



(TRANSLATION FROM THE ITALIAN ORIGINAL WHICH REMAINS THE DEFINITIVE VERSION)

2023 CONSOLIDATED NON-FINANCIAL STATEMENT

PREPARED IN ACCORDANCE WITH LEGISLATIVE DECREE NO. 254/2016



DRIVEN BY THE FUTURE



LETTER TO THE STAKEHOLDERS

Dear stakeholders,

2023 was a milestone year in Carel's history, marking its 50th anniversary since its incorporation and giving us the opportunity to reflect on its developments since 1973. Carel began as a small local business with a single customer. However, thanks to its brilliant entrepreneurial vision and a strong corporate culture committed to excellence, innovation and sustainability, over time it has become a world leader in the design, development and manufacture of air conditioning and refrigeration control systems.

Once again 2023 confirmed the success that has characterised the past 50 years. Indeed, in 2023, the group's consolidated revenue growth was close to 20% and this figure is even more significant if considered together with the 29.6% increase achieved in 2022. This excellent performance, thanks in part to the operating leverage, also affected profitability, with EBITDA accounting for 21.1% (21.5% adjusted) of revenue, up considerably from 20.5% in 2022.

The financial success was deeply intertwined with the excellent environmental and social performance achieved, confirming the full integration of these issues in the group's development strategy.

The group's efforts were mainly focused on the challenge posed by climate change: in 2023, direct and indirect (Scope 1 and Scope 2) emissions decreased¹ by 6% on 2022, against a 6% rise in consumption due to an increase in hours worked (+7%) and surface area covered (+3.5%). These figures reflect the success of our energy consumption reduction plan which included, for example, adjusting the air conditioning systems in buildings with high-efficiency systems, installing energy-efficient LED lights, and increasing efficiency in production lines. In addition, we obtained electricity from fully renewable sources, up to 87%¹ of total purchased electricity. Finally, thanks to our investments in photovoltaic systems, energy self-generation was close to 410 MWh. Given the current initiatives and the results achieved, in early 2024, the group signed and sent a commitment letter launching a structured decarbonisation process based on the Science Based Targets initiative (SBTi) templates.

The group's focus on a more sustainable future is not only confirmed by the initiatives aimed at decarbonising its production processes; indeed, it also translates into increasingly efficient and innovative products which enabled customers to save 7,162 GWh in 2023, avoiding 1,969,507 tCO₂e. The analysis conducted using the so-called "European Taxonomy" also

¹ On a like-for-like basis (2022 reporting boundary) in terms of production sites and emission sources reported.

confirms the sustainability of our products. This is a framework of stringent rules adopted by the EU to define what is environmental sustainable. More than 60% of Carel's revenue is Taxonomy-eligible and Taxonomy-aligned.

Environmental sustainability is also linked to one of the pillars of our development, i.e., careful management of current and potential human capital. Specifically, in 2023, the parent's commitment to gender balance among its employees and managers continued, keeping the percentage of white-collar women hired on a permanent basis at 23% of total hires. Great emphasis was also placed on training, which averaged approximately 18 hours per employee. Specifically, a structured training programme on ESG principles was launched at the parent and the Italian group companies, covering all employees, and another one for senior and middle management on Diversity & Inclusion ("D&I") issues. A total of 6,080 hours of training on ESG issues were provided, involving a total of 762 employees.

The focus on human capital is also confirmed by the attention paid to occupational health and safety issues by adopting improvement plans that, also in 2023, resulted in structural, organisational and behavioural measures, including the new production sites that have recently joined the group.

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, since 2019, Carel has launched a long-term plan which involved more than 110 suppliers - selected among the most representative ones in terms of purchasing turnover - in a major and in-depth Sustainability Survey.

This panel of suppliers was subject to a sustainability assessment via the survey, with the dual purpose of promoting the awareness of social and environmental responsibility issues and gathering information on their management systems and practices. The aim of the survey was to increase the supply chain awareness of sustainability issues and to promote specific improvement actions.

In addition to this, 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 initiatives launched over the past few years were also rewarding in terms of ESG ratings. Specifically, Carel confirmed its "AA" rating within the "MSCI ESG rating assessment," once again starring in the "ESG Leaders" category which includes those companies that best

manage ESG risks and opportunities in their industry. Furthermore, ECOVADIS (the world's largest sustainability rating provider with about 100,000 companies assessed) confirmed the group's silver medal. Finally, CDP (formerly the Carbon Disclosure Project) rewarded the group for its efforts in combating climate change. For the second time in a row, this global non-profit organisation that monitors, inter alia, corporate performance in combating climate change, has improved Carel's rating from "B-" in 2022 to "B" in 2023, just one notch below the "Leadership" category.

In conclusion, the excellent financial performance achieved in 2023 was accompanied by an equally excellent performance in terms of sustainability, enabling us to proudly celebrate Carel's first 50 years! However, as usual, our corporate culture encourages us to consider this important anniversary not as a finishing line, rather as a starting point for building another 50 years of success and satisfaction.

CEO
Francesco Nalini

Director with ESG powers
Carlotta Rossi Luciani



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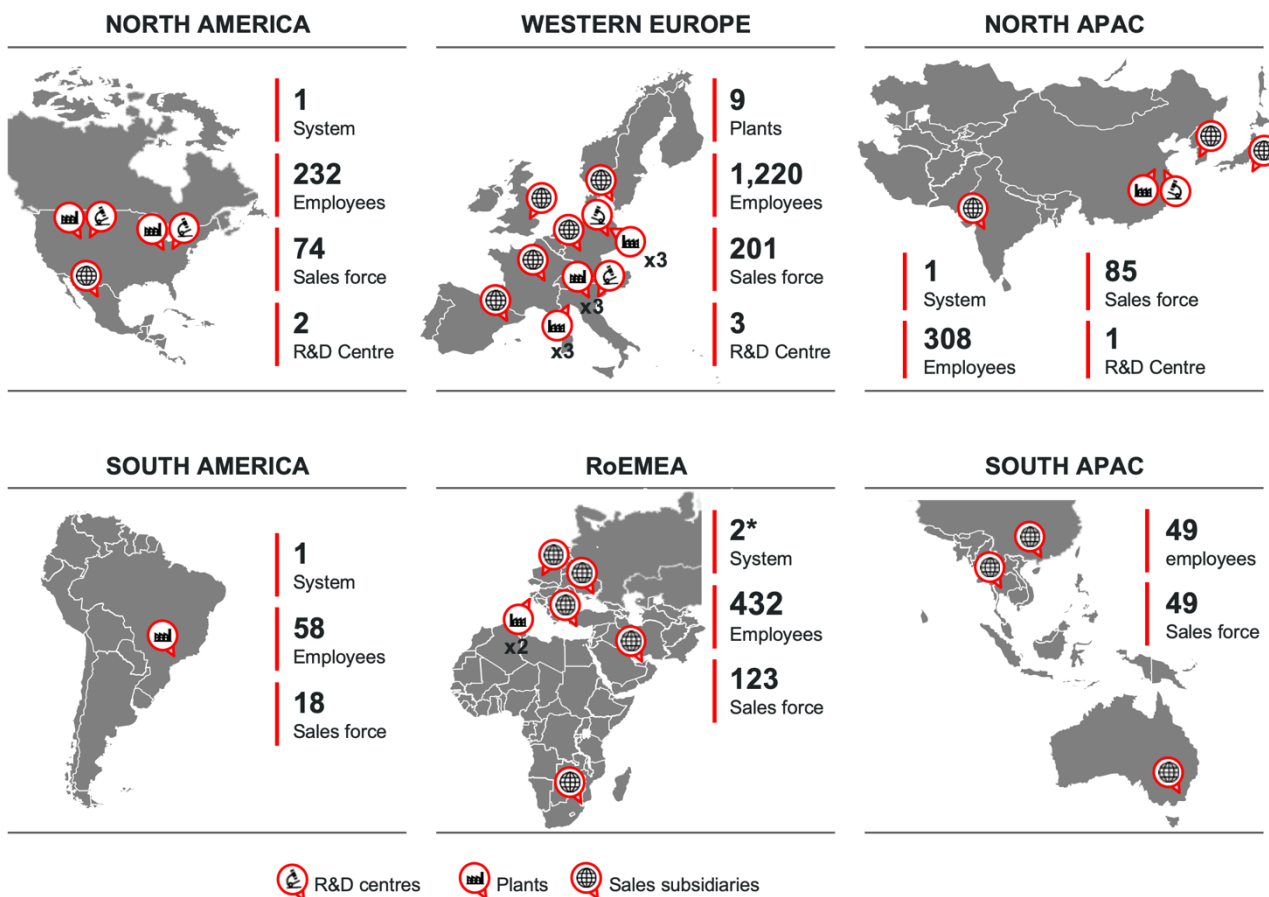


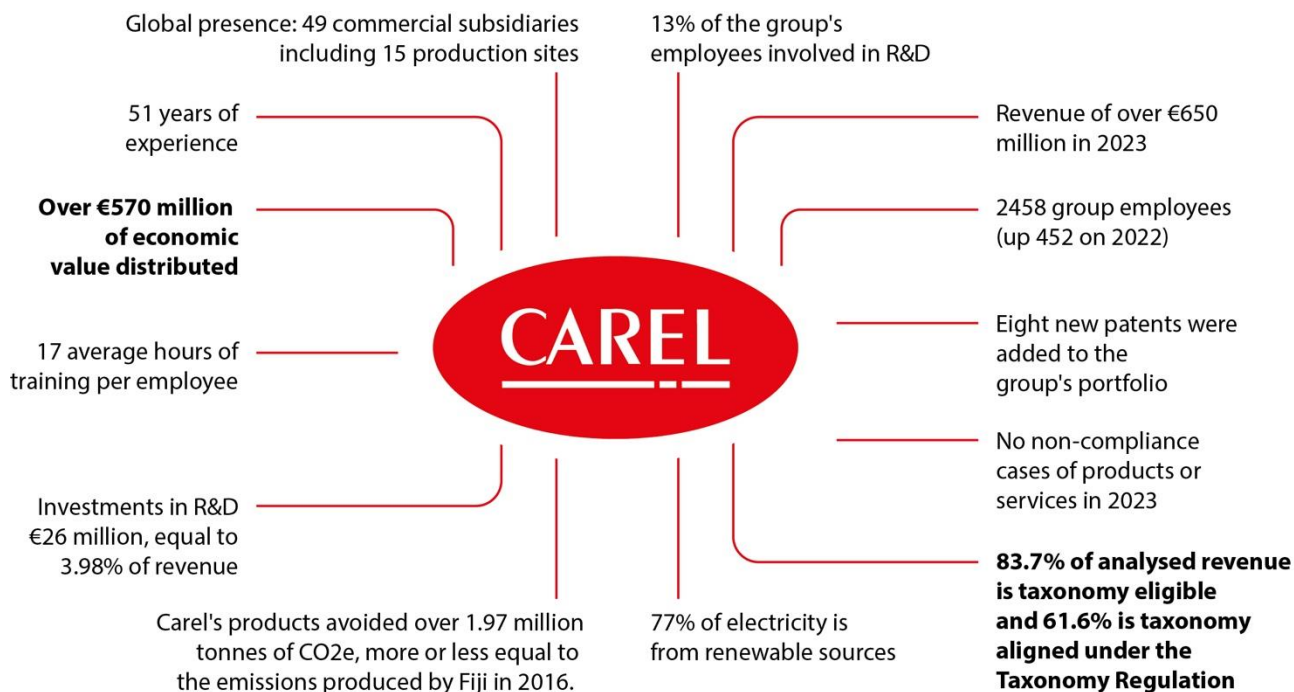
CAREL INDUSTRIES GROUP

Incorporated in 1973, Carel has always been known for advanced control systems and innovative solutions for the heating, ventilation, air conditioning and refrigeration (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 49 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.







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 live;
- 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

In 2022, the group completed major acquisitions. 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 Klingenburg 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.



2023

In 2023, the group finalised the acquisition of 100% of Eurotec, New Zealand's long-standing Carel distributor, and 82.4% of the Kiona Group, a leading Norwegian Software as a Service (SaaS) provider of prop-tech services for energy consumption optimisation and building digitalisation in the commercial and industrial refrigeration sector, as well as in the multi-residential, commercial and public sectors.

In the second half of the year, the group also carried out its first capital increase, which was successfully completed in December 2023, raising approximately €200 million.



BUSINESS AND MARKETS

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

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

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

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

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

Reference market:
North America

Reference market:
South America
(also serving North America)

Reference market:
EUROPE

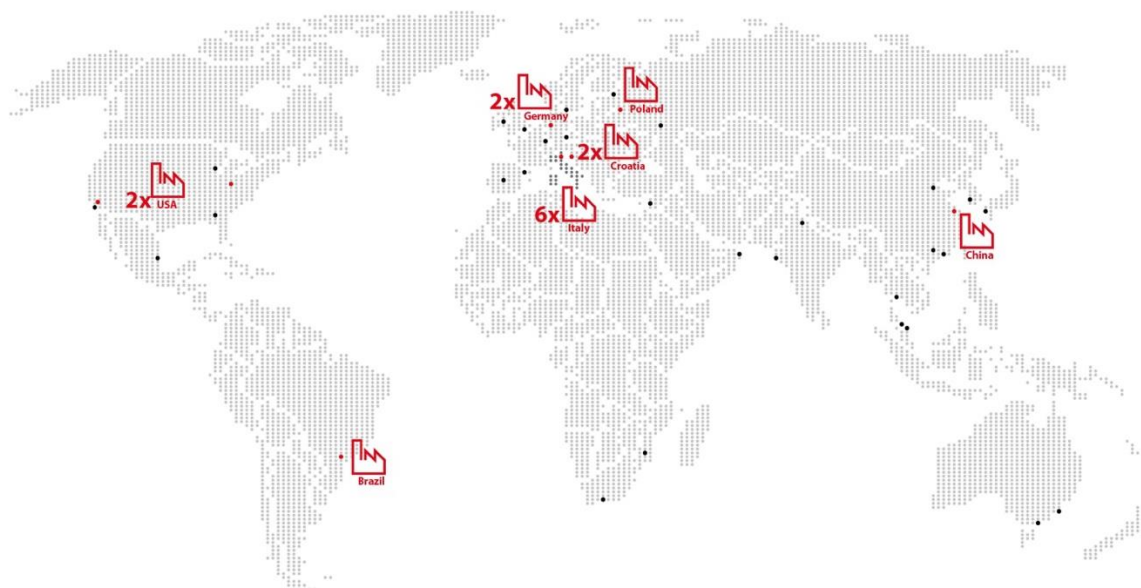
Reference market:
APAC

8,6k sqm

1,9k sqm

12,0k sqm

14,3k sqm



23,7k sqm

7,6k sqm

5k sqm

3,6k sqm

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

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

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

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

Reference market:
mainly EUROPE

Reference market:
mainly EUROPE

Reference market:
mainly EUROPE

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 and sustainability, human-machine interaction, growing usability and cloud connection for high-value added services.

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, showing the multiple product platforms that enable the Carel Group to develop cutting-edge solutions. Over time, these platforms have expanded both thanks to the group's research and development activities and the contribution of the companies acquired over the years.





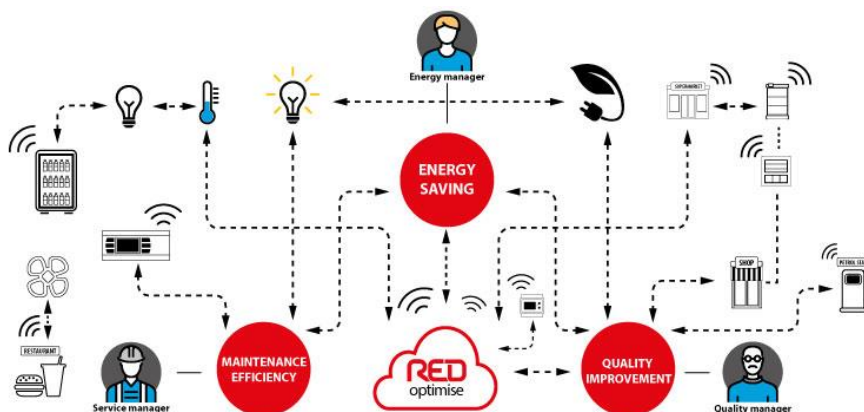
Distinctive ability to meet customer demand for customized integrated solutions using standard platforms.

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:



CLIMATE-RELATED FINANCIAL DISCLOSURE

Carel is aware of the need to create a resilient business model and, consequently, to define measures that prevent and mitigate the negative impacts of climate change. Therefore, in 2023, it enhanced its process of identifying and assessing climate risks and the opportunities associated with them. The Climate Change Risk Assessment identified, analysed and assessed the possible impacts of key climate risks, and led to the definition of measures that adequately manage the identified risks and opportunities.

Finally, in accordance with 2021-2024 sustainability plan, Carel formally assessed its position with respect to the recommendations of the Task Force on Climate-related Financial Disclosure (“TCFD”) in order to further improve the quality and scope of its climate change-related disclosure.

The table below reconciles the content of the non-financial statement that meet the recommendations of the TCFD.

Scope	Recommendations	Sections	Page
Governance	Describe the board’s oversight of climate-related risks and opportunities.	“Board of directors” and “Control, risks and sustainability committee” paragraphs of the “Responsible governance” section	42-44; 45
	Describe management’s role in assessing and managing climate-related risks and opportunities.	“ESG Team” paragraph of the “Responsible governance” section	45-46
Strategy	Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.		
	Describe the impact of climate-related risks and opportunities on the organization’s businesses, strategy, and financial planning.	“Climate change risks” paragraph of the “Responsible governance” section	50-51
Risk management	Describe the resilience of the organization’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.		
	Describe the organization’s processes for identifying and assessing climate-related risks.	“Internal control and risk management system” and “Climate change risks” paragraphs of the “Responsible governance” section	47-49; 50-51
Metrics & targets	Describe the organization’s processes for managing climate-related risks.		
	Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization’s overall risk management.		
	Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.	- “ESG performance indicators in the remuneration” “Internal control and risk management system” and “Physical risks” paragraphs of the “Responsible governance” section - “Research, development and innovation” paragraph of the “Customers and products” section (for R&D expenditure)	- 46; 47-49; 54-56 - 65
	Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.	“Direct and Indirect Emissions (Scope 1 and 2)” and “Indirect emissions (Scope 3)” paragraphs of the “Focus on the environment” section	99-106
	Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.	“Board of directors” paragraph of the “Responsible governance” section	42-44

PROMOTING SUSTAINABILITY

In 2023, Carel continued to report on its growth process, which was highly focused on sustainability. As already described in previous non-financial statements, this path began in 2020 with a series of meetings and events that enabled the group to share at all levels its business purpose, deriving from the group's values and history, but also a culture of sustainability in the workplace, in response to global market challenges, guaranteeing sustainable success and generating value in the long-term.



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

Driven by knowledge, inspired by human well-being.

Now and for the future generations.

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

Our products & services support customers with the most efficient & sustainable solutions.

Data processing provided by our IoT platform enables valuable customer services during the whole system's life through solutions for Climate Control Industry

Research, innovation and technology are the cornerstones of the Carel Group's success. For almost 50 years, it has placed the customer first. 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. Also based on these aspects, the group's brand strategy has continued to evolve by focusing on corporate social responsibility issues, energy saving and respect for the environment. In this respect, 37 posts were published on social media covering Carel's effort to tackle ESG issues. These play a fundamental role in the group's operations and also confirm the ongoing commitment in Carel's daily life.

Specifically, the posts were grouped into three different areas: Act for Planet, Act for People and Act to Share the Value, indicating the three different topics (environment, social and governance) covered by the strategy.

Overall, the ESG posts published on the various social platforms (LinkedIn, Facebook, X) rank among the most popular content. Specifically, the “Act for People” issues and the “Generic ESG” content were particularly welcomed

BRAND REPUTATION

In 2023, Carel was mentioned approximately 180,000 times on the web, slightly down on the previous year (-10%). Mentions were essentially stable throughout the year, increasing only in the last quarter, and all show a positive or neutral sentiment. The positive sentiment mainly refers to information about the financial statements, acquisitions and sustainability. The spring-summer period is characterised by communications about investments, while the second half of the year focuses on events, initiatives and sustainability.

The words most associated with the brand refer to the following topics: technology, energy efficiency, acquisitions, information about the financial statements and sustainability actions.

Content is delivered on social media, also thanks to the activities of Carel employees, and to sector publications. Specifically, the employees deliver UGC (user generated content) on the LinkedIn channel, mostly reposts from the brand page. However, the delivery of original content is also increasing. This channel also includes the content delivered by installers and distributors.

Due to the increased focus on digital communication in recent years, Carel has continued to increase its presence on social networks, with LinkedIn still the best-performing social media. Specifically, the performance indicators of the LinkedIn page were all up on the previous year and the figures showing the growth of total and organic impressions and the number of followers (+15.4% over 2022) were particularly positive.

In 2023, the investments planned to help the page get new users and increase brand awareness achieved their goal, generating significant increases in the months during which specific advertising campaigns were launched.

In this context, in 2023, the importance of Carel's YouTube channel has continued to increase, especially thanks to new content including product presentations, tutorials and interviews (over 40 videos), reaching 6,040 viewing hours and 167,826 impressions (up 8% on 2022). Overall, this channel achieved nearly 1,000,000 views and 1,046 new subscribers, bringing the total to 7,190 (+17%).

CAREL NEW WORKING AREAS

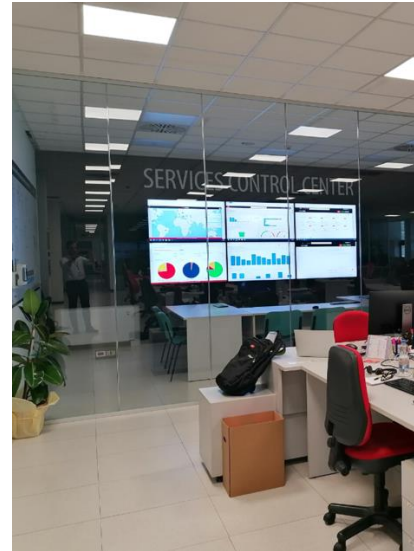
Similarly to 2022, work continued on improving the working areas at the parent's site, which culminated with the opening of the new buildings.

Specifically, an IAQ (internal air quality) division was created and new working areas for the Operation units, Service and the Quality and R&D unit were inspected and made operational.

IAQ division



Service - Quality (improved acoustics using panels)





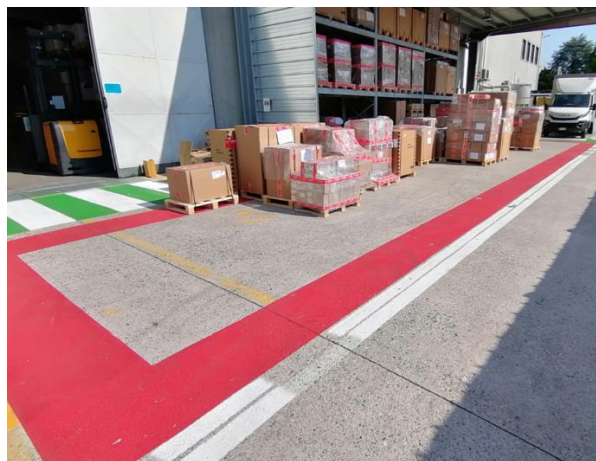
Operation unit



R&D and Lean department



In addition to improving comfort in office areas, outdoor areas, particularly logistics ones, were also enhanced in order to increase the space between people and machines.







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 safety². 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. 231/01³ (approved in 2017 and updated by resolution of the board of directors in 2018, 2021 and 2023). 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 the group 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, as of 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.

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, 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 contributing 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.

² These policies are publicly available, in Italian and English, on the company website at the following link www.carel.it/legal-notice.

³ At 31 December 2023, Carel Industries and Recuperator adopted the Organisational, management and control model.

FOUR-YEAR ESG PLAN

The first long-term sustainability plan, which may be summarised with the motto Driven by the Future - Sustainability in action, was approved in 2021.

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).

2023 was the third 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:

- installation of photovoltaic panels at the production sites in Croatia, Germany and China;
- analysis and reporting of indirect emissions (Scope 3), for categories relevant to the group.

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. For this reason, 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 Road shows
Financial institutions	Financial disclosures to the market Regular meetings with banks
Customers	Liaising with sales personnel and subsidiaries' employees Interaction with regional and group functions (e.g., senior management, S&M, R&D, etc.) Institutional websites Trade fairs, events, seminars Trade associations Customer satisfaction surveys (Voice of Customer, Net Promoter Score) Online analysis of the brand's reputation and social media Blogs
Employees	New hires onboarding programme (Carel Group Induction Process) Performance development Intranet Internal magazine (Display – Carel People Magazine) Internal communication via meetings, email and web media



Trade unions, worker representatives	Regular meetings with trade union representatives
Suppliers and business partners	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 quality control personnel Order management software Vendor evaluation procedure
Media	Interviews with senior management Trade fairs and events Press area of the website Social media
Influencers	Liaising with sales personnel and subsidiaries' employees Institutional websites Trade fairs, events, seminars Trade associations Customer satisfaction surveys (Voice of Customer) Online analysis of the brand's reputation and social media Blogs
Bodies and institutions (local bodies, public administration, regulators, sector associations)	Meetings with representatives of local institutions
Communities and future generations (local communities and NGOs, schools and universities)	Supporting and sponsoring social initiatives Dialogue with universities and schools

In 2022, Carel involved a total of 111 internal and external stakeholders (investors, banks and analysts and customers) in the updating of the materiality analysis through specific workshops and questionnaires.

In view of the evolution of the reporting standards (GRI Standards), in 2022, Carel launched a process of progressive engagement of the different categories of stakeholders with respect to the materiality analysis in order to update it 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 SIGNIFICANCE 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 relevance and likelihood of occurrence.

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

PRIORITISE IMPACTS

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

After identifying the materiality threshold (exceeding the first quartile), Carel obtained the following material topics listed in order of priority. 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 in 2020, the following issues were not included in the list of 2022 material topics: Occupational health and safety, Respect for human rights, Diversity, equal opportunity and inclusion and Responsible supply chain management; however, these topics are covered by this report.

On the other hand, the analysis conducted in 2022 covered the following material topics: Employee well-being, observation and satisfaction, Energy consumption and use of natural resources, Waste reduction and utilisation of responsible waste elimination methods, Talent attraction, retention and development and Development of local communities and relationship with local areas.

The results of the materiality analysis conducted in 2022 were confirmed and apply also to 2023.



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 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.

EVOLUTION OF THE MATERIALITY ANALYSIS

Financial materiality was assessed based on the best practices and guidelines that 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)⁴ 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 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.

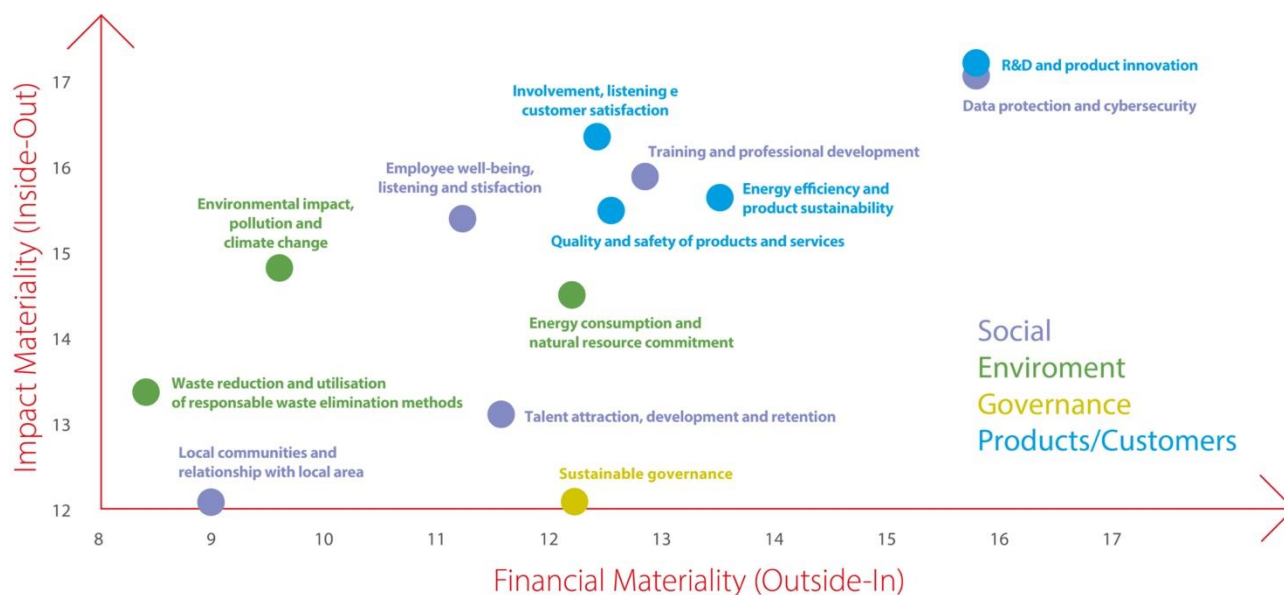
Against this backdrop, Carel performed the materiality analysis by combining both the impact materiality and financial materiality perspectives, as described earlier.

Thanks to this analysis, Carel captured the significance 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 relevance and likelihood of occurrence of the impacts based on a four level qualitative assessment.

In order to enhance this assessment, the topics deemed material in terms of impact materiality, financial materiality or both, are highlighted in the matrix below. All topics resulting material 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.

⁴ 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.



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 meetings, organising one-to-one or one-to-many meetings between management and the investors as part of the road shows.

2023 was the first post-pandemic year during which no Covid-19 restrictive measures were essentially in place, thus allowing a return to normal communication activities. The contact team resumed visits to major financial hubs in Italy and abroad, specifically Milan, London, Paris and Copenhagen, as well as, for the first time, Stockholm and Oslo, where it was welcomed by potential investors. Furthermore, by participating in virtual meetings, the group maintained its contacts with many US investment funds. Finally, the visits to the headquarters by fund 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 unit met with more than 100 investment funds to explain Carel's main features. In 2023, Carel also met with a large group of investors as part of a video conference



held in June, during which it shared its vision about the data centre industry, emphasising its leading position in the supply of control systems for various cooling architectures.

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 (including the rights issue carried out in the last few months of the year) and the most significant performances in terms of sustainability. Again in 2023, Carel confirmed its MSCI ESG rating ("AA") and remained in the ESG Leaders category, i.e., those companies that best manage ESG risks and opportunities. Furthermore, the silver medal obtained in 2022 following the ECOVADIS ESG rating process was confirmed and Carel ranks in the top 16% 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. In 2023, it further 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. Indeed, Carel's rating went from "B-" to "B" (in 2022 it went from "C" to "B-"), strengthening its positioning in the "Management" category, which includes companies that work to manage their environmental impact.

The banks that backed Carel in 2023 are: Goldman Sachs and Mediobanca (which were part of the syndicate that assisted the group during its listing process), and Kepler Cheuvreux, joined by Equita in September. The latter is a leading national broker which ranked first in the "Italy Research: Small & Mid-Cap Stocks" category according to the prestigious "Institutional Investor" magazine.

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 a relevant information list. It also manages the special loyalty shares register.

CAREL AND THE EUROPEAN TAXONOMY

The analysis of the Taxonomy KPIs was updated in 2023 - the third year of application of the regulation. It covered the consolidated companies at 1 January 2023, i.e., excluding the economic activities of the companies acquired during the year (Eurotec and Kiona), whose products are still subject to in-depth investigations. The analysis was conducted by verifying alignment with at least one of the six environmental objectives and compliance with the other requirements (DNSH and Minimum Safeguards).

The analysis was carried out in three stages, each covering the above three KPIs, in line with 2022 with regards to the object "Climate Change Mitigation"; the analysis has been conducted also with regards to the object "Circular Economy" and the related results are disclosed in the section Tables.

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 €650.2 million, €539.7 million, or 83% 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 was excluded from the analysis.

Based on the scope of the analysis, 83.7% of revenue is eligible (83.5% in 2022), of which 61.6% is eligible and aligned (59.58% in 2022), and the remaining 16.3% 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 the second KPI of the Taxonomy (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. Similarly to the first indicator, Eurotec and Kiona were excluded from the analysis and will be reported starting from the 2024 non-financial statement.



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 €21.5 million (€22 million in 2022). 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, 77.3% of the costs incurred and analysed are eligible (83.6% in 2022), and 56.9% are also aligned (61.2% in 2022). The remaining 22.7% is not eligible.

Finally, with respect to the third KPI, i.e., investments, the group's consolidated investments, amounting to €32.6 million, 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 €20.1 million. The analysis did not consider the investments in the 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, 54.2% were eligible, of which 41.6% were both eligible and aligned; 7.6% were ineligible and the remainder, as described above, was not analysed.

Revenue, OpEx and CapEx were also analysed with respect to the circular economy environmental goal. For information about the related results concerning alignment with this goal, reference should be made to page 149-151.

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, etc.. The key organisations in which it participates are;

- *European Partnerships for Energy and the Environment – EPEE*: this is the most influential European energy and environment association. Its mission is to promote sustainable development in the HVAC/R sector. The group sits on EPEE's Steering Committee where it plays a key role as it participates in the definition of legislative policies, including to improve current regulations, and analysing sector trends and implementing them at the group in order to anticipate product and solution innovation;
- *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 and Commission level;
- *American Society of Heating, Refrigerating and Air-Conditioning System – ASHRAE*: is an international society that promotes community well-being through environmentally sustainable technologies. The society and its members focus on construction, energy efficiency, indoor air quality and refrigeration systems and the sustainability of sector technologies. As the chair of the CEC (Conference & Exposition Committee) for 2023-2024, Carel coordinates global and local conferences

on sustainability, 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 International*: is part of Eurovent and its aim is to promote HVAC/R knowledge and European standards in non-EU countries in order to facilitate EU manufacturers' positioning in those markets. Carel Group actively participates as chair of Eurovent International;
- *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.

