

CONSOLIDATED NON-FINANCIAL STATEMENT



CAREL



2021





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



2021 Consolidated non-financial statement

Prepared in accordance
with Legislative decree no. 254/2016

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LETTER TO THE STAKEHOLDERS

Dear stakeholders,

The Covid-19 pandemic also affected 2021. However, unlike the previous year, thanks to the vaccines, no drastic measures, including shuttering industrial activities and production sites, were adopted to contain infections this year. This prompted a global economic recovery which, however, also generated inflationary trends which may have a significant impact on households and, more generally, slow down growth.

Against this background, which is undoubtedly positive but still uncertain, the Group's revenue rose by 26.8% (up 21.9% on a like-for-like basis) and EBITDA increased by 30.8%. This trend reflects Carel's ability to constantly and consistently implement its strategic guidelines which, as of this year, embrace all ESG (environmental, social and governance) topics following the approval of the Group's first long-term sustainability plan, summarised with the motto Driven by the Future - Sustainability in action.

This plan identifies six areas of engagement (sustainable strategy and governance, environmental policies, innovation and technology, people, communication and sustainable development of local communities) and consists of 55 sustainability goals (of which 22 social, 22 environmental and 11 governance related) which, in turn, are divided into 68 specific targets, covering a long-term time horizon. By defining these six areas of engagement, the company also reiterates its intention to actively contribute to achieving some of the Sustainable Development Goals (SDGs) defined by the United Nations 2030 Agenda, specifically: 5. Gender equality, 7. Affordable and clean energy, 8. Decent work and economic growth, 9. Industry, innovation and infrastructure, 12. Responsible consumption and production, 13. Climate action, 16. Peace, justice and strong institutions.

The plan was developed based on several pillars. First of all, a new sustainability governance structured on three levels: an operational level headed by an inter-departmental team (the "ESG team"), a mainly advisory level, mostly pertaining to the Control, risks and sustainability committee, and a strategic level embodied by a member of the board of directors (Carlotta Rossi Luciani), who has been entrusted with ESG powers.

Furthermore, the materiality matrix was updated and expanded in 2020 thanks to significant and robust stakeholder engagement activities which involved more than 870 stakeholders, including employees, customers, suppliers, investors, sector associations and communities.

This long-term sustainability plan has a forward-looking vision but has its roots firmly in the present. Once again, this shows how sustainability has always been at the heart of Carel's strategic decisions.

In fact, the Group's long-standing commitment in this respect is clearly witnessed by the performance resulting from the application of the provisions of the delegated acts of the EU Taxonomy Regulation 852/2020. This regulation, which became effective on 12 July 2020, has a clear objective: to create the world's first "sustainable investment list", i.e., a classification system that shares a common language to be used by investors and businesses to state their investments in economic activities and projects that have a substantial positive impact on climate and the environment. The European Taxonomy shows that, with respect to climate change mitigation activities, approximately 60% of Carel's revenue analysed can be considered not only eligible, but also aligned with the regulation and, hence, they are "green/sustainable".

In addition to this significant percentage of green revenue, during the year, we also achieved major sustainability goals which covered a wide range of areas.

First of all, the "social" part clearly shows the Group's long-term commitment to gender rebalancing in managerial positions: of the total number of hires for 2021, white-collar women accounted for 24%, up on the previous year.



"...2021 was full of initiatives and was characterised by the further long-term integration of sustainability into the Group's overall strategy..."



With respect to the environment, in 2021, 200 tonnes of CO₂eq were saved by using high-efficiency lighting systems and streamlining production lines. Furthermore, thanks to the use of our products, approximately 5,867 GWh were saved (1,613,351 tCO₂e avoided in the atmosphere), or almost the total CO₂ emissions produced by Guyana in 2020.*

However, in addition to focusing on its processes and production facilities, the Group is also committed to ensuring that the entire value chain complies with high standards of environmental and social sustainability. To this end, between 2020 and 2021, several current suppliers, accounting for almost 60% of total purchases, were involved in a sustainability self-assessment questionnaire. In this respect, screening activities are also included in the vetting procedure for new suppliers.

Therefore, 2021 was full of initiatives and was characterised by the further long-term integration of sustainability into the Group's overall strategy, in order to achieve the "sustainable success" also mentioned in the Corporate Governance Code. Over the next few years, we will be facing increasingly demanding challenges, from combating climate change to removing gender equality obstacles, from occupational health and safety to anticipating and meeting customer needs. In order to overcome these challenges, Carel will continue to rely on its most important asset: men and women whose passion and commitment have enabled the Group to write a success story that has now lasted almost fifty years.

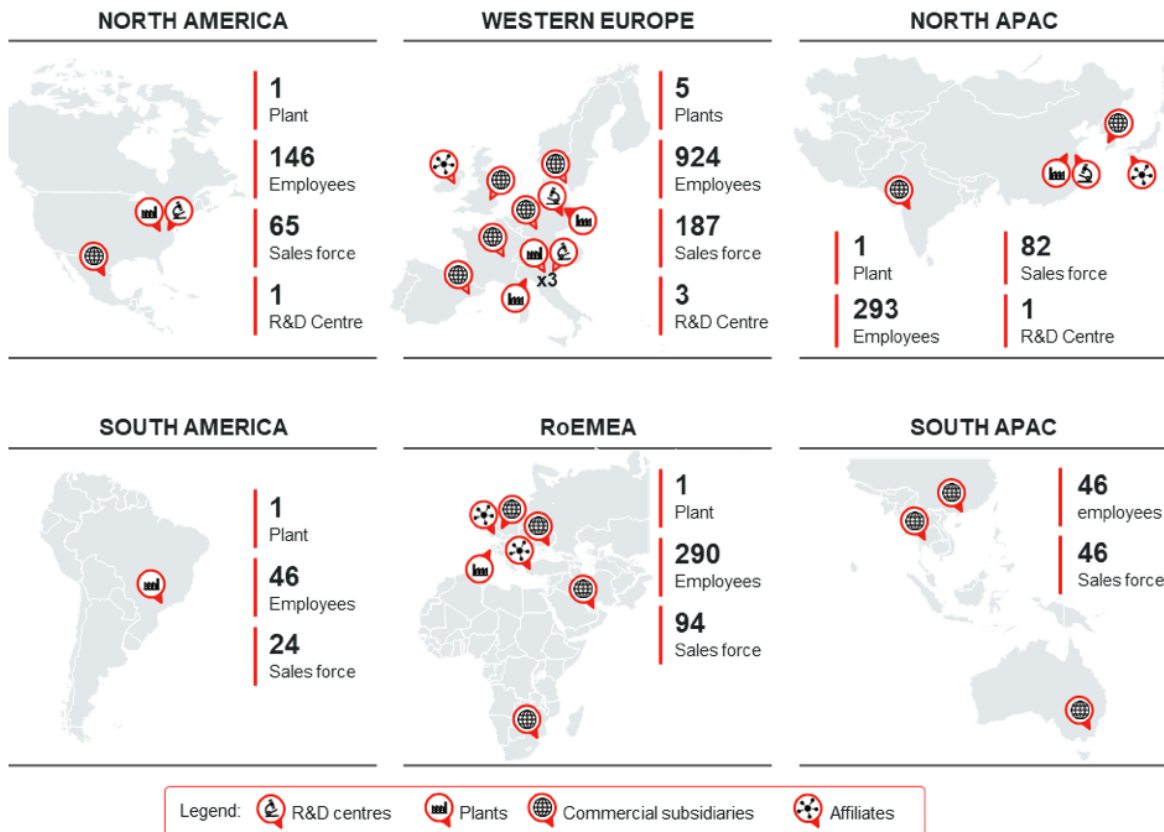
CEO
Francesco Nalini

Director with ESG powers
Carlotta Rossi Luciani

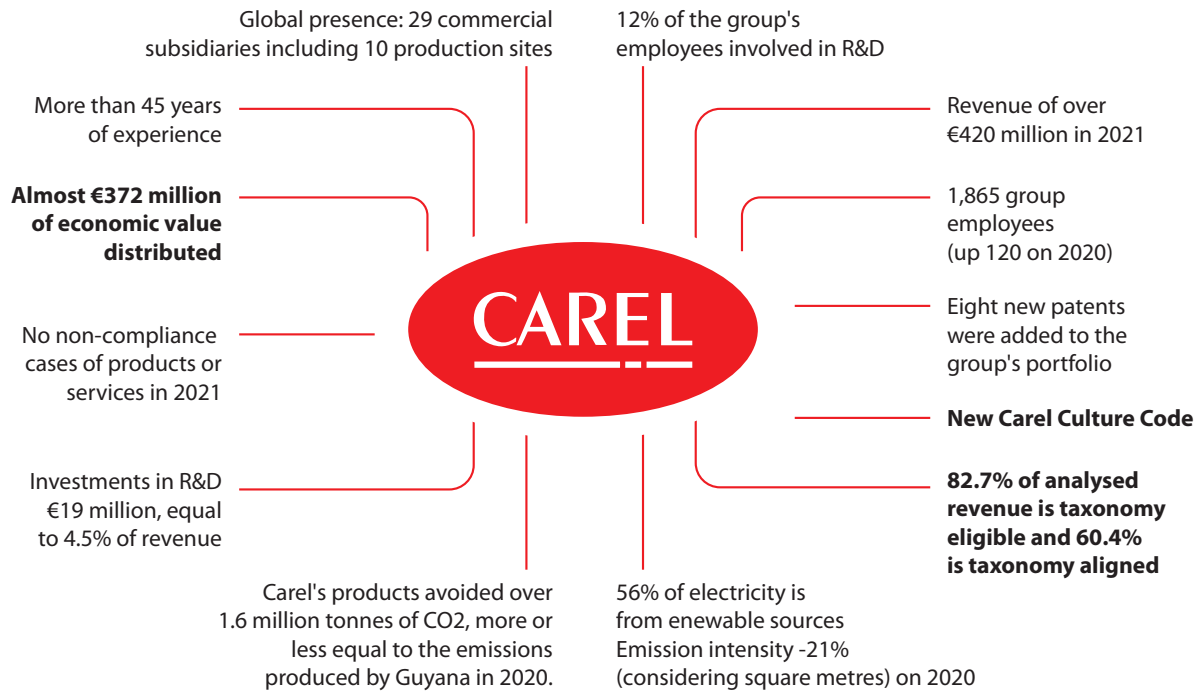
Sources *: EDGAR - Emissions Database for Global Atmospheric Research (<https://edgar.jrc.ec.europa.eu>), 2021

CAREL INDUSTRIES GROUP

Incorporated in 1973, Carel has always been known for advanced control systems and innovative solutions for the HVAC/R sector. Its high efficiency solutions are a certainty for environmental protection thanks to their optimised and integrated control systems, which allow for significant energy savings and, as a result, a smaller environmental impact. Roughly 80% of its sales take place outside Italy where the Group has a widespread customer sales and support network. Specifically, Carel operates globally, notably in North, Central and South America, Asia, Australia, Africa and Europe. It has 29 commercial subsidiaries and 10 production sites. It also works with partners and distributors in another 75 countries.



CAREL IN FIGURES



A STORY OF INNOVATION



1973-79

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

1980-89

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

1990-99

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

2000-2004

- The Carel Group reaches sales of €55 million;
- Carel China, Carel Australia and Carel USA are set up;
- ksa.CAREL.com, the website with services for users of Carel software products, goes on-line;

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

2005

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

2006

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

2007-2008

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

2009

- Corporate restructuring of the Carel Group, with operational, industrial and commercial functions passing to a new entity: Carel Industries S.r.l., controlled by Carel S.p.A.;
- New Carel office in Russia;
- Carel wins the Marco Polo 2009 prize, awarded by the Veneto region Unioncamere, as the company that showed the highest level of commitment and the most significant results in foreign trade in 2008;
- At the 2009 China Awards, Carel wins the prize in the "Creators of Value" category (electronics sector), as the company that achieved the best performance with China in 2008.

2010-2011

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

2012

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

2013 - 2014

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

2015

- Opening of commercial 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

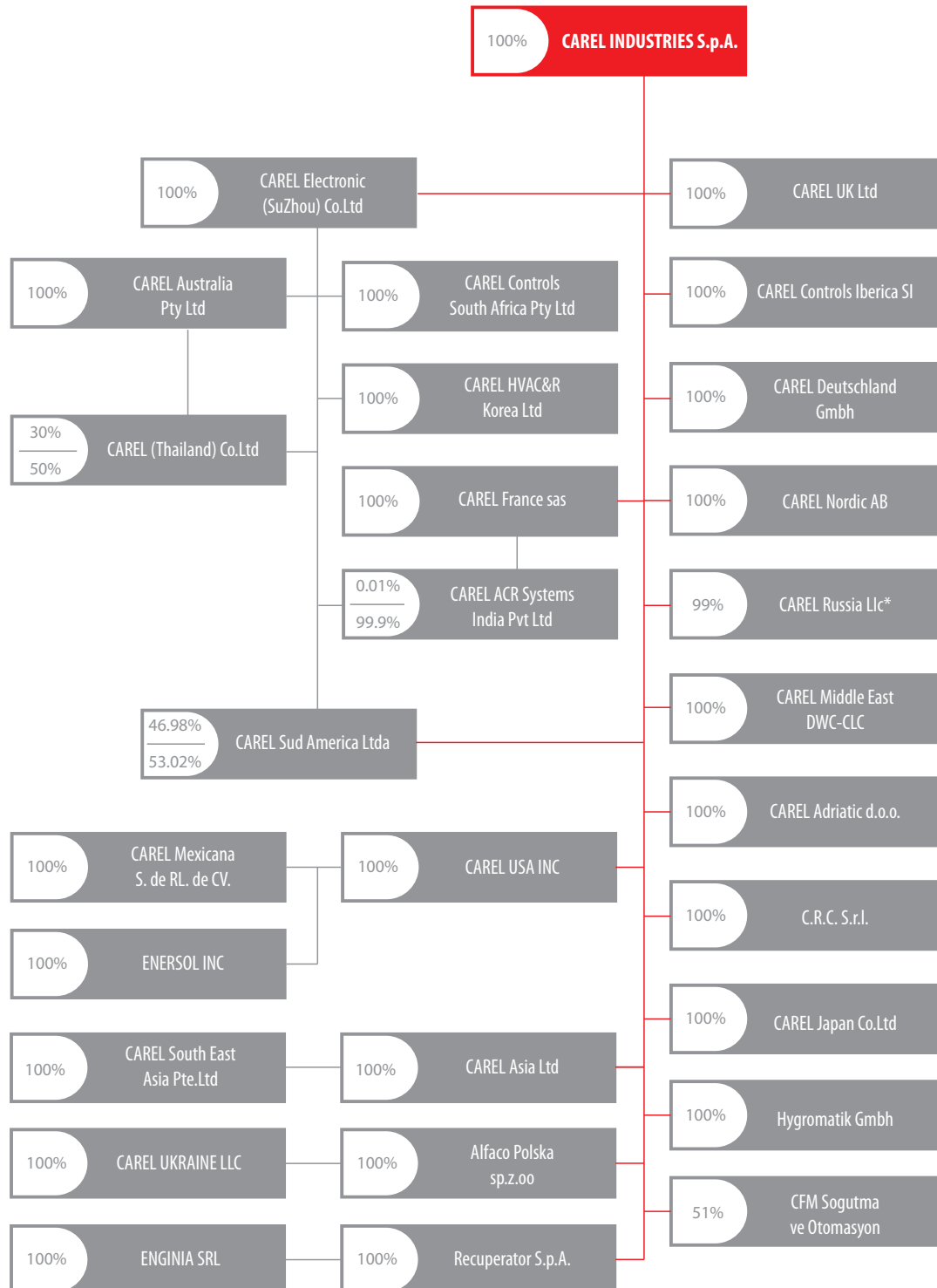
- Carel consolidates its presence in Eastern Europe by opening a new commercial subsidiary in Kiev, Ukraine;
- Expansion of the production footprint continues with new investments at the North American and Chinese sites; acquisition of ENERSOL Inc, a Canadian Quebec-based distributor of humidification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

GROUP STRUCTURE

The chart shows the Group companies and the parent's investments therein at 31 December 2021. This statement includes the information of the parent (Carel Industries S.p.A.) and its consolidated subsidiaries.



*= 1% owned by CAREL FRANCE SAS

BUSINESS AND MARKETS

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

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

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

Reference market:
North America

118
7,4k sqm

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

Reference market:
South America
(also serving North America)

48
1,7k sqm

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

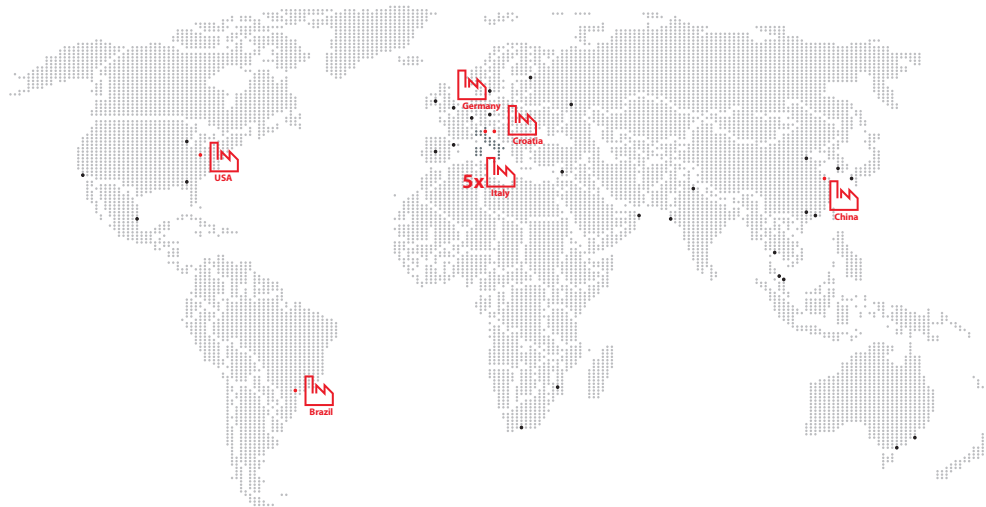
Reference market:
EUROPA

242
6,4k sqm

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

Reference market:
APAC

255
14,3k sqm



3x

697
19,3k sqm

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

68
19,3k sqm

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

48
7k sqm

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

64
3,6k sqm

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



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



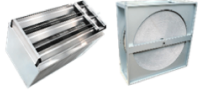





Specifically, the Group designs, manufactures and distributes control and humidification solutions for the residential, industrial and commercial segments in the HVAC market. It offers solutions for each application segment to be integrated into (i) individual units, like heat pumps, shelters, rooftops,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

It designs, manufactures and distributes control and humidification systems in the food retail and food service segments of the refrigeration market. Like for the HVAC market, the Group designs, manufactures and offers solutions to be integrated into (i) individual units, like bottle coolers, plug-in refrigerators, multiplexed refrigerators, compressor racks and condensing units as well as (ii) complex systems such as but not limited to entire systems for supermarkets of all sizes, convenience stores and restaurants.

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



Product platforms

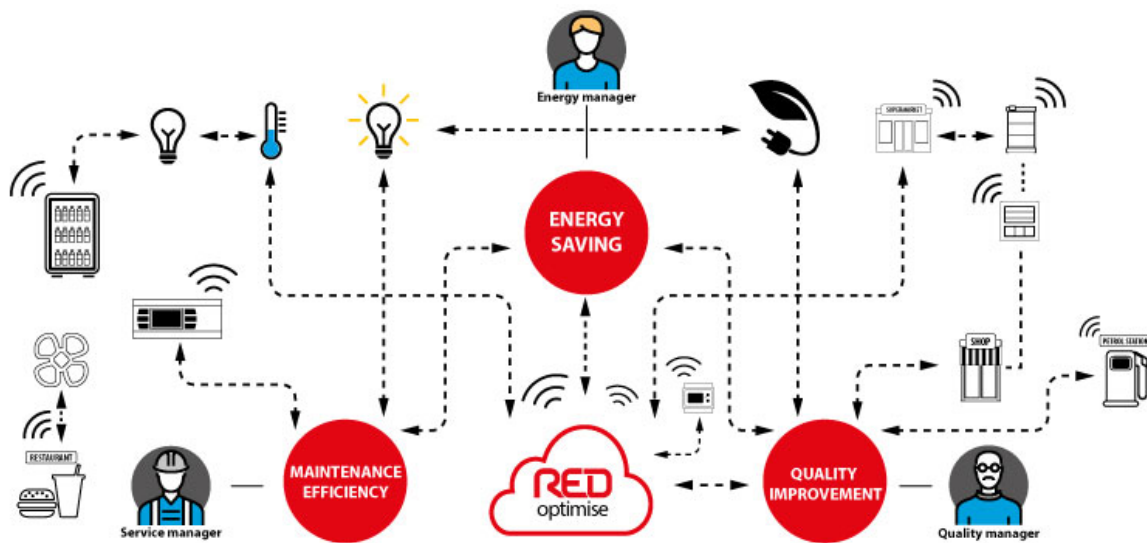
| | | | | |
|---|--|--|---|---|
| Programmable controls | HMI and unit terminals | Parametric controls | Heat exchangers | Isothermal humidifiers |
|  Electronic controls easily programmable and customizable |  User interfaces for units and systems |  Entry level electronic controllers |  Heat exchangers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

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

The IoT area has been developed to integrate the specific HVAC and refrigeration market solutions using cloud and on-premise solutions. They include benchmarks, statistics, alerts and standard reports to help users optimise their daily activities and more efficiently achieve their service, energy, quality and marketing goals. Development of these activities is of strategic interest to the Group, including with a view to the future.

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

Examples of IoT solutions for the HVAC and refrigeration markets:



In this context, Carel's social media presence has become particularly important, specifically its Youtube channel, which, in 2021, was filled with new content including product presentations and interviews, reaching over 650,000 views (up 40% on 2020) and over 85,000 subscribers.

VISION

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

Thanks to this process and in order to communicate a strong and shared corporate identity, which prompts the achievement of strategic goals, at the end of 2021, Carel's vision was formalised for the first time, along with a new, slightly adjusted version of its mission, which focuses more on the issues of sustainability affecting the markets in which it operates.



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

Driven by knowledge,
inspired by human well-being.

Now and for
the future generations.

MISSION AND VALUES

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, offering functionally and aesthetically different solutions with a view to constant improvement. As an innovative consultant and technological partner, Carel anticipates market needs and proposes high performance solutions that guarantee efficient energy savings to benefit the environment.

For Carel, the focus on the environment and the sustainability of its solutions are the distinguishing features of the Group's business and a constant commitment in everyday life, in order to look to the future of the planet with confidence.

The evolution of the Group's brand strategy reflects its commitment to sustainability. It has evolved by focusing on corporate social responsibility issues, energy savings and respect for the environment. The long-term sustainability plan was published in the last few months of 2021, setting out the Group's commitments to these topics.

CAREL AND SUSTAINABILITY

The history of sustainability at Carel covers almost 50 years and began when the Group was set up in 1973. Over time, technologies, needs and sensitivities evolved, as did the goals and means to achieve them. Today, even more than in the past, 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.

Since its listing on the Stock Exchange in June 2018, Carel has dived deeper into sustainability issues, prompted by new stimuli and new stakeholders, including non-controlling investors and, more in general, the financial market. This led to the launch of a process to define a "materiality map" in order to lay the foundations for identifying all ESG topics that were most relevant to the Group. This map was reviewed and extended in 2020 as part of significant and robust stakeholder engagement activities that involved more than 870 stakeholders, including employees, customers, suppliers, investors, sector associations and communities.

Based on the Group's commitment to complying with the highest sustainability standards set internationally and to defining guidelines on social and environmental topics, the Group companies adopted a set of conduct rules guiding operating activities. Carel has summarised its operating practices in its Code of Ethics and its Policies on Diversity, Human Rights, the Environment and Occupational Health and Safety. The Group has also defined values and conduct rules specifically for the topic of anti-corruption in its Organisational, management and control model as per Legislative decree no. 231/01 and its Code of Ethics.

These policies are based on the main guidelines and international standards on responsible business behaviour and are disseminated to all recipients through appropriate training and information activities.

The policies related to the social-environmental topics defined by Legislative decree no. 254/2016 are summarised below. The following sections provide suitable disclosures on the Group's policies, commitments and practices.

DIVERSITY POLICY

The Carel Group commits to:

- respect private life and all individuals, avoid discriminatory practices, free from any form of harassment, offence or other conditioning that could make the work environment hostile and intimidating;
- guarantee equal opportunities in all work environments through respect for the physical and moral integrity of individuals;
- encourage inclusion and integration of individuals, avoid any form of discrimination based on mental or physical limitations or diversity;
- acknowledge and respect personal dignity, private life and the rights of all individuals promoting values like trust, dialogue, mutual respect, well-being and work-life balance;

HUMAN RIGHTS POLICY

The Carel Group commits to:

- non-engagement in child labour;
- refuse all forms of forced or compulsory labour and all forms of physical or physiological constraints;
- non-tolerance of personal, sexual or other harassment or offence;
- eliminate all forms of discrimination including distinction, exclusion or preference that denies or affects equal opportunities or treatment at work;
- acknowledge workers' rights without any restrictions to their decisions or limitations to collective bargaining;
- protect employee health and safety;
- consider the expectations of local communities, contribute to their development, respect their cultural and environmental heritage;
- respect the confidentiality of personal information;
- respect personal dignity, private life and the rights of all individuals;
- encourage the professional development and growth of each employee through respect for their physical and moral integrity;
- request its business partners to act in accordance with identical principles in accordance with the regulations ruling in the countries where they operate.

ENVIRONMENTAL AND OCCUPATIONAL HEALTH AND SAFETY POLICY

The Carel Group commits to:

- effectively implement, control and regularly assess, when necessary, its environmental and occupational health and safety management systems, aiming at high safety standards for its employees;
- regularly set security and environmental protection goals;
- engage with stakeholders, shareholders, local communities and administrations for occupational health and safety issues;
- protect the environment and natural resources as priorities;
- minimise its environmental impact;
- promptly identify potential risks using a system to prevent pollution, environmental incidents and environmental emergencies to minimise their impact on the environment, while periodically carrying out emergency simulations in order to raise awareness and train operational staff and all employees;
- act in accordance with the ruling laws and regulations to reduce pollution and protect the environment;
- pursue exemplary results concerning environmental issues and promote scientific development and sustainable technology;
- focus on minimising waste, improving resources management, limiting hazardous substance spillages, rationalising water resources, limiting impacts on biodiversity, optimising the use of raw materials. In 2021, a specific project was developed for the headquarters to analyse waste generation and identify improvement actions in plastics management and exploiting emission-related waste;
- consider the potential impact of its systems, processes and products over their lifetime on the environment and, especially, during their utilisation stage and after their useful life;
- rationalise energy consumption and guarantee safety by improving processes. In 2021, at some of Carel's sites, the traditional lighting systems were replaced with energy-efficient LED systems;
- adopt an injury prevention system, focusing, in particular, on employees' awareness and proactivity in reporting unsafe conditions and near misses and proposing solutions for improvement;
- provide for the technical design of work environments, equipment and processes;
- encourage workers, safety officers and managers to play an active role in preventing risks;
- closely comply with established security and prevention measures;
- share group guidelines on minimum safety requirements similarly to the Covid-19 emergency.

FOUR-YEAR ESG PLAN

The Group developed a multi-level governance structure consisting of the ESG team, the Control, risks and sustainability committee and a member of the board of directors. They have each been entrusted with specific duties: the ESG team, an inter-departmental committee, mainly assigned operational duties, headed by the CFO; the Control, risk and sustainability committee, with main functions including advising the board of directors on sustainability issues, and the board member Carlotta Rossi Luciani, entrusted with ESG delegated powers in order to report on sustainability and governance issues to senior management.

The interaction between these bodies and the willingness to further develop the Group’s medium- to long-term vision resulted in the first four-year sustainability plan, which can be summarised with the motto: **Driven by the Future - Sustainability in action.**

This plan sets out **six areas of engagement (environmental policies, innovation and technology, people, communication and sustainable development of local communities, sustainable strategy and governance)** and consists of **55 sustainability goals** (of which 22 social, 22 environmental and 11 governance related) which, in turn, are divided into **68 specific targets**, covering a long-term time horizon. These targets will be achieved by involving **13 company departments** and by **investing over €2.6 million**, enabling the Group to pursue its sustainable development that has always characterised it.

