

CAREL

Conflict Minerals report 2021

Contents

CAREL PRODUCTS AND CONFLICT MINERALS.....	6
COMPANY MANAGEMENT SYSTEM.....	7
SUPPLY CHAIN PROGRAM FOR CONFLICT MINERALS IDENTIFICATION, RISK ASSESSMENT AND MITIGATION	9
AUDIT OF SMELTER/REFINER DUE DILIGENCE PRACTICES.....	10
PUBLICLY REPORT ON DUE DILIGENCE	10
FUTURE DEVELOPMENTS	10

Through the **Dodd-Frank Wall Street Reform Act** of July 2010, the United States passed legislation aimed at regulating the use of minerals from countries where conflicts or extensive human rights violations are taking place, such as the **Democratic Republic of the Congo and neighbouring countries** (Rwanda, Burundi, Angola, Central African Republic, Sudan, Tanzania, Uganda and Zambia).

The US government thus intends to discourage companies, and indeed the entire supply chain, from continuing to use minerals from those areas in their production processes, the proceeds from which fuel regional conflicts, causing a harmful vicious cycle.

On 17 May 2017, Regulation (EU) 2017/821 was published, establishing due diligence obligations for importers of tin, tantalum and tungsten, their ores, and gold originating from conflict-affected and high-risk areas.

This new EU legislation on conflict minerals, following the regulations established by US legislation, requires all but the smallest **European importers of minerals and metals containing tin, tungsten, tantalum and gold** to carry out due diligence checks on their suppliers .

This document describes the strategy adopted by the Carel Group to comply with both the US and European legislation on conflict minerals, through the application of specific internal processes that reflect the OECD due diligence framework: Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas (<https://www.oecd.org/corporate/mne/mining.htm>).

Carel Industries is committed to verifying whether or not in the components purchased for production or resale purposes containing **3TG minerals (tin, tungsten, tantalum and gold)** or potentially containing such minerals, the latter have been sourced from conflict-free supplies.

Furthermore, the document illustrates the results obtained so far regarding the investigations carried out and the choice of components to be purchased.

CAREL PRODUCTS AND CONFLICT MINERALS

Although Carel Industries S.p.A. (Carel) is not required by US law to annually report any data on the procurement of conflict minerals to the SEC (Securities and Exchange Commission), the Group is committed to respecting human rights and avoiding the financing of conflicts through its own decisions to purchase 3TG minerals, implementing its own policy socially and responsibly.

3TG minerals are used in most of Carel's products, due to the type of solutions it offers: design, development and production of electrical and electronic components and equipment for residential, commercial and industrial HVAC/R (Heating, Ventilation, Air Conditioning & Refrigeration) applications.

As Carel believes in sourcing its resources ethically, since 2018 it has defined and published its own *Conflict Minerals* policy. This has been regularly updated in order to increase the level of attention to the subject and define references for all suppliers and company staff. The latest version of the document is available on the company's official website, at the following link: <https://www.carel.com/supply-chain-management>

Carel is committed with due diligence to the responsible supply of the 3TG minerals needed to manufacture its products. As previously mentioned and described below, the company's due diligence follows the "OECD Guidance" for so-called *downstream companies*, although its commitment first began with requests from customers to comply with US legislation, specifically the "*Dodd-Frank Wall Street Reform and Consumer Protection Act*".

To maximise the efficiency of the actions implemented by the company to reduce the use of conflict minerals, Carel has focused on analysing the materials its uses that may potentially contain 3TG minerals.

COMPANY MANAGEMENT SYSTEM

according framework OECD "Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas"

With the aim of adhering to **step 1 of the OECD Guidance**, Carel has created a "*Controversial Sourcing Committee*", which has the task of monitoring everything concerning management of responsible sourcing of 3TG minerals. The committee is headed by the *Group Supply Chain Manager* and its members include representatives of the *Finance Department*, the ESG team, Investor Relations and R&D, and the *Purchasing Department*. Its main task to draft, update and implement the policy both within the company's own organisation and in its supply chain.

The "*Controversial Sourcing Committee*" also works through the Chemicals Compliance Team, which has the task of developing and implementing a conflict mineral management and coordination system for all company processes that involve the procurement of 3TG minerals, including verification of the data provided by the supply chain, immediate risk assessment and risk mitigation, based on the information received from suppliers.

Furthermore, the Purchasing Department has established contractual conditions to be applied to all affected suppliers in order to obtain all of the necessary information at the time any new materials are introduced, using the CMRT (*Conflict Minerals Reporting Template*), a tool for exchanging information on the procurement of 3TGs across the supply chain and the recognised international standard. The CMRT was developed by RMI (*Responsible Minerals Initiative*), an international organisation that provides tools and resources to help companies make better supply decisions globally, in terms of legislative compliance and responsible sourcing support, thus making a positive contribution to the socio-economic development of mineral supply chains in accordance with international standards, such as the OECD Due Diligence Guidance, which, as described, Carel complies with.

The RMI, through an independent third-party audit called the "Responsible Minerals Assurance Process (RMAP)", identifies refiners and smelters that have systems in place to ensure that the supply of minerals does not benefit armed groups in high-risk countries.

Carel has been a member of RMI since the beginning of 2021

The company's conflict minerals management system involves every affected internal process, and is divided into two parts: screening the supply chain (CMRT collection) and evaluating the information received (CMRT quality check).