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 the European parliament by 19 January 2024, 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:

- Life Cycle 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;
- Ecodesign Directive, which defines, along with several related regulations, the minimum energy efficiency values of HVAC/R systems on which Carel's products are installed. Specifically, Carel has monitored and is monitoring the revision of the Ecodesign Directive (the future Ecodesign of Sustainable Products Regulation (ESPR)), which will add to the energy criteria circularity restrictions on the materials and parts comprising HVAC/R systems;
- Code of Conduct on energy management related interoperability of Energy Smart Appliances, which provides for the adoption, on a voluntary basis, of standard templates to ensure network interoperability of HVAC/R products from different manufacturers. The Code of Conduct covers domestic HVAC/R products, but could also be extended to commercial and industrial HVAC/R products. This code is the first step toward implementing demand-side flexibility policies extended to the various systems installed in buildings, including HVAC/R systems. Therefore, it is particularly important for the Carel Group;
- Proposal for a Restriction of PFAS sent to the European Chemicals Agency (ECHA), which would result in banning the use of almost all synthetic refrigerants and most of the substances used in the HVAC/R sector. A study was carried out with the involvement of the group's suppliers in order to understand which substances used in products and processes could be banned in the next few years should the proposed restriction be approved.

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.

The topics covered in 2023 included the consequences of the revision of F-gas regulations, fake news about natural refrigerants, and training of industry professionals, were covered. The group's activities culminated in two public conferences at the Refrigera trade show in Bologna, held from 7 to 9 November, which enabled the more than 200 participants to gain information and knowledge of the state of the art in natural refrigerant technologies.

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 2023, recognizing revenue of €650.25 million, up 19.3% on the previous year (a total increase of 54.7% on 2021).

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 2023, economic value distributed by the group amounts to €570.08 million, up considerably on 2022 (+18.6%). Specifically, 86% of its economic value generated was distributed to internal and external stakeholders.

DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED (€/000) [GRI 201-1]

	2023	2022	2021
Economic value generated by the group	660,535	552,351	427,375
Revenue	650,247	544,852	420,418
Other income	7,749	7,226	6,482
Financial income	2,677	838	319
Impairment of financial assets	613	2,360	508
Impairment of loans and receivables	(915)	(600)	(369)
Net exchange rate losses	(3,763)	(861)	(1,430)
Net gains (losses) on the sale of property, plant and equipment and intangible assets	(18)	66	326
Depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets	3,946	(1,530)	1,121
Economic value distributed by the group	(570,076)	(480,572)	(371,708)
Operating costs	(368,097)	(319,634)	(241,441)
Distributions to employees	(149,821)	(118,412)	(99,309)
Distributions to lenders	(12,382)	(4,011)	(2,675)
Distributions to investors ⁵	(19,000)	(18,000)	(15,000)
Distributions to public administrations	(20,250)	(20,143)	(12,975)
Distributions to bodies/associations	(320)	(263)	(218)
Donations ⁶	(206)	(109)	(91)
Economic value retained by the group	90,459	71,779	55,666
Amortisation, depreciation, provisions and impairment losses	(34,986)	(24,980)	(21,578)
Other reserves	(55,473)	(46,799)	(34,088)

More information about the group's performance and its financial position is available in the directors' report, which is included in the 2023 Annual Report.

⁵ When approving the draft financial statements, the board of directors resolved to distribute dividends of €0.19 per share

⁶ Donations include scholarships granted to deserving children of employees and a contribution towards crèche costs (see the "Support to communities" section)





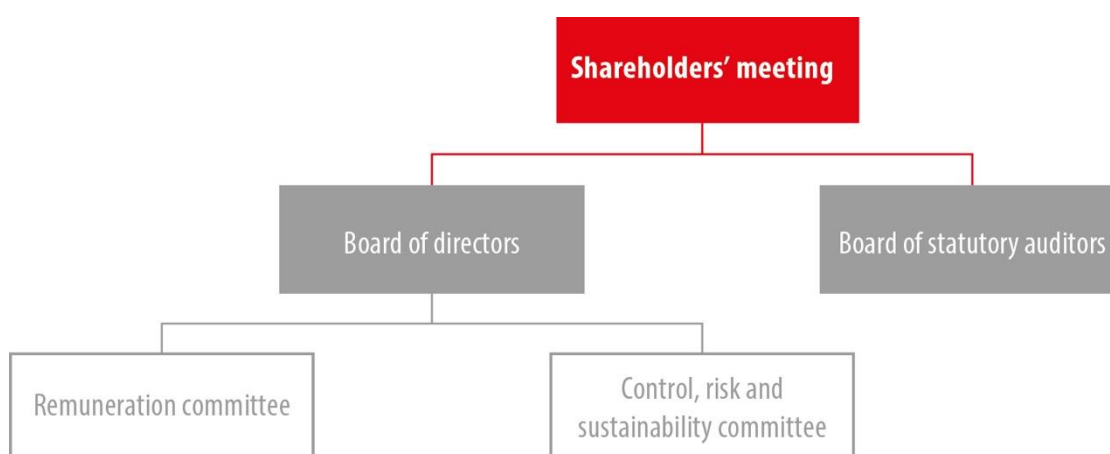
RESPONSIBLE GOVERNANCE



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**.



SUSTAINABILITY GOVERNANCE AND MANAGEMENT

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-laws ⁷.

Carel has applied diversity criteria (including for gender) in the composition of its board of directors, with due regard for the key objective of ensuring adequate expertise and professionalism among its members. Given the company's structure and size, as well as its ownership structure and list voting mechanism provided for by the by-laws, on 2 March 2023, the board of directors deemed it necessary to adopt specific diversity policies and/or practices with respect to the composition of the boards of directors and statutory auditors and the age, gender and educational and professional background of the various members. In their extraordinary meeting of 20 April 2021, the shareholders of Carel approved the proposals to amend articles 17 and 23 of the by-laws, in compliance with the budget law no. 160/2019 containing provisions on gender quotas for the boards of directors and 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 for 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, 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 members' 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.

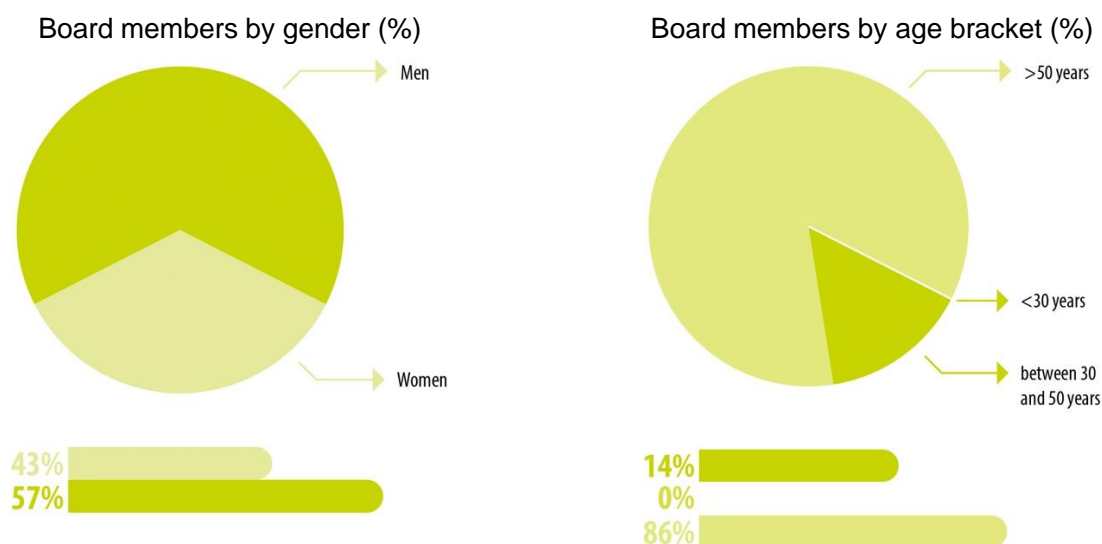
The voting procedures and the subsequent formation of the board depend on the number of lists submitted and are accurately defined according to whether two or more lists, a single list or no lists are submitted. Reference should be made to section 4.2 of the Corporate governance report for additional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

⁷ For additional information: CG Carel - Corporate documents

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

	2023		
	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	1	-	-
> 50 years	6	3	3



The board of directors defines the nature and level of risk in line with the group's strategic objectives, considering all aspects relevant to its sustainable success. Furthermore, it 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.

At the end of 2023, the board of directors approved the launch of a structured decarbonisation process based on the Science Based Targets initiative (SBTi) templates. This will result in the commitment to approve its 10-year greenhouse gas emission reduction targets in 2024. Thanks to the adoption of a decarbonisation strategy, the group will be able to respond to the challenges of climate change by adequately managing the transition risks and opportunities identified.

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.



During the year, the parent organised an Enterprise Risk Management (ERM) course for the members of the corporate bodies and key managers for a closer examination of the induction process on governance issues covered by the course held in 2022.

Sustainability executive director

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. 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. The CCRS regularly liaises with the ESG Team, guaranteeing consistency throughout activities underway, developments in the sustainability plan and the results achieved.

In 2023, the CCRS continued implementing the long-term sustainability plan and monitoring the actions contained therein.

In addition, in 2023, as part of the broader risk management process, the CCRS confirmed the beginning of a quantitative analysis of climate scenarios, complementing the qualitative assessments already performed. The aim is to develop a long-term strategic vision that takes even greater account of climate change risks and opportunities.

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 the sustainability executive director 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. In addition to liaising periodically with the CCRS, 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 and opportunities related to sustainability, including those associated with climate change, 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.



Thanks to the diverse composition of the team, sustainability issues are addressed and managed from different perspectives, considering all risks and opportunities related to sustainability.

At the end of 2023, the ESG Team involved the company's senior management, such as the CEO, the executive director in charge of sustainability and the executive committee, in order to update them about the progress of the sustainability actions currently underway and bring relevant ESG issues to the key managers' attention.

In 2023, as part of the programmes launched by Confindustria, some of the members of the ESG Team participated in sustainability development programmes, in collaboration with other companies, sharing the practices implemented and promoting their dissemination for a greater impact.

ESG PERFORMANCE INDICATORS IN THE REMUNERATION POLICY

Carel transparently and effectively pursues long-term success via a strong correlation between business performance and sustainability goals. To this end, since 2019, it has incorporated ESG objectives into its variable remuneration mechanisms in order to promote more sustainable behaviour and performance in the medium and long term.

The remuneration policy applicable to the company's senior management and key resources is based on a set of guiding principles, including:

- Equity, diversity and inclusion: in line with the aim of adopting an increasingly fair and sustainable policy, the company continues to focus heavily on the pay ratio (i.e., maintaining a fair and balanced ratio between the remuneration of personnel at different levels of the organisation) and the gender balance (greater representation of women in senior roles);
- Sustainability: in line with the aim of increasing value over time for the group's investors and all its stakeholders, new performance goals are set based on award systems which are increasingly aligned to the group's strategic and sustainability drivers.

Like in previous years, the link between both short and long-term incentive plans and the objectives of the sustainability plan is as follows:

- in the case of the MBO plans (short-term incentives), at least 20% of the nominal amount of the total bonus for Key Directors and some Key personnel is tied to achievement of specific internal sustainability indicators;
- in the case of the 2021 – 2025 LTI plan (long-term incentives), 20% of the nominal amount of the awards is tied to a sustainability parameter, which is the mathematical average of two indicators used to measure the company's environmental, social and governance (ESG) commitments.

In 2023, the ESG performance indicators included in the MBOs covered the development of a new R&D hub aimed at growing distinctive expertise in sustainable technologies, meeting the targets of the 2021-2024 strategic sustainability plan, reducing employee turnover and training them in ESG issues, and implementing an ERM system integrated with ESG risks.

The ESG performance indicators included in the LTIs were: % of women hired as white collars on a permanent basis and % of reduction of CO2 emissions (tCO2/y) in production sites.

The remuneration committee plays a pivotal role in assisting the board of directors to draft, oversee and possibly revise the remuneration policy and to design short and medium to long-term equity-settled and cash-settled incentive plans, in line with the company's business and sustainability objectives.

Reference should be made to the Remuneration report for additional information.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

A company's ability to effectively manage business risks safeguards its value over time and promote its long-term sustainability. Drawing on national and international best practices, the Carel Group has developed an internal control and risk management system (SCIGR) which is an integral part of the group's corporate governance and indicates specific rules, procedures and organisational responsibilities for the correct identification and management of business risks, to ensure that the group operates in line with the board of directors' objectives.

The system allows the identification, measurement, management and monitoring of the key risks and ensures the reliability, accuracy and timeliness of the 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 group's integrated risk management model identifies all types of risk - including those relate to climate change - that could impede the group's achievement of its strategic objectives or damage its reputation.

Risk management in the Carel Group includes risk identification, assessment, control and monitoring, and reporting using qualitative and/or quantitative procedures.

RISK IDENTIFICATION

Identification by management of the risk universe, i.e., those risks that may have a potential impact on the business strategies and objectives by defining the group's risk model.

RISK ASSESSMENT

Risk assessment by management using assessment tools and in accordance with the impact and probability of adverse event. The impact of risks was assessed both quantitatively (economic/financial) and qualitatively (reputational, regulatory and procedural compliance), with an additional focus on ESG and HSE impacts. The inherent risk, i.e., the maximum level of risk that could be assumed with no control activities, was initially assessed in accordance with these two criteria. The subsequent assessment of the mitigation actions implemented by the company on a risk-by-risk basis helped identify the residual risk, i.e., after the application of all prevention and protection measures.

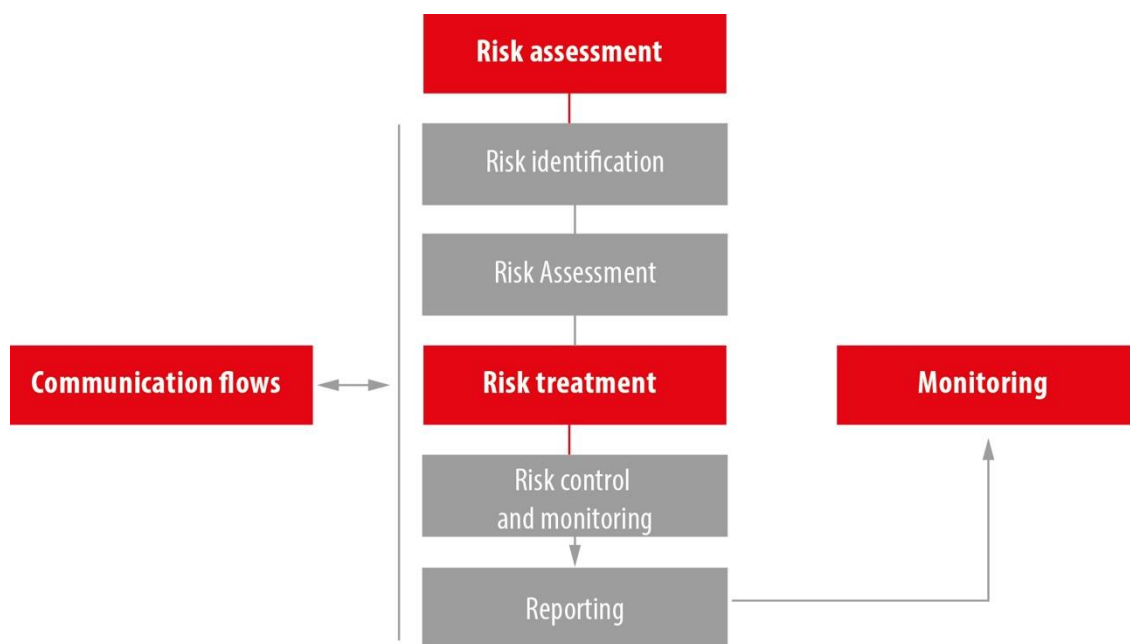
RISK CONTROL AND MONITORING

Management's definition of the risk response strategy and activities based on the risk assessment (e.g., eliminate/mitigate, transfer, monitor, accept).

Periodic monitoring of the risk portfolio to assess trends and check the operational effectiveness of the response strategies identified.

REPORTING

Continuous communication flows of business processes and systems which use periodic reporting to protect against risks.



The model is considered when strategic decisions are taken and in key decision-making processes and covers both internal and external risks. Specifically, internal risks are managed by classifying risks into four different categories:

- Financial: including, inter alia, liquidity risk, credit risk and market risks;
- Strategic: risks that could threaten the current competitive position and the achievement of the company's strategic goals;
- Operational: risks of losses inherent in business operations;
- Compliance: risks arising from non-compliance with laws, rules and regulations.

The comprehensive and detailed list of risks and impacts affecting the Carel Group is mapped within the Enterprise Risk Management (ERM) risk register. In order to promote the integration of risk assessment into the decision-making process at several company levels, thereby creating and fostering a common culture of risk management throughout the group, the ERM model envisages the involvement of management as a whole and of some specific individuals.

Specifically, risk management within the Carel Group involves several parties/units, all linked by an accurate information flow system:

- the CEO, who coordinates the risk mitigation measures implemented by management and plays a key role in managing any corporate crises, such as the global pandemic and, more recently, the conflicts in Ukraine and Israel;
- the control, risks and sustainability committee, which supports the board of directors' assessments and decisions on internal control and risk management related to sustainability;
- the head of risk management, who, together with management, ensures that the main risks to which Carel and its subsidiaries are exposed are properly identified, adequately measured, managed, monitored and integrated in a corporate governance system consistent with strategic objectives;
- internal audit, which periodically assesses the effectiveness and efficiency of the overall internal control and risk management system and reports the results to the CEO, the board of statutory auditors, and the control, risks and sustainability committee;



- process owners, which are responsible for the proper functioning and performance of business processes, the first lines responsible for the process in order to ensure its effectiveness and efficiency and guarantee that it meets business needs and strategic objectives.

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 for 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 2023, the audit activities focused, in particular, on certain aspects relating to the HSE, ICT/ICS, service and patent management areas pertaining to the parent. The group companies audited in 2023 were subject to a general review of the procedures governing the current main 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.

CLIMATE CHANGE RISKS

Carel is aware of the need to identify and manage climate change challenges. Therefore, it qualified climate change an external risk category that has an impact on its profitability, operations and reputation.

In order to develop a medium- to long-term strategic vision that integrates the risks and opportunities related to climate change, strengthening its resilience, in 2023, as part of its broader risk assessment management, the group consolidated the process of identifying, assessing and managing climate risks by conducting qualitative-quantitative analyses of climate scenarios, updating the preliminary qualitative assessments conducted in previous years.

The need to use specific tools, such as scenario analysis, to adequately integrate climate-related issues into the risk management process and identify, assess, and control and monitor climate-related risks is due to the particular characteristics of such risks which, for example, may occur over longer time horizons than those generally considered and with a different impact, depending on the geographical area.

Carel referred to the recommendations of the Task Force on Climate Related Disclosure (TCFD) to classify climate change risks. The TCFD divided climate-related risks into two major categories: (1) risks related to the transition to a lower-carbon economy and (2) risks related to the physical impacts of climate change, both of which can substantially affect company performances and the operating environment.



Transitioning to a lower-carbon economy may entail extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change. Depending on the nature, speed, and focus of these changes, transition risks may pose varying levels of financial and reputational risk to organisations.

In contrast, physical risks resulting from climate change can be event driven (acute) or longer-term shifts (chronic) in climate patterns. Physical risks may have financial implications for organisations, such as direct damage to assets and indirect impacts from supply chain disruption.

At the same time, as part of the transition to a lower-carbon economy, the efforts to mitigate and adapt to climate change also produce opportunities for organisations, for example, through resource efficiency and cost savings, the adoption of low-emission energy sources, the development of new products and

services, access to new markets, and building resilience along the supply chain, which is essential in a context of rapid and constant change.

The identification, assessment and control and monitoring of climate risks followed the risk management process envisaged under the internal control and risk management system, which, where necessary, was adjusted in order to adequately address the specific characteristics of these risks.

While transition risks were analysed at group level, physical risks were considered by individual production site/commercial subsidiary. The different approach is due to the fact that physical risks vary by geographical area, while transition risks are usually applicable on a global scale (with a few exceptions, such as the risks arising from current/emerging regulations).

The results of the qualitative-quantitative analysis of climate scenarios were duly combined and subsequently integrated within the ERM risk register. Therefore, in line with the integrated risk management model, management assessed the climate-related risk identified in accordance with the impact and probability of adverse event criteria. By intersecting impact and probability of adverse event, Carel assessed the significance of climate change risks against its risk appetite, prioritising them. Based on the established priority, which reflects the assessment of the residual risk significance, management defined response strategies and actions, focusing, in particular, on the most significant risks.

The group will continue to identify and assess the new risks and opportunities related to climate change as they materialise, by refreshing its procedures annually in order to increasingly raise awareness about climate issues.

TRANSITION RISKS AND OPPORTUNITIES

In order to identify and assess the risks and opportunities associated with transitioning to a lower-carbon economy, Carel relied on transition climate scenarios, which provide several plausible assumptions about the likely timeline of climate policy development and technology adoption to limit greenhouse gas emissions, changes in the energy mix, market dynamics, and other factors to achieve a climate-friendly economy.

The scenarios covered by the transition risk analysis include ⁸:

- the IEA's Net Zero Emissions by 2050 Scenario ⁹: a normative scenario that shows a pathway for the global energy sector to achieve net zero CO₂ emissions by 2050, limiting the global temperature rise to 1.5 °C compared to pre-industrial levels by 2100;
- IEA's Announced Pledge Scenario (APS): an exploratory scenario that assumes that all climate commitments made by governments and companies around the world, as well as long-term net-zero targets, will be met in full and on time;
- IEA's Stated Policies Scenario (STEPS): an exploratory scenario that provides a more conservative benchmark for the future, by not taking for granted that governments will reach all announced goals.

In addition to analysing climate scenarios, reports and studies from authoritative international organisations (including, inter alia, the IEA reports "The future of cooling" and "The future of heat pumps")

⁸ Scenario trajectories and temperature outcomes – World Energy Outlook 2021 – Analysis - IEA

⁹ International Energy Agency

were also examined in order to integrate the specific features of the industry and the target market in which the group operates. In order to adequately map the risk deriving from climate regulation, current and pending regulations were also examined, focusing on those impacting the HVAC/R sector.

Below is a list of the main risks deemed significant for Carel and their financial, operational and reputational implications.

Category (TCFD)	Risk	Description	Potential impacts
Policy and legal	Regulation of existing products	Refrigerant gas restrictions and energy efficiency regulations are among the main regulatory changes underway. These regulations could lead to phase-outs and bans on the use of some products, in addition to energy performance improvement requirements. Carel constantly monitors emerging regulations and invests in research and development to bring its products and services into line with new regulations and mitigate potential negative impacts, such as a decrease in sales and loss of competitiveness.	Increased operating costs (OpEx) Need to adapt products to regulations Penalties for non-compliance Decrease in sales
	CBAM and ETS	The EU Emissions Trading Scheme (ETS), which imposes payment of an allowance based on company emissions, and the ETS 2 and the Carbon Border Adjustment Mechanism (CBAM), which introduce similar measures for products imported into the EU, may result in an increase in direct and indirect procurement costs for Carel (according to the IEA, in an NZE scenario, carbon prices could reach USD250/tonnes in 2050). In addition to constantly monitoring regulations, the group is developing a decarbonisation strategy in order to mitigate the impacts of these regulations.	Increased operating costs (OpEx) Increased procurement costs Penalties for non-compliance
	Exposure to litigation	Changes in the regulatory compliance applicable to natural resource management and increased litigation and penalties related to environmental protection could increase the risk of facing higher penalties and legal fees as well as reputational damage. Consequently, Carel closely monitors environmental regulations, uses ISO 14001 and ISO 50001 certified management systems, and is considering performing of a Life Cycle Analysis (LCA) on various products.	Increased operating costs (OpEx) Penalties for non-compliance Reputational damage
Market	Changing stakeholder behavior	Stakeholder expectations vis-à-vis ESG issues are on the rise: business partners demand increasingly better performance in terms of supplier evaluation, customers and institutions demand increasingly efficient and environmentally friendly products, and investors demand greater transparency about companies' environmental performance. To mitigate the risk of losing market share and being unattractive, the company is investing heavily in product energy efficiency and minimising its environmental impact, as well as communicating these efforts through the various ESG ratings it participates in (e.g., Carbon Disclosure Project, MSCI and Ecovadis).	Increased operating costs (OpEx) Loss of market share Failure to attract capital Reputational damage
	Increased cost of raw materials and energy	Carel is facing major challenges, such as rising prices and supply difficulties affecting critical raw materials and components, which, coupled with the instability of energy resource prices, could result in reduced productivity and increased operating costs. The group is working to sign long-term agreements with suppliers in order to ensure stable prices and supplies. Accordingly, it is reviewing the design of its products to diversify sources of supply, and is investing in self-generation of energy from renewable sources to reduce its dependence on external energy sources and the impact of energy price fluctuations.	Increased operating costs (OpEx) Supply difficulties Inability to adjust production to increased demand

Category (TCFD)	Risk	Description	Potential impacts
Technology	Replacing products and services with more environmentally-friendly products	Carel mitigates the risk arising from its competitors offering better performing and more environmentally innovative products by adopting innovation processes that stimulate the search for increasingly competitive and unique solutions, and by adapting its value proposition to the needs of new competitive scenarios. Indeed, competitors that can better respond to new market needs, increasingly related to climate change mitigation, could take away market shares.	Loss of market share
	Transition to lower emissions technology	In order to respond to the requests of institutions and reduce its carbon footprint, Carel must allocate the right resources to the transition of its production structure. These investments are necessary in order to meet the net zero goals and future compliance requirements. Carel commenced its decarbonisation journey years ago (e.g., by installing heat pumps and photovoltaic panels).	Increased operating costs (OpEx) Increased capital expenditures (CapEx)
Reputation	Failure to meet emission reduction targets	Failure to meet the set goals - or failure to meet them on schedule - could result in a loss of market share and undermine brand perception. Therefore, Carel is actively committed to defining a decarbonisation strategy and communicating its efforts to reduce its environmental impact. To this end, it plans to invest heavily in the transition of its production processes to a low-carbon system.	Reputational damage Failure to attract capital Penalties for non-compliance

Climate change not only poses or exacerbates risks for Carel, but also offers opportunities that the group actively seeks to seize by launching innovative products and services with reduced environmental impact, optimising production processes to reduce greenhouse gas emissions and exploring new emerging markets related to the transition to a low-carbon economy. Therefore, the group actively seeks to turn challenges into opportunities for growth and sustainable development, becoming more resilient to climate change.

Carel has identified the following main opportunities:

Category (TCFD)	Risk	Description	Potential impacts
Resource efficiency	Increased efficiency of its buildings and processes	Implementing resource efficiency strategies provides multiple opportunities to mitigate the environmental impact and ensure compliance with respect to emerging regulations. By optimising the energy efficiency of its buildings and production processes and by renewing its fleet, Carel is working to significantly reduce the consumption of natural resources and the emission of greenhouse gases. As described in the "Focus on the environment" section, these initiatives aim to mitigate climate change and to reduce operating costs, while also improving company image and its positioning vis-à-vis stakeholder expectations and increasingly stringent environmental regulations.	Reduced operating costs (OpEx) Adapting to emerging regulations Reduced exposure to future fossil fuel price increases
Energy source	Green energy supply and self-generation of electricity	Carel is aware of the impact that generating energy from fossil fuels has in terms of contributing to climate change. Therefore, for some time now the group has been increasing the share of certified energy from renewable sources, while implementing, where possible, systems of self-generation of electricity via the installation of photovoltaic panels (for additional information, reference should be made to the "Focus on the environment" section). Accordingly, Carel is now able to increase its energy independence and is less exposed to energy market volatility, while significantly reducing its direct carbon footprint.	Reduced operating costs (OpEx) Reduced exposure to future fossil fuel price increases Improved brand reputation



Market	Increased sales due to rising temperatures	According to the IEA, the rise in average temperatures due to climate change will lead to a significant increase in CDDs (cooling degree days) around the world, albeit at differential rates depending on the area. It is estimated that a 1°C increase in global average temperatures by 2050 (compared to today) will lead to a 25% increase in CDDs on average across regions. Therefore, this will generate a higher demand for air conditioning and cooling systems, especially in tropical and subtropical areas, where rising temperatures, combined with humidity, will make these systems necessary.	Increased demand for products and services
Product & Service	Selling products in line with national and international energy efficiency and decarbonisation policies	Thanks to the distinctive qualities of Carel's products, the group is a business partner that can assist its customers along their path to reducing their carbon footprint. Therefore, demand is expected to increase, especially for more energy-efficient products. Carel's product range is highly efficient and capable of reducing energy consumption. Furthermore, its solutions significantly reduce the environmental impact by providing an alternative to the use of fossil fuels in domestic heating. Specifically, thanks to the integration with Kiona, Carel can benefit from the opportunities offered by the increased digitilisation and servitisation of the HVAC/R industry, in particular by strengthening its positioning in the energy efficiency-oriented digital services sector. The group is also investing in research into products that use alternative refrigerant gases, in line with national and international policies.	Increased demand for products and services Increased competitiveness

PHYSICAL RISKS

To identify and assess the physical risks (acute and chronic) resulting from climate change, in 2023, the group conducted a quantitative analysis in order to understand the degree of exposure of all its facilities (production sites, warehouses and commercial subsidiaries) to climate risk factors and quantify the potential negative impacts should the risk events occur.

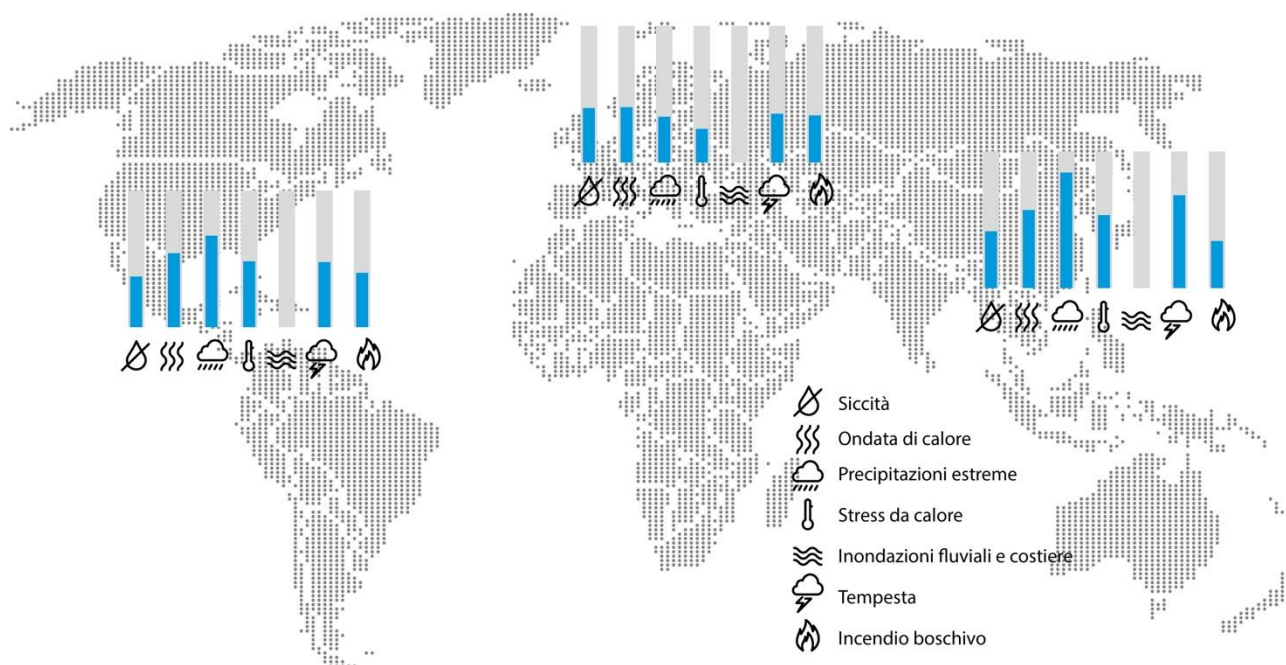
Five acute physical risks (coastal flooding, river flooding, extreme rainfall, storm surge and heat wave) and three chronic ones (forest fire, drought and heat stress) were considered.

Carel's resilience to the climate risk factors considered was assessed against the results of global climate models, which reflect the different climate scenarios developed by the Intergovernmental Panel On Climate Change (IPCC), and which indicate different forecast climate-altering gas concentrations related to an expected temperature increase from 1.5°C (RCP 2.6) to about 5°C (RCP 8.5 - avoid at all costs scenario) by 2100 compared to pre-industrial levels. Each risk factor was analysed for all climate scenarios considered (RCP 2.6, RCP 4.5, RCP 7.0 and RCP 8.5) and over different time horizons (short, medium and long term: 2025, 2030, 2040, 2050 and 2080).

Data were collected from each group facility to be included in the physical risk modelling tool, in addition to qualitative information, such as historical extreme weather events that have occurred in the past and the mitigation measures already implemented. As high exposure to a physical risk factor does not necessarily result in a major negative impact, this data collection was conducted with the aim of assessing the likelihood of the facilities to be negatively affected by a hazardous weather event.

Thanks to this analysis, for each of the risk factors covered and for each of the climate scenarios analysed and the time horizons considered, we obtained the degree of risk exposure - on a scale of 0 to 100 - of Carel's individual facilities around the world.

The image below shows the average risk exposure of all Carel's production plants ¹⁰, broken down by geographical area, to the different risk factors, considering RCP 4.5 (business as usual scenario) ¹¹, which the experts consider as the most likely scenario by 2030.