By defining these six areas of engagement, the company also reiterates its intention to actively contribute to achieving some of the **Sustainable Development Goals (SDGs) defined by the United Nations 2030 Agenda**, specifically: 5. Gender equality, 7. Affordable and clean energy, 8. Decent work and economic growth, 9. Industry, innovation and infrastructure, 12. Responsible consumption and production, 13. Climate action, 16. Peace, justice and strong institutions.

In order to be constantly in line with the evolution of the Group’s business strategy, the sustainability plan provides for the **periodic inclusion of new goals and will be constantly monitored in terms of the progressive achievement of the goals set out therein.**

ENVIRONMENTAL POLICIES

Cut consumption and greenhouse gas emissions and encourage the responsible use of energy resources to help combat climate change.



Ensure access to affordable, reliable, sustainable and modern energy systems



Ensure sustainable production and consumption models



Adopt urgent actions to combat climate change and its consequences

| Goal | Target | KPI | SDG |
|--|---|--|--|
| Contribute to mitigating climate change by cutting direct and indirect CO2 emissions | Obtain energy from green sources, increasing electricity from renewable sources | 60% of the Group’s electricity and 100% of the energy used by the headquarters from renewable sources compared to 2019 | 7. Affordable and clean energy |
| | | | 12. Responsible production and consumption |
| | | | 13. Climate action |

| Goal | Target | KPI | SDG |
|--|--|---|--|
| Contribute to mitigating climate change by cutting direct and indirect CO ₂ emissions | Extend Scope 3 emissions mapping for the logistics area to identify improvement/offsetting actions to be implemented with logistics partners | Disclose emissions from transport of goods produced for all production plants | 7. Affordable and clean energy 13. Climate action |
| | Cut energy consumption through relamping projects | Energy savings of 3% per year, compared to 2019 | 12. Responsible production and consumption 13. Climate action |
| | Install photovoltaic systems | Energy savings of 12%, compared to 2020 | 7. Affordable and clean energy 13. Climate action |

INNOVATION AND TECHNOLOGY

Identify and develop platforms, products and services that increase energy efficiency and reduce the environmental impact of the sector in which the Group operates, promoting the circular economy. Offer specialist products and services that meet the highest quality standards in order to maximise customer satisfaction.



Build a resilient infrastructure and promote innovation and fair, responsible and sustainable industrialisation



Ensure sustainable production and consumption models



Adopt urgent actions to combat climate change and its consequences

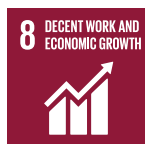
| Goal | Target | KPI | SDG |
|---|---|--|--|
| Cut fossil fuel consumption through technological innovation | Research printable plastic compounds from sustainable supply chains by annually monitoring plastic raw materials developments | Publish an annual report on the results of the research | 9. Industry, innovation and infrastructure 12. Responsible production and consumption 13. Climate action |
| Develop product safety governance covering the chemicals contained in raw materials | Identify SVHC (substances of very high concern) in Carel product components and assess possible phase-outs | Develop and circulate a policy for detecting and possibly phasing-out SVHC | 9. Industry, innovation and infrastructure 12. Responsible production and consumption |

PEOPLE

Encourage the involvement, well-being, personal and professional growth of employees and ensure high safety standards throughout the value chain.



Achieve gender equality and empower all women



Promote long-lasting, inclusive and sustainable economic growth, full and productive employment and decent work for all



Promote peaceful and more inclusive societies for sustainable development; provide access to justice for all and create effective, accountable and inclusive bodies at all levels

| Goal | Target | KPI | SDG |
|---|--|---|--|
| Offer more opportunities to female employee candidates within the Group by promoting gender rebalancing | Progressively increase the number of female employees, including in managerial positions | 25% of new hires in Italy targeted the least represented gender already in 2021. This percentage will be increased by approximately 5% per year throughout the plan | 5. Gender equality 8. Decent work and economic growth |
| Ensure growth and skills development for group employees | Ensure adequate training levels | Number of training hours per employee exceeding 12 per year | 5. Gender equality 8. Decent work and economic growth |
| Raise awareness at group level about respect for human rights | Design a training course aimed at raising awareness of the company's Code of Ethics and human rights | Hours of training provided | 5. Gender equality 8. Decent work and economic growth 16. Peace, justice and strong institutions |
| Increase talent attraction, development and retention | Improve work-life balance | Policy on | 5. Gender equality 8. Decent work and economic growth |

COMMUNICATION AND SUSTAINABLE DEVELOPMENT OF LOCAL COMMUNITIES

Strengthen the Group’s reputation and visibility in terms of ESG strategy and sustainability policies, defining the ESG Corporate identity through the constant involvement of all key stakeholders. Contribute to creating and disseminating a culture of sustainability in line with the Group’s values

Contribute to the social, cultural and economic development of the community in which the Group operates, creating the conditions for sustainable development.



Build a resilient infrastructure and promote innovation and fair, responsible and sustainable industrialisation



Ensure sustainable production and consumption models



Adopt urgent actions to combat climate change and its consequences



Promote peaceful and more inclusive societies for sustainable development; provide access to justice for all and create effective, accountable and inclusive bodies at all levels

| Goal | Target | KPI | SDG |
|--|--|---|--|
| Ensure clear and full disclosure of the Group’s ESG corporate identity | Define and implement a communication plan to ensure wide and appropriate dissemination of Carel’s ESG commitments and goals, as described in the sustainability plan | Define and implement a communication plan for the sustainability plan | 9. Industry, innovation and infrastructure |
| | | | 12. Responsible production and consumption |
| | | | 16. Peace, justice and strong institutions |
| Promote ongoing dialogue with stakeholders | Draw up and adopt a stakeholder engagement policy, which defines management of the information flows to stakeholders in accordance with the principles of accuracy, correctness and completeness | Draft and publish a stakeholder engagement policy | 9. Industry, innovation and infrastructure |
| | | | 12. Responsible production and consumption |
| | | | 16. Peace, justice and strong institutions |
| Contribute to spreading the culture of respecting the environment in local communities | Support local events that focus on promotion of the arts and respect for the environment | Number of sponsored events | 9. Industry, innovation and infrastructure |
| | | | 13. Climate action |
| | | | 16. Peace, justice and strong institutions |

SUSTAINABLE STRATEGY AND GOVERNANCE

Develop and maintain a responsible governance system in order to integrate sustainability into the company’s business plan, establishing fair and transparent relationships with suppliers and business partners, ensuring appropriate and adequate disclosure and governance of non-financial data and information, and managing ESG risks.



Achieve gender equality and empower all women



Promote long-lasting, inclusive and sustainable economic growth, full and productive employment and decent work for all



Build a resilient infrastructure and promote innovation and fair, responsible and sustainable industrialisation



Ensure sustainable production and consumption models



Adopt urgent actions to combat climate change and its consequences



Promote peaceful and more inclusive societies for sustainable development; provide access to justice for all and create effective, accountable and inclusive bodies at all levels

| Goal | Target | KPI | SDG |
|---|---|---|--|
| Promote sustainability principles in business management | Draw up a responsible investment policy that considers ESG issues in assessment processes and is inspired by the UN Principles for Responsible Investment (PRI) | Draw up a responsible investment policy | 5. Gender equality 8. Decent work and economic growth 9. Industry, innovation and infrastructure 12. Responsible production and consumption 16. Peace, justice and strong institutions |
| | Expand the scope of the ESG supplier screening survey | Include approximately 20 suppliers per year in ESG self-assessment activities | 12. Responsible production and consumption 13. Climate action |
| Contribute to spreading a culture of sustainability in the supply chain | Check the consistency of the replies to ESG surveys by auditing suppliers | Audit 30 suppliers per year on ESG topics (starting from 2023) | 9. Industry, innovation and infrastructure 12. Responsible production and consumption |

| Goal | Target | KPI | SDG |
|-------------------------------------|--|--|--|
| Manage the supply chain responsibly | Bring the policy on conflict minerals more in line with the OECD recommendations, defining a conflict minerals risk assessment process | Draw up the policy and publish the annual report on conflict minerals management | 5. Gender equality |
| | | | 8. Decent work and economic growth |
| | | | 9. Industry, innovation and infrastructure |
| | | | 12. Responsible production and consumption |
| | | | 16. Peace, justice and strong institutions |

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

In addition, during the year, the reporting process was computerised thanks to the implementation of specific software for non-financial reporting in order to monitor the main indicators in a more timely and constant manner.

CAREL AND THE EUROPEAN TAXONOMY

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

Three areas of application have been identified: measures adopted by Member States or by the Union for environmentally sustainable investments, disclosure requirements for financial market participants and disclosure requirements for companies which are subject to the obligation to publish a non-financial statement.

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

The Taxonomy regulation plays a central role in the overall strategy outlined by the European Commission to finance sustainable growth. Indeed, it harmonises at European level the criteria for defining environmentally sustainable economic activities with respect to certain environmental objectives. The European Taxonomy establishes six environmental objectives: climate change mitigation, climate change adaptation, the

sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control and the protection and restoration of biodiversity and ecosystems. In this first phase, the taxonomy and technical criteria cover only two of the six environmental and climate objectives, for which technical screening criteria are specified based on the substantial contribution of each specific economic activity to climate change mitigation and climate change adaptation.

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

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

The Regulation applies to three main areas: a) using a common concept of environmentally sustainable investment when introducing requirements at national and Union level regarding financial products marketed as environmentally sustainable; b) the transparency of the environmentally sustainable investments underlying the financial products made available to the market by market participants; c) the disclosure requirement on the environmental sustainability of the economic activities carried out by undertakings which are subject to the obligation to publish a non-financial statement or a consolidated non-financial statement pursuant to Directive 2014/95 as transposed into Italian legislation by Legislative decree no. 254/2016. Indeed, article 8 of the Taxonomy Regulation requires undertakings covered by the Non-Financial Reporting Directive (“NFRD”) to publish information on how and to what extent their activities are associated with economic activities that qualify as environmentally sustainable. Environmentally sustainable activities are identified in accordance with the criteria set out in the Taxonomy Regulation.

On 6 July 2021, the Commission adopted the delegated act which specifies the content, methodology and presentation of information to be disclosed. Specifically, non-financial undertakings shall disclose the following: the proportion of their turnover derived from products or services associated with economic activities aligned with the taxonomy; the proportion of their capital expenditure (CapEx) and the proportion of their operating expenditure (OpEx) related to assets or processes aligned with the taxonomy.

During 2021, the Carel Group developed a project to analyse the main key performance indicators (KPIs) (revenue, operating costs and investments) against Regulation (EU) 2020/852. The analysis was conducted in order to identify, for each KPI, the percentage of eligible and aligned activities according to the technical screening criteria set out in the regulation (delegated acts).

For Carel, sustainability has always been a pillar of its business strategy and the results of the above analysis have confirmed the success of the strategic choices made over the previous decades and years.

With respect to the six objectives set by the Commission, Carel has adopted that relating to climate change mitigation as it is an integral part of the company's vision:

Being the innovation our planet needs through solutions for the Climate Control Industry. Driven by knowledge, Inspired by human well-being. Now and for future generations.

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

With respect to revenue, the total amount for 2021 was analysed, including that of CFM, which has contributed to sales revenue from 1 June, net of intercompany transactions. Conversely, the revenue of Enginia S.r.l. was not analysed since not all technical information is currently available in order to correctly classify the products in accordance with the technical screening criteria set out in the regulation. Therefore, Enginia will be covered by the analysis and included in the reporting scope of the Taxonomy starting from 2022.

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 €420.4 million, €351.7 million, or 83.7% 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 Enginia was excluded from the analysis.

Based on the scope of the analysis, 82.7% of revenue is eligible, of which 60.4% is eligible and aligned, and the remaining 17.3% 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 OpEx (i.e., the costs incurred during the year), the consolidated costs incurred during the year by each production site of the Group were analysed, therefore net of intercompany costs. Similarly to the first indicator, Enginia was excluded from the analysis and will be reported starting from the 2022 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 €20 million. Their eligibility was checked based on the product platforms specifically developed at each production site. Product platforms are also used to analyse revenue.

According to this analysis, 83.6% of the costs incurred and analysed were eligible and 59.6% were also aligned. The remaining 15.9% was not eligible.

Finally, with respect to the third KPI, i.e., investments, the Group's consolidated investments, amounting to €20.4 million (of which €1.8 million related to the adoption of IFRS 16) were analysed.

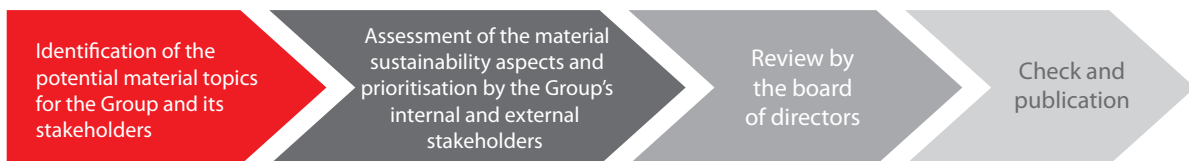
Of this amount, investments in the production process and capitalised research and development costs (excluding OpEx) were analysed, for a total of approximately €15.5 million. The analysis did not consider the investments in the commercial subsidiaries and those classified under the Brands, patent rights and software category. Similarly to the other indicators, the investments in Enginia were not analysed. As for the second KPI, in order to check whether the investments are eligible, the production at each site was analysed with a view to understanding the relationship between investments and products.

Of the total investments, 66.8% were eligible, of which 49.5% were both eligible and aligned; 9.3% were ineligible and the remainder, as described above, was not analysed.

MATERIALITY ANALYSIS

In 2020, Carel has identified the most important non-financial topics for the Group and its stakeholders that it will focus on constantly. It also defined the content of this statement in line with the GRI Sustainability Reporting Standards.

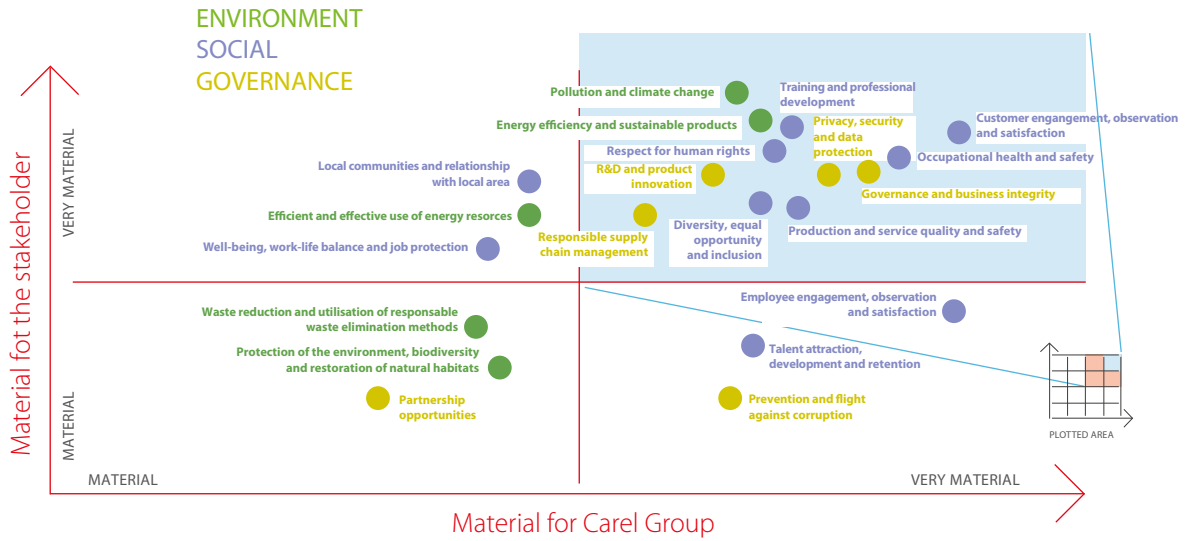
The ESG team coordinated the materiality analysis with the assistance of an external expert. It consisted of a structured assessment involving management in charge of the potential material non-financial topics (sustainability issues) and external stakeholders. The materiality analysis process was organised as follows:



The topics, broken down into three categories (governance, environment and social) were assessed based on several criteria: alignment with corporate strategy, economic and environmental impact, risk and reputational impact, and consistency with internal group policies.

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

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



The following table shows the material topics relevant to the Group and its stakeholders included in this statement, which comments briefly on the Group’s approach to the other topics included in the matrix, given their social importance. Moreover and in accordance with Legislative decree no. 254/2016 on non-financial reporting, specific information is provided about the fight against corruption.

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

(the material topics relevant to the Group on which it has mainly reported on are highlighted in red).

STAKEHOLDER ENGAGEMENT

The Group's ongoing engagement and the active involvement of internal and external stakeholders show its responsibility for the social and economic context in which it operates. Its focus on the quality of engagement with stakeholders, provided for in the Code of Ethics and designed to ensure an understanding of their expectations and needs, translates into a proactive approach and ongoing interaction. The Group is aware that this interaction is an opportunity for mutual growth and enrichment as well as being essential to create long-term value. To this end, Carel will formalise and adopt a specific stakeholder engagement policy as set out in the recommendations of Borsa Italiana's Code of Conduct for Listed Companies (2020) and the long-term sustainability plan approved at the end of 2021. Carel has identified its stakeholders through internal and benchmark analyses as parties that are affected by its operations.

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

[GRI 102-40]

| Stakeholder | Engagement tools and channels |
|--------------------------------------|---|
| Shareholders, investors and analysts | Shareholders' meeting |
| | Press releases |
| | Financial disclosures to the market |
| | Institutional websites |
| | Daily telephone calls and emails |
| | Conference calls |
| Financial institutions | Road shows |
| | Financial disclosures to the market |
| | Regular meetings with banks |
| Customers | Liaising with sales personnel and subsidiaries' employees |
| | Institutional websites |
| | Customer satisfaction surveys (Voice of Customer) |
| | Online analysis of the brand's reputation and social media |
| Employees | New hires onboarding programme (Carel Group Induction Process) |
| | Performance appraisals |
| | Intranet |
| | Internal magazine (Display – Carel People Magazine) |
| Trade unions, worker representatives | Internal communication via meetings, email and web media |
| | Regular meetings with trade union representatives |
| | Ongoing dialogue and transfer of good practices and skills |
| Suppliers and business partners | Definition and agreement of standards |
| | Regular visits to production sites |
| | Certification and auditing of suppliers (Carel Supplier Audit Check-list) |
| | Liaising with control quality personnel |
| | Order management software |
| Media | Interviews with senior management |
| | Press conferences |
| | Events |
| | Press Area of the website |

[GRI 102-40]

| Stakeholder | Engagement tools and channels |
|--|--|
| Bodies and institutions (local bodies, public administration, regulators, sector associations) | Meetings with representatives of local institutions |
| Communities and future generations (local communities and NGOs, schools and universities) | Supporting and sponsoring social initiatives Dialogue with universities and schools |

ORGANISATIONS AND ASSOCIATIONS

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

- European Partnerships for Energy and the Environment – EPEE: this is the most influential European energy and environment association. Its mission is to promote sustainable development in the HVAC/R sector. The group plays a key role in this association as it participates in the definition of legislative policies, including to improve current regulations, and sector trends;
- European Heat Pump Association – EHPA: this represents most of the operators of the European heat pump sector. Its main objective is to promote awareness and proper deployment of heat pump technology in the European market and to provide technical and economic assistance to the European authorities. The Group is part of the association and participates in the drafting of standards at European Parliament level;
- American Society of Heating, Refrigerating and Air-Conditioning Engineers – ASHRAE: this international society promotes the community's well-being through sustainable technologies for the environment. The society and its members focus on construction, energy efficiency, indoor air quality and refrigeration systems and the sustainability of sector technologies. As a member of the CEC (Conference & Exposition Committee), Carel coordinates the conferences on sustainability, the economy and/or finance to raise awareness and facilitate the understanding of these topics' importance. Carel is also a member of the technical committee for humidification and plays an active part in updating and maintaining technological standards for humidification equipment;
- Eurovent: this association represents operators in the European HVAC, cooling and cold chain technologies for food sectors. It has more than 1,000 members based in Europe, the Middle East and Africa. Carel is actively involved in the association which promotes and supports the sector through the creation and review of sector studies, rules and standards for the ventilation, air conditioning and refrigeration sectors, focusing on ecodesign and the efficient use of energy. The association includes an independent certification body which has certified some of the Carel Group's products;
- Eurovent Middle East: this association is based in Dubai, in the Middle East, and represents operators in the indoor climate (HVAC), process cooling and food cold chain technologies industry. It engages in lobbying and the updating of standards in line with international regulations. It also liaises with other associations active in Europe and worldwide. Carel is actively involved in the association and, specifically, promotes and influences the sector through its participation at conferences and technical workshops, mostly focused on energy efficiency and environmental sustainability;

- Italian Association of Air Conditioning, Heating and Refrigeration – AICARR: this association follows issues related to the responsible use of energy, natural resources and innovation in energy infrastructures. Carel participates in its core activities, providing assistance during workshops and training;
- China Refrigeration and Air-conditioning Industry Association - CRAA: this is a not-for-profit Chinese organisation that represents the manufacturers and distributors of the HVAC/R sector. It contributes to making regulations and the design and adoption of standards. The purpose of Carel's membership is to gain an awareness of medium to long-term trends in the Chinese market;
- The China Association of Refrigeration - CAR: this is a Chinese association of air conditioning and heating system operators that is part of the Chinese Institute of Science and Technology. Carel's participation in the Light commercial equipment innovation centre committee is fundamental for the Group's future in Asian markets.

Carel works with these international associations to promote the market's proper understanding of refrigeration and air-conditioning and to promote long-term sustainability.

In 2021, due to Covid-19, the main risks in relation to the reduced lobbying/networking and association activities are essentially correlated with the suspension of work travel and the cancellation of public and sector events. The effectiveness of group work activities within the various associations also declined as they were only performed remotely. However, Carel continued to take part in some sector initiatives online. In March 2021, Carel was a speaker at the webinar organised by the Spanish association AEFYT "Refrigerantes naturales y sus tecnologías en constante evolución" on technologies dedicated to the use of natural refrigerants in air conditioning and refrigeration applications.

The same topic was also discussed on 30 and 31 March 2021 during two webinars, with over 100 participants, as part of VTS 2.0, an international event organised by the SHECCO association, now renamed ATMOSphere.

In June 2021, during the annual World Refrigeration Day, Carel also participated in the super webinar organised by the Galileo Research Centre "Cooling Champions: cool carriers for a better world" focused on the younger generation and the reasons why the refrigeration and air conditioning sectors are a solid career opportunity geared towards environmental sustainability.

Other virtual events were also organised in collaboration with the Galileo Research Centre and other local associations. At all these events, Carel was always a main speaker, discussing energy efficiency, regulations regarding the use of refrigerants with low environmental impact, specifically natural ones, and air quality.

TRANSPARENT AND EFFECTIVE COMMUNICATIONS WITH STAKEHOLDERS

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

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

This unit's task is to liaise with the financial markets, 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.

Similarly to 2020, the year was characterised by the spread of the Covid-19 pandemic. Although the vaccines prevented the shuttering of production activities, the restrictions on international mobility were eased only in part. Therefore, the pandemic continued to significantly affect the Investor Relations Unit's reporting and communication activities. For the second year in a row, the initiatives hit hardest by the spread of the virus were those which required face-to-face contact with investors and analysts, namely road shows and visits to the headquarters. The former were replaced with a number of virtual events which allowed the Group to keep the channel to the financial world open, also via its use of quarterly presentations. During the year, senior management and Investor Relations management took part in more than ten events and over 100 meetings with investment funds based in major European and US financial hubs. In addition, several video conferences were held mainly after the presentation of the quarterly results.

Following the easing of certain restrictions on travel within Europe, investor and shareholder visits to the headquarters resumed in the second half of the year, after a suspension of approximately 18 months. Between October and December 2021, six investment funds visited the company.

Disclosure to the market entailed the accurate and prompt communication of financial information through specific press releases describing the Group's most important events: mainly the quarterly financial results, certain non-recurring financial operations and the most significant performances in terms of sustainability. In this respect, in 2021, the Group subscribed its first sustainability linked loan, a loan whose interest rate decreases when pre-established objectives are achieved which, in this case, are linked to the percentage of women in the company (gender balance). Finally, for the second year in a row, Carel improved its MSCI ESG rating (from "BB" to "A") and continued to score "C" in the CDP (formerly Carbon Disclosure Project) rating, the global not-for-profit organisation that monitors, inter alia, corporate performance in the fight against climate change.

The banks that backed Carel in 2021 are the same as in the past, namely Alantra, Goldman Sachs and Mediobanca (the latter two were part of the syndicate that assisted the Group during its listing process).

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

The Investor Relations Unit also depends on interpersonal and professional relations and the spread of Covid-19 has led these to be conducted remotely/virtually for approximately two years. The lower impact of virtual contact compared to in-person meetings may lead certain investors to become detached or to lose interest in the Group in the long term. These effects were mitigated by the company visits carried out in the second half of 2021 and the continued availability of the company's top management to key financial stakeholders.

For 2022, with the full implementation of the vaccination campaign and assuming no new variants are identified, social distancing rules should be further relaxed with the hope of being able to meet representatives of investment funds in person again. In any case, despite this future challenging scenario, Carel is committed to its business objectives, also by launching new communication channels, in order to increase its transparency towards its stakeholders.

CREATION OF VALUE FOR STAKEHOLDERS

This has two dimensions: value created for the Group and value generated for its shareholders and society at large. The Group performed well in 2021, recognising revenue of €420.42 million, up 26.8% on the previous year.

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 2021, economic value distributed by the Group amounts to €371 million, up considerably on 2020. Specifically, approximately 87% of its economic value generated was distributed to internal and external stakeholders.

| DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED (€/000) [GRI 201-1] | 2021 | 2020 | 2019 |
|---|------------------|------------------|------------------|
| Economic value generated by the Group | 427,375 | 338,126 | 335,657 |
| Revenue | 420,418 | 331,610 | 327,358 |
| Other income | 6,482 | 4,891 | 4,031 |
| Financial income | 319 | 351 | 534 |
| Impairment of financial assets | 508 | 208 | 177 |
| Impairment of loans and receivables | (369) | (287) | (63) |
| Net exchange rate losses | (1,430) | (921) | (152) |
| Net gains (losses) on the sale of property, plant and equipment and intangible assets | 326 | 47 | (803) |
| Depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets | 1,121 | 2,227 | 2,970 |
| Economic value distributed by the Group | (371,708) | (295,725) | (295,186) |
| Operating costs | (241,441) | (182,567) | (186,392) |
| Distributions to employees | (99,309) | (88,557) | (83,359) |

| DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED (€/000) [GRI 201-1] | 2021 | 2020 | 2019 |
|--|---------------|---------------|---------------|
| Distributions to lenders | (2,675) | (1,841) | (1,965) |
| Distributions to investors ¹ | (15,000) | (12,030) | (9,992) |
| Distributions to public administrations | (12,975) | (10,452) | (10,828) |
| Distributions to bodies/associations | (218) | (220) | (525) |
| Donations ² | (91) | (87) | (118) |
| Economic value retained by the Group | 55,666 | 42,402 | 40,471 |
| Amortisation, depreciation, provisions and impairment losses | (21,578) | (19,283) | (17,424) |
| Other reserves | (34,088) | (23,118) | (23,047) |

More information about the Group's performance and its financial position is available in the directors' report, which is included in the 2021 Annual Report.

ECONOMIC IMPACT OF THE PANDEMIC

As discussed in the directors' report accompanying the 2021 consolidated financial statements, the Covid-19 pandemic continued to affect almost all geographical areas in which the Group operates, although with different patterns from region to region. During the year, all plants and commercial subsidiaries were operational and there were no significant interruptions in the supply chain. For additional information on the impact of the pandemic on the Group's organisational structure, reference should be made to the Health and Safety section.

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

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





Focus on the environment

CLEAN AND ACCESSIBLE ENERGY

7 AFFORDABLE AND CLEAN ENERGY



12 RESPONSIBLE CONSUMPTION AND PRODUCTION



RESPONSIBLE PRODUCTION AND CONSUMPTION

13 CLIMATE ACTION



FIGHT AGAINST CLIMATE CHANGE

ENVIRONMENTAL PROTECTION AND CLIMATE CHANGE¹

The Group contributes to the promotion of scientific and technological development for the protection of the environment and natural resources and to minimise impacts, where necessary and during the performance of its activities. The commitment to protecting the environment is rooted in the Carel cultural code, as described in other sections of this report, which states that protection of the environment and natural resources are priorities for Carel. Specifically, the Code states that the Group and all its employees shall act in compliance with the ruling laws and regulations when carrying out their duties to protect the environment, reduce pollution and contribute to the achievement of exemplary results in this area.

