



Coffee



Beverage



Refrigeration  
Air-conditioning



Steam



Medical



Welding



Water  
Management



Other-Industrial



Heating

# 2020

## Sustainability Progress Report



 **CEME**

 **CEME**  
FLUID CONTROL COMPONENTS



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# A MESSAGE TO OUR STAKEHOLDERS

During these times of uncertainty, in which our lives have suddenly been thrown upside down, it is worth lingering for a while and reaffirming the key principles that can guide us no matter the difficulty – the cornerstones that can help us find a safe path.

Thus, we cannot help but confirming our dedication to sustainability and our firm commitment to the United Nations Global Compact's principles and the Sustainable Development Goals in the scope of the UN's 2030 Agenda.

Moving from these inescapable aspects, I am delighted to present to you the second edition of our Sustainability Progress Report – a showcase of our Environmental, Social and Governance-related impacts and initiatives.

The 2020 report is the instrument with which we guarantee transparency and accountability to our stakeholders by disclosing our management practices, our supply chain and product quality aspects and deep dive into human resources, health and safety and environmental topics.

This year we wanted to push further, in order to take our commitment to sustainability to the next level: indeed, we are launching our first, public set of ESG objectives that we are committing to over the coming years – amongst which is a target for the reduction of GHG emissions inspired by the Science-Based Target initiative's methodology. This fundamentally means a paradigm shift and gaining the forefront of sustainability action by not only reporting on the past, but also by shaping the future.

Before leaving you to read on, we cannot help but come back to the Coronavirus pandemic, that broke out in the early months of 2020 and forced all of us to rethink entire ways of living. I would like to thank all CEME people at all levels for the extraordinary effort they put into our daily, working life. This allowed us to overcome this extraordinary crisis with the enriched certainty that we are stronger when we are together – sustaining each other and never giving up. So, sincerely thank you.