As mentioned earlier, extreme rainfall is the risk factor to which the group's plants are most exposed. In contrast, no production site is exposed to the risk of river or coastal flooding. The exposure for all other climate risk factors is medium to moderate.

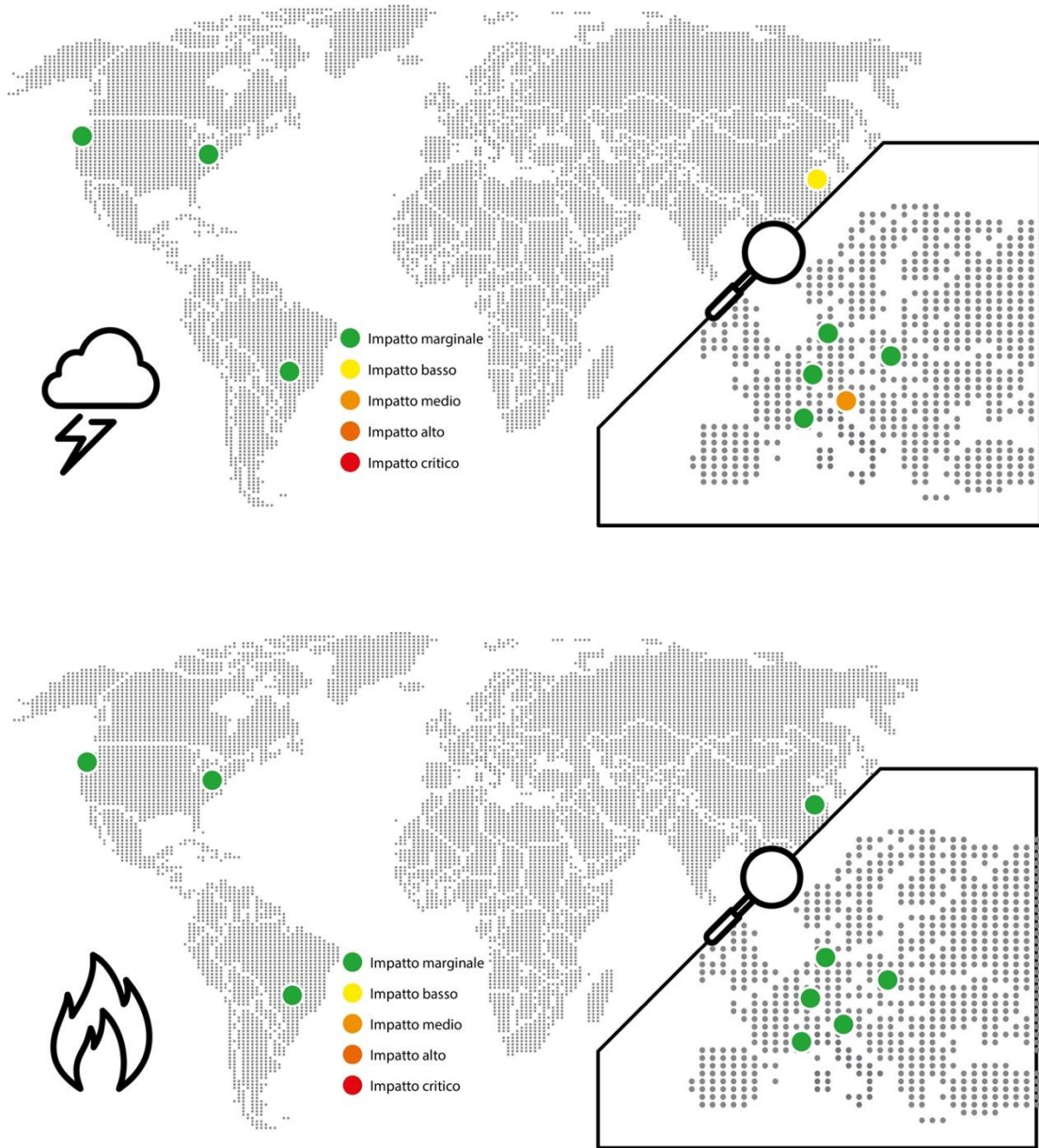
Therefore, the overall exposure of production sites is not critical. This positive result is also confirmed in terms of the economic impact resulting from storm and forest fire risk classes.

Indeed, the images below show that the economic impact (defined using a scale from marginal to critical impact) should the above acute weather events occur, considering the RCP 8.5 scenario - which provides projections for all three risk categories analysed - to 2030 ¹², ranges from medium/low to marginal. This is an extremely good result since the assessment does not include the adaptation measures already implemented by production plants.

¹⁰ This only covers production plants and not the commercial subsidiaries or companies that only provide services

¹¹ RCP 8.5 was considered for the storm risk since the projections in RCP 4.5 were not available

¹² The economic impact resulting from river flooding is not reported because the production plants are not exposed to this risk.



In any case, the group is currently defining appropriate improvement plans to ensure that the existing or planned mitigation measures (i.e., generator sets) for the various areas are adequate based on the degree of exposure to climate risk factors and the resulting potential financial impacts identified.

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, the anti-corruption procedure and the whistleblowing policy. 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 and some of its special parts was carried out in 2023. The board of directors approved the updated 231 model on 12 May 2023.

The aim of the whistleblowing policy is to guarantee full protection and utmost confidentiality to the individuals reporting breaches or irregularities. Carel intends to remove all elements that may hinder or discourage the reporting of crimes or irregularities, such as uncertainties about which channel to use or fears of retaliation or discrimination. On 3 August 2023, the board of directors approved an updated version of the whistleblowing policy adopted by the parent on 12 November 2018 in order to comply with the provisions of Legislative decree no. 24 of 10 March 2023. The first version of the 231 model already provided that everyone who works directly or indirectly for or on behalf of the group may report violations, irregularities or suspected violations of the 231 model and/or the Code of Ethics using the whistleblowing system. The aim of this policy is also to provide whistleblowers with clear instructions on the reporting subject, contents and methods, and to highlight the forms of protection made available by national legislation. At the same time, the parent condemns the conduct of those who make false, misleading or otherwise unfounded reports. In compliance with the most recent regulatory requirements, Carel has also activated a specific reporting channel through the "Convercent" web-based electronic platform (available at: <https://www.carel.it/whistleblowing>). The reports are sent to the supervisory body. 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. The supervisory body may consider involving other relevant departments/corporate bodies depending on the nature of the report.

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, where deemed 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, while no reports were received in 2023. Therefore, no critical issues were reported 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 body 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 and voting quorums 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 preventing and fighting 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.

Also in 2023, the company continued to periodically provide new hires with an e-learning training cycle on Legislative decree no. 231/01, the Code of Ethics, the anti-corruption policy and whistleblowing procedure, in addition to a training course on privacy.

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 2021-2023 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. This 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.

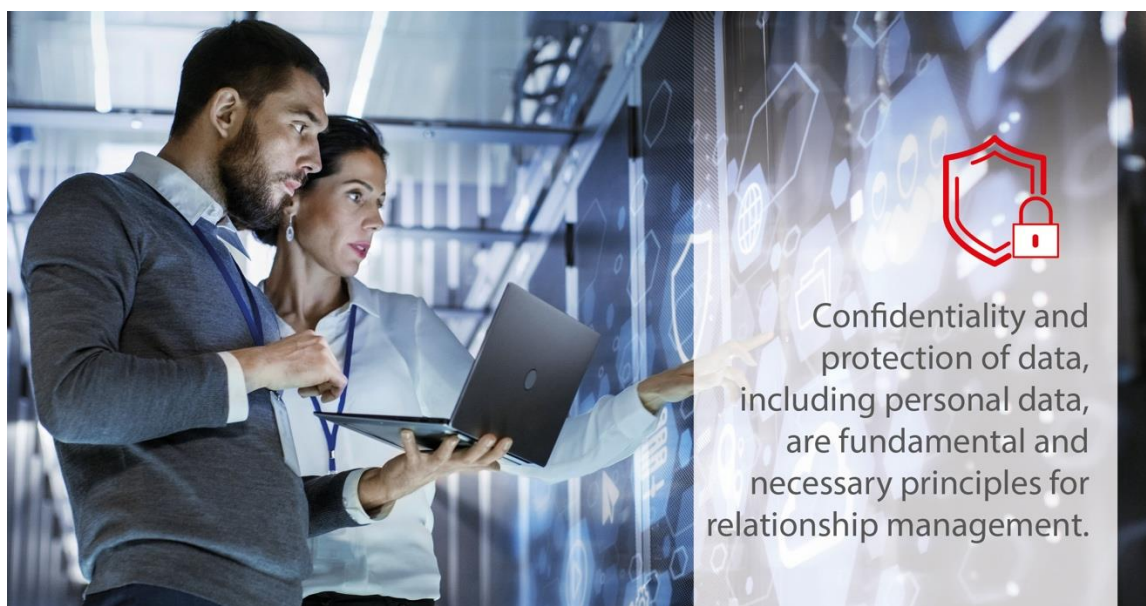
Governance of tax and the control model for tax risks is assigned to the group CFO (GCFO), the parent's manager in charge.

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. Over the coming years, the group will gradually develop the tax reporting included in its non-financial statement.





RESPECT FOR CONFIDENTIALITY AND PROTECTION OF PERSONAL DATA

The group is well aware that maintaining the confidentiality and protection of data (including personal data) is fundamental and essential for its relations with its stakeholders and to ensure that important data is processed in accordance with the current regulations.

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.

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. During 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). During 2023, 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 to process data, 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 & cybersecurity 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 2023, it did not receive any complaints about data protection breaches and there were no incidents of theft or loss of customer data. The only record reported in 2023 refers to one incident of data leakage.



QUALITY, INNOVATION
AND EFFICIENCY
FOR CUSTOMERS



MARKET TRENDS

The current context is characterised by the need to mitigate the energy market disruptions experienced in recent years and, by the definition - globally and especially in the European Union (through, inter alia, the REPowerEU Plan) - of a strategy to accelerate the transition to clean energy. Consequently, the demand for the installation and production of heat pumps is expected to grow significantly over the next few years. Indeed, the use of heat pumps for domestic (and other) heating is a key step in achieving the goal of cutting greenhouse gas emissions.

In addition, the particular nature of residential use requires very high-quality standards as the useful life of a heat pump exceeds 10-15 years. However, this new complexity is in contrast with the request for lower costs in order to increase the competitiveness of the technology, which is significantly affected by the current cost of electricity compared to natural gas, as well as the cost of the unit, even compared to a state-of-the-art boiler. The shortage of electronic components, especially power electronics components, is another source of complexity that has arisen over the past few years. Consequently, companies, not only electronic ones, must increase their know-how in the design and certification of each critical component, in order to be able to replace and quickly source the best alternative components on the market. In this respect, it is essential, for example, to manufacture new products with modular architectures that can ensure simple operations following their redesign.

At the same time, the recent restrictions on the use of some refrigerant gases are steering the main manufacturers towards a shift to natural refrigerants (e.g., R290). This has resulted in the need to revise the design of refrigeration appliances, with a significant increase in their complexity, with the aim of improving safety, energy efficiency and environmental sustainability.

In 2023, especially in the first part of the year, the group was involved in a series of particularly challenging situations, while maintaining some continuity from the previous year. Indeed, the tensions concerning the availability and cost of semiconductors and electronic components, particularly power electronics components, and the strong demand for residential heat pumps, driven by sustainability programmes, for example, those of the EU, have had a significant impact. While the former eased during the year, partly as a result of the major investments made by the group in recent years, the trend in the demand in several segments was strongly influenced by external factors (uncertainty in the implementation of regulations and incentives, high inflation rates and cost of money, and geopolitical uncertainty). The group's solid strategy of diversification in terms of geography, application segments, and business channels enabled it to seize opportunities and offset possible difficulties, resulting in excellent final results.

In this rapidly changing scenario, Carel is leveraging its decades of experience in the field mainly by providing electronics that are also compatible with the use of flammable refrigerant gases (A3), such as propane refrigerant (R290). For some years now, Carel has had its electronics certified by third-party laboratories in order to operate in equipment with flammable gas, for both inverters and controls. In this respect, strengthening the synergy between R&D and its thermodynamic research laboratory, aimed at directly checking the feasibility of certain electronic and control solutions from the early design stages with hardware, firmware and software expertise has played a decisive role.

Continuous research into increasing both product quality and competitiveness has pushed Carel to design the product comprehensively (thanks to its in-house production), considering the design of the production line and assembly flow as an integral part of the design phase, in order to ensure very high quality standards and lower production time by using analysis techniques such as Design for Assembly (DFA) and Design for Manufacturing (DFM).

RESEARCH, DEVELOPMENT AND INNOVATION

For Carel, energy efficiency, natural refrigerant qualification and system efficiency are the underlying principle 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. 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 2023, 3.98% of Carel's revenue was allocated to R&D 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 their performance and characteristics and the reliability of its technology.

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

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

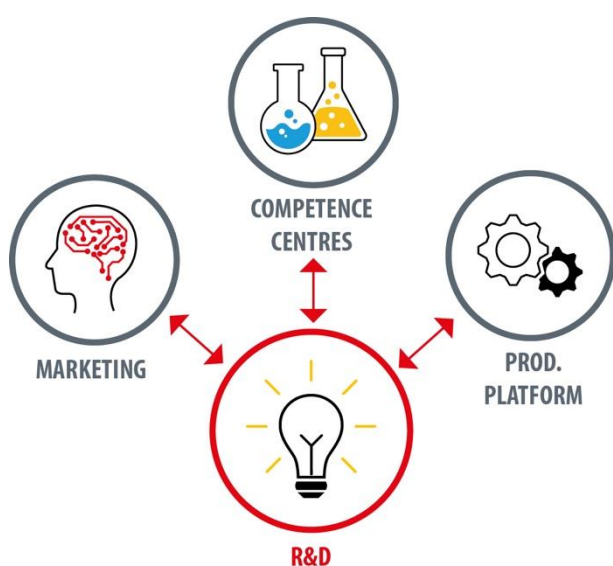
Carel's trademark skills are in the areas of development of integrated solutions for the use of the cooling cycle to control the temperature and humidity and the use of isothermal and adiabatic humidification to control humidity and, in some cases, the temperature to adapt the products to different market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

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.

LABORATORIES

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

- Marketing, which provides specific information with respect to specific customer needs and market trends;
- Product platforms, which define the product structure to meet both market needs and those of the different application segments in which the group operates;
- Competence Centres, which define the technological solutions that enable them to meet customer needs in innovative ways.



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

Currently the R&D unit comprises the four digital, knowledge centre, humidification, heat exchanges and mechanics divisions and the electronics & mechanics competence centres. The humidification and heat exchangers and mechanics divisions are an integral part of a single unit called IAQ global business unit, which includes Recuperator, Enginia and the recently-acquired Klingenburg, specialised in indoor air quality.

The thermodynamic competence centre is part of the knowledge centre, which is where new technologies are researched and products are tested, such as for example the new natural refrigerants.

The laboratories in Europe, 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 sensors laboratory and one valves laboratory.

In 2023, 13% of the group’s employees were engaged in R&D activities, out of 316 highly qualified resources.

The following table shows the number and percentage of R&D employees by geographical segment at year end. The total is up 40% on 2022 and includes the workforce of the recently acquired Kiona Group.

BREAKDOWN OF R&D EMPLOYEES BY GEOGRAPHICAL SEGMENT

Country	2023		2022		2021	
	n°	%	n°	%	n°	%
Italy	167	53%	150	67%	158	70%
Europe	52	16%	9	4%	4	2%
United States	32	10%	14	6%	12	5%
China	65	21%	53	23%	50	23%
Total	316	100%	225	100%	224	100%

The group's commitment to continuous innovation in designing energy-saving solutions that reduce the environmental impact of plant and machinery and increase the efficiency of its customers' systems resulted in an average investment of 4.1% 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

	2023	2022	2021
€'000	25,865 ¹³	20,583 ¹⁴	19,034
Percentage of revenue	3.98%	3.8%	4.5%

Patent production is also regularly monitored and encouraged as a measure of the effectiveness of the group's R&D activities. Accordingly, the group protects the innovative product portfolio it developed over the years with 75 patents (applied for or granted), eight of which are the result of innovation activities in 2023. These patents cover both inventions and new applications for other environments which Carel applies to solutions of interest to its customers.

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 the results of the feasibility phase and those 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.

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, 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 the Udine and Verona Universities to improve the energy efficiency of 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 leading sector associations, such as EPEE (European Partnership

¹³ This figure includes the costs incurred by the recently acquired Kiona Group.

¹⁴ Figure recalculated by including Senva Inc, which was acquired in 2022, in the scope.



for Energy and the Environment), AICARR (the Italian Association of Air Conditioning, Heating and Refrigeration), AHRI (Air-Conditioning, Heating, and Refrigeration Institute), EHPA (European Heat Pump Association), ASHRAE (American Society of Heating, Refrigerating and Air-Conditioning Engineers), CRAA (China Refrigeration and Air-Conditioning Industry Association) and CAR (The China Association of Refrigeration).

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 customers to put the solutions into immediate use. To this end and given the large number of subsidiaries, Carel set up a Software Community made up of approximately one hundred software developers operating in the various group subsidiaries. The Software Community distributes process and development guidelines. The parent coordinates the audit process which takes place once a year and covers each member of the Software Community. In 2023, 52 audits were conducted. After each audit, a report is issued describing the outcome of the audit and listing the areas for improvement identified.

CYBERSECURITY

Technology is ever-changing. Therefore, Carel is aware that cyber-threat risks are constantly increasing and changing. The growing importance of cybersecurity is also evident at regulatory level. For example, the EU Cyber Resilience Act aims to safeguard consumers and businesses that purchase or use products or software with a digital component.

Indeed, the Cyber Resilience Act will ensure:

- harmonised rules when bringing to market products or software with a digital component;
- a framework of cybersecurity requirements governing the planning, design, development and maintenance of such products, with obligations to be met at every stage of the value chain;
- an obligation to provide duty of care for the entire life cycle of such products.

For Carel, cybersecurity is a top priority at all stages of the research and development process. From designing and creating new technological solutions, in order to ensure its products boast the most advanced cyber protection measures, to upgrading the R&D department by hiring specialists responsible for following up on these specific aspects.

The R&D team actively collaborates with security experts, participating in advanced training programmes and sharing information on the global cyber threat with the wider community, in order to help create a safer digital environment, not only within the company but also outside. Security is a shared responsibility and involves every member of the organisation, primarily by increasing the awareness of the importance of cybersecurity and encouraging everyone to be alert and aware of potential threats in order to take preventive actions.

This commitment is reflected in R&D activities through continuous and specific training, and by adopting cybersecurity techniques and practices to ensure the utmost effectiveness and reliability throughout the entire product development and life cycle.

Cybersecurity is constantly evolving and Carel products are constantly monitored and frequently updated in order to address new threats. Products regularly undergo security assessments to ensure the highest

degree of reliability and security throughout their life cycle, providing customers with timely and regular updates.

CUSTOMER IMPORTANCE AND SERVICE EXCELLENCE

Business relations with customers are a fundamental part of Carel's assets. They refer to the group's fundamental values which put the customer first, as set out in Carel's New Culture Code, which was formalised in 2021. 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.



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 49 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 mission 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. In 2023, the main focus of the R&D team with respect to mechanical

engineering was to develop customised solutions for damper customers which need a tailor-made product. The frame, which can be customised in terms of shape, depth and choice of materials, offers technological solutions that suit all space and airflow requirements. Approximately four/five customised solutions are processed each week in accordance with the one shot dampers business model. In order to improve the quality and delivery time of this activity, a major overhaul of the custom solution process began in 2023. The first step focused on improving the collection of customer requirements and transforming these requirements into technical specifications. With respect to exchangers, a major project carried out in collaboration with a customer was completed in 2023. Specifically, the company implemented processing, welding and assembly of PVC fins. The R&D work included extensive testing on the resistance of materials exposed to chemically and mechanically critical environments.

Furthermore, the group monitors its customers' satisfaction levels by analysing market performance and through a structured ("voice of customer") process. Given the complexities inherent in receiving and monitoring customer feedback typical of B2B models, Carel 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 by assessing quality and service. The level of customer satisfaction in terms of quality reflects product and solution performance, while service mainly refers to logistics and shipping. The rating has three grades shown as a set of traffic lights to allow a visible assessment of customer satisfaction trends. The sales representatives of the regions in which Carel operates assemble customer opinions once a month.

The results of the Voice of Customer are summarised in the Customer Monthly Report and discussed with the executive committee once a month with the aim of sharing and developing improvement plans aimed at elevating external relationships. Furthermore, the monitoring of customer perception in terms of satisfaction of their needs and expectations is a requirement of the ISO 9001:2015 standard (which requires monitoring customer perception at the level most appropriate for the organisation).

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., both integrated into the scope of the quality system of the group's ISO 9001:2015 multi-site scheme.

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 improves contact with customers by receiving their needs in real time and tracking the progress of improvements. In 2023, the group implemented this tool at all its commercial subsidiaries which therefore became the main tool for monitoring customer support requests. Requests are constantly examined and organised based on their priority in order to ensure adequate customer support. In the second half of the year, the Customer Return Management process was also integrated with the aim of creating a single framework for the monitoring and follow-up of customer requests.

Finally, since 2020 Carel has extended its customer satisfaction assessment process with the Net Promoter Score¹⁵ (NPS), a management tool which shows the degree of loyalty in a company-customer relationship. Indeed, 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 implementation of the process was started at the Italy commercial subsidiary level by building the index for homogeneous customers by market/channel (HVAC OEMs, HVAC Projects, REF OEMs and REF Dealers) and defined the process that, starting from data collection, implements the necessary improvement actions to cover the most critical gaps. In 2021, the process was extended to the entire European region, involving customers from the German, Spanish, French, Scandinavian and Eastern European commercial subsidiaries. A total of 233 surveys were carried out, covering all markets and channels managed by Carel. In 2022, the analysis was extended to the entire APAC North region (China, South Korea and India), interviewing 105 customers, delivering a total of

¹⁵ 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%).



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 a summary was submitted to management in order to address the most urgent issues.

In 2023, this process was also extended to the North America Region. This region is particularly important and consists of six commercial subsidiaries located in the United States, Mexico and Canada. Thirty-four customers were interviewed for a total of 49 surveys for the logistics and technical areas involving the HVAC OEM, HVAC Dealers, and REF OEM markets. As a result of the issues identified, three internal projects were launched.

Any critical issues identified are submitted to the NPS committee, comprising representatives of the internal functions most affected by the issues uncovered by the surveys, i.e., Marketing, Operations and After Sales. Each representative is responsible for studying in-depth the relevant issue(s) and activating, 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 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 Voice of Customer 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.

PRODUCT AND SERVICE QUALITY AND SAFETY

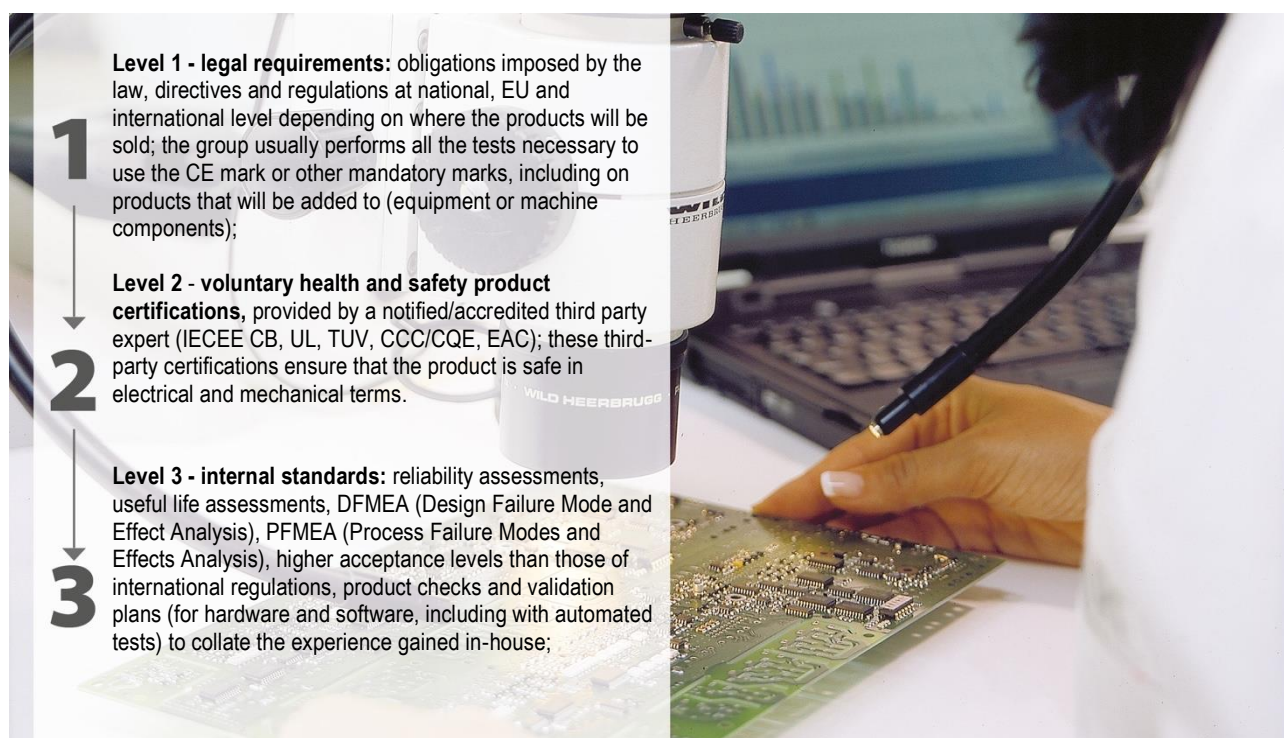
Carel's offering mainly consists of electrical appliances and devices, which can potentially pose risks to the health and safety of people and property if not manufactured in compliance with essential safety requirements. In order to ensure the highest level of safety, Carel is strongly committed to ensuring the continuous improvement of its internal product development and testing processes.

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 projects, these checks also ensure greater impartiality and reliability of the analyses and tests.

In 2023, many investments were made to improve the safety of products, specifically with reference to electronic products used in appliances which use refrigerant gases (flammable), as these are subject to stricter regulations given the risk of explosion (linked to potential gas leaks).

As part of the product development process, Carel's quality system provides for three different testing levels:



- 1**

Level 1 - legal requirements: obligations imposed by the law, directives and regulations at national, EU and international level depending on where the products will be sold; the group usually performs all the tests necessary to use the CE mark or other mandatory marks, including on products that will be added to (equipment or machine components);
- 2**

Level 2 - voluntary health and safety product certifications, provided by a notified/accredited third party expert (IECEE CB, UL, TUV, CCC/CQE, EAC); these third-party certifications ensure that the product is safe in electrical and mechanical terms.
- 3**

Level 3 - internal standards: reliability assessments, useful life assessments, DFMEA (Design Failure Mode and Effect Analysis), PFMEA (Process Failure Modes and Effects Analysis), higher acceptance levels than those of international regulations, product checks and validation plans (for hardware and software, including with automated tests) to collate the experience gained in-house;

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]

	u.m.	2023	2022	2021
Total new products* that entered production and underwent health and safety testing	n°	9	12	11
Total new products* that entered production	n°	9	12	11
Percentage of products covered by the health and safety tests	%	100%	100%	100%

* i.e., new projects of product families

In 2021-2023, 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 2023, an official corporate-level policy on product and service compliance was developed, confirming some established practices and introducing or enhancing some important rules that Carel intends to comply with:

- a preventive approach to compliance, acting on upstream production and supply processes and on downstream controls;
- increased focus on the compliance of products manufactured by third-party subcontractors;
- the application of extensive regulatory areas that go beyond product safety;
- the active involvement of the supply chain to ensure product compliance.

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. Already in 2022, as a result of the audits carried out, the Product compliance test plan was revised and subsequently improved and enhanced. In particular, additional specific project phases were implemented which include product safety aspects, which are checked and validated by an independent party outside the R&D team.

CHEMICAL SAFETY

Because of the particular characteristics of the components and materials used to make Carel products, 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, they 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 people 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.

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 20,000 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 verification 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.

In addition to European legislation, Carel has addressed the compliance of its products with the US regulation, applied in California, Proposition 65¹⁶ 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 began 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 supplies to customers do not contain chemical substances listed in Proposition 65 at a concentration liable to cause exposure levels exceeding the "safe harbour levels" or other safety levels. Therefore, it is not required to include a warning label on its products. In 2023, 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)¹⁷.

Since 2021, Carel has adopted the regulation promulgated by the US EPA (Environmental Protection Agency) named "Toxic Substances Control Act (TSCA section 6(h))". This regulation covers the manufacture, import, use and disposal of specific chemicals. Section 6(h) of TSCA gives 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 this section, 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.

The new policy on product and service compliance introduced in 2023 aims, inter alia, to strengthen Carel's actions in phasing out hazardous substances from its products, including through specific requests to major suppliers, to the extent possible, and considering available technological alternatives.

¹⁶ 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

¹⁷ 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

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 risk, 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. 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 2023 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]

	u.m.	2023	2022	2021
Total new products* that entered production and underwent health and safety testing of their labels	n°	9	12	11
Total new products* that entered production	n°	9	12	11
Percentage of products* covered by the health and safety tests	%	100%	100%	100%

* i.e., new projects of product families

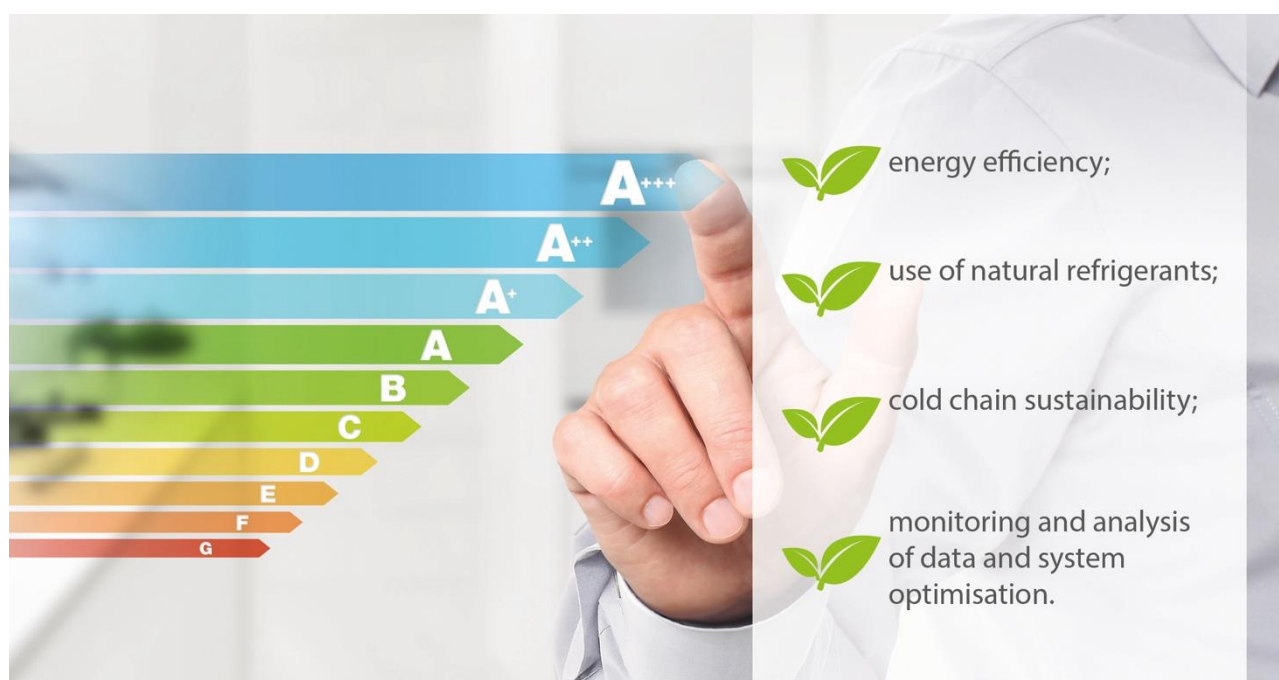
It is normal practice that 100% of the products meet the legal requirements for the marks to be included in the label and/or user instructions (manual/instructions/online guide). The labels are made of materials that comply with the requirements of the standards for durability and marking indelibility.

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 2021-2023 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 offering innovative solutions for the HVAC/R sector. Its high efficiency solutions are a certainty for environmental protection thanks to their optimised and integrated control systems, which allow for significant energy savings and, as a result, a smaller environmental impact. The group is committed to reducing negative effects on the environment and climate change. This includes the ongoing research into solutions for systems and plant regulation and control that use low environmental impact refrigerants as well as solutions that provide customers with the maximum possible energy efficiency. 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 for:



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

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 allows for the better use of renewable sources. The main new designs and innovations of recent years in HVAC/R technologies have led to:

- optimisation of refrigeration systems and circuits;
- consolidation of variable speed compressors using Brushless Direct Current (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, 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.

With respect to energy efficiency, the group has analysed the annual electricity consumption 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 7,162 GWh, recording a positive trend over the three-year period (+15% compared to last year's savings, in addition to the 6% increase recorded in 2022). 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. In line with 2022, in 2023, about 73% of energy savings were achieved by electronic expansion valves (ExVs), including electronic modulating ejectors (Ejectors), due to the significant volumes of nearly 580 thousand pieces in 2023. The table below summarises the energy savings over the 2021-2023 three-year period.