In line with previous years, in order to guarantee long-term business growth, Carel committed to performing its activities responsibly in 2021, striving to protect the environment and natural resources, as set out in its Environmental and occupational health and safety policy, which reflects the principles and values set out in its Code of Ethics.

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

The parent's production processes were subject to an environmental impact analysis in order to analyse potential risks and identify and maintain improvement actions. In 2021, this analysis led to the in-depth examination of waste-related issues, specifically identifying the resulting emission impact and seeking maximum efficiency in waste disposal management in order to increase the volume of recycled waste. In line with the parent, some of the Group's production plants, such as Hygromatik and Electronic (Suzhou) Co. Ltd., are ISO 14001:2015 certified and, accordingly, have adopted specific environmental policies in addition to the Group policy.

Sustainability is fundamental to the Group and underpins every decision it takes. At the same time, in order to achieve greater energy savings, Carel is committed to the following objectives:

- ongoing improvement of its processes to reduce their impact on the environment, the local community and climate change;
- compliance with the applicable legal requirements and other signed agreements;
- adoption of a system to prevent pollution and environmental incidents, to protect the environment and biodiversity;
- introducing energy efficiency to the criteria for production equipment, vehicles used to transport people and goods and technical and technological systems;
- implement measures to limit electricity consumption;
- procure electricity from sustainable sources to cut carbon dioxide emissions.

Carel shares this commitment with its suppliers and customers, both of which are essential to and an integral part of its development. In 2021, the Group raised awareness about the importance of all environmental issues and the health and safety issues discussed in the previous sections, by setting specific targets for cutting consumption, including emissions, in a long-term ESG plan.

¹ The environmental data presented in this section refer to:

- for 2021, all production sites and commercial subsidiaries of the Group;
- for 2020 and 2019, production sites only.

Any other exceptions or limitations to the scope are specified in the note.

Compared to previous years, during which the Group identified possible environmental impacts and, in particular, climate change impacts in relation to its business, in 2021, it:

- fine-tuned the calculation of direct consumption (SCOPE 1 emission contribution), focusing on vehicles used exclusively by the company and for mixed use (business and personal);
- re-examined the analysis of electricity consumption (SCOPE 2 emission contribution), including both the relevant share from the production plants and that relating to all commercial subsidiaries;
- carried out an in-depth analysis of the impact of indirect emissions from the transport of materials worldwide (SCOPE 3 emission contribution);
- carried out an in-depth analysis of the impact of the waste generated by the parent (SCOPE 3 emission contribution).

In 2021, the Group was not found guilty of or summonsed to appear in court for environmental crimes. It did not receive any complaints in this respect during the year.

ENERGY CONSUMPTION AND EMISSIONS

Similarly to the past, in 2021, 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 used for internal transport between the different buildings of the same production site. The consumption related to vehicles for mixed use (business and personal) is also included

The available energy sources vary depending on the operating requirements and geographical areas in which the Group's production sites are located. As mentioned earlier, for a complete mapping, the electricity consumption in commercial offices was also analysed and accounts for 6% of consumption in 2021.

Initiatives aimed at reducing consumption continued in 2021:

- reducing primary energy consumption through the installation of low-consumption LED bulbs. This generated savings of approximately 356,000 kWh, down by 3.6% on 2019, the reference year;
- other energy efficiency initiatives at the production plants which, by streamlining the use of production lines, resulted in a further reduction of almost 75,000 kWh.

These initiatives, which focus on improving the use of electricity, contributed to the reduction by approximately 4.4% compared to the reference year. They were key contributors to the reduction in CO₂ eq as detailed later on in this report.

The direct and indirect emissions of Italian and foreign production sites are monitored via the regular analysis of the primary energy consumption, such as natural gas for heating and electricity for buildings. In 2021, this analysis also covered the commercial subsidiaries (6% of total electricity consumption).

With regard to the use of cars belonging to the company fleet, the Group is steadfast in its commitment to more sustainable mobility through the use of full-hybrid or hybrid plug-in vehicles. Monitoring is carried out on a yearly basis and the emissions are added to the direct emissions calculation. Thanks to a more accurate calculation, in 2021, the vehicles used exclusively by the company (logistical needs, technical interventions, etc.) were separated from those with mixed use, calculating the emissions pertaining to the Group.

Furthermore, the calculation method was extended to the entire group for indirect SCOPE 3 emissions generated by the logistics vehicles used to transport goods around the world (by road, air and sea). In addition, the impact of waste generated by the parent was assessed in order to consolidate the method to be applied to all the Group's production sites.

Carel calculated its energy intensity rate considering the gross surface area of its sites and commercial subsidiaries and number of employees to monitor its energy utilisation trends. This is important in order to correctly match consumption and emissions to the increased reporting scope.

With respect to the total surface, in 2021, the rate is 0.81 GJ/m², equal to emissions of roughly 0.05 t CO₂e/m² (down by 23% on the previous year). Whereas, considering the number of employees ², it is 33.4 GJ/employee, equal to emissions of about 2.13 t CO₂e/employee (slightly down by 4.5% last year).

In 2021, the Group's energy consumption saw an increase in electricity from renewable sources, reaching almost 67% of total consumption in 2019, thanks to the full transition to the procurement of energy entirely from renewable sources (57% of total consumption in 2021).

However, the share of energy consumed from 100% green sources increased by 290% on 2019, confirming that sustainability is a key value for the entire group.

² Compared to previous years, in 2021 both employees and outside workers, whose control falls under the organization, were considered.



27,159.98 GJ

DIRECT CONSUMPTION

41,618.47 GJ

INDIRECT CONSUMPTION

| DIRECT AND INDIRECT CONSUMPTION AND ENERGY INTENSITY (GJ) - [GRI 302-1 GRI 302-3] | 2021 | 2020 | 2019 |
|--|------------------|-----------------|------------------|
| Total direct consumption from non-renewable sources | 27,159.98 | 22,303.1 | 29,716.90 |
| Natural gas | 15,361.00 | 12,058.0 | 12,268.0 |
| LPG | 838.93 | 742.7 | 614.7 |
| Vehicle consumption ³ | 10,960.0 | 9,502.3 | 16,807.1 |
| Diesel | 5,357.5 | 4,615.2 | 9,736.8 |
| Petrol | 5,560.6 | 4,887.1 | 7,069.9 |
| CNG | 0.00 | - | 0.4 |
| LPG | 41.94 | - | - |
| Total indirect consumption | 41,618.47 | 36,006.5 | 35,373.3 |
| Electrical energy from renewable sources | 23,603.77 | 18,527.1 | 6,044.7 |
| Electrical energy from non-renewable sources | 18,014.70 | 17,479.5 | 29,328.6 |
| TOTAL | 68,778.44 | 58,308.6 | 65,090 |
| Energy intensity (GJ/m²) | 0.81 | 0.97 | 1.1 |
| Energy intensity (GJ/emp) ⁴ | 33.4 | 33.4 | 38.8 |

3 For the direct consumption related to the company cars in 2021 and 2020, as per ABI 2021 and ABI 2020 guidelines, the following was considered:

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

4 Compared to previous years, in 2021 both employees and outside workers, whose control falls under the organization, were considered.



DIRECT AND INDIRECT EMISSIONS AND EMISSION INTENSITY (TCO2E) - [GRI 305-1 | GRI 305-2 | GRI 305-4] ^{5 6 7 8}

| Emissions | 2021 | 2020 | 2019 |
|--|-----------------|----------------|----------------|
| Total direct emissions from non-renewable sources | 1,810.57 | 1,279.7 | 1,786.4 |
| Natural gas | 781.52 | 615.9 | 626.5 |
| LPG | 49.98 | 44.3 | 38.2 |
| Emissions from vehicles | 979.07 | 619.5 | 1,121.6 |
| Diesel | 487.59 | 308.4 | 662.0 |
| Petrol | 488.64 | 311.1 | 459.6 |
| CNG | 0.00 | - | 0.02 |
| LPG | 2.84 | | |
| Electricity Location based (from renewable and non-renewable sources) | 4,471.7 | 3,914.7 | 3,950.6 |
| Electricity Location based (from non-renewable sources) | 2,517.7 | 2,188.3 | 3,347.8 |
| Electricity Market based (from non-renewable sources) | 2,578.2 | 2,603.8 | 4,223.9 |
| TOTAL | 4,388.72 | 3,883.4 | 6,010.4 |
| Carbon intensity (tCO2e/m2) | 0.05 | 0.07 | 0.10 |
| Carbon intensity (tCO2e/emp) | 2.13 | 2.23 | 3.58 |

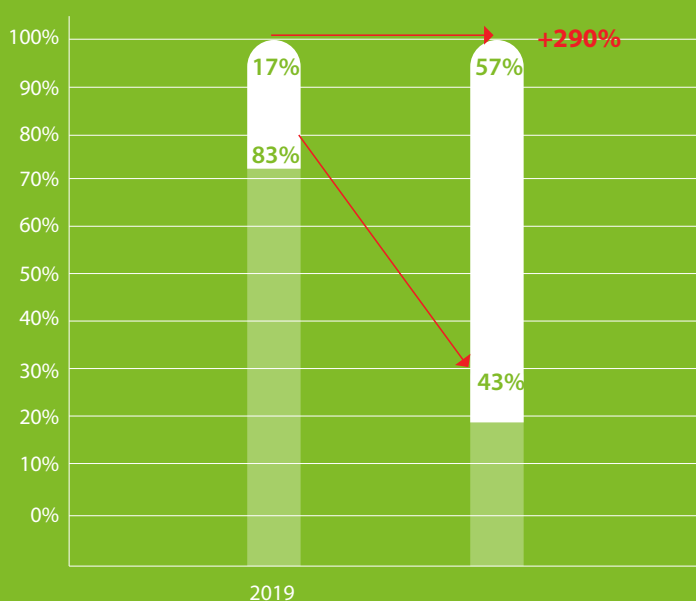
5 The figures used to calculate the direct emissions were published by the Department for Business, Energy & Industrial Strategy (DEFRA) in 2021, 2020 and 2019.

6 The factors used to calculate the indirect emissions are:

- 2021: Location-based: Terna 2019; Market-based: European residual mix 2020 (AIB 2021), where available, otherwise Terna 2019;
- 2020: Location-based: Terna 2018; Market-based: European residual mix 2019 (AIB 2020), where available, otherwise Terna 2018;
- 2019: Location-based: Terna 2017; Market-based: AIB 2018, where available, otherwise Terna 2017.

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

8 Compared to previous years, in 2021 both employees and outside workers, whose control falls under the organization, were considered.

Indirect consumption (%)


Indirect consumption from renewable sources

Indirect consumption from non-renewable sources

In 2021, the Groups' total energy consumption approximated 68,778.44 GJ, up on the previous year as a result of the expansion of the reporting scope which, compared to 2020, also includes all foreign commercial subsidiaries (which account for 6% of the Group's total electricity consumption), and the increase in business activities. This translated into an increase in hours worked (up by approximately 4.7% on 2020). Emissions related to direct and indirect consumption amount to approximately 4,389 t CO₂e (Scope 1 1,811 and Scope 2 2,578 - market-based method).

As mentioned earlier, overall savings in terms of carbon dioxide emissions are estimated at around 200 tCO₂eq. thanks to the use of high-efficiency lighting systems, the streamlining of production lines and the procurement of energy from renewable sources for some the production plants.

Also in 2021, the effects of the Covid-19 emergency include a decrease in the emissions mainly created by business trips or car journeys compared to historical figures. However, these are up on 2020 also due to less restrictive measures and no lockdowns at group level. In line with local regulations, company protocols have severely limited national and international travel and face-to-face meetings with both internal and external personnel.

As mentioned earlier, Carel's commitment to protecting the environment is confirmed by voluntary compliance with the UNI EN ISO 14001:2015 standard, which proves that it has a suitable, sustainable and legally-compliant environmental management system.

Carel's approach to implementing a waste management system is part of its acute sense of efficiency and respect for the environment.

Indeed, the focus is, on the one hand, on the legislative compliance of operations in order to check that the various processes that make up the administrative/management flow meet the minimum legislative requirements and, on the other hand, in particular, on the quest for greater management effectiveness, in order to check the existence of solutions that reduce waste by optimising the use of resources and adopting a circular economy approach.

In this respect, in 2021, data on the parent's waste were collected regularly, not only to comply with the applicable regulation, but above all to identify opportunities for improvement in order to better exploit the waste generated, particularly regarding plastics. The aim, also with respect to that set out in connection with emissions from waste, is to consolidate a methodology to be applied to the Group as a whole, in compliance with local regulations.

TRANSPORT AND LOGISTICS

After consolidating the calculation methodology in 2020, in 2021, the scope of the calculation of indirect emissions caused by logistics was extended to include all the Group's main plants. This mapping will identify the areas in which emission mitigation measures can be implemented.

In 2021, as in 2020, the Group maximised its use of air transport as a result of the Covid-19 emergency, in addition to the shortage of raw materials and the issues caused by the delays affecting maritime transport.

INDIRECT TRANSPORT EMISSIONS - SCOPE 3 (TCO2E) - [GRI 305-3] ⁹

| Mode of transport | 2021 | 2020 |
|-------------------|----------------|----------------|
| Land | 502.2 | 200.4 |
| Air | 3,075.6 | 1,351.5 |
| Sea | 55.3 | 24.8 |
| Total | 3,633.1 | 1,576.7 |

The Carel Group reaches all its customers worldwide thanks to an extensive sales network. Products are shipped from the production plants by:

- road, which is the main mode of transport, accounting for 77% of the total material shipped from the main production plants;
- air, accounting for about 10% of the material shipped;
- sea, which accounts for about 13% of the material shipped.

Shipments to customers are generally by road for the domestic market (for Carel Industries S.p.A. and Carel Croatia this means the European region) or by sea (other continents), as shown by the above figures.

Air transport is rarely a default option. In fact, it is always a contingency, as was the case in 2021 as a result of:

- the crisis affecting the maritime transport sector; and
- the heavy shortage of microchips, semiconductors and other resources, especially from the Far East; the sudden increases in demand and specific requests from customers.

The emission figure attributable to the transport of 7,765 tonnes of goods produced, equal to 3,633 tCO₂e, was calculated by identifying the type of vehicles used and the average distance travelled. Air transport accounted for 85% of the total value of emissions, although it represented only 10% of the total weight shipped. The significant increase in emissions deriving from logistics, compared to 2020, is due to the expansion of the reporting scope to include, in addition to CID, all the Group's other production plants.

⁹ The figures used to calculate the emissions were published by the Department for Business, Energy & Industrial Strategy (DEFRA) in 2021 and 2020. The data on transported goods is extracted from the company IT system (Oracle). For deliveries which are not listed on the company IT system, data is assumed based on an estimate of the amount transported by land. Specifically, the following assumptions were made:

- land transport: it is assumed that 100% is transported in heavy goods vehicles (DEFRA 2021 and 2020 - Freight Goods - HGV ALL DIESEL - ALL HGVs tonne.km 100% land);
- air transport: distances are calculated with the help of <https://www.airmilescalculator.com/distance/mxp-to-pvg/>. (DEFRA 2021 and 2020 - Freight goods - Freight flights - International, to/from non-UK);
- sea transport: distances are calculated with the help of <https://sea-distances.org/>. (DEFRA, 2021 and 2020 - Freight goods - Freight cargo - container ship 8000+ teu).

OTHER EMISSIONS

Similarly to previous years, no emissions of fluorinated gases from air-conditioning systems' normal usage were recorded. Regular maintenance is carried out at all sites in line with an annual plan to ensure the highest efficiency levels and to reduce the consumption of ozone depleting gases.

In 2020, Carel engaged an external expert to help it analyse the NOx, SOx and other significant atmospheric emissions from the main chimneys. The results for 2021 and the significant variations compared to 2020 are due to both a reorganisation of production at the parent ("mechanical hub" and "electronic hub", as mentioned earlier), which led to the installation of a new emission point and the redefinition of the others, and the ongoing fine-tuning of the analysis, which led to a more accurate calculation of the quantities emitted per pollutant.

In Italy, the analyses of emissions from the chimneys of its production units show levels far below the limits established by the related authorisations which were renewed in 2021. In Croatia, the incinerators of Carel Adriatic are subject to regular maintenance and emissions are analysed periodically to comply with the legal requirements for environmental protection. With regard to emissions monitoring in China, a third-party expert was engaged to carry out sample tests at Carel Suzhou. Overall, the figures show that pollutants decreased on average by almost 40%.

NOx, SOx AND OTHER SIGNIFICANT EMISSIONS (KG) [GRI 305-7]

| Emissions | 2021 ¹⁰ | 2020 | 2019 |
|-------------------------------------|--------------------|-------|-------|
| Nitrogen oxides (NOx) | 444.68 | 500.2 | 29 |
| Sulphur oxides (SOx) | 205.39 | 236.3 | 1 |
| Persistent organic pollutants (POP) | 0.25 | 0.3 | - |
| Volatile organic compounds (VOC) | 134.97 | 586.6 | 1,741 |
| Hazardous air pollutants (HAP) | 6.85 | 89.7 | - |
| Particulate matter (PM) | 479.67 | 614.2 | 179 |

INITIATIVES TO REDUCE ENERGY CONSUMPTION

As mentioned earlier, in 2021, the Group carried out works to reduce energy consumption at production sites. These initiatives entailed the replacement of lighting systems with LED technology at Italian production sites. LED light bulbs also have a significantly higher average lifespan, improving the longevity of the investment.

These works are part of a broader energy efficiency plan which the Group is implementing in the knowledge that energy consumption due to inefficient plant contributes to climate change.

This plan included replacing heating/cooling systems with more efficient heat pumps in 2020, thus saving approximately 430,000 kWh as of 2021.

¹⁰ Since the results of chimneys sampling were not yet available at the date of the reporting, 2020 sampling reports have been used with reference to the pollutants' determination. This choice was made possible due to the homogeneous production processes underlying the chimneys in the two periods.

REDUCTION OF ENERGY CONSUMPTION AND EMISSIONS [GRI 302-4 | 305-5] ¹¹

| Type of work | 2021 | | 2020 | |
|---|----------------------------|------------------------------|----------------------------|------------------------------|
| | Estimated reductions (KWh) | Estimated reductions (tCO2e) | Estimated reductions (KWh) | Estimated reductions (tCO2e) |
| Replacement of lighting systems with LED technology | 355,964 | 156 | 168,845 | 78 |
| Streamlining the use of production lines | 74,655 | 45 | - | - |
| Total | 430,619 | 201 | 168,845 | 78 |

Thanks to the works described, the Group enjoyed a number of advantages, not only from an energy efficiency standpoint, but also in terms of avoided emissions from such consumption based on the assumption that such consumption uses electricity generated from fossil fuels. Specifically, by replacing lighting systems with LED technology and streamlining the use of production lines, in 2021, the Group avoided more than 201.5 tonnes of CO₂e, twice the emissions avoided in 2020.

Furthermore, in 2021, the construction of two new buildings began in the area near Carel Industries S.p.A.. The first will be a multi-purpose building housing the company canteen, offices, laboratories, a conference room and showrooms, while the second will be used for office purposes. Both buildings will have photovoltaic systems for self-generation of electricity and high-efficiency heating and cooling systems.

PACKAGING

Efficiency is an intrinsic part of the Carel solutions: both the means to the end and the end itself. Efficiency is intended as energy savings and added value for the customer's business, in terms of precision and caring for resources. As part of this approach, Carel has developed a project with its packaging suppliers to develop certified green packaging.

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 certified cardboard and wooden boxes.



¹¹ The factors used to calculate the emissions avoided are:

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

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

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, by 2022, the Group is committed to preparing a catalogue of sustainable packaging common to Carel Industries S.p.A.. 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.

WASTE

Carel Industries promotes proper waste management as part of its environmental policy and the implementation of an environmental management system. The Group is committed to reducing its total waste output generated by manufacturing and especially the mixed packaging waste. It has defined indicators considering total production.

Special bins are placed in the offices, specifically in the break areas and in some production areas, to sort the waste generated. According to the analysis carried out on the waste generated by the parent, of the total 478.24 tonnes of waste generated, hazardous waste only accounts for 1.8% thereof. Overall, 97.5% of the waste produced is sent for recovery (including aqueous liquid waste). Specifically, recycled waste is 95.2%.

Therefore, on a macro level, the impact of waste is not significant and reuse of waste is considerable.



WASTE GENERATED [GRI 306-3]

| Type of waste | 2021 | | |
|---|-----------------|------------------------------|----------------------------|
| | Waste generated | Waste diverted from disposal | Waste directed to disposal |
| <i>Hazardous waste</i> | 8.72 | 5.72 | 3.00 |
| Materials containing hazardous substances with 0% recycling rate (liquid waste, insulation materials, filter materials and clothing contaminated with hazardous substances, etc.) | 7.26 | 4.66 | 2.60 |
| Materials containing hazardous substances with a mixed recycling rate (plastic packaging, equipment, neon lamps, etc.) | 1.41 | 1 | 0.41 |
| Materials containing hazardous substances with 100% recycling rate (synthetic engine, gear and lubrication oils) | 0.06 | 0.06 | 0 |
| <i>Non-hazardous waste</i> | 469.52 | 460.48 | 9.04 |
| Materials containing non-hazardous substances with 0% recycling rate (used toner cartridges, liquid waste, insulation materials not containing hazardous substances, etc.) | 9.24 | 5.8 | 3.44 |
| Materials containing non-hazardous substances with a mixed recycling rate (waste equipment and its components, cables, etc.) | 26.09 | 20.49 | 5.6 |
| Materials containing non-hazardous substances with 100% recycling rate (plastics, paper, cardboard, wood and mixed packaging, metals, solid urban waste) | 434.19 | 434.19 | 0 |
| Total waste | 478.24 | 466.20 | 12.04 |

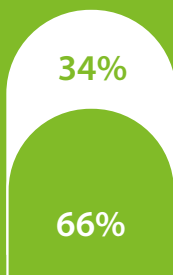
WASTE GENERATED

2%

HAZARDOUS WASTE


98%

NON-HAZARDOUS WASTE

TREATMENT METHOD


WASTE DIVERTED FROM DISPOSAL

WASTE DIVERTED TO DISPOSAL

| WASTE DIVERTED FROM DISPOSAL [GRI 306-4] | | 2021 |
|---|--|--------------------|
| Type of waste | | Offsite (t) |
| <i>Hazardous waste</i> | | 5.72 |
| Recycling | | 1.06 |
| Recyclable oils, packaging, equipment and electrical components | | 1.06 |
| Other recovery operations | | 4.66 |
| Liquid, specific wastewater treatment | | 4.66 |
| <i>Non-hazardous waste</i> | | 460.49 |
| Recycling | | 454.69 |
| Packaging, wood, paper, equipment, various recyclable materials | | 454.69 |
| Other recovery operations | | 5.80 |
| Liquid, specific wastewater treatment | | 5.80 |
| Total waste diverted from disposal | | 466.21 |

| WASTE DIRECTED TO DISPOSAL [GRI 306-5] | | 2021 |
|--|--|--------------------|
| Type of waste | | Offsite (t) |
| <i>Hazardous waste</i> | | 3.01 |
| Incineration (without energy recovery) | | 2.41 |
| Materials with hazardous components for incineration | | 2.41 |
| Landfilling | | 0.60 |
| Materials, equipment, packaging for landfilling | | 0.60 |
| <i>Non-hazardous waste</i> | | 9.04 |
| Incineration (without energy recovery) | | 2.01 |
| Mixed materials not recyclable for incineration (e.g., toner or solid part after liquid treatment) | | 2.01 |
| Landfilling | | 7.03 |
| Equipment, mixed materials, non-recyclable cables | | 7.03 |
| Total waste directed to disposal | | 12.05 |

Packaging made of mixed materials, paper and cardboard, wood, iron and steel accounts for more than 90% of the waste generated and guarantees the above recycling rate.

However, the commitment is and will be to reduce the mixed material component in order to reuse internally the plastics generated by the production process. This entails separating plastics that can be better reused (such as rolls, PS reels, PS, PVC, PE and PET slats, etc.) in the disposal process:

The analysis will also be particularly useful in identifying possible reductions in the supply chain of the raw material used in the company's production cycles.

Waste is generated by industrial processes linked, in particular, to the need to protect the electronic components used to assemble components in the various production lines.

For each type of material waste, the origin from the production or logistic area is analysed in order to identify synergies and specific areas of intervention.

With respect to the type of waste generated and based on the management model implemented and the actions underway, given the high percentage of recycling, the impacts are not significant. Furthermore, environmental contamination is excluded thanks to a management approach that envisages specific areas and the use of dedicated containers.

This low impact is confirmed by the assessment carried out in terms of tCO₂eq emissions from the waste generated by the parent. In accordance with the consolidated method, this analysis will be progressively extended to all the other production sites of the Group. Indeed, emissions are modest and equal to about 9.8 tCO₂eq or approximately one tCO₂eq for every 48.5 tonnes of waste generated. 90% of the emissions from waste match the same type of waste with the highest impact on the volumes generated.

WATER



21.6 megalitres

OF WATER WITHDRAWN IN ALL

The Group is committed to the rational use of water at all of its sites. Considering the fact that fresh water consumption¹² is used for sanitary rather than industrial purposes, management monitors usage in order to detect any leakages and to safeguard water resources. Water is mainly obtained from the municipal water supply for each production site - only one site has a well - and bills are checked regularly to ascertain that consumption has not changed and, therefore, that there are no defects or leakages.

In 2021, the Group's total water consumption was roughly 21.6 megalitres. The increase on the previous year (15 megalitres) is due to the expansion of the reporting scope, which now includes all foreign commercial subsidiaries, and to the business growth, which resulted in an increase in the numbers of hours worked (up by approximately 4.7% on 2020).

Starting in 2020, production sites' consumption is also monitored with reference to any areas of water stress where they are located. This measurement shows that consumption has not increased and is in line with past trends. The site in China, which is responsible for 25% of total consumption, is located in an area of water stress.

As of 2021, the analysis has been extended to all other group entities, including commercial offices. Overall, 47% of consumption is attributable to the production sites. However, such consumption (totalling 21.6 megalitres for the almost total third-party supply) is 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 losses through the implementation of specific maintenance plans.

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

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

¹² Fresh water means water with total suspended solids concentration (TSS) ≤1,000 mg/L; other water (TSS>1,000 mg/L). In order to pinpoint which units are located in areas of water stress, the Group used the World Resources Institute's Aqueduct Water Risk Atlas tool. The Carel Suzhou production site is located in an area of high water stress (40-60%) and its water is withdrawn from the municipal water system which uses surface water.

| Sources | 2021 | | 2020 | |
|--|-------------|--------------------|-------------|--------------------|
| | All areas | Water stress areas | All areas | Water stress areas |
| Groundwater | 0.5 | 0 | 0.5 | - |
| Fresh water | 0.5 | 0 | 0.5 | - |
| Water withdrawn from the municipal water supply | 21.1 | 5.2 | 14.8 | 3.9 |
| Fresh water | 19.9 | 5.2 | 14.8 | 3.9 |
| Other water | 1.2 | 0 | - | - |
| Total | 21.6 | 5.2 | 15.3 | 3.9 |

13 In 2021 and 2020, no water was withdrawn from surface water, produced water, seawater or other water sources.

ENERGY EFFICIENCY AND SUSTAINABLE PRODUCTS AND SERVICES

Carel has always been known for advanced control systems offering innovative solutions for the HVAC/R sector. Its high efficiency solutions are a certainty for environmental protection thanks to their optimised and integrated control systems, which allow for significant energy savings and, as a result, a smaller environmental impact. The Group is committed to reducing negative effects on the environment and climate change. This includes the ongoing research into solutions for systems and plant regulation and control that use low environmental impact refrigerants as well as solutions that provide customers with the maximum possible energy efficiency. Commitment to sustainability and respect for the environment have always been part of Carel’s DNA. When developing and improving integrated solutions designed for various market segments, Carel’s approach is solution rather than product based. It pays close attention to sustainability issues, and has research programmes for:



energy efficiency;



use of natural refrigerants;



cold chain sustainability;



data monitoring and analysis and system optimisation.

