent party outside the R&D team.



CHEMICAL SAFETY

Because of the peculiarity of the components and materials used to make them, especially the more or less complex electronic controls and products containing mechanical parts, some of which contain chemical substances which the scientific community considers hazardous to human and animal health and to the environment, Carel products have been the focus of attention of international legislative bodies for years, in order to limit the chemical risk resulting from contact with these hazardous substances. Therefore, Carel is exposed to the risk of purchasing, handling and, consequently, marketing products containing hazardous substances. Even though the reasonably expected use of Carel products does not pose any major risks for the exposure of man and the environment to these substances - which are mainly included in components that are purchased from selected suppliers - the parent has adopted internal processes that periodically check the material purchased, also in order to inform its customers of the presence of hazardous substances contained therein.

In order to safeguard the health of users of Carel's products, the Group has always ensured its compliance with the relevant European regulations on chemical safety 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 and being exposed to these chemical substances. The substances of very high concern (SVHC) are relevant to Carel as its business sector partially depends on these substances and, therefore, it has to pass many REACH authorisation levels. Another objective of REACH authorisation is to guarantee that the SVHC will be gradually phased out by less hazardous substances or technologies, when this is possible in technical and financial terms. 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 involved in the supply chain.

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 periodically analyses the information gathered from suppliers about more than 32,000 raw materials and continues to update this information during their phase-in process.

The purpose of monitoring the compliance of the raw materials used in Carel's business against the updated SVHC Candidate List of the REACH Regulation and the hazardous substances restricted by the RoHS Directive is to classify raw materials as purchasable or not, due to the temporary lack, or otherwise, of information on compliance with the above legislation. Purchases of raw materials, whose manufacturers and/or suppliers did not provide the requested information on time, are temporarily suspended until the updated documentation is provided. For raw materials whose obsolescence or non-compliance with the REACH Regulation and RoHS legislation is declared by the manufacturer and/or supplier, de-registration is necessary, thereby preventing these materials from entering the production cycle.

As part of Carel's internal chemical safety process, all suppliers must prove that they have implemented a process to manage hazardous substances in accordance with the above EU legislation. Furthermore, as part of the approval process for purchasing materials, Carel regularly requests and assesses the documentation which certifies compliance and the possible presence of hazardous substances in materials, in order to use them within products as components or to resell them as such.

Conformity information on materials, gathered from the regular clean-up process vis-à-vis the supply chain and the approval process for new raw materials, contributes to creating the database used to issue the statements requested by customers on the Carel Group's products.

Furthermore, as of 2020, Carel has 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. To this end, an internal standard was developed, which identifies activities to ensure products' compliance with this regulation. In 2022, Carel continued its enquiries about the supply chain in order to check the existence or non-existence of regulated substances, based on the above internal standard. The products that Carel Industries supplies to customers do not contain chemical substances listed in Proposition 65 ² 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. In 2022, Carel continued to monitor Proposition 65 to identify the new chemicals added to the list published by the Office of Environmental Health Hazard Assessment (OEHHA) ³.

In 2021, Carel adopted the regulation promulgated by the US EPA (Environmental Protection Agency) named "Toxic Substances Control Act (TSCA section 6(h))". This regulation only applies to the US and covers the manufacture, import, use and disposal of specific chemicals. Section 6(h) of TSCA gives the EPA the authority to prohibit or restrict, for a particular use or above a certain concentration, the manufacture, processing, commercial distribution, use or disposal of a chemical if it determines that it is hazardous to human health or the environment. Specifically, under section 6(h), the EPA shall take accelerated regulatory action on PBT chemicals, i.e., chemicals that meet the legal criteria for persistent, bioaccumulative and toxic (PBT) chemicals.

In 2022, Carel drafted a new policy on harmful chemicals, which is currently being published, in order to step up the parent's actions in phasing out such substances from its products, with moral suasion actions targeting major suppliers when natively risk-free raw materials are not available.

PRODUCT INFORMATION

Clear and exhaustive product information is a key aspect of successful customer relationships. Not only product documentation (both commercial and technical), but also the simple labelling of products may be a source of risks, if incorrect. For example, labels are exposed to various risks, such as customs or trade blocks due to missing markings, inability to correctly identify the models and versions of a product, traceability of products in the event of complaints. Moreover, incorrect labelling can potentially result even in serious non-compliance, if, for example, inadequate products are used that cannot ensure the level of safety of the finished product required by the regulations in force. Therefore, in order to monitor these aspects, Carel has adopted specific processes to ensure the compliant labelling of its products.

With respect to product labelling, Carel applies the same policies and standards on product safety. Indeed labels - and the information contained therein - are an integral and essential part of the product, as also confirmed by technical standards and current legislation. Consequently, even labels and, in general, product documentation (instruction sheets and installation manuals), to the extent of the sections relating to regulated information, are tested for product compliance purposes by external accredited bodies.

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 This list includes regulated substances. Therefore, if a consumer product contains one of these substances, which is likely to come into contact with the user, the product must be accompanied by a warning.

In particular, internal design and development processes and external audits are aimed at checking the completeness and correctness of the following information on labels:

- 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 following table shows the percentage of new products (projects) that entered production in 2022 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.	2022	2021	2020
Total new products* that entered production and underwent health and safety testing of their labels	no.	12	11	19
Total new products* that entered production	no.	12	11	19
Percentage of products* covered by the health and safety tests	%	100%	100%	100%

* i.e., new projects of product families

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.

In line with a zero-tolerance approach, every customer report is processed and analysed in order to avoid cases of non-compliance on this issue. During the 2020-2022 three-year period, 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, confirming Carel’s commitments to these complex aspects.



ENERGY EFFICIENT AND SUSTAINABLE PRODUCTS AND SERVICES

Carel has always been known for advanced control systems and 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. The positive impacts in terms of plant efficiencies with remote monitoring and control services, enabling the use of natural refrigerants - thereby reducing GHG emissions - and offering increasingly advanced energy efficiency solutions, contribute to sustainable development, in line with the European Green New Deal and RePowerEU, and the 2015 Paris Agreements that aim to limit global warming well below 2°C, preferably to 1.5°C, compared to pre-industrial levels.

Indeed, 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.

Carel confirms its commitment to protecting the planet with its partnership with Geofit, a research project for smart geothermal technologies funded by the European Union to develop innovative EGSs (Enhanced Geothermal Systems).



energy efficiency;



use of natural refrigerants;



cold chain sustainability;



data monitoring and analysis
and system optimisation.

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 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;
- consolidation 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;
- widespread use of natural refrigerants in general, especially propane (R290).

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 2022 whereby it offers integrated solutions that provide a complete response to an application's needs rather than providing individual products. With regard to sustainability and respect for the environment, the Group has analysed the annual consumption of electricity of a refrigeration unit housing a Carel component, selecting a range of solutions. It calculated consumption using standard design criteria (e.g., refrigerant, working hours, efficiency, average work load, component oversizing). It then applied the energy savings to this electrical component, obtained as the average of internal case studies for that Carel component and for a specific application in the cold chain or air-conditioning sectors.

During the year, Carel's customers saved 6,220 GWh, recording a positive trend over the three-year period (+6% compared to last year's savings, in addition to the 28% increase recorded in 2021). The same 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 and the energy saving achievable against the current performance. Around 73% of the energy savings were thanks to the EXVs, including ejectors, thanks to their considerable volumes (counting over 510 thousand pieces in 2022). The table below summarises the energy savings over the 2020-2022 three-year period.

REDUCTION OF ELECTRICITY CONSUMPTION (%) BY PRODUCT FAMILY [GRI 302-5]

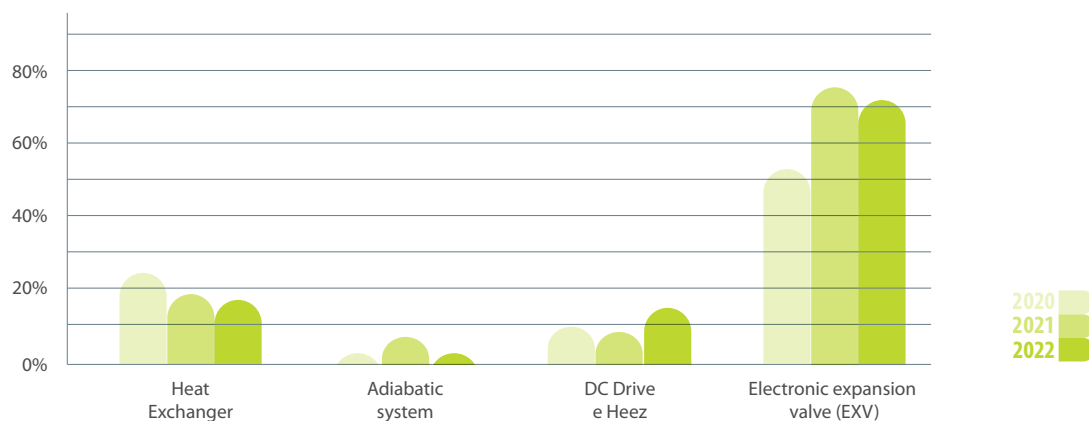
PRODUCT	Application	Saving (%)	2022	2021	2020
			Total savings (GWh/yr)	Total savings (GWh/yr)	Total savings (GWh/yr)
Electronic expansion valve (EXV)	HVAC/REF	72.8%	4,531	4344	3,124
DC Drive and Heez	REF	10.9%	676	460	371
Adiabatic system	HVAC	0.4%	26	110	26
Heat exchanger	HVAC	15.9% ⁴	987	953	1,049
Total			6,220	5,867	4,571

4 Average annual efficiency includes both heating and cooling.

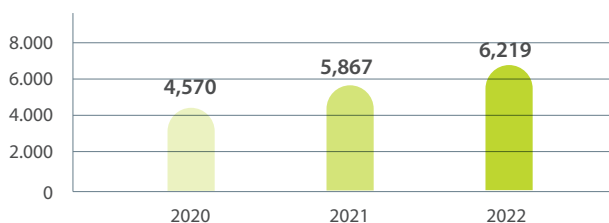
Products made by Recuperator, which manufacturers extremely energy-efficient air-air heat recovery systems and which was bought by the Group at the end of 2018, complete Carel’s ventilation application portfolio (e.g., AHU and roof top systems). Carel customers’ use of these heat recovery systems for the aforementioned applications generated savings of 987 GWh during the year, equal to 16% of total applications.

The graphs below provide a comparison of the energy savings of Carel products in the 2020-2022 three-year period. The higher savings in 2022 are attributable to the fact that the market is increasingly inclined to favour solutions which guarantee greater energy sustainability.

Energy savings by product (GWh/yr)



Total energy savings (GWh/yr)



Lastly, the Group calculated the GHG emissions avoided ⁵ by customers as a result of the energy savings: in 2022, 1,710,441 tCO₂e, were avoided, slightly above the CO₂ emissions produced by Fiji in 2016 ⁶. Therefore, it is actively contributing to mitigating climate change. For these emissions to be absorbed, a woodland ⁷ larger than the metropolitan area of Frankfurt (equal to around 2,717 km²) would be required.

5 In order to calculate avoided emissions, the conversion coefficient of 0.000275 tCO₂e/Kwh was used (source: European Environmental Agency EEA, 2019)
 6 Sources: EDGAR - Emissions Database for Global Atmospheric Research (<https://edgar.jrc.ec.europa.eu>), 2021 – 1,518,297.6 tCO₂
 7 In order to calculate the equivalent wooded area, a coefficient of 630 tCO₂/km² yr was used (source: <http://www.treesintrust.com/environmental.shtml>)

REDUCTION IN ELECTRICITY CONSUMPTION BY PRODUCT FAMILY [GRI 305-5]

	ExV	DC Drivers and Heez	Adiabatic system	Heat exchanger	Total
2022 Emissions avoided (tCO2e/yr)	1,246,008	185,829	7,120	271,484	1,710,441
2021 Emissions avoided (tCO2e/yr)	1,194,600	126,500	30,250	262,075	1,613,425
2020 Emissions avoided (tCO2e/yr)	859,186	101,907	7,259	288,595	1,256,947

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 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 (CO₂) and ammonia (R717), sometimes in tandem with variable speed compressor technologies.

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

Another R&D 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.

CO₂ is an economical widely available refrigerant that is easily obtainable from hydrocarbon combustion. It is completely environmentally-friendly: it has an ozone depleting potential (ODP) of zero and a global warming potential (GWP) of 1 and is used as a factor in assessments of GHG effects.

In sustainability terms, the use of CO₂ 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 ammonia), but it is potentially less efficient. Thanks to the Kigali agreement and the consequent steady elimination of the HFC/HFO gases, CO₂ 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 2022, the Group continued extending its range of installations with natural refrigerants, partly to meet the strong demand from several markets.

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 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 increased considerably the number of its CO2 projects using the DC inverter technology which guarantees high efficiency with the use of natural refrigerants as well.

COLD CHAIN SUSTAINABILITY

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 as they are involved in the safety of 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. Therefore, food lasts longer and all organoleptic characteristics remain intact.

Carel offers both point-to-point solutions among the highest performing ones available on the market and a top-of-the-range global solution. It guarantees better food preservation and higher energy saving.

Furthermore, 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.



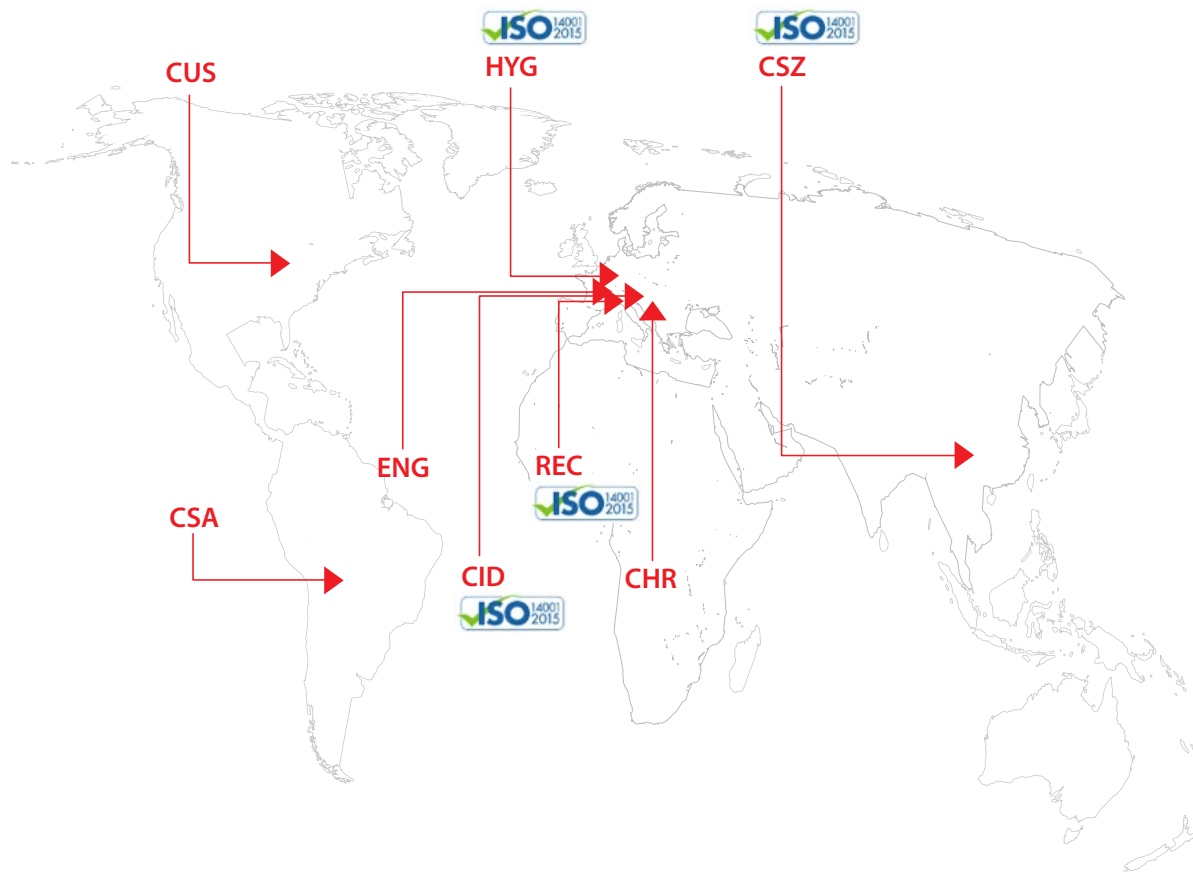
Focus on the environment

ENVIRONMENTAL PROTECTION AND CLIMATE CHANGE

The commitment to protecting the environment is rooted in the Group’s vision and, specifically, in the Carel cultural code. In 2022, this commitment translated into genuine actions that affected the marketing of products and led to more extensive assessments of the impacts of the Group’s structures and processes on the outside world, specifically on the environment. In particular, these assessments relied on the mapping of all impacts, laying the grounds for the definition of a progressive process to reduce them, or rather, for a decarbonisation strategy.

In line with previous years, in order to guarantee long-term business growth, Carel committed to performing its activities responsibly in 2022, striving to protect the environment and natural resources, as set out in its Code of Ethics, its environmental and occupational health and safety policy and the various standards that make up the parent’s management system. The foreign production sites have their own policies, drawn up in accordance with their local situations and the parent’s guidelines.

The environmental impact analysis on the parent’s production processes was updated in order to analyse potential risks. This analysis identifies and maintains improvement actions which underlie the assessments conducted at multiple sites to obtain the ISO 14001:2015 certification.



With respect to certifications, in 2022, an important milestone was reached by expanding the scope of certified sites to include Recuperator S.p.A..

Overall, environmentally-certified sites account for 50% of the production sites (based on the 2022 scope), which in terms of total surface area covered account for 64% of the total (76,700 square metres), covering almost 70% of the personnel working at these production sites (a total of 1,885 employees and workers who are not employees).

In order to limit its impact on the environment, Carel is committed to:

- complying with the applicable legal requirements and other signed agreements that form an integral part of the environmental management system;
- constantly improving its processes to reduce their impact on the environment, the local community and climate change by using high-efficiency equipment and maximising heat pumps for air conditioning;
- adopting a pollution and environmental accident prevention system to protect the environment and biodiversity by conducting periodic emergency drills during which a spill containment test is also conducted on environmental matrices;
- introducing energy efficiency to the criteria for production equipment, vehicles used to transport people and goods and technical and technological systems (e.g., by pursuing the policy which envisages using hybrid or full hybrid vehicles for the car fleet);
- implementing measures to limit electricity consumption (e.g., by adopting systems and controls for automatically switching off lights in different areas and rationalising production lines);
- procuring electricity from sustainable sources to cut carbon dioxide emissions (in 2022, the purchase of completely green energy accounted for 75% of the production sites or 87% of the total surface area covered).

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

Compared to previous years, during which the Group identified possible environmental impacts and, in particular, climate change impacts in relation to its business, by fine-tuning the calculation of direct consumption and Scope 1 emission (focusing on vehicles used exclusively by the company and for mixed use (business and personal), accounting for 70%), in 2022, the focus was on the impacts of the activities along Carel's value chain, and entailed:

- mapping and calculating indirect Scope 3 emissions from:
 - outbound transport of materials worldwide;
 - inbound transport of materials to the parent;
 - purchase of packaging used in products sold;
 - commuting of the parent's personnel (also considering the positive impact of remote work);
 - managing waste generated at both the parent and the remaining production plants;
 - personnel transfers from the parent;
 - purchasing all services in the Group;
- completing a quick Lifecycle Assessment (LCA) for a Carel product family (inverters), thus determining the different impacts generated in the life cycle of that product.

In 2022, the Group was not found guilty of or summonsed to appear in court for environmental crimes and did not receive any complaints in this respect.

WASTE

Carel Industries promotes proper waste management as part of its environmental policy and the implementation of an environmental management system, from waste generated at the production departments or offices to storage at the plants' temporary storage facilities and disposal at external storage and treatment facilities.

The Group is committed to reducing its total waste output generated by manufacturing and to achieving maximum efficiency in waste management and disposal to increase the volume of recycled waste. In 2022, it focused, in particular, on waste from plastic packaging which, at the parent, accounts for 35% of the total (30% at group level). To this end, it began a review of the collection and delivery of certain plastics with a view to recycling them instead of treating them as mixed-material packaging waste. For example, specific plastics (rolls and/or sticks) have been identified and separated from the rest of the packaging to be subsequently recycled.

An accurate analysis of waste covered both production and the new office areas at the parent, with a twofold aim: on the one hand, to minimise non-recyclable waste through centralised collection points with separate bins, and on the other, to increase people's awareness. The latter point was also extended to the new canteen, where users, in a specific environmentally-friendly area, separates waste by placing it in separate waste bins.

In 2022, the analysis of waste generated was expanded to calculate its impact in terms of emissions produced, by extending the parent's approach (2021 data) to all production sites, which, together, account for 80% of the Group's total surface area ¹. According to the analysis carried out, of the almost 1,330 tonnes of waste generated in total, only just over 3% is hazardous waste, 67% of which is nevertheless sent for recycling treatment.

WASTE GENERATED [GRI 306-3]			2022 ²
Type of waste	Waste generated	Waste diverted from disposal	Waste directed to disposal
Hazardous waste	44.42	29.76	14.66
Recycling 0%	9.91	0.00	9.91
Intermediate recycling	25.82	21.07	4.75
Recycling 100%	8.69	8.69	0.00
Non-hazardous waste	1,284.80	1,047.51	237.29
Recycling 0%	95.36	00.0	95.36
Intermediate recycling	482.70	340.77	141.93
Recycling 100%	706.74	706.74	00.0
Total waste	1,329.22	1,077.27	251.95

1 The remaining 20% of the surface area mainly refers to commercial offices or logistics areas where waste generation is considered similar to urban generation.

2 In the 2021 figures, available in the annex, the scope only includes the parent, while those for 2022 include all production plants.

WASTE DIVERTED FROM DISPOSAL [GRI 306-4]		2022³
Type of waste		Offsite (t)
Hazardous waste		29.76
Recycling		9.99
Intermediate recycling		1.30
Recycling 100%		8.69
Other recovery operations		19.77
Intermediate recycling		19.77
Recycling 100%		0.00
Non-hazardous waste		1,047.49
Recycling		1,027.31
Intermediate recycling		319.51
Recycling 100%		706.70
Other recovery operations		20.18
Intermediate recycling		20.18
Recycling 100%		0.00
Total waste diverted from disposal		1,077.25

3 In the 2021 figures, available in the annex, the scope only includes the parent, while those for 2022 include all production plants.



WASTE DIRECTED TO DISPOSAL [GRI 306-5]

Type of waste	2022 ⁴ Offsite (t)
Hazardous waste	14.65
Incineration (with energy recovery)	14.35
Incineration (without energy recovery)	0.00
Landfilling	0.30
Non-hazardous waste	237.66
Incineration (with energy recovery)	206.51
Incineration (without energy recovery)	0.00
Landfilling	31.15
Total waste directed to disposal	252.31

According to this analysis, 90% of the waste generated is made up of the following materials: mixed materials, paper and cardboard (29%), plastic (27%), metals (19%) and wood (15%). These materials guarantee the above recycling rate.

4 In the 2021 figures, available in the annex, the scope only includes the parent, while those for 2022 include all production plants.