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

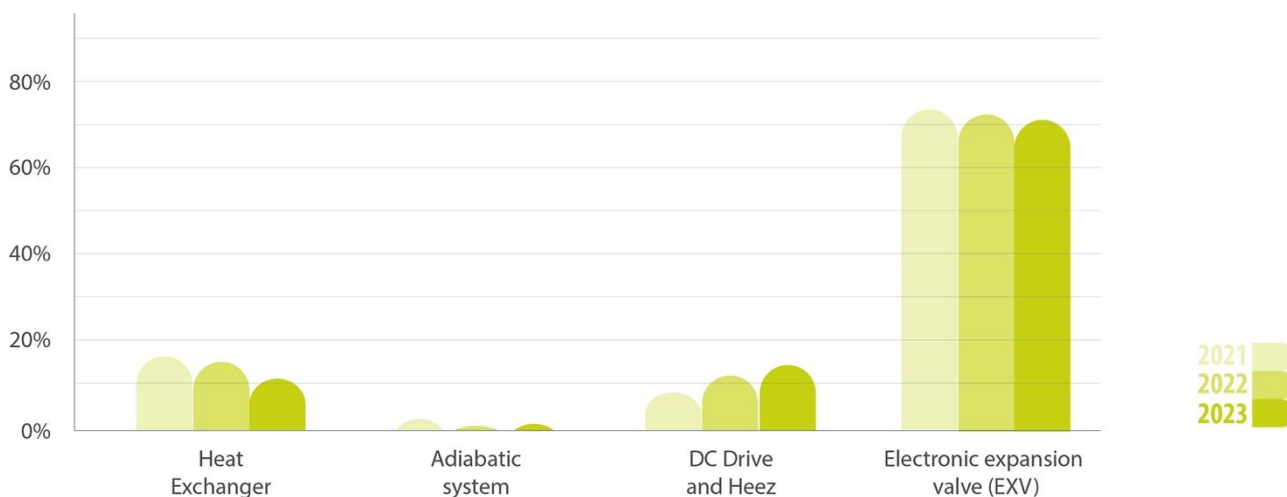
PRODUCT	Application	Saving (%)	2023	2022	2021
			Total savings (GWh/yr)	Total savings (GWh/yr)	Total savings (GWh/yr)
Electronic expansion valve (ExV)	HVAC/REF	72.9%	5,221	4,531	4,344
DC Drive e Heez	REF	14.6%	1,043	676	460
Adiabatic system	HVAC	0.6%	42	26	110
Heat Exchanger	HVAC	12.0% ¹⁸	856	987	953
Total			7,162	6,220	5,867

¹⁸ 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., Air Handling Unit (AHU) and roof top systems). Carel customers' use of these heat recovery systems for the aforementioned applications generated savings of 856 GWh during the year, equal to 12% of total applications.

The graphs below provide a comparison of the energy savings of Carel products in the 2021-2023 three-year period. The higher savings in 2023 are attributable to the fact that the market is increasingly inclined to favour solutions which guarantee greater energy sustainability.

Reduction in electricity consumption by product (GWh/yr)



Lastly, the group calculated the GHG emissions avoided by¹⁹ customers as a result of the energy savings: in 2023, 1,969,507 tCO₂e, were avoided, slightly above the CO₂ emissions produced by the Bahamas in 2022²⁰. Therefore, it is actively contributing to mitigating climate change. For these emissions to be absorbed, a woodland²¹ larger than the metropolitan area of Essen/Düsseldorf (equal to around 3,128 km²) would be required.

REDUCTION OF ELECTRICITY EMISSIONS BY PRODUCTS FAMILY

		ExV	DC Drivers and Heez	Adiabatic system	Heat Exchanger	Total
2023	Emissions avoided (tCO ₂ e/yr)	1,435,826	286,761	11,511	235,409	1,969,507
	Emissions avoided (tCO ₂ e/yr)	1,246,008	185,829	7,120	271,484	1,710,441
2021	Emissions avoided (tCO ₂ e/yr)	1,194,600	126,500	30,250	262,075	1,613,425

The efficiency of Carel solutions is also the result of the IoT division which has allowed the group to concentrate on solutions that allow more evolved system optimisation solutions alongside the traditional

¹⁹ In order to calculate avoided emissions, the conversion coefficient of 0.000275 tCO₂e/kWh was used (source: European Environmental Agency EEA, 2019).

²⁰ Source: EDGAR - Emissions Database for Global Atmospheric Research (<https://edgar.jrc.ec.europa.eu>), 2023 – 1,881,552 tCO₂e/yr.

²¹ In order to calculate the equivalent wooded area, a coefficient of 630 TonCO₂/km² yr was used (source: <http://www.treesintrust.com/environmental.shtml>)



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 (R744 - 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 Carel 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.

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.

CO₂ is an economical widely available refrigerant that is easily obtained 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 and considering the same system solution, the use of CO₂ is the most environmentally friendly choice compared to any other HFC/HFO refrigerant. In addition, compared to other natural refrigerants, it is not inflammable like the hydrocarbons (e.g., R290), nor is it toxic (unlike 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 colder climates where energy savings are affected by the low critical temperature (31°C).

Also in 2023, the group continued extending its range of installations with natural refrigerants, partly to meet the strong demand from several markets.

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.

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.

The HVAC market is experiencing a growing adoption of heat pump units using propane (R290) as refrigerant, especially in the residential segment in Europe. Again, Carel is strongly committed to enabling this transition as it provides its customers with solutions that are compatible with the use of flammable refrigerants.

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 measurements at source, 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 performance 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



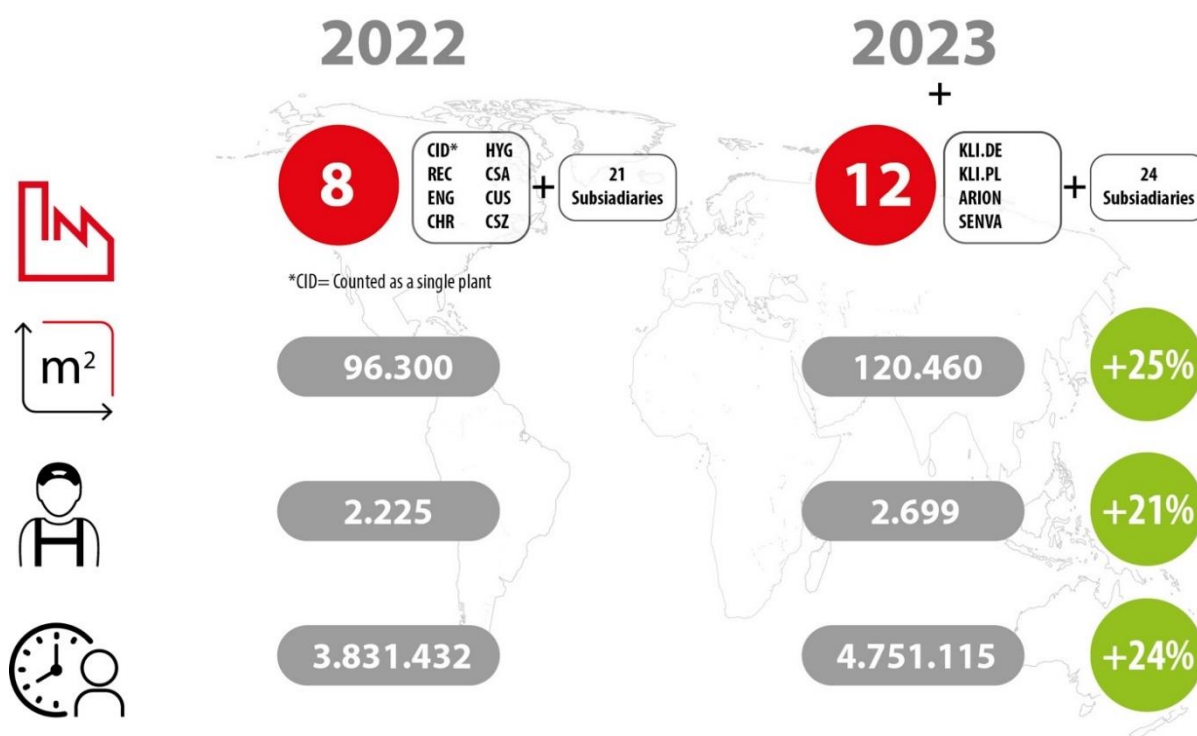
ENVIRONMENTAL PROTECTION AND CLIMATE CHANGE

2023 marks the beginning of a new journey for Carel with its vision of environmental protection and genuine commitment to future generations. This was achieved not only by striving for the continuous improvement of its products, which enable consumers to save energy, but also by consolidating actions that improve the environmental impacts of its facilities and processes. In particular, these assessments rely also on the completed mapping of all direct and indirect impacts, as well as those not directly attributable to the group, focusing efforts on a decarbonisation strategy.

Given the current initiatives and the results achieved in 2023, the group launched a structured decarbonisation process based on the Science Based Targets initiative (SBTi) templates²². This will result in a commitment to approve its 10-year targets in 2024.

The analysis of the 2023 figures reflects the significant expansion of the reporting boundary compared to previous years, both in terms of the physical spaces considered, which affect environmental consumption, and with respect to the categories of greenhouse gas emissions reported.

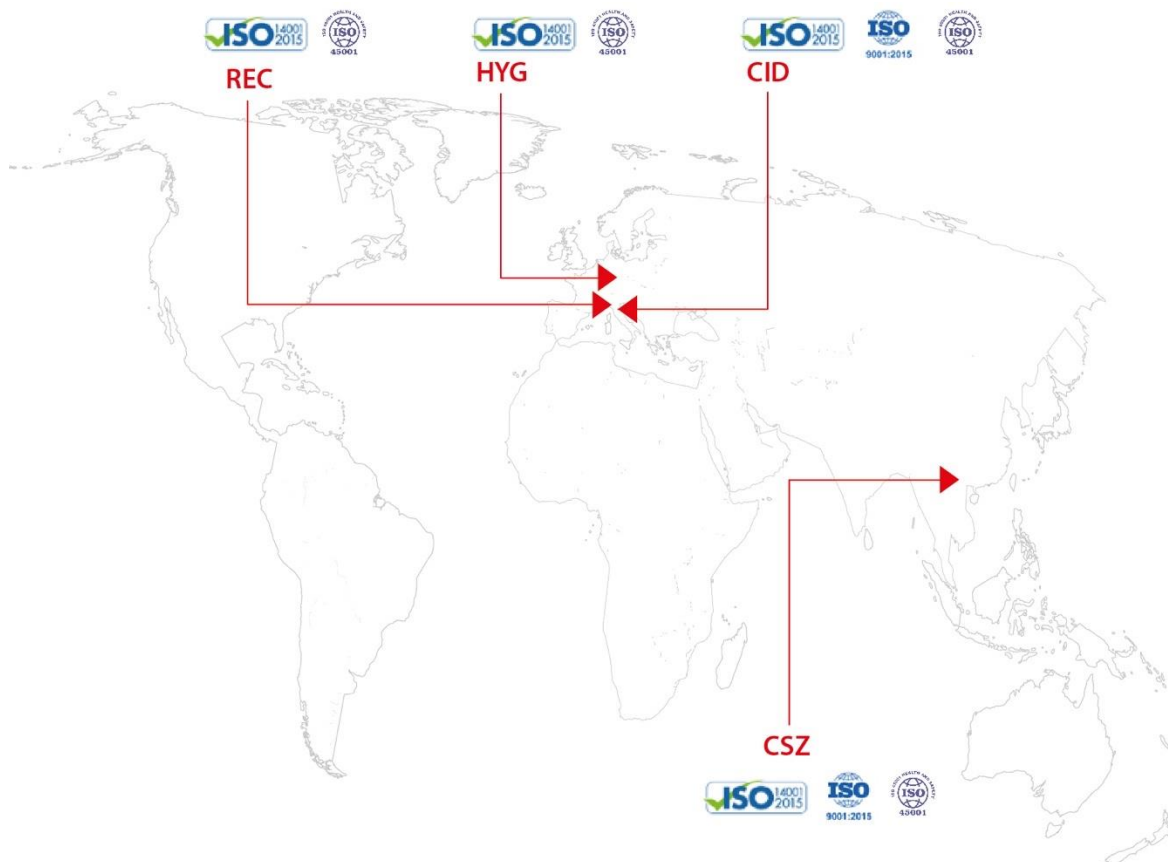
The in-scope production sites increased from eight (considering the parent's facilities as a single production site) to 12, as a result of the new acquisitions, such as Klingenburg (Germany), Klingenburg (Poland), Senva and Arion. In contrast, the commercial subsidiaries and/or sites that provide services amount to 24. This expansion resulted in a 25% increase in surface area covered, up to a total of more than 120,000 square metres covered.



In line with previous years, in order to guarantee sustainable long-term business growth, Carel committed to performing its activities responsibly, 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

²² SBTi is a partnership between CDP, the UN Global Compact, the World Resources Institute (WRI) and the World Wide Fund for Nature (WWF). SBTi has developed a methodology to set CO2 emission reduction targets that are in line with those that the most recent climate science believes is necessary to achieve the Paris Agreement goals of limiting global warming to 1.5°C above pre-industrial levels.

standards that make up the parent's management system. The foreign production sites have their own policies, drawn up in accordance with their local needs and the parent's guidelines.



Overall, the ISO 14001:2015 environmentally-certified sites account for 34% of the production sites (based on the 2023 scope which also includes four new production sites). In terms of total surface area covered, they account for 52% of the total (99,200 square metres) production sites, covering 60% of the personnel working at these production sites (a total of 2,700 employees and workers who are not employees, up 20% on the previous year).

In order to analyse potential risks, the environmental impact analysis (“context analysis”) of the parent’s production processes was updated. This tool identifies stakeholders, expectations and risks and opportunities for improvement in accordance with the ISO 14001:2015 standard. This ISO certification intersects perfectly with the pillars of sustainability, namely the concept of dual materiality underlying the analysis described herein.

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 2023, the purchase of completely green energy accounted for 60% of the production sites or 65% of the total surface area covered by all production sites and the other commercial subsidiaries).

In order to confirm its commitment to improving the energy performance of its processes, in 2023, the parent, based on the new scope of the year which accounts for 21% of the entire group in terms of surface area and 32% of the entire workforce - launched and successfully completed the process to have its energy scope certified in accordance with ISO 50001:2018. Thanks to this important milestone, the group can adopt a systemic approach to energy management, focused particularly on processes, and have it periodically checked via independent audits. To this end, an Energy team was also set up within the group's HSE function which is responsible for:

- ensuring that Carel's energy management system is designed, implemented, kept up-to-date and constantly improved in accordance with the applicable standard;
- collecting and analysing consumption and energy management data;
- defining and updating the baseline and energy performance indicators;
- assessing the technical feasibility of improvement opportunities;
- implementing action plans for energy performance improvement and monitor their progress;
- reporting to senior management on the performance of the management system as part of the latter's review and for any improvement needs.

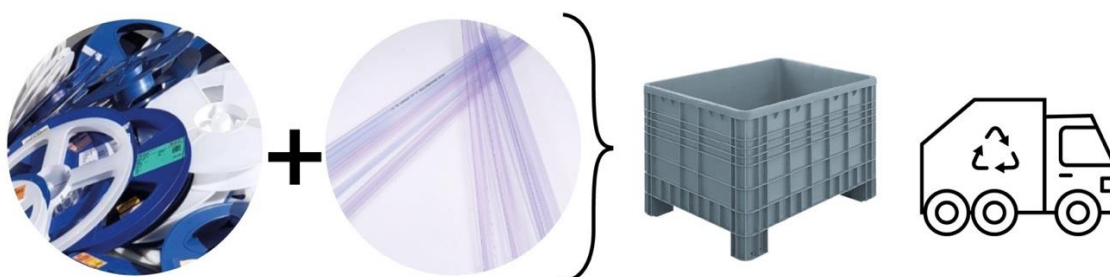
Carel shares this commitment with its suppliers and customers, both of which are essential to and an integral part of its development.

It is confirmed, furthermore, that during the reporting period, the CAREL Group has not received any summons or convictions for offenses committed in violation of environmental crime laws, and that no complaints have been registered regarding these issues.

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.

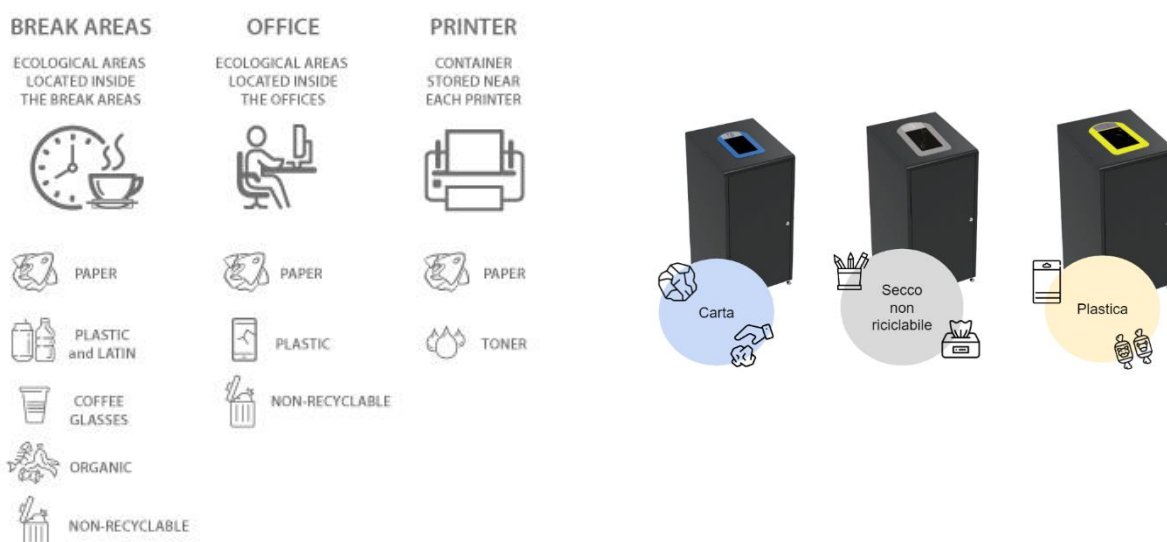
The group is committed to reducing its total waste output generated by manufacturing and to achieving maximum efficiency in waste management and disposal to increase the volume of recycled waste. In 2023, it consolidated the project launched in 2022 aimed at improving the separation of plastics, obtaining the first results and benefits. By separating and treating particular plastics (such as rolls and/or sticks), the share of mixed plastics and packaging (which accounts for 30% of the total for the parent and 16% for the group) fell to 11% at the parent.



Overall, at group level, including the recent acquisitions, the share of mixed waste dropped by approximately 15%.

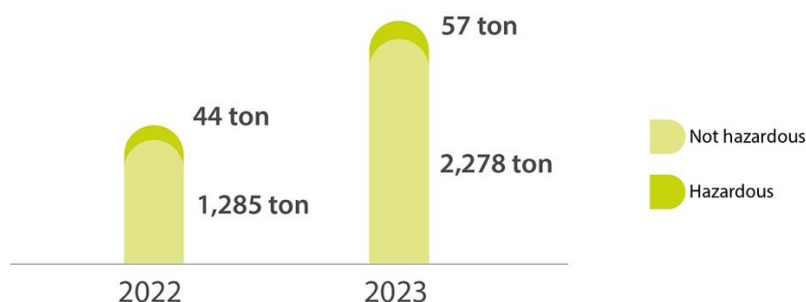
Thanks, in part, to the figures provided by the waste analysis, in 2023, the waste delivery service was revised in collaboration with the relevant providers, asking them to improve separation and sending for recycling and incineration rather than disposal. As a result, the share of waste directed to disposal decreased significantly (-77%).

The waste delivery system was improved by installing centralised collection points with sorting bins at the parent's production and office areas, similarly to the system introduced in the new buildings in 2022.



The analysis on generated waste carried out in 2023 to calculate its impact in terms of emissions produced, also covered the recently acquired production sites. Therefore, the absolute value cannot be compared with that for the previous year. Based on the new reporting boundary, the production sites covered by the waste report account for 82% of the group's total surface area ²³.

According to this analysis, of the almost 2,335 tonnes of waste generated in total, only approximately 3% is hazardous waste, most of which is nevertheless sent for recycling.



The percentage of material sent for recycling is 92% compared to the total waste generated, up on the previous year.

WASTE GENERATED [GRI 306-3]

Type of waste	2023 ²⁴			2022		
	Waste generated	Waste diverted from disposal	Waste directed to disposal	Waste generated	Waste diverted from disposal	Waste directed to disposal
Hazardous waste	56.54	39.30	17.24	44.42	29.76	14.66
Recycling 0%	19.29	2.53	16.76	9.91	0.00	9.91
Intermediate recycling	29.38	28.90	0.48	25.82	21.07	4.75
Recycling 100%	7.87	7.87	0.00	8.69	8.69	0.00
Non-hazardous waste	2,278.18	2,104.92	173.26	1,284.80	1,047.51	237.29
Recycling 0%	108.99	0.00	108.99	95.36	00.0	95.36
Intermediate recycling	702.31	638.04	64.27	482.70	340.77	141.93
Recycling 100%	1,466.88	1,466.88	0.00	706.74	706.74	00.0
Total waste diverted from disposal	2,334.72	2,144.22	190.50	1,329.22	1,077.27	251.95

WASTE DIVERTED FROM DISPOSAL [GRI 306-4]

Type of waste	2023 ²⁵	2022
	Offsite (t)	Offsite (t)
Hazardous waste	39.30	29.76
Recycling	14.28	9.99
Recycling 0%	2.52	0.00
Intermediate recycling	3.89	1.30
Recycling 100%	7.87	8.69
Other recovery operations	25.02	19.77
Recycling 0%	0	0.00
Intermediate recycling	25.02	19.77
Recycling 100%	0	0.00
Non-hazardous waste	2,104.92	1,047.49
Recycling	2,068.93	1,027.31

²³ The remaining 20% of the surface area mainly refers to commercial offices or logistics areas where waste generation is considered similar to urban generation and is not covered by the reporting boundary.

²⁴ In the 2022 and 2023 figures, available in the annex, the scope only includes the parent, while those for 2021 include all production plants.

²⁵ Open-loop recycling refers to recycling a product into a different one, while closed-loop recycling results in a material with the same characteristics.

Type of waste	2023 ²⁵	2022
	Offsite (t)	Offsite (t)
Recycling 0%	0	0.00
Intermediate recycling	602.05	319.51
Recycling 100%	1,466.88	706.70
Other recovery operations	35.99	20.18
Recycling 0%	0	0.00
Intermediate recycling	35.99	20.18
Recycling 100%	0	0.00
Total waste diverted from disposal	2,144.22	1,077.25

WASTE DIRECTED TO DISPOSAL [GRI 306-5]

Type of waste	2023	2022
	Offsite (t)	Offsite (t)
Hazardous waste	17.24	17.24
Incineration	17.01	14.35
Landfilling	0.23	0.30
Non-hazardous waste	173.26	237.66
Incineration	166.34	206.51
Landfilling	6.92	31.15
Total waste directed to disposal	190.50	252.31

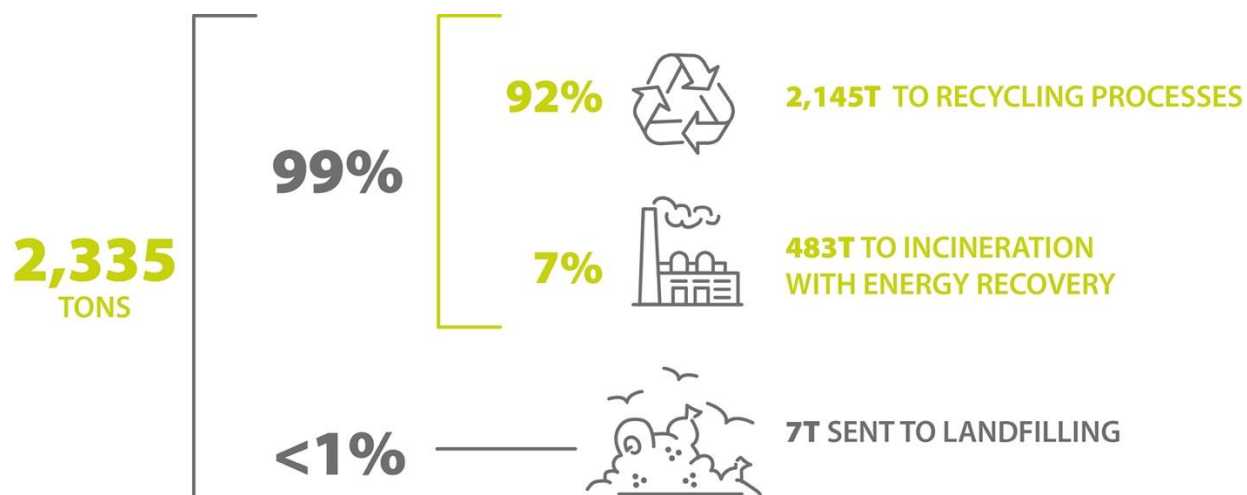
Waste is allocated as follows.

	2023				Total
	Open-loop	Close-loop	Combustion	Landfilling	
Paper/Cardboard	387.17	100.16	13.52	0.00	500.85
Plastic	196.91	131.20	46.97	0.00	375.09
Metal	694.33	132.15	18.91	2.68	848.08
Wood	153.87	185.30	6.46	0.00	345.63
Other (including liquids)	47.87	69.72	80.69	4.42	202.69
Electr. equipment / Batteries	45.53	0.00	16.80	0.05	62.38
Total	1,525.67	618.54	183.35	7.15	2,334.72

According to this analysis, 90% of the waste generated in 2023 is made up of the following materials: metals (36%), paper and cardboard (21%), plastic (16%) and wood (15%). These materials guarantee the above recycling rate. The main increase refers to metals which are up 246% compared to 2022 following the inclusion of new companies in the reporting boundary.

Overall, in 2023, 92% of the waste generated is sent for recovery (including aqueous liquid waste), through open-loop and closed-loop ²⁶ recycling processes. The residual was either sent to landfill (less than 1%) or to combustion (7%).

²⁶ Open-loop recycling refers to recycling a product into a different one, while closed-loop recycling results in a material with the same characteristics.



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. The sorting of plastics implemented by the parent made it possible to enhance the management approach envisaging specific areas (“collection points”, “temporary storage areas” and separate waste bins), while excluding environmental contamination.

Waste management by type (%)



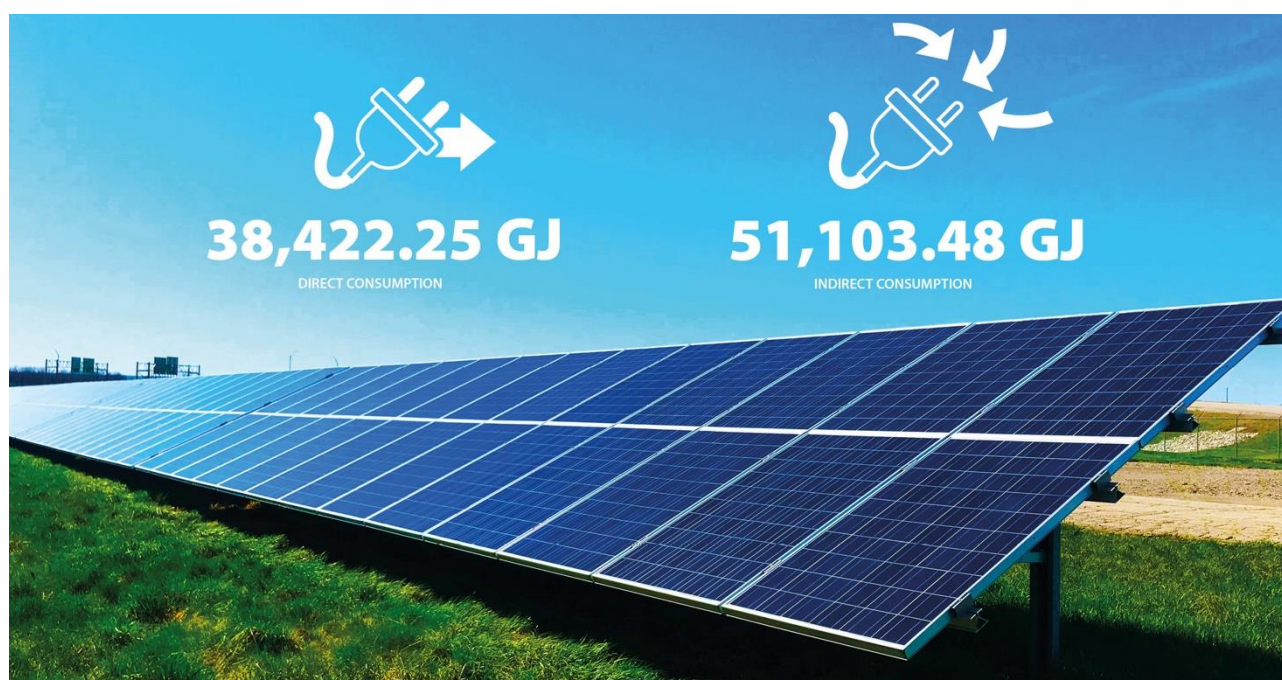
However, the group’s commitment is and will be to reduce the material component sent to landfills, privileging recyclable materials (open or closed-loop recycling).

ENERGY CONSUMPTION, SAVINGS AND EMISSIONS

DIRECT AND INDIRECT EMISSIONS (SCOPE 1 AND 2)

Similarly to the past, in 2023, 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).



In 2023, in line with the past two years, the analysis covered both the production plants and the commercial subsidiaries and/or sites providing service activities. Energy consumption is mainly attributable to production plants, which account for 82% and 96% of the group's total direct and indirect consumption, respectively.

DIRECT AND INDIRECT CONSUMPTION AND ENERGY INTENSITY (GJ) [GRI 302-1 | GRI 302-3]

	2023	2022	2021
Total direct consumption	38,422.25	28,983.34	27,159.98
from non-renewable sources	36,948.78	28,983.34	27,159.98
Natural gas	20,945.42	14,968.46	15,361.00
LPG	640.06	776.62	838.93
Diesel	0.00	15.31	0.00
Vehicle consumption ²⁷	15,363.30	13,222.95	10,960.05
Diesel	8,203.70	6,297.46	5,357.50
Petrol	6,959.12	6,918.18	5,560.62
LPG	118.67	7.31	41.94

²⁷ For the direct consumption related to the company cars, as per ABI guidelines, the following was considered:

- Mixed use cars: where an employee's usage 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 company.

	2023	2022	2021
CNG	81.81	0.00	0.00
From renewable sources	1,473.47	0.00	0.00
Self-generated electricity ²⁸	1,473.47	0.00	0.00
Total indirect consumption	57,103.48	45,173.00	41,618.47
Electrical energy from renewable sources	44,212.23	38,293.96	23,603.77
Electrical energy from non-renewable sources	12,891.25	6,879.04	18,014.70
TOTAL	95,525.73	74,156.34	68,778.44
Energy intensity (GJ/m ²)	0.79	0.77	0.81
Energy intensity (GJ/emp) ²⁹	35.39	33.35	33.36

In 2023, the group's total energy consumption (Scope 1 and 2 emissions) approximated 95,525.73 GJ, up 28.8% on the previous year as a result of:

- the contribution of the acquisitions carried out in 2022 (12 months); Klingenburg German and Polish production sites, Arion and Senva, as well as other companies operating in the service sector;
- the business growth, including as a consequence of the acquisitions carried out in 2021-2022, which translated into an increase in hours worked (up by approximately 24%³⁰ on 2022) and surface area covered (+25% on 2022);
- the increased travel and transfers of the personnel of the commercial subsidiaries, which translated into a higher use of company cars, leading to a 16% increase in fuel consumption compared to 2022.

Conversely, on a like-for-like basis (2022 boundary), the increasingly efficient use of non-renewable resources is confirmed by the consumption of fuels used for air conditioning (natural gas), which decreased by 11% on the previous year.

Given the considerable change affecting the reporting boundary, on a like-for-like basis (2022 boundary - i.e., not including the above recent acquisitions), total consumption (direct and indirect) would be 78,754.39 GJ, up by approximately 6% from the previous year.

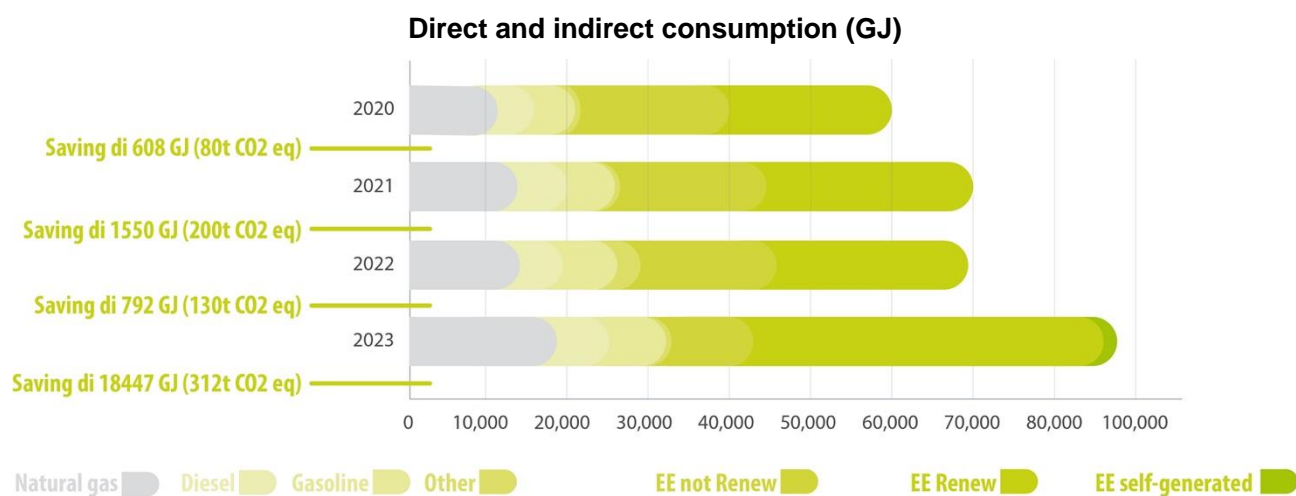
The group's investments in photovoltaics were authorised in 2022. Based on production estimates at standard factors, these investments have already generated approximately 410 MWh of electricity in 2023, thus reducing the share purchased from the grid.