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

ENERGY EFFICIENCY

The increased efficiency of Carel's conditioning and refrigeration systems is one of its cornerstones. In addition to its move towards less energy intensive systems, Carel also pays close attention to their power supply. The transition from traditional gas or fossil fuel heating systems to electric pump solutions should allow for the better use of renewable sources. The main new designs and innovations of recent years of HVAC/R technologies have led to:

- optimisation of refrigeration systems and circuits;
- consolidation of variable speed compressors using BLDC technology, facilitating greater efficiency in applications like heat pumps;
- specific devices for CO₂ refrigerant applications making the systems more efficient and extending the use of these applications in hotter geographical areas;
- widespread use of natural refrigerants in general, especially propane (R290).

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



In the HVAC sector, the Group focuses on adiabatic humidification, which allows the production of humidity using less energy compared to isothermal humidification. One related application is evaporative cooling, with more efficient temperature controls especially in air treatment applications.

The Group continued its market approach in 2021 whereby it offers integrated solutions that provide a complete response to an application's needs rather than providing individual products. With regard to sustainability and respect for the environment, the Group has analysed the annual consumption of electricity of a refrigeration unit housing a Carel component, selecting a range of solutions. It calculated consumption using standard design criteria (e.g., refrigerant, working hours, efficiency, average work load, component oversizing). It then applied the energy savings to this electrical component, obtained as the average of internal case studies for that Carel component and for a specific application in the cold chain or air-conditioning sectors.

During the year, Carel's customers saved ¹⁴ 5,867 GWh, up by 28% from 4,570 GWh in 2020. The following table summarises the estimated energy savings. 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. Compared to 2020, no new product family was introduced. Around 74% of the energy savings were thanks to the EXVs, including ejectors, which are Carel's main products, counting over 445 thousand pieces in 2021.

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

| PRODUCT | Application | Saving (%) | 2021 | 2020 | 2019 |
|----------------------------------|-------------|-------------------|------------------------|------------------------|------------------------|
| | | | Total savings (GWh/yr) | Total savings (GWh/yr) | Total savings (GWh/yr) |
| Electronic expansion valve (EXV) | HVAC/REF | 17% | 4,344 | 3,124 | 2,955 |
| DC Drive and Heez | REF | 30% | 460 | 371 | 310 |
| Adiabatic system | HVAC | 60% | 110 | 26 | 21 |
| Heat exchanger | HVAC | 11% ¹⁵ | 953 | 1,049 | 1,015 |
| Total | | | 5,867 | 4,570 | 4,301 |

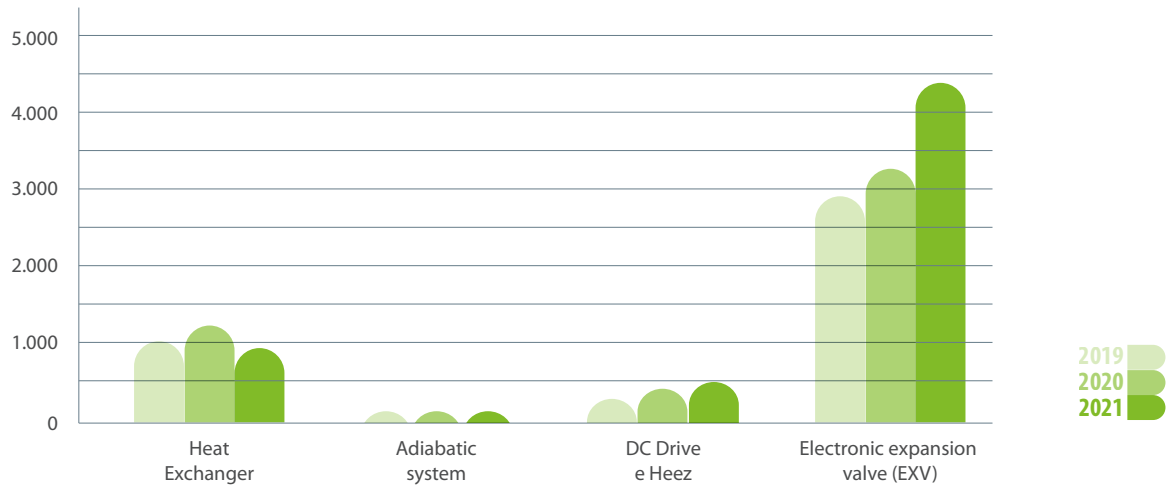
Products made by Recuperator, which manufacturers extremely energy-efficient air-air heat recovery systems and which was bought by the Group at the end of 2018, complete Carel's ventilation application portfolio (e.g., AHU and roof top systems). Carel customers' use of these heat recovery systems for the aforementioned applications generated savings of 953 GWh during the year, equal to 16% of total applications.

The graphs below provide a comparison of the energy savings of Carel products in the 2019-2021 three-year period. The higher savings in 2021 are attributable to the fact that the market is increasingly inclined to favour solutions which guarantee greater energy sustainability.

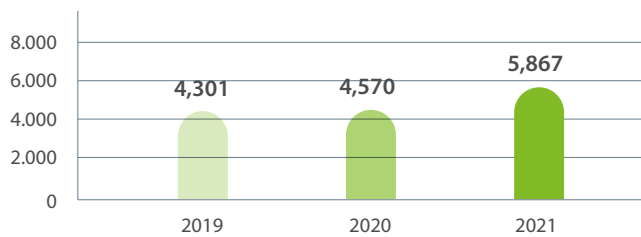
¹⁴ The 2019 figures have been restated using a more precise calculation process for the purposes of greater comparability.

¹⁵ Average annual efficiency includes both heating and cooling

Energy savings by product (GWh/yr)



Total energy savings (GWh/yr)



Lastly, the Group calculated the GHG emissions avoided ¹⁶ by customers as a result of the energy savings: in 2021, 1,613,425 tCO₂e were avoided, slightly above the CO₂ emissions produced by Guyana in ¹⁷2020. Therefore, it is actively contributing to mitigating climate change. For these emissions to be absorbed, a woodland ¹⁸ larger than the metropolitan area of Frankfurt (equal to around 2,260 km²) would be required.

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

| | | ExV | DC Drivers e Heez | Adiabatic system | Heat Exchanger | Totale |
|-------------|--|-----------|-------------------|------------------|----------------|------------------|
| 2021 | Emissions avoided (tCO₂e/yr) | 1,194,600 | 126,500 | 30,250 | 262,075 | 1,613,425 |
| 2020 | Emissions avoided (tCO₂e/yr) | 859,186 | 101,907 | 7,259 | 288,595 | 1,256,947 |
| 2019 | Emissions avoided (tCO₂e/yr) | 874,612 | 91,870 | 6,202 | 300,476 | 1,273,160 |

¹⁶ In order to calculate avoided emissions, the conversion coefficient of 0.000275 tCO₂e/Kwh was used (source: European Environmental Agency EEA, 2019)

¹⁷ Sources: EDGAR - Emissions Database for Global Atmospheric Research (<https://edgar.jrc.ec.europa.eu>), 2021 – 1,518,297.6 tCO₂

¹⁸ In order to calculate the equivalent wooded area, a coefficient of 630 tCO₂/km² yr was used (source: <http://www.treesintrust.com/environmental.shtml>)

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

It also allows for the assessment of any drops in performance which is essential to implement scheduled maintenance programmes. The Group also has system monitoring and optimisation services, where data from other similar systems are compared to align the performances of the less efficient systems with those of the best-performing systems.

The system can also be optimised by coordinating the working of the various devices making up the system depending on their use, the environmental conditions or the use of the system itself. Introduction of an advanced control system in even the simplest cases allows significant savings in the machines' and systems' energy requirements thanks to functions like, for example, optimisation of switching on and off or using it only when strictly necessary.

NATURAL REFRIGERANTS

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

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

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

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

In sustainability terms, the use of CO₂ is the most environmentally-friendly choice compared to any other HFC/HFO refrigerants. In addition, compared to other natural refrigerants, it is not inflammable like the hydrocarbons (e.g., R290), nor is it toxic (unlike NH₃) but it is potentially less efficient. Thanks to the Kigali Agreement and the consequent steady elimination of the HFC/HFO gases, CO₂ will gradually become the standard refrigerant. Experience, know-how and innovation are the linchpins of Carel's solutions. Its control technology is characterised by reliability and efficiency for this type of system, especially in warmer climates where energy savings are affected by the low critical temperature (31°C).

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

In 2021, the Group continued extending its range of installations with natural refrigerants, partly to meet the strong demand from several markets.

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

Carel's commitment is shown by the progress made on its projects for refrigeration systems in the retail food sector which are steadily transitioning towards CO₂ solutions and, especially, from the traditional technologies to the more efficient variable speed solutions.

Installations with natural refrigerants are gaining popularity constantly throughout the world, mainly led by the trends in Europe, but with strong drivers in Japan, New Zealand, Australia and South Africa too. In recent years, Carel has tripled the number of its CO₂ projects using the DC inverter technology which guarantees high efficiency with the use of natural refrigerants as well.

Carel's aim is to contribute to spreading an energy saving culture and refrigeration practices that are more environmentally-friendly. As a result, it has undertaken various sustainability projects.

COLD CHAIN SUSTAINABILITY

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

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

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

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

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

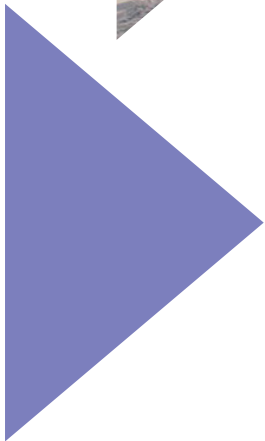
Refrigerated showcases and cold rooms are two symbolic locations of food safety. The closely connected issue is safety in the cold chain. A potential risk for food in terms of preservation times, temperatures which are too high or too low or non-optimal relative humidity, can be measured and traced in these environments. This is where Carel systems guarantee reliability and accuracy of the measurements at the origin, becoming a precious tool in terms of food safety and quality: the lower the stress on the products, the better the preservation conditions. Food lasts longer and all organoleptic characteristics remain intact.

Carel offers both point-to-point solutions among the highest performance ones available on the market and a top-of-the-range global solution. It guarantees better food preservation and higher energy saving. Expenses are cut and food is preserved better and longer.





Employment



TRAINING AND PROTECTING HUMAN RESOURCES

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

2021 was an important year in the path towards a personnel management approach that is increasingly focused on actively contributing to well-being, both inside and outside the company. As already mentioned, the Driven by the Future project was unveiled, in which acting for people is one of the three essential pillars for sustainable development.

For this reason, of the 55 sustainability goals spread over a long-term horizon, 22 are focused on improving the Group's relationships and attention to people, including employees, customers and the community as a whole. Specifically, this commitment is focused on the following topics:

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

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

The multiculturalism and plurality of gender and nationalities that characterises the Group as a multinational requires specific efforts on promoting an inclusive approach in order to foster a climate of respect and make diversity a strategic advantage, encouraging discussion, creativity and innovation.

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 order to raise **awareness of diversity and inclusion issues**, the Group participates in activities, initiatives and projects that reduce gender inequalities and promote, in general, equal opportunities and women's access to career paths in the STEM field, while bearing in mind that, historically, the presence of women is not prevalent in this sector.

The initiatives launched to increase contacts with young women include, inter alia, the parent's participation in recruiting and employer branding initiatives targeting female STEM students, which took place virtually again in 2021.

The long-term commitment to gender rebalancing in management positions resulted in setting a target related to the hiring of women through permanent contracts in order to gradually increase the number of female employees. The benchmark is the percentage of white-collar women hired out of the total number of hires for the year. For 2021, this target was set at 25% for the headquarters, up 5% in subsequent years.

In 2021, for the parent, the percentage of white-collar women hired through permanent contracts out of the total number of hires was 23.1% or 24% considering the hiring of white collars through fixed-term contracts.

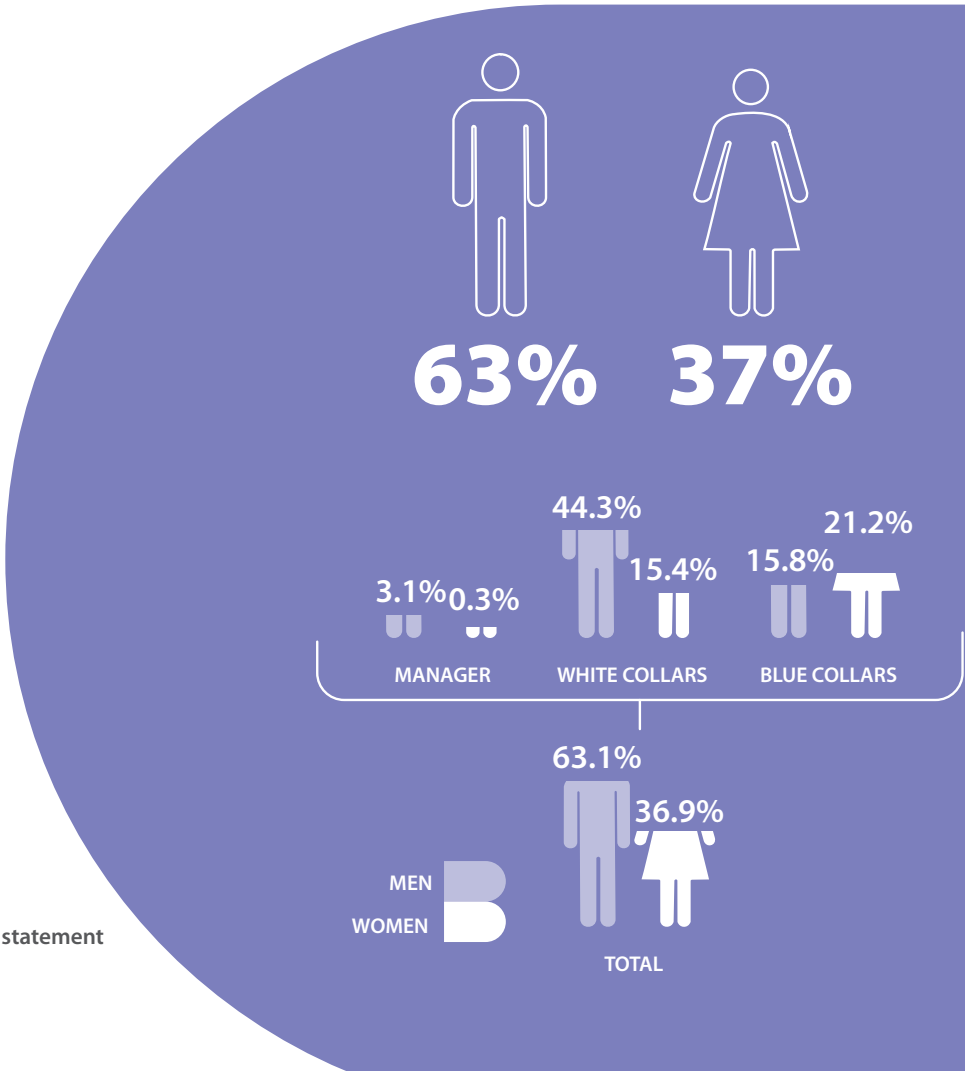
At group level, in 2021, women account for 37% of the workforce. Specifically, they make up approximately 26% of white collars, up 1% on the previous year.

Free association in trade unions and collective bargaining organisations 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.). 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 2021, three days of strikes were announced at the parent, all in relation to national trade unions’ actions related to safety at work, the national emergency management plan and the budget law. An average of 13.2% of employees took part. In October 2021, union negotiations also began for the renewal of the supplementary company agreement (second-level bargaining) for the three-year period 2022-2024. The agreement, which will be signed in the first quarter of 2022, continues to focus on flexibility and the awarding of additional welfare & benefits for employees.

In 2021, 48% of the Group’s employees were covered by collective bargaining agreements. The rest were hired under company or individual contracts covered by the local market regulations and practices. In 2021, at Carel Industries S.p.A., 15.6% of workers were members of a trade union and disputes were minimal. Specifically, there were three individual cases in 2021 that led to trade union disputes. These are individual cases which resulted in disputes involving Carel South America’s production site and the commercial subsidiary in South Africa. Two of them were already resolved in 2021, while the remaining one is close to resolution. In 2021, no reports about discrimination were made.



During the year, following the need to continue to apply stringent safety protocols to mitigate the risks of contagion, the Covid-19 committee, set up in 2020 at the onset of the pandemic and comprising the HR manager, HSE manager, the company doctor, trade union representatives and safety representatives, continued to operate. The committee met up regularly to update the emergency plan and the employee healthcare protocol, assess the best policies for employee access to offices while balancing the use of remote working, and provide policies and guidelines to be used as standards in compliance with local regulations and the ruling legislation of each country.

COMPOSITION OF THE WORKFORCE

At 31 December 2021, the Group had 1,865 employees, an increase of 6.9% compared to the previous year. In addition to new hires, the increase is a direct consequence of the inclusion of Enginia and CFM in the Group's scope.

The parent in particular has dedicated inclusion policies for employees with disabilities in accordance with Italian law. Employees with disabilities numbered 42 at year end.

The largest professional category is that of the white collars (roughly 60%), followed by blue collars (37%). Management make up around 3% of the total workforce. In 2021, there was an 8% increase in the number of female employees. The percentage of female managers is increasing in line with the previous years ¹.

¹ The professional category classification set out below reflects the relevant Italian legislation. Managers include all the directors of the Group companies, even when this is not actually provided for in their contracts. .

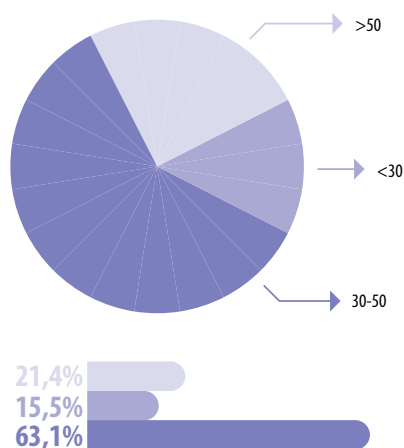


NUMBER OF EMPLOYEES BY PROFESSIONAL CATEGORY AND GENDER (N.) [GRI 405-1]

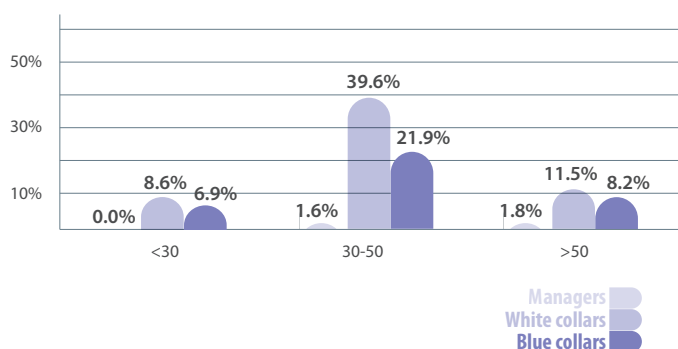
| | 2021 | | | 2020 | | | 2019 | | |
|---------------|--------------|------------|--------------|--------------|------------|--------------|--------------|------------|--------------|
| | Men | Women | Total | Men | Women | Total | Men | Women | Total |
| Managers | 57 | 5 | 62 | 56 | 6 | 62 | 55 | 6 | 61 |
| White collars | 826 | 288 | 1,114 | 795 | 264 | 1,059 | 772 | 272 | 1,044 |
| Blue collars | 294 | 395 | 689 | 257 | 367 | 624 | 243 | 331 | 574 |
| Total | 1,117 | 688 | 1,865 | 1,108 | 637 | 1,745 | 1,070 | 609 | 1,679 |

Most employees are in the 30-50 age bracket with an average age of around 42.2 (42 for men and 42.5 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.

Employees by age bracket (%)



Employees by professional category and age bracket (%)



The Group's continuous growth is evident from the fact that 51% of employees have been hired in only the past five years. In addition, the Group's commitment to long-term stable employment can be seen from the service seniority (roughly 43% of its employees have been with the Group for a period of between six and 25 years) and the high percentage of employees with permanent contracts (82%).

NUMBER OF EMPLOYEES BY CONTRACT TYPE AND GENDER - 2021 (N.) [GRI 102-8]

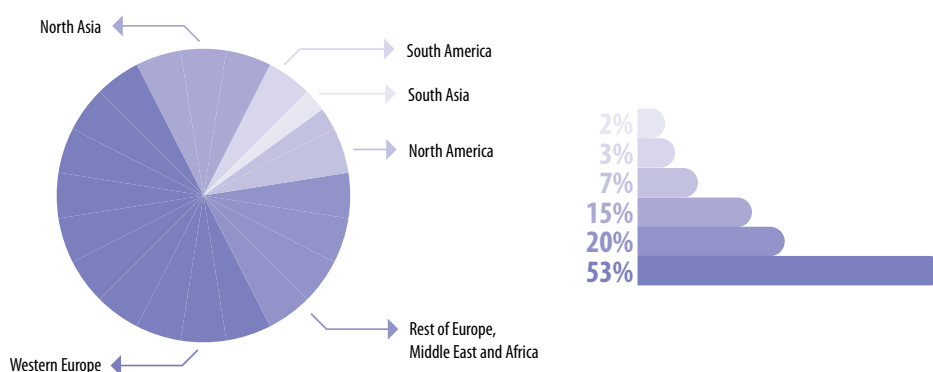
| | Permanent employment contracts | | Fixed-term contracts | | Total | |
|--|--------------------------------|-------|----------------------|-------|------------|------------|
| | Men | Women | Men | Women | Permanent | Fixed-term |
| Western Europe | 670 | 304 | 12 | 3 | 974 | 15 |
| Rest of Europe,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

In 2021, roughly 2% of its workforce were working part-time hours (mostly women). The parent has a supplementary contract that provides more favourable conditions to all its employees (i.e., over a third of the Group's workforce) compared to the national employment contract, covering issues such as daily and weekly flexible work hours, part-time work and paid leave when children are born.

NUMBER OF EMPLOYEES BY TYPE OF JOB (N.) [GRI 102-8]

| | 2021 | | | 2020 | | | 2019 | | |
|--------------|--------------|------------|--------------|--------------|------------|--------------|--------------|------------|--------------|
| | Men | Women | Total | Men | Women | Total | Men | Women | Total |
| Full-time | 1,172 | 647 | 1,819 | 1,106 | 600 | 1,706 | 1,066 | 569 | 1,635 |
| Part-time | 5 | 41 | 46 | 2 | 37 | 39 | 4 | 40 | 44 |
| Total | 1,177 | 688 | 1,865 | 1,108 | 637 | 1,745 | 1,070 | 609 | 1,679 |

A geographical breakdown shows that, in line with the previous years, more than half of the employees are employed in Western Europe, 20% in Eastern Europe, Middle East and Africa, 17% in APAC and 10% in North and South America.

Employees broken down by region


EMPLOYEE INVOLVEMENT, LISTENING AND SATISFACTION

The importance of people in sustainable development and the need to manage the continuing challenges of integrating new people, new businesses and the major changes in working arrangements arising from the pandemic, highlighted, in recent years, the need for a change in corporate life.



- Make the difference!
- Experiment!
- Be open!
- Care!
- Think customer first!

When the pandemic broke out in 2020, the company expressed its willingness to embark on a development path to renew its employee value proposition and give fresh impetus to redesigning the value system and principles that drive the company.

In order to propose a strong and shared corporate identity, fostering cohesion between people and alignment towards the achievement of the strategic goals, in 2021, the vision was formalised for the first time and, at the same time, the Carel Culture Code was unveiled, outlining the guiding values of the Group’s culture.



Vision

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

Driven by knowledge, inspired by human well-being.

Now and for the future generations.

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

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

- **Be open!** Valuing the diversity of people and new approaches, looking at experience and knowledge outside Carel, questioning the present situation and operating with a global horizon;
- **Experiment!** Innovate by exploiting short cycles and in collaboration with customers, considering failures as a learning opportunity;
- **Care!** Asking for and listening to others' opinions, while remaining transparent and taking into account how our actions affect the work of others, defending our ideas at the same time;
- **Think customer first!** Working with a focus on the customers' perspective to offer them the best solutions and the best services;
- **Make the difference!** Set ambitious, clear and shared goals and evaluation criteria, assuming responsibility and risks for our actions and embodying the principles of the Carel Culture Code.

The new work organisation models, together with the company's growth and the continuous hiring of new resources, have also significantly highlighted the need to structure internal communication activities in order to create an environment that promotes a sense of belonging and proximity. To this end, at the end of 2020, a new interdepartmental team was created with the task of improving internal communication processes and initiatives at group level.

The initiatives carried out during the year were mainly focused on the Group-wide deployment of the new vision, mission and guiding values of the Carel Culture Code in order to begin a journey of growth towards the definition of the new corporate culture.

The team's objective was to approach communication initiatives with an international focus, ensuring full consistency with the values set out in Carel Culture Code and leveraging emotional rather than informative communication, in order to create engagement and nurture community spirit. In order to expand the communication channels used and reach as many group's employees as possible, the team developed a new corporate intranet: ONEPLACE, which was launched in November 2021. This tool facilitates all employees in accessing documents, resources and communications useful for life in the company.

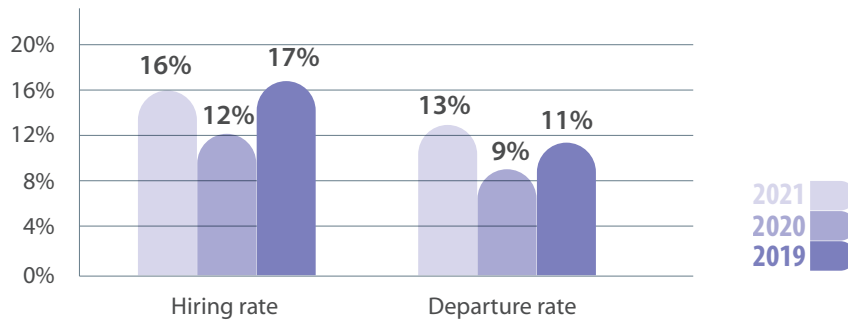
TALENT ATTRACTION, DEVELOPMENT AND RETENTION & WELL-BEING, WORK-LIFE BALANCE AND EMPLOYMENT PROTECTION

For Carel, people are the key element of the Group's success and the strategic factor for meeting business challenges. To this end, standardised tools have been defined, including some local customisations, which annually involve the Group's white collars in a process of performance assessment and identification of critical areas for improvement. In addition to the more traditional objective of aligning individual performance with business objectives, this process intends to define development processes for people and identify high-potential profiles.

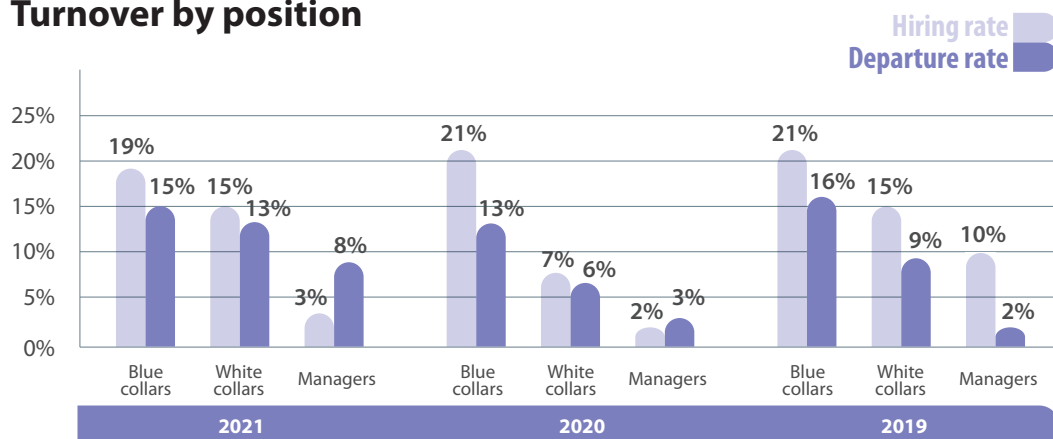
The identification and development of talent, as well as talent attraction and retention, represents a major challenge for the Group. Carel's growth is based on the ability to recruit, retain and develop qualified personnel with a high level of expertise and knowledge of the products and markets in which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

Hiring and departure rates were higher in 2021 compared to the previous year, though in line with the trends of the past few years. The upturn in employment following the pandemic has resulted in an increase in the departure rate, confirming the trend seen in recent years, whereby the departure rate, particularly at the Group’s production sites, is fairly significant in a highly competitive global market. The increase in the recruitment rate is a natural consequence of the Group’s expansion, both in terms of new acquisitions and increase in the workforce, and the need to replace people who have left the company.