*Roberto Zecchi, CEO*

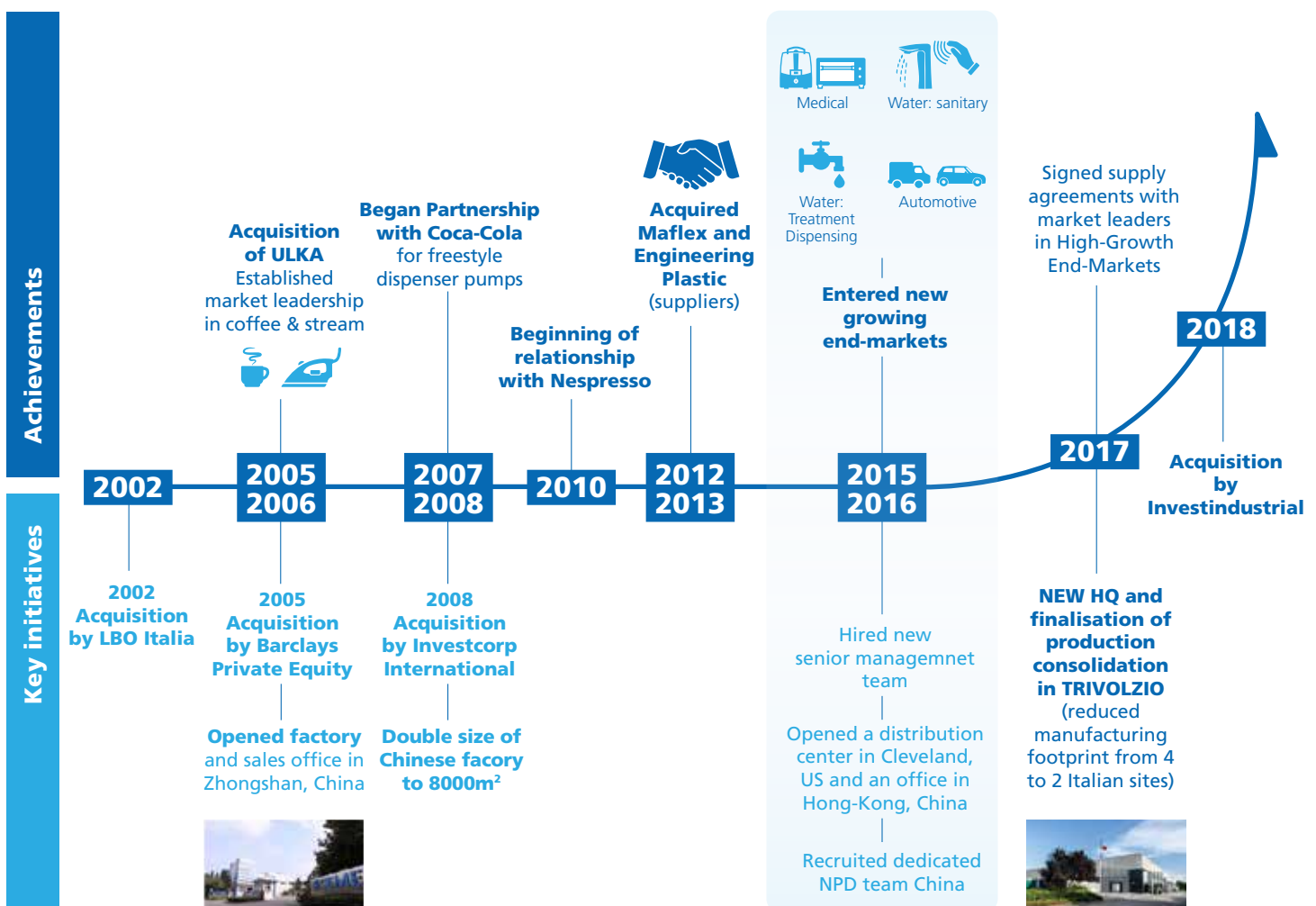
# 40 YEARS OF EXPERIENCE AND INNOVATION

## A GREAT PAST FOR A BETTER FUTURE

A world leader in the production of industrial solenoid valves and pumps for many years now, CEME was founded in 1974 by Renzo Miotti. Later in the 1980s and 1990s, and after the construction of the Tarquinia (VT, Italy) site, CEME decided to expand its business by investing in its production facility. The implementation of a specialized engineering department and of advanced assembly lines allowed it to multiply its application sectors and to extend its product portfolio to the design and development of fluid control components, such as solenoid pumps, solenoid valves, pressure switches, flow meters and complete accessories.

## CEME HISTORY

The 2000s witnessed the expansion of CEME's presence beyond national and European borders. In 2005, the Group opened a production facility in Zhongshan, China, dedicated to manufacturing semi-finished products for intercompany purposes, and to covering Asian market demand for high-quality, cutting-edge valves. The following year, CEME decided to further consolidate its territorial hold by absorbing the Retorbido (PV)-based ULKA, an undisputed market and technology leader for solenoid piston pumps: the acquisition triggered the Group's growth by giving it full access to the Coffee & Steam market, thus boosting sales and customer portfolio.



The 2007-2012 period saw the birth of important partnerships with new key accounts, the doubling of Chinese plant size to 8,000 m<sup>2</sup> and the acquisition of two important suppliers (Maflex and Engineering Plastics). This latter element allowed CEME to develop resilience and gain independence from external factors by consolidating one particular strategy that makes up for the Group's unique approach and success: the internalization of as many components of its value chain as possible.

The 2010s marked a real watershed for the Group: the complete rebuild of the Senior Management Team and the unification in Trivulzio (PV, Italy) of the two production sites in Retorbido and Mozzate (VA, Italy). This was accompanied in 2015 by the important decision to enter new growing end-markets, such as medical, sanitary water, water treatment/dispensing and automotive. Furthermore, CEME strengthened its Asian market leadership by building on Zhongshan's competences: a dedicated New Product Development (NPD) team was recruited, aimed at increasing the plant's capacity to face region-specific market demands and covering the complete process of bringing a new

product to life, from conception to mass production. CEME's territorial presence further expanded with the opening of two new locations, essential to enhance its foothold in strategic markets: a bridgehead in Cleveland, US and an office in Hong Kong, China.