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).

²⁸ All self-generated electricity was considered self-consumed

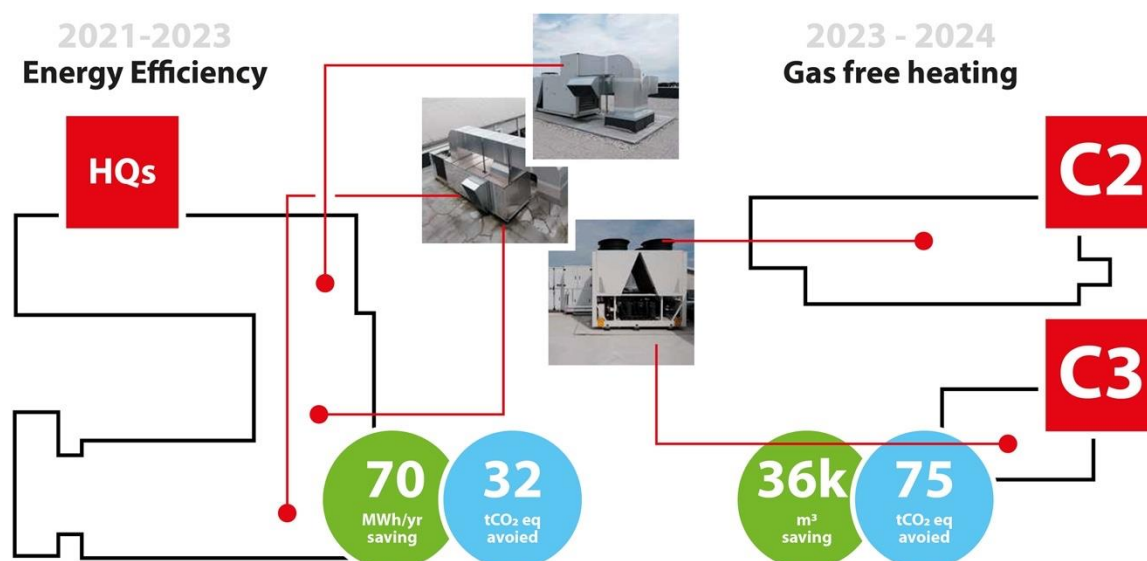
²⁹ Both employees and workers who are not employees, whose control falls under the organisation, were considered.

³⁰ Both employees and workers who are not employees, whose control falls under the organisation, were considered.



The energy savings achieved in 2023 reflect the energy consumption reduction measures implemented by the production sites during the year. These measures included:

- replacement of lighting systems with new LED technology at the Croatian site, at Hygromatik and Klingenburg (Germany), generating energy savings of approximately 17,915 kWh;
- the improvement of energy efficiency at the Chinese plant by streamlining the use of production lines, generating energy savings of more than 76,655 kWh;
- at the parent, replacement of old heat pumps with high-efficiency ones, and replacement of the gas heating system with high-efficiency heat pumps in “mechanical” production areas. Following the implementation of these measures, more than 100 tCO₂eq of emissions will be avoided starting from 2024;
- self-generation of electricity from renewable sources through photovoltaic panels installed at the Chinese and Croatian plants in 2022, which avoided purchasing 409,297 kWh of electricity from third parties.



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 energy efficiency plan will be part of a structured decarbonisation plan in compliance with SBTi criteria.

REDUCTION OF ENERGY CONSUMPTION AND EMISSIONS [GRI 302-4 | 305-5] ³¹

Type of work	2023		2022		2021	
	Estimated reductions (KWh)	Estimated reductions (tCO2e)	Estimated reductions (KWh)	Estimated reductions (tCO2e)	Estimated reductions (KWh)	Estimated reductions (tCO2e)
Replacement of lighting systems with LED technology	27,074.27	17.71	26,825.00	11	355,964.26	156.00
Streamlining the use of production lines	76,655	46.78	193,260.00	118	74,655.00	45
Self-generation of electricity through photovoltaic panels	409,297	247.72	-	-	-	-
Total	513,026.27	312.21	220,085.00	129	430,619	201

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 boundary 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 25% on 2022, to 120,459.29 square metres.

Despite the significant increase in the reporting boundary, all the above actions enabled the group to maintain a consumption intensity value per unit of surface area of 0.79 GJ/square metres, up slightly on 2022, but showing very different surface area figures. The energy consumption/number of employees ratio is 35.39 GJ/employee up with 6.1% from the previous year. Overall, this is a positive result as the energy efficiency achieved at the group's plants offset the new acquisitions and increased hours worked. Indeed, on a like-for-like basis (2022 reporting boundary), energy intensity per square metre of floor area is approximately 0.79, up 2.6% from 2022, and stands at 33.14 per employee slightly decreasing compared to previous year.

With respect to purchased electricity and after normalising the value per unit of surface area, electricity consumption is up slightly to 132 kWh/square metres³², despite the 26% rise in electricity consumption.

³¹ The factors used to calculate the emissions avoided are:

- year 2023: European residual mix 2022 (AIB 2023), where available, otherwise Terna 2019;
- year 2022: European residual mix 2021 (AIB 2022), where available, otherwise Terna 2019;
- year 2021: European residual mix 2020 (AIB 2021), where available, otherwise Terna 2019;

³² These figures exclude self-generated electricity from photovoltaic panels.

DIRECT AND INDIRECT EMISSIONS AND EMISSION INTENSITY (TCO2E) [GRI 305-1 | GRI 305-2 | GRI 305-4]^{33 34 35}

Scope 1 and Scope 2 emissions	2023	2022	2021
Total direct emissions from non-renewable sources (Scope 1)	2,292.72	1,665.20	1,810.57
Natural gas	1,064.30	758.98	781.52
LPG	38.14	46.27	49.98
Diesel	0.00	1.03	0.00
Refrigerant gases	205.63	N/A	N/A
Emissions from vehicles	984.65	858.9	979.07
Diesel	544.89	421.85	487.59
Petrol	428.53	436.63	488.64
LPG	7.07	0.44	2.84
CNG	4.16	0.00	0.00
Electricity location based (from renewable and non-renewable sources) (Scope 2)	6,288.17	4,790.20	4,471.72
Electricity location based (from non-renewable sources) (Scope 2)	1,555.97	695.09	2,517.70
Electricity market based (from non-renewable sources) (Scope 2)	1,872.63	723.10	2,578.15
TOTAL (Scope 1 + Scope 2)	4,165.35	2,388.30	4,388.72
Carbon intensity (tCO2e/m ²)	0.03	0.02	0.05
Carbon intensity (tCO2e/emp) ³⁶	1.54	1.07	2.13

Emissions related to direct and indirect consumption amount to 4,165.35 tCO₂eq; 2,292.72 tCO₂eq (Scope 1) and 1,872.63 tCO₂eq (Scope 2) (market-based method which only considers emissions from non-renewable sources). Emissions are up 74% on the previous year. The increase is due to the accounting of F-Gas emissions in Scope 1 and, above all, to the extension of the scope, as mentioned above. On a like-for-like basis (2022 reporting boundary) and excluding emissions from refrigerant gas leakage (figure not available for 2022), the cumulative value of Scope 1 and 2 would be 2,245.35 tCO₂eq, down by 6% from the previous year.

Indeed, in 2023, the calculation of Scope 1 emissions considered the maintenance activities to stock refrigerant gases in plants (F-Gas).

³³ The figures used to calculate the direct emissions were published by the Department for Business, Energy & Industrial Strategy (DEFRA) in 2023, 2022 and 2021

³⁴ The factors used to calculate the indirect emissions are:

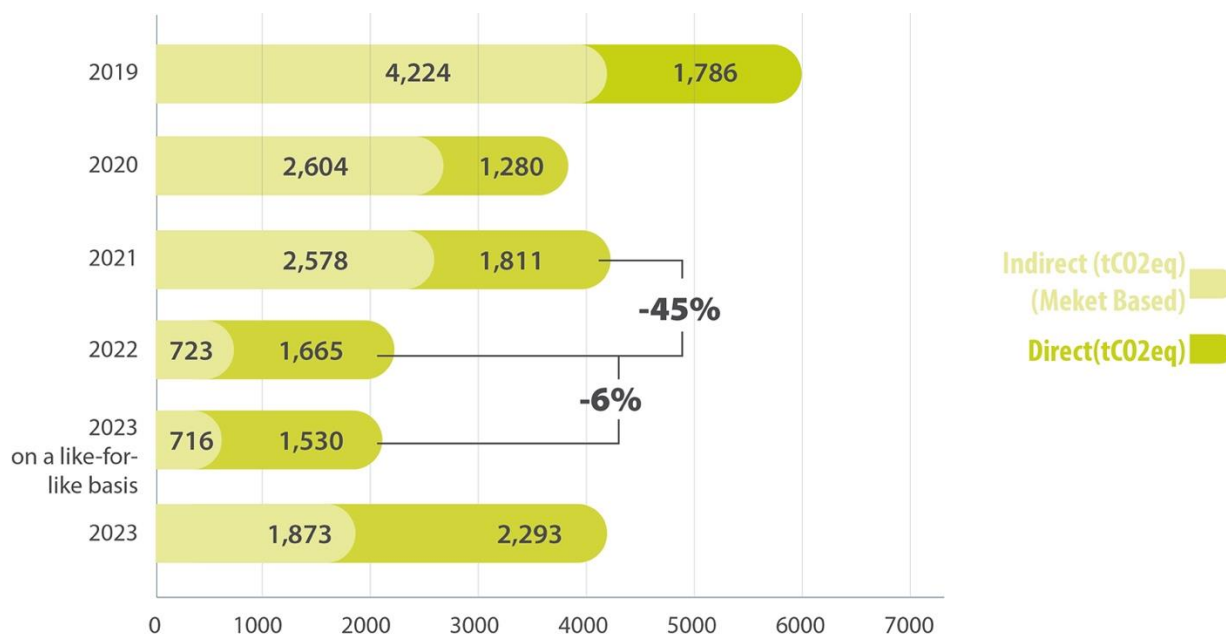
- year 2023: Location-based: Terna 2019; Market-based: European residual mix 2022 (AIB 2023), where available, otherwise Terna 2019;
- year 2022: Location-based: Terna 2019; Market-based: European residual mix 2021 (AIB 2022), where available, otherwise Terna 2019;
- year 2021: Location-based: Terna 2019; Market-based: European residual mix 2020 (AIB 2021), where available, otherwise Terna 2019;

³⁵ Carbon intensity based on direct and indirect market-based emissions.

³⁶ Both employees and workers who are not employees, whose control falls under the organisation, were considered.



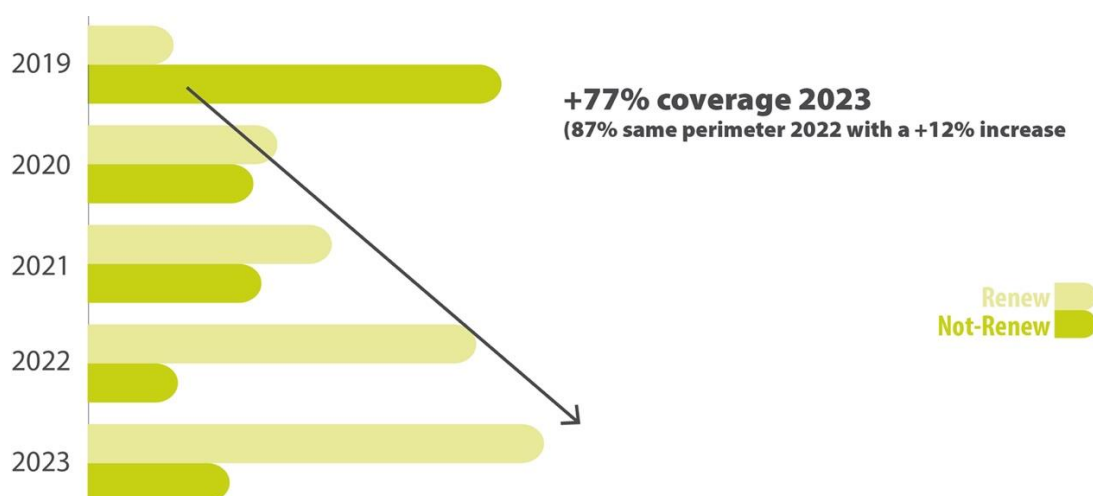
Direct and indirect emissions (Scope 1 and 2 Market Based) (tCO₂eq)



The reduction in emissions is due to both the decrease in energy consumption through the above-mentioned energy efficiency initiatives, and, above all, as mentioned earlier, to the procurement of electricity from completely renewable sources for a significant portion of the production plants and the self-generation from photovoltaic panels.

With respect to the consumption of externally purchased electricity, in 2023, the group achieved the important milestone of 77% of energy from renewable sources compared to total consumption for the year (87% on a like-for-like basis for 2022, with purchased electricity up 26%).

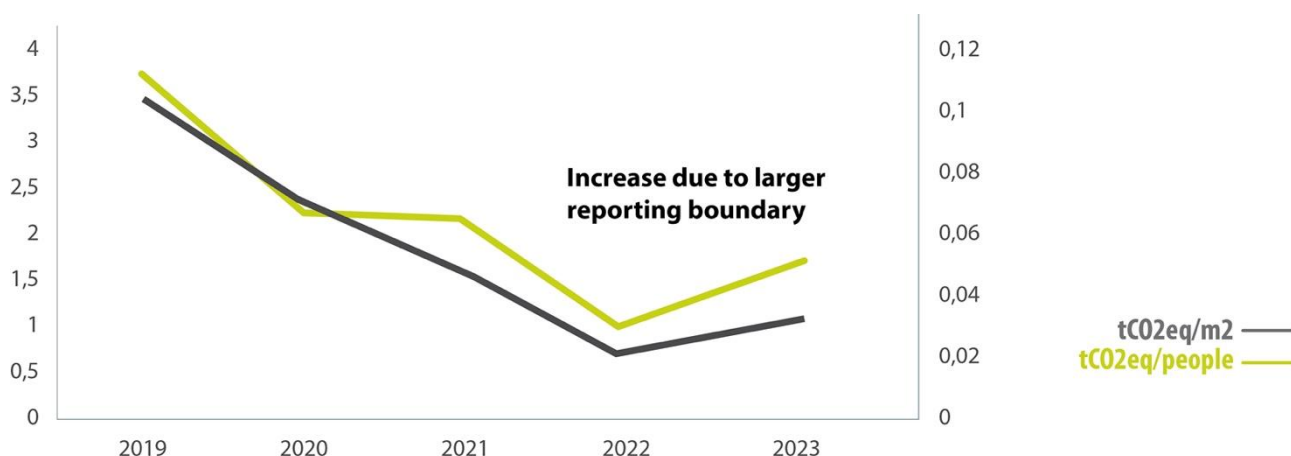
In 2023, the CO₂ emissions avoided thanks to the use of green electricity amount to 6,289³⁷ tCO₂eq (up from 5,351 tCO₂eq), up on the group's total direct and indirect emissions.



³⁷ Calculated using Market-based methodology - European residual mix 2022 (AIB 2023).

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 the management of the production processes.

The consumption intensity per unit area of 0.79 GJ/m² corresponds to the emission of approximately 0.03 tCO₂e/m², up on the previous year as described earlier, whereas, considering the number of employees, it is 35.39 GJ/employee with emissions of approximately 1.54 tCO₂e/emp.

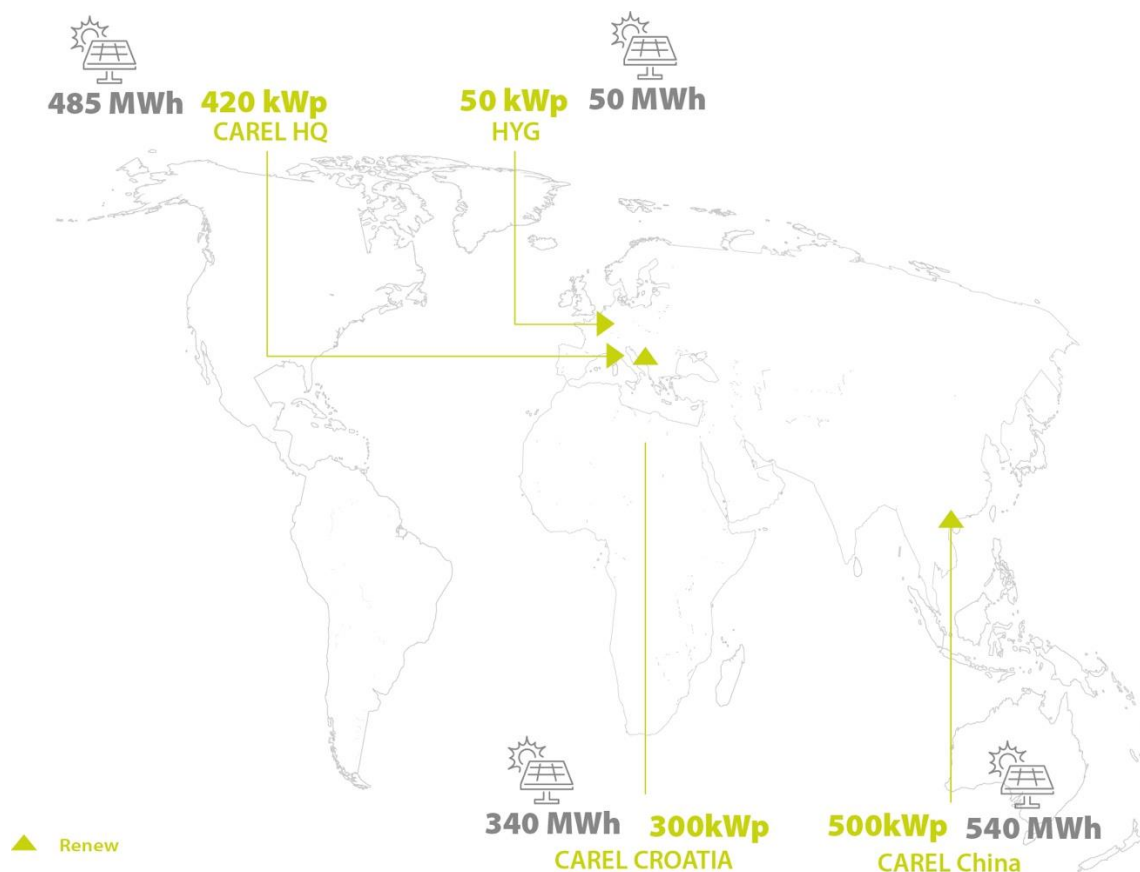


As mentioned earlier, the photovoltaic systems installed between late 2022 and 2023 began to generate electricity, reducing the portion purchased from the grid. Self-generation, equal to approximately 410 MWh, results in about 247.72 tCO₂eq avoided³⁸.

New photovoltaic panels were installed in 2023 that will result in additional self-generation in 2024. Specifically, a system with a peak power output exceeding 2022 expectations by 240 kWp, was installed at the parent's plant, for a total of 420 kWp. Consequently, in 2024, self-generation will be equal to approximately 480 MWh.

The image below shows the plant characteristics (peak power and estimated annual output) by group.

³⁸ Calculated using market-based methodology - European residual mix 2022 (AIB 2023).

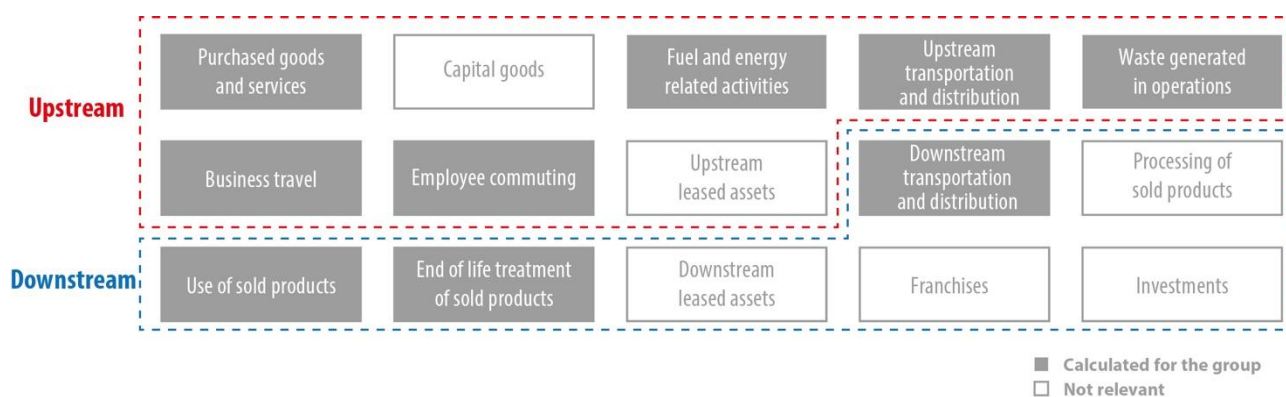


INDIRECT EMISSIONS (SCOPE 3)

Unlike in prior years, when the analysis of environmental impacts on climate change had focused on those generated by group operations, specifically by finetuning the calculation of internal energy consumption (Scope 1 and Scope 2 emissions), in 2023, the analysis focused on the impacts arising from the operations that generate indirect emissions not directly controllable by the group, namely those occurring along Carel's value chain (Scope 3 emissions). Thanks to the methodologies applied in previous years to some Scope 3 categories, in 2023, the company extended the analysis to include and report on all Scope 3 categories deemed applicable and relevant to the group at the reporting date, i.e., 9 out of 15 categories. In addition, after the first two years of reporting, characterised by the application and finetuning of the calculation methodology, in 2023, the reporting boundary was the same as the consolidation scope.

Scope 3 reporting may be analysed as follows ³⁹:

³⁹ The following categories were not calculated, as they did not apply and were not relevant to the group: Cat. 8 Upstream leased assets, Cat. 10 Processing of sold products, Cat. 13 Downstream leased assets, Cat. 14 Franchises, Cat. 15 Investments.



CATEGORY 1: PURCHASED GOODS AND SERVICES

In 2023, the calculation of the emissions related to the purchased goods and services by the group was improved. With respect to tangible products, similarly to the previous year, the average-data method was applied. However, during the year, the calculation was finetuned by adopting more specific emission factors⁴⁰, which resulted in a more accurate categorisation of purchased goods. No comparison is possible against 2022 figures due to the change in the emission factors used, which entailed a different ranking of purchased goods. However, spend-based factors (i.e., factors calculated on economic value) provided by EEIO tables⁴¹ were used to calculate emissions from purchased services, in line with the approach taken in 2022.

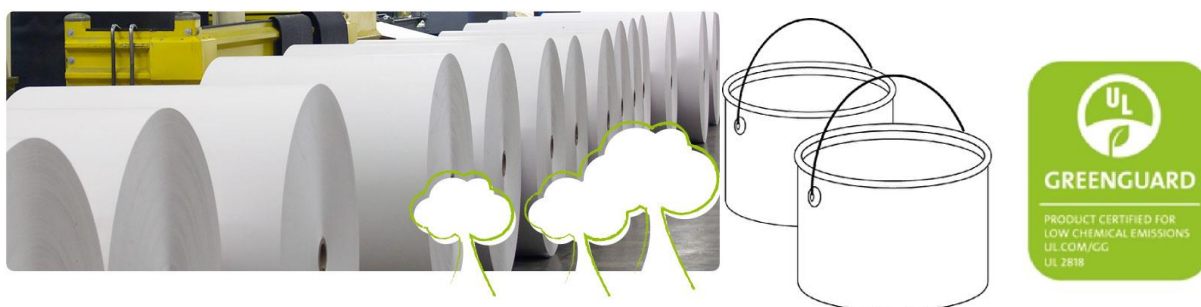
Emissions totalled approximately 126,430 tCO₂e⁴², of which 7.5% was attributable to third-party service agreements, for a cumulative expenditure of €81 million (excluding the companies acquired in 2023).

The group's purchased goods also include packaging used for packing and shipping products (the impact generated by the packaging was included in category 1 emissions).

With respect to packaging management, Carel pursues the following objectives:

- maintain the level of FSC or PEFC certified material;
- increase the percentage of recycled material used in packaging;
- steadily reduce the use of plastic, both non-recyclable and recycled.

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.



⁴⁰ Emission factors from the Ecoinvent database (IPCC 2021).

⁴¹ EEIO = Environmentally extended input-output.

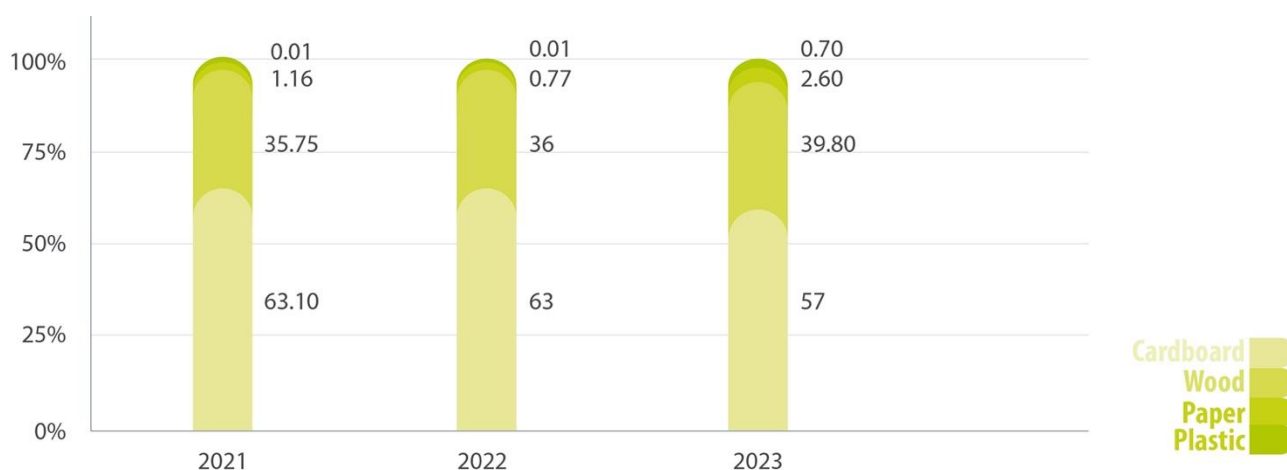
⁴² Emissions calculated also considering purchased goods.

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, also in 2023, 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 characteristics of the parent's packaging were assessed in 2023.

According to the analysis, 56% of the total packaging purchased (650 tonnes, in line with 2022) is made up of cardboard which, in addition to its certified origin, is 74% comprised of recycled material. The paper and wood used are also totally of certified origin, with paper accounting for 50% of recycled material. Finally, plastic, which is a residual element as it accounts for less than 1% by weight of the total, has an average 16% recycled component, up 10% on the previous year.



Overall, the use of plastic decreased by an additional 11% on 2022, which is already a residual element by weight compared to the other materials used in packaging.

CATEGORY 3: FUELS AND ENERGY

In order to supplement the reporting of the impact from energy use (fuels and purchased electricity) - already included in Scope 1 and Scope 2 with respect to emissions from combustion - the group calculated the related emissions from:

- the extraction, refining and transport of fuels to the site of the reporting company, prior to combustion;
- the extraction, refining and transportation of fuels prior to their use in the generation of electricity purchased by the reporting company (both with respect to the electricity used and the electricity lost in the systems to transmit and distribute electricity from the power plant to the organisations that purchase it (grid losses)). Overall, upstream emissions from purchased fuels and electricity are equal to 610 tCO₂eq⁴³.

CATEGORY 4 - 9: TRANSPORTATION AND LOGISTICS (UPSTREAM AND DOWNSTREAM)

In 2023, the calculation of indirect emissions from upstream logistics was improved and finetuned for all of the group's production plants. In line with the previous year, the distance-based method was applied. However, in 2023, the calculation was finetuned with a more specific assessment of the distribution of the use of the different shipping modes and a more accurate calculation of the distances between the group's production plants and the destination/shipping countries, in particular for road transportation. In addition, in 2023, Well To Tank (WTT) emissions of the fuel used, i.e., the emissions from the extraction, refining and transportation of fuels before they are used to fuel transport vehicles, were also calculated. The change in the reporting boundary and the finetuning made to the 2023 calculation prevent a comparison with prior year figures. Furthermore, in accordance with the GHG Protocol, not only does the transportation of purchased goods ("import") qualify as upstream transportation (category 4), but also intragroup logistics and outbound logistics transported by the group using means not owned or operated by the reporting company.

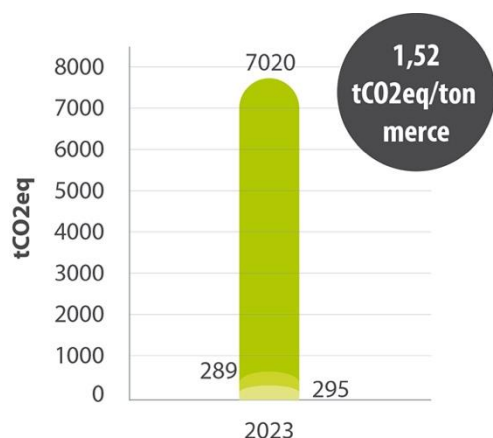
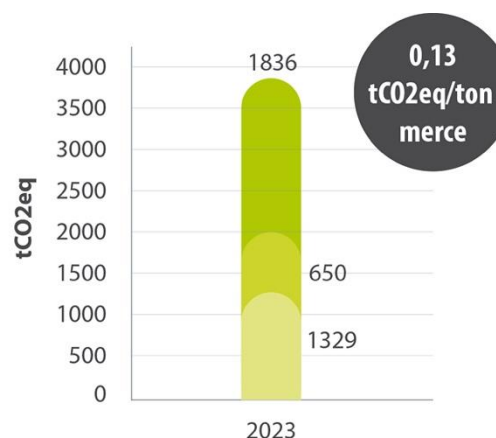
Total emissions from upstream transportation (Category 4) amount to 3,814 tCO₂eq and consist of 48% emissions from air transport and 35% and 17% from road and marine transport, respectively.

In accordance with the GHG Protocol, outbound logistics by the customer qualifies as downstream transportation; therefore, it falls under Category 9. Based on the application of the above definition of "downstream" and following the inclusion of the recently acquired companies in the reporting boundary and of the WTT emissions of the fuel used in the calculation, the resulting balance of emissions cannot be compared with that of the previous year.

The emissions from upstream transportation (Category 9) amount to 7,60442 tCO₂eq.

As noted in 2022, the analysis highlighted that air transport accounts for the majority of total emissions from logistics. This enabled the group to identify areas where possible Scope 3 emission reduction measures could be implemented.

⁴³ Emissions were calculated using the average-data method. The calculation factors were published by DEFRA in 2023.

Emissions produced – Cat.9 (tCO₂eq)Emissions produced – Cat.4 (tCO₂eq)Indirect emissions from transportation - Scope 3 Cat.4 “Upstream” + Cat.9 “Downstream” (tCO₂e)⁴⁴

Modes of transport	2023	2022
Road	1,624	513.98
Air	8,856	3,049.70
Marine	939	59.01
Total	11,419	3,622.69

The Carel Group reaches all its customers worldwide thanks to an extensive sales network and with a combination of modes. In 2023, the products were shipped from the production plants by⁴⁵:

- road transport, which is the main mode of transport, accounting for approximately 80% of the total goods shipped;
- marine transport, accounting for about 14% of the goods shipped;
- air transport, accounting for remaining 4% of the goods shipped;

Shipments to customers, as well as purchases of goods used in production, generally take place by road transport for the domestic market and by marine transport for other continents. Air transport, which most contributes to the emissions produced (78%), is rarely a default option. In fact, it is always a contingency, as was the case in the past few years, as a result of the shortage of materials.

Overall, in 2023, emissions from transportation totalled 11,419 tCO₂eq (this figure cannot be compared against the 2022 balance of 3,622 tCO₂eq).

⁴⁴Emissions were calculated using the distance-based method. The calculation factors were published by DEFRA in 2023. The data on goods shipped is extracted from the enterprise information system (Oracle). For shipments not included in the company's information system, the estimated share shipped by road was considered. Specifically, the following was assumed with respect to the different modes of transport:

- road transport: 100% is transported using heavy goods vehicles (DEFRA 2023 and 2022 - Freightng Goods - HGV ALL DIESEL - ALL HGVs tonne.km 100% road);
- air transport: distances are calculated based on <https://www.airmilescalculator.com/distance/mxp-to-pvg/>. (DEFRA 2023 and 2022 - Freightng goods - Freight flights - International, to/from non-UK);
- marine transport: distances are calculated based on <https://sea-distances.org/>. (DEFRA, 2023 and 2022 - Freightng goods - Freight cargo - container ship 8000+ teu).

⁴⁵ These figures were obtained by considering all outbound logistics to customers, both those pertaining to Carel (Category 4) and those relating to customers (Category 9).



CATEGORY 5: WASTE GENERATED IN OPERATIONS

As mentioned earlier, after establishing the definitive calculation methodology for the entire group in 2022, in 2023, the waste analysis consolidated this methodology by applying it to the new companies that joined the group (to the extent of production entities).

According to this analysis, emissions from waste treatment are slightly above 50 tCO₂eq, in line with 2022. The increase in waste generated is entirely due to the effect of the larger reporting boundary. Consequently, thanks in part to the analysis conducted last year and the actions described earlier, a significant portion of waste was sent for recycling.

Indirect waste management emissions - Scope 3 (tCO₂e)⁴⁶

Treatment	2023	2022
Open-loop recycling	32.47	9.91
Closed-loop recycling	11.74	12.02
Incineration with energy recovery	3.90	4.70
Landfilling	2.32	23.04
Total	50.43	49.67

CATEGORY 6: BUSINESS TRAVEL

In 2023, the impact generated by business trips made by the employees of the entire⁴⁷ group using air and/or rail travel⁴⁸ was analysed. Compared with 2022, in addition to the expanded reporting boundary, the WTT emissions of the fuel consumed were also calculated. Therefore, the resulting figure cannot be compared with the 2022 figure.