Total turnover (%)



Turnover by position



In 2021, the Group hired 302 people ², of which 37% were women. Of the new hires, 41% were in the under-30 age bracket, 48% in the intermediate bracket (30-50) and 11% were over 50. In 2021, 250 people left the Group (35% in the under-30 age bracket, 52% in the intermediate bracket (30-50) and 13% 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.

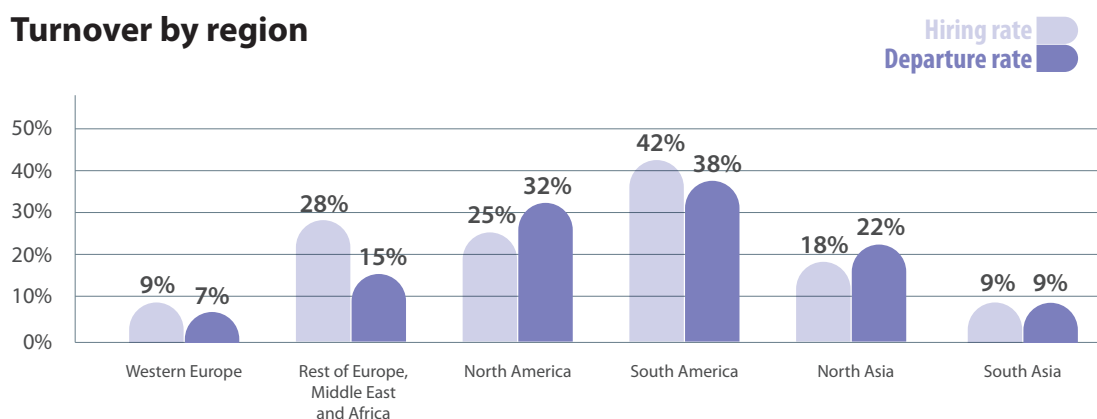
² New hires and departures include four intragroup transfers

| TURNOVER RATE BY GENDER (%) [GRI 401-1] | 2021 | | 2020 | | 2019 | |
|---|-------|-------|--------|--------|--------|--------|
| | Men | Women | Men | Women | Men | Women |
| Hiring rate | 16.2% | 16.1% | 10.11% | 15.38% | 16.29% | 18.56% |
| Departure rate | 14.0% | 12.4% | 7.40% | 11.30% | 10.62% | 11.84% |

| TURNOVER RATE BY AGE BRACKET (%) [GRI 401-1] | 2021 | | | 2020 | | | 2019 | | |
|--|-------|-------|------|--------|-------|-------|--------|--------|-------|
| | <30 | 30-50 | >50 | <30 | 30-50 | >50 | <30 | 30-50 | >50 |
| Hiring rate | 42.6% | 12.3% | 8.5% | 28.33% | 9.53% | 6.08% | 38.72% | 13.66% | 7.09% |
| Departure rate | 30.8% | 10.9% | 8.3% | 15.36% | 8.01% | 5.78% | 19.53% | 9.99% | 6.19% |

The impact of the blue-collar turnover rate is particularly high in the hiring and departure rates in three regions: Eastern Europe, Middle East and Africa, North America and South America. A geographical breakdown of the new hires shows that 102 people were hired in Eastern Europe, the Middle East and Africa, 92 were hired in Western Europe, 50 in North Asia, 34 in North America, 20 in South America and , four in South Asia. On the other hand, a breakdown by geographical area shows that 70 people left the Group in Western Europe, 53 in the rest of Europe, Middle East and Africa, 61 in North Asia, 44 in North America, 18 in South America and four in South Asia.

Turnover by region



In order to compete in an increasingly dynamic labour market and to retain the best talent, the company 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.

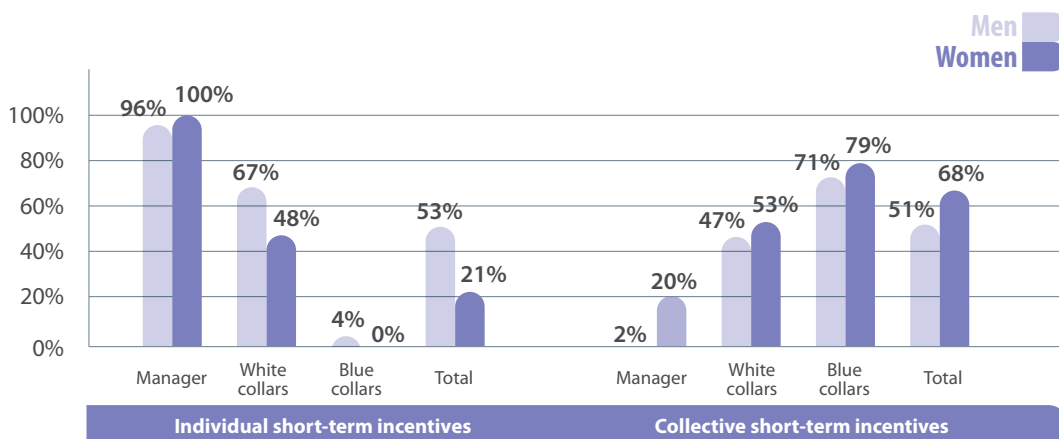
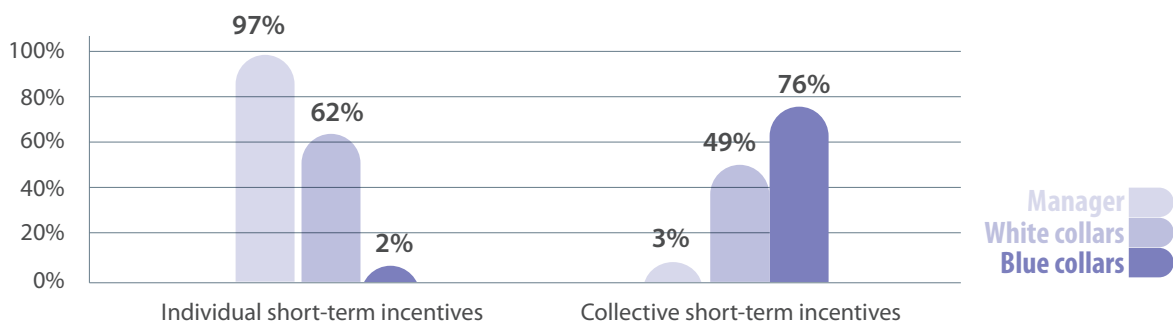
In order to develop competitive remuneration policies, Carel carries out structured checks on its own remuneration practices against the reference market, especially for its key resources, assisted by consulting companies that specialise in remuneration analysis and benchmarking and in actuarial and 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**

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 2021, 41% of employees are covered by individual short-term incentives - hence linked to targets assigned to individual employees, while 57% are covered by collective incentives, which entail payment of a performance bonus (e.g., based on productivity or efficiency).

Short-term incentive plans for employees



In order to share the company’s commitment set out in the Driven by the Future project and create engagement in the path to sustainable development, the remuneration packages of top 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]

| | 2021 | | | | | | | | | |
|--|--|--|--|--|--|--|--|--|--|--|
| | 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 | 84% | 69% | 0% | 0% | 100% | 100% | 2% | 0% | 0% | 0% |
| Healthcare | 87% | 77% | 100% | 100% | 100% | 100% | 100% | 0% | 100% | 100% |
| Disability coverage (in accordance with the law) | 92% | 92% | 100% | 100% | 0% | 0% | 0% | 0% | 100% | 100% |
| Disability coverage (company policies) | 3% | 0% | 0% | 0% | 100% | 100% | 0% | 0% | 100% | 100% |
| Parental leave (in accordance with the law) | 100% | 100% | 100% | 100% | 0% | 0% | 100% | 0% | 100% | 100% |
| Parental leave (company policies) | 85% | 77% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Pension plan (in accordance with the law) | 100% | 100% | 100% | 100% | 0% | 0% | 100% | 0% | 100% | 100% |
| Pension plan (company policies) | 7% | 17% | 2% | 0% | 100% | 100% | 0% | 0% | 0% | 0% |
| Company car - mixed use | 10% | 0% | 2% | 0% | 21% | 0% | 17% | 0% | 0% | 0% |
| Flexible or welfare benefits | 87% | 77% | 100% | 100% | 0% | 0% | 0% | 0% | 0% | 0% |

As already mentioned, in October 2021, the parent began union negotiations for the renewal of the supplementary company agreement (second-level bargaining) for the three-year period 2022-2024. The agreement, which will be signed in the first quarter of 2022, 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.

Furthermore, the Welfare platform adopted in 2020 was fully deployed in 2021, with the aim of improving the range of services covered by the applicable contractual and corporate agreements. The platform is available to all employees of the parent³ who can autonomously purchase goods, use personal services, avail of family management, recreational, sports and wellness services and access educational sessions and/or training events.

Carel 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**. To this end, in 2021, it launched initiatives aimed at defining group-wide guidelines on flexible working.

³ Excluding managers

The “remote working” pilot, as a new working method, was introduced in 2019 at the headquarters where certain employees were given the possibility to work from home one day a week in accordance with a signed and agreed-upon regulation. Following the outbreak of Covid-19, as of 2020, the company has promoted remote working, at least partially, at all its offices. White collars operated mainly on a hybrid work basis, thereby guaranteeing the continuity and efficiency of operations, in complete safety and with the necessary IT and technological equipment.

The massive use of remote working posed new challenges, including creating a digital culture that fosters new ways of working and protects data security, encouraging collaboration and communication between physically distant employees and promoting knowledge sharing, while encouraging a healthy balance between work and personal time.

The guidelines on the right to disconnect were introduced in July 2021 with the aim of promoting efficient and effective collaboration with colleagues, avoiding an “always on” approach and setting a standard common to all group employees. These guidelines, shared with all the Group companies, were communicated via specific meetings in order to show Carel’s real commitment to protecting the right to disconnect.

Furthermore, in 2021, all the managing directors of the Group companies were invited to take part in a survey on remote working in order to gather useful information on the critical issues identified, the impact on productivity and feedback from the employees involved. The survey was the starting point to define and disseminate, at the end of 2021, the “new normal guidelines”, i.e., shared guidelines on the possible adoption of hybrid working methods by the individual companies.

Following the implementation of this new way of working, the Group also decided to rethink its office areas. A project is underway at the parent to create work areas which encourage new forms of relationships characterised by alternating face-to-face and remote working, all with a view to providing people with more welcoming and comfortable environments.

TRAINING AND PROFESSIONAL DEVELOPMENT

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

For Carel, promoting training activities means ensuring its employees are constantly **updated and can operate successfully in an increasingly evolving market** and encouraging the adoption of individual behaviour and interaction methods that are consistent with the guiding values of the company culture and the objectives of the Driven by the Future project. Training at Carel has always been considered the basis for successfully triggering creativity and innovation, for easily assessing the adoption of new alternative approaches, for making the most of the distinctive professional and personal skills of each individual in order to make a difference.

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

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

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

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

LEAN ACADEMY



The Group launched the **Carel Lean Academy** programme in 2020 to continue its lean philosophy project rolled out in 2007 and to provide employees with tools to tackle and adapt to this new situation full of instability and uncertainty. The purpose of the academy is to promote lean principles and the lean philosophy, always considered a strategic asset for business growth at group ⁴ level.

The Lean Academy is a training programme with four levels called belts based on the classic structure of Lean Six Sigma courses. The goal is to create a training programme to share a reference framework for aspects related to the ongoing improvement and adaptability of the business from an employee development standpoint. In 2021, the "Yellow Belt" course was made available to all group employees and was particularly recommended to a number of managers.

In 2021, a total of 32 thousand hours of training were provided. The restrictions imposed by the emergency had a significant impact on the delivery of training courses and forced the company to shift from a classroom-based model to an increasingly blended model geared towards the integration of e-learning training.

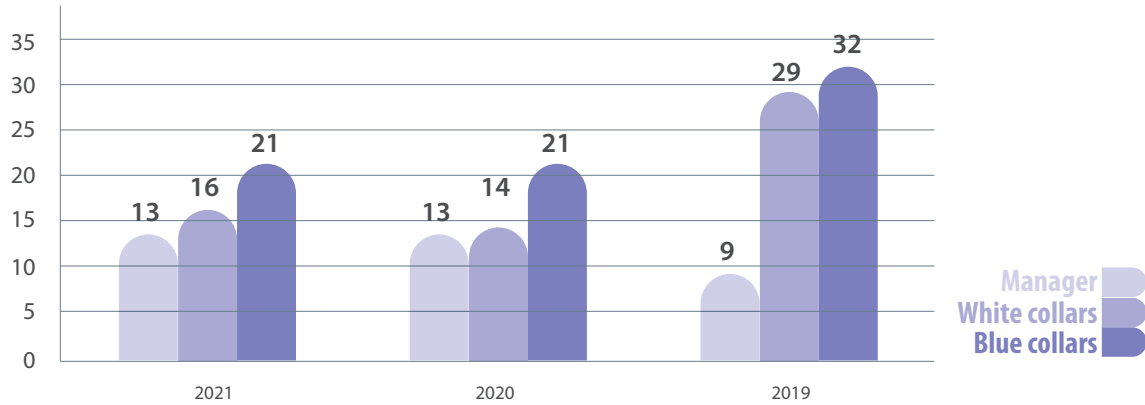
NUMBER OF TRAINING HOURS BY PROFESSIONAL CATEGORY AND GENDER (H) [GRI 404-1]

| | 2021 | | | 2020 | | | 2019 | | |
|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | Men | Women | Total | Men | Women | Total | Men | Women | Total |
| Managers | 725 | 72 | 797 | 694 | 98 | 792 | 481 | 78 | 559 |
| White collars | 13,974 | 4,077 | 18,051 | 11,821 | 2,976 | 14,797 | 23,978 | 5,949 | 29,927 |
| Blue collars | 6,227 | 7,883 | 14,110 | 5,359 | 7,875 | 13,235 | 6,070 | 12,172 | 18,242 |
| Total | 20,926 | 12,033 | 32,959 | 17,874 | 10,949 | 28,823 | 30,529 | 18,199 | 48,728 |

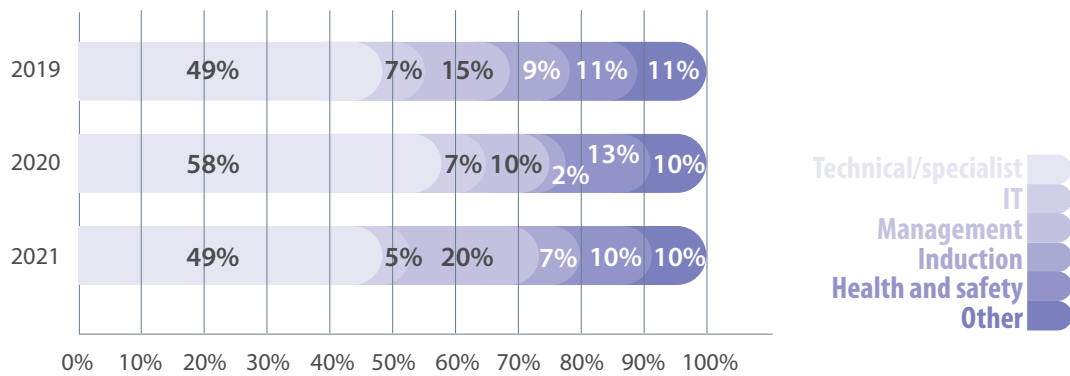
In order to provide each employee with an adequate level of training and guarantee their growth and development, as stated in the Driven by the Future project, the Group had set the target of providing, on average, a minimum of 12 hours of training per employee. Thanks to its constant investment in training activities and the speed with which it has adapted to the new situation, in 2021, the Group achieved and exceeded this target by providing an average of 17.7 hours of training per employee.

4 Except for Enersol, Enginia, CFM, CRC and Ukraine

Average hours of training by category



Percentage hours of training by course type (%)



The main training projects carried out in 2021 focused on operations (34% of the total training hours provided in 2021). Other areas for which training courses were provided were quality, safety and the environment (HSE) and HVACR applications and solutions.

In this new scenario characterised by remote working and the increased digitalisation of operations and processes, the threat of cyber attacks became more important. In addition to working on advanced cyber defences, at the end of 2021, Carel, aware of the need to train employees to promptly identify the risks and the threats to company security, launched specific training courses on cybersecurity. Approximately 417 hours of training were provided in this respect and further investments will be made in subsequent years.

PARTNERSHIPS WITH TRAINING INSTITUTES AND COMMUNITIES

Given the significant know-how developed and applied to the Group's products and processes, the Group's relationships with universities and schools are of particular importance to it. Specifically, the parent collaborates with the local universities and schools to carry out research activities, to share knowledge and to guide students. The aim of the Group is to support young students and recent graduates along their path to growth and entry into the labour market and, to this end, it offers internship opportunities: in 2021, 40 internships were provided. Most of them related to the parent (33), 19 of which were university internships, in addition to the other students hosted by Recuperator, Carel Adriatic, Hygromatik, Carel South America and Carel Suzhou.

Fostering and supporting a passion for studying and learning and supporting the families of employees by offering learning and training opportunities to their children is something which is very dear to the Group. The Group pursues this by providing assistance and contributing to the payment of tuition fees for schools of all types and levels, focusing on motivating young people by providing scholarships directly to them. In 2021, Carel distributed a total of €54,800 thousand for scholarships and contributions towards crèche costs. During the year, 92 scholarships were awarded. Specifically, 36 young people from middle schools, 43 from high schools and 13 university students.

The Driven by the Future project provided further leverage to undertake initiatives that foster sustainable community development by building relationships with the area in which it operates, promoting support for local communities to take an active part in social, economic and environmental development.

In order to maintain its connection with the community, develop a strategy focused on well-being and encourage the adoption of a healthy lifestyle, in 2021, Carel Industries S.p.A. sponsored the Padua Marathon, also motivating employees to participate in the event's sports activities.

OCCUPATIONAL HEALTH AND SAFETY

The Group protects and promotes the health and safety of workers (including those along the supply chain) by adopting preventive measures and spreading an internal culture of the highest respect for the applicable legal requirements and other provisions agreed for occupational safety and hygiene and also in compliance with the highest standards of reference and the best techniques applicable in order to ensure maximum attention to reducing risks and constantly improving processes.

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

Its prevention system allows the Group to identify potential risks in advance and is backed up by this policy which becomes part of the system and represents the commitment of the parent, its direct and indirect subsidiaries, its partners and its stakeholders to occupational health and safety.

In 2021, the parent informed the foreign companies about the importance of sharing the same passion for safety and for protecting the health of the Group employees, making everyone aware of three fundamental issues:

- acting consciously before carrying out an activity, an operation or a project concerning a new product/process;
- the habits and practices that are adopted daily in activities not only within the company;
- being proactive in pointing out situations and conditions that can improve the working environment.

Indeed, most of the unsafe conditions, near misses or injuries that are constantly recorded in production areas, offices or laboratories are linked to behavioural and procedural factors. For this reason, specific annual targets are set for “unsafe conditions” and “near misses”, specifically in relation to the production and laboratory areas which are considered most at risk. The resulting best practices become factors to be shared and for common improvement.

In order to strengthen the Group’s commitment to occupational health and safety and strive for continuous improvement, the long-term ESG plan includes a 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.

Meanwhile, actions aimed at improving workplaces, equipment and processes are regularly scheduled. Improvement is based on the highest level of compliance with current regulations on safety and hygiene at work in the various group companies.

Improvement actions are also the result of the ongoing dialogue between the operational departments with the HSE function and the stakeholders (workers’ safety representatives), including workers, on the identification of unsafe conditions, near misses and an analysis of processes and production areas.

This confirms the Group’s collaboration and awareness of the importance of these issues during the Covid-19 emergency, also for 2021, based on a continuous exchange of views on a weekly basis between the various stakeholders mentioned above, and the preparation of specific tools for sharing proposals and monitoring the actions implemented (“diary of the monitoring committee”).

As mentioned earlier, the reporting and management of injuries and unsafe conditions guarantees the involvement of all employees and makes it possible to promptly identify and solve problems that may expose the employees to health and safety risks, thus improving safety levels at work over time.

Also in 2021, 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-miss issues;
- during the Covid-19 emergency, the control committee held a weekly meeting, as mentioned earlier;
- reports are periodically assessed also for non-operations areas.

Also in 2021, in compliance with the ruling legislation, an employee healthcare protocol was set up with the company doctor. The protocol regards all workers (direct, indirect/temporary), with specific health check-ups based on the activities they perform and the consequent risk.

During the check-ups, with the aim of promoting health, the doctor will use the information collected to give workers general advice about healthy eating (getting enough fruit and vegetables) and physical exercise to improve their health, benefiting their personal and work life.

The aggregate data are presented during the above-mentioned annual meeting with the workers' safety representatives. In 2021 and in 2020, despite the Covid-19 emergency, the medical check-ups carried out as part of the health protocol became an opportunity to support workers, especially those most at risk.

The doctor also reviewed the DVR ("risk assessment document"), focusing, in particular, on ergonomic risks.

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 examine any limitations in order to identify a suitable work position. Thanks to these activities, which are carried out respecting privacy and using the "manager's diary", the latter ensures compliance with the prescriptions.

Furthermore, in 2021, Carel Industries S.p.A. and Hygromatik confirmed the compliance of their occupational health and safety management systems with the international standards ISO 45001:2018 and BS OHSAS 18001:2007, respectively. This certification is part of the wider scope of an integrated management system, certified by Lloyd's Register Quality Assurance Italy S.r.l., which also includes quality and environmental certification in accordance with the relevant international ISO standards.

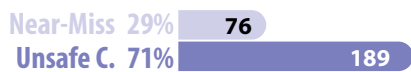
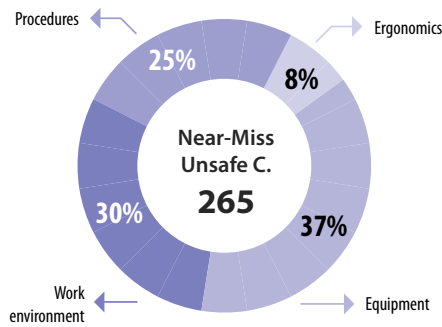


With respect to prevention, during the year, the HSE function, in collaboration with the managers of the various company areas, analysed the following for the Carel Industries S.p.A.'s scope:

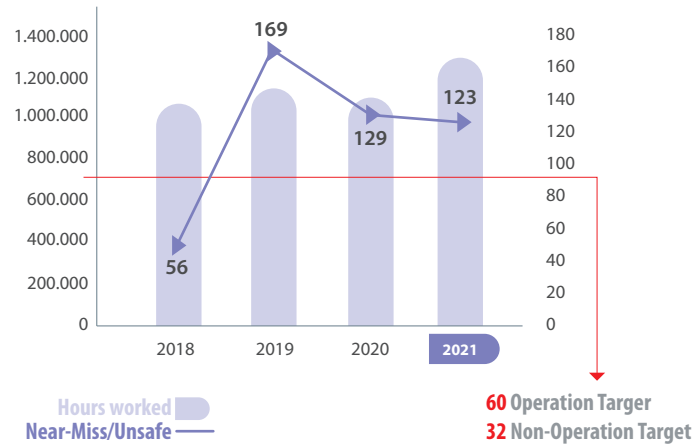
- over 123 reports of unsafe conditions and near misses, including analyses of aggregate and historical data to identify specific areas for improvement:

Breakdown

Italian operations 2019-2021



Since 2021, the hours work include both employees and external workers



- 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, which was implemented, to update the main risk assessments, in addition to a comprehensive review of the risk assessment document (DVR) for Carel Industries S.p.A. as a whole. 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.

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

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

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

Ergonomic risks were the object of specific attention, with the identification and implementation of major mitigation measures in operational areas, such as height-adjustable work surfaces, mechanical lifting systems and stools for workstations.

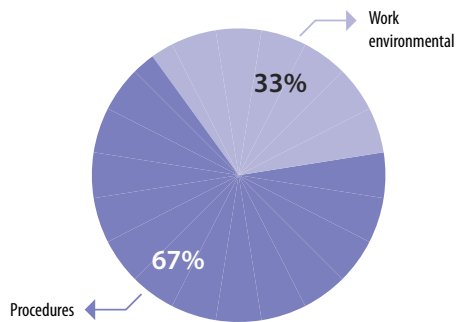
Again with a view to improvement, in 2021, workspaces and common areas were redesigned in order to mitigate risks. This entailed improving the arrangement of work spaces (creation of “electronics” and “mechanical” hubs) and of the distance between people and vehicles in specific and common areas (introduction of dedicated routes and signs).

Further improvement measures included:

- lighting based on the adoption of energy-efficient, low-visual fatigue LED lamps;
- air sanitisation using, in a large office area, innovative lamps based on NTP (non-thermal plasma or cold plasma) technology integrated into a controlled mechanical ventilation (CMV) system with optimal regulation of the air humidity based on humidifiers manufactured by Carel. This measure played a fundamental role in mitigating the Covid-19 risk.

With respect to the work-related injuries recorded in 2021, all of which had minor consequences, but nevertheless led to lost work days, the main recurring cause was of a “procedural” nature (which includes the lack of procedures, deficiencies in procedures or non-compliance by workers). The causes behind the 2021 injuries are in line with the historical trend.

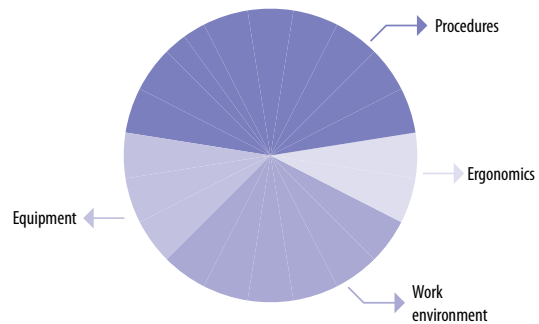
Main cause of 12 injuries in 2021



Improvement plan

- One-point lessons
- Break formativi
- Periodic safety checks
- "Gemba walk"
- Safety Tour

Main cause of 26 injuries occurred over the past 4 years



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);
- environmental management (waste or emissions).

In order to improve the procedural aspects underlying occupational safety and to support them, during the year, one point lessons (“OPL”) and related training activities were stepped up at the operating units. These provide visible and immediate lessons about the main ways employees can operate safely in their work areas. In addition to this, the manager’s diary was introduced to trace preventative actions for which the heads of the unit are responsible (such as information/training activities, supervision, etc.).

The procedural aspects, specifically those relating to OPLs, also derive from the reporting of unsafe conditions and near misses, as described earlier, and from the “lessons learnt” identified at group level.

In addition to risk assessment, event analysis and mitigation measures in routine operations, handling emergencies is also of crucial importance to Carel through the maintenance and efficacy testing of the emergency and evacuation plans. In compliance with the Covid-19 protocols, evacuation drills were carried out at all Italian production sites in 2021. Training sessions were held with the operators based on the actions identified during the drills, which were carried out and documented in a specific report.

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 (SB);
- the board of statutory auditors (BSA);
- the control, risks and sustainability committee (CRSC).

Furthermore, the progress of activities is audited by third parties based on the instructions of the internal audit function, which subsequently informs top management accordingly. A system of internal and external audits also guarantees the quality of Carel’s processes. Indeed, in accordance with the ISO 45001 certification, the production sites are subject to annual internal and external audits, in addition to internal audits.

As mentioned earlier, specific company standards encourage proactive behaviour. Therefore, workers shall report any instances of near misses or unsafe conditions identified (including by means of a special form to be placed in designated collection points) and record them in a specific shared e-register. The description of the event is particularly important (what happened, when it happened, what was the situation surrounding the event and other information deemed useful), as is the description of the unsafe condition identified, in order to analyse and classify the event and identify the “root cause”, as was the case with the analysis of the events that occurred in 2021.