BREAK AREAS

ECOLOGICAL AREAS LOCATED INSIDE THE BREAK AREAS



- PAPER
- PLASTIC and LATIN
- COFFEE GLASSES
- ORGANIC
- NON-RECYCLABLE

OFFICE

ECOLOGICAL AREAS LOCATED INSIDE THE OFFICES



- PAPER
- PLASTIC
- NON-RECYCLABLE

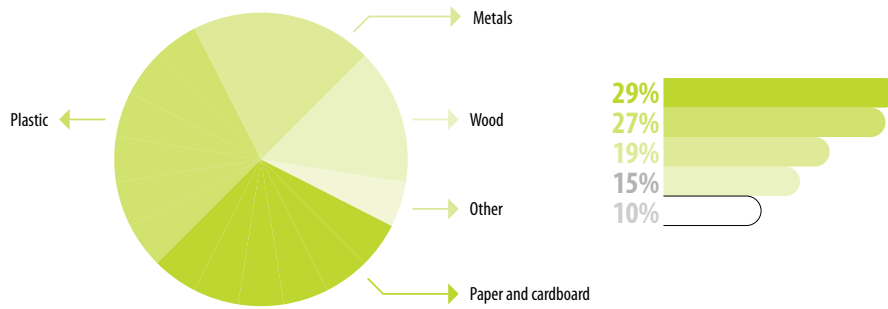
PRINTER

CONTAINER STORED NEAR EACH PRINTER



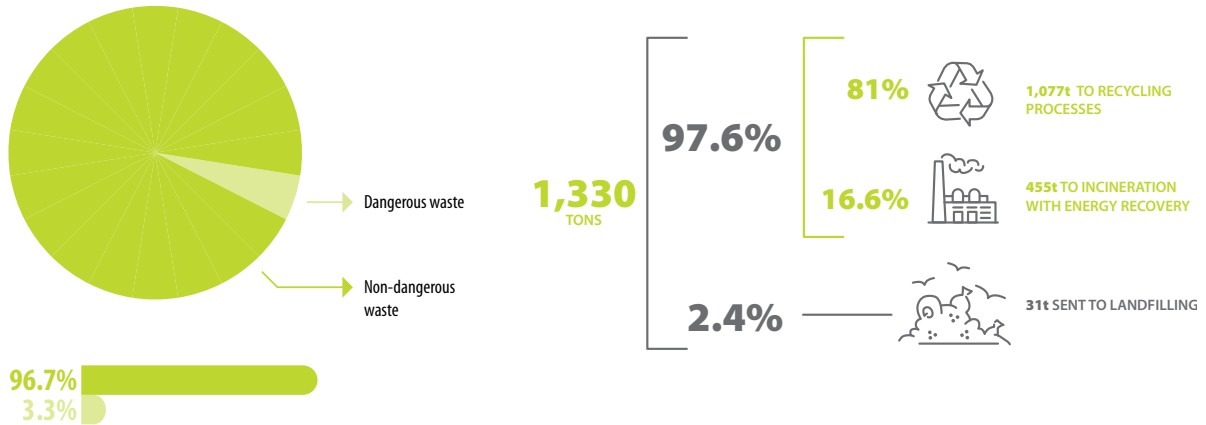
- PAPER
- TONER

Breakdown of waste by material



Overall, 97.6% of the waste generated is sent for recovery (including aqueous liquid waste), through open-loop and closed-loop⁵ recycling processes or incineration with energy recovery.

Waste generated (%)

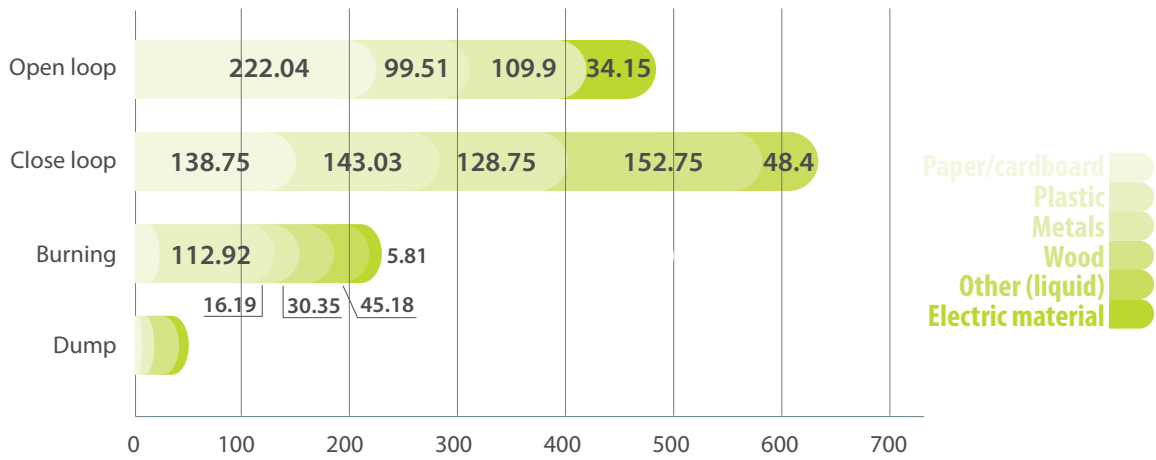


With respect to the type of waste generated and based on the management model implemented and the actions underway, given the high percentage of recycling, the impacts are not significant.

Furthermore, environmental contamination is excluded thanks to a management approach that envisages specific areas (external and internal temporary storage facilities) and the use of dedicated containers.

⁵ Open-loop recycling refers to recycling a product into a different one, while closed-loop recycling results in a material with the same characteristics.

Waste treatment (tonnes)



However, the Group's commitment is and will be to reduce the material component sent to landfills, privileging recyclable materials (closed-loop recycling).

ENERGY CONSUMPTION, SAVINGS AND EMISSIONS

DIRECT AND INDIRECT EMISSIONS (SCOPE 1 AND 2)

Similarly to the past, in 2022, the Group's energy consumption was driven by:

- its manufacturing plant;
- lighting;
- heating and cooling of the work environments;
- consumption of fuel for its fleet of company cars and logistics vehicles (owned);
- consumption of fuel for its fleet of company cars and logistics vehicles (mixed use and personal).

Energy consumption is mainly attributable to production plants, which account for 70% and 94% of the Group's total direct and indirect consumption, respectively. Similarly to the previous year, in 2022, the analysis also included the commercial subsidiaries, which account for only 5% of total electricity consumption.

DIRECT AND INDIRECT CONSUMPTION AND ENERGY INTENSITY (GJ) - [GRI 302-1 GRI 302-3]	2022	2021	2020
Total direct consumption from non-renewable sources	28,983.34	27,159.98	22,303.10
Natural gas	14,968.46	15,361.00	12,058.00
LPG	776.62	838.93	742.7
Diesel	15.31	-	-
Vehicle consumption ⁶	13,222.95	10,960.05	9,502.30
<i>Diesel</i>	6,297.46	5,357.50	4,615.20
<i>Petrol</i>	6,918.18	5,560.62	4,887.10
<i>CNG</i>	-	0.00	-
<i>LPG</i>	7.31	41.94	-
Total indirect consumption	45,173.00	41,618.47	36,006.50
Electrical energy from renewable sources	38,293.96	23,603.77	18,527.10
Electrical energy from non-renewable sources	6,879.04	18,014.70	17,479.50
TOTAL	74,156.34	68,778.44	58,308.60
Energy intensity (GJ/m2)	0.77	0.81	0.97
Energy intensity (GJ/emp) ⁷	33.35	33.36	33.4

In 2022, the Group's total energy consumption (Scope 1 and 2 emissions) approximated 74,156.34 GJ, up 7.82% on the previous year as a result of:

- the contribution of the acquisitions carried out in 2021 (12 months; in 2021: when the acquisitions occurred, the consumption of these entities was considered for the second half of the year only);
- the business growth, including as a consequence of the acquisitions carried out in 2021, which translated into an increase in hours worked (up by approximately 5% on 2021);
- the increased travel and transfers of the personnel of the commercial subsidiaries, which translated into a higher use of company cars, leading to a 21% increase in fuel consumption compared to 2021.

6 For the direct consumption related to the company cars, as per ABI 2022 guidelines, the following was considered:

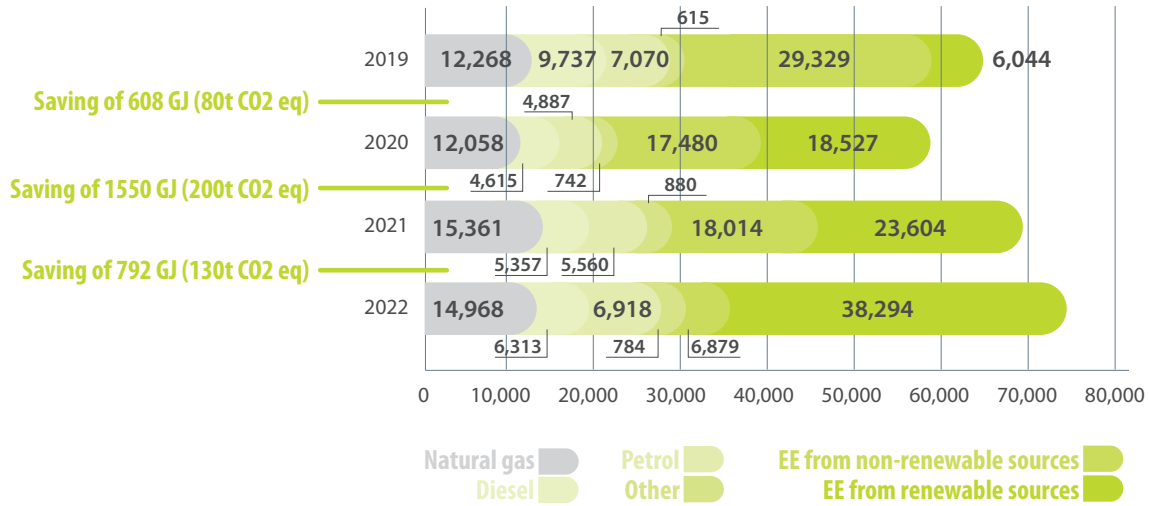
- Mixed use cars: where an employee's usage of a mixed use car can be distinguished between business use and personal use, 70% of total consumption is attributed to the company;
- Company cars: 100% of consumption was considered, as they belong to the group.

7 Compared to 2020, in 2021 and 2022, both employees and workers who are not employees, whose control falls under the organisation, were considered.

Conversely, the increasingly efficient use of non-renewable resources is confirmed by the consumption of fuels used for air conditioning, which decreased by 2.71% on the previous year, eliminating 25 tCO₂eq emissions (-3.8% of emissions from the heating of buildings in 2019).

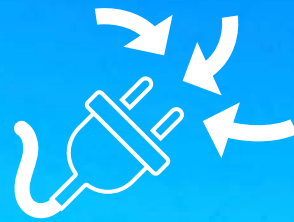
Trends in energy consumption (direct and indirect) are summarised below, showing the energy savings achieved thanks to the improvement actions concerning direct energy consumption (mainly natural gas, diesel and petrol).

Energy consumption (GJ) GRI 302-1



28,983.34 GJ

DIRECT CONSUMPTION



45,173.00 GJ

INDIRECT CONSUMPTION

Also in 2022, the Group continued the works to reduce energy consumption at production sites. These initiatives entailed the following actions:

- the replacement of lighting systems with new LED technology at the Croatian site, at Hygromatik and at the commercial subsidiary Carel Iberica, generating energy savings of approximately 26,800 kWh;
- the improvement of energy efficiency at the Chinese plant by streamlining the use of production lines, generating energy savings of more than 193,000 kWh.

In addition, over the past few years, the parent has replaced old heat pumps with high-efficiency ones.

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 aspect was included in the long-term ESG plan as part of the Group's commitment for the next three years to cut energy consumption by at least 12% compared to 2019.

REDUCTION OF ENERGY CONSUMPTION AND EMISSIONS [GRI 302-4 | 305-5]⁸

Type of work	2022		2021		2020	
	Estimated reductions (KWh)	Estimated reductions (tCO ₂ e)	Estimated reductions (KWh)	Estimated reductions (tCO ₂ e)	Estimated reductions (KWh)	Estimated reductions (tCO ₂ e)
Replacement of lighting systems with LED technology	26,825.00	11	355,964.26	156.00	168,845	78.6
Other actions	193,260.00	118	74,655.00	45.00	-	-
Total	220,085.00	129	430,619	201	168,845	78.6

These initiatives, which focus on improving the use of electricity, contributed to the reduction of consumption by approximately 2.24% compared to 2019. They were key contributors to the reduction in emissions.

Carel calculated its energy intensity rate considering the gross surface area of its sites and commercial subsidiaries and number of employees to monitor its energy utilisation trends. This is important in order to correctly match consumption and emissions to the increased reporting scope and the increased activity during the year, highlighting greater overall energy efficiency. Indeed, thanks to the investments in new multi-purpose buildings both at the parent and in some foreign production plants, the overall surface area compared increased by almost 14% on 2021, to 96,300 square metres.

Thanks to the replacement of the old heat pumps and the relamping plan which continued in 2022, energy efficiency improved, as confirmed by the 5% reduction in the intensity of consumption per unit of surface area in 2022 (0.77 GJ/m²), whereas, considering the number of employees, it is 33.35 GJ/employee.

⁸ The factors used to calculate the emissions avoided are:

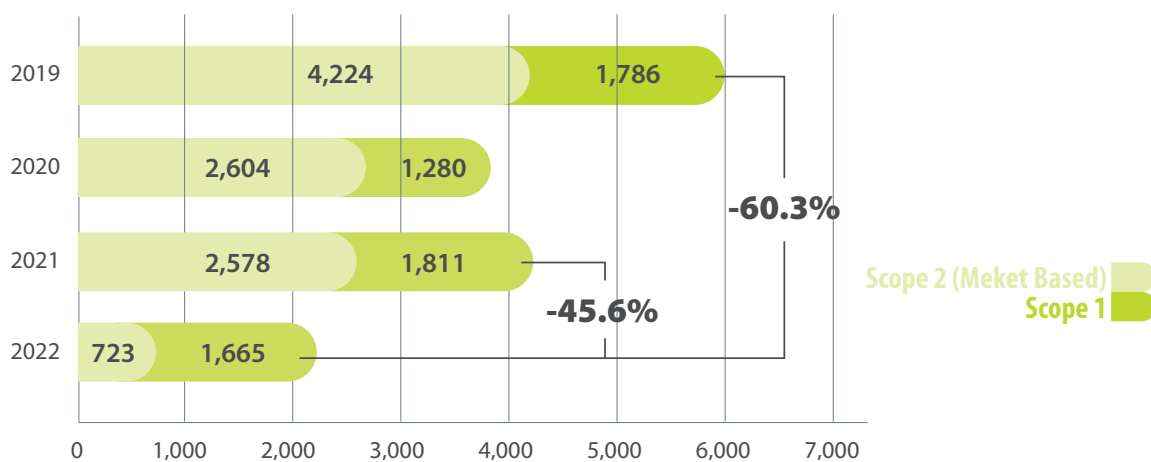
- 2022: European residual mix 2021 (AIB 2022), where available, otherwise Terna 2019;
- 2021: European residual mix 2020 (AIB 2021), where available, otherwise Terna 2019;
- 2020: European residual mix 2019 (AIB 2020).

In line with the objectives set out in the ESG plan, the reporting scope was extended to include the Group's other production plants, in addition to Carel Industries S.p.A..

DIRECT AND INDIRECT EMISSIONS AND EMISSION INTENSITY (TCO2E) [GRI 305-1 | GRI 305-2 | GRI 305-4] ^{9 10 11}

SCOPE 1 AND SCOPE 2 EMISSIONS	2022	2021	2020
Total direct emissions from non-renewable sources (Scope 1)	1,665.20	1,810.57	1,279.7
Natural gas	758.98	781.52	615.9
LPG	46.27	49.98	44.3
Diesel	1.03	-	-
Emissions from vehicles	858.90	979.07	619.5
<i>Diesel</i>	421.85	487.59	308.4
<i>Petrol</i>	436.63	488.64	311.1
<i>CNG</i>	-	-	-
<i>LPG</i>	0.44	2.84	-
Electricity location based (from renewable and non-renewable sources) (Scope 2)	4,790.20	4,471.72	3,914.7
Electricity location based (from non-renewable sources) (Scope 2)	695.09	2,517.70	2,188.3
Electricity market based (from non-renewable sources) (Scope 2)	723.10	2,578.15	2,603.8
TOTAL (Scope 1 + Scope 2)	2,338.30	4,388.72	3,883.4
Carbon intensity (tCO2e/m2)	0.02	0.05	0.07
Carbon intensity (tCO2e/emp) ¹²	1.07	2.13	2.23

Emissions related to direct and indirect consumption amount to approximately 2,338.30 tCO₂eq (Scope 1: 1,665.20 tCO₂eq and Scope 2: 723.10 tCO₂ - market-based method which only considers emissions from non-renewable sources). Therefore, the reduction in emissions may be estimated at 2,000.48 tCO₂eq, down 45.5% on the previous year and down 60.3% compared to 2019.

Scope 1 and 2 emissions (tCO₂e) GRI 305-1 / GRI 305-2


9 The figures used to calculate the direct emissions were published by the Department for Business, Energy & Industrial Strategy (DEFRA) in 2022, 2021 and 2020.

10 The factors used to calculate the indirect emissions are:

- 2022: Location-based: Terna 2019; Market-based: European residual mix 2021 (AIB 2022), where available, otherwise Terna 2019;
- 2021: Location-based: Terna 2019; Market-based: European residual mix 2020 (AIB 2021), where available, otherwise Terna 2019;
- 2020: Location-based: Terna 2018; Market-based: European residual mix 2019 (AIB 2020), where available, otherwise Terna 2018.

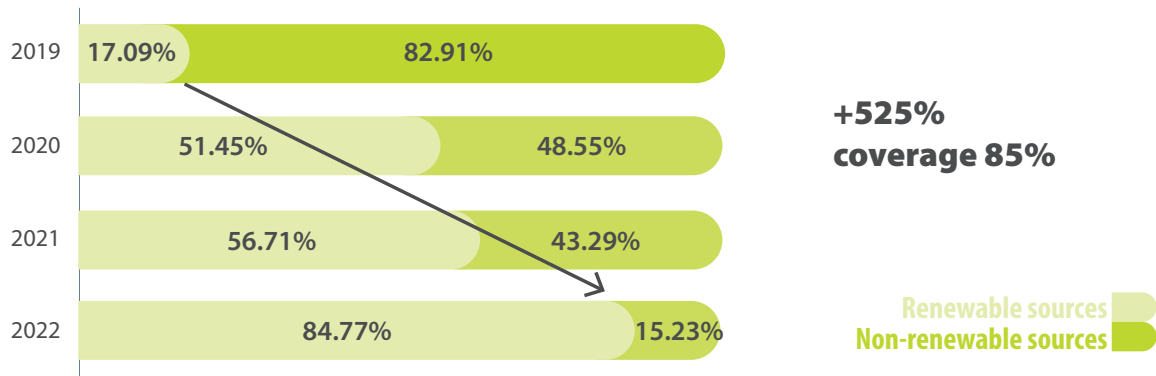
11 Carbon intensity based on direct and indirect market-based emissions.

12 Compared to 2020, in 2021 and 2022, both employees and workers who are not employees, whose control falls under the organisation, were considered.

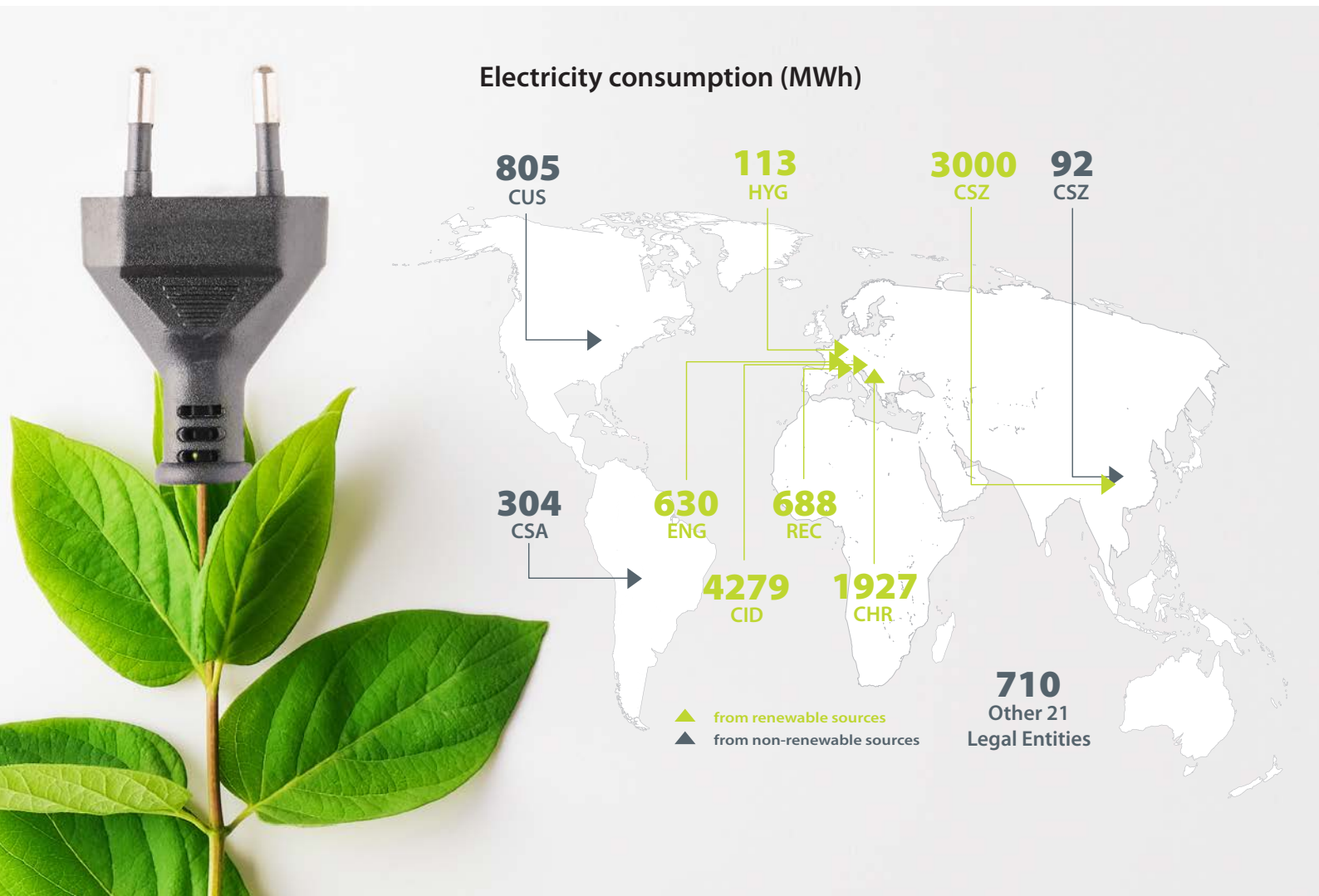
The considerable reduction in emissions is due to both the decrease in energy consumption through the above-mentioned energy efficiency initiatives, and, above all, to the procurement of electricity from completely renewable sources for a significant portion of the production plants. Indeed, in 2022, the group's energy consumption saw an increase in electricity from renewable sources, reaching the significant target of 85% of total consumption in the year and increasing its green share by more than 500% compared to 2019. In 2022, this translated into avoided CO2 emissions from electricity use totalling 5,351 tCO2eq¹³.

This result confirms the Group's commitments towards decarbonisation and how the focus on sustainability is a core value for both the decisions concerning the products launched on the market and management of the production processes.

Electricity consumption (kWh)

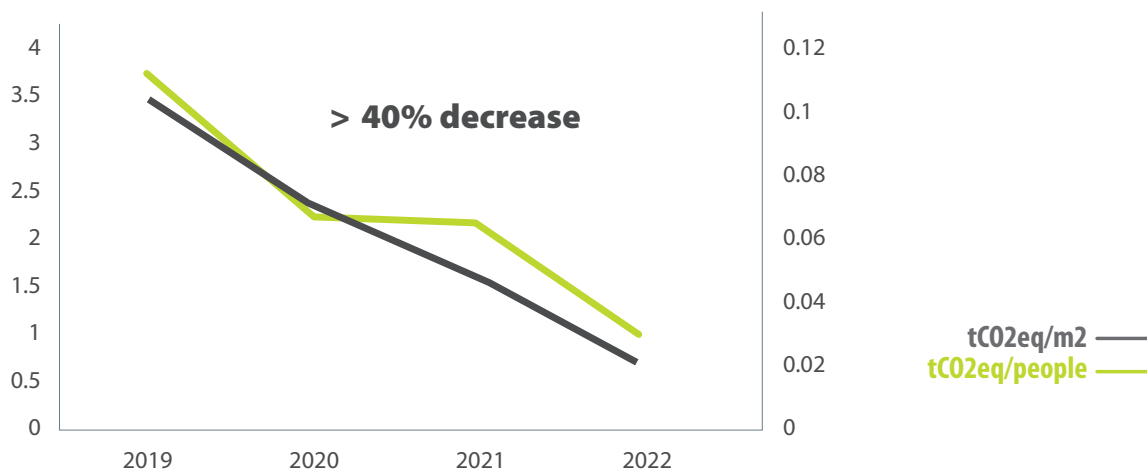


13 Calculated using Market-based methodology - European residual mix 2021 (AIB 2022).



The consumption intensity per unit area of 0.77 GJ/m² corresponds to the emission of approximately 0.02 tCO₂e/m², down 60% compared to last year, whereas, considering the number of employees, it is 33.35 GJ/employee with emissions of approximately 1.07 tCO₂e/emp.