Overall, in 2023, emissions from the transportation of employees for business-related activities totalled 2,644 tCO₂eq. Specifically, about 6,800,000 km were travelled by air, generating emissions close to 2,600 tCO₂eq, while 840,000 km were travelled by rail, generating emissions of approximately 35 tCO₂eq. The specific emissions (tCO₂eq per km travelled) for rail travel were approximately 90% lower than that by air.

CATEGORY 7: EMPLOYEE COMMUTING

In 2022, a survey was conducted covering all the parent's employees to determine the emissions from the transportation of employees between their homes and their worksites. In 2023, this survey was extended to all group white-collar and the data collected were used to calculate emissions from the transportation of employees between their homes and their worksites at group level⁴⁹. Also for this category, compared with 2022, in addition to the expanded reporting boundary, the WTT emissions of the fuel consumed were calculated. Therefore, the resulting figures are not comparable.

Emissions from the transportation of employees between their homes and their worksites amount to 2,404 tCO₂eq.

⁴⁶ Emissions were calculated using the 'waste-type specific' method. The factors used for the calculation were published by DEFRA in 2023 and 2022.

⁴⁷ For the companies that provided data, emissions were calculated using the distance-based method. For companies for which no data on business travel was available, average values were considered, in terms of number of business trips made and kilometres travelled. These figures were calculated based on the data provided by other group companies. The calculation factors were published by DEFRA in 2023.

⁴⁸ It is specified that journeys made by car are valued within Scope 1 as the vehicles of the company car pool are used. Any rentals for transfers from the airport to the hotel are instead negligible and not included in the reporting.

⁴⁹ The emissions from the transportation of employees between their homes and their worksites who filled out the questionnaire were calculated using the distance-based method. Based on the sample who responded to the survey, commuting habits, in terms of means of transportation used and average kilometres travelled, were identified and used to estimate the figure for employees who did not reply. A similar calculation methodology was used with respect to the transportation of blue-collar between their homes and their worksites. The calculation factors were published by DEFRA in 2023.

According to the survey, remote work promotes the reduction of emissions. Indeed, emissions were 34% lower than they would have been without remote work days. The savings generated by the hybrid work mode is an important positive element in the shift to reducing environmental impact, as well as promoting employees' work/life balance.

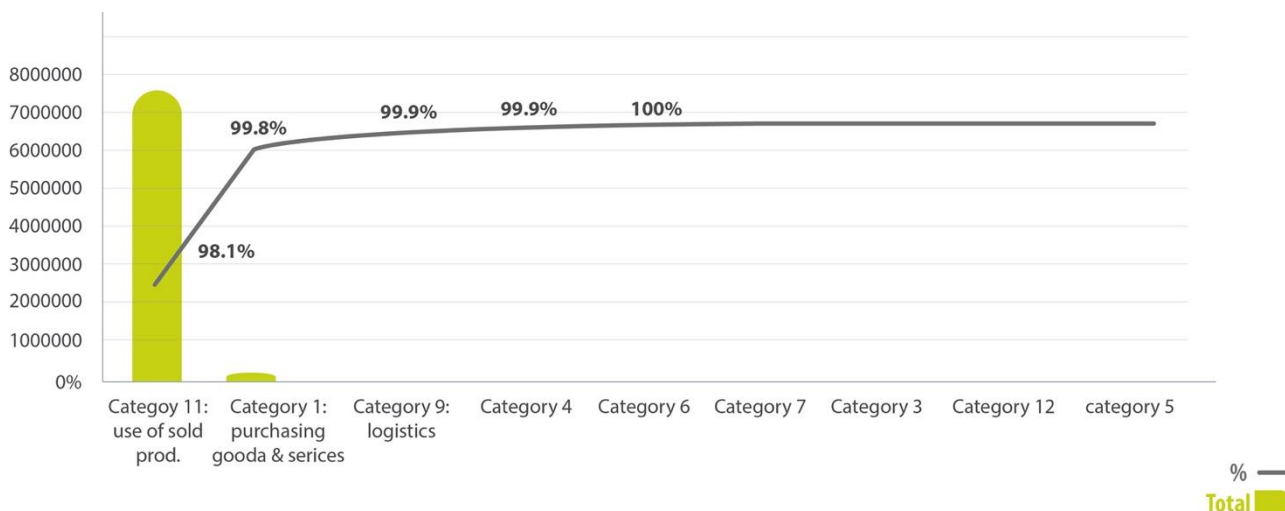
CATEGORIES 11 AND 12: USE OF SOLD PRODUCTS AND END-OF-LIFE TREATMENT OF SOLD PRODUCTS

In 2023, the lifetime consumption and emission impacts of all Carel energy-consuming products sold during the year were assessed. Following an initial assessment conducted in 2022 on Carel's best-selling products, the methodology was extended to all product families. In addition, since 2023, for both electricity and natural gas, WTT emissions have also been calculated, along with emissions related to grid losses for electricity.

The analysis showed the impact of the products sold, considering the primary and secondary energy source used (electricity and/or gas), the average power of use (kW), and the number of hours per year the product was in use. Conventionally, an average useful life of ten years was considered for each product.

With approximately 11,600,000 products placed on the market, these generate emissions of about 7,400,000 tCO₂eq⁵⁰ over their entire life cycle.

80% of emissions refers to isothermal systems and controllers (programmable or parametric).



In 2023, Carel also extended the calculation of the emissions from the end-of-life treatment of sold products to all its products sold, including packaging material.

Given the diversity of the products placed on the market and the end-of-life treatment methods used in the various geographical regions where the products are used, the calculation was made assuming an average recycling value for electronic products of 20%⁵¹.

Total emissions from end-of-life treatment of sold products amount to 227⁵² tCO₂eq.

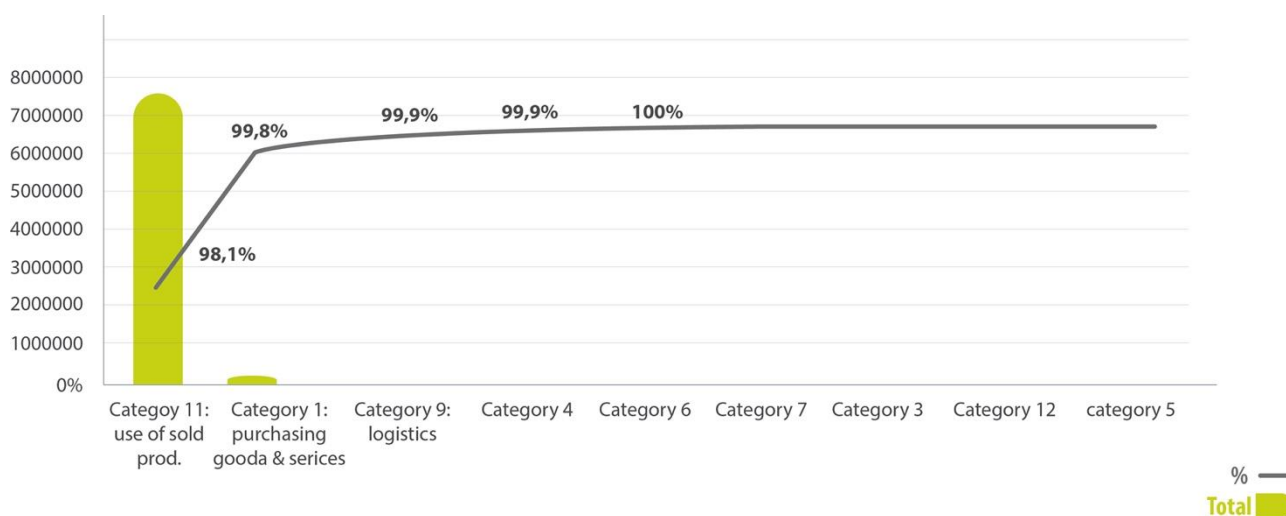
Scope 3 total emissions – Carel's carbon footprint

Carel's carbon footprint was determined based on the various contributions discussed in the previous sections.

A total of 7,552,021.38 tCO₂eq emissions were mapped.

Category	Scope	tCO ₂ eq
Category 1: Purchased goods and services	GROUP	126,430.17
Category 3: Fuel- and energy-related activities not included in Scope 1 or Scope 2	GROUP	610.07
Category 4: Upstream transportation and distribution	GROUP	3814.45
Category 5: Waste generated in operations	GROUP	50.43
Category 6: Business travel	GROUP	2643.94
Category 7: Employee commuting	GROUP	2403.76
Category 9: Downstream transportation and distribution	GROUP	7604.44
Category 11: Use of sold products	GROUP	7408237.41
Category 12: End-of-life treatment of sold products	GROUP	226.71
		7,552,021.38

The impact of Scope 3 categories may be analysed as follows:



⁵⁰ Since nearly 80% of the weight*quantity of products sold falls into the "Electrical items" category, in order to identify the % of the total weight to which the emission factor should be applied, the worldwide WEEE recycling rate of 20% was considered (source: "A New Circular Vision for Electronics: Time for a Global Reboot" World Economic Forum in support of the United Nation E-waste Coalition).

⁵¹ Emissions were calculated using the waste-type-specific method and the calculation factors used were published by DEFRA in 2023.

OTHER EMISSIONS

Similarly to previous years, no significant 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 in an increasingly accurate way. The method used is the same for all sites.

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

Emissions	2023	2022	2021
Nitrogen oxides (NO _x)	562.81	435.09	444.68
Sulphur oxides (SO _x)	273.80	208.64	205.39
Persistent organic pollutants (POP)	0.34	0.25	0.25
Volatile organic compounds (VOC)	285.77	462.78	134.97
Hazardous air pollutants (HAP)	42.91	114.96	6.85
Particulate matter (PM)	429.77	658.82	479.67

The group's results for 2023 show a reduction of nearly 38% in volatile organic compound emissions, driven by improved emission filters. A significant and similar improvement was also achieved for particulate matter.

The other values are in line with those of the previous two years. 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. This is particularly important as it indicates that, in some cases, the reported emissions exceed the actual ones.

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.

In 2023, as a result of the process to fine-tune the relevant assessments, a standard was developed and 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.

WATER

The group is committed to the rational use of water at all of its sites. Considering the fact that fresh water consumption⁵³ is used for sanitary rather than industrial purposes, management monitors usage in order to detect any leakages and to safeguard water resources.

In 2023, the group's total water withdrawal was very low (approximately 23.76 megalitres, considering the 25% increase in the reporting boundary).



Starting in 2020, production sites' consumption is also monitored with reference to any areas of water stress where they are located. Specifically, in 2023, the value attributable to these areas was more than 5 ML. This means that almost 22% of total withdrawals occur 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.

As of 2021, the analysis has been extended to all the group's commercial offices. Overall, in 2023, 94% 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, also in 2023, there were no particular actions to be taken in addition to those already mentioned.

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

Source ⁵⁴	2023		2022		2021	
	All areas	Water stress areas	All areas	Water stress areas	All areas	Water stress areas
Groundwater	0.25	0.00	0.52	0.00	0.50	0.00
Fresh water	0.25	0.00	0.52	0.00	0.50	0.00
Water withdrawn from the municipal water supply	23.51	5.22 ⁵⁵	20.12	4.12 ⁵⁶	21.10	5.20
Fresh water	23.23	5.02	19.60	4.12	19.90	5.20
Other water	0.29	0.20	0.44	0.00	1.20	0.00
Total	23.76	5.22	20.64	4.12	21.60	5.20

⁵³ Fresh water means water with total suspended solids concentration (TSS) $\leq 1,000$ mg/L; other water (TSS $> 1,000$ mg/L). In order to pinpoint which units are located in areas of water stress, the group used the World Resources Institute's Aqueduct Water Risk Atlas tool. Water stress areas were considered as those areas with a water stress percentage greater than 80%. In 2023, withdrawals in water stress areas related to the following plants/commercial subsidiaries: C.R.C. S.r.l., Cfm Sogutma, Carel Electronic Suzhou

⁵⁴ In 2023, no water was withdrawn from surface water, produced water or seawater.

⁵⁵ Source: 4.55 ML surface water, 0.68 groundwater

⁵⁶ Source: surface water



PEOPLE AND COMMUNITIES



TRAINING AND PROTECTING HUMAN RESOURCES

In line with the previous years and with the provisions of the Driven by the future sustainability plan, Carel puts people first. People are a cornerstone of the group's strategy and are among the key drivers of sustainable development.

Indeed, under the sustainability plan, acting for people is one of the three essential pillars of 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

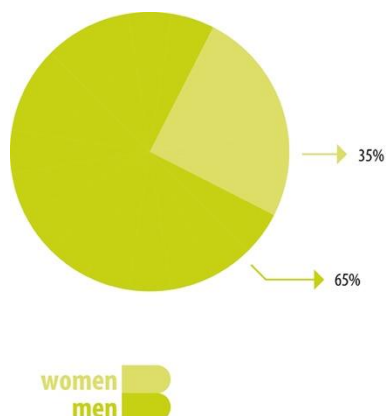
In order to pursue its commitment to promoting a culture of respect for rights and the value of diversity, Carel acts in accordance with the Code of Ethics and the group policies governing the respect for human rights and diversity which are based on international regulations and principles. These policies 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 2023, an eight-hour structured online training programme on ESG principles was launched at the parent and the Italian group companies, covering all employees. The training focused on providing employees with the basic knowledge of sustainability in the three areas of Governance, People and Environment, the main goals of the 2030 Agenda and related EU regulations, as well as providing tangible ideas for adopting virtuous behaviours in their personal life. Furthermore, two in-person training events were held for the parent's top & middle managers in collaboration with specialised companies. This training provided an in-depth study of certain Diversity & Inclusion ("D&I") issues, such as gender equality and intergenerational collaboration in the work context. A total of 6,080 hours of training on ESG issues were provided across the group, involving a total of 762 employees. In 2024, the foreign companies will also participate in an online training programme on ESG issues. The main objective will be to introduce core competencies on a global scale within the Carel Group.

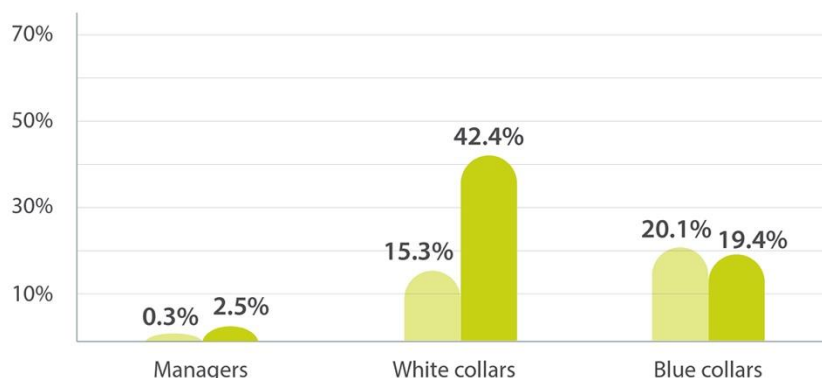
The group confirmed its commitment to training its employees (who can access the online Learning management system) on anti-corruption issues through a specific course which is delivered to all new hires (white collars and executives).

The long-term commitment to gender rebalancing in management positions also continued. The benchmark is the percentage of white-collar women hired out of the total number of hires for the year. For 2023, this percentage was 23.3% for women hired as white collars by the parent on a permanent basis, in line with 2022. Considering also the white collars hired on a temporary basis, the percentage of women hired out of the total was 28%.

Employees by gender (%)



Percentage of employees by professional category and gender (%)



At group level, women account for 35% of the workforce in 2023. Specifically, they make up 26.5% of white collars, slightly down by 1.1% 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 2023, two days of strikes were announced at the parent. An average of 13.7% of employees took part. The supplementary company agreement (second-level bargaining) for the 2022-2024 three-year period renewed in March 2022 was implemented in 2023. This resulted in a significant focus on flexibility and the awarding of additional welfare & benefits for employees. It also guarantees full tax exemption on the entire performance bonus paid to employees, which is an additional economic benefit for workers in accordance with current regulations.

In 2023, 42% of the group employees were covered by collective bargaining agreements (50% in 2022 and 48% in 2021). This percentage decrease is due to the entry of foreign companies into the group where collective bargaining is not a standard. The rest were hired under company or individual contracts in line with the local regulations and market practices, the group's code of ethics and the group's human rights, diversity and HSE policies. In 2023, at Carel Industries S.p.A., 13.5% of workers were members of a trade union. In 2023, there were three disputes about work issues (two in 2022); specifically, two individual cases resulted in disputes involving Carel South America's production site and are currently being resolved, while the third one involves the Enginia plant in Italy and is still ongoing. In addition, in 2023, Carel USA received two reports about discrimination, which were duly investigated during the year. The first - which occurred among white collar workers - was groundless, while the second - which involved blue-collar workers - is currently being settled, with Carel promptly providing specific training.

COMPOSITION OF THE WORKFORCE ⁵⁷

At 31 December 2023, the group had 2,458 employees, an increase of 22.5% ⁵⁸ compared to the previous year.

The group also avails of workers who are not employees, specifically temporary ones, who, in 2023, numbered approximately 241 ⁵⁹ (132 women and 109 men), up by 10.5% on 2022 (or approximately 219). 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 50 at year end, up by 13.6% on 2022 ⁶⁰.

The largest professional category is that of the white collars (roughly 57.7%), followed by blue collars (39.5%). Management make up around 2.8% of the total workforce. In 2023, the number of female employees rose by 14.4%, with an increase in female managers also ⁶¹. Male employees rose by 27.4%.

NUMBER OF EMPLOYEES BY PROFESSIONAL CATEGORY AND GENDER [GRI 405-1]

	2023			2022			2021		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Managers	61	7	68	59	5	64	57	5	62
White collars	1,043	376	1,419	863	317	1,180	826	288	1,114
Blue collars	494	477	971	332	430	762	294	395	689
Total	1,598	860	2,458	1,254	752	2,006	1,177	688	1,865

Most employees are in the 30-50 age bracket with an average age of around 36.2 (37.7 for men and 34.7 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.

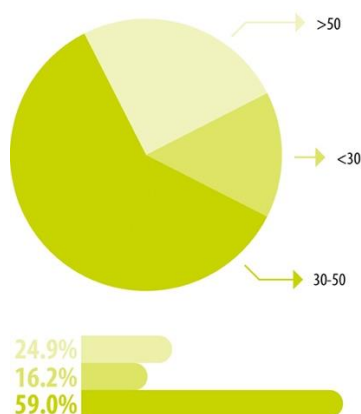
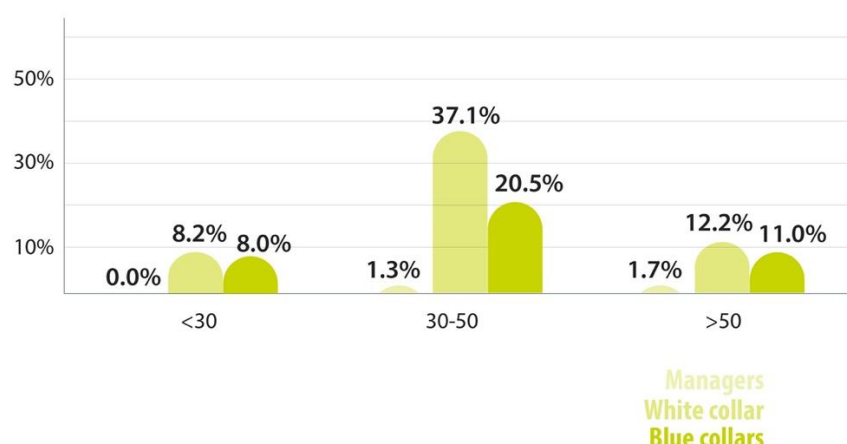
⁵⁷ Employee figures refer to the number of people at the end of the reporting period.

⁵⁸ The increase does not consider the new acquisitions of the year, which joined the group's reporting boundary in 2023.

⁵⁹ The figures on workers who are not employees refer to the average number of people during the reporting period.

⁶⁰ With respect to the group, they numbered 44 in 2022 and 42 in 2021. [sono corretti gli esercizi?]

⁶¹ 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

**Employees by age (%)****Employees by category and age (%)**

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 (39.3% 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 (76.3%).

NUMBER OF EMPLOYEES BY CONTRACT TYPE AND GENDER [GRI 2-7]

	2023					
	Permanent employment contracts		Fixed-term contracts		Total ⁶²	
	Men	Women	Men	Women	Permanent	Fixed-term
Western Europe	871	354	42	17	1,225	59
Rest of Europe, Middle East and Africa	160	187	52	64	347	116
North America	186	77	9	1	263	10
South America	27	34	0	0	61	0
North Asia	68	19	146	95	87	241
South Asia	37	12	0	0	49	0
Total	1,349	683	249	177	2,032	426

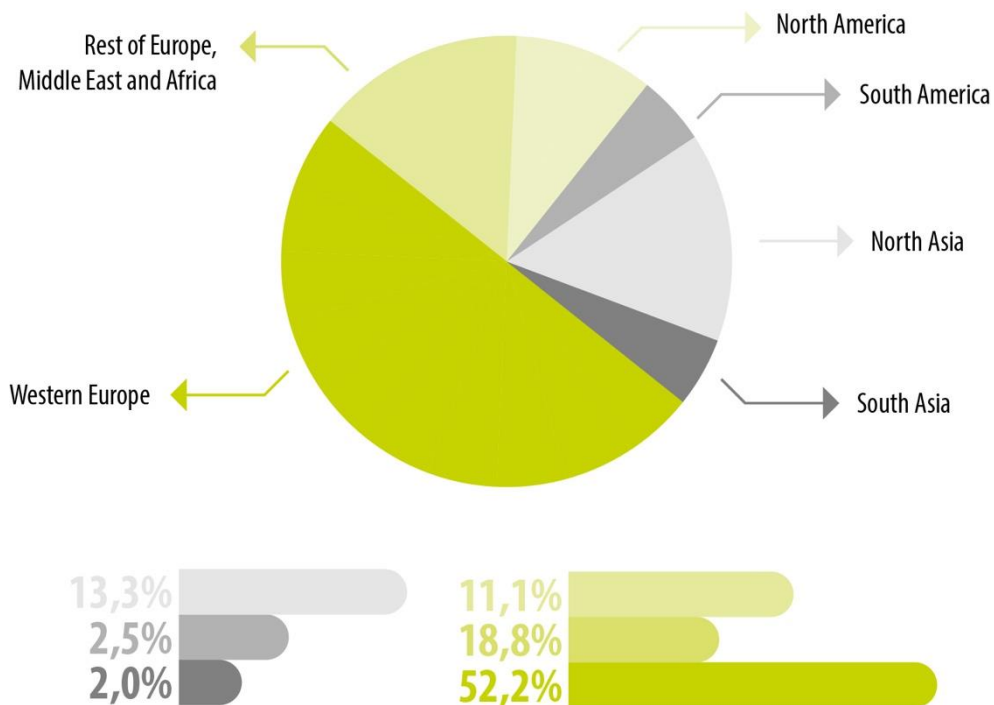
In 2023, roughly 2.6% of its workforce were working part-time hours (mostly women). The parent has a supplementary contract that provides more favourable conditions to all its employees compared to the national employment contract, covering issues such as daily and weekly flexible work hours, part-time work and paid leave when children are born.

NUMBER OF EMPLOYEES BY TYPE OF JOB [GRI 2-7]

	2023			2022			2021		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Full-time	1,589	805	2,394	1,250	711	1,961	1,172	647	1,819
Part-time	9	55	64	5	40	45	5	41	46
Total	1,598	860	2,458	1,255	751	2,006	1,177	688	1,865

⁶² In 2023, the group had no employees with non guaranteed working hours.

A geographical breakdown shows that, in line with the previous years, slightly more than half of the employees are employed in Western Europe, approximately 19% in Eastern Europe, Middle East and Africa, roughly 18% in APAC and the remaining 11% in North and South America.



EMPLOYEE INVOLVEMENT, LISTENING AND SATISFACTION



Make the
difference!

Experiment!

Be open!

Care!

Think
customer
first!



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

Driven by knowledge, inspired by human well-being.

Now and for the future generations.

The Culture Code Bring To Life initiative launched in late 2021 continued in 2023. This initiative follows the publication of the Carel Culture Code, a statement of principles guiding the group's cultural evolution, in the form of individual behaviours and collective practices:

- **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;
- **Experiment!** Innovate by exploiting short cycles and in collaboration with customers, considering failures as a learning opportunity;
- **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;
- **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.

In order to promote the adoption of these principles, several initiatives were launched as part of the Culture Code Bring to Life programme, involving different players of the group's organisation. These include, in particular:

- *"Removing roadblockers outside HQ"*: a project inspired by the "Care!" principle whose aim is to help resolve operational problems affecting the group's regions and subsidiaries, with the parent committing to handling these difficulties and proposing improvement solutions;



- “*Let’s talk about... us!*”: a project inspired by the “Be open!” principle in which the group CEO, through live online meetings open to all group employees, answers a number of questions previously sent by colleagues on relevant topics;
- “*Performance Development process*”: this project revises the former performance appraisal process, linking it to the principles of the Culture Code and facilitating discussion opportunities between managers and employees in order to converge on operational priorities, improve performance and focus on skill development. In 2023, the main companies that used a performance management process were the parent, Carel USA, Carel Electronic (China), Carel Thailand, Carel Australia, Carel India, Carel Korea and Carel Japan, for a total of 883 employees taking part in the process.

Also in 2023, 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. This activity was particularly welcomed with views of the parent’s intranet up 35% on 2022 to approximately 50,000 and those of the group’s intranet up 28% to about 12,000 views. The increase also reflects the contribution of the internal magazine Display edited by employees with the aim of sharing stories, ideas and personalities from Carel world, with many articles covering ESG issues.

Furthermore, in order to promote the increasingly active involvement of employees on ESG issues, two solidarity lunches were organised with more than 50 employees of the parent serving lunch to disabled children from the Riesco and Germoglio Cooperatives, together with their families. These initiatives are part of the group’s commitment under the Driven by the Future sustainability plan, linked to inclusion and diversity issues. In line with these issues, the employees spontaneously promoted an initiative related to the Barefoot Socks Day on 3 February 2023.

Based on the parent’s beach cleanup initiative organised in 2022, some group companies carried out similar initiatives in 2023 to protect the environment and combat climate change.

Many internal communication initiatives were launched in 2023 to celebrate the company’s 50th anniversary: from the family day at the end of May, with approximately 40 volunteers accompanying 230 employees and their relatives and friends on a tour of Carel (for a total of about 900 people), to the Back to 1973 initiative, open to all group employees, which allowed them to share some significant steps of their personal history by retracing Carel’s milestones. These initiatives culminated with the company’s birthday party on 30 September, which was attended by about 700 people.

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

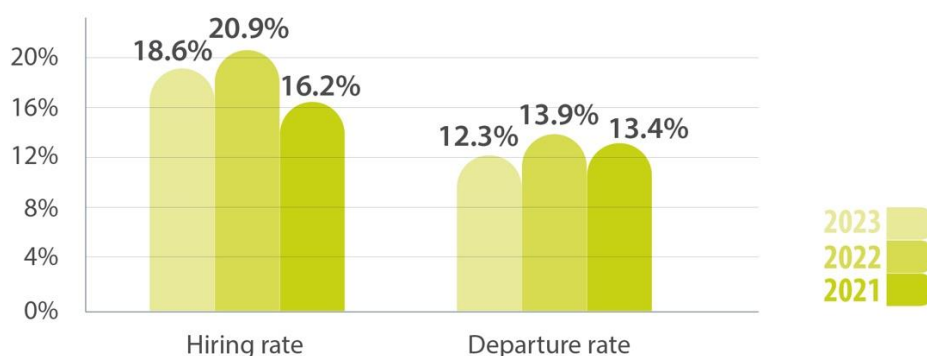
The identification and development of talent, as well as talent attraction and retention, represents a major challenge for the group. Carel’s growth is based on the ability to recruit, retain and develop qualified personnel with a high level of expertise and knowledge of the products and markets in which the group operates. In line with its attraction goals, Carel implemented several initiatives to increase opportunities for meeting talents by providing equal opportunities for young people and particularly young women. These include, for example, participating in recruiting and employer brand initiatives for female students in STEM disciplines and orientation and employer branding projects for schools and universities.

In 2023, the parent launched the Carel Boost-camp programme for under-30 white collar new hires. This programme is spread over three years and includes a year-long, joint and public training course aimed at developing soft skills useful for improving performance, such as Time & Priority Management, Public Speaking, Cross-cultural Management, Project Management and Problem Solving. The aim of this

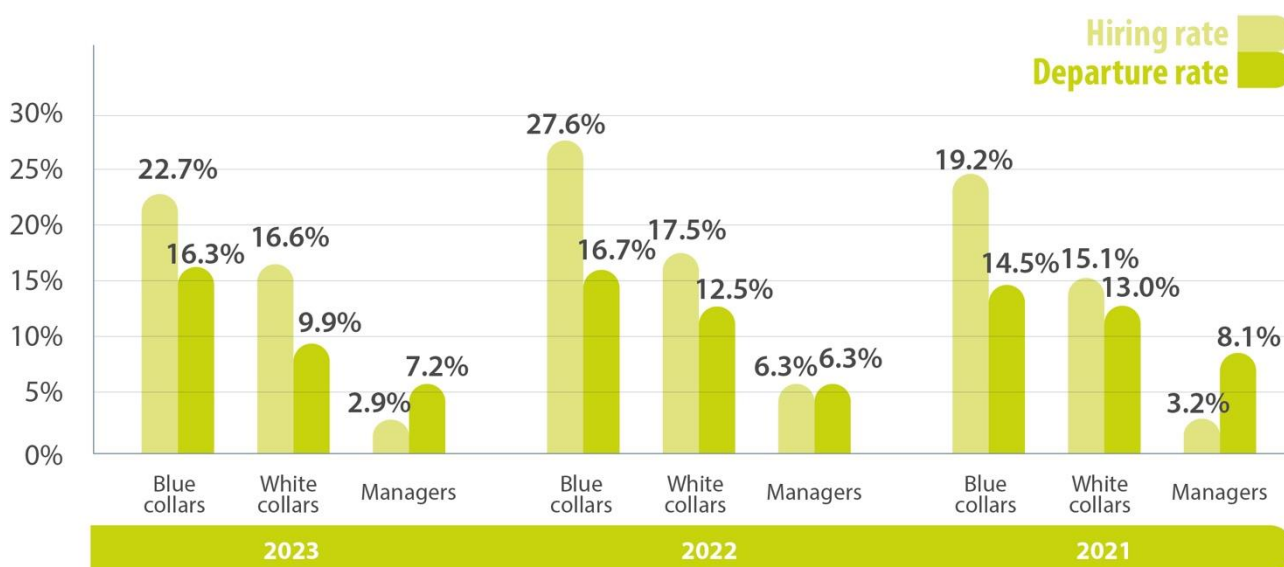
programme is to consolidate Carel's image as a particularly attractive company for the younger population and enhance the skills of under-30s already employed.

In 2023, hiring and departure rates were slightly lower than in 2022. During the year, the labour market was still affected by the effects of the global great resignation and skills shortages. To this end, the group's actions on engagement and retention were also key in supporting the drive for growth and development, as confirmed by the hiring.

Total Turnover (%)



Turnover rate by position (%)



In 2023: the group hired 457 people, of which 39.8% were women. Of the new hires, 37.6% were in the under-30 age group, 49% in the intermediate bracket (30-50) and 13.4% were over 50. In 2023, 303 people left the group (57.8% were men); of these, 28.7% were in the under-30 age bracket, 55.8% in the intermediate bracket (30-50) and 15.5% were over 50. These figures include employees who retired.

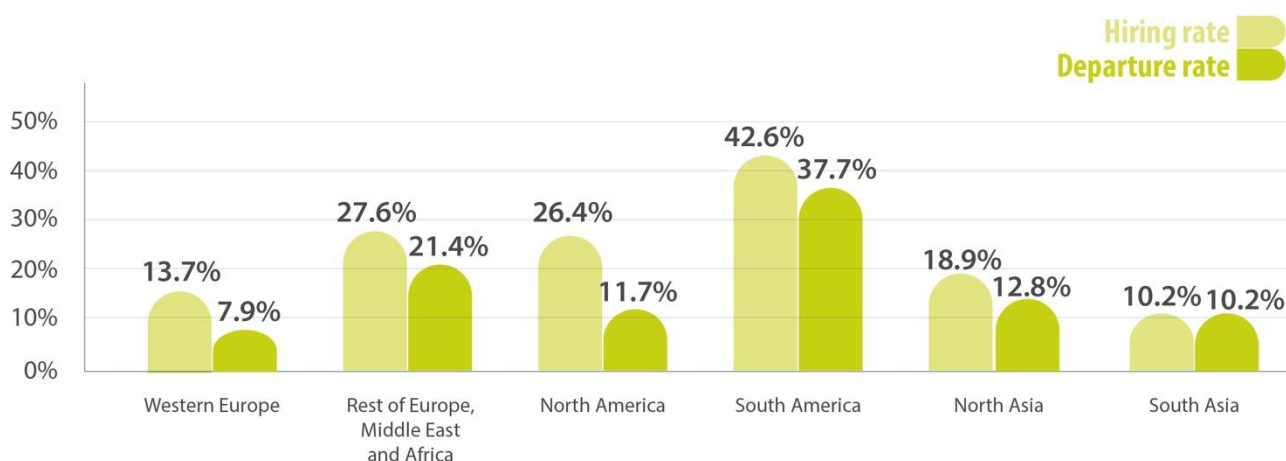
There are no major differences in hiring and departure rates by gender, while the turnover rates of the youngest age bracket (under 30) are significant compared to the other age brackets. The departure rate is consistent with the current trend of the labour market. In contrast, the hiring rate confirms the group's willingness to invest not only in already qualified and experienced staff but also in the development of younger people.