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

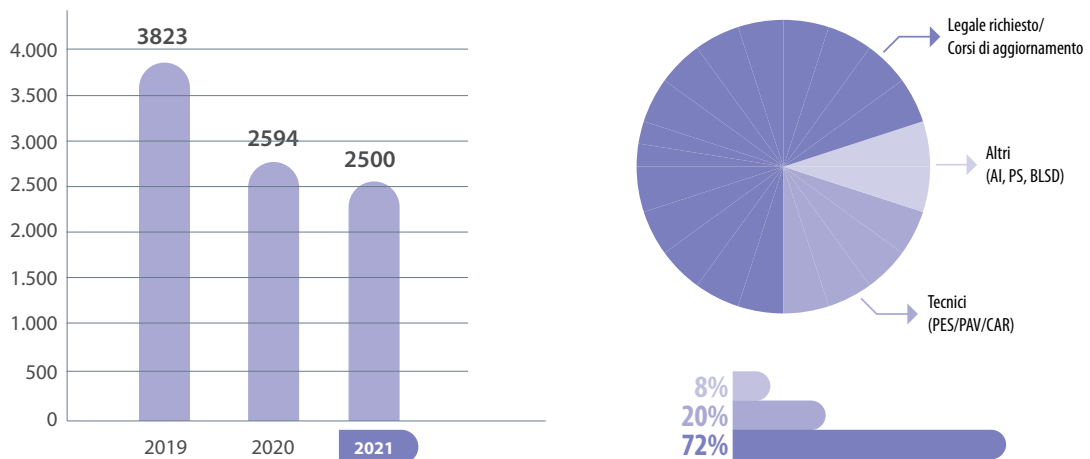
As already mentioned in the previous sections, to which reference should be made, the main consultation activities that took place again in 2021, included:

- the weekly operations meeting to analyse near-misses and unsafe conditions and any accidental events that have occurred, with discussion of the actions implemented and/or to be implemented to prevent similar events occurring again;
- the periodic meeting (usually weekly) as part of the Covid-19 risk mitigation activities through a specific committee (the “control committee”) set up at the onset of emergency. The committee, which comprises HR, HSE, safety (RSPP) and the workers’ safety representatives, is assisted by the company doctor for specific consultations. The HSE manager keeps a diary of the committee and tracks the progress of actions;
- the periodic meeting with the non-operations areas to analyse the progress of actions and improvement plans;

- the annual check of the work spaces with the company doctor;
- the annual meeting, carried out in accordance with the law, with the employer, the workers' safety representatives, the RSSP, HSE and company doctor to discuss:
 - updating the risk assessment;
 - injury trends;
 - health surveillance trends;
 - personal protective equipment;
 - information/training programmes;
 - health notes by the company doctor;
 - the health surveillance protocol.

In 2021, particularly at the parent, the training plan continued, based on the needs of (direct and indirect) workers in relation to legal requirements. Specifically, during the year, given the significant rise in indirect workers (up 100% on the average number of the previous year), training was increasingly focused on refresher courses. In addition to this, the training courses provided covered electrical work, driving forklift trucks, first aid and emergency management.

Training hours by course - budget 2021



Injury trends, the root causes of which were discussed in detail above, are detailed below (graphic see).

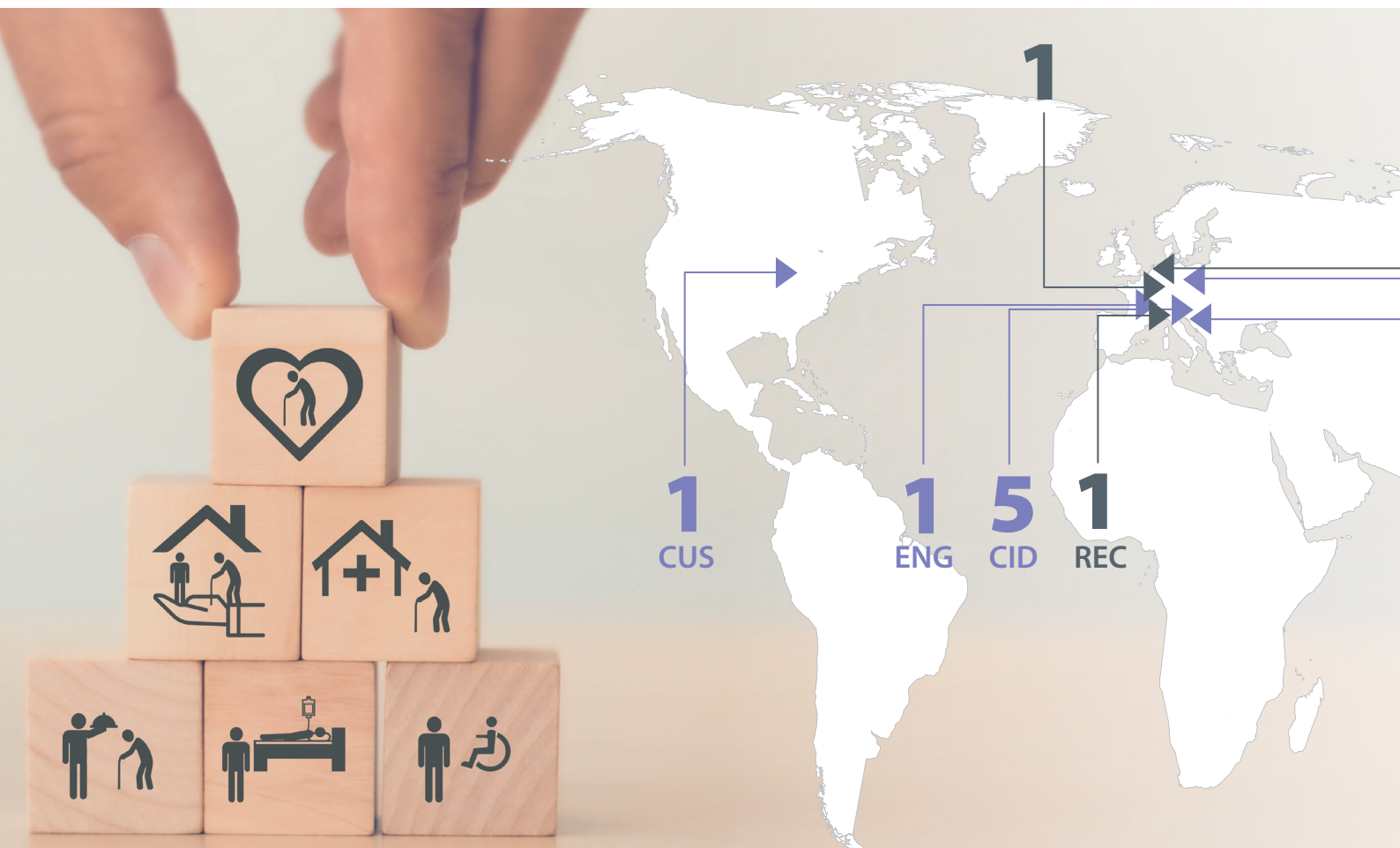
| WORK-RELATED INJURIES – EMPLOYEES [GRI 403-9] | 2021 | 2020 | 2019 |
|--|-------------|-------------|-------------|
| Work-related injuries | 9 | 4 | 13 |
| Injury frequency rate ⁵ | 2.72 | 1.28 | 4.68 |
| Hours worked | 3,305,782 | 3,135,671 | 2,778,399 |

In 2021, as in the past three years, there were no fatalities.

There were 12 (twelve) minor work-related injuries (nine involving employees, as shown in the table above, and three involving external workers, as specified below, under the control of the company) that resulted in the temporary inability of the workers involved. There were no commuting incidents with transport organised by the Group.

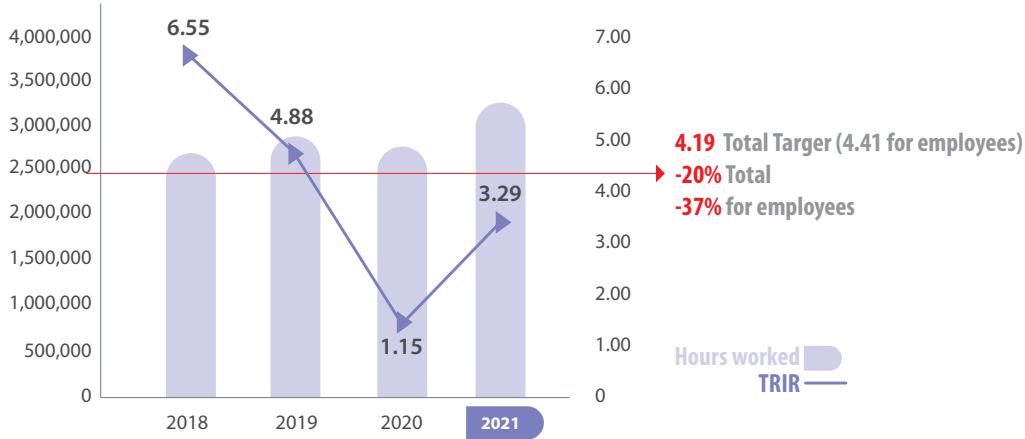
| WORK-RELATED INJURIES – EXTERNAL WORKERS [GRI 403-9] | 2021 | 2020 | 2019 |
|---|-------------|-------------|-------------|
| Work-related injuries | 3 | 0 | 1 |
| Injury frequency rate ⁵ | 8.87 | 0 | 10.96 |
| Hours worked | 338,306 | 345,810 | 91,240 |

⁵ Injury frequency rate: (number of injuries/total number of hours worked) x 1,000,000



With respect to external workers over whom Carel has direct control, such as temporary workers, three injuries were recorded in 2021.

Despite the increase in absolute terms in the number of injuries compared to 2020, based on the average trend of the frequency rate for the past three years (4.19), this rate (3.35) decreased by approximately 20% in 2021, against a total number of hours worked that is about 9% higher than the average number for the past three years. Furthermore, compared to 2020, in 2021, no lockdowns were imposed in the countries where the Group facilities are based.



In 2021, the Group was not found guilty of or summonsed to appear in court for violating occupational health and safety regulations.

1 HYG

1 ALF

1 CHR

2021 INJURIES

9 EMPLOYEES

3 EXTERNAL WORKERS

COVID-19

The risk analysis conducted at the start of the Covid-19 emergency in late February 2020 involved all levels of the Group, with particular regard to production areas. These measures remained in force throughout the year.

Given the risk to workers' health and safety, the main elimination measures were identified and, where this was not possible, contagion risk mitigation actions were identified in order for the Group to ensure the safe continuation of work activities in the laboratory and the office, in compliance with the ruling legislation of the relevant countries. This enabled the Group to successfully overcome the different waves of the virus and its variants in 2021, by adopting group-specific guidelines.

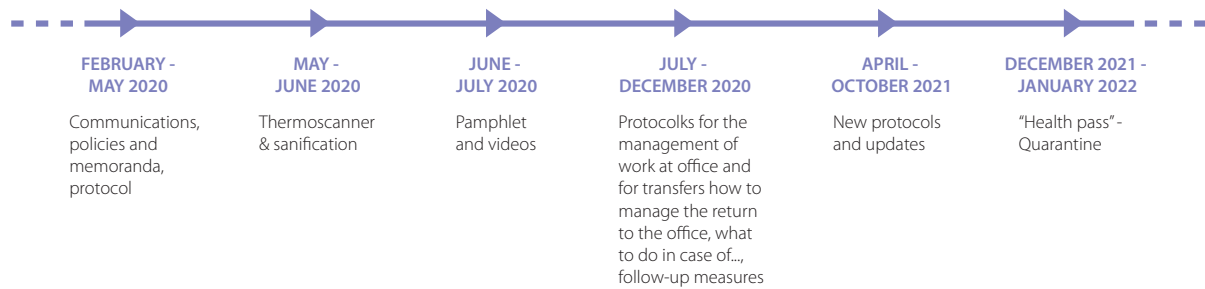
The Group maintained the emergency plan split into three main areas: general measures, specific measures and preventative measures:

- General containment measures (as indicated by the WHO): personal hygiene measures, supplemented by hand sanitiser provided at the busier work areas, and information measures (using notices/signs in all work areas);
- Specific containment measures: for example extending the use of remote working, re-defining work shifts, respecting minimum social-distancing requirements 1-1.5mt (reviewing the position of work stations in order to avoid crowding), using video conferences instead of in-person meetings, especially with third-party personnel, limiting the maximum number of people per meeting room, rescheduling trips and authorising only the essential ones, those that cannot be postponed and cannot be carried out remotely, distributing masks to all personnel and getting them to use them inside and outside, adopting gradually stricter limitations for external transporters and services, general sanitisation of all work areas using spray products, measuring body temperature at all entrances to the Group's premises and checking health passes where required by local regulations;
- Preventative measures: sanitising work stations with a suitable product on a daily basis, increasing air circulation every two hours for those areas that are not equipped with automatic air ventilation systems, tracing movements between different units, banning travel between sites without specific authorisation or keeping it to a minimum, replacing the served canteen service with the use of pre-made meals and limiting access to break areas and developing a protocol with the company doctor for high-risk cases.

In 2021, to ensure that all employees were aware of the risks and measures in place to contain the virus, the information campaign continued, including through the use of mass media and internal communications. The scope of the campaign was extended to include suppliers and the main logistics partners.

Specifically, with respect to the activities carried out externally during the year, particularly by the parent's sales and service personnel, in addition to the risk assessment requirements (DUVRI), Covid-19 risk mitigation guidelines were provided and customers were also asked to provide evidence of their own emergency management protocol. The HSE and HR functions were involved in the evaluations of travel deemed essential, that cannot be postponed or not manageable remotely, in order to identify the most effective risk mitigation measures. Similarly to 2020, this approach became a guideline for the Group as a whole.

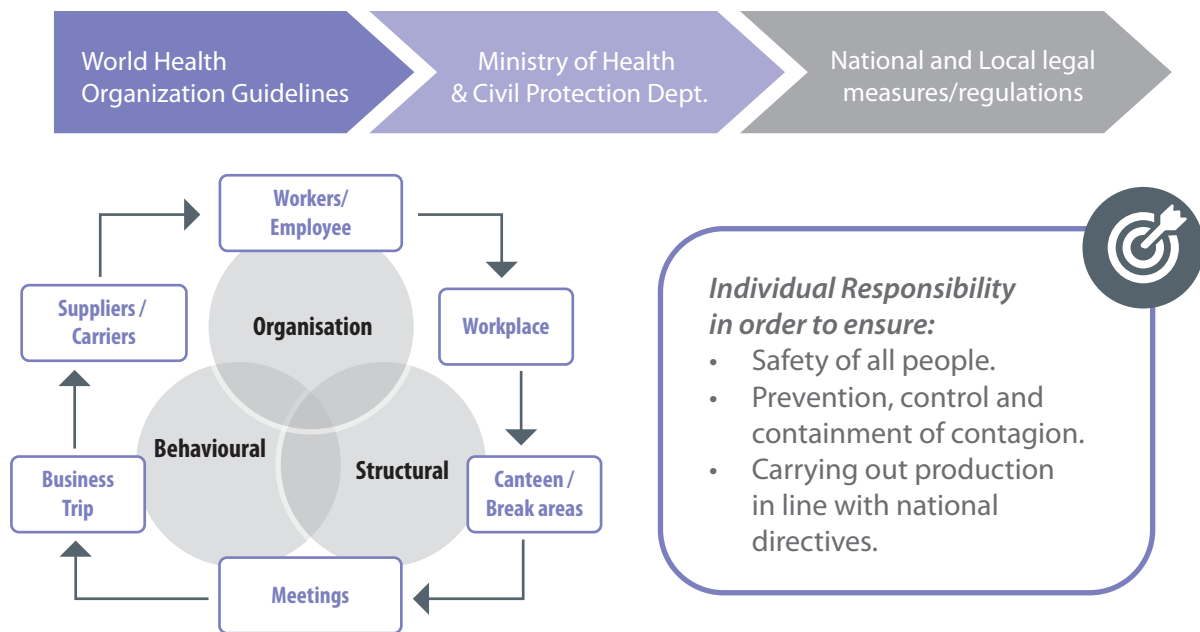
The information campaign was developed using the following steps and the main materials were also shared abroad.



Risk analysis developed by workers which considered all internal and external elements continued in 2021 and took into account the following three types of work:

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

"COVID-19" RISK ANALYSIS

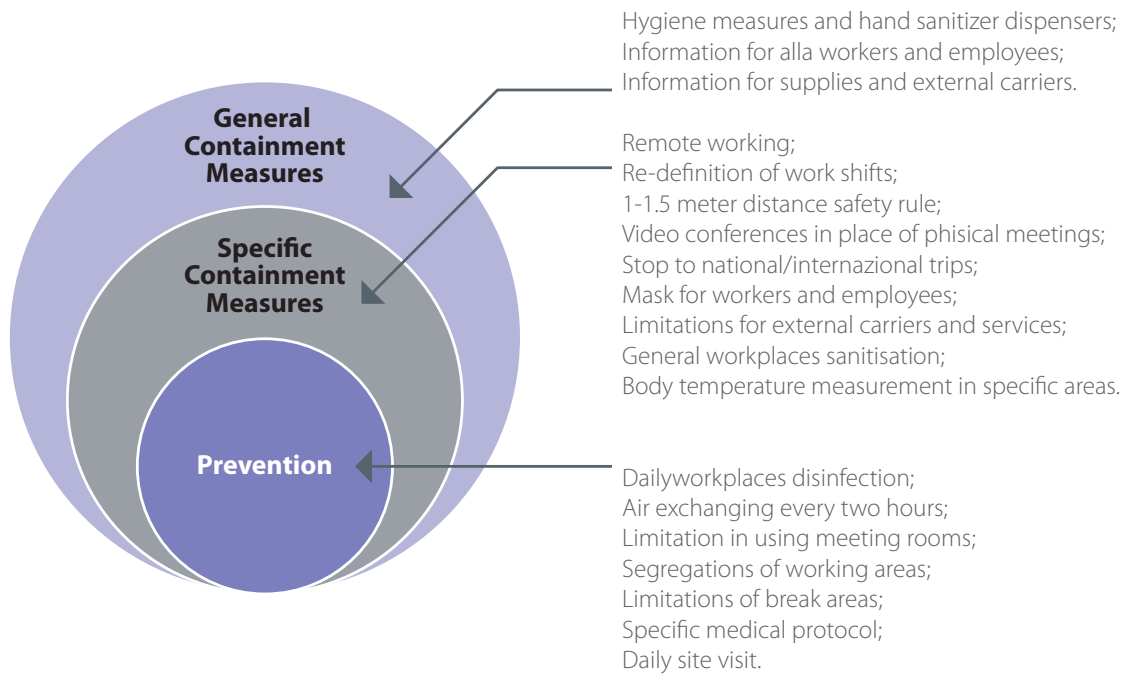


As mentioned earlier, in 2021, several measures were maintained and adjusted in line with infection trends:

- Segregating work areas;
- Staggering start times to avoid crowds;
- Completing work on the air conditioning systems in some work areas in order to improve air sanitation and humidity levels;
- Maintaining a remote working scheme in office areas and limited staff presence.

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

“COVID-19” EMERGENCY PLAN



CUSTOMER IMPORTANCE AND SERVICE EXCELLENCE

Business relations with customers are a fundamental part of Carel's assets. They refer to the Group's fundamental values which puts the customer first, as set out in Carel's New Culture Code, which was recently formalised. In order to strengthen customers' view of and confidence in the Group, relations are based on the principles of legality, morality, professionalism and honourability set out in its Code of Ethics.

The Group has adopted the lean philosophy, designed to maximise the creation of value for customers and minimise waste. Carel has interpreted this philosophy as an ongoing project, not one that has a beginning and an end. It is not hinged on just the tools or individual projects but is a method that involves the Group's people by giving them key roles in achieving improvement.

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

Quality



Lean



Laboratories



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

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 ten production sites in four continents and a network of 30 commercial subsidiaries.

Over the years, the Group has created a network of partnerships with customers (co-development) to achieve a better understanding of their needs, promote innovation and maximise the length of their relationship for the supply of critical components, enhancing the customer lifetime value.

2021 was characterised by a market situation strained between two opposing trends: the shortage of electronic raw materials and components (specifically, semiconductors and power electronics) on the one hand, and strong expansionary demand from Carel's end markets on the other. This resulted in the risk of not being able to fully satisfy demand for products and solutions. In this respect, the Group has increased its investments in the strong relationships it has established with its customers, focusing on sharing priorities and carefully managing available materials. This joint effort to enable maximum flexibility, exploiting the various alternative technological platforms available, played a fundamental role.

The Group is also aware of the potential risks arising from the difficulties which currently affect the electronic components market. Specifically, in 2021, demand in the commercial refrigeration market experienced a strong recovery in both the food service and food retail segments, mainly in the latter segment.

The entire supply chain, mainly comprised of OEMs, contractors and system integrators, all largely pooled through promotion actions on end users, experienced a general rise in demand after the caution seen during the first waves of the pandemic in 2020.

Demand rose also for the HVAC market, driven by consolidated macro-trends (e.g., decarbonisation as a drive towards electrification and, hence, the increased use of heat pump systems in the residential sector) and trends amplified by the pandemic, particularly with investments in healthcare and a new awareness of the importance of indoor air quality, an area in which HVAC systems play a prominent role.

With regard to the industrial segment, the acceleration of pre-existing macro-trends on the market (e.g., remote working, usage of video-conferences, development of cloud services) boosted the vitality of the data centre sector.

In 2021, the public health situation had a major impact on the possibility of cultivating and growing relationships, as traditional meeting opportunities (such as visits, trade fairs, congresses, seminars, etc.) did not take place or were severely limited. Therefore, the Group launched a series of initiatives which exploited alternative communication channels and meeting and discussion opportunities (videoconferences, webinars, virtual product launches, virtual events, etc.).

Listening to customers has become even more important within the context of the pandemic. To this end, a series of initiatives have been implemented to take advantage of digital communication channels and stay in close and direct contact with current (and potential) customers, partners and the market in general. The various webinars provided have played an important role, organised in collaboration with other sector companies, and the Group has also taken part in seminars and virtual events.

Furthermore, the Group monitors its customers' satisfaction levels by analysing market performance and through a structured ("voice of customer") process. As it is difficult to properly assess customer satisfaction in the B2B sector or, when it is possible to reach the right customer departments, feedback is not always unanimous, Carel has decided to monitor the "voice of the customer" by asking a group of key accounts, who are in almost daily contact with their principal customers, to provide feedback about customer satisfaction. Satisfaction is assessed on two levels: Quality, i.e., the quality of the products and solutions offered to the customer, as well as everything else included in the Group's offer, and Service, i.e., mainly the level of the logistics and shipping service rendered. The rating has three grades shown as a set of traffic lights to allow a visible assessment of customer satisfaction trends. The Group quality manager assembles customer opinions once a month using the information provided by the local quality representatives of the regions in which Carel operates. The monitoring of each customer's satisfaction based on its needs and expectations to an extent that is feasible for the supplier is a requirement of the ISO 9001:2015 standard. The survey findings are summarised in the Customer Monthly Report showing the percentage of green and orange ratings for the Group and each region in terms of both quality and service/logistics. This report is shared with the executive committee once a month with the aim of sharing and developing improvement plans aimed at elevating relationships with customers.

Since June 2020, with the aim of increasing the accuracy and efficacy of monitoring customers' expectations, including as a result of the Covid-19 outbreak, the list of customers being monitored was extended to include Recuperator S.p.A., which was completely integrated into the scope of the quality system of the Group's ISO 9001:2015 multi-site scheme.

Timely monitoring continued throughout 2021, while a further improvement in Voice of Customer management is planned for 2022, thanks to the implementation and active management of a new after sales & services management tool, which will improve contact with customers by receiving their needs in real time and tracking the progress of improvements.

Finally, since 2020 Carel has extended its customer satisfaction assessment process with the Net Promoter Score (NPS). This management tool is used to measure loyalty in a supplier-customer relationship. Carel deemed it important to have a dashboard that can regularly supply immediate information about customer satisfaction levels without consulting the sales network.

The NPS model eliminates the need for traditional customer satisfaction questionnaires, which are often too complicated and have a low response rate. Carel initially used the model for four key accounts (parent and commercial subsidiaries) starting from 2019. It sent surveys tailored for the area being assessed to obtain detailed feedback explaining the responses to the NPS questions. It sent out 21 surveys in five countries. In 2020, the NPS process was implemented at the Group's commercial companies in Italy by involving similar customers by market/channel (HVAC OEM, HVAC Projects, REF OEM and REF Dealers).

In 2021, the process was extended to the entire European region, involving customers from the German, Spanish, French, Scandinavian and Eastern European branches. A total of 233 surveys were carried out (112 for the purchasing/logistics area and 121 for the technical area), covering all the markets and channels managed by Carel.

A process was also defined which, starting from data collection, adopts the necessary improvement actions to fill in the most critical gaps.



PRODUCT AND SERVICE QUALITY AND SAFETY

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

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

Before it launches new products, Carel has its products tested by international accredited laboratories and certification bodies to check their compliance with the regulations and standards applicable from time to time. This also ensures greater impartiality and reliability of the analyses and tests. In 2021, a number of investments were made to improve the safety of products, specifically with reference to products used in appliances which use natural gases as refrigerants, as these are subject to strict regulations given the risk of explosion linked to potential gas leaks.

The different phases of the development of more technologically-advanced products or machinery designed specifically for a customer or to meet market requests can cause the risk of defects, damage or malfunctioning to increase due to the introduction of new technologies. Accordingly, during approval of a product development project (value proposition), the Group identifies the international health and safety regulations applicable to the utilisation scenario and the countries where the product will be distributed.



Specifically, each new product developed by Carel is assessed for its risks to the health and safety of its users. The Group’s quality system includes all the guidelines in this respect, with three different test levels.

The following table shows the percentage of new products for which health and safety aspects have been tested to obtain, inter alia, the CE, cULus, cURus and cETLus marks compared to the number of projects completed in the year. The assessment does not include projects exclusively for software, as it is not applicable.

| PRODUCTS ASSESSED FOR HEALTH AND SAFETY PURPOSES [GRI 416-1] | | | | |
|--|-------------|-------------|-------------|-------------|
| | m.u. | 2021 | 2020 | 2019 |
| Total new products that entered production and underwent health and safety testing | no. | 11 | 19 | 16 |
| Total new products that entered production | no. | 11 | 19 | 16 |
| Percentage of products covered by the health and safety tests | % | 100% | 100% | 100% |

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

| NON-COMPLIANT PRODUCTS AND SERVICES [GRI 416-2] | | | | |
|--|-------------|-------------|-------------|-------------|
| | m.u. | 2021 | 2020 | 2019 |
| Cases of non-compliance with laws, mandatory and/or voluntary regulations covering the effect of products and services on health and safety during their life-time | no. | 0 | 0 | 0 |



CHEMICAL SAFETY

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

REACH is an EU regulation (no. 1907/2006 and subsequent amendments) that covers the registration, evaluation, authorisation and restriction of chemicals depending on their potential impact on both human health and the environment. Its objective is to raise stakeholders' awareness about the risks and potential dangers of using and being exposed to these chemical substances. The substances of very high concern (SVHC) are relevant to Carel as its business sector makes use of these substances and, therefore, it has to pass many REACH authorisation levels.

Another objective of REACH authorisation is to guarantee that the substances of very high concern (SVHC) will be gradually phased out by less hazardous substances or technologies, when this is possible in technical and financial terms. As it is well aware that the electronics devices sector is one of the most exposed to phase-out risks during the REACH authorisation process, the Group has adopted procedures to mitigate these risks by adopting the safest solutions when possible. Moreover, the Group's dedicated chemicals compliance team regularly checks implementation of the procedures required by the regulation using the REACH compliance statements of its producers.

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

The chemicals compliance team periodically analyses the information gathered from suppliers about more than 35,000 raw materials and will continue to update this information during their phase-in process.

As of 2020, Carel has addressed the compliance of its products with the US regulation, applied in California, Proposition 65⁶ which regulates the use of toxic or cancer-causing substances. In accordance with the regulation, the State of California maintains a list of regulated chemicals and, if a product contains one of the listed chemicals at the regulated levels, with which the customer could come into contact, it must include a warning.

To this end, an internal standard was developed, which identifies activities to ensure products' compliance with this regulation.

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

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

In 2021, Carel adopted the regulation promulgated by the US EPA (Environmental Protection Agency) named "Toxic Substances Control Act (TSCA section 6(h))".

This regulation only applies to the US and covers the manufacture, import, use and disposal of specific chemicals.

The TSCA gives the US Environmental Protection Agency (EPA) the authority to set reporting, registration, testing and restriction requirements for chemicals and/or mixtures and to take specific measures to protect against unreasonable risks to human health and the environment.

⁶ Proposition 65, officially called the Safe Drinking Water and Toxic Enforcement Act of 1986, decreed in paragraphs 25249.5-14 of the California

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 section 6(h), the EPA shall take accelerated regulatory action on PBT chemicals, i.e., chemicals that meet the legal criteria for persistent, bioaccumulative and toxic (PBT) chemicals.