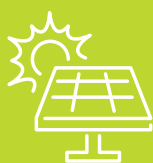
Carbon intensity GRI 305-4



In 2022, the Group's investments in photovoltaic systems were approved. Based on production estimates at standard factors, starting from 2023, this would generate a total of 1,229 MWh of self-generation or approximately 650 tCO₂eq avoided, saving about 15% * of Scope 2 emissions compared to 2019.

The investments in the various production plants may be analysed as follows:

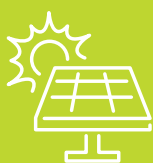
PARENT
MAIN PRODUCTION BUILDING,
NEW KNOWLEDGE CENTER BUILDING
AND NEW OFFICE BUILDING *



300 MWh

240 kWp

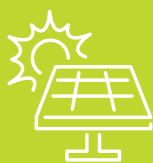
CROATIA
NEW PRODUCTION BUILDING*



341 MWh

300 kWp

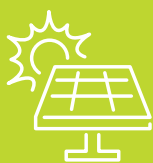
CHINA
CURRENT MAIN PRODUCTION
BUILDING *



538 MWh

500 kWp

HYGROMATIK
CURRENT MAIN PRODUCTION
BUILDING *



49 MWh

50 kWp

INDIRECT EMISSIONS (SCOPE 3)

As mentioned early in this section, in 2022, mapping and calculation of indirect GHG emissions (Scope 3) continued, reflecting the result of the Group's activities, which come from sources that are not owned or controlled by the parent (upstream and downstream of Carel's operations). Specifically, the analysis carried out during the year involved the following categories:

- **outbound logistics** (group scope): the calculation method used in 2021 for the parent was consolidated, applying it to all production plants in order to determine the emissions generated by transporting Carel goods around the world (road, air and sea);
- **inbound logistics** (parent scope): the parent introduced the calculation of the emissions generated by transporting purchased raw materials necessary for manufacturing products (mainly by road);
- **management of waste generated** (group scope): the calculation method used in 2021 for the parent was consolidated, applying it to all production plants to quantify the emissions generated by managing the waste of production processes grouped by type, setting the recycling percentage based on the processing carried out by the group companies' third-party contractors;
- **packaging** (parent scope): the parent introduced the calculation of the emissions generated by producing the packaging purchased (mainly paper and cardboard, wood and, residually, plastic) and used for packaging material;
- **commuting personnel** (parent scope): the parent introduced the calculation of emissions from commuting personnel and the use of remote work schemes by employees;
- **employee travel** (parent scope): the parent introduced the calculation of emissions from the transport of employees on business trips (e.g., air and train);
- **purchased services** (group scope): the Group, as a whole, introduced the calculation of the emissions generated as part of the production of purchased services.

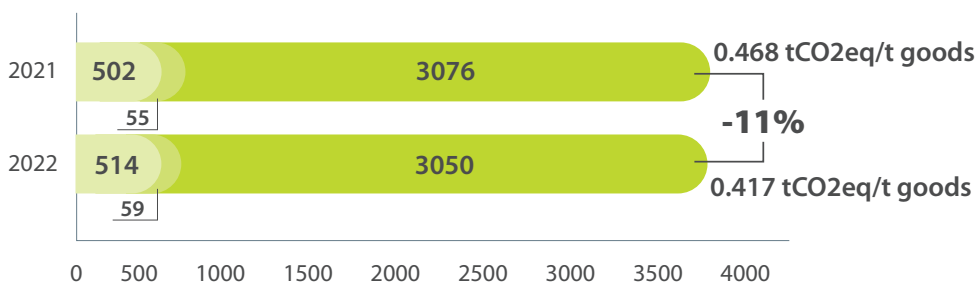
TRANSPORT AND LOGISTICS (OUTBOUND AND INBOUND)

Outbound

In 2022, the calculation of indirect emissions caused by outbound logistics was extended¹⁴ to include all the Group's main plants. This mapping will identify the areas in which emission mitigation measures can be implemented. Indeed, the 2022 figures compared with those of 2021 show that by increasing the use of road and/or sea transport rather than air, emissions fell by almost 11% per unit of transported product (from 0.468 tCO₂eq/t in 2021 to 0.417 tCO₂eq/t in 2022).

¹⁴ Data consolidation: in addition to a more specific assessment of the use of the various transport modes, the calculation of distances between plants and recipient countries was also fine-tuned, especially land transport.

Emissions (tCO₂eq)



> +12% increase on goods transported

by Land  by Sea  by Air 

INDIRECT TRANSPORT EMISSIONS - SCOPE 3 (TCO₂E) [GRI 305-3]¹⁵

Mode of transport	2022	2021	2020
Land	513.98	502.2	200.4
Air	3,049.70	3,075.6	1,351.5
Sea	59.01	55.3	24.8
Total	3,622.69	3,633.10	1,576.7

The Carel Group reaches all its customers worldwide thanks to an extensive sales network. In 2022, products were shipped from the production plants by:

- road, which is the main mode of transport, accounting for 79% of the total material shipped;
- air, accounting for about 9% of the material shipped;
- ship, accounting for about 12% of the material shipped.

Shipments to customers are generally by road (which further grew in 2022) for the domestic market (for Carel Industries S.p.A. and Carel Adriatic - Croatia this means the European region) or by sea (other continents). Air transport, which most contributes to the emissions produced (83%), is rarely a default option. In fact, it is always a contingency, as was the case also in 2022 as a result of the shortage of materials.

In 2022, emissions totalled 3,622 tCO₂eq.

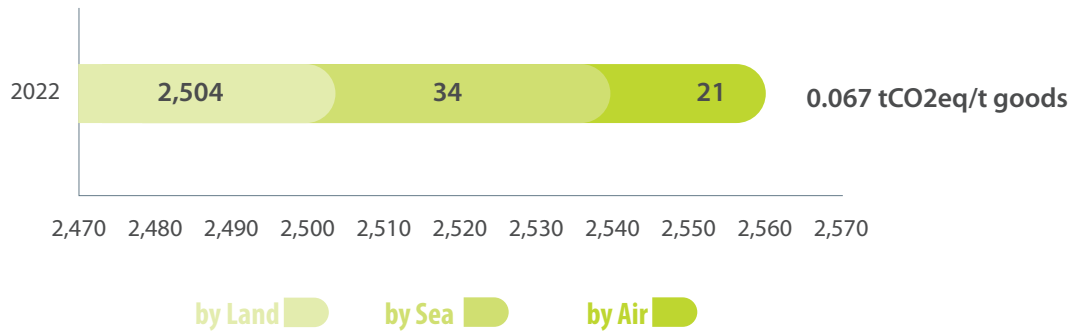
¹⁵ The figures used to calculate the emissions were published by the Department for Business, Energy & Industrial Strategy (DEFRA) in 2022, 2021 and 2020. The data on transported goods is extracted from the company IT system (Oracle). For deliveries which are not listed on the company IT system, data 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 2022, 2021 and 2020 - Freightage 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 2022, 2021 and 2020 - Freightage goods - Freight flights - International, to/from non-UK);
- sea transport: distances are calculated with the help of <https://sea-distances.org/>. (DEFRA, 2022, 2021 and 2020 - Freightage goods - Freight cargo - container ship 8000+ teu).

Inbound

The GHG emissions caused by the transport of material to the parent to produce almost 3,250 tonnes of finished goods then shipped from the headquarters were estimated in order to assess the related impact. Transport was predominantly by road, amounting to 98%, with an overall specific emission of 0.067 tCO₂eq/tonne, for a total of almost 170 tCO₂eq.

Inbound transport of materials (tonnes)



WASTE

As already mentioned, in 2022, the analysis of waste which, in the previous year, covered the parent only, was expanded to the production sites using the same approach in order to calculate its impact in terms of CO₂ produced.

The analysis showed that the emission impact resulting from waste treatment is approximately 50 tCO₂eq, equal to an emission of 1 tonne of CO₂eq every 26.7 tonnes of waste generated, or a specific emission of 0.0376 tCO₂eq per tonne of waste. This impact is contained thanks to the characteristics of waste and the pursuit of treatments that allow high recycling percentages. Indeed, as discussed in the “Waste” section, most of the waste is subject to closed-loop recycling treatments; therefore, the re-generated material retains the original characteristics.



INDIRECT WASTE MANAGEMENT EMISSIONS - SCOPE 3 (TCO2E) [GRI 305-3]

Treatment	2022
Open-loop recycling	9.91
Closed-loop recycling	12.02
Incineration with energy recovery	4.70
Landfilling	23.04
Total	49.67

PACKAGING

With respect to packaging, Carel pursues the following objectives: confirm the status of FSC or PEFC certified material, increase the volume of recycled material used in packaging and constantly decrease the use of both non-recyclable and recycled plastic. Green packaging is just one of the measures designed to make Carel’s solutions 100% efficient thanks to the sequencing of the content into the container. Much of the plastic packaging has been replaced by FSC or PEFC certified cardboard and wooden boxes.

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.

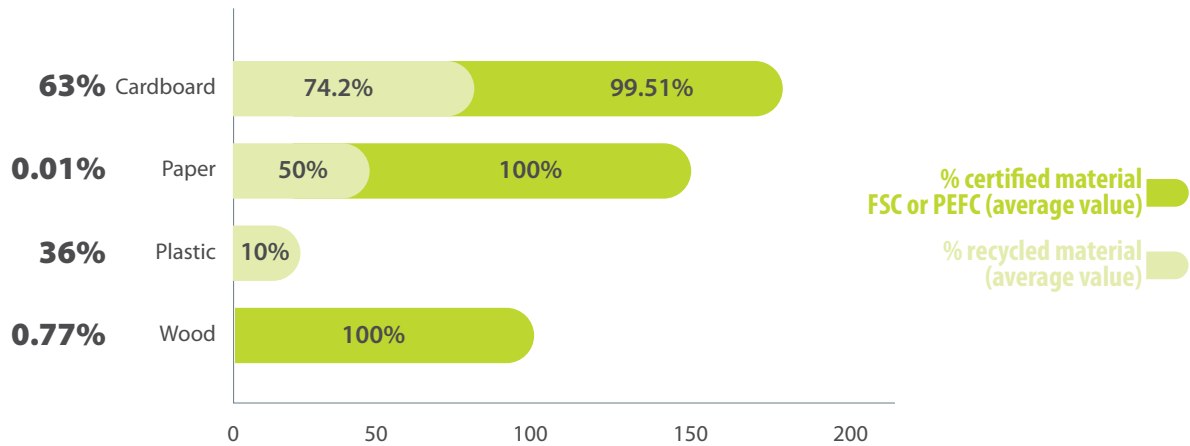
Furthermore, in 2022, a catalogue of sustainable packaging common to Carel Industries S.p.A. was developed. This will include disseminating a data collection procedure which analyses the consumption and type of materials used and subsequently suggests and directs towards solutions that increase the use of sustainable raw materials, while committing to reducing the amount of packaging on the market.

In addition, in order to analyse the impact of Carel product packaging and identify the areas for improvement to guarantee certified low-impact products, the impact of the emissions generated by all packaging purchased in 2022 and subsequently used to pack the finished goods was assessed.

According to the analysis, 63% of the total packaging purchased is made up of cardboard (in terms of weight), which, in addition to its certified origin, is 74% comprised of recycled material. The paper and wood used are also totally of certified origin. Finally, plastic, which is a residual element, has a 10% recycled component



Packaging (%)



The total impact generated by 644 tonnes of purchased packaging is 398 tCO₂eq, equal to a specific emission of 0.618 tCO₂eq/tonne of packaging.

COMMUTING PERSONNEL

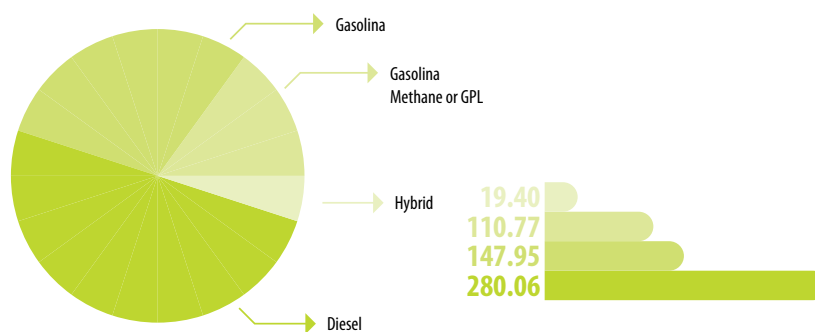
A survey was conducted covering all the parent’s employees to determine the value of emissions generated by commutes in 2022. Specifically, a total impact of 558 tCO₂eq was determined, mainly attributable to the use of own cars.

According to the survey, the parent’s personnel work from home almost two days a week on average (a maximum of two remote work days out of five is allowed). From an emissions point of view, this saved 180 tCO₂eq emissions compared to the figure that would have been obtained had no work-from-home schemes been introduced. These 24% savings generated by hybrid work play an important positive role in the actions geared towards reducing the environmental impact.

Half the emissions generated during employees’ commutes are attributable to diesel-powered cars, used by 46% of the sample analysed, while hybrid and petrol-powered cars that also run on LPG or natural gas account for 20% of total emissions.

The graph shows the emissions from the use of different types of cars.

Emissions from the use of different types of cars (tCO₂eq)



EMPLOYEE TRAVEL

In 2022, following the resumption of travel and the easing of the Covid-19 restrictions, the impact generated by the use of planes and/or trains for employee travel was analysed.¹⁶

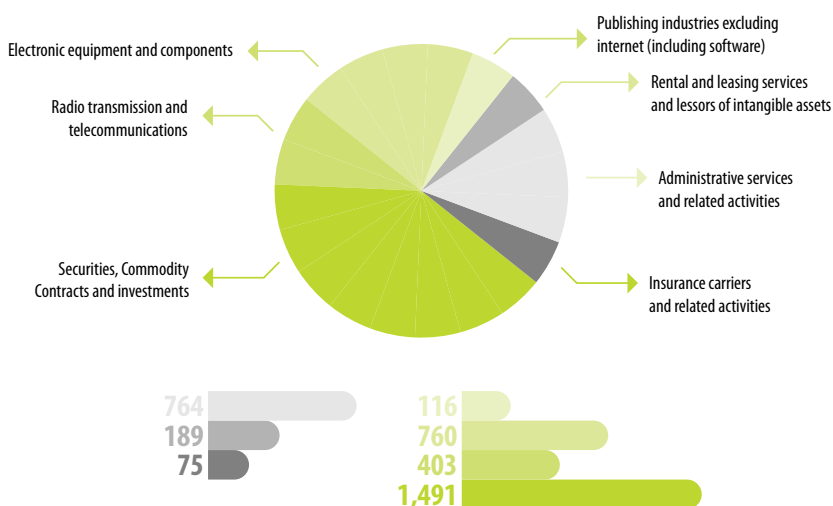
Overall, the emissions for employee travel amounted to 295 tCO₂eq. Specifically, about 1,600,000 km were travelled by air, generating emissions of almost 290 tCO₂eq, while 130,000 km were travelled by train, generating emissions of almost 5 tCO₂eq. The specific emission (tCO₂eq per km travelled) for travelling by train was 81% lower than that by air.

PURCHASE OF SERVICES

In 2022, the impact of the emissions of the various services acquired by the Group from third parties was also calculated by applying average conversion ratios¹⁷.

Emissions totalled approximately 3,798 tCO₂eq, of which 39% was attributable to third-party service agreements, for a cumulative expenditure of €39 million.

Emissions of the various services acquired (tCO₂eq)



SCOPE 3 TOTAL EMISSIONS – CAREL'S CARBON FOOTPRINT

Carel's carbon footprint was determined based on the various contributions discussed in the previous sections, some of which made it possible to outline a methodology to subsequently extend the calculation to the entire Group.

A total of 8,892 tCO₂eq emissions were mapped.

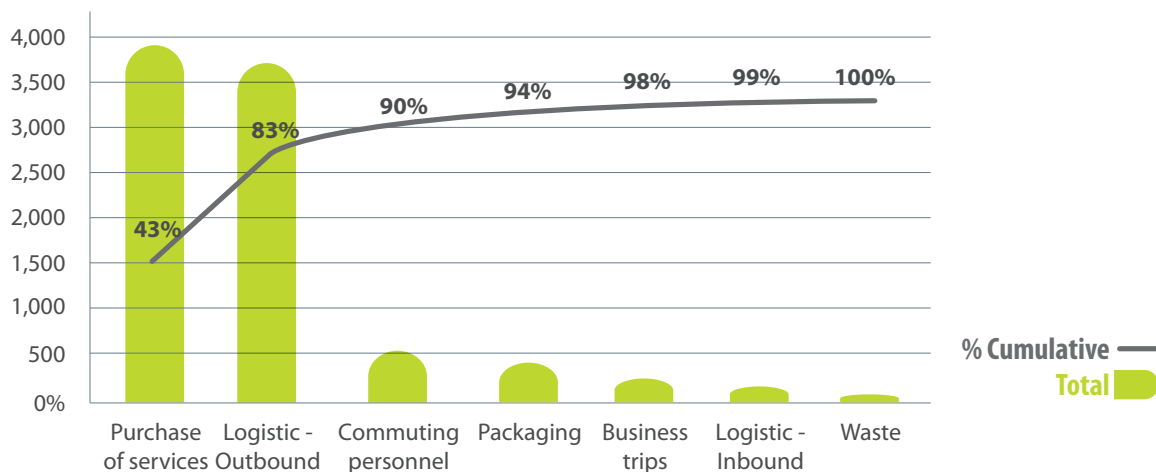
¹⁶ Car journeys are included in Scope 1 as they are carried out using the corporate car fleet. The consumption generated by these journeys increased by approximately 500 GJ on the previous year as a result of the rise in journeys.

¹⁷ Method used: Spend-based method related to environmentally-extended input output (EEIO) emission factors (GHG protocol)

The breakdown, accompanied by the relevant scope, is shown below:

EMISSIONI SCOPE 3			2022
Category	Scope	Emission (tCO2q)	
Purchase of services	Group	3,798	
Logistics - Outbound	Group - Production plants	3,623	
Commuting personnel	Parent	558	
Packaging	Parent	398	
Business trips	Parent	295	
Logistics - Inbound	Parent	170	
Waste	Group - Production plants	50	
Total		8,892	

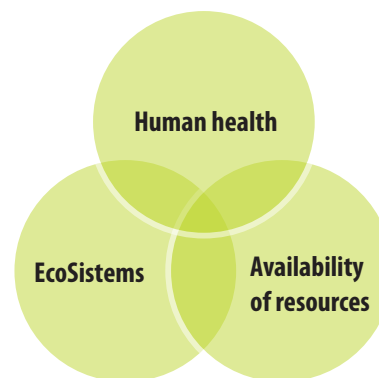
The impact may be analysed as follows:



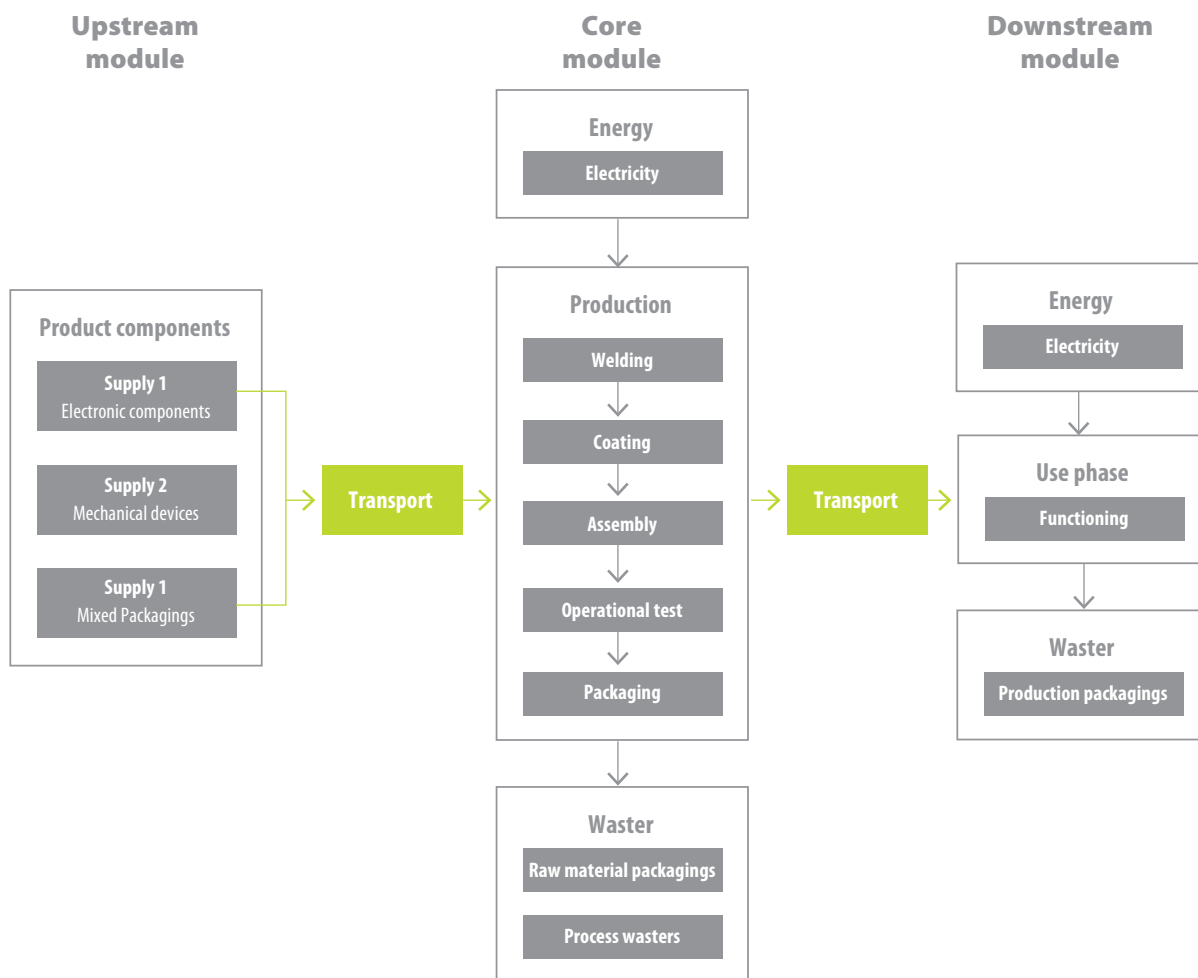
LIFE CYCLE ASSESSMENT

In 2022, a life cycle assessment was conducted on an inverter - one of Carel's main products - in order to assess, in particular, the potential environmental benefits and impacts of this inverter using a cradle to grave approach.

An inverter is an electrical device that powers compressors for air-conditioning and refrigeration equipment. The output is a tool that manages the currents between the plug and the final device, consuming an insignificant amount of energy.



The LCA covered aspects relating to the extraction of raw materials, the production of the various electrical components, the production phase of the inverter and the use and end-of-life phases. The different phases analysed for the purposes of calculating the impacts¹⁸ may be summarised in the following three sections. Because of the long list of the life cycle inventory results, the impacts of this product throughout its life cycle were determined using a method that considers a limited number of indicators (ReCiPe) aimed at obtaining a result on the following three macro areas:

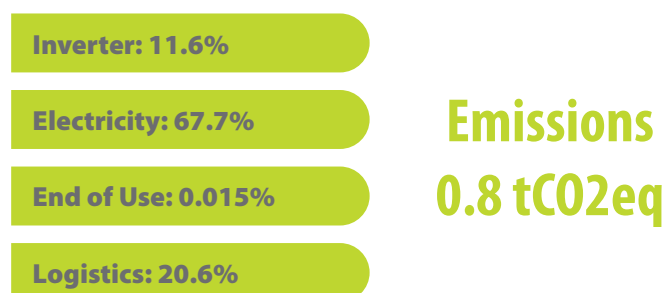


The impacts were grouped into four categories in order to identify more clearly the system component that contributed the most:

- *Product*: the elements pertaining to production (upstream + core module);
- *Electricity*: the consumption of electricity during the operation of the plant to which the product pertains, estimating an operation of 8,760 hours/year for ten years (part of the downstream module).
- *End of Use*: the impacts generated by the end-of-life phases of the product. Specifically, transport to the waste treatment plant (part of the downstream module) was considered.
- *Logistics*: the transport of the inverter from production at the parent to the main countries in which they are sold.