In accordance with the adopted procedure, the Controversial Sourcing Committee meets periodically to assess any critical situations in the supply chain, in terms of responsible sourcing of 3TG minerals: suppliers who are unable to provide information on smelters, and suppliers who have reported critical smelters in their CMRT.

The committee met for the first time in October 2021, and discussed the actions that needed to be taken in accordance with the company standard, described below, to deal with the critical cases identified in the two parts of the procedure (CMRT collection and CMRT quality check).

The measures to be adopted to manage the cases where an updated CMRT had not yet been received from the suppliers involved in the 2021 campaign were also evaluated.

For the cases of suppliers who provided an updated CMRT yet reported smelters that were not compliant with the RMAP, the outcome was an escalation of the previous formal notification and request to comply by the Chemicals Compliance Team, following verification of the CMRT (see the point below: "CMRT quality check"). Both issues (compliance by providing the CMRT and compliance of the smelter list) are continuously monitored by the committee and discussed during its periodic meetings, in order to make decisions on the operational activities to be undertaken by specific members of the committee.

Following each committee meeting, a report is drafted and archived describing the status of open activities, the decisions taken and the activities to be carried out.

SUPPLY CHAIN PROGRAM FOR CONFLICT MINERALS IDENTIFICATION, RISK ASSESSMENT AND MITIGATION

Identification (CMRT collection)

Carel needs to take into consideration that its supply chain is made up of hundreds of suppliers of different sizes, operating all over the world, and it should be noted that it does not have direct contact with smelters of 3TG minerals.

As defined by **step 2 of the OECD Guidance**, Carel conducted an investigation into its supply chain, asking its suppliers and manufacturers of components and raw materials containing 3TG ("affected suppliers") to complete the Conflict Minerals Reporting Template (CMRT) developed by the Responsible Minerals Initiative (RMI). Furthermore, in the first investigation of its supply chain, conducted between 2019 and 2020, Carel also asked each supplier/component manufacturer affected for a declaration or certification that the answers given in the CMRT were true and correct.

Risk assessment and mitigation (CMRT quality check)

Each CMRT received is analysed by the *Chemicals Compliance Team* using the tools provided by RMI, available to members. Specifically, the team focuses on the status of the *smelters* reported in the CMRTs received, which are considered compliant if they have successfully completed the RMAP or if this is in progress at the time of evaluation.

If smelters are identified that are not fully compliant with the RMAP, the *Chemicals Compliance Team* carries out further assessment to evaluate the level of risk the country where the smelter is located, and immediately notifies the owner of the CMRT (supplier/manufacturer of components purchased by Carel) of any critical issues encountered, requesting that they take the necessary corrective actions to maintain due diligence.

For information on the campaign for obtaining and assessing the CMRTs over the two-year period 2019-2020, refer to pages n.118-119-120 of the Sustainability report 2020, available in section "Investor relations/sustainability" and to the following link: <https://ir.carel.com/en/sustainability/>.

As defined by **step 3 of the OECD Guidance**, Carel requires its suppliers who have declared critical smelters in their CMRT to adopt corrective actions, in order to:

- Encourage smelters who are not compliant and recognised by the *Responsible Minerals Assurance Process* (RMAP) to be audited by RMI;
- Avoid sourcing 3TG minerals from critical smelters.

Suppliers and manufacturers with at-risk cases are continuously monitored through specific email reminders, and each situation is discussed during the periodic meeting of the *Controversial Sourcing Committee*, also taking into account other supplier performance indicators, such as their importance in the company's production processes (in terms of the proportion of material purchased).

The following decisions may be taken at the *Controversial Sourcing Committee* meeting for each supplier:

- Plan training on due diligence for the procurement of conflict minerals, for key

- suppliers who are not sufficiently structured to manage the issue on their own;
- Wait for improvements concerning the supplier's smelter list, for key suppliers or sole suppliers of certain materials;
 - Freeze purchases of material from the supplier and switch over to other suppliers, until the original supplier has improved the status of its smelter list. The latter is possible for supplies from multiple sources.

AUDIT OF SMELTER/REFINER DUE DILIGENCE PRACTICES

Considering **step 4 of the OECD Guidance** and as Carel is a downstream company, therefore with a very intricate supply chain and no direct relationships with smelters, as regards audits the company relies on the information obtained from RMI through the RMAP.

PUBLICLY REPORT ON DUE DILIGENCE

As required by **step 5 of the OECD Guidance**, since 2019 Carel has been annually reporting data on the monitoring and management of the Group's supply chain regarding responsible sourcing of 3TG in its NFI (Non-Financial Information), as is required for companies that are listed on the stock exchange. The annual NFI is available publicly on the Carel website, under the "Sustainability" section. (<https://ir.carel.com/en/sustainability/>).

FUTURE DEVELOPMENTS

Carel is committed to continually improving the effectiveness of actions concerning higher-risk suppliers in terms of the supply conflict minerals.

Furthermore, the company is renewing its corporate IT systems aimed at optimising the information collection process, through CMRTs and notifications of any critical issues identified through them, as part of its documentation evaluation process.

Headquarters ITALY

CAREL INDUSTRIES Hqs.
Via dell'Industria, 11
35020 Brugine - Padova (Italy)
Tel. (+39) 0499 716611
Fax (+39) 0499 716600
carel@carel.com