By means of enquiries about the supply chain, the company checks the existence or non-existence of regulated substances, based on an internal standard.

PRODUCT INFORMATION

Customer health and safety is a key aspect of Carel's business model. The Group even tests the materials used to build the components to ensure they comply with the EU regulations and especially the REACH regulation and the RoHS Directive.

These tests check all the information on the labels and specifically:

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

The certification bodies usually check the product documentation (instruction leaflet and installation manual).

After the tests are performed during introduction or approval of the components, Carel's quality system includes specific requests for updates of the information received from suppliers and a list of materials deemed to be dangerous.

The following table shows the percentage of new products that entered production in 2021 whose labelling has been tested for health and safety reasons compared to the number of projects completed in the year. The assessment does not include projects exclusively for software, as it is not applicable.

PRODUCTS WHOSE LABELLING HAS BEEN TESTED FOR HEALTH AND SAFETY REASONS [GRI 417-1]

| | m.u. | 2021 | 2020 | 2019 |
|--|----------|-------------|-------------|-------------|
| Total new products that entered production and underwent health and safety testing of their labels | no. | 11 | 19 | 16 |
| Total new products that entered production | no. | 11 | 19 | 16 |
| Percentage of products covered by the health and safety tests | % | 100% | 100% | 100% |

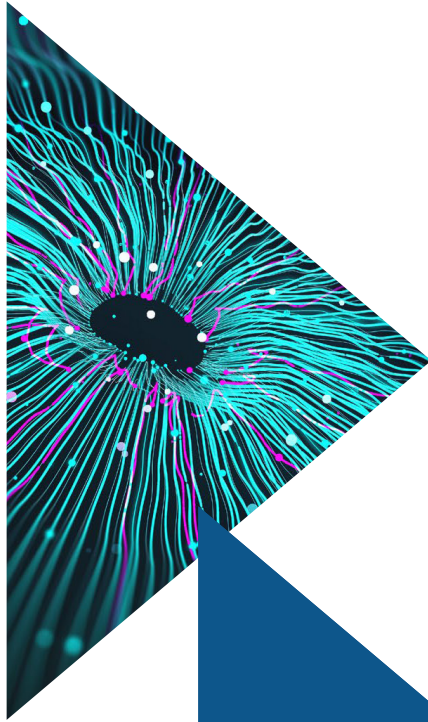
It is normal practice that 100% of the products meet the legal requirements for the marks to be included in the label and/or user instructions (manual/instructions/online guide). The labels are made of materials that comply with the requirements of the standards for durability and marking indelibility.

There were no cases of non-compliance with the law and mandatory and/or voluntary regulations about the information and labelling of products and/or services in 2021.





Responsible governance



9 INDUSTRY, INNOVATION
AND INFRASTRUCTURE



INDUSTRY, INNOVATION AND
INFRASTRUCTURE

16 PEACE, JUSTICE
AND STRONG
INSTITUTIONS



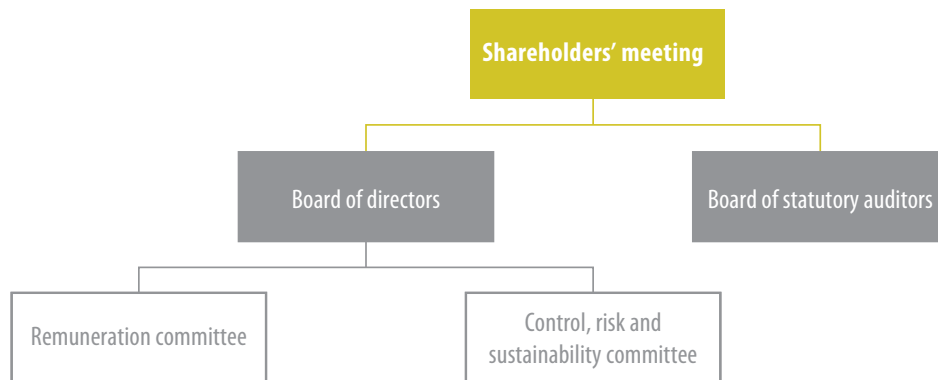
PEACE, JUSTICE AND STRONG INSTITUTIONS

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

At 31 December 2021, the parent’s share capital of €10,000,000, split into 100,000,000 ordinary shares without a par value, is held by Luigi Rossi Luciani S.p.a. (LRL) (36.17%), Luigi Nalini S.p.a. (LN) (20.00%), 7 Industries B.V. (4.93%) and other shareholders (38.90%), including 100,521 treasury shares.

It has a traditional corporate governance model comprising:

- **Shareholders**, authorised to resolve on all matters reserved to them by the law or by-laws;
- **Board of directors**, which oversees the parent’s running;
- **Board of statutory auditors**, whose tasks comprise monitoring (i) compliance with the law and by-laws and correct administration principles, (ii) the internal controls and administrative-accounting system, and the latter’s reliability in properly presenting the parent’s operations, (iii) the proper implementation of the corporate governance rules established by the Code of Conduct, (iv) the adequacy of the instructions given to the subsidiaries about the disclosure of inside information, and (v) the financial reporting process, the efficiency of internal controls, internal audit and risk management systems, the statutory audit of separate and consolidated financial statements and the independence of the independent auditors.



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

| | | |
|---|--|---|
| BOARD OF DIRECTORS | | <ul style="list-style-type: none"> • which oversees the company’s running; |
| CONTROL, RISKS AND SUSTAINABILITY COMMITTEE | | <ul style="list-style-type: none"> • which, following adequate investigations, is in charge of supporting the board of directors’ assessments and decisions on the internal control and risk management system and, inter alia, its approval of the periodic financial reports; • provides input about transactions with related parties; • has advisory and investigatory powers with regard to the board of statutory auditors concerning statutory audits in compliance with the requirements of Legislative decree no. 39 of 27 January 2010 and assists the board of directors with equity investments; • it also carries out duties and functions related to sustainability |
| REMUNERATION COMMITTEE | | <ul style="list-style-type: none"> • provides advisory support and recommendations to the board of directors about remuneration; • since 2019, has included the ESG targets to encourage management to meet the sustainability targets; • prepares the documentation to be provided to the board of directors for the adoption of the resolutions concerning remuneration. |

SUSTAINABILITY GOVERNANCE

In order to gather, develop and bring together all the ESG incentives from relevant stakeholders, 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 regularly meets up with the members of the control, risks and sustainability committee, guaranteeing consistency throughout activities underway and improvements made.

The ESG team:

- is responsible for coordinating all sustainability activities: it prepares the consolidated non-financial statement and spreads a sustainability culture throughout the Group.
- engages with stakeholders, to meet the requests of the sustainability rating agencies and, thus, the expectations of the socially responsible investors (SRI); handles risks related to sustainability in collaboration with the competent functions, and helps the different internal areas to identify areas of improvement, thus contributing to the creation of sustainable success.

Specifically, the ESG team will support the board of directors in the creation of goals, metrics and targets to be included in the long-term sustainability plan, in addition to monitoring the progress towards achieving such goals.

Furthermore, as set out in the 2024 sustainability plan, the main guidelines of which were published at the end of 2021, over the coming years, Carel will be committed to assessing its position with regard to the recommendations made by the Task Force on Climate-related Financial Disclosure (TCFD), in order to further improve its sustainability profile and the quality and depth of its disclosures. Specifically, the Group will consider performing an analysis of the climate situation in order to develop a strategic long-term vision which takes into account physical risks and risks related to the transition, in addition to opportunities connected to combating climate change.

The highest level of responsibility in relation to sustainability issues, including climate change, is entrusted to the control, risks and sustainability committee (CCRS) set up by the parent's board of directors (BoD) in compliance with the provisions of the Borsa Italiana's Code of Conduct for Listed Companies approved by the Corporate Governance Committee of Listed Companies. The CCRS comprises three members of the BoD, all non-executive and at least two independent directors (currently all members are independent), and it meets up when requested to do so by the chairperson or on their behalf, at least every three months. It provides consulting, research and advisory support and it does not limit the board of directors' decisional power and responsibility.

The 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. Furthermore, it monitors international sustainability initiatives and keeps the BoD up to date, in order to consolidate the Group's international reputation.

In 2021, the CCRS examined and discussed the long-term sustainability plan and began monitoring the actions contained therein. The directors shall have widespread and diversified skills to ensure a balanced combination of profiles and experience. They shall be able to carry out their duties in accordance with the ruling regulations and by-laws and, specifically, they shall meet the eligibility, professionalism and honourability requirements established by the current regulations and the by-laws¹.

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

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

Given the structure and size of the parent, its ownership structure and the list voting mechanism provided for in its by-laws, which ensures the transparent election and balanced composition of the board of directors, on 4 March 2021, the board of directors confirmed its decision taken on 27 February 2020, when it did not deem it necessary to adopt policies/practices with respect to the composition of the boards of directors and statutory auditors and the age, gender and educational and professional background of the various members.

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

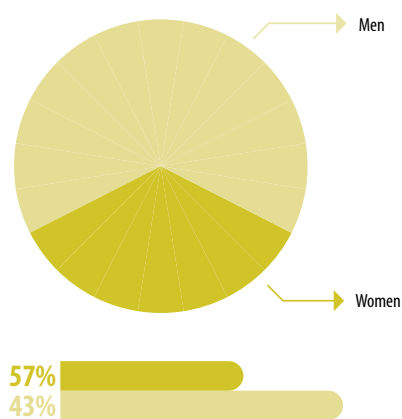
The current board of directors, appointed by the shareholders in their meeting of 20 April 2021, also in compliance with article 2, principle VII, of the Code of Conduct for Listed Companies, consists of at least one third of directors of the least represented gender (specifically, more than half of the members are female).



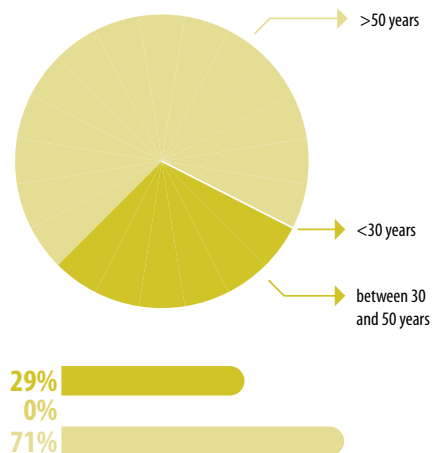
COMPOSITION OF THE BOARD OF DIRECTORS AND COMMITTEES [GRI 102-22 | GRI 405-1]

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

Board of directors by gender



Board of directors by age bracket



INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

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

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

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

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

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

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

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

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

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

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

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

GOVERNANCE

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

FIRST LEVEL CONTROLS

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

SECOND LEVEL CONTROLS

They are entrusted to non-operating units and cover the definition of governance policies and risk management (identification, measurement and control). Second level controls include monitoring business risks, internal controls and risk management guidelines and the related control systems, their adequacy to ensure efficient and effective operations, appropriate controls over risks, prudent business practices, reliable information, compliance with the relevant regulations, instructions and internal procedures.

THIRD LEVEL CONTROLS

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

During the year, the company commenced a risk assessment process in order to update the risk assessment, also in view of the preparation of a three-year risk-based audit plan.

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

OPERATING RISKS TIED TO:

- technological change and product obsolescence;
- product liability (e.g., defective products etc.);
- availability and cost of components necessary to carry out the business;
- production plant capacity and business continuity;
- reducing energy cost;
- protection of intellectual property;
- management of innovative and development projects;
- country risk.

COMPLIANCE RISKS TIED TO:

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

RISKS RELATED TO STAKEHOLDER ENGAGEMENT:

- management of relations with suppliers;
- management of relations with customers;
- ability to attract new customers;
- management of relations with distribution operators;
- management of relations with trade unions;
- management of relations with related parties;
- retention of senior management and key personnel.

REPUTATION RISK

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






CLIMATE CHANGE RISKS

Carel is aware of the need to implement measures aimed at preventing and mitigating the consequences of climate change and the risk of average global temperatures rising by over 1.5 degrees. Therefore, it has decided to provide information on the main risks related to climate change and the measures rolled out as part of its business model in order to prevent these risks and mitigate their effects. This disclosure is prepared in compliance with the European Commission’s Task Force on Climate-related Financial Disclosure (TCFD) guidelines. The disclosure aims to describe the main risks over different time horizons in order to reflect the uncertainties in the short, medium and long term and the potential commercial implications, contextualising the information in terms of progress towards achieving set goals.

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

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

|  Physical risks |  Transition risks |  Opportunities |
|--|---|---|
| <p>Physical risks are associated with an increase in costs and financial losses caused by an increase in the severity and frequency of extreme weather related to climate change.</p> <p>These include acute physical risks, i.e., those arising from particular environmental events, which may severely damage the Group (e.g., floods, heatwaves, whirlwinds).</p> <p>The Group is potentially exposed to acute events such as these and may not be able to perform its operating activities if a site were hit, which would in turn make it impossible to fulfil orders.</p> <p>The Group’s production sites in Italy, China, Brazil, the US, Croatia and Germany all aim to optimise production, as they are also potential disaster recovery centres.</p> | <p>Transition risks are those which arise from the transition to a low-carbon economy and are closely linked to social, economic and political development, in addition to changes to CO2 tariffs and regulatory restrictions.</p> <p>The Group is exposed to risks related to ruling legislation and new regulations and must comply with Legislative decree no. 254/2016 (Directive 2014/95/EU) which regards disclosure of non-financial information, including environmental impacts such as the use of energy resources and GHG emissions. Should the Group omit information or provide incorrect information about issues set out in the legislation, it may incur steep financial sanctions.</p> <p>In order to guarantee production continuity, which could be jeopardised, for example, by the legal implications of an environmental crime, in compliance with Italian legislation regarding corporate criminal liability (Legislative decree no. 231/2001), the parent has set out certain measures aimed at preventing this type of crime.</p> <p>Furthermore, Carel is exposed to the risk of missing information about ruling environmental regulations/legislation. In order to reduce the Group’s exposure to this risk, it monitors environmental legislative requirements, including those related to</p> | <p>As the Group is aware of the importance of risks related to climate change, it aims to capitalise on the market opportunities and to promote the transition towards sustainable development in its sector, guaranteeing a good market position for its products from an environmental point of view.</p> <p>Efforts to mitigate and adapt to climate change are in line with Carel’s mission to develop products “for a better environment”. Therefore, the Group’s focus on energy savings should be regarded as a good opportunity in terms of R&D, production and commercial strategy.</p> <p>The Group can gain a competitive advantage by looking into developing new technologies and rolling-out new products and highly energy efficient products.</p> |



Physical risks

This decision confirms the Group's intention to plan ahead and prepare itself to face catastrophic events, which could shut down production at the Group's main site in Italy, where the parent has its registered office.

To this end, the Group has extended its mirroring strategy for core products and, in light of the Covid-19 pandemic, the strategy was also extended to the whole of the value chain through the use of dual sourcing on the supply chain in order to mitigate further risks of production disruption.

Therefore, the Coronavirus epidemiological phenomenon could be seen as a sort of "stress test" for the Group in the case of natural disasters hitting its sites.

The Group is also exposed to **chronic physical risks** (such as rising sea levels and ocean acidification) which could also affect business, as they could make it impossible to meet the demands of internal/external customers and suppliers within the requested time frame.

Carel Industries is aware of the climate context within which it operates. Its registered office is located in Brugine which is in climate zone E, with 2,360 degree days.

The climate classification makes it possible to regulate the use and period of use of heating systems in buildings, in order to minimise energy consumption. Specifically, Carel has a limit of 14/h per day for heating systems.



Transition risks

climate change (for example, the energy efficiency of buildings, the evolution of appliances and GWP refrigerants).

The Group may be affected by the risk of failing to make the most of **technological innovations** which could improve its offer, also with regard to its environmental commitment.

As its customers are increasingly aware of environmental and climate change issues, the Group is exposed to **market risks** such as being unable to keep up with market developments and to respond to customers' changing needs and expectations.

In order to mitigate the risk of not satisfying customers' needs by failing to identify changes in their preferences and the technological innovation on the markets, along with the risk of not attracting new customers, the Group monitors satisfaction levels by analysing market performance and through a structured ("voice of customer") process. The Group oversees business risks deriving from the **market** also by focusing on **technological innovation**, believing that finding innovative technological solutions is the key to increasing competitiveness.

The Group is exposed to **reputation risks** which may affect its image. In this regard, it pays close attention to the quality of its stakeholder relations, as also set out in its Code of Ethics. Carel has identified its stakeholders through internal and benchmark analyses as parties that are affected by its operations, particularly with regard to environmental aspects. Accordingly, the Group aims to guarantee effective and transparent environmental information through the availability of information about the correct use of products (including the disposal of packaging and waste).

Furthermore, in order to prevent reputation risk, Carel has developed an internal three-year **brand reputation plan** which aims to increase stakeholders' knowledge about Carel. The plan includes non-financial information, expanding the Group's business profile to cover ESG aspects, including climate change, carbon emissions, atmospheric pollution and biodiversity.



Opportunities

Product and process innovation are key success factors and the Group's ability to quickly respond to market changes is thanks to its ongoing research and release of new products, solutions and/or services, or new and updated versions of its products and services which satisfy and incorporate significant technological innovations.

The Group believes that a strategy to promote **high-efficiency** solutions is necessary to reduce the effects and risks of climate change.

To this end, the Group engages in applied research and development, focusing on solutions to improve **energy efficiency**, reduce its environmental impact and the use of natural refrigerant gases to maintain its leadership position in the HVAC/R market niches.

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

ETHICS AND INTEGRITY

An essential factor for the Group's success, a tool to promote its reputation and an indispensable asset is the adoption of behaviour inspired by high ethical standards when carrying out business.

To this end and in accordance with Italian regulations, on 30 March 2017, the parent introduced an Organisational, management and control model (the "231 model") as provided for by Legislative decree no. 231/01, the reference Italian legislation regarding corporate criminal liability, consisting of a general part and several special parts, most recently updated in July 2020 and approved at the beginning of 2021. The 231 model is designed using an analysis of the areas where predicate crimes could be committed. Specifically, Carel carried out a risk self-assessment of its organisation and assessed its internal processes.

In addition to the 231 model, the 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, appointed by the board of directors, monitors the implementation, compliance, proper functioning and application of the 231 model, the Code of Ethics and the Anti-Corruption Procedure. It also receives any reports of violations of either the 231 model or the Code of Ethics (whistleblowing), which are duly processed by specific software.

It 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 the 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.

The 231 model, the Code of Ethics and the Anti-Corruption Procedure are based on the main guidelines and international standards on responsible business behaviour and are disseminated to all recipients through appropriate training and information activities.

Specifically, via the Anti-Corruption Procedure and the control of the Supervisory Board, 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, which was disseminated to all group companies, 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.

It is inspired by the principles and rules of conduct set out in the company's Code of Ethics and the toughest international regulations, and achieves the objectives of preventing and combating corruption as laid down in the Organisational, management and control model adopted by the company pursuant to Legislative decree no. 231 of 8 June 2001, representing the conduct standard for all its employees and collaborators.

The Group's commitment to the prevention of and fight against corruption includes the dissemination of the 231 model, the Code of Ethics and the Anti-Corruption Procedure to all group companies, including by holding training courses to increase employees' awareness of the issue.

Accordingly, it provided its employees with classroom and e-learning courses on the main contents of Legislative decree no. 231/01, the 231 model and the Anti-Corruption Procedure.

Due the continuation of the Covid-19 pandemic, also in 2021, the Group was unable to provide its foreign subsidiaries with in-person anti-corruption training covering, in particular, the anti-corruption procedure approved by each group company, aimed at spreading awareness about this procedure and implementing protections and controls to ensure procedural compliance. These activities, which were planned to be carried out in person in 2020, were provided in 2021 to all subsidiaries via e-learning using Carel's HCM platform, with the support of the Group's external partner, Skilla.

Everyone who works directly or indirectly for or on behalf of the Group may report violations, irregularities or suspected violations of the 231 model and/or the Code of Ethics using the whistleblowing system provided for in the procedure shared with all recipients.

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 2021.



TAX TRANSPARENCY

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

The Group's approach to tax is founded on compliance with the relevant legislation in the various countries in which Carel operates, in accordance with the principles and values of legality, honesty and transparency set out in the Code of Ethics. Indeed, the Group is committed to acquiring the necessary knowledge about tax laws and to adopting interpretations which are coherent with the responsible management of tax risk. Furthermore, the Group collaborates transparently with the tax authorities of the countries in which it operates and does not obstruct their checks and controls.

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

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

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



The confidentiality and protection of data (including personal data) is fundamental and essential for its relations.



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 (e.g., right of access, right to rectification, right to erasure and the right to restriction of processing). The Group introduces the appropriate technical and organisational measures to protect personal data from their accidental or unlawful destruction, loss, alteration or unauthorised access.

In order to ensure maximum transparency about data management and processing, 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. These disclosures are designed to confirm to the stakeholders that information and personal data obtained by Carel is kept confidential and that Carel acts in strict accordance with the current data protection and processing legislation when using these data.

To this end, the parent has appointed a Data Protection Officer (DPO), in order to strengthen its compliance with regard to protecting personal data. During the year, 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).

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

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

As part of the parent's and European subsidiaries' implementation of the GDPR, the parent's DPO was given the same task for the 10 European group companies, and will be responsible for coordinating the application of the legislation and the implementation of privacy procedures and controls. The parent also 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, record of processing activities update and annual review procedure).

Once again, due to the Covid-19 pandemic, it was not possible to provide the planned in-person training at the European subsidiaries' premises. Training was therefore delivered through the Carel HCM platform, assisted by an external partner.

With respect to safety measures, the Group has disaster recovery and business continuity plans to deal with a breakdown or discontinuity of its IT services. It stores personal data and data of its customers and other parties it works with or that use Carel products and solutions in dedicated internal and external data centres.

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

By sharing the policy, which is binding in all geographical areas in which the Group operates, and which is supplemented by the procedures and guidelines that regulate similar aspects, the parent aims to create the same conditions for all recipients so that they are aware of, recognise and implement the principles required by the organisational system and act in compliance with the ruling legislation. In 2021, it did not receive any complaints about data protection violations or data loss from consumers.

RESEARCH, DEVELOPMENT AND INNOVATION

For Carel, efficiency is the starting point and finishing line for the process of inventing, manufacturing and distributing its systems. In order to remain faithful to this mission, every year, the Group invests an average of approximately 4.5% of its consolidated turnover in research and development. This refers to applied research, aimed at testing technological innovations at the Group's laboratories, in addition to broader research aimed at knowledge acquisition to boost in-house know-how.

It is this second type of research which is included in the white papers. Presented as veritable technical articles, these papers take an in-depth look at topics which are key to the sectors in which Carel operates. Ranging from humidification applications to international regulations, commercial refrigeration, data centres and air conditioning, they are well structured studies which Carel freely makes available to the scientific community with the aim of sharing know-how and knowledge.

Research and development are at the heart of Carel's business. In 2021, 4.5% of its revenue was allocated to this sector to pre-empt customer needs and provide cutting edge solutions. Carel also has two laboratories (a thermodynamic one and a humidification one), which are centres of excellence in their fields.

Roughly 12% of the Group's over 1,865 employees engage in R&D activities for an average of 224 resources in 2021.

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

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

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

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

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

Carel's solutions which have historically been dedicated to high energy efficiency contribute to reducing the impact on the environment and improving air quality in buildings. In order to achieve these results, constant investments are required, in addition to Carel's innovations which set it apart, not only in terms of energy efficiency but also for natural refrigerants, in digital & field services and in the IoT.

R&D activities are also carried out through long-standing partnerships with Padua University (in areas ranging from analogue and digital electronics to power electronics, system and control theory, thermodynamic applications, technical physics and mechanical production processes to data statistical analyses), the Udine and the Verona Universities, the CNR (National Research Institute) and the most important sector associations such as EPEE (European Partnership for Energy and the Environment), AICARR (Italian Association of Air Conditioning, Heating and Refrigeration), AHRI (Air-Conditioning, Heating and Refrigeration Institute) and EHPA (European Heat Pump Association). More information about these sector associations is provided in the stakeholder engagement section.

LABORATORIES

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

- the **marketing** function, which provides information about the customer's specific requirements and market trends;
- the **product platforms** function, which defines the product structure to meet both market needs and those of the different application segments in which the Group operates;
- the **competence centres**, which define the technological solutions that meet the customers' requirements in an innovative manner.



**"OUR LABORATORIES ARE AT
THE HEART OF OUR BUSINESS"**

Carel R&D activities are carried out at three dedicated sites in Italy, China and the US, specialised in HVAC/R, humidification, electronics, power electronics, precision mechanics, cloud-based applications, smart Edge data collection and gateways. Each R&D centre has seven competence centres (electronics, mechanics, software tools, IoT & analytics, software solution designer and humidification) focused on developing technical knowledge in five areas. The thermodynamic competence centre is part of the knowledge centre, which is where new technologies are researched and products are tested, such as, for example, the new natural refrigerants.

The laboratories in Italy, China and the US play a fundamental role in developing innovation. There are 12 of them: three thermodynamic laboratories, three humidification laboratories, two electronics laboratories, two power electronics laboratories, one software and one valves laboratory.

At 31 December 2021, the Group's R&D department has 224 engineers and technicians, equal to 12% of its workforce.

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

BREAKDOWN OF R&D EMPLOYEES BY GEOGRAPHICAL AREA

| Country | 2021 | | 2020 | | 2019 | |
|---------------|------------|-------------|------------|-------------|------------|-------------|
| | no. | % | no. | % | no. | % |
| Italy | 158 | 70% | 157 | 70% | 157 | 70% |
| Europe | 4 | 2% | 4 | 2% | 4 | 2% |
| United States | 12 | 5% | 12 | 5% | 12 | 5% |
| China | 50 | 23% | 51 | 23% | 52 | 23% |
| Total | 224 | 100% | 224 | 100% | 225 | 100% |



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

The Group's commitment to continuous innovation in designing high efficiency solutions reduces the environmental impact of machinery and plant and increases the efficiency of its customers' systems. It has invested an average of 5.1% of its revenue in R&D in the last three years.

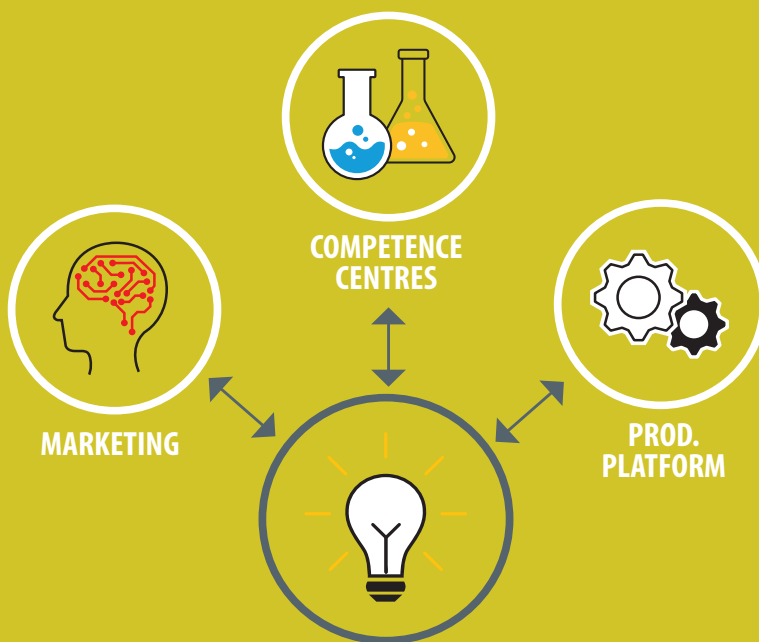
The next table shows investments in R&D over the three years as a total and a percentage of revenue

| INVESTMENTS IN RESEARCH AND DEVELOPMENT | | | |
|---|--------|--------|--------|
| | 2021 | 2020 | 2019 |
| €'000 | 19,034 | 17,499 | 18,060 |
| Percentage of revenue | 4.5% | 5.3% | 5.5% |

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

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

Over the last three years, the R&D unit has worked on more than 20 product development projects a year and over 900 customisation projects for customers. The Group's intellectual property is protected by 56 patents (requested or granted), eight of which are for innovative solutions designed in 2021. They also cover new applications for other environments which Carel applies to solutions of interest to its customers.



It follows that the Group has had to deal with the risks related to protection of its intellectual property, or rather its potential inability to properly protect its intellectual property, technological know-how and trademarks.