¹⁸ The analysis was carried out using internal data. Where no data were available, secondary data were used based on an "attributorial approach" in line with the ISO 14040 standard. In other words, the average data representing the average environmental burden to produce a unit of the goods or services were used.

According to the analysis, the emission impact is extremely low (0.8 tCO₂eq). The main impact relates to the use of electricity, which accounts for 67% of total emissions.



These interesting figures reflect the actions already implemented and those in progress to contain emissions related to packaging and waste generated during the production and logistics phases, as discussed earlier.

Considering the overall impact, the use of electricity from only renewable sources for end-users, such as those powering the processes at the parent, would lead to an almost 70% reduction of the emissions generated by the product throughout its life cycle.

OTHER EMISSIONS

Similarly to previous years, no emissions of fluorinated gases from normal usage of air-conditioning systems 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.

Since 2020, Carel has engaged an external expert and a specialised external laboratory to help it analyse the NO_x, SO_x and other significant atmospheric emissions from the main chimneys.

NO_x, SO_x AND OTHER SIGNIFICANT EMISSIONS (KG) [GRI 305-7]

Emissions	2022	2021	2020
Nitrogen oxides (NO _x)	435.09	444.68	500.2
Sulphur oxides (SO _x)	208.64	205.39	236.3
Persistent organic pollutants (POP)	0.25	0.25	0.3
Volatile organic compounds (VOC)	462.78	134.97	586.6
Hazardous air pollutants (HAP)	114.96	6.85	89.7
Particulate matter (PM)	658.82	479.67	614.2

The results for 2022 cannot be compared with those for 2021 due to the following changes in scope:

- for the Italian plant, for example, more metals were considered compared to the previous year;
- for the Chinese plant, the government introduced a new requirement to also test for non-methane hydrocarbons (NMHC) within the VOC class.

In addition, the following aspects must also be considered in reading the results:

- as sampling is punctual and not continuous, the results could reflect a specific production phase that is not constant throughout the year;
- for some pollutants, some values were below the detection threshold. In this case, the worst-case scenario is assumed in order to still determine compliance with the regulatory limit.

Although a comparison with the previous year's results is not possible, the overall value is modest.

The Group confirmed its commitment to cutting emissions by regularly replacing filters in order to reduce the emission impact outdoors and by regularly maintaining suction systems, as required, for example in Italy, by the authorisations for chimney emissions.

As a result of the process to fine-tune the relevant assessments, a standard will be developed to be applied to the Group's production sites in order to compare the different results, which will also reflect local regulatory constraints.

Furthermore, the following should be noted:

- in Italy, the analyses of emissions from the chimneys of production units show levels far below the limits established by the related authorisations which were renewed in 2021;
- in Croatia, the incinerators are subject to regular maintenance and emissions are analysed periodically to comply with the legal requirements for environmental protection;
- in China, a third-party expert was engaged to carry out sample tests. As mentioned earlier, in 2022, the scope of the analysis for some pollutants was expanded.

WATER



20.6 megalitres
OF WATER WITHDRAWN IN ALL

The Group is committed to the rational use of water at all of its sites. Considering the fact that fresh water consumption¹⁹ is used for sanitary rather than industrial purposes, management monitors usage in order to detect any leakages and to safeguard water resources.

In 2022, the Group's total water withdrawal was very low (approximately 20.4 megalitres. The decrease on the previous year (21.6 megalitres) is due to the resolution of a leak detected at a plant and more careful monitoring by the sites.

Starting in 2020, production sites' consumption is also monitored with reference to any areas of water stress where they are located. Specifically, the site in China, which is responsible for 20.2% of total consumption, is located in an area of water stress. Consequently, particular attention is paid to analysing any deviations during the year in order to identify possible leaks in the system.

¹⁹ Fresh water means water with total suspended solids concentration (TSS) of $\leq 1,000$ 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.

As of 2021, the analysis has been extended to all the Group's commercial offices. Overall, in 2022, 92.3% of water withdrawn is attributable to the production sites. However, such withdrawals are strictly related to sanitary use and, therefore, tied to the number of employees and hours worked.

In order to accurately monitor the volume of water sent to public sewers, the parent installed a specific meter. Bearing in mind the importance of discharging industrial effluents similar to urban waste within the legal parameters, the water characteristics are checked periodically. Furthermore, a specific procedure was defined for the monitoring and proper management of flows in order to prevent unwanted leakages through the implementation of specific maintenance plans.

Given the type of water use, there are no particular actions to be taken in addition to those already mentioned.

WATER WITHDRAWAL BY SOURCE (ML) [GRI 303-3]

Sources ²⁰	2022		2021		2020	
	All areas	Water stress areas	All areas	Water stress areas	All areas	Water stress areas
Groundwater	0.52	0.0	0.5	0	0.5	0
Fresh water	0.52	0.0	0.5	0	0.5	0
Water withdrawn from the municipal water supply	20.12	4.12 ²¹	21.1	5.2	14.8	3.9
Fresh water	19.6	4.12	19.9	5.2	14.8	3.9
Other water	0.44	0	1.2	0	0	0
Total	20.64	4.12	21.6	5.2	15.3	3.9

²⁰ In the 2020-2022 three-year period, no water was withdrawn from surface water, produced water, seawater or other water sources.

²¹ Sources: surface water.



People and communities

TRAINING AND PROTECTING HUMAN RESOURCES

People have always been one of the guiding principles of the Group's strategy and are among the key drivers of sustainable development.

In 2022, the path towards a personnel management approach that is increasingly focused on actively contributing to well-being, both inside and outside the company, continued in line with the Driven by the Future sustainability plan, in which acting for people is one of the three essential pillars for sustainable development. For this reason, of the 55 sustainability goals spread over a long-term horizon, 22 are focused on improving the Group's relationships and attention to people, including employees, customers and the community as a whole. Specifically, this commitment is focused on the following topics:

- **Human rights and code of ethics**
- **Diversity, equal opportunity and inclusion**
- **Employee involvement, listening and satisfaction**
- **Talent attraction, development and retention**
- **Well-being, work-life balance and employment protection**
- **Training and professional development**

HUMAN RIGHTS AND CODE OF ETHICS AND DIVERSITY, EQUAL OPPORTUNITY AND INCLUSION

In order to pursue its commitment to promoting a culture of respect for rights and the value of diversity, Carel acts in accordance with the Code of Ethics and the group policies governing the respect for human rights and diversity which are based on international regulations and principles. These policies are the ethical principles and rules of conduct to be complied with as part of the Carel Group's business activities and include: legality, morality, professionalism, dignity and equality. In order to ensure that all stakeholders comply with these values and rules of conduct, the company encourages their sharing and dissemination throughout its value chain.

In 2022, the focus was on raising awareness of the respect for human rights and of integrity and legality issues at group level, by means of refresher training for the parent's employees while standardising training on these issues for new hires. Specifically, this training focused on the Code of Ethics, the human rights policy and the anti-corruption procedures and was delivered mainly using the e-learning platform, in addition to some classroom in-depth analyses, to all Carel's executives and white collars, regardless of their type of contract (permanent / fixed-term) and working hours (full-time / part-time). As for the parent, in 2022 alone, 213 employees were involved in training on anti-corruption issues, including new recruits and/or for updates, accounting for 45% of 477 executives and white collars, in addition to six board members (accounting for 86% of the total number of board members).

Furthermore, during the year, training in ESG, compliance and privacy topics (excluding safety training) was also provided, for a total of 1,082 hours across the Group, of which 964 hours at Carel Industries, involving 339 employees of the parent out of a total of 725.

This type of training accompanies employees throughout their life in the company, in line with the principles of Carel Culture Code ("CCC"), specifically, Be Open and CARE. It includes training pills on the above topics, both at the time of hiring and afterwards. Indeed, it is part of most development and training paths and also makes use of the content offered by the main international training providers, starting from the parent and gradually expanding it to the entire Group through pilot projects.

The long-term commitment to gender rebalancing in management positions continued. The benchmark

is the percentage of white-collar women hired out of the total number of hires for the year. For 2022, this percentage was 23.3% for the parent, slightly up on 2021 (23.1%). Considering also the white collars hired on a temporary basis, the percentage of women hired out of the total was 26.8%.

At group level, women account for 37.5% of the workforce in 2022. Specifically, they make up approximately 26.9% of white collars, up 1% on the previous year.

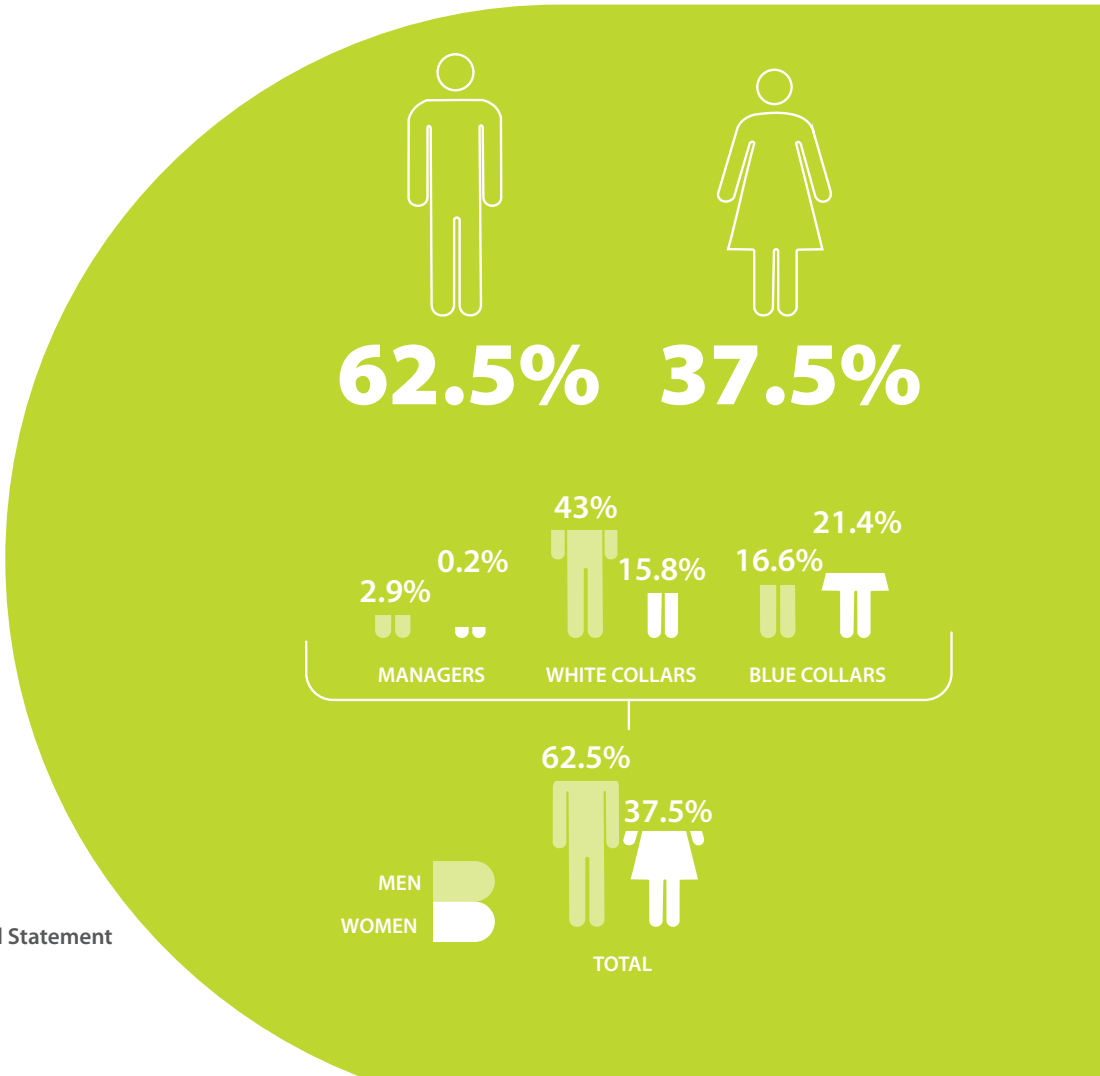
Free association in trade unions has always been guaranteed in all the Group's sites, in order to safeguard the right of the individual as per the main international conventions and various national regulations.

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.) and adequate remuneration by applying the current national minimum wage at least, as described in the Group's human rights policy.

In order to ensure that industrial relations in the Group are carried out in a transparent and positive way, the Group provides that relations and negotiations with the trade unions are handled directly by each group company.

In 2022, four days of strikes were announced at the parent, all in relation to national trade unions' actions related to safety at work and the budget law. An average of 13.4% of employees took part. The supplementary company agreement (second-level bargaining) for the 2022-2024 three-year period was renewed in March 2022. The agreement, which continues to focus on flexibility and the awarding of additional welfare & benefits for employees, guarantees full tax exemption on the entire performance bonus paid to employees, in line with the regulations in force.

In 2022, 50% 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, Code of Ethics and the Group's policies on human rights, diversity, the environment and occupational health and safety. In 2022, at Carel Industries S.p.A., 15% of workers were members of a trade union. There were two disputes relating to individual cases which resulted in disputes involving Carel South America's production site. Of



these, one was groundless, while the remaining one is being analysed. In 2022, Carel USA received one report about discrimination, which was ultimately groundless.

Although the Covid-19 emergency period has been declared over, in 2022, the Covid-19 committee, comprising the HR manager, HSE manager, the company doctor, trade union representatives and safety representatives, continued to operate at the parent with the aim of periodically updating the employee healthcare protocol, assessing the best policies for employee access to offices while balancing the use of remote working, and providing policies and guidelines to be used as standards at the Group's plants and foreign subsidiaries in compliance with local regulations and the ruling legislation of each country.

COMPOSITION OF THE WORKFORCE ¹

At 31 December 2022, the Group had 2,006 employees, an increase of 7.6% ² compared to the previous year.

The Group also avails of workers who are not employees, specifically temporary ones, who, in 2022, numbered approximately 219 ³ (94 women and 125 men), up by 11% on 2021 (or approximately 199). They are mainly employed in production and logistics and warehouse activities.

The parent in particular has dedicated inclusion policies for employees with disabilities in accordance with Italian law. Employees with disabilities numbered 44 at year end, up by 4.8% on 2021 ⁴.

1 Employee figures refer to the number of people at the end of the reporting period

2 The increase does not consider the new acquisitions of the year, which joined the Group's scope.

3 The figures on workers who are not employees refer to the average number of people during the reporting period.

4 With respect to the Group, they numbered 42 in 2021 and 38 in 2020.



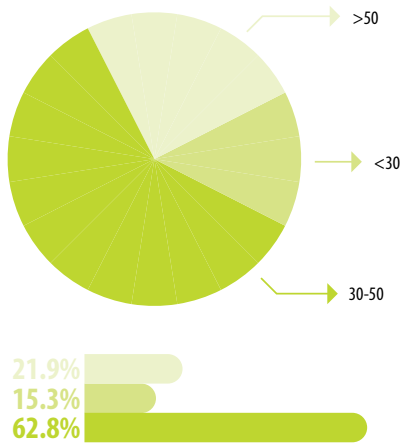
The largest professional category is that of the white collars (roughly 58.8%), followed by blue collars (38%). Management make up around 3.2% of the total workforce. In 2022, the number of female employees rose by more than 9% with a strong percentage of female managers ⁵. Male employees rose by 6.5%.

NUMBER OF EMPLOYEES BY PROFESSIONAL CATEGORY AND GENDER (N.) [GRI 405-1]

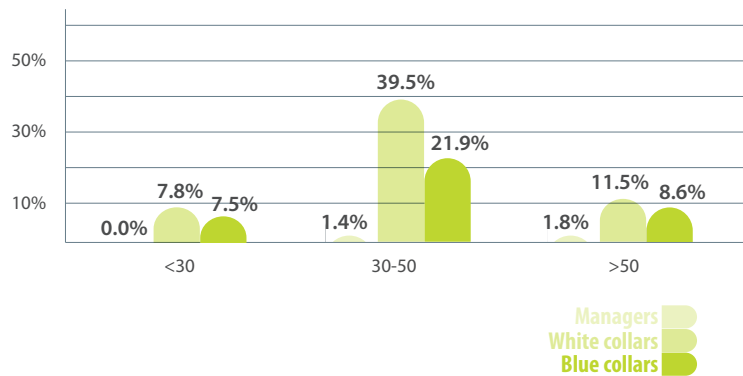
	2022			2021			2020		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Managers	59	5	64	57	5	62	56	6	62
White collars	863	317	1,180	826	288	1,114	795	264	1,059
Blue collars	332	430	762	294	395	689	257	367	624
Total	1,254	752	2,006	1,177	688	1,865	1,108	637	1,745

Most employees are in the 30-50 age bracket with an average age of around 42.7 (41.5 for men and 43.9 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.

Percentage of employees by age bracket (%)



Percentage of employees by professional category and age bracket (%)



The Group’s continuous growth is evident from the fact that 54.2% 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 (39.4% 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 (78.7%).

⁵ 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 CONTRACT TYPE AND GENDER (N.) [GRI 2-7]

	2022					
	Permanent employment contracts		Fixed-term contracts		Total ⁶	
	Men	Women	Men	Women	Permanent	Fixed-term
Western Europe	667	319	37	12	986	49
Rest of Europe, Middle East and Africa	124	160	47	64	284	111
North America	123	38	0	0	161	0
South America	24	34	0	0	58	0
North Asia	48	14	148	98	62	246
South Asia	19	9	18	3	28	21
Total	1,005	574	250	177	1,579	427

In 2022, roughly 2.2% of its workforce were working part-time hours (mostly women). 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.

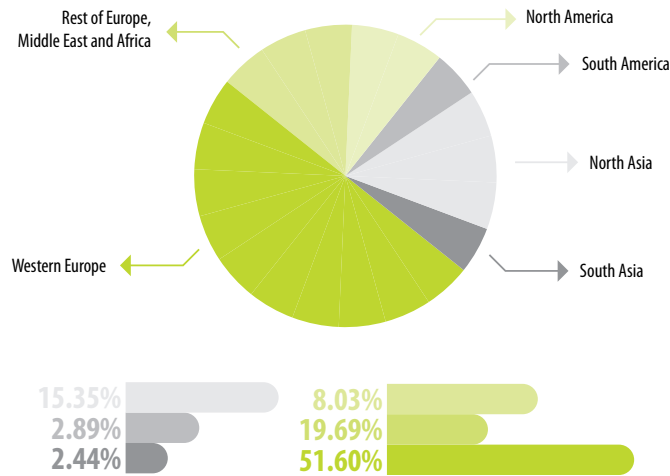
NUMBER OF EMPLOYEES BY TYPE OF JOB (N.) [GRI 2-7]

	2022			2021			2020		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Full-time	1,250	711	1,961	1,172	647	1,819	1,106	600	1,706
Part-time	5	40	45	5	41	46	2	37	39
Total	1,255	751	2,006	1,177	688	1,865	1,108	637	1,745

A geographical breakdown shows that, in line with the previous years, slightly more than half of the employees are employed in Western Europe, 20% in Eastern Europe, Middle East and Africa, approximately 18% in APAC and the remaining 11% in North and South America.

⁶ In 2022, the Group had no employees with non guaranteed working hours.

Percentage of employees by geographical segment (%) [GRI 2-7]



EMPLOYEE INVOLVEMENT, LISTENING AND SATISFACTION



Make the difference!	Experiment!	Be open!	Care!	Think customer first!
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In order to propose a strong and shared corporate identity, fostering cohesion between people and alignment towards the achievement of the strategic goals, in 2021, the vision was formalised for the first time and, at the same time, the Carel Culture Code was unveiled, outlining the guiding principles of the Group’s culture.

Over the past two years, the senior management of the parent and the regions participated in the process of identifying principles, followed by other groups of employees who, through focus groups, contributed to the definition of the set of individual behaviours and collective practices that inspire principles.

This resulted in a set of values that, on the one hand, reflects the willingness to maintain Carel’s historical identity and, on the other, shows an ideal and a value-driven objective for the future, to enable people to put the company vision into practice:

- **Be open!** Valuing the diversity of people and new approaches, looking at experience and knowledge outside Carel, questioning the present situation and operating with a global horizon;
- **Experiment!** Innovate by exploiting short cycles and in collaboration with customers, considering failures as a learning opportunity;
- **Care!** Asking for and listening to others’ opinions, while remaining transparent and taking into account how our actions affect the work of others, defending our ideas at the same time;

- **Think customer first!** Working with a focus on the customers' perspective to offer them the best solutions and the best services;
- **Make the difference!** Set ambitious, clear and shared goals and evaluation criteria, assuming responsibility and risks for our actions and embodying the principles of the Carel Culture Code.

In 2022, the company focused on the CCC's *Bring To Life* initiative, i.e., the promotion of a set of activities that use genuine actions to progressively evolve behaviour and the organisational culture towards the relevant principles. The first activity focused on disseminating the CCC at group level, through presentations to employees, generally held by a member of the executive committee together with HR and local management, in addition to billboards in the workplace and short videos that contextualise and explain each principle. Subsequently, a survey was launched involving the parent and the foreign subsidiaries characterised by greater HR supervision, in order to identify which principles of the CCC were perceived to be most present in the company and which needed more focus. As a result, actions were taken to develop the individuals' and the company's ability to behave and perform in accordance with the CCC. For example:

- at the parent, the executive committee launched a project to improve certain processes that also affect departments other than those to which these processes report, in order to improve them in accordance with the principle *CARE!* - *about how our work impacts other people and areas*. A similar project, called *Removing roadblockers outside HQ*, was launched to facilitate the work of the subsidiaries through the parent's support in improving certain operational processes;
- the HR area revised the *Performance Review* process by updating it as *Performance Development*: the CCC principles are now the main infrastructure on which managers and employees are asked to give each other feedback;
- the *Gimme5!* section was launched on the Group's intranet where all employees who have access to it can publicly praise a colleague for their particularly positive behaviour related to one of the CCC principles.

Vision

Being the innovation our planet needs through solutions for the Climate Control Industry.

Driven by knowledge, inspired by human well-being.

Now and for the future generations.



Internal communication involved an investment in the Group's and the Italian intranet, enriching them with content that provides employees with increased sharing and transparency of information, in addition to the support provided by the Internal magazine - Display - edited by employees to share stories, ideas, people who build the Carel world, as well as by the content provided by the Carel Blog, to increase sharing of the path undertaken by the Group on ESG topics.

Furthermore, with a view to increasing employee engagement, on Saturday 22 October 2022, Carel organised, in collaboration with the *Venice Lagoon Plastic Free* association, a day to clean-up the beaches of Isola Verde (Venice) in which a group of the parent's employees took part. The participation in this initiative is part of the Group's commitment under the Driven by the Future sustainability plan to combat climate change and protect the environment. Specifically, the *Awareness of a gesture* initiative was organised to raise the awareness among employees that any act can make a difference. This activity, which was launched on the World Refrigeration Day, was also flanked by digital initiatives that involved the Groups' employees, such as sharing newsletters and creating a virtual awareness wall to collect suggestions for eco-friendly behaviour.

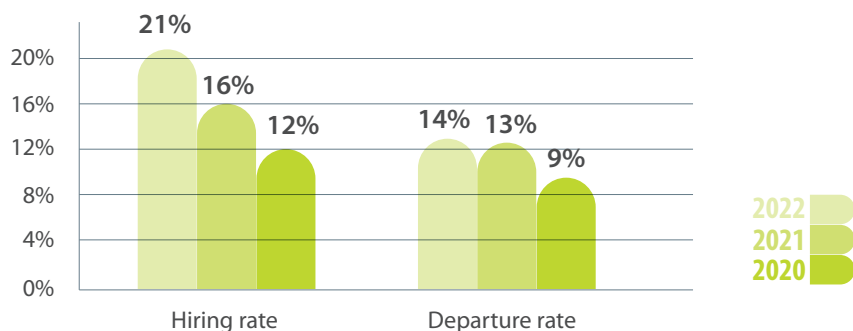
TALENT ATTRACTION, DEVELOPMENT AND RETENTION & WELL-BEING, WORK-LIFE BALANCE AND EMPLOYMENT PROTECTION

For Carel, the contribution to developing specific technical skills and training experienced professionals in the HVAC/R systems sector, in order to attract new talent, has always been a priority and was further consolidated by the implementation of the Driven by the Future plan. Accordingly, the Group's performance development processes were boosted with some local customisations and a fresh approach by the parent as described earlier. Every year, under these standards, the Group's white collars are involved in a process of performance assessment and identification of critical areas for improvement. In addition to the more traditional objective of aligning individual performance with business objectives, this process intends to define development and growth processes for people.