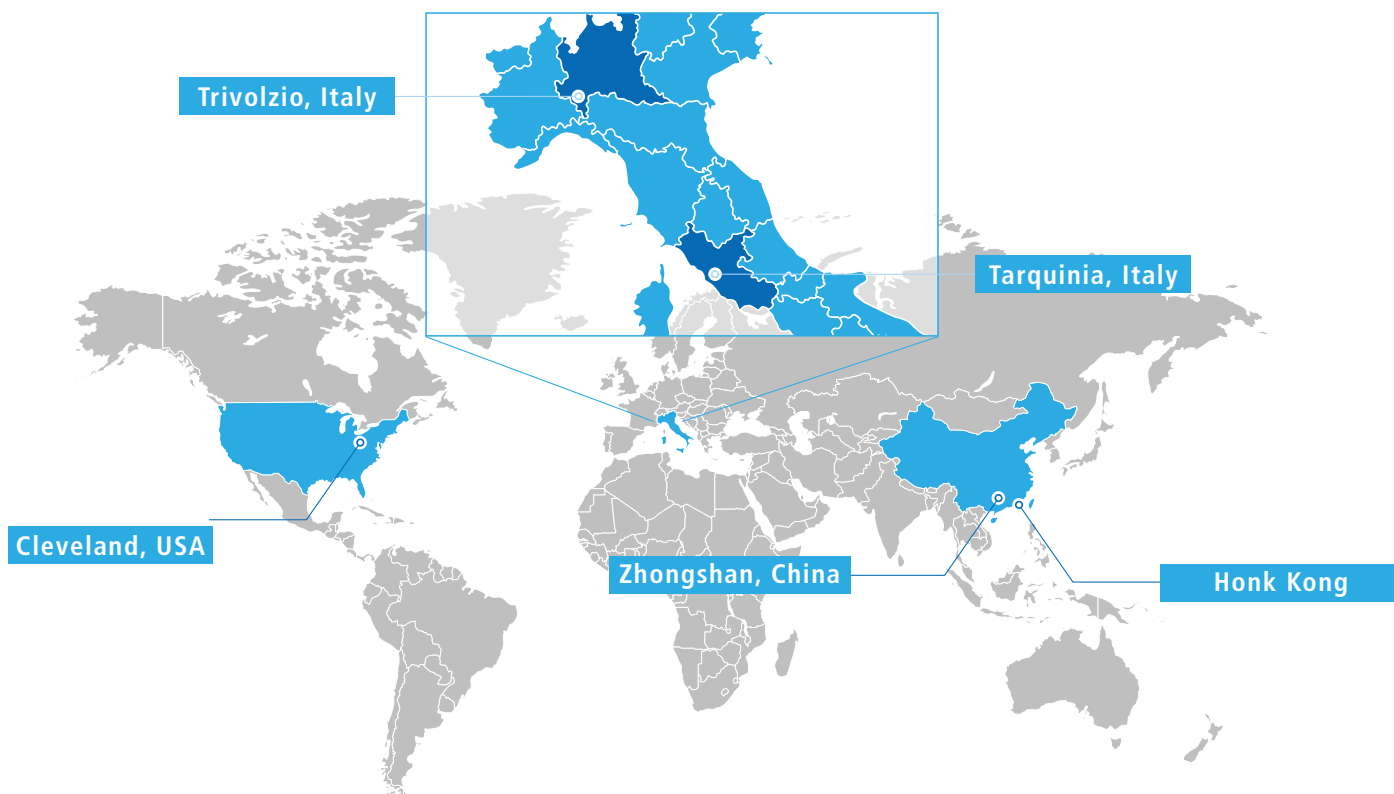
The finalization in 2017 of production consolidation in Trivulzio (PV) by unifying manufacturing processes in Carugate (MI, Italy) and Brugherio (MB, Italy) – and thus reducing the number of CEME plants on Italian soil to two – was the prelude to a new chapter in the Group's history. Indeed, in 2018 the Company was indirectly acquired by a fund managed by Investindustrial, a leading European group of independently management investment, holding and advisory companies.

This new path of success, which allowed the Company to consolidate its market dominance while constantly increasing its economic performance, was enriched in 2019 by the decision to draft CEME's first Sustainability Progress Report – a route which has been maintained and strengthened during 2020, with the publication of this second Sustainability Progress Report and the initiation of a set of new activities that will be detailed in the following pages.

## CEME TODAY

With registered revenues of EUR 171.9 million, CEME employed as many as 909 people as of December 31st, 2020. The vast majority of them are located in the

Group's three production, operating plants and offices, headquartered in Italy and China, while the remainder are located in the US and in a small office in Hong Kong.