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

	2023		2022		2021	
	Men	Women	Men	Women	Men	Women
Hiring rate	17.2%	21.2%	21.0%	20.9%	16.2%	16.1%
Departure rate	11.0%	14.9%	14.8%	12.5%	14.0%	12.4%

TURNOVER RATE BY AGE BRACKET (%) [GRI 401-1]

%	2023			2022			2021		
	<30	30-50	>50	<30	30-50	>50	<30	30-50	>50
Hiring rate	43.2%	15.5%	10.0%	47.7%	17.3%	12.7%	42.6%	12.3%	8.5%
Departure rate	21.9%	11.7%	7.7%	23.5%	12.1%	12.5%	30.8%	10.9%	8.3%

Turnover rate by geographical area (%)

The impact of the turnover rate is particularly high for blue-collar workers with hiring and departure rates of 22.7% and 16.3%, respectively.

A geographical breakdown of the new hires shows that most new hires (164 resources) took place in Western Europe, followed by Eastern Europe, the Middle East and Africa (128), while 72 were hired in North America, 62 in North Asia, 26 in South America and 5 in South Asia. On the other hand, 102 people left the group in Western Europe, 99 in the rest of Europe, Middle East and Africa, 42 in North Asia, 32 in North America, 23 in South America and 5 in South Asia.

In order to compete in an increasingly dynamic labour market and to enhance 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

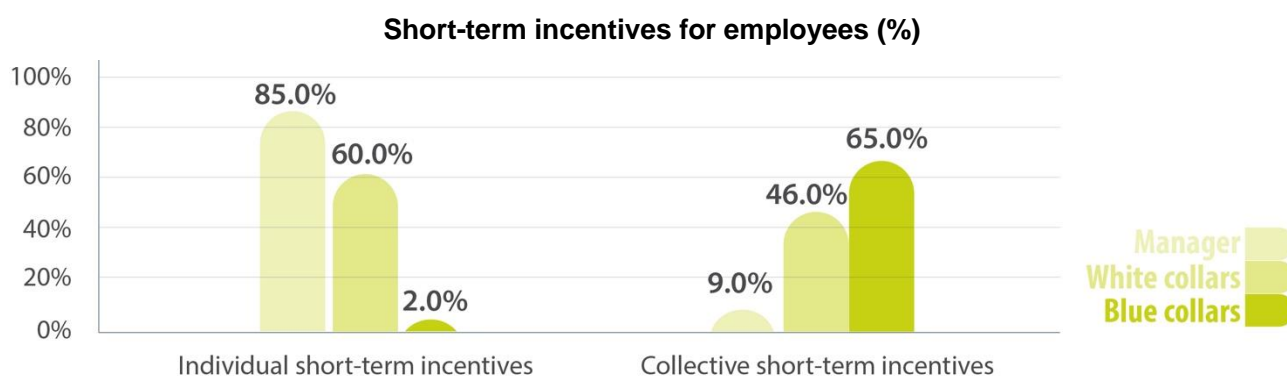
performance and offering employees a rewarding remuneration package, the group's remuneration policy relies on the following principles:

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 focus on equity is also confirmed by Carel's commitment to containing the gender pay gap: to date, the ratio of women's average total pay to men's is 76% for the Italian companies. This disparity is mainly due to the quantitative mismatch in terms of women's presence in the sector in which Carel operates. This reflects the percentage of women, in particular white collar workers, in the group and, more generally, the considerable difficulty in finding engineers or profiles with STEM qualifications and the limited number of female candidates to fill managerial and executive positions. In order to reduce this gap, the company is committed to increasing the % of female hires and is developing specific conditions to increase the presence of women also in managerial and executive positions (e.g., via flexibility policies, initiatives supporting parenthood, etc.) and is implementing workforce development projects for current employees, as described in other sections of this report.

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).



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 2023, 38% of employees are covered by individual short-term incentives - hence linked to targets assigned to individual employees - while 53% are covered by collective incentives, which entail payment of a performance bonus (e.g., based on productivity or efficiency).



Short-term incentives by position (%)



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]⁶³

	2023									
	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	69.6%	44.8%	0.0%	0.0%	88.9%	0.0%	100%	0.0%	0.0%	0.0%
Healthcare	78.6%	59.7%	100%	100%	88.9%	0.0%	100%	0.0%	100%	100%
Disability coverage (in accordance with the law)	84.3%	65.8%	100%	100%	88.9%	0.0%	100%	0.0%	100%	100%
Disability coverage (company policies)	0.0%	0.0%	0.9%	0.0%	88.9%	0.0%	100%	0.0%	100%	100%
Parental leave (in accordance with the law)	84%	65.7%	3.5%	5.1%	88.9%	0.0%	100%	0.0%	100%	100%
Parental leave (company policies)	66.8%	44.8%	0.4%	0.0%	88.9%	0.0%	0%	0.0%	0.0%	0.0%
Pension plan (in accordance with the law)	85.3%	68.7%	84.1%	96.6%	57.9%	0.0%	100%	0.0%	100%	100%
Pension plan (company policies)	8.4%	11.9%	0.0%	0.0%	57.9%	0.0%	0%	0.0%	0.0%	0.0%
Company car - mixed use	10.4%	0.0%	4.0%	0.9%	22.1%	0.0%	18%	0.0%	0.0%	0.0%
Flexible or welfare benefits	83.4%	64.2%	0%	0.0%	57.9%	0.0%	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 three-year period 2022-2024. 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. After negotiations that took place during the second part of 2023, a company agreement geared toward offering greater flexibility and improved treatment compared to the collective bargaining agreement was renewed in early 2024, including at Recuperator, an Italian group company acquired in 2018. The collective incentives, benefits and welfare initiatives included in this agreement apply to both the group's employees and subcontractors.

⁶³ The figures refer to production plant employees: the employees of commercial subsidiaries were excluded.

In addition, in order to promote connection and sports activities, Carel continues to promote 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.

In 2022, Carel adopted guidelines aimed at defining group-wide guidelines on flexible working. Indeed, it is aware of the importance of promoting the retention and attraction of talent, including through schemes that promote the well-being of employees and improve work-life balance. In 2023, the group further expanded remote work options at the parent to facilitate a better work-life balance for employees who live far from the office.

TRAINING AND PROFESSIONAL DEVELOPMENT

Given the technical nature of Carel's business, in 2015 the company set up the Knowledge centre, an organisational unit to specifically monitor and increase the technical and application skills of its employees, with a particular focus on sales and technical support employees. The Knowledge centre coordinates skills mapping at group level and assists with the delivery of training both at the parent's office in Italy (where a new building was recently constructed, with sophisticated equipment for in-person and distance learning) and at the Chinese and US subsidiaries.

At the parent, the induction process for newly hired white collars and executives was revised in 2023 by implementing the Carel Compass programme, which includes a series of training sessions that accelerate their understanding of the company's environment, its culture and core processes. The various topics covered include the company's history, business, product portfolio and strategy. Furthermore, special attention is also given to major ESG initiatives.

The Lean Academy is another distinctive feature of training at Carel: this is an online training path available to all those with access to the company's Learning Management System (LMS), which promotes Lean principles and a "lean" philosophy, which have always been considered a strategic asset for the growth of the group and the business. The Lean Academy is based on 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.

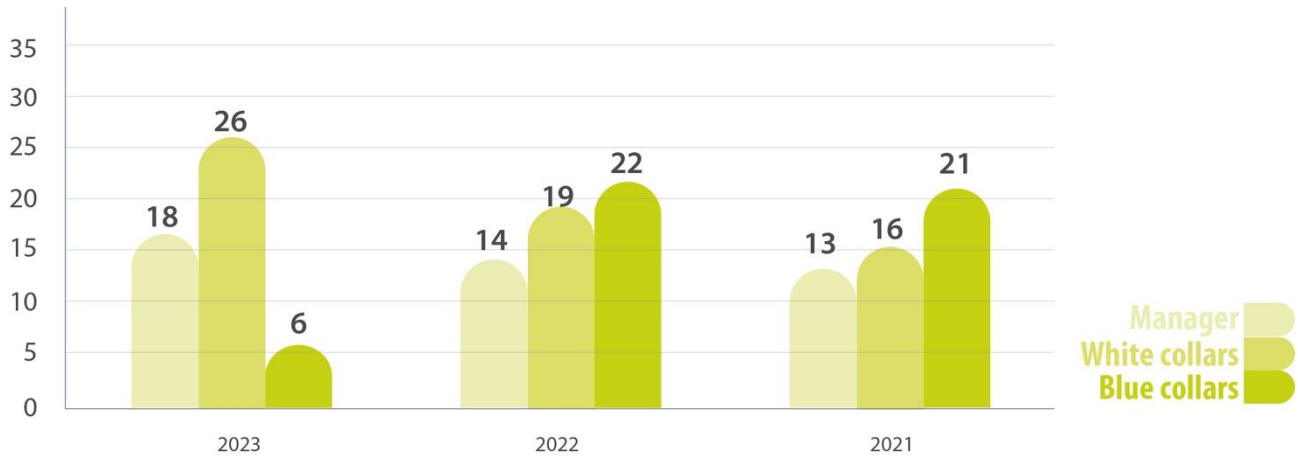
In 2023, a total of 43 thousand hours of training were provided (up by approximately 9.5% on 2022). This means more than 17 average hours per employee, thus meeting the goal of the Driven by the Future plan. With respect to companies managed under the Learning Management System, training was delivered to 2,038 people.

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

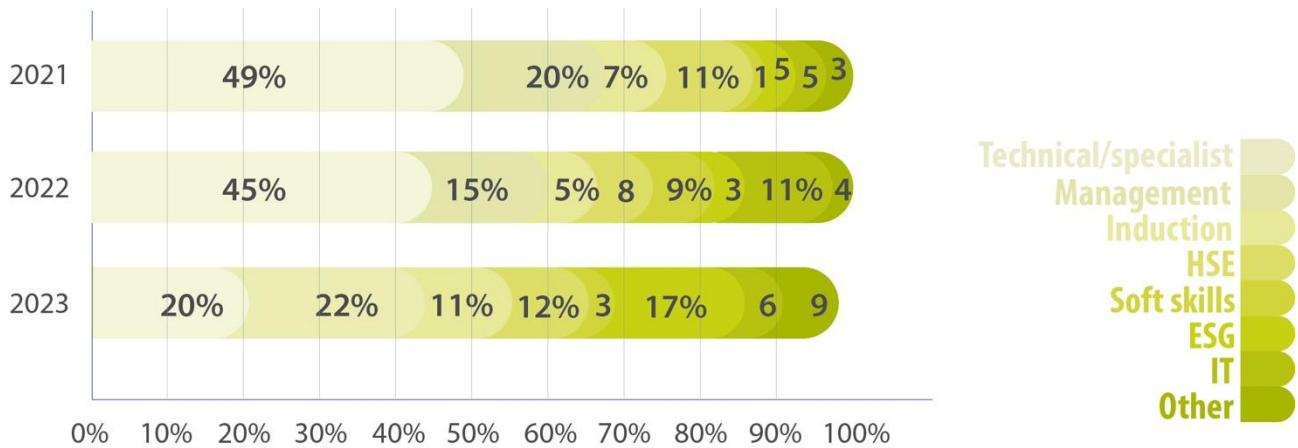
	2023			2022			2021		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Managers	1,119	115	1,234	813	100	913	725	72	797
White collars	27,815	8,611	36,426	16,932	5,038	21,970	13,974	4,077	18,051
Blue collars	3,617	1,861	5,478	6,349	10,176	16,525	6,227	7,883	14,110
Total	32,551	10,587	43,138	24,094	15,314	39,408	20,926	12,033	32,959



Number of average hours of training by professional category (n)



Training hours by course (%)

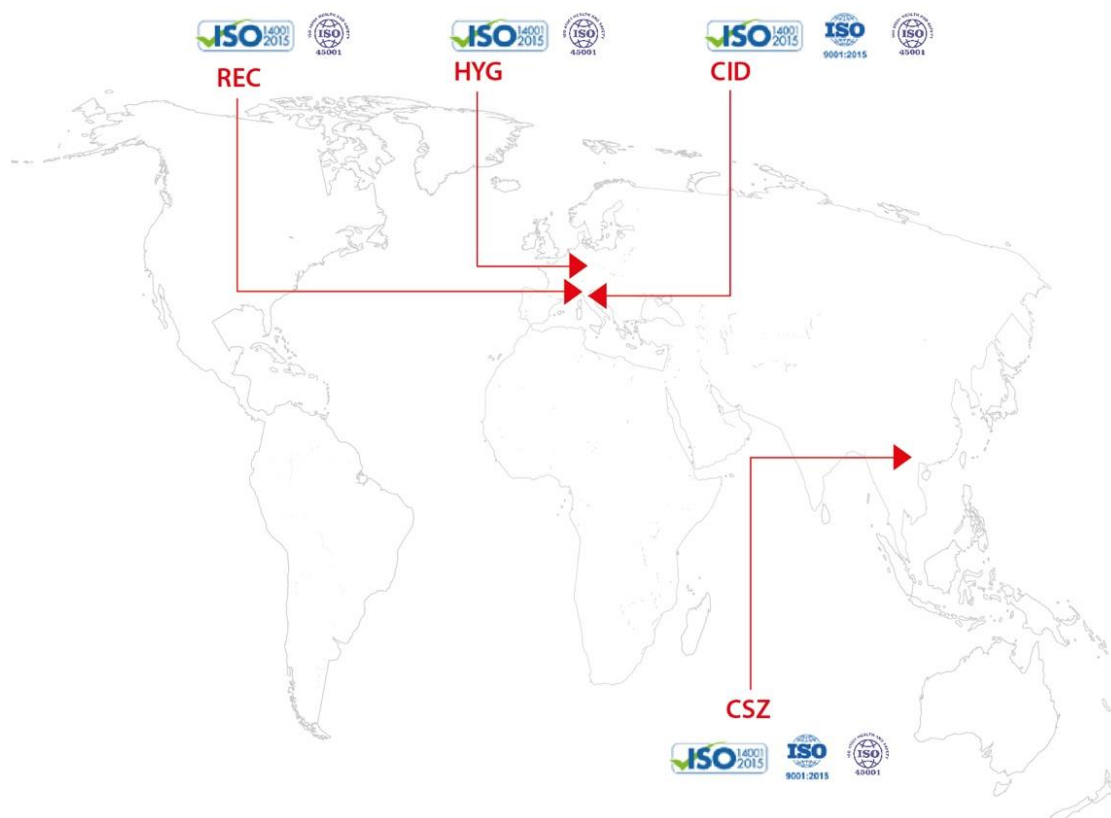


Training courses focused on management (50% covering the Lean approach), with 22% of the total hours dedicated to this area in 2023. Other aspects covered were technical/specialist training about HVAC/R applications and solutions, operations, sales & marketing, quality, human resources, finance and patents and ESG training (including privacy and the code of ethics), which accounted for 17% of total training hours, indicating a significant increase over the previous two-year period. The other aspects covered by training initiatives included: Induction for new hires, health, safety and the environment (HSE) and IT. Specifically, with respect to IT training, approximately 59% of the hours were focused on cybersecurity training, which is an increasingly important aspect given the hybrid work set-up and the growing digitalisation of activities and processes. The classification of training activities for production operators was also revised, excluding from the calculation of training hours some line side-by-side activities which had been considered until 2022. This explains the reduction in average hours for blue collars recorded in 2023.

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, with respect to environmental matters, 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 34% of the production sites (2023 scope which includes the recent acquisitions of Klingenburg Germany and Poland, Arion and Senva). In terms of total surface area covered, they account for 52% of the total area (99,200 square metres), covering 60% of the personnel working at these production sites (a total of 2,269 employees and workers who are not employees, up 20% on the previous year).



RISK ASSESSMENT

In 2021, the group was committed to awareness-related issues, while in 2022, it focused on proactivity. In 2023, these two major concepts were combined to promote new habits among the group's employees and improve how they work, merging effectiveness and safety. 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"⁶⁴, 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 2022, 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) and by including workers in identifying unsafe conditions and near misses and consequently analysing processes in place in production areas.

Proactive reporting is extended to all work areas, specifically production sites. The results for 2023 were positive compared to previous years, as shown below⁶⁵:

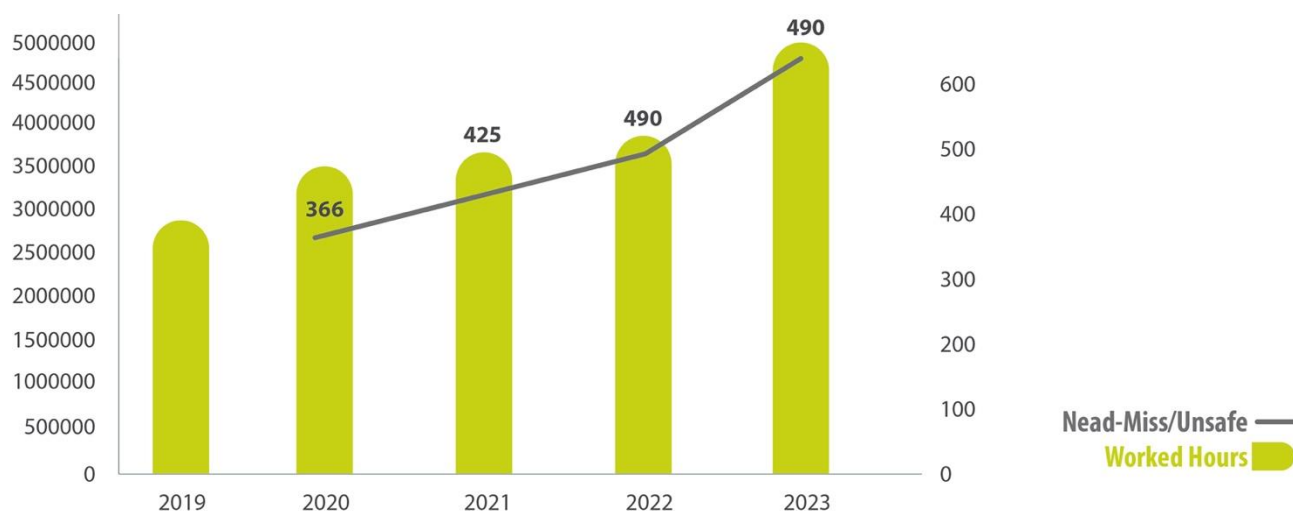
⁶⁴ Unsafe condition:

Substandard or unsafe condition. This category includes unsafe behaviours (e.g., failure of an operator to use protection equipment where required, non-compliance with procedures, removal of safety devices, performance of unauthorised activities, etc.) or hazardous situations (inadequate personal protection equipment, tools, materials, equipment that does not comply with safety standards, etc.) deemed significant for prevention purposes.

Near-misses:

Accidental event whose origin, unfolding and potential effect are incidental in nature, but is, however, different from an accident since the outcome was not harmful due to favourable and fortunate circumstances or the mitigating intervention of technical and/or organisational protection systems. Therefore, accidental event that do not result in damage or injury qualify as near misses.

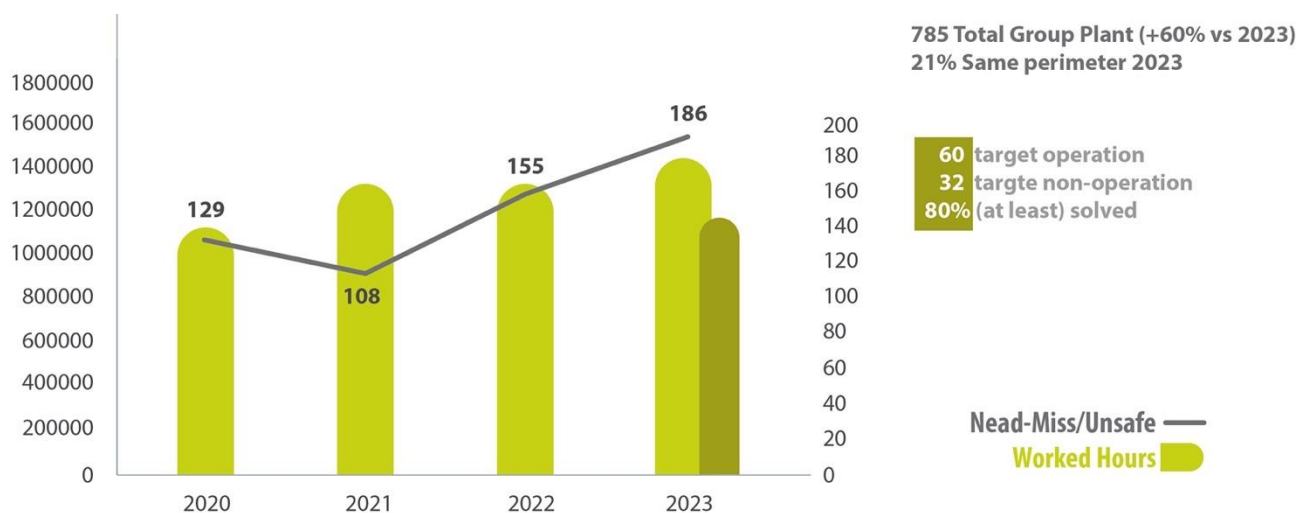
⁶⁵ Safety reporting figures include all production sites.



The overall resolution rate was around 86% for the reports made in 2023.

During the year, the HSE function, in collaboration with the managers of the various company areas, analysed the following for the parent:

- over 186 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.



The risk analysis also covered all work phases which are assessed and periodically updated: Specifically, the following macro-activities were covered:

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 at the parent, 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 2023, evacuation drills were carried out, simulating a possible event with full evacuation. Training sessions were held for operators at the parent based on the actions identified during the drills, which were carried out and documented in a specific report.

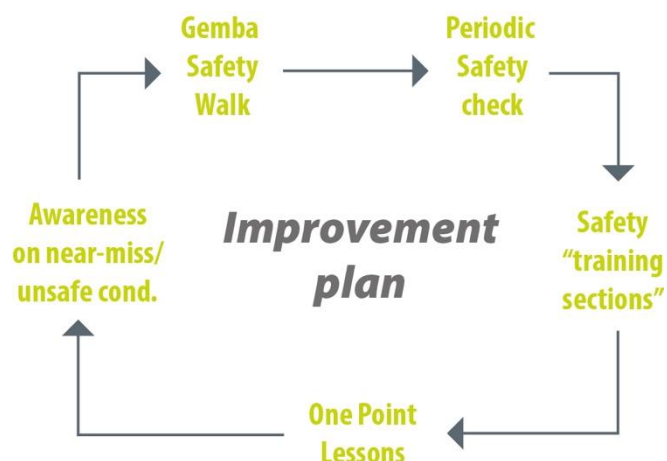
Because of the size and location of the production areas, the parent also implemented a system that reports the role of operators in case of emergencies by means of special identification.

INJURIES

In 2023, there were no fatal injuries or accidents with serious or very serious injuries, continuing the trend of previous years. Two of the parent's employees applied for occupational disease compensation to which the relevant ministerial body has not replied.

Despite the successful results in terms of prevention, several injuries with minor or very minor consequences occurred in 2023, 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, prevention was enhanced as follows:
- improve information, training and monitoring of one point lessons ("OPL"). These provide visible and immediate lessons about the main ways employees can operate safely in their work areas;
- intensify the use of the manager's diary 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;
- implement an initial visible system of the main department, line or work-area risks with mitigation measures and the use of personal protective equipment.



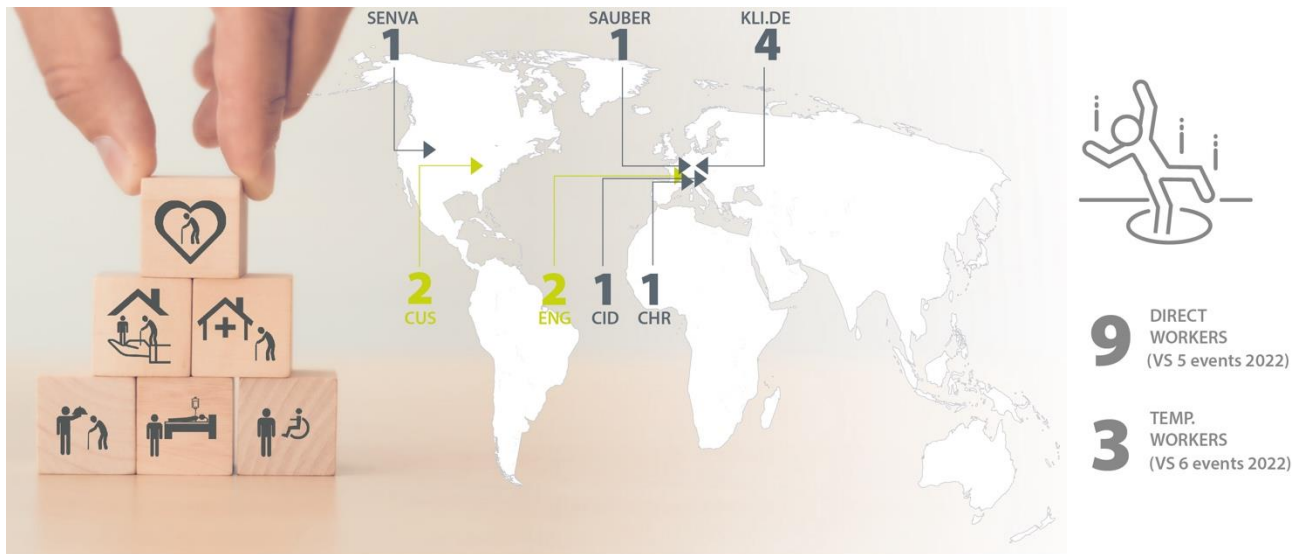
Injury figures show that, despite the 24% increase in the number of worked hours, the injury frequency rate dropped considerably by approximately 12.03% (50% on a like-for-like basis) on the previous year, also in line with the average figure of the last three years as per the ESG plan.

There were 12 minor work-related injuries: nine involving employees, as shown in the table above, and three involving external workers (temporary ones). These injuries led to time off work or a temporary reduction in the work hours. In contrast, no injuries during the commute to and from work using transport organised by the group took place during the year.

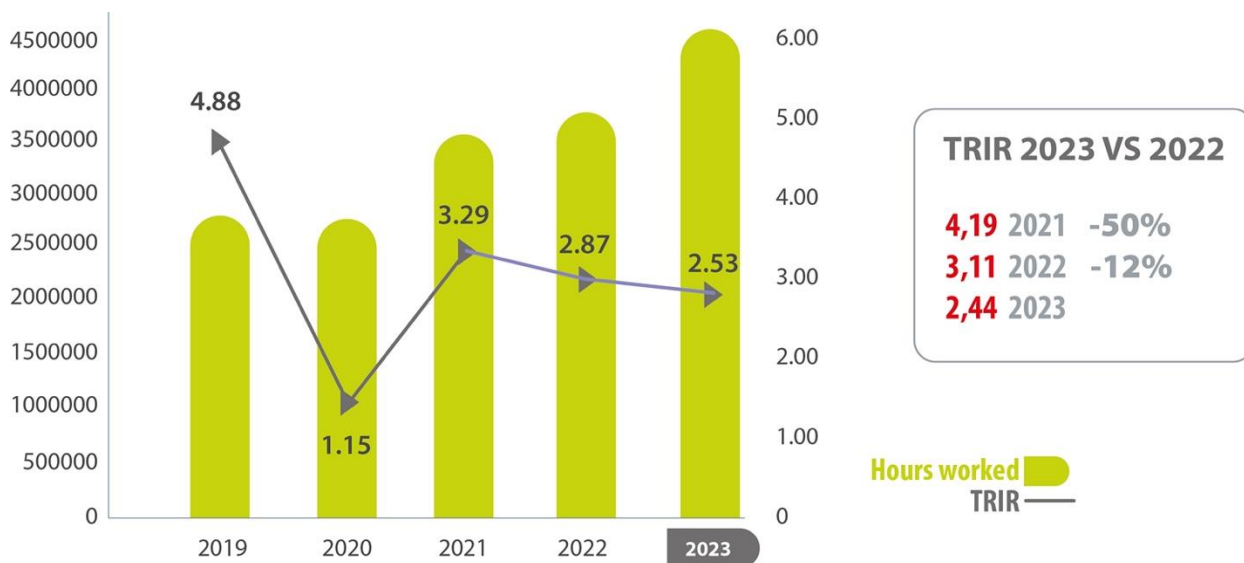
WORK-RELATED INJURIES [GRI 403-9]

	2023	2022	2021
Work-related injuries	12	11	12
Employees	9	5	9
Workers who are not employees	3	6	3
Injury frequency rate ⁶⁶	2.53	2.87	3.29
Employees	2.13	1.44	2.72
Workers who are not employees	5.74	16.52	8.87
Hours worked	4,751,115	3,831,432	3,644,088
Employees	4,228,375	3,468,325	3,305,782
Workers who are not employees	522,741	363,107	338,306

⁶⁶Injury frequency rate: (number of injuries/total number of hours worked) x 1,000,000.



The injury severity rate of 0.16 indicates that the events that involved workers were very minor. However, with a view to continuous improvement, the group will continue to involve all workers in education/training activities and supervision, in addition to that described at the beginning of this section (“improvement plan”). The following chart shows the overall trend of injuries and the main KPIs and the targets achieved:



Injuries	2018	2019	2020	2021	2022	2023 (Ytd)
Empl.	20	13	4	9	5	9
Other	3	1	0	3	6	3
Total	23	14	4	12	11	12

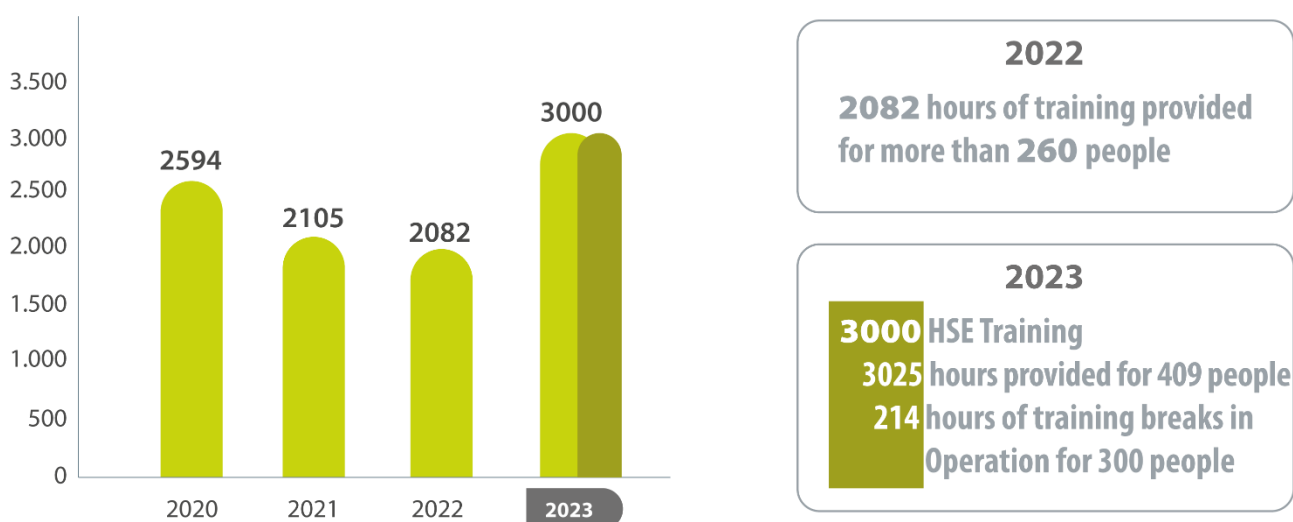
The progress of activities related to health, safety and the environment is the responsibility of the group’s HSE function which reports directly to the group’s CEO. Given the importance of these topics, the group’s HSE manager periodically reports to the supervisory body, the board of statutory auditors 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 2023, the group was not found guilty of or summonsed to appear in court for violating occupational health and safety regulations.

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 2023, specifically with respect to the parent, the training plan covered both employees and workers who are not employees, as required by law.



COMPANY DOCTOR

Also in 2023, 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 2023, in compliance with the ruling legislation, an employee healthcare protocol was set up with the company doctor. The protocol regards all workers (employees and workers who are not employees), with specific medical 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 safety representative 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 ties 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 2023, 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.

In order to preserve the link with the community and promote well-being by encouraging a healthy lifestyle, Carel Industries sponsored the 2023 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.

In 2023, Carel also confirmed its commitment to developing various social projects and initiatives to support children and disadvantaged people. Specifically, the company has begun a collaboration with the "I Bambini delle Fate" association whose mission is to secure financial support for social inclusion projects and for families affected by autism and other disabilities.

Furthermore, the company also supported the Connections on the Road project, in collaboration with Cooperativa Germoglio and the Municipality of Piove di Sacco, to launch an operational street educational unit for adolescent minors in the Piove di Sacco area.



Finally, in 2023, Carel continued to sponsor several initiatives promoted by parishes, municipal administrations, schools 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. Specifically, the aim of the group is to support young students and recent graduates along their path of growth and entry into the labour market and, to this end, it offers internship opportunities: in 2023, 78 internships were provided (43 in 2022 and 40 in 2021). Of these, 42 related to universities. More than 60% involved the parent and the remaining percentage was divided among: Klingenburg Germany (eight), Carel South America (six), Carel Adriatic (four), Carel Thailand and Carel USA (three each), Recuperator, Enginia, Sogutma and Senva (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. To this end, Carel pursues this by providing its employees with assistance and contributing to the payment of tuition fees for schools of all types and levels, focusing on young students in order to motivate them by providing scholarships. In 2023, Carel distributed €39,400 for scholarships, €16,000 as study grants and €20,000 as contributions towards crèche costs, for a total of €75,400.