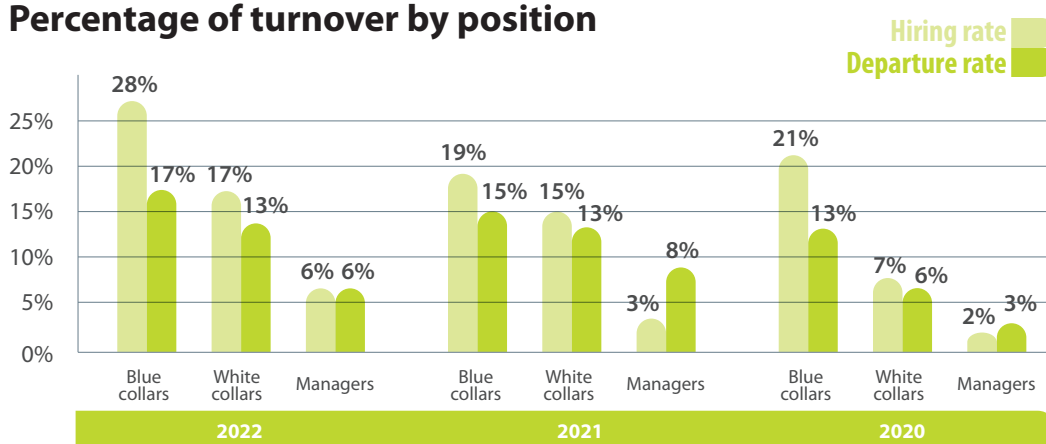
The identification and development of talent, as well as talent attraction and retention, represents a major challenge for the Group. Carel's growth is based on the ability to recruit, retain and develop qualified personnel with a high level of expertise and knowledge of the Group's products and markets. In line with its attractiveness objectives, Carel has implemented several initiatives to increase contact with talent by offering equal opportunities to young people and young women in particular. These include, for example, participation in recruiting and employer branding initiatives targeting female STEM students and orientation and employer branding involving local schools and universities.

In 2022, hiring and departure rates were in line with the trends of the past few years. During the year, the labour market was hit by the effects of the global Great Resignation, which led to an increase in the departure rate, exacerbated by economic dynamics which included high inflationary trends and skill shortages. Also Carel witnessed, widely in Europe and the Americas in particular, a fairly significant increase in departure rates in a highly competitive global market. The increase in the recruitment rate is a natural consequence of the Group's expansion, both in terms of new acquisitions and increase in the workforce, and the need to replace people who have left the company.

Percentage of employee turnover (%)



Percentage of turnover by position



In 2022, the Group hired 420 people ⁷, of which 37.4% were women. Of the new hires, 34.8% were in the under-30 age bracket, 51.9% in the intermediate bracket (30-50) and 13.3% were over 50. In 2022, 279 people left the Group (66.3% were men); of these, 25.8% in the under-30 age bracket, 54.5% in the intermediate bracket (30-50) and 19.7% were over 50. These figures include employees who retired.

There are no major differences in hiring and departure rates by gender, while the turnover rates of the youngest age bracket (under 30) are significant compared to the other age brackets.

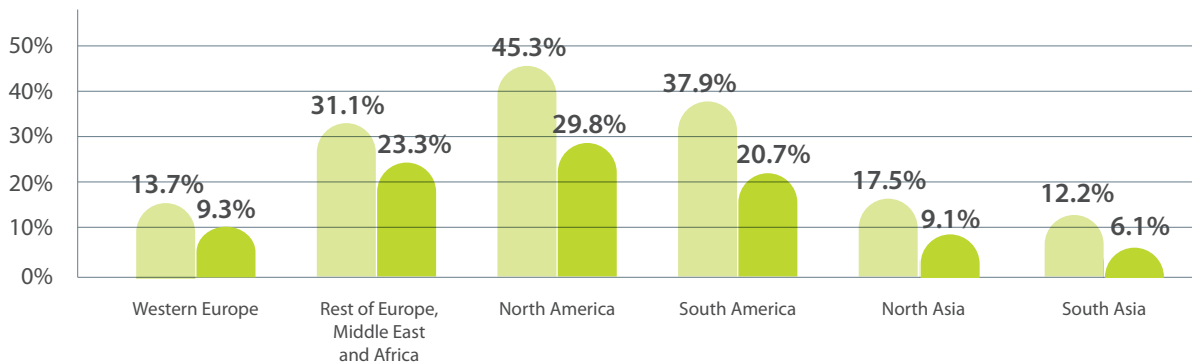
	2022		2021		2020	
	Men	Women	Men	Women	Men	Women
Hiring rate	21.0%	20.9%	16.2%	16.1%	10.1%	15.4%
Departure rate	14.8%	12.5%	14.0%	12.4%	7.4%	11.3%

	2022			2020			2019		
	<30	30-50	>50	<30	30-50	>50	<30	30-50	>50
Hiring rate	47.7%	17.3%	12.7%	42.6%	12.3%	8.5%	28.3%	9.5%	6.1%
Departure rate	23.5%	12.1%	12.5%	30.8%	10.9%	8.3%	15.4%	8.0%	5.8%

⁷ New hires and departures include four intragroup transfers

Percentage of turnover by geographic location

Hiring rate
Departure rate



The impact of the turnover rate is particularly high for blue-collar workers with hiring and departure rates of 27.6% and 16.7%, respectively.

A geographical breakdown of the new hires shows that most new hires (142 resources) took place in Western Europe, followed by Eastern Europe, the Middle East and Africa (123), while 73 were hired in North America, 54 in North Asia, 22 in South America and 6 in South Asia. On the other hand, a breakdown by geographical area shows that 96 people left the group in Western Europe, 92 in the rest of Europe, Middle East and Africa, 48 in North America, 28 in North Asia, 12 in South America and 3 in South Asia.

In order to compete in an increasingly dynamic labour market and to retain the best talent, the Group is working on initiatives aimed at further improving the offer provided to its employees in terms of remuneration, reward, work-life balance and well-being.

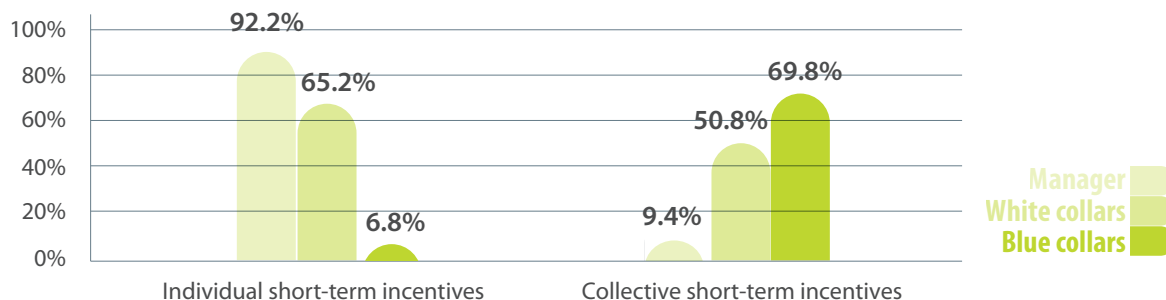
In order to develop competitive remuneration policies, Carel carries out structured checks on its own remuneration practices against the reference market, especially for its key resources, assisted by consulting companies that specialise in remuneration analysis and benchmarking and in actuarial and pension services. Pursuing the dual goal of linking the remuneration of key resources to the Group's performance and offering employees a rewarding remuneration package, the Group's remuneration policy relies on the following principles:

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

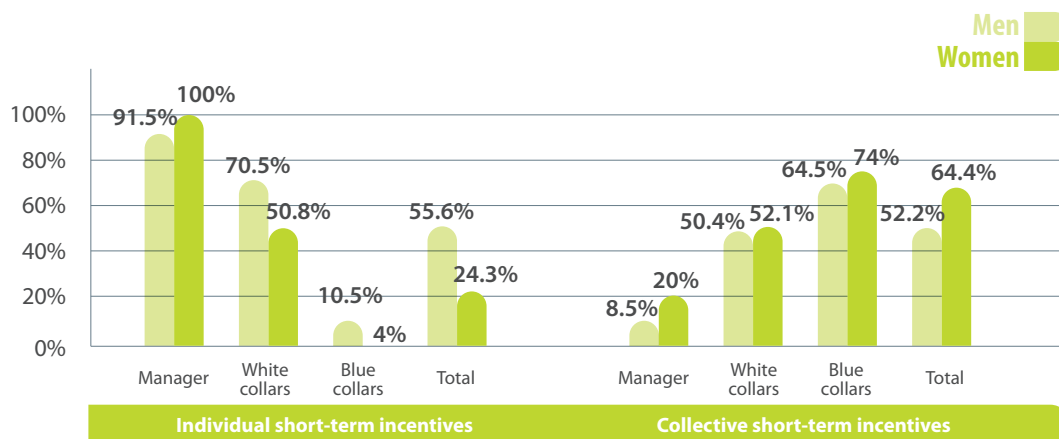
For a description of the Remuneration policy for the highest governance body and senior executives (managers), reference should be made to the Remuneration report published annually by the company in accordance with article 123-ter of Legislative decree no. 58/1998 ("**Consolidated Law on Finance**" or "**TUF**"), as amended by Legislative decree no. 49/2019 implementing Directive (EU) 2017/828 (**the Shareholders Rights Directive II**) of the European Parliament, and article 84-quater of the Issuers' Regulations and the Corporate Governance Code of Borsa Italiana S.p.A. ("**Borsa Italiana**").

The 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).

Short-term incentives



The Group uses short-term incentive plans not only to align employee performance with the achievement of strategic goals, but also to increase employee motivation and involvement. In 2022, 43.9% of employees are covered by individual short-term incentives - hence linked to targets assigned to individual employees - while 56.7% are covered by collective incentives, which entail payment of a performance bonus (e.g., based on productivity or efficiency).



In order to share the company's commitment set out in the Driven by the Future project and motivate engagement in the path to sustainable development, the remuneration packages of senior management and key resources are pegged both to performance targets linked to operational management and to sustainable development targets, in both the short-term (MBO) and long-term (LTI) incentive systems.

The remuneration package offered to employees includes a wide range of benefits, which vary based on the roles, usually without distinguishing between full-time employees with permanent contracts and part-time employees and/or employees with fixed-term contracts. Specifically, the group sites offer a range of benefits aimed at improving the well-being of employees in their working and private lives. The main benefits include supplementary policies, healthcare, disability coverage, extra parental leave in addition to that provided for by the law, company cars and other welfare systems.

**BENEFITS PROVIDED TO FULL-TIME EMPLOYEES THAT ARE NOT PROVIDED TO TEMPORARY
OR PART-TIME EMPLOYEES [GRI 401-2] ⁸**

2022										
	Western Europe		Rest of Europe, Middle East and Africa		North America		South America		North Asia	
	No. of full-time employees with permanent contracts entitled to benefits	No. of part-time employees and/or employees with fixed-term contracts entitled to benefits	No. of full-time employees with permanent contracts entitled to benefits	No. of part-time employees and/or employees with fixed-term contracts entitled to benefits	No. of full-time employees with permanent contracts entitled to benefits	No. of part-time employees and/or employees with fixed-term contracts entitled to benefits	No. of full-time employees with permanent contracts entitled to benefits	No. of part-time employees and/or employees with fixed-term contracts entitled to benefits	No. of full-time employees with permanent contracts entitled to benefits	No. of part-time employees and/or employees with fixed-term contracts entitled to benefits
Life insurance	83%	64%	0%	0%	100%	0%	100%	0%	0%	0%
Healthcare	87%	72%	100%	100%	100%	0%	100%	0%	100%	100%
Disability coverage (in accordance with the law)	100%	100%	100%	100%	100%	0%	100%	0%	100%	100%
Disability coverage (company policies)	3%	0%	0%	0%	100%	0%	100%	0%	100%	100%
Parental leave (in accordance with the law)	100%	100%	1%	4%	100%	0%	100%	0%	100%	100%
Parental leave (company policies)	77%	64%	0%	0%	100%	0%	0%	0%	0%	0%
Pension plan (in accordance with the law)	100%	100%	100%	100%	0%	0%	100%	0%	100%	100%
Pension plan (company policies)	7%	19%	0%	0%	88%	0%	0%	0%	0%	0%
Company car - mixed use	10%	0%	1%	1%	13%	0%	16%	0%	0%	0%
Flexible or welfare benefits	86%	72%	0%	0%	0%	0%	0%	0%	0%	0%

As already mentioned, in March 2022, the parent renewed the supplementary company agreement (second-level bargaining) for the 2022-2024 three-year period. The agreement continues to focus on the eligibility criteria for parental leave, advances on post-employment benefits, contributions to the cost of crèches and playschools and to school costs and a supplement to allowances for optional maternity leave. In May 2021, also Recuperator, an Italian company acquired by the Group in 2018, signed a company agreement which is also focused on offering more flexibility and better treatment compared to the national employment contract. The collective incentives, benefits and welfare initiatives set out in these supplementary agreements apply to both employees and temporary workers.

Furthermore, the Welfare platform adopted in 2020 was fully up and running in 2022, with the aim of improving the range of services covered by the applicable contractual and corporate agreements. The platform is available to all employees of the parent⁹ who can autonomously purchase goods, use personal services, avail of family management, recreational, sports and wellness services and access educational sessions and/or training events.

⁸ The figures refer to production plant employees: the employees of commercial subsidiaries were excluded..

⁹ Excluding managers

In order to upgrade the services offered, and in line with the objective of ensuring the well-being of its employees, in autumn 2022, the parent launched a virtual platform which allows employees to practise sport and exercise anywhere via an external partner.

In addition, in order to promote connection and sports activities, several initiatives were launched, including the participation of employees in the Padua Marathon and related running and walking routes, and the Community Run 4 Carel for a healthy lifestyle that includes sport and allows people to live better, pollute less and enjoy time with their colleagues.

During the year, Carel pursued the implementation of activities that define group-wide guidelines on flexible working. Indeed, Carel is aware of the importance of offering tools that promote the well-being of employees, improve work-life balance and help attract and retain talent. The new normal guidelines, i.e., shared guidelines on the possible adoption of hybrid working methods by the individual companies, were released at the end of 2021. In 2022, the parent finalised the internal remote work regulation, standardising hybrid work as an official work mode and recommending compliance with the guidelines on the right to disconnect - disseminated in the Group in mid-2021. This is a real commitment to promoting efficiency and effectiveness in working with colleagues, avoiding the “always on” approach and setting a common standard for all group employees.

During the year, the parent completed a major project that aimed to create work areas which encourage new forms of relationships characterised by alternating face-to-face and remote working, all with a view to providing people with more welcoming and comfortable environments.

TRAINING AND PROFESSIONAL DEVELOPMENT

Carel’s commitment to its employees includes training activities for all group employees, so that they can maintain an advanced level of technical-application and management skills, while growing personally.

For Carel, promoting training activities means ensuring its employees are constantly updated and can operate successfully in an increasingly evolving market and encouraging the adoption of individual behaviour and interaction methods that are consistent with the guiding values of the company culture and the objectives of the Driven by the Future project. In this respect, in line with the goals of the Driven by the Future project, Carel has set the target of providing at least 12 hours of training per employee per year on average across the Group. Indeed, training at Carel has always been considered the basis for successfully triggering creativity and innovation, for easily assessing the adoption of new alternative approaches, for making the most of the distinctive professional and personal skills of each individual in order to make a difference.

To confirm the importance of training, the Group set up units and practices that support professional development, integration and inclusion:

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: this course enables new hires to learn about the company's history, values, strategies, main applications and internal processes. Traditionally, it was a three-day course that took place at the parent's headquarters and at the Chinese and US plants. Following the Covid-19 emergency and the resulting social distancing measures, this form of training was redesigned and, from 2021, has been available in the course catalogue for all new hires on the group's e-learning platform.

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



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. To date, the "White Belt" and "Yellow Belt" courses were made available to all group employees and were included in the Group's standard training plans ¹⁰.

In 2022, a total of 39 thousand hours of training were provided (up by approximately 20% on 2021). This means more than 19 average hours per employee, thus meeting the goal and part of the Driven by the Future plan.

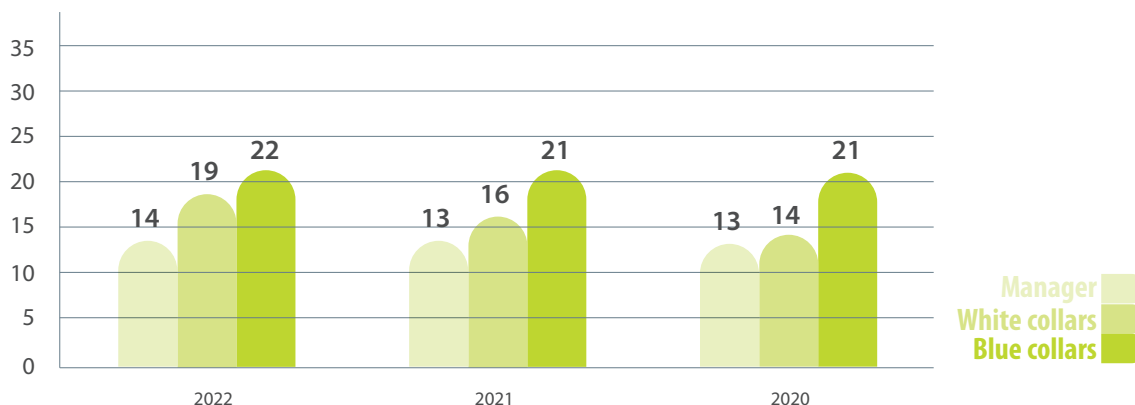
NUMBER OF TRAINING HOURS BY PROFESSIONAL CATEGORY AND GENDER (H) [GRI 404-1]

	2022			2021			2020		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Managers	813	100	913	725	72	797	694	98	792
White collars	16,932	5,038	21,970	13,974	4,077	18,051	11,821	2,976	14,797
Blue collars	6,349	10,176	16,525	6,227	7,883	14,110	5,359	7,875	13,235
Total	24,094	15,314	39,408	20,926	12,033	32,959	17,874	10,949	28,823

In December 2022, the Group launched an initiative targeting the personnel of the Eastern Europe, Middle East and Africa and Western Europe regions, aimed at enhancing their skills through access to the Good Habitz e-learning platform. For 12 months, participants will be granted access to training content mainly focused on soft skills and content identified by Carel covering areas related to the principles underlying the Carel Culture Code and ESG topics.

¹⁰ Excluding CFM and Ukraine and the companies acquired in 2022.

Average number of training hours by professional categories



In 2022, in line with the objective of increasing training on ESG topics, the parent involved some offices (specifically, HR and Communication) in a learning path dedicated to Diversity&Inclusion in the corporate context. Finally, in November, a path dedicated to raising awareness on Environmental, Social, Governance topics was launched for the Italian companies accessing Carel’s Learning Management System, which will last until June 2023. An in-depth D&I course for the parent’s managers is also planned for early 2023 to enable them to direct their management practices in the most open and inclusive way possible.

Percentage of training hours by course (%)



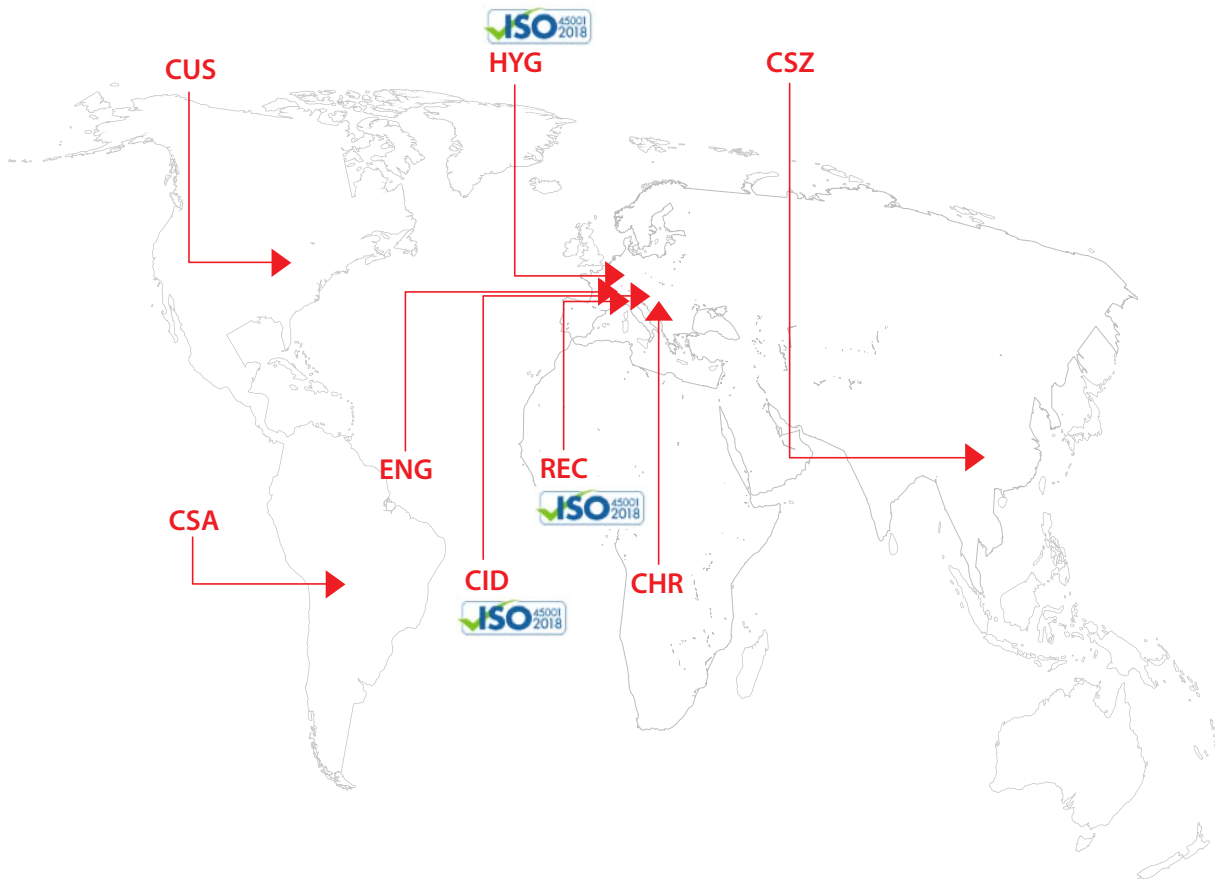
The main training projects carried out in 2022 focused on operations (32% of the total training hours provided in 2022). Other areas for which training courses were provided were soft skills, lean philosophy, safety and the environment (HSE) and technical-specialist training.

As part of a work environment characterised by hybrid work and the increased digitalisation of operations and processes, the importance of cybersecurity is becoming increasingly important. For this reason, in 2022, Carel provided approximately 988 hours of training on cybersecurity and further investments will be made in subsequent years.

OCCUPATIONAL HEALTH AND SAFETY

The Group protects and promotes the health and safety of workers in work areas, by adopting preventive measures and spreading an internal culture of respect for the applicable legal requirements along with the highest standards of reference and the best techniques applicable in order to reduce risks and constantly improve processes and work areas.

The Group deems that occupational health and safety is fundamental in ethical-social terms as well as a fundamental element for the organic development of its business in the various countries in which it operates. Considering its international vocation which means that different laws are applicable at local level, the parent has drawn up an “Environmental and occupational health and safety policy” which summarises the principles and rules designed to reduce and eliminate the probability of injury and accidents. At the same time, it defined common guidelines for data collection and analysis, aimed at strengthening the prevention approach, which enables the company to anticipate potential risks and, consequently, adopt the most appropriate mitigation measures.



Similarly to that set out in relation to environmental matters, some of the Group’s production sites have been certified from a health and safety point of view in accordance with ISO 45001:2018, confirming the importance of a structured approach for management systems. Overall, health and safety-certified sites account for 37% of the production sites (2022 scope) which, in terms of total occupied surface area, account for 45% of the total (76,700 square metres), covering almost 52% of the personnel of the above production sites (1,885 employees and workers who are not employees).

RISK ASSESSMENT

In 2021, the Group was committed to awareness-related issues, while in 2022, it focused on proactivity. Indeed, the path taken a few years ago aimed at increasingly reducing occupational injuries crosses first and foremost awareness, and also and above all everyone's proactivity in acting as a safety leader at all levels.

On this improvement path, for Carel proactivity is the naturally active and quick approach to reporting near misses and, in particular, dangerous situations and actions that, if promptly identified, can prevent injuries, constantly improving the work environment and, above all, having Carel people play an active role in this process.

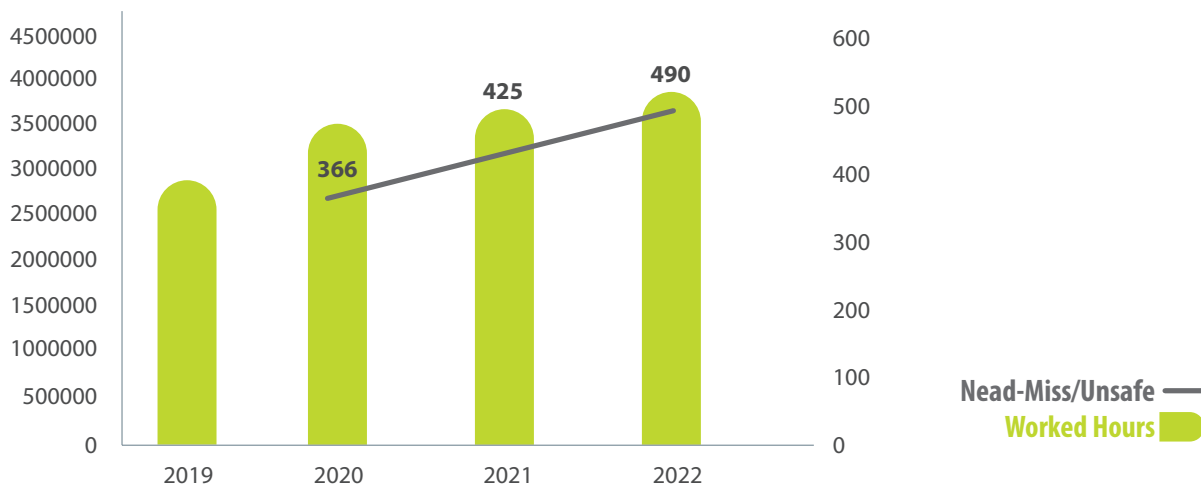
For this reason, specific annual targets are set for "unsafe conditions" and "near misses", specifically in relation to the production and laboratory areas which are considered most at risk. The resulting best practices become factors to be shared and for common improvement. This also led the parent to define new information flows within the overall plant HSE organisation.

In order to strengthen the Group's commitment to occupational health and safety and strive for continuous improvement, the long-term ESG plan was confirmed, similarly to 2021, including the specific target which is focused on keeping the worked-related injury frequency index with loss of working days (LTIF) below the average value of the past three years.

This requires the regular planning of actions aimed at improving workplaces, equipment and processes, and the on-site presence of safety officers and managers who, through safety tours ("Gemba Walks"), carry out continuous surveillance activities.

Proactivity is also fuelled by ongoing dialogue between the operational departments with the HSE function and the stakeholders (workers' safety representatives), including workers, on the identification of unsafe conditions and near misses and an analysis of processes and production areas.

Proactive reporting is extended to all work areas, specifically production sites. The results for 2022 were positive and improved on previous years ¹¹:



¹¹ The figures included in the safety reports do not include Enginia as it has just joined the Group. However, during the year, this company has implemented the safety reporting system.

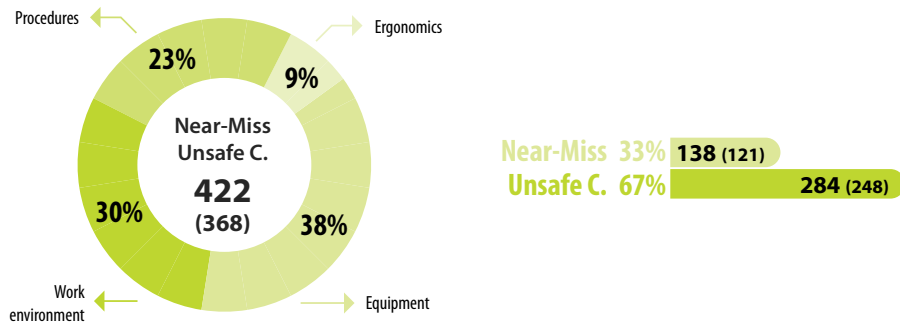
The overall resolution rate was around 90% for the reports made during the year.

With respect to prevention, during the year, the HSE function, in collaboration with the managers of the various company areas, analysed the following for the parent:

- over 140 reports of unsafe conditions and near misses, including analyses of aggregate and historical data to identify specific areas for improvement;
- the incidents that occurred by identifying the root causes and the improvement actions promptly implemented, sharing the results with the rest of the Group (“lessons learned”);
- a programme to update the main risk assessments. The programme involved a series of inspections, interviews, surveys and analyses by reputable independent companies. The results were unveiled at the above-mentioned annual meeting with workers’ safety representatives.

Reporting distribution

Operation 2019-2022



Risk assessment activities covered all work phases which, therefore, are included in the scope of the above documents. Specifically, the following activities are considered:

1. reception, acceptance, control, placement and distribution of goods and raw materials necessary for production (acceptance warehouse);
2. assembly and production of semi-finished products and finished goods in production lines, organised in “value streams” (groups of similar production lines aimed at producing items of the same category), starting from the raw materials retrieved from the warehouse, their acceptance, subsequent return to the warehouse for storage and shipment;
3. design, development, marketing and pre and after-sales services for products and components for applications in the refrigeration, air-conditioning, ventilation and humidification (HVAC/R) sector;
4. in-house laboratories for the research and development of new technologies and prototypes;
5. internal services supporting the above activities (management, administration, finance and control, information & communication technologies, quality control and management, environment and safety, production and maintenance engineering, logistics and auditing).

In addition to the detailed analysis of all the existing risks and the mitigation measures adopted for the operational areas, specific assessments were carried out, including: ergonomic risk, explosion, electromagnetic fields, dangerous substances, artificial optical radiation, mechanical vibration and noise.

In order to ensure the safety of workers, in addition to risk assessment, event analysis and mitigation measures in routine operations and ongoing surveillance, handling emergencies is also of crucial importance through the maintenance and efficacy testing of the emergency and evacuation plans and, above all, knowledge of

it. In 2022, evacuation drills were carried out at all Italian production sites. Training sessions were held with the operators based on the actions identified during the drills, which were carried out and documented in a specific report.

Because of the size and location of the production areas, the parent also implemented a system that reports the role of operators in case of emergencies by means of special identification.

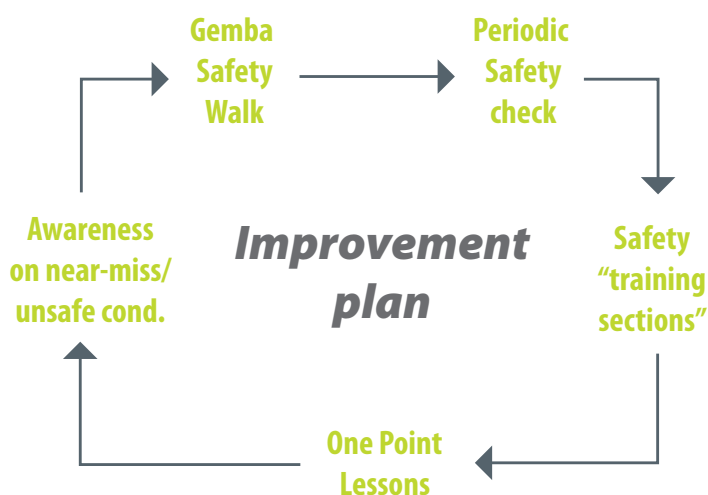
INJURIES

Despite the successful results in terms of prevention, several injuries with minor or very minor consequences occurred in 2022, which nevertheless led to lost work days or limited work activities. The main recurring cause was of a “procedural” nature (which includes the lack of procedures, deficiencies in procedures or non-compliance by workers). For this reason, a series of HSE procedures was implemented and regularly updated. These include:

- safety of occupational activities and contract work;
- health of workers (personal protective equipment (PPE) or health surveillance).

In order to improve the procedural aspects underlying occupational safety and to support them, during the year:

- one point lessons (“OPL”) and related training activities were increased. These provide visible and immediate lessons about the main ways employees can operate safely in their work areas;
- use of the manager’s diary was intensified to trace preventative actions for which the heads of the unit are responsible (such as information/training activities, supervision, etc.), also by monitoring its use as part of the Gemba Walks;
- an initial visible system of the main department, line or work area risks was implemented with mitigation measures and the use of personal protective equipment.



Injury figures show that, despite the 5% increase in the number of worked hours, the injury frequency rate dropped by approximately 13% on the previous year and by 7.6% compared to the average figure of the last three years as per the ESG plan.

There were 11 minor work-related injuries (five involving employees, as shown in the table above, and six involving external workers (temporary ones), as specified below, under the control of the company. There were no commuting incidents with transport organised by the Group.

WORK-RELATED INJURIES – EMPLOYEES [GRI 403-9]	2022	2021	2020
Work-related injuries	5	9	4
Injury frequency rate ¹²	1.44	2.72	1.28
Hours worked	3,468,325	3,305,782	3,135,671

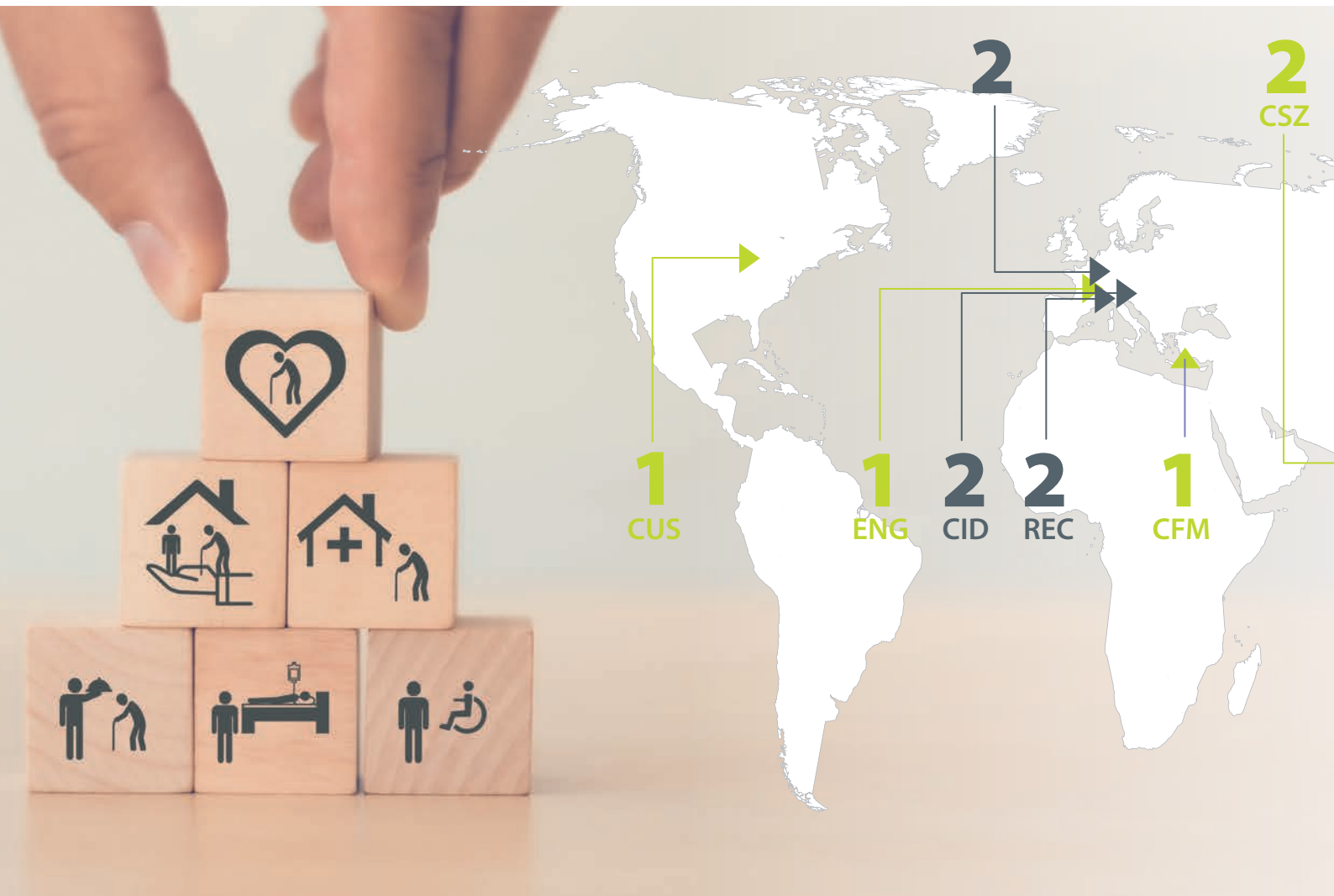
WORK-RELATED INJURIES – WORKERS WHO ARE NOT EMPLOYEES [GRI 403-9]	2022	2021	2020
Work-related injuries	6	3	0
Injury frequency rate ¹³	16.52	8.87	0.00
Hours worked	363,107	338,306	345,810

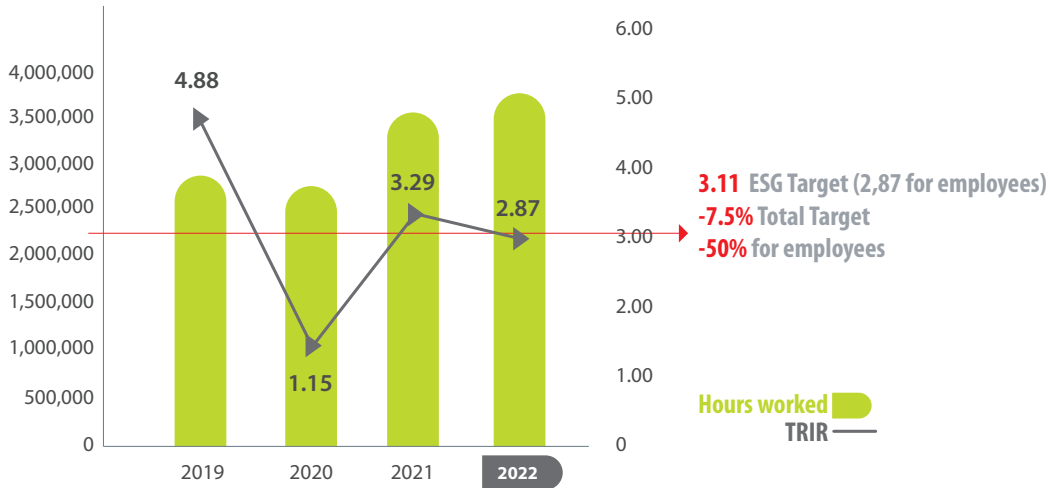
Because of the minor work-related injuries that involved workers who were not employees, in 2023, the relevant education/training and surveillance activities will be strengthened. This will be an additional element to the Carel Handbook which is distributed to workers when they join the Group and which contains, among other things, information about occupational health and safety aspects that are fundamental for the Group.

The overall injury trend, shown below, highlights the main KPIs and indicates the targets achieved:

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

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





The progress of activities related to health, safety and the environment is the responsibility of the Group’s HSE function which reports directly to the Group’s CEO.

Given the importance of these topics, the Group’s HSE manager periodically reports to the supervisory body, the board of statutory auditors and the control, risks and sustainability committee.

Furthermore, the progress of activities is audited by third parties based on the instructions of the internal audit function, which subsequently informs senior management accordingly.

In 2022, the Group was not found guilty of or summonsed to appear in court for violating occupational health and safety regulations.

2022 INJURIES



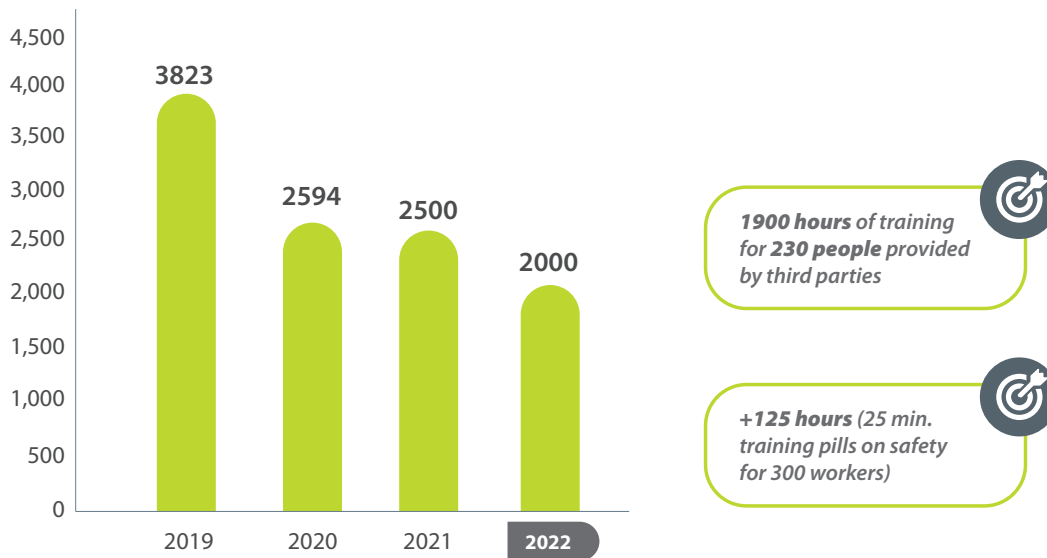
5 EMPLOYEES
(VS 9 in the 2021)

6 EXTERNAL WORKERS
(VS 3 in the 2021)

TRAINING ON OCCUPATIONAL HEALTH AND SAFETY

Training is the basis for widespread knowledge, especially in relation to health and safety issues. Accordingly, and also owing to the fact that part of the training is required by law, a specific training plan is in place and it is periodically checked.

In 2022, specifically with respect to the parent, the training plan covered both employees and workers who were not employees, as required by law.



COMPANY DOCTOR

Also in 2022, as required by the ruling Italian legislation:

- the company doctor carried out a general inspection, accompanied by the prevention and protection service manager, the trade union representatives and the main heads of operations;
- the designated prevention system officers (the employer, delegated managers, safety representatives, the company doctor and the prevention and protection service manager) participated in the periodic meeting required by Legislative decree no. 81/2008.

In addition to this:

- a weekly meeting is scheduled with the trade unions, the HSE function and the heads of operations to analyse unsafe conditions and near-misses;
- reports are periodically assessed also for non-operations areas;
- a new information flow was defined for area supervision and prevention reporting.

Also in 2022, in compliance with the ruling legislation, an employee healthcare protocol was set up with the company doctor. The protocol regards all workers (employees and independent 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 workers general advice about healthy eating (getting enough fruit and vegetables) and physical exercise to improve their health, benefiting their personal and work life.

The aggregate data are presented during the above-mentioned annual meeting with the workers' safety representatives.

With respect to surveillance activities, the area's supervisors must be particularly aware of medical prescriptions. The safety representative updates the supervisors after the medical check-ups and examines any limitations in order to identify a suitable work position. Thanks to these activities, which are carried out respecting privacy and using the above-mentioned "manager's diary", the latter ensures compliance with the applicable requirements.

SUPPORT TO COMMUNITIES AND THE LOCAL AREAS

Carel has always played an active role in the development and promotion of the communities in which it operates, focusing, in particular, on strengthening the relationship with the areas and stakeholders at local, regional and national level.

Carel's objectives, which are achieved through initiatives that have a positive effect on communities and the environment and create value for the area, are as follows:

- support and consolidate relations with the local social and economic fabric;
- increase its presence in the area and at major cultural, sports and social events to prove its engagement to the local community;
- positively strengthen the Group's image in the eyes of the local public.

Carel's role is visible in its participation in projects that support national and local non-profit organisations and bodies and social initiatives. The HR department, in collaboration with the Industrial design & marketing communication department, plans and organises these events, initiatives and donations, ensuring full compliance with the principles and rules of conduct set out in the Code of Ethics in terms of transparency, compliance with the law, selection of beneficiaries and recognition of the payments made.

In 2022, the Group's commitment translated into partnerships, agreements and donations involving non-profit organisations, social cooperatives and charities, focusing, in particular, on children and the disadvantaged for whom Carel actively managed several projects. Specifically, the Driven by the future project launched in 2021 has influenced the scope of the Group's initiatives targeting the communities, leading, for example, to a greater focus on sports.

In order to preserve the link with the community and promote well-being by encouraging a healthy lifestyle, Carel Industries sponsored the 2022 Padua Marathon and encouraged its employees to participate in the event.

In addition, Carel has selected a series of events and projects linked to amateur and professional sports to develop new local relations with the direct involvement of customers and/or employees. Specifically, the company has supported several amateur sports associations in the Saccisica area, including ASD Rain Runners, a reference point for all running and walking enthusiasts in the area, ASD Pallacanestro Piovese, which promotes basketball in junior categories, and ASD 2 Stelle Brugine, which supports the educational content of sport and fun in the training of its members.

In line with its vision and values, Carel has also launched a partnership with the Padua University Sports Centre for a dual-career student-athlete project, which combines sporting merit and study. Specifically, Carel granted a scholarship to an athlete of the women's basketball team, newly promoted to Serie B.

The Driven by the future project was also reflected in the 2022 ESG plan through a series of initiatives that foster the sustainable environmental development of local communities. Specifically, Carel supported the "Il Bosco Vivo" association, which focuses on the environmental and social redevelopment of lowland areas by transforming abandoned or degraded spaces into areas that can be used by the community. Furthermore, in collaboration with the Venice Lagoon Plastic Free association and its employees, it promoted the clean-up of the beach in the municipality of Chioggia with the aim of removing marine litter from the aquatic ecosystem.

Also in 2022, Carel confirmed its commitment to developing various social projects and initiatives supporting children and disadvantaged people. Specifically, it supported the Cornelia de Lange Syndrome (CdLS) Foundation in its efforts to raise awareness and disseminate information on this syndrome.

In addition, it supported the Maria Montessori Childhood Centre in Selvazzano Dentro (Padua) in constructing an amphitheatre, built with natural and environmentally sustainable materials, open to the community for meetings and socialising.

Finally, in 2022, Carel sponsored several initiatives promoted by parishes, municipal administrations and associations, that enhance the local area and foster opportunities for social gatherings, with positive social impacts.



PARTNERSHIPS WITH TRAINING INSTITUTES

Given the significant know-how developed and applied to the Group's products and processes, the Group's relationships with universities and schools are of particular importance to it. In addition to the relations that focus on research and knowledge-sharing activities, described in the "Research, development and innovation" section, the parent collaborates with schools and universities to promote and increase its visibility in the outside world, especially in local schools and training institutions, and to guide students, also in line with its CCC's "Be Open" and "CARE" principles. The aim of the Group is to support young students and recent graduates along their path to growth and entry into the labour market and, to this end, it offers internship opportunities: in 2022, 43 internships were provided (40 in 2021). Of these, 28 related to universities. 70% involved the parent, in addition to the other students hosted by Recuperator and Carel Electronic Suzhou (three each), Carel Adriatic and Carel South America (two each), Enginia, Carel USA and Sogutma (one each).

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 motivating young people by providing scholarships directly to them. In 2022, Carel distributed a total of €57,600 for scholarships (€37,600) and contributions towards crèche costs (€20,000). During the year, 100 scholarships were awarded. Specifically, 40 young people from middle schools, 46 from high schools and 14 university students.



RESPONSIBLE SUPPLY CHAIN MANAGEMENT

SUPPLY CHAIN

The Carel Group's supplier base is very broad and diversified and consists of approximately a thousand suppliers of components and finished goods and a wide range of occasional service providers. These are small to medium-sized manufacturers for mechanical components and finished goods, while for electronic components, they mainly comprise distributors.

In 2022, Carel's five in-scope historical plants (Italy, Croatia, China, the US and Brazil) purchased materials and components from a total of 517 suppliers, totalling €178 million. Recuperator, HygroMatik and Enginia worked with 329 suppliers, all based in Europe, for total purchases worth approximately €31 million. Finally, the two recently-acquired factories of the Klingenburg Group based in Germany and Poland turned to a total of 209 suppliers, mainly based in Europe, with purchases worth approximately €17 million.

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, above all, 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.

The supply chain localisation index is the reference benchmark, which shows regional acquisitions (from the same continent as the production site) as a percentage of the production sites' total acquisitions, net of intragroup trading. With reference to acquisitions in 2022, 89% of European acquisitions are now from regional suppliers, in North America it is 55%, in South America 31% and in China 82%. Carel's new plants have an almost exclusively regional supply base. The increase at group level is up by approximately 2%.

PROPORTION OF SPENDING ON LOCAL SUPPLIERS BY GEOGRAPHICAL AREA [GRI 204-1]¹

Geographical areas	2022 % of spending	2021 % of spending	2020 % of spending
Carel Industries - Europe	90.5%	90%	90%
Carel Adriatic - Europe	87.2%	85%	83%
Recuperator - Europe	100%	100%	100%
Hygromatic - Europe	100%	100%	100%
Enginia - Europe	100%	-	-
Carel US - North America	55.4%	54%	45%
Carel Brazil - South America	30.8%	25%	22%
Carel China - Asia Pacific	81.7%	80%	79%

A complex supply chain like Carel's, comprising national and international suppliers, requires constant supervision given the significant intrinsic risks and the fact that Carel relies heavily on its suppliers for components necessary for its production. These include the possibility of suppliers delivering defective raw materials or components that do not comply with the original specifications, or that do not meet the agreed

¹ Carel's plant localisation index is based on the acquisition volumes of each code, based on the procurement regulations at each year end.

deadlines for several reasons (including, without limitations, raw material shortages, financial difficulties, issues relating to the quality of raw materials, strikes, etc.), with possible negative impacts on the Group's production cycle, delays in the delivery of products to customers, and possible negative effects on brand reputation. In order to ensure availability of the materials for its production phases and guarantee the necessary time to market, the Group schedules its production carefully and adopted a disaster recovery system that includes at least two production sites for most products, thereby guaranteeing the supply of components, even in extreme circumstances. 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.

In order to manage these risks, the Group has implemented two different supplier verification procedures certified by the ISO 9001:2015 Quality Management System: an initial Phase-in procedure and a periodic Vendor evaluation procedure.

Specifically, the Phase-in procedure applies to possible new suppliers and includes a vetting phase which, in turn, is divided into three stages:

- supplier risk assessment: in order to ensure the continuity of supplies, all suppliers of BOM (bill of materials) materials, except for occasional purchases, are subject to a preliminary risk assessment, carried out by Carel on the basis of the information gathered from the supplier;
- assessment of the traceability process: all suppliers of BOM materials, which may be critical in terms of quality and/or safety, must have a traceability process, which Carel assesses by asking the supplier to fill out a self-assessment questionnaire and by conducting a label check of the supplied product;
- assessment of supplier sustainability: in order to promote Carel's business ethics and social and environmental sustainability principles along the supply chain, suppliers are asked to self-assess their environmental and social processes and initiatives. For additional information, reference should be made to the "Promoting social and environmental sustainability principles in the supply chain" section.

Indeed, the goal of the vetting process is to select:

- secure suppliers, whose financial conditions guarantee performance over time and a proper business relationship with Carel;
- suppliers with structured processes, such as traceability, in order to ensure quality;
- sustainable suppliers, that comply with and are aware of health and safety, environmental and social issues.

Once the potential supplier has successfully passed the vetting phase, the approval phase continues with the collection of additional information on RoHS, REACH and Conflict Minerals (for manufacturer suppliers), material sampling (for new material suppliers), checking its processes and procedures to ensure they are consistent with Carel's expectations and best practices and, possibly, physical audits at its facilities.

The vendor evaluation phase uses the Vendor Rating tool which consists of three main indicators that measure the quality, cost and service guaranteed by suppliers. A supplier with an insufficient rating must submit an improvement plan, to be implemented within an agreed deadline. If the plan fails, a new business hold status is assigned, removing the supplier from the list of candidates for new developments, and eventually, the supplier is phased out. In addition, every year, a number of suppliers undergo a sustainability assessment by completing a self-assessment questionnaire, the same they filled out during the vetting stage.

PROMOTING SOCIAL AND ENVIRONMENTAL SUSTAINABILITY PRINCIPLES IN THE SUPPLY CHAIN

Carel is aware that its values can only be fully respected if they are embraced by all its business partners. Accordingly, it has always required its suppliers to sign its Code of Ethics at the qualification stage.

At the end of 2022, in order to better clarify its expectations and provide principles and operational standards of conduct that promote social and environmental issues, the Group also adopted a Suppliers' Code of Conduct which, together with the Code of Ethics, the Organisational model pursuant to Legislative decree no. 231/2001 and the anti-corruption procedure, forms an essential part of contractual relations. This code applies to all Carel suppliers which, in turn, must ensure that their suppliers - i.e. Carel's subcontractors - as well as any other third party working on their behalf, act in full compliance with the code when involved in activities related to goods or services to be supplied to Carel.

This document was part of a communication and awareness campaign that targeted the entire supplier base and was published on Carel's institutional website in order to be available also to candidate suppliers. The ethical principles and standards of conduct outlined in this code are principles of ethical and responsible business, protection of employees and human rights and care for the environment and communities.

RESPONSIBLE AND ETHICAL BUSINESS

Suppliers undertake to:

- comply with applicable local, national and international laws and regulations on human rights, health and safety, labour practice, respect for the environment and animals, anti-corruption and socio-economic compliance, safety and quality of goods and services;
- comply with the principles of confidentiality, integrity and privacy;
- avoid any behaviour that may generate conflicts of interest;
- provide correct, true and exhaustive accounting information during their business relations with Carel;
- adopt and implement a quality management system in accordance with the international standard ISO 9001:2015 (or similar);
- meet Carel's technological, technical and production quality and safety standards, checking and supervising compliance therewith, including by their suppliers.

PROTECTION OF EMPLOYEES AND HUMAN RIGHTS

Suppliers undertake to:

- ensure that the working conditions comply with local regulations, collective agreements and applicable ILO Conventions;
- protect the health and safety of workers and minimise accidents, injuries and occupational diseases;
- pay regular social security contributions for each worker;
- guarantee equal opportunities, treat their workers with fairness, respect and dignity, and promote a culture of diversity and inclusion in the workplace;
- avoid using or taking advantage of any form of forced and child labour;
- act in accordance with applicable data protection laws;
- acknowledge the right of workers to take part in workers' organisations and collective bargaining.

FOCUS ON THE ENVIRONMENT AND COMMUNITIES

Suppliers undertake to:

- apply and comply with the current environmental standards and requirements;
- adequately manage, measure and control all activities that are potentially harmful to human health or the environment to prevent the release of any substance into the environment;
- use only conflict-free minerals in relation to Carel activities and escalate these requirements up the supply chain in order to determine the origin of the specified minerals;
- focus on minimising waste, improving resources management, rationalising water resources, limiting its impact on biodiversity, optimising the use of raw materials;
- adequately monitor, control and address the impacts of its activities on the area in which it operates.

Suppliers are selected based on principles of competence, competition, guarantee of continuity, integrity and social and environmental sustainability, in compliance with the highest quality standards. Specifically, supply relationships are based on compliance with the laws and regulations on labour, human rights, health and safety, the environment and anti-corruption in force in each country and on the application of the principles set out in the Code of Ethics and the Suppliers' Code of Conduct. The Group's suppliers are asked to constantly apply the same rules and assessments upstream in their supply chain.

The sustainability self-assessment, which applies to suppliers both at the vetting stage and, on a sample basis, during the vendor evaluation phase, is divided into three macro-areas: health and safety, the environment and social responsibility. Specifically, the first area covers health and safety in the workplace and in procurement and the management of emergency situations. The second area - the environment - covers energy and water consumption, waste reduction and compliance with international regulations on chemical products, such as REACH and RoHS. Finally, the social responsibility area covers labour rights (child labour, wages, working hours, freedom of association), conflict minerals policy provisions, diversity and business ethics. 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 is on a scale of 0 to 100, with a threshold target of 60.

Also in 2022, an extended number of suppliers participated in a sustainability assessment by completing a self-assessment questionnaire, with the dual goal of promoting awareness about social responsibility and environmental responsibility and in order to collect information about their management systems and practices. The aim of the survey is to increase their awareness about sustainability issues on the supply chain. The 2022 survey, which for the first time was also extended to the suppliers of the Hygromatic, Recuperator and Enginia plants, involved 53 additional suppliers for a purchasing value of approximately €36 million, accounting for about 18% of the Group's purchases. The scope of the survey, also considering previous campaigns, covered over 100 suppliers and 55% of the Group's purchases. Overall, the response to the survey was more than satisfactory, with over 98% of responses received; the average score was 81 out of 100 and 98% of respondents showed compliance and a substantial awareness of sustainability issues.

Furthermore, it provided a measurement metric and a point of reference for specific improvement initiatives and future expansion of the scope. In addition, 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.

Although the Group does not have a standard systematic control procedure, no complaints were received in 2022 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.

The term “conflict minerals” is used to define certain minerals and metals (3TG) potentially originating in conflict-affected and high-risk areas, as the extraction and/or processing of these minerals could have negative social and/or environmental impacts in geographical areas where the revenue from such activities may be used to finance or favour armed groups, violations of international law and human rights abuses.

The Group’s business involves the manufacturing of products using components that may contain quantities of minerals and metals, including gold, tin, tantalum and tungsten (3TG). Therefore, Carel is indirectly exposed to the conflict minerals issues as it purchases electronic and other components. Accordingly, it has the objective of reducing, in terms of value, the quantity of raw materials whose origin is not fully traced.

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. By joining this initiative, Carel continuously monitors the compliance of smelters and refiners in its supply chain.

Furthermore, the Group voluntarily complies with the Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas OECD framework, which confirms its compliance with the US Dodd-Frank Wall Street Reform Act, which regulates the use of minerals from countries affected by conflict or extensive human rights violations.

The Group 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. Therefore, it adopted a policy on conflict minerals and an internal process to confirm compliance with the OECD framework. The process consists of two macro sections: first, obtaining the CMRT (Conflict Minerals Reporting Template) from components manufacturers and assessing the smelters/refineries declared by the suppliers in the above CMRT, and subsequently contacting manufacturers with smelters and/or refineries identified as critical, in order to urge their exclusion from their supply chain.



Since the purchase of 3TG electronic components is essential for product manufacturing, the parent (which manages the purchases of the subsidiaries Carel Adriatic, Carel Suzhou, Carel USA, Recuperator and Hygromatik) also committed to managing the potential negative impacts of purchasing these components by setting up an internal committee - the Controversial Sourcing Committee - made up of members from different business areas, which decides on the actions to be taken on negligent suppliers that do not provide support in mapping the supply chain.

External actions towards manufacturers are useful as they inform them of changes in the compliance status of the members of their supply chain, thus creating a continuous flow of information to avoid financing armed groups that exploit people in critical working conditions in geographical areas at risk. For Carel, this activity is fundamental in the shift towards sustainable and conflict-free sourcing.

Also in 2022, Carel carried out a campaign to obtain the CMRTs from the supply chain based on the purchases of the last three years in order to have as complete a database as possible. The figures below have been adjusted with respect to 2022 by aligning Carel's data with those issued by its subsidiaries.

Specifically, 534 manufacturers were contacted, for an equivalent of €45.16 million of materials purchased in 2022 for production and resale.

Carel opted to measure the assessment of its supply chain, which began in 2022, using two KPIs: the Euro equivalent of purchases of items/materials containing 3TGs and the number of manufacturers of items containing 3TGs. It considered both indicators using four criteria, assigned using the replies received:

Euro equivalent of purchases of items/materials containing 3TGs

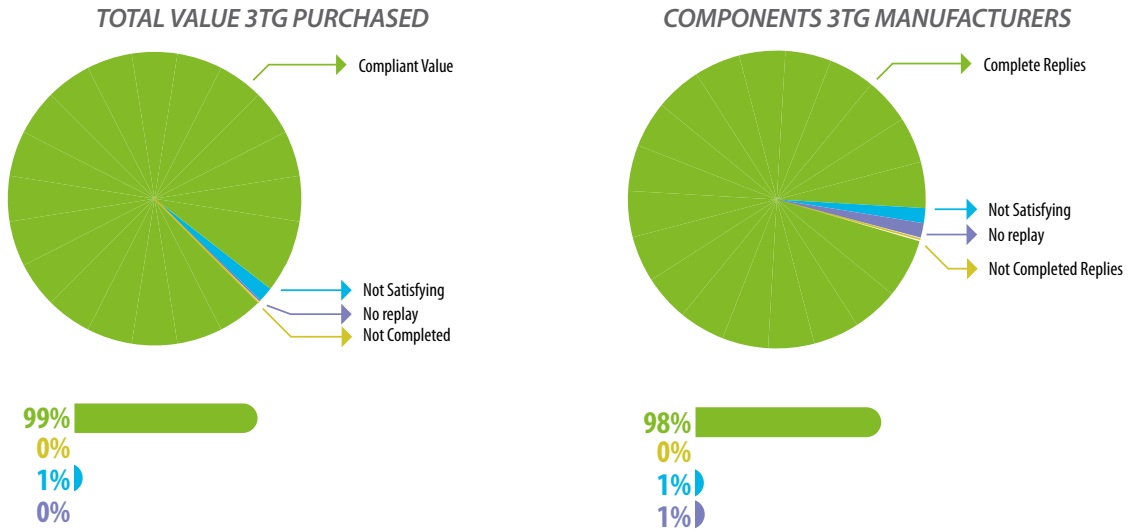
COMPLIANT VALUE	Value of products purchased from a compliant manufacturer that has received an updated CMRT
NOT COMPLETED	Value of products purchased from a manufacturer that has not supplied complete feedback
NOT SATISFYING	Value of products purchased from a manufacturer that has not provided the relevant documentation
NO REPLY	Value of products purchased from a manufacturer that has not provided feedback

Number of manufacturers of articles containing 3TGs

COMPLETE REPLIES	The manufacturer has supplied the CMRT
NOT COMPLETE REPLIES	The manufacturer has not supplied complete feedback
NOT SATISFYING	Irrelevant documentation received from manufacturer
NO REPLY	The manufacturer has not provided feedback

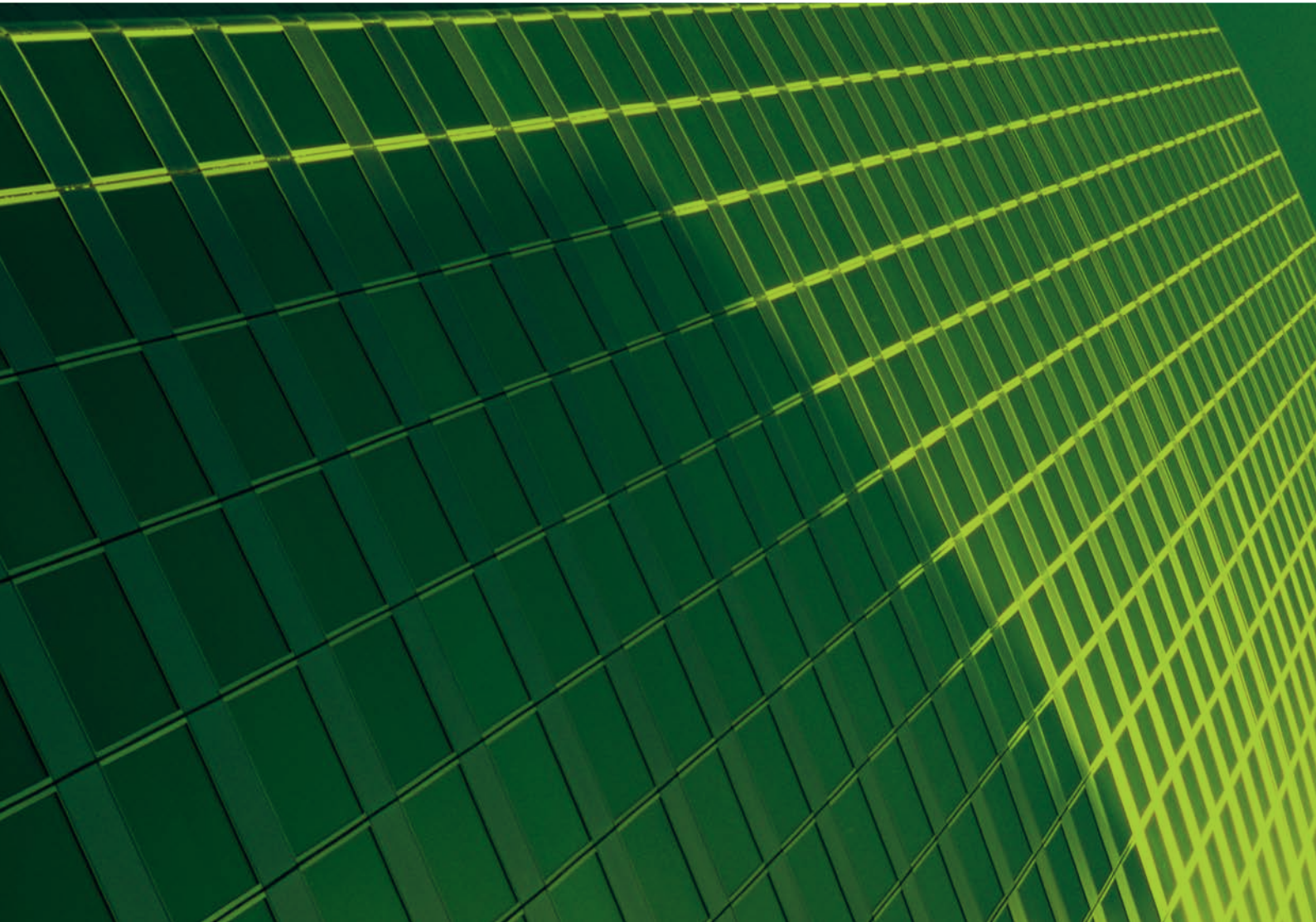
As shown below, in 2022, 99% of the value of purchased components pertains to suppliers that indicated the smelters involved in their production.

Furthermore, 98% of the manufacturers of components provided 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.



Thanks to its membership of the RMI, Carel can identify smelters classified as high risk and can therefore take the necessary actions to meet step 3 of the OECD Guidance. Consequently, component manufacturers which reported critical smelters in their CMRTs are contacted by the Chemicals Compliance Team and formally asked to implement corrective actions aimed at discontinuing or suspending supplies of materials from these smelters. Furthermore, suppliers and manufacturers using high-risk smelters are continuously monitored through specific email reminders, and each situation is discussed during the regular meeting of the Controversial Sourcing Committee.

Customer requests to obtain up-to-date documentation on Conflict Minerals is also an input for Carel to conduct regular audits on its supply chain in order to obtain a true and up-to-date view of it.



Annexes

TABLES

PERCENTAGE OF EMPLOYEES BY PROFESSIONAL CATEGORY AND AGE BRACKET (NO.) [GRI 405-1]

	2022			2021			2020		
	<30	30-50	>50	<30	30-50	>50	<30	30-50	>50
Managers	0	28	36	0	29	33	0	32	30
White collars	156	793	231	160	739	215	163	712	184
Blue collars	150	439	173	129	408	152	130	379	115
Total	306	1260	440	289	1176	400	293	1123	329

PERCENTAGE OF EMPLOYEES BY PROFESSIONAL CATEGORY AND GENDER (%) [GRI 405-1]

	2022			2021			2020		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Managers	2.9%	0.2%	3.2%	3.1%	0.3%	3.3%	3.2%	0.3%	3.6%
White collars	43.0%	15.8%	58.8%	44.3%	15.4%	59.7%	45.6%	15.1%	60.7%
Blue collars	16.6%	21.4%	38.0%	15.8%	21.2%	36.9%	14.7%	21.0%	35.8%
Total	62.5%	37.5%	100.0%	63.1%	36.9%	100.0%	63.5%	36.5%	100.0%

PERCENTAGE OF EMPLOYEES BY PROFESSIONAL CATEGORY AND AGE BRACKET (%) [GRI 405-1]

	2022				2021				2020			
	<30	30-50	>50	Total	<30	30-50	>50	Total	<30	30-50	>50	Total
Managers	0.0%	1.4%	7.8%	3.2%	0.0%	1.6%	7.8%	3.3%	0%	2%	2%	4%
White collars	7.8%	39.5%	11.5%	58.8%	8.6%	39.6%	11.5%	59.7%	9%	41%	11%	61%
Blue collars	7.5%	21.9%	8.6%	38.0%	6.9%	21.9%	8.2%	36.9%	7%	22%	7%	36%
Total	15.3%	62.8%	21.9%	100.0%	15.5%	63.1%	21.4%	100.0%	17%	64%	19%	100%

NUMBER OF EMPLOYEES BY CONTRACT TYPE AND GENDER (NO.) [GRI 2-7]

	2021					
	Permanent employment contracts		Fixed-term contracts		Total	
	Men	Women	Men	Women	Permanent	Fixed-term
Western Europe	670	304	12	3	974	15
Rest of Europe, Middle East and Africa	113	139	38	74	252	112
North America	99	29	7	1	128	8
South America	22	26	0	0	48	0
North Asia	59	17	123	83	76	206
South Asia	34	12	0	0	46	0
Total	997	527	180	161	1524	341

NUMBER OF EMPLOYEES BY CONTRACT TYPE AND GENDER (NO.) [GRI 2-7]

	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	0
North Asia	55	19	131	88	74	219
South Asia	35	11	0	0	46	0
Total	936	463	172	174	1399	346

NUMBER OF EMPLOYEES BY CONTRACT TYPE (FULL-TIME AND PART-TIME) AND GENDER (NO.) [GRI 2-7]

	2022					
	Full-time			Part-time		
	Men	Women	Total	Men	Women	Total
Western Europe	701	296	997	3	35	38
Rest of Europe, Middle East and Africa	170	220	390	1	4	5
North America	123	38	161	0	0	0
South America	24	34	58	0	0	0
North Asia	196	112	308	0	0	0
South Asia	36	11	47	1	1	2
Total	1250	711	1961	5	40	45

NEW EMPLOYEE HIRES AND EMPLOYEE TURNOVER BY GENDER (NO.) [GRI 401-1]

	2022			2021			2020		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Employee hires	263	157	420	191	111	302	112	98	210
Employee turnover	185	94	279	165	85	250	82	72	154

NEW EMPLOYEE HIRES AND EMPLOYEE TURNOVER BY AGE BRACKET (NO.) [GRI 401-1]

	2022				2021				2020			
	<30	30-50	>50	Total	<30	30-50	>50	Total	<30	30-50	>50	Total
Employee hires	146	218	56	420	123	145	34	302	81	109	20	210
Employee turnover	72	152	55	279	89	128	33	250	43	92	19	154

NEW EMPLOYEE HIRES AND EMPLOYEE TURNOVER BY GEOGRAPHICAL SEGMENT (NO.) [GRI 401-1]

		2022						
	Western Europe	Rest of Europe, Middle East and Africa	North America	South America	North Asia	South Asia	Total	
Employee hires	142	123	73	22	54	6	420	
Employee turnover	96	92	48	12	28	3	279	

NEW EMPLOYEE HIRES AND EMPLOYEE TURNOVER BY GEOGRAPHICAL SEGMENT (NO.) [GRI 401-1]

		2021						
	Western Europe	Rest of Europe, Middle East and Africa	North America	South America	North Asia	South Asia	Total	
Employee hires	92	102	34	20	50	4	302	
Employee turnover	70	53	44	18	61	4	250	

NEW EMPLOYEE HIRES AND EMPLOYEE TURNOVER BY GEOGRAPHICAL SEGMENT (NO.) [GRI 401-1]

		2020						
	Western Europe	Rest of Europe, Middle East and Africa	North America	South America	North Asia	South Asia	Total	
Employee hires	49	81	44	13	21	2	210	
Employee turnover	51	30	31	13	25	4	154	

TURNOVER RATE BY GEOGRAPHICAL AREA (%) [GRI 401-1]

		2022					
	Western Europe	Rest of Europe, Middle East and Africa	North America	South America	North Asia	South Asia	
Hiring rate	13.72%	31.14%	45.34%	37.93%	17.53%	12.24%	
Turnover rate	9.28%	23.29%	29.81%	20.69%	9.09%	6.12%	

TURNOVER RATE BY GEOGRAPHICAL AREA (%) [GRI 401-1]

		2021					
	Western Europe	Rest of Europe, Middle East and Africa	North America	South America	North Asia	South Asia	
Hiring rate	9.30%	28.02%	25.00%	41.67%	17.73%	8.70%	
Turnover rate	7.08%	14.56%	32.35%	37.50%	21.63%	8.70%	

TURNOVER RATE BY GEOGRAPHICAL AREA (%) [GRI 401-1]

	2020					
	Western Europe	Rest of Europe, Middle East and Africa	North America	South America	North Asia	South 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%

NEW EMPLOYEE HIRES AND EMPLOYEE TURNOVER BY POSITION (NO.) [GRI 401-1]

	2022			2021			2020		
	Blue collars	White collars	Managers	Blue collars	White collars	Managers	Blue collars	White collars	Managers
Employee hires	210	206	4	132	168	2	134	75	1
Employee turnover	127	148	4	100	145	5	84	68	2

AVERAGE NUMBER OF TRAINING HOURS BY PROFESSIONAL CATEGORY (HOURS) [GRI 404-1]

	2022			2021			2020		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Managers	13.8	19.9	14.3	12.7	14.4	12.9	12.4	16.3	12.8
White collars	19.6	15.9	18.6	16.9	14.2	16.2	14.9	11.3	14.0
Blue collars	19.1	23.7	21.7	21.2	20.0	20.5	20.9	21.5	21.2

ANNUAL TOTAL COMPENSATION RATIO [GRI 2-21] *

	2022
Ratio of the annual total compensation for the organization's highest-paid individual to the median annual total compensation for all employees (excluding the highest-paid individual)	32:1
Ratio of the percentage increase in the total compensation for the organization's highest-paid individual to the median percentage increase in the annual total compensation of all employees (excluding the highest-paid individual)	5:1

* The scope of the remuneration used for the calculation includes the fixed and variable short-term and long-term remuneration of the employees of the Group's Italian companies, as this is considered comparable in terms of remuneration logic. The variable remuneration is calculated at actual value; LTI is calculated using the fair value method.

COMPOSITION OF THE BOARD OF DIRECTORS AND COMMITTEES [GRI 2-9|GRI 405-1]

	2021		
	Board of directors	Control and risks committee	Remuneration committee
No. of directors	7	3	3
Executive	4	-	-
Non-executive	3	3	3
(of whom, independent)	-3	-3	-3
Women	4	3	3
Men	3	-	-
< 30 years	-	-	-
30-50 years	2	-	-
> 50 years	5	3	3

COMPOSITION OF THE BOARD OF DIRECTORS AND COMMITTEES [GRI 2-9] GRI 405-1]

	2020		
	Board of directors	Control and risks committee	Remuneration committee
No. of directors	7	3	3
Executive	4	-	-
Non-executive	3	3	3
(of whom, independent)	-3	-3	-3
Women	3	2	2
Men	4	1	1
< 30 years	-	-	-
30-50 years	2	-	-
> 50 years	5	3	3

WASTE GENERATED [GRI 306-3]

	2021		
	Waste generated	Waste diverted from disposal	Waste directed to disposal
Hazardous waste	8.72	5.72	3.00
Recycling 0%	7.26	4.66	2.60
Intermediate recycling	1.41	1.00	0.41
Recycling 100%	0.06	0.06	0.00
Non-hazardous waste	469.52	460.48	9.04
Recycling 0%	9.24	5.80	3.44
Intermediate recycling	26.09	20.49	5.60
Recycling 100%	434.19	434.19	0.00
Total waste	478.24	466.20	12.04

WASTE DIVERTED FROM DISPOSAL [GRI 306-4]

Type of waste	2021
	Offsite (t)
Hazardous waste	5.72
Recycling	1.06
Intermediate recycling	-
Recycling 100%	-
Other recovery operations	4.66
Intermediate recycling	-
Recycling 100%	-
Non-hazardous waste	460.49
Recycling	454.69
Intermediate recycling	-
Recycling 100%	-
Other recovery operations	5.80
Intermediate recycling	-
Recycling 100%	-
Total waste diverted from disposal	466.21

WASTE DIRECTED TO DISPOSAL [GRI 306-5]

	2021
Type of waste	Offsite (t)
Hazardous waste	3.01
<i>Incineration (with energy recovery)</i>	-
<i>Incineration (without energy recovery)</i>	2.41
<i>Landfilling</i>	0.60
Non-hazardous waste	9.04
<i>Incineration (with energy recovery)</i>	-
<i>Incineration (without energy recovery)</i>	2.01
<i>Landfilling</i>	7.03
Total waste directed to disposal	12.05

MODEL-SHARE OF INVESTMENT EXPENSE ARISING FROM PRODUCTS OR SERVICES ASSOCIATED WITH ECONOMIC ACTIVITIES

	€/000		Criteria for substantive contribution			
	Code(s) (2)	investment expenses absolute (3)	Share of investment (4)	Mitigation of climate change (5)	Adaptation to climate change (6)	Water and marine resources (7)
Economic activities (1)						
A. TAXONOMY-ELIGIBLE ACTIVITIES						
A.1 Eco-sustainable activities (aligned with the taxonomy)		16,868	50%	100%		
Activity 1 - Manufacture of building energy efficiency devices	3.5	16,868	50%	100%		
A.2 Activities eligible for the taxonomy but not environmentally sustainable (activities not aligned with the taxonomy)		5,476	16%			
Activity 2 - Manufacturing of energy efficiency devices for buildings	3.5	5,476	16%			
Total (A1+A2)						
B. ACTIVITIES NOT ELIGIBLE FOR TAXONOMY		11,222	33%			
TOTAL INVESTMENTS (A+B)		33,567				

ALIGNED WITH THE TAXONOMY-INFORMATION FOR THE YEAR 2022

Criteria for substantive contribution		Criteria for “not causing significant damage”												
Circular Economy (8)														
Biodiversity and ecosystems (9)														
Biodiversity and ecosystems (10)														
Mitigation of climate change (11)		Y												
Adaptation to climate change (12)		Y	Y											
Marine waters and resources (13)		Y	Y											
Circular economy (14)		Y	Y											
Pollution (15)		Y	Y											
Biodiversity and ecosystems (16)		Y	Y											
Minimum guarantees of safeguards (17)		Y	Y											
Share of investments aligned with the taxonomy, year 2022 (18)									50.25%	49.50%				
Share of investment aligned with the taxonomy, year 2021 (19)									50.25%	49.50%				
Category (enabling activity) (20)													A	
Category (enabling activity transition) (21)														

MODEL-SHARE OF TURNOVER FROM PRODUCTS OR SERVICES ASSOCIATED WITH ECONOMIC ACTIVITIES ALIGNED

Economic activities (1)	Code(s) (2)	€/000		Criteria for substantive contribution		
		Turnover absolute (3)	Share of turnover (4)	Mitigation of climate change (5)	Adaptation to climate change (6)	Water and marine resources (7)
A. TAXONOMY-ELIGIBLE ACTIVITIES						
A.1 Eco-sustainable activities (aligned with the taxonomy)						
		256,205	47%	100%		
Activity 1- Manufacture of building energy efficiency devices	3.5	256,205	47%	100%		
A.2 Activities eligible for the taxonomy but not environmentally sustainable (activities not aligned with the taxonomy)						
		103,017	19%			
Activity 2- Manufacturing of energy efficiency devices for buildings	3.5	103,017	19%			
Total (A1+A2)		359,222	66%			
B. ACTIVITIES NOT ELIGIBLE FOR TAXONOMY						
		185,630	34%			
TOTAL INVESTMENTS (A+B)		544,852				

MODEL-SHARE OF OPEX FROM PRODUCTS OR SERVICES ASSOCIATED WITH ECONOMIC ACTIVITIES ALIGNED

Economic activities (1)	Code(s) (2)	€/000		Criteria for substantive contribution		
		OPEX absolute (3)	Share of OPEX (4)	Mitigation of climate change (5)	Adaptation to climate change (6)	Water and marine resources (7)
A. TAXONOMY-ELIGIBLE ACTIVITIES						
A.1 Eco-sustainable activities (aligned with the taxonomy)						
		-13,575	61.2%	100%		
Activity 1- Manufacture of building energy efficiency devices	3.5	-13,575	61.2%	100%		
A.2 Activities eligible for the taxonomy but not environmentally sustainable (activities not aligned with the taxonomy)						
		-4,958	22.4%			
Activity 2- Manufacturing of energy efficiency devices for buildings	3.5	-4,958	22.4%			
Total (A1+A2)		-18,533	84%			
B. ACTIVITIES NOT ELIGIBLE FOR TAXONOMY						
		-3,644	16.4%			
TOTAL INVESTMENTS (A+B)		-22,177				

WITH THE TAXONOMY-INFORMATION FOR THE YEAR 2022

Criteria for substantive contribution			Criteria for “not causing significant damage”										
Circular Economy (8)	Biodiversity and ecosystems (9)	Biodiversity and ecosystems (10)	Mitigation of climate change (11)	Adaptation to climate change (12)	Marine waters and resources (13)	Circular economy (14)	Pollution (15)	Biodiversity and ecosystems (16)	Minimum guarantees of safeguards (17)	Share of turnover aligned with the taxonomy, year 2022 (18)	Share of turnover aligned with the taxonomy, year 2021 (19)	Category (enabling activity) (20)	Category (enabling activity transition) (21)
			Y	Y	Y	Y	Y	Y	Y	47.0%	50.54%		
			Y	Y	Y	Y	Y	Y	Y	47.0%	50.54%	A	

WITH THE TAXONOMY-INFORMATION FOR THE YEAR 2022

Criteria for substantive contribution			Criteria for “not causing significant damage”										
Circular Economy (8)	Biodiversity and ecosystems (9)	Biodiversity and ecosystems (10)	Mitigation of climate change (11)	Adaptation to climate change (12)	Marine waters and resources (13)	Circular economy (14)	Pollution (15)	Biodiversity and ecosystems (16)	Minimum guarantees of safeguards (17)	Share of OPEX aligned with the taxonomy, year 2022 (18)	Share of OPEX aligned with the taxonomy, year 2021 (19)	Category (enabling activity) (20)	Category (enabling activity transition) (21)
			Y	Y	Y	Y	Y	Y	Y	61.2%	59.56%		
			Y	Y	Y	Y	Y	Y	Y	61.2%	59.56%	A	

METHODOLOGICAL NOTE

REPORTING STANDARDS

The Carel Group's 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 impact. The statement reports on the material topics as per article 3 of the decree in order to provide a thorough understanding of the Group's operations, performance, results and impact.

This statement is prepared once a year in accordance with the decree and in accordance with the GRI Standards published in 2021 by the Global Reporting Initiative. They are currently the best-known and most recognised standards at international level on non-financial reporting. The GRI Content Index is set out on page 162-167 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 168), have been considered material as they reflect the Group's most significant impacts on the economy, the environment and people, including impacts on their human rights. Specifically, the materiality analysis was carried out in accordance with GRI 3: Material Topics 2021. 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 2021 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 for the year ending December 31, 2022. This statement includes the data of the parent (Carel Industries S.p.A.) and its fully consolidated subsidiaries as per the consolidated financial statements at 31 December 2021. The companies acquired during the year have not been included in the reporting scope since they mainly took place in the second half of the year and, consequently, their exclusion would not have a significant impact on 2022. Any limitations to such scope are indicated in the document.

The following companies were included in the reporting scope of the 2022 Consolidated non-financial statement:

CAREL INDUSTRIES	CAREL ELECTRONIC SUZHOU CO.	CAREL MIDDLE EAST
RECUPERATOR S.p.A.	CAREL CONTROLS IBERICA	ALFACO POLSKA SP.Z.O.O.
C.R.C. S.r.l.	CAREL INDIA	CAREL (THAILAND) CO.,Ltd
CAREL UK	CAREL SOUTH AFRICA	CAREL ADRIATIC DOO
CAREL FRANCE	CAREL RUS	HYGROMATIK GMBH
CAREL ASIA	CAREL HVAC&R KOREA	CAREL UKRAINE LLC
CAREL SOUTH AMERICA	CAREL Singapore	ENERSOL INC
CAREL USA	CAREL NORDIC	CFM Sogutma VE
CAREL AUSTRALIA	CAREL JAPAN	Enginia S.r.l.
CAREL DEUTSCHLAND	CAREL MEXICANA	

REPORTING PRACTICE

Preparation of the Group's 2022 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. Also in 2022, this process was carried out using specific software for non-financial reporting which meets the requirements of Legislative decree no. 254/2016 and the GRI Standards, in order to monitor the main indicators in a more timely and constant manner. Specifically, the data and information included herein are taken from the information system used for the Group's management and accounts. The data were processed through extrapolations and calculations or, when specified, estimates. The financial data and information were taken from the 2022 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 2022 draft consolidated financial statements on 2 March 2023;
- issue of a compliance report on the statement by Deloitte & Touche S.p.A. after its limited assurance engagement;
- publication of the statement on the parent's website to make it available to all stakeholders in a transparent manner.

With respect to the second point, this statement is the subject of a limited assurance engagement carried out in accordance with ISAE 3000 revised by independent auditors. In a separate specific report, they include their conclusion on the compliance of the information provided pursuant to article 3.10 of Legislative decree no. 254/2016. The engagement is carried out based on the procedures set out in the "Independent auditors' report", included herein. The limited assurance engagement did not cover the information required by article 8 of Regulation (EU) 2020/852.

REPORTING STANDARDS

Identification and presentation of the material topics included in this statement were based on the GRI standards of materiality, inclusiveness, 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.

GRI CONTENT INDEX

GRI CONTENT INDEX

Statement of use	Carel Industries S.p.A. prepared this report covering 2022 in accordance with the GRI standards
GRI 1 applied	GRI 1- Foundation 2021
Applicable GRI sector standards	Not applicable

GRI STANDARD/ OTHER SOURCE	DISCLOSURE	PAGE NUMBER	NOTE	OMISSIONS		
				REQUESTED	REASON	DESCR.

GENERAL DISCLOSURES

GRI 2: General Disclosures 2021

2-1 Organizational details	pages 8;49	Reference should be made to the consolidated financial statements for information about the nature of ownership and legal form.
2-2 Entities included in the organization's sustainability reporting	pages 160-161	
2-3 Reporting period, frequency, and contact point	pages 160-161	
2-4 Restatements of information	pages 160-161	
2-5 External assurance	pages 168...	
2-6 Activities, value chain and other business relationships	pages 9; 13-15; 140-146, 160-161	
2-7 Employees	pages 118-120; 151-152	
2-8 Workers who are not employees	pg. 118	
2-9 Governance structure and composition	pages 49-51; 53; 154-155	
2-10 Nomination and selection of the highest governance body	pg. 50	
2-11 Chair of the highest governance body	Please refer to the Report on Corporate Governance and Ownership Structure	
2-12 Role of the highest governance body in overseeing the management of impacts	pages 51-52	
2-13 Delegation of responsibility for managing impacts	pg. 53	
2-14 Role of the highest governance body in sustainability reporting	pg. 51	
2-15 Conflicts of interest	pg. 59	
2-16 Communication of critical concerns	pg. 58	In 2022, no critical issues were reported to the board of administration

GRI STANDARD/ OTHER SOURCE	DISCLOSURE	PAGE NUMBER	NOTE	OMISSIONS		
				REQUESTED	REASON	DESCR.
2-17	Collective knowledge of the highest governance body	pg. 51				
2-18	Evaluation of the performance of the highest governance body	pages 50-51				
2-19	Remuneration policies		Reference should be made to the Remuneration report.			
2-20	Process to determine remuneration		Reference should be made to the Remuneration report.			
2-21	Annual total compensation ratio	pages 154				
2-22	Statement on sustainable development strategy	pages 6-7				
2-23	Policy commitments	pages 27-31				
2-24	Embedding policy commitments	pages 27; 30; 54; 125; 142-144				
2-25	Processes to remediate negative impacts	pages 60; 89; 117; 143	No formal complaints management process in place other than the whistleblowing reporting system. Nevertheless, any complaints received outside the whistleblowing reporting system are analysed and handled.			
2-26	Mechanisms for seeking advice and raising concerns	pages 58-60				
2-27	Compliance with laws and regulations		The Group constantly monitors compliance with the regulations and provisions in force in individual countries. No fines and/or non-monetary penalties were received with respect to the consolidated financial statements that were deemed significant, individually or in the aggregate.			
2-28	Membership associations	pages 42-43				
2-29	Approach to stakeholder engagement	pages 32-33; 38-39				
2-30	Collective bargaining agreements	pg. 117				

GRI STANDARD/ OTHER SOURCE	DISCLOSURE	PAGE NUMBER	NOTE	OMISSIONS		
				REQUESTED	REASON	DESCR.
MATERIAL TOPICS						
GRI 3: Material Topics 2021						
	3-1 Process to determine material topics	pages 34-38; 160				
	3-2 List of material topics	pages 35-37				
SUSTAINABLE GOVERNANCE						
GRI 3: Material Topics 2021						
	3-3 Management of material topics	pages 50-57				
ENERGY CONSUMPTION AND USE OF NATURAL RESOURCES						
GRI 3: Material Topics 2021						
	3-3 Management of material topics	pages 36, 94-96				
GRI 302: Energy 2016						
	302-1 Energy consumption within the organization	pages 94-95				
	302-3 Energy intensity	pg. 94				
	302-4 Reduction of energy consumption	pg. 96				
GRI 303: Water and effluents 2018						
	303-1 Interactions with water as a shared resource	pages 109-110				
	303-2 Management of water discharge-related impacts	pages 109-110				
	303-3 Water withdrawal	pg. 110				
ENVIRONMENTAL IMPACT, POLLUTION AND CLIMATE CHANGE						
GRI 3: Material Topics 2021						
	3-3 Management of material topics	pages 36, 87-88				
GRI 305: Emissions 2016						
	305-1 Direct (Scope 1) GHG emissions	pages 97-98				
	305-2 Energy indirect (Scope 2) GHG emissions	pages 97-98				
	305-3 Other indirect (Scope 3) GHG emissions	pages 100-106				
	305-4 GHG emissions intensity	pages 97-99				
	305-5 Reduction of GHG emissions	pages 82, 96				
	305-6 Emissions of ozone-depleting substances (ODS)	pg. 108				
	305-7 Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions	pg. 108				
WASTE REDUCTION AND UTILISATION OF RESPONSIBLE WASTE ELIMINATION METHODS						
GRI 3: Material Topics 2021						
	3-3 Management of material topics	pages 36, 89				
GRI 306: Waste 2020						
	306-1 Waste generation and significant waste-related impacts	pages 89;92-93				
	306-2 Management of significant waste-related impacts	pg. 89				

GRI STANDARD/ OTHER SOURCE	DISCLOSURE	PAGE NUMBER	NOTE	OMISSIONS		
				REQUESTED	REASON	DESCR.
306-3	Waste generated	pages 89; 155				
306-4	Waste diverted from disposal	pages 90; 155				
306-5	Waste directed to disposal	pages 91; 156				
ENERGY EFFICIENCY AND SUSTAINABLE PRODUCTS						
GRI 3: Material Topics 2021						
3-3	Management of material topics	pages 80-83				
GRI 302: Energy 2016						
302-5	Reductions in energy requirements of products and services	pages 80-82				
TALENT ATTRACTION, DEVELOPMENT AND RETENTION						
GRI 3: Material Topics 2021						
3-3	Management of material topics	pages 122-123				
GRI 401: Employment 2016						
401-1	New employee hires and employee turnover	pages 122-124; 152-154				
EMPLOYEE ENGAGEMENT, OBSERVATION AND SATISFACTION						
GRI 3: Material Topics 2021						
3-3	Management of material topics	pages 120-122				
GRI 401: Employment 2016						
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	pages 126				
TRAINING AND SKILLS DEVELOPMENT						
GRI 3: Material Topics 2021						
3-3	Management of material topics	pages 127-128				
GRI 404: Training and education 2016						
404-1	Average hours of training per year per employee	pages 128-129; 154				
404-2	Programs for upgrading employee skills and transition assistance programs	pages 127-128				
DEVELOPMENT OF LOCAL COMMUNITIES AND RELATIONSHIP WITH LOCAL AREAS						
GRI 3: Material Topics 2021						
3-3	Management of material topics	pages 137-138				
GRI 413: Local communities 2016						
413-1	Operations with local community engagement, impact assessments, and development programs	pages 137-139				
R&D AND PRODUCT INNOVATION						
GRI 3: : Material Topics 2021						
3-3	Management of material topics	pages 67-70				

GRI STANDARD/ OTHER SOURCE	DISCLOSURE	PAGE NUMBER	NOTE	OMISSIONS		
				REQUESTED	REASON	DESCR.
PRODUCT AND SERVICE QUALITY AND SAFETY						
GRI 3: Material Topics 2021						
	3-3 Management of material topics	pages 74-75				
GRI 416: Customer health and safety 2016						
	416-1 Assessment of the health and safety impacts of product and service categories	pages 74-78				
	416-2 Incidents of non-compliance concerning the health and safety impacts of products and services	pg 79				
CUSTOMER ENGAGEMENT, OBSERVATION AND SATISFACTION						
GRI 3: Material Topics 2021						
	3-3 Management of material topics	pages 71-73				
GRI 417: Marketing and Labeling 2016						
	417-1 Requirements for product and service information and labeling	pages 77-78				
	417-2 Incidents of non-compliance concerning product and service information and labeling	pg. 79				
INFORMAZIONI SU PRODOTTI E SERVIZI						
	417-3 Incidents of non-compliance concerning marketing communications		No incidents of non-compliance concerning regulations and/or self-regulatory codes on marketing communications occurred in 2022			
DATA PROTECTION AND CYBERSECURITY						
GRI 3: Material Topics 2021						
	3-3 Management of material topics	pages 61-62				
GRI 418: Customer privacy 2016						
	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	pg. 62				

OTHER TOPICS

GRI SPECIFIC TOPIC	DISCLOSURE	PAGE NUMBER	NOTE
ECONOMIC PERFORMANCE			
GRI 201: Economic performance 2016			
	201-1 Direct economic value generated and distributed	pages 43-44	
SUPPLY CHAIN RESPONSIBLE MANAGEMENT			
GRI 204: Procurement practices 2016			
	204-1 Proportion of spending on local suppliers	pg. 140	

GRI SPECIFIC TOPIC	DISCLOSURE	PAGE NUMBER	NOTE
ETHICS, INTEGRITY AND ANTI-CORRUPTION			
GRI 205: Anti-corruption 2018			
205-3	Confirmed incidents of corruption and actions taken		During 2022 there were no occurred any episodes of corruption
GRI 206: Anti-competitive behavior 2016			
206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	pg. 60	
OCCUPATIONAL HEALTH AND SAFETY			
GRI 403: Occupational health and safety 2018			
403-1	Occupational health and safety management system	pages 130-132	
403-2	Hazard identification, risk assessment, and incident investigation	pages 130-132	
403-3	Occupational health services	pages 136-137	
403-4	Worker participation, consultation, and communication on occupational health and safety	pages 130-132	
403-5	Worker training on occupational health and safety	pg 136	
403-6	Promotion of worker health	pages 130-132	
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	pages 130-132	
403-9	Work-related injuries	pages 133-135	
DIVERSITY, INCLUSION AND EQUAL OPPORTUNITIES			
GRI 405: Diversity and equal opportunity 2016			
405-1	Diversity of governance bodies and employees	pages 50-51; 118; 151; 154-155	
GRI 406: Non-discrimination 2016			
406-1	Incidents of discrimination and corrective actions taken	pages 115-116	

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

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, 2022 prepared on the basis of art. 4 of the Decree and approved by the Board of Directors on March 2, 2023 (hereinafter "NFS").

Our limited assurance engagement does not extend to the information required by art. 8 of the European Regulation 2020/852 included in the paragraph "CAREL and the European Taxonomy".

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 - Global Reporting Initiative (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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Codice Fiscale/Registro delle Imprese di Milano Monza Brianza Lodi n. 03049560166 - R.E.A. n. MI-1720239 | Partita IVA: IT 03049560166

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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;
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.

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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);

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 interviews and discussions with the employees of the management of Carel Industries S.p.A. and with the employees of Recuperator S.p.A. ed Enginia S.r.l. 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:

- 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 Carel Industries S.p.A., which we selected based on its activities, its contribution to the performance indicators at the consolidated level and their location, we carried out site visits and remote meetings, during which we have met its management and have gathered supporting documentation with reference to the correct application of procedures and calculation methods used for the indicators.

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, 2022 is not prepared, in all material aspects, in accordance with article 3 and 4 of the Decree and the GRI Standards.

Our conclusion on the NFS does not extend to the information required by art. 8 of the European Regulation 2020/852 included in the paragraph "CAREL and the European Taxonomy".

DELOITTE & TOUCHE S.p.A.

Signed by
Cristiano Nacchi
 Partner

Padua, Italy
 March 29, 2023

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

Headquarters ITALY

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