The Trivolzio site, near the city of Pavia, hosts the Group's administrative headquarters and the Company's largest manufacturing facility, equipped with high levels of cutting-edge automation. Since the plant deals mainly with assembly, it does not host intensive production activities, whereas the Tarquinia (Viterbo) site does. Furthermore, the central Italy plant focuses mainly on manufacturing semi-finished products and components for the intercompany flow, while the northern Italy site primarily deals with national and international clients. The two sites combined employed 534 people in 2020.

The Zhongshan plant is the reference production centre for the Asian market, covering its main client base. Thus, the Chinese site, which employed 354 people in 2020, deals with both intercompany semi-finished products and components, and final

valves and pumps sold in the regional territory.

Finally, 2 employees are located in CEME's bridgehead in Cleveland, Ohio (US)<sup>1</sup> – a strategic location to support CEME's growth in North and South America – and 3 employees are

based in a sales office in Hong Kong – the hub of the Company's commercial relationships with the Far East market.

### MISSION

We aim to be the world point of reference in the solenoid valve and pump market. We invest in innovation to create functional products. We use high quality materials to obtain excellent results. We aim to be the preferred technical partner for all clients.

### A GLIMPSE TO THE FUTURE: CEME GROUP ENLARGES

During 2020, CEME has been negotiating the acquisition of ODE srl, later formalized at the beginning of 2021. The Group, with two operational sites in Italy (Colico, LC and Cavenago, MB – the latter property of the fully controlled ACL srl) and one in China (Hongmei Town, Dongguan City, Guangdong Province), plus two administrative and commercial offices in Segrate, MB (Italy) and Hong Kong (China), can count on 60 years expertise on valves and fluid control systems

engineering and production. In 2020, ODE generated revenues of more than EUR 80 million and employed almost 750 people.

CEME continues to consolidate its preeminence in the solenoid valves and pumps segment while exploring new possibilities of expansion in new markets. The enlarged Group that has been born and that will be reported on in next year's Sustainability Progress Report will be composed of almost 1,600 employees, generating more than EUR 300 million revenues – thus becoming an important player in the Italian industry.

## CEME SITE-SPECIFIC COMPETENCES

TRIVOLZIO Italy	<ul style="list-style-type: none"> <li>• Administrative and operational HQs</li> <li>• Research and Development laboratory</li> <li>• Valves and pumps coil winding and encapsulation</li> <li>• Solenoid valves and solenoid pumps assembling and testing</li> <li>• Internal automation</li> </ul>
TARQUINIA Italy	<ul style="list-style-type: none"> <li>• Mechanical machining and transfer processing</li> <li>• CNC and traditional mechanical processing</li> <li>• Basic components assembly</li> <li>• Laser welding</li> </ul>
ZHONGSHAN China	<ul style="list-style-type: none"> <li>• Solenoid valves and solenoid pumps assembly and testing</li> <li>• Valves and pumps coil winding and encapsulation</li> <li>• Plastic components molding</li> </ul>

<sup>1</sup> CEME's warehouse in Cleveland, US has been closed since March 2020. The employees have been working remotely while the logistic activities have been covered by a third party operator.

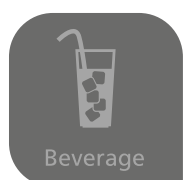
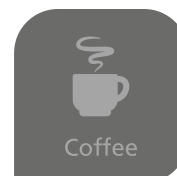
## MARKET PRESENCE

Global presence and continuous expansion are distinctive traits of CEME's success. The constant diversification of the Group's product portfolio over the years has allowed it to reach an all-time record expansion – both in terms of territories and applications. With key accounts at some of the most renowned and established companies all around the world, CEME products are sold in 66 countries across

five continents, showing a unique global platform and scale. As regards market segments, seven areas stand out as essential for the Group's business. It is important to point out that CEME's success derives from an operating model that puts clients' needs and requests at the centre, offering hyper-customized, tailor-made solutions that embrace innovation and quality.

For years, CEME has been an undisputed reference in the world of coffee. Thanks to the ULKA pumps line, mounted on the best coffee machines for domestic use, and to the family of solenoid valves in food-grade technopolymer and steel, CEME is able to supply a complete set of components necessary for the control and management of fluids. The