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

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

In 2020, the Covid-19 emergency affected the R&D structure, requiring the reorganisation of many activities. Development activities were prioritised, promoting operating continuity of production lines and supporting the business areas with the highest demand. With reference to business, risks arose for the sectors worst hit by the pandemic which experienced a drop in demand. These risks led to the postponement of project activities. In other cases, the acceleration of business in the sectors in which demand increased led to more energy and resources being dedicated there.

RESPONSIBLE SUPPLY CHAIN MANAGEMENT

In order to strengthen its commitment to sustainable development, the Group shares its Code of Ethics with all its suppliers with the aim of defining the reference principles for social and environmental topics and to propose a set of conduct rules.

In 2021, the in-scope group companies (Italy, Croatia, China, US and Brazil) purchased materials from a total of 524 suppliers. Recuperator and HygroMatik work with 62 and 175 suppliers, respectively, all based in Europe. At the date of this report, the figures for Enginia S.r.l. are still being analysed and will therefore be reported starting in 2022.

In 2021, faced with the disruption caused by the pandemic and the shortage of materials, Carel confirmed its sourcing policy, with the aim of guaranteeing business continuity. The Group promotes the use of suppliers with regional production or logistics bases for all of its production sites. The goal is to guarantee a better service and, above all, supplier continuity, also as a means of overcoming logistical issues, natural events or lockdowns in foreign countries. As a direct consequence of this policy, the Group has used less intercontinental transport and in turn reduced its environmental impact. At the same time, it has worked to make all production sites independent of each other from a sourcing point of view, thus reducing the risk of a remote disruption affecting the related destination market.

The supply chain localisation index is the reference benchmark, which shows regional acquisitions (from the same continent as the production site) as a percentage of the production sites' total acquisitions, net of intercompany trading. With reference to acquisitions in 2021, 88% of European acquisitions are now from regional suppliers, in North America it is 54%, in South America 25% and in Asia 80%. The increase at group level is 1.3%.

| PROPORTION OF SPENDING ON LOCAL SUPPLIERS BY GEOGRAPHICAL AREA [GRI 204-1] ² | 2021 | 2020 |
|---|---------------|---------------|
| Geographical areas ³ | % of spending | % of spending |
| Carel Industries - Europe | 90% | 90% |
| Carel Adriatic - Europe | 85% | 83% |
| Recuperator - Europe | 100% | 100% |
| Hygromatic - Europe | 100% | 100% |
| Carel US - North America | 54% | 45% |
| Carel Brazil - South America | 25% | 22% |
| Carel China - Asia Pacific | 80% | 79% |
| Group average | 90% | 89% |

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

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

The screening process for new suppliers introduced a series of preliminary checks related to the organisation and processes of the candidates. Specifically, the Group now requests proof of structured processes aimed at guaranteeing compliance with the business' sustainability and ethics principles as mentioned above.

The Group deems it fundamental to have ongoing dialogue with its suppliers and the exchange of good practices and skills as this is essential to obtain quality products and services within the requested timeframes. This interaction takes different forms: visits by technical staff and quality control specialists and IT platforms used to share information, including the management and update of orders.

Human rights and workers' rights, health and safety have been added to the new supplier screening and selection process. The sustainability assessment carried out in 2021 included workers' rights (child labour, salaries, working hours, freedom of association), the conflict minerals policy, occupational health and safety for employees and contractors. The sustainability assessment was included in the supplier evaluation.

Environmental protection, occupational health and safety and compliance with international regulations regarding chemicals were included in the new supplier screening and selection process. The sustainability assessment carried out also in 2021 includes compliance with applicable regulations, such as REACH/RoHS, and values initiatives to reduce the environmental impact of business activities (reducing the carbon footprint, water consumption, packaging and waste).

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

These policies are included in the new contractual format for the provision of goods introduced in 2020 and the new general acquisition conditions introduced and in force in 2021.

Also this year, a number of suppliers were asked to fill out a self-assessment questionnaire, the same they filled out during the vetting stage, with the goal of promoting awareness about social responsibility and environmental responsibility and in order to collect information about their systems and management practices. The aim of the survey is to increase their awareness about sustainability issues on the supply chain.

² The 2021 figures have been restated using a more precise calculation process for the purposes of greater comparability. The rate is based on the acquisition volumes of each code, based on the procurement regulations at each year end.

³ The figures for Enginia are not yet available

The questionnaire is qualitative and is made up of four sections: compliance with applicable legislation and regulations; existence of structured processes; initiatives to improve or reduce impact; involvement of their own supply chains. The score related to the different sections is on a scale of 0 to 100, with a threshold target of 60. In 2020, the response trend was around 74, while in 2021 it was 80. Only in one case was it 56 and this led to the activation of a number of exception procedures for this supplier and the latter requesting the Group for an improvement plan.

36 second-level suppliers, which account for around 29% of the Group's turnover for acquisitions, took part in the survey. When added to the 28% in 2020, it comes to approximately 57% of the amount supplied at group level. For the first time in 2021, the survey was extended to exclusive suppliers of the US and Chinese plants. Since the second half of the year, new candidate suppliers have filled in the questionnaire with positive scores. Overall, the questionnaire had a good response rate of over 85%. 100% of respondents highlighted their respect for compliance requirements and substantial awareness of sustainability issues.

Furthermore, it provided a measurement metric and a point of reference for specific improvement initiatives and future expansion of the scope. Furthermore, follow-up activities will be evaluated, such as documented checks during audit activities with the aim of assessing compliance with the requirements set out in the self-assessment survey, in accordance with the restrictions introduced as a result of the pandemic.

A complex supply chain like that of Carel's, comprising national and international suppliers, requires constant supervision given the significant intrinsic risks and the fact that Carel relies heavily on its suppliers for components necessary for its production. In order to ensure availability of the materials for its production phases, to diversify risks and guarantee the necessary time to market, the Group schedules its production carefully and 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 or that they may deliver raw materials or components that are defective or do not comply with the established standards or the agreed timeframe for any reason whatsoever (for example, but not limited to, the shortage of the raw materials, financial difficulties, issues related to the quality of the raw materials, strikes) which could adversely affect the Group's production cycle and cause delays in deliveries to customers, with a negative effect on the brand's reputation.

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

Although the Group does not have a standard systematic control procedure, no complaints were received in 2021 related to alleged violations of human rights or non-compliance with environmental regulations by its supply chain.

At present, the Group is closely monitoring the evolution of the Russia-Ukraine conflict. For further information, reference should be made to the directors' report which accompanies the consolidated financial statements.

CONTROVERSIAL SOURCING

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

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

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

The Group therefore adopted a policy on conflict minerals and an internal process covering all actions and related procedures, adopted by the parent to confirm compliance with the OECD framework. The process consists of two macro sections: management of the information to be obtained periodically from the supply chain, i.e., obtaining the CMRT (Conflict Minerals Reporting Template) from components manufacturers and assessing the smelters/refineries declared by the suppliers in the above CMRT.

Carel⁴ oversees its supply chain on a continuous basis to minimise risks related to the purchase of materials that include conflict minerals or mining activities involved in the violation of human rights.

Accordingly, the Group commenced a project to assess the suppliers of raw materials where 3TGs (source tin, tantalum, tungsten or gold) are used, such as, for example, tin alloys for welding, electronic microchips, tantalum capacitors or LCD displays, asking them to provide their CMRTs updated to the latest version.

4 Hygromatik excluded in part



Specifically, in 2021, Carel carried out the campaign to obtain the CRMTs from the supply chain as described above, by contacting:

- 310 manufacturers, for an equivalent of €28 million of materials purchased in 2021 for production and resale;
- 8 suppliers which are also manufacturers, for an equivalent of €360 thousand of materials purchased pertaining to Recuperator S.p.A.;
- 69 suppliers of raw materials which may contain 3TGs for an equivalent of €5 million of materials purchased pertaining to HygroMatik GmbH.

Carel opted to measure the assessment of its supply chain, which began in 2021, using two KPIs: (i) the Euro equivalent of purchases of articles/materials containing 3TGs and (ii) the number of manufacturers of articles containing 3TGs. It considered both indicators using four criteria, assigned using the replies received:

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

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



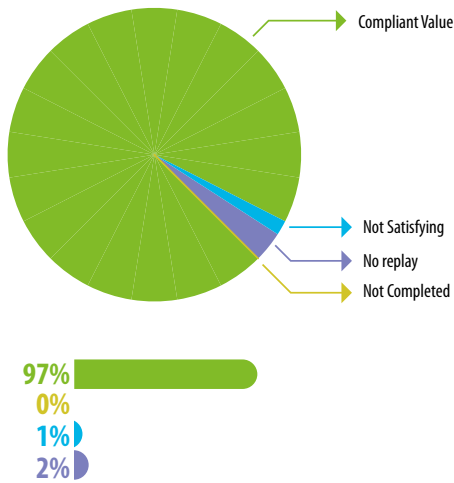
The charts below show that, in 2021, 97% of the value of products purchased by the Group, including Recuperator and HygroMatik, were manufactured using smelters.

93% of the manufacturers of components purchased provided at least the correctly completed CMRT, which allows for the mapping of smelters present on their supply chains, as set out in steps 1 and 2 of the OECD's Due Diligence Guidance for Minerals, which the Group uses as a reference.

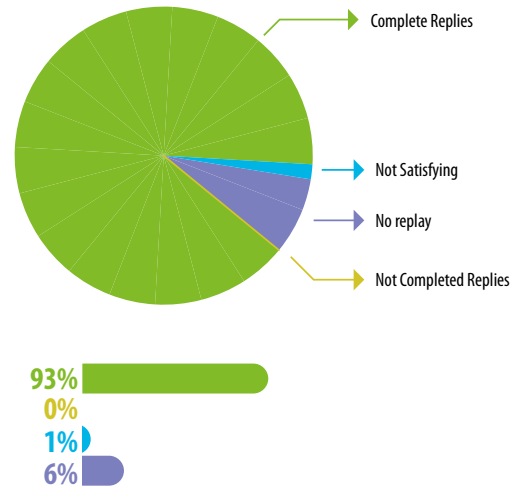
In order to meet step 3 of the OECD Guidance, in 2021, Carel developed the monitoring and management process for smelters in its supply chain. Thanks to its membership of the RMI, Carel can identify smelters classified as high risk. As a result, component manufacturers which reported critical smelters 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.

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 (an internal body created in 2021 to monitor and manage the supply chain in terms of responsible sourcing).

Value of articles and materials including 3TGs



Number of manufacturers of articles containing 3TGs







Annexes

COMPOSITION OF THE BOARD OF DIRECTORS AND COMMITTEES [GRI 102-22 | GRI 405-1]

| | 2020 and 2019 | | |
|-------------------------------|--------------------|-----------------------------|------------------------|
| | Board of directors | Control and risks committee | Remuneration committee |
| No. of directors | 7 | 3 | 3 |
| Executive | 4 | 0 | 0 |
| Non-executive | 3 | 3 | 3 |
| <i>(of whom, independent)</i> | <i>(3)</i> | <i>(3)</i> | <i>(3)</i> |
| Women | 3 | 2 | 2 |
| Men | 4 | 1 | 1 |
| < 30 years | 0 | 0 | 0 |
| 30-50 years | 2 | 0 | 0 |
| > 50 years | 5 | 3 | 3 |

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

| | 2021 | | | 2020 | | | 2019 | | |
|---------------|------------|--------------|------------|------------|--------------|------------|------------|--------------|------------|
| | <30 | 30-50 | >50 | <30 | 30-50 | >50 | <30 | 30-50 | >50 |
| Managers | 0 | 29 | 33 | 0 | 32 | 30 | 0 | 37 | 24 |
| White collars | 160 | 739 | 215 | 163 | 712 | 184 | 174 | 701 | 169 |
| Blue collars | 129 | 408 | 152 | 130 | 379 | 115 | 114 | 362 | 98 |
| Total | 289 | 1,174 | 400 | 293 | 1,123 | 329 | 288 | 1,100 | 291 |

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

| | 2021 | | | 2020 | | | 2019 | | |
|---------------|--------------|--------------|---------------|--------------|--------------|---------------|--------------|--------------|---------------|
| | Men | Women | Total | Men | Women | Total | Men | Women | Total |
| Managers | 3.1% | 0.3% | 3.3% | 3.2% | 0.3% | 3.6% | 3.3% | 0.3% | 3.6% |
| White collars | 44.3% | 15.4% | 59.7% | 45.6% | 15.1% | 60.7% | 46.0% | 16.2% | 62.2% |
| Blue collars | 15.8% | 21.2% | 36.9% | 14.7% | 21.0% | 35.7% | 14.5% | 19.7% | 34.2% |
| Total | 63.1% | 36.9% | 100.0% | 63.5% | 36.5% | 100.0% | 63.7% | 36.3% | 100.0% |

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

| | 2021 | | | | 2020 | | | | 2019 | | | |
|---------------|--------------|--------------|--------------|---------------|------------|------------|------------|-------------|------------|------------|------------|-------------|
| | <30 | 30-50 | >50 | Totale | <30 | 30-50 | >50 | Totale | <30 | 30-50 | >50 | Totale |
| Managers | 0.0% | 1.6% | 1.8% | 3.3% | 0% | 2% | 2% | 4% | 0% | 2% | 2% | 4% |
| White collars | 8.6% | 39.6% | 11.5% | 59.7% | 9% | 41% | 11% | 61% | 10% | 42% | 10% | 62% |
| Blue collars | 6.9% | 21.9% | 8.2% | 36.9% | 7% | 22% | 7% | 36% | 7% | 22% | 6% | 34% |
| Total | 15.5% | 63.1% | 21.4% | 100.0% | 19% | 64% | 17% | 100% | 17% | 66% | 17% | 100% |

NUMBER OF EMPLOYEES BY CONTRACT TYPE AND GENDER (N.) [GRI 102-8]

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

NUMBER OF EMPLOYEES BY CONTRACT TYPE AND GENDER (N.) [GRI 102-8]

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

NEW EMPLOYEE HIRES AND EMPLOYEE TURNOVER BY GENDER (N.) [GRI 401-1]

| | 2021 | | | 2020 | | | 2019 | | |
|-------------------|------|-------|-------|------|-------|-------|------|-------|-------|
| | Men | Women | Total | Men | Women | Total | Men | Women | Total |
| Employee hires | 191 | 111 | 302 | 112 | 98 | 210 | 174 | 113 | 287 |
| Employee turnover | 165 | 85 | 250 | 82 | 72 | 154 | 113 | 72 | 185 |

NEW EMPLOYEE HIRES AND EMPLOYEE TURNOVER BY AGE BRACKET (%) [GRI 401-1]

| | 2021 | | | | 2020 | | | | 2019 | | | |
|-------------------|------|-------|-----|------------|------|-------|-----|------------|------|-------|-----|------------|
| | <30 | 30-50 | >50 | Totale | <30 | 30-50 | >50 | Totale | <30 | 30-50 | >50 | Totale |
| Employee hires | 123 | 145 | 34 | 302 | 81 | 109 | 20 | 210 | 115 | 149 | 23 | 287 |
| Employee turnover | 89 | 128 | 33 | 250 | 43 | 92 | 19 | 154 | 59 | 108 | 18 | 185 |

EW EMPLOYEE HIRES AND EMPLOYEE TURNOVER BY GEOGRAPHICAL SEGMENT (N.) [GRI 401-1]

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

NEW EMPLOYEE HIRES AND EMPLOYEE TURNOVER BY GEOGRAPHICAL SEGMENT (N.) [GRI 401-1]

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

NEW EMPLOYEE HIRES AND EMPLOYEE TURNOVER BY GEOGRAPHICAL SEGMENT (N.) [GRI 401-1]

| | 2019 | | | | | | |
|-------------------|----------------|--|---------------|---------------|------------|------------|------------|
| | Western Europe | Rest of Europe, Middle East and Africa | North America | South America | North Asia | South Asia | Total |
| Employee hires | 89 | 68 | 41 | 11 | 74 | 4 | 287 |
| Employee turnover | 56 | 43 | 30 | 12 | 40 | 4 | 185 |

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

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

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

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

NEW EMPLOYEE HIRES AND EMPLOYEE TURNOVER BY POSITION (N.) [GRI 401-1]

| | 2021 | | | 2020 | | | 2019 | | |
|-------------------|--------------|---------------|----------|--------------|---------------|----------|--------------|---------------|----------|
| | Blue collars | White collars | Managers | Blue collars | White collars | Managers | Blue collars | White collars | Managers |
| Employee hires | 132 | 168 | 2 | 134 | 75 | 1 | 120 | 161 | 6 |
| Employee turnover | 100 | 145 | 5 | 84 | 68 | 2 | 90 | 94 | 1 |

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

| | 2021 | | | 2020 | | | 2019 | | |
|---------------|------|-------|-------------|------|-------|-------------|------|-------|-------------|
| | Men | Women | Total | Men | Women | Total | Men | Women | Total |
| Managers | 12.7 | 14.4 | 12.9 | 12.4 | 16.3 | 12.8 | 8.7 | 13 | 9 |
| White collars | 16.9 | 14.2 | 16.2 | 14.9 | 11.3 | 14 | 31.1 | 21.9 | 28.7 |
| Blue collars | 21.2 | 20 | 20.5 | 20.9 | 21.5 | 21.2 | 25 | 36.8 | 31.9 |

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

| | 2021 | | | | | | | | | |
|--|--|--|--|--|--|--|--|--|--|--|
| | 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 | 689 | 36 | 0 | 0 | 118 | 0 | 1 | 0 | 0 | 0 |
| Healthcare | 720 | 40 | 132 | 110 | 118 | 0 | 48 | 0 | 49 | 206 |
| Disability coverage (in accordance with the law) | 764 | 45 | 132 | 110 | 0 | 0 | 0 | 0 | 49 | 206 |
| Disability coverage (company policies) | 28 | 0 | 0 | 0 | 118 | 0 | 0 | 0 | 49 | 206 |
| Parental leave (in accordance with the law) | 828 | 49 | 132 | 110 | 0 | 0 | 48 | 0 | 49 | 206 |

2021

| | 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 |
| Parental leave (company policies) | 703 | 40 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Pension plan (in accordance with the law) | 828 | 49 | 132 | 110 | 0 | 0 | 48 | 0 | 49 | 206 |
| Pension plan (company policies) | 55 | 9 | 2 | 0 | 118 | 0 | 0 | 0 | 0 | 0 |
| Company car - mixed use | 85 | 0 | 2 | 0 | 23 | 0 | 8 | 0 | 0 | 0 |
| Flexible or welfare benefits | 720 | 40 | 132 | 110 | 0 | 0 | 0 | 0 | 0 | 0 |

METHODOLOGICAL NOTE

REPORTING STANDARDS

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

This statement is prepared once a year in accordance with the decree and the GRI Standards (using the "core option"), published in 2016 by the Global Reporting Initiative. They are currently the best-known and most recognised standards at international level on non-financial reporting. With regard to GRI 306, reported for the first time in 2021, the most recent version of 2020 was adopted. The GRI Content Index is set out on page 133-137 to assist the readers in finding the information in this statement.

The presentation of non-financial information reflects the principle of materiality, which is provided for by the reference regulations and is key to the GRI Standards. The topics discussed herein are those that, after an analysis and assessment of materiality (see pages 30-31), have been considered material as they reflect the social and environmental impact of the Group's operations or can influence its stakeholders' decisions. Where possible, prior year data is provided to ensure a comparison over time. In addition, in order to correctly present the Group's performance and guarantee data reliability, the use of estimates has been limited as much as possible. If they are provided, they have been made using the best methods available and are properly identified. The statement presents both positive and negative aspects fairly with a comment on the results when appropriate. The 2020 data have not been restated, unless this is expressly specified.

REPORTING SCOPE

The qualitative and quantitative data and information presented in the consolidated non-financial statement refer to the Group's performance in 2021. As required by article 4 of Legislative decree no. 254/2016, this statement includes the data of the parent (Carel Industries S.p.A.) and its fully consolidated subsidiaries. Any limitations to such scope are indicated in the document.

In 2021, the reporting scope was extended with reference to environmental data, which - except for any limitations duly highlighted - no longer cover only production plants but also the Group's commercial subsidiaries.

REPORTING PRACTICE

Preparation of the Group's 2021 statement was based on a structured reporting practice formalised in line with a specific internal procedure that defines the roles, duties and operating methods of the employees at the parent and its subsidiaries to ensure the correct management of the qualitative information and quantitative data necessary to prepare this statement. The reporting process extrapolates data from the existing information systems used by the main internal functions. During 2021, this process was computerised by adopting specific software for non-financial reporting which meets the requirements of Legislative decree no. 254/2016 and the GRI Standards, in order to monitor the main indicators in a more timely and constant manner. Specifically, the data and information included herein are taken from the information system used for the Group's management and accounts. The data were processed through extrapolations and calculations or, when specified, estimates. The financial data and information were taken from the 2021 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 2021 draft consolidated financial statements on 3 March 2022;
- issue of a compliance report on the statement by Deloitte & Touche S.p.A. after its review;
- publication of the statement on the parent's website to make it available to all stakeholders in a transparent manner.

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

REPORTING STANDARDS

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

BRIDGING TABLE

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

| Material topics identified by the Carel Group | Aspects of Legislative decree no. 254/2016 | Topic-specific reference GRI Standards | Boundary of impacts | |
|--|--|--|---------------------|---|
| | | | Internal | External |
| Energy efficiency and sustainable products | Environment | Energy (GRI 302-5) | The entire group | Communities and future generations, customers |
| R&D and product innovation | Society | Material topic not directly related to a Topic-Specific GRI Standard, for which the management approach adopted and related indicators are explained in this statement | The entire group | Communities and future generations, customers, suppliers |
| Respect for human rights | Personnel, human rights | Incidents of discrimination and corrective actions taken (GRI 406-1) | The entire group | Employees, trade unions, worker representatives, suppliers, communities |
| Customer engagement, observation and satisfaction | Society | Stakeholder engagement (GRI 102-43, 102-44) | The entire group | Customers |
| Training and professional development | Personnel | Training and education (GRI 404) | The entire group | Employees, trade unions, worker representatives |
| Product and service quality and safety | Society | Customer health and safety (GRI 416) Marketing and labelling of products and services (GRI 417) | The entire group | Customers, shareholders, investors and analysts, suppliers |
| Governance and business integrity | Society, personnel, environment, human rights, anti-corruption, supply chain | Organisational profile (GRI 102-12), Ethics and integrity (GRI 102-16) Anti-corruption (GRI 205-3) Anti-competitive behaviour (GRI 206) | The entire group | Employees, customers, shareholders, investors and analysts, bodies and institutions, communities and future generations |
| Occupational health and safety | Personnel, human rights | Salute e sicurezza sul lavoro (GRI 403) | The entire group | Employees, trade unions, worker representatives |
| Data privacy, security and protection | Society | Consumer privacy (GRI 418) | The entire group | Employees, customers, suppliers |
| Responsible supply chain management | Supply chain, human rights | Organisational profile (GRI 102-9) Procurement practices (GRI 204) | The entire group | Suppliers and business partners |
| Environmental impact, pollution and climate change | Environment | Energy (GRI 302) Water and effluents (GRI 303) Emissions (GRI 305) Waste (GRI 306) | The entire group | Communities and future generations |

| Material topics identified by the Carel Group | Aspects of Legislative decree no. 254/2016 | Topic-specific reference GRI Standards | Boundary of impacts | |
|---|--|---|---------------------|---|
| | | | Internal | External |
| Diversity, equal opportunity and inclusion | Personnel, society | Diversity and equal opportunity (GRI 405) | The entire group | Employees, trade unions, worker representatives |

GRI CONTENT INDEX

GRI 102: GENERAL DISCLOSURES 2016

| Disclosure | Indicator | Page number/Note | Omissions |
|-------------------------------|---|----------------------|---|
| ORGANISATIONAL PROFILE | | | |
| 102-1 | Name of the organisation | pg. 13 | |
| 102-2 | Activities, brands, products, and services | pg. 14-18 | |
| 102-3 | Location of headquarters | Last page | |
| 102-4 | Location of operations | pg. 14 | |
| 102-5 | Ownership and legal form | pg. 99-102 | |
| 102-6 | Markets served | pg. 14 | |
| 102-7 | Scale of the organization | pg. 9; 99 | |
| 102-8 | Information on employees and other workers | pg. 65-67; 126-128 | |
| 102-9 | Supply chain | pg. 116; 121 | |
| 102-10 | Significant changes to the organization and its supply chain | pg. 116-121; 130-131 | |
| 102-11 | Precautionary Principle or approach | pg. 102-105 | |
| 102-12 | External initiatives | | The Group does not adhere to external codes and initiatives. However, it complies with the International Labour Standards included in the fundamental conventions of the International Labour Organisation (ILO). pg. 133 |
| 102-13 | Membership of associations | pg. 33-34 | |
| STRATEGY | | | |
| 102-14 | Statement from senior decision-maker | pg. 6-7 | |
| ETHICS AND INTEGRITY | | | |
| 102-16 | Values, principles, standards, and norms of behavior | pg. 19; 108-110 | |
| GOVERNANCE | | | |
| 102-18 | Governance structure | pg. 99-102 | |
| 102-22 | Composition of the highest governance body and its committees | pg. 100-102; 125 | |

| Disclosure | Indicator | Page number/Note | Omissions |
|-------------------------------|--|------------------|-----------|
| STAKEHOLDER ENGAGEMENT | | | |
| 102-40 | List of stakeholder groups | pg. 32-33 | |
| 102-41 | Collective bargaining agreements | pg. 64 | |
| 102-42 | Identifying and selecting stakeholders | pg. 30-33 | |
| 102-43 | Approach to stakeholder engagement | pg. 30-33 | |
| 102-44 | Key topics and concerns raised | pg. 32-33 | |
| REPORTING PRACTICE | | | |
| 102-45 | Entities included in the consolidated financial statements | pg. 130 | |
| 102-46 | Defining report content and topic Boundaries | pg. 30-31; 131 | |
| 102-47 | List of material topics | pg. 31 | |
| 102-48 | Restatements of information | pg. 130-131 | |
| 102-49 | Changes in reporting | pg. 130 | |
| 102-50 | Reporting period | pg. 130 | |
| 102-51 | Date of most recent report | 2020 | |
| 102-52 | Reporting cycle | Annual | |
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| 102-54 | Claims of reporting in accordance with the GRI Standards | pg. 130; 133-137 | |
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ECONOMIC PERFORMANCE: TOPIC-SPECIFIC STANDARDS

GRI 201: ECONOMIC PERFORMANCE 2016

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GRI 204: PROCUREMENT PRACTICES 2016

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| 204-1 | Proportion of spending on local suppliers | pg. 117 |

GRI 205: ANTI-CORRUPTION 2016

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GRI 206: ANTI-COMPETITIVE BEHAVIOUR 2016

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ENVIRONMENTAL PERFORMANCE: TOPIC-SPECIFIC STANDARDS

GRI 302: ENERGY 2016

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| 305-4 | GHG emissions intensity | pg. 45 | |
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| GRI 306: WASTE 2020 | | | |
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| 306-4 | Waste diverted from disposal | Pag. 52 | |
| 306-5 | Waste directed to disposal | Pag. 52 | |

SOCIAL PERFORMANCE: TOPIC-SPECIFIC STANDARDS

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INDEPENDENT AUDITOR'S 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, 2021 prepared on the basis of art. 4 of the Decree and approved by the Board of Directors on March 3, 2022 (hereinafter "NFS").

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

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

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

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

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

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

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

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

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Auditor's Independence and quality control

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

Auditor's responsibility

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

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

Specifically we carried out the following procedures:

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

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4. understanding of the following matters:

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

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

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 management of Carel Industries S.p.A. and with the employees of Carel Adriatic d.o.o., Carel Eletronic (SuZhou) Co.Ltd, Carel USA INC and Recuperator S.p.A., 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 the following companies Carel Industries S.p.A., Carel Adriatic d.o.o., Carel Eletronic (SuZhou) Co.Ltd, Carel USA INC and Recuperator S.p.A., which we selected based on their activities, their contribution to the performance indicators at the consolidated level and their location, we carried out remote meetings and site visits, during which we have met their management and have gathered supporting documentation with reference to the correct application of procedures and calculation methods used for the indicators.



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, 2021 is not prepared, in all material aspects, in accordance with articles 3 and 4 of the Decree and the GRI Standards.

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

DELOITTE & TOUCHE S.p.A.

Signed by
Cristiano Nacchi
Partner

Padua, Italy
March 29, 2022

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

Headquarters ITALY

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