RESPONSIBLE SUPPLY CHAIN MANAGEMENT

SUPPLY CHAIN

The Carel Group's supplier base is very broad and diversified and consists of approximately 1,100 suppliers of materials, components and products and a wide range of service providers. These are small to medium-sized manufacturers for mechanical components and finished goods, while for electronic components, they mainly comprise distributors and, to a lesser extent, manufacturers.

In 2023, Carel's five in-scope historical plants⁶⁷ purchased materials and components from a total of 519 suppliers, totalling €190 million. Recuperator, HygroMatik, Enginia, Klingenburg Poland and Klingenburg Germany worked with 557 suppliers, all based in Europe, for total purchases worth approximately €48 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 supplier continuity, also as a means of overcoming logistical issues, natural events or lockdowns in foreign countries. Furthermore, as a direct consequence of this policy, the group's environmental impact also decreased. At the same time, the group 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 2023, 86.4% of European acquisitions are from regional suppliers. The decrease on the previous year is due to the emergency actions aimed at reducing the impact of shortages and managing network overstocks. In North America, the figure increased significantly (67%) due to the manufacturing localisation of executives, while in South America and China the localisation index was 31% and 77%, respectively. Overall, in 2023, the localisation index stood at 86%.

PROPORTION OF SPENDING ON LOCAL SUPPLIERS BY GEOGRAPHICAL AREA [GRI 204-1]⁶⁸

Geographical areas	2023	2022	2021
	% of spending		
Carel Industries - Europe	89%	91%	90%
Carel Adriatic - Europe	83%	87 %	85%
Recuperator - Europe	100%	100%	100%
Hygromatic - Europe	100%	100%	100%
Enginia - Europe	100%	100%	-
Klingenburg Germany - Europe	100%	-	-
Klingenburg Poland - Europe	100%	-	-
Carel US - North America	67%	55.4%	54%
Carel Brazil - South America	31%	31%	25%
Carel China - Asia Pacific	77%	82%	80%
Arion - Italy	100%	-	-

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 deadlines for various 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

⁶⁷ Carel Industries, Carel Adriatic, Carel US, Carel Brazil and Carel China

⁶⁸ Carel's plant localisation index is based on the acquisition volumes of each code, based on the procurement regulations at each year end.



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.

SUPPLIER EVALUATION AND SELECTION

In order to manage supply chain 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 ⁶⁹ 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.

The Supplier Code of Conduct includes and covers the following topics: No Child Labor, Forced Labor, Discrimination, Harassment, Decent Working Time, No Conflict Minerals, Protection of the Environment, Health and Safety, Ethical Business Behaviour, Anti-Corruption / Money Laundering, Human Rights. This document underwent benchmarking and was found to be in line with the best practices of 17 companies operating in sectors relevant to Carel.

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. This document is part of a communication and awareness campaign that targets the entire supplier base and is published on Carel's institutional website in order to be available also to candidate suppliers.

Compliance with and signing of the Supplier Code of Conduct is a mandatory step in the approval of new component and product suppliers. As of 2023, this requirement has been extended to Carel Industries' service providers and 12 code of conduct endorsements were collected prior to availing of the providers' services.

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 survey 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. The survey is regularly sent to new suppliers of materials and components.

As of 2019, when the Sustainability Survey was launched, more than 110 active Carel suppliers, i.e., the most representative ones in terms of purchasing turnover, were involved, gradually extending coverage to the new companies that joined the group.

⁶⁹ These policies are publicly available, in Italian and English, on the company website at the following link "www.carel.it/legal-notice".



This panel of suppliers was subject to a sustainability assessment via the survey, with the dual purpose of promoting supply chain awareness of social and environmental responsibility issues, encouraging specific improvement activities, and gathering information on their management systems and practices.

Overall, the response to the survey was satisfactory, with over 98% responding; the average score was 81 out of 100. The respondents showed compliance and a substantial awareness of sustainability issues.

Although the group does not have a standard systematic control procedure, no complaints were received in 2023 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.

Carel oversees its supply chain on a continuous basis to minimise risks related to the purchase of materials that include conflict minerals or mining activities involved in the violation of human rights. 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 2023, 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 2023 by aligning Carel's data with those issued by its subsidiaries.

Specifically, 357 manufacturers were contacted, for an equivalent of approximately €61 million of materials purchased in 2023 for production and resale.

Carel opted to measure the assessment of its supply chain, conducted in 2023, 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

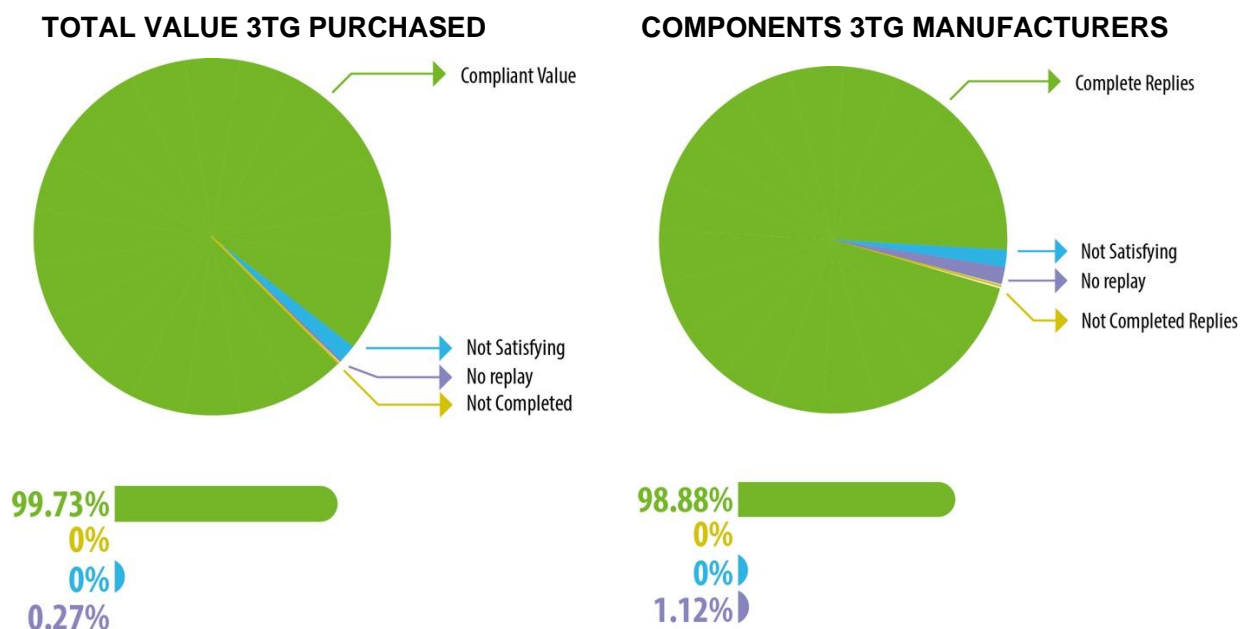
Compliant value	Value of products purchased from a compliant manufacturer that has received an updated CMRT
Incomplete	Value of products purchased from a manufacturer that has not supplied complete feedback
Not satisfactory	Value of products purchased from a manufacturer that has not provided the relevant documentation
No reply	Value of products purchased from a manufacturer that has not provided feedback

Number of manufacturers of articles containing 3TGs

COMPLETE replies	The manufacturer has supplied the CMRT
Incomplete replies	The manufacturer has not supplied complete feedback
Not satisfactory	Irrelevant documentation received from manufacturer
No reply	The manufacturer has not provided feedback

As shown below, in 2023, almost all the value of purchased components pertains to suppliers that indicated the smelters involved in their production.

Furthermore, almost 99% 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

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

	2023			2022			2021		
	<30	30-50	>50	<30	30-50	>50	<30	30-50	>50
Managers	0	28	40	0	28	36	0	29	33
White collars	202	916	301	156	793	231	160	739	215
Blue collars	196	505	270	150	439	173	129	408	152
Total	398	1.449	611	306	1260	440	289	1176	400

EMPLOYEES BY PROFESSIONAL CATEGORY AND GENDER % [GRI 405-1]

	2023			2022			2021		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Managers	2.5%	0.3%	2.8%	2.9%	0.2%	3.2%	3.1%	0.3%	3.3%
White collars	42.4%	15.3%	57.7%	43.0%	15.8%	58.8%	44.3%	15.4%	59.7%
Blue collars	20.1%	19.4%	39.5%	16.6%	21.4%	38.0%	15.8%	21.2%	36.9%
Total	65.0%	35.0%	100%	62.5%	37.5%	100%	63.1%	36.9%	100%

EMPLOYEES BY PROFESSIONAL CATEGORY AND GENDER % [GRI 405-1]

	2023				2022				2021			
	<30	30-50	>50	Totale	<30	30-50	>50	Totale	<30	30-50	>50	Totale
Managers	0.0%	1.1%	1.6%	2.8%	0.0%	1.4%	1.8%	3.2%	0.0%	1.6%	1.8%	3.3%
White collars	8.2%	37.3%	12.2%	57.7%	7.8%	39.5%	11.5%	58.8%	8.6%	39.6%	11.5%	59.7%
Blue collars	8.0%	20.5%	11.0%	39.5%	7.5%	21.9%	8.6%	38.0%	6.9%	21.9%	8.2%	36.9%
Total	16.2%	59.0%	24.9%	100%	15.3%	62.8%	21.9%	100%	15.5%	63.1%	21.4%	100%

NUMBER OF EMPLOYEES BY CONTRACT TYPE AND GENDER [GRI 405-1]

	2022									
	Permanent employment contracts				Fixed-term contracts				Total	
	Men	Women	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				

NO. EMPLOYEES BY CONTRACT TYPE AND GENDER [GRI 2-7]

	2021									
	Permanent Employments contracts				Fixed Term contracts				Total	
	Men	Women	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				

2021

	Permanent Employments contracts		Fixed Term contracts		Total	
	Men	Women	Men	Women	Permanent	Fixed-term
North Asia	59	17	123	83	76	206
South Asia	34	12	0	0	46	0
Total	997	527	180	161	1,524	341

NUMBER OF EMPLOYEES BY CONTRACT TYPE (FULL TIME AND PART TIME) AND GENDER [GRI 2-7]

2023

	Full-time			Part-time		
	Men	Women	Total	Men	Women	Total
Western Europe	908	327	1,235	5	44	49
Rest of Europe, Middle East and Africa	210	240	450	2	11	13
North America	195	78	273	0	0	0
South America	27	34	61	0	0	0
North Asia	214	114	328	0	0	0
South Asia	35	12	47	2	0	2
Total	1,589	805	2,394	9	55	64

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	1,250	711	1,961	5	40	45

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

	2023			2022			2021		
	Uomini	Donne	Totale	Uomini	Donne	Totale	Uomini	Donne	Totale
Employee hires	275	182	457	263	157	420	191	111	302
Employee turnover	175	128	303	185	94	279	165	85	250

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

	2023				2022				2021			
	<30	30-50	>50	Totale	<30	30-50	>50	Totale	<30	30-50	>50	Totale
Employee hires	172	224	61	457	146	218	56	420	123	145	34	302
Employee turnover	87	169	47	303	72	152	55	279	89	128	33	250

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

2023

	Western Europe	Rest of Europe, Middle East and Africa	North America	South America	North Asia	South Asia	Total
Employee hires	164	128	72	26	62	5	457
Employee turnover	102	99	32	23	42	5	303

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 [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

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

2023

	Western Europe	Rest of Europe, Middle East and Africa	North America	South America	North Asia	South Asia
Hiring rate	12.8%	27.6%	26.4%	42.6%	18.9%	10.2%
Departure rate	7.9%	21.4%	11.7%	37.7%	12.8%	10.2%

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%
Departure 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%
Departure rate	7.08%	14.56%	32.35%	37.50%	21.63%	8.70%

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

	2023			2022			2021		
	Blue collars	White collars	Managers	Blue collars	White collars	Managers	Blue collars	White collars	Managers
Employee hires	220	235	2	210	206	4	132	168	2
Employee turnover	158	140	5	127	148	4	100	145	5

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

	2023			2022			2021		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Managers	18.3	16.5	18.1	13.8	19.9	14.3	12.7	14.4	12.9
White collars	26.7	22.9	25.7	19.6	15.9	18.6	16.9	14.2	16.2
Blue collars	7.3	3.9	5.6	19.1	23.7	21.7	21.2	20.0	20.5

ANNUAL TOTAL COMPENSATION RATIO [GRI 2-21] ⁷⁰

	2023	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)	31:1	32:1
Ratio of the annual total compensation percentage increase for the organization's highest-paid individual to the median annual total compensation percentage increase for all employees (excluding the highest-paid individual)	10:1 ⁷¹	5:1

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

	2022 e 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

WASTE GENERATED [GRI 306-3]

Type of waste	2021		
	Waste generated	Waste diverted from disposal	Waste directed to disposal
Hazardous waste	8.72	5.72	3.00

⁷⁰ The scope of the remuneration used for the calculation includes the fixed and variable short- and long-term remuneration of the employees of the Group's Italian companies, as it is considered comparable in terms of remuneration logic. STI and LTI variable remuneration is calculated at the effective value.

⁷¹ In 2023, the annual total compensation of the highest-paid individual and the median annual total compensation for all employees decreased as a percentage compared to 2022. This is due to the fact that the average payout for the 2023 variable portion was lower than the average payout of the 2022 variable portion.

Type of waste	2021		
	Waste generated	Waste diverted from disposal	Waste directed to disposal
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	9.24	5.80	3.44
Intermediate recycling	26.09	20.49	5.50
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]

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



SHARE OF TURNOVER DERIVED FROM PRODUCTS OR SERVICES ASSOCIATED WITH ECONOMIC ACTIVITIES ALIGNED WITH THE TAXONOMY - DISCLOSURE FOR THE YEAR 2023

Economic activities	Code	2023		Criteria for substantial contribution					Criteria DNSH («not significant harm»)							2022 Aligned Revenues (A.1.) or eligible (A.2.)	Qualifying activities categories	Transition activities categories			
		Revenues	2023 %	Climate mitigation	Climate adaptation	Water	Pollution	Circular Economy	Biodiversity	Climate mitigation	Climate adaptation	Water	Pollution	Circular Economy	Biodiversity				Minimum Safeguards		
A. TAXONOMY ELIGIBLE ACTIVITIES																					
A.1. Eco-sustainable activities (aligned with taxonomy)																					
Activity 1 – Manufacture of building energy efficiency devices	3.5	332,552	51.14%	Y	No	N/AM	N/AM	N/AM	N/AM	N/AM	Y	Y	Y	Y	Y	Y	Y	47%	A		
Revenues of eco-sustainable activities (aligned with taxonomy) (A.1)		332,552	51.14%	51.14%							Y	Y	Y	Y	Y	Y	Y	47%			
Of which enabling			51.14%	51.14%							Y	Y	Y	Y	Y	Y	Y		A		
Of which transitioning			0%																		T
A.2. Activities eligible for the taxonomy but not environmentally sustainable (activities not aligned with the taxonomy)																					
Activity 2 – Manufacturing of energy efficiency devices for buildings	3.5	119,215	18.33%	AM	N/AM	N/AM	N/AM	N/AM	N/AM	N/AM								19%			
Activity 3 – Manufacture of electrical and electronical equipment	1.2	79,336	12.20%	N/AM	N/AM	N/AM	N/AM	N/AM	N/AM	N/AM								0%			
Revenues of Activities eligible for the taxonomy but not environmentally sustainable (activities not aligned with the taxonomy) (A.2)		198,551	30.53%	18.33%					12.20%									19%			
A. Revenues of the activities eligible with the taxonomy (A1+A2)		531,103	81.68%	69.48%					12.20%												
B. ACTIVITIES NOT ELIGIBLE FOR TAXONOMY																					
Revenues of activities not eligible for taxonomy		119,140	18.32%																		
TOTAL		650,243	100%																		



SHARE OF INVESTMENT EXPENSE ARISING FROM PRODUCT OR SERVICES ASSOCIATED WITH ECONOMIC ACTIVITIES

Economic Activities	2023			Criteria for substantial contribution						Criteria DNSH («not significant harm»)						2022 Aligned Capex (A.1.) or eligible (A.2.)	Qualifying activities categories	Transition activities categories	
	Code	Capex	2023 Capex %	Climate mitigation	Climate adaptation	Water	Pollution	Circular Economy	Biodiversity	Climate mitigation	Climate adaptation	Water	Pollution	Circular Economy	Biodiversity				Minimum Safeguards
A. TAXONOMY ELIGIBLE ACTIVITIES																			
A.1. Eco-sustainable activities (aligned with taxonomy)																			
Activity 1 – Manufacture of building energy efficiency devices	3.5	13,554	41.6%	Y	No	N/AM	N/AM	N/AM	N/AM	N/AM	Y	Y	Y	Y	Y	Y	50%	A	
Capex of eco-sustainable activities (aligned with taxonomy) (A.1)		13,554	41.6%	41.6%							Y	Y	Y	Y	Y	Y	50%		
Of which enabling			41.6%	41.6%							Y	Y	Y	Y	Y	Y		A	
Of which transitioning			0%																T
A.2. Activities eligible for the taxonomy but not environmentally sustainable (activities not aligned with the taxonomy)																			
Activity 2 – Manufacturing of energy efficiency devices for buildings	3.5	4,090	12.6%	AM	N/AM	N/AM	N/AM	N/AM	N/AM								16%		
Activity 3 – Manufacture of electrical and electronic equipment	1.2	2,026	6.2%	N/AM	N/AM	N/AM	N/AM	AM	N/AM										
Capex of Activities eligible for the taxonomy but not environmentally sustainable (activities not aligned with the taxonomy) (A.2)		6,116	18.8%	12.6%				6.2%									16%		
A. Capex of the activities eligible with the taxonomy (A1+A2)		19,670	60.0%	54.1%				6.2%											
B. ACTIVITIES NOT ELIGIBLE FOR TAXONOMY																			
Capex of activities not eligible for taxonomy		12,893	40%																
TOTAL		32,563	100 %																


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

	2023			Criteria for substantial contribution						Criteria DNSH («not significant harm»)						2022 Aligned Opex (A.1.) or eligible (A.2.)	Qualifying activities categories	Transition activities categories	
	Code	OpEx	2023 Opex %	Climate mitigation	Climate adaptation	Water	Pollution	Circular Economy	Biodiversity	Climate mitigation	Climate adaptation	Water	Pollution	Circular Economy	Biodiversity				Minimum Safeguards
A. TAXONOMY ELIGIBLE ACTIVITIES																			
A.1. Eco-sustainable activities (aligned with taxonomy)																			
Activity 1 – Manufacture of building energy efficiency devices	3.5	12,224	56.90 %	Si	No	N/AM	N/AM	N/AM	N/AM	Y	Y	Y	Y	Y	Y	Y	61%	A	
Opex of eco-sustainable activities (aligned with taxonomy) (A.1)		12,224	56.90%	56.90%						Y	Y	Y	Y	Y	Y	Y	61%		
Of which enabling			56.90%	56.90%						Y	Y	Y	Y	Y	Y	Y		A	
Of which transitioning			0%																T
A.2. Activities eligible for the taxonomy but not environmentally sustainable (activities not aligned with the taxonomy)																			
Activity 2 – Manufacturing of energy efficiency devices for buildings	3.5	4,374	20.36%	AM	N/AM	N/AM	N/AM	N/AM	N/AM								22%		
Activity 3 – Manufacture of electrical and electronical equipment	1.2	3,643	16.96%	N/AM	N/AM	N/AM	N/AM	AM	N/AM										
Opex of Activities eligible for the taxonomy but not environmentally sustainable (activities not aligned with the taxonomy) (A.2)		8,017	37.32%	20.36%				16.96 %									22%		
A. Opex of the activities eligible with the taxonomy (A1+A2)		20,241	94.22%	77.26%				16.96 %											
B. ACTIVITIES NOT ELIGIBLE FOR TAXONOMY																			
Opex of activities not eligible for taxonomy		1,242	5.78%																
TOTAL		21,483	100 %																

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 against active and passive corruption topics, useful for gaining an understanding of the group's operations, performance, results and its impact. The Statement covers the topics considered relevant as per article 3 of the decree to the extent necessary to ensure an understanding of its operations, its progress, its results and the related impact. This statement is prepared once a year in accordance with the decree and the GRI Standards ("in accordance with the GRI Standards" option), 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 pages 154-159 to assist the readers in finding the information disclosed in this statement. The presentation of non-financial information reflects the principle of materiality or relevance, 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 27-31), have been considered relevant 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 conducted following the process defined by 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 previous year's figures were not restated.

Please note that the Carel Group will apply the new Corporate Sustainability Reporting Directive (CSRD) from the financial year beginning 1 January 2024. In this regard, the Group will initiate a mapping of the disclosure requirements of the CSRD and the European Sustainability Standards (ESRS) in order to identify the information that the Group will have to integrate with reference to the financial year 2024 and to define an action plan to ensure compliance with the new regulations.

REPORTING BOUNDARY

The qualitative and quantitative data and information contained in the consolidated non-financial statement of the Carel Group refer to the group's performance in 2023. The scope of the Consolidated Non Financial 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 2022. The companies acquired during the year have not been included in the reporting boundary with regards to the social and environmental information since their acquisition mainly took place in the second half of the year and, consequently, their exclusion would not have a significant impact on 2023. Any limitations to such reporting boundary are indicated in the document.

The following companies were included in the reporting boundary with regards to the social and environmental information of the 2023 consolidated non-financial statement:

CAREL INDUSTRIES	CAREL NORDIC
RECUPERATOR SPA	CAREL JAPAN
C.R.C. SRL	CAREL MEXICANA
CAREL UK	CAREL MIDDLE EAST
CAREL FRANCE	ALFACO POLSKA SP.Z.O.O.



CAREL ASIA	CAREL (THAILAND) CO.,Ltd
CAREL SUD AMERICA	CAREL ADRIATIC DOO
CAREL USA	HYGROMATIK GMBH
CAREL AUSTRALIA	CAREL UKRAINE LLC
CAREL DEUTSCHLAND	ENERSOL INC
CAREL ELECTRONIC SUZHOU CO.	CFM Sogutma VE
CAREL CONTROLS IBERICA	ENGINIA SRL
CAREL INDIA	ARION SRL
CAREL SUD AFRICA	SENVIA INC
CAREL RUS	KLINGENBURG INTERNATIONAL SP.Z.O.O.
CAREL HVAC&R KOREA	KLINGENBURG GMBH
CAREL Singapore	SAUBER SRL

REPORTING PROCESS

Preparation of the group's 2023 Consolidated Non Financial Statement was based on a structured reporting process 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 was based on the existing information systems used by the main internal functions. Also in 2023, 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 was processed through extrapolations and calculations or, when specified, estimates. The financial data and information were taken from the 2023 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 2023 draft financial statements on 6 March 2024;
- 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 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 boundary.

GRI CONTENT INDEX

INDICE DEI CONTENUTI GRI

Statement of use	Carel Industries S.p.A. prepared this report covering 2023 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		
				REQUESTE D	REASON	DESCRIPTION

GENERAL DISCLOSURES

GRI 2: General disclosures 2021	2-1 Organizational details	pag. 8; 41	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	pag. 151-152			
	2-3 Reporting period, frequency, and contact point	pag. 151-152			
	2-4 Restatements of information	pag. 151-152			
	2-5 External assurance	pag. 159			
	2-6 Activities, value chain and other business relationships	pag. 9: 14-16; 135-140; 151-152			
	2-7 Employees	pag. 112-115; 143-144			
	2-8 Workers who are not employees	pag. 113			
	2-9 Governance structure and composition	pag. 41-46; 45-46; 146			
	2-10 Nomination and selection of the highest governance body	pag. 42			
	2-11 Chair of the highest governance body		Reference should be made to the report on corporate governance and the ownership structure.		
	2-12 Role of the highest governance body in overseeing the management of impacts	pag. 43-44			
	2-13 Delegation of responsibility for managing impacts	pag. 44-46			



GRI STANDARD/ OTHER SOURCE	DISCLOSURE	PAGE NUMBER	NOTE	OMISSIONS		
				REQUESTE D	REASON	DESCRIPTION
	2-14 Role of the highest governance body in sustainability reporting	pag. 43				
	2-15 Conflicts of interest	pag. 58				
	2-16 Communication of critical concerns	pag. 57	In 2022 and 2023, no critical issues were reported to the board.			
	2-17 Collective knowledge of the highest governance body	pag. 42-43				
	2-18 Evaluation of the performance of the highest governance body	pag. 42-44				
	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	pag. 146				
	2-22 Statement on sustainable development strategy	pag. 3-5				
	2-23 Policy commitments	pag. 24-25				
	2-24 Embedding policy commitments	pag. 24; 47; 121; 137-139				
	2-25 Processes to remediate negative impacts	pag. 57-58; 86-87; 112-113; 138-139	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	pag. 57-58				
	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 2022 or 2023 consolidated financial statements that were deemed significant, individually or in the aggregate.			

GRI STANDARD/ OTHER SOURCE	DISCLOSURE	PAGE NUMBER	NOTE	OMISSIONS		
				REQUESTE D	REASON	DESCRIPTION
	2-28 Membership associations	pag. 34-36				
	2-29 Approach to stakeholder engagement	pag. 25-26; 31-32				
	2-30 Collective bargaining agreements	pag. 112				
MATERIAL TOPICS						
GRI 3: Material topics 2021	3-1 Process to determine material topics	pag. 27-31; 152				
	3-2 List of material topics	pag. 27-30				
SUSTAINABLE GOVERNANCE						
GRI 3: Material topics 2021	3-3 Management of material topics	pag. 29; 42-49				
ENERGY CONSUMPTION AND USE OF NATURAL RESOURCES						
GRI 3: Material topics 2021	3-3 Management of material topics	pag. 29; 92-95; 108				
GRI 302: Energy 2016	302-1 Energy consumption within the organization	pag. 92-94				
	302-3 Energy intensity	pag. 92-93				
	302-4 Reduction of energy consumption	pag. 95				
GRI 303: Water and effluents 2018	303-1 Interactions with water as a shared resource	pag. 108				
	303-2 Management of water discharge-related impacts	pag. 108				
	303-3 Water withdrawal	pag. 108				
ENVIRONMENTAL IMPACT, POLLUTION AND CLIMATE CHANGE						
GRI 3: Material topics 2021	3-3 Management of material topics	pag. 29-30; 85-87				
GRI 305: Emissions 2016	305-1 Direct (Scope 1) GHG emissions	pag. 96-97				
	305-2 Energy indirect (Scope 2) GHG emissions	pag. 96-97				
	305-3 Other indirect (Scope 3) GHG emissions	pag. 99-106				
	305-4 GHG emissions intensity	pag. 96-98				
	305-5 Reduction of GHG emissions	pag. 80; 95				
	305-6 Emissions of ozone-depleting substances (ODS)	pag. 107				
	305-7 Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions	pag. 107				
WASTE REDUCTION AND UTILISATION OF RESPONSIBLE WASTE ELIMINATION METHODS						
GRI 3: Material topics 2021	3-3 Management of material topics	pag. 29; 87-88				
GRI 306: Waste 2020	306-1 Waste generation and significant waste-related impacts	pag. 87; 90-91				
	306-2 Management of significant waste-related impacts	pag. 87-88				
	306-3 Waste generated	pag. 89; 146-147				
	306-4 Waste diverted from disposal	pag. 89-90; 147				

GRI STANDARD/ OTHER SOURCE	DISCLOSURE	PAGE NUMBER	NOTE	OMISSIONS		
				REQUESTE D	REASON	DESCRIPTION
	306-5 Waste directed to disposal	pag. 90; 147				
ENERGY EFFICIENCY AND SUSTAINABLE PRODUCTS						
GRI 3: Material topics 2021	3-3 Management of material topics	pag. 28; 78-82				
GRI 302: Energy 2016	302-5 Reductions in energy requirements of products and services	pag. 78-80				
TALENT ATTRACTION, DEVELOPMENT AND RETENTION						
GRI 3: Material topics 2021	3-3 Management of material topics	pag. 29; 118; 120				
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	pag. 118-119; 144-146				
EMPLOYEE WELL-BEING, OBSERVATION AND SATISFACTION						
GRI 3: Material topics 2021	3-3 Management of material topics	pag. 28; 118-120				
GRI 401: Employment 2016	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	pag. 122				
TRAINING AND SKILLS DEVELOPMENT						
GRI 3: Material topics 2021	3-3 Management of material topics	pag. 28; 123-124				
GRI 404: Training and education 2016	404-1 Average hours of training per year per employee	pag. 123-124; 146				
	404-2 Programs for upgrading employee skills and transition assistance programs	pag. 123-124				
DEVELOPMENT OF LOCAL COMMUNITIES AND RELATIONSHIP WITH LOCAL AREAS						
GRI 3: Material topics 2021	3-3 Management of material topics	pag. 29; 132-134				
GRI 413: Local communities 2016	413-1 Operations with local community engagement, impact assessments, and development programs	pag. 133-134				
R&D AND PRODUCT INNOVATION						
GRI 3: Material topics 2021	3-3 Management of material topics	pag. 28; 65-68				
PRODUCT AND SERVICE QUALITY AND SAFETY						
GRI 3: Material topics 2021	3-3 Management of material topics	pag. 28; 72-73				
GRI 416: Customer health and safety 2016	416-1 Assessment of the health and safety impacts of product and service categories	pag. 72-76				
	416-2 Incidents of non-compliance concerning the health and safety impacts of products and services	pag. 73				
CUSTOMER ENGAGEMENT, OBSERVATION AND SATISFACTION						
GRI 3: Material topics 2021	3-3 Management of material topics	pag. 28; 65-68				
GRI 417 Marketing and Labeling 2016	417-1 Requirements for product and service information and labeling	pag. 76				

GRI STANDARD/ OTHER SOURCE	DISCLOSURE	PAGE NUMBER	NOTE	OMISSIONS		
				REQUESTE D	REASON	DESCRIPTION
	417-2 Incidents of non-compliance concerning product and service information and labeling	pag. 76				
	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 and 2023.			
DATA PROTECTION AND CYBERSECURITY						
GRI 3: Material topics 2021	3-3 Management of material topics	pag. 28; 60-61; 68-69				
GRI 418 Customer privacy 2016	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data	pag. 61				
OTHER TOPICS						
GRI SPECIFIC TOPIC	DISCLOSURE	PAGE NUMBER	NOTE			
ECONOMIC PERFORMANCE						
GRI 201: Economic performance 2016	201-1 Direct economic value generated and distributed	pag. 37				
SUPPLY CHAIN RESPONSIBLE MANAGEMENT						
GRI 204: Procurement practices 2016	204-1 Proportion of spending on local suppliers	pag. 135-136				
ETHICS, INTEGRITY AND ANTI-CORRUPTION						
GRI 205: Anti-corruption 2018	205-3 Confirmed incidents of corruption and actions taken		No incidents of corruption occurred during the three-year period 2021-2023.			
GRI 206: Anti-competitive behavior 2016	206-1 Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	pag. 58				
OCCUPATIONAL HEALTH AND SAFETY						
GRI 403: Occupational health and safety 2018	403-1 Occupational health and safety management system	pag. 125-128				
	403-2 Hazard identification, risk assessment, and incident investigation	pag. 125-128				
	403-3 Occupational health services	pag. 131-132				
	403-4 Worker participation, consultation, and communication on occupational health and safety	pag. 125-128				
	403-5 Worker training on occupational health and safety	pag. 131				
	403-6 Promotion of worker health	pag. 125-128				



GRI STANDARD/ OTHER SOURCE	DISCLOSURE	PAGE NUMBER	NOTE	OMISSIONS		
				REQUESTE D	REASON	DESCRIPTION
	403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	pag. 125-128				
	403-9 Work-related injuries	pag. 128-130				
DIVERSITY, INCLUSION AND EQUAL OPPORTUNITIES						
GRI 405: Diversity and equal opportunity 2016	405-1 Diversity of governance bodies and employees	pag. 42-43; 113; 143; 146				
GRI 406: Non-discrimination 2016	406-1 Incidents of discrimination and corrective actions taken	pag. 113				

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, 2023 prepared on the basis of art. 4 of the Decree and approved by the Board of Directors on March 6, 2024 (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 paragraphs "CAREL and the European taxonomy" and "Annexes" of the NFS.

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

The Directors are responsible for the preparation of the NFS in accordance with articles 3 and 4 of the Decree and "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 to unintentional behaviors or events.

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/Moravia/Brescia/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 International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) 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.

During the year covered by this assurance engagement, our auditing firm applied International Standard on Quality Control 1 (ISQC Italia 1) and, accordingly, maintained a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditor's responsibility

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

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

Specifically, we carried out the following procedures:

1. analysis of relevant topics with reference to the Group's activities and characteristics disclosed in the NFS, in order to assess the reasonableness of the selection process in place in light of the provisions of art.3 of the Decree and taking into account the adopted reporting standard;
2. analysis and assessment of the identification criteria of the consolidation area, in order to assess its compliance with the Decree;
3. comparison between the financial data and information included in the NFS with those included in the consolidated financial statements of the Carel Group as of December 31, 2023;
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;

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- 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.

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 the subsidiaries Recuperator S.p.A., Enginia S.r.l. and Carel Adriatic D.o.o. 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 e Carel Adriatic D.o.o., which we selected based on its activities, its contribution to the performance indicators at the consolidated level and their location, we carried out meetings and site visits during which we met with management and 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, 2023, is not prepared, in all material aspects, in accordance with article 3 and 4 of the Decree and the GRI Standards.



Deloitte.

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

DELOITTE & TOUCHE S.p.A.

Signed by
Cristiano Nacchi
Partner

Padua, Italy
March 26, 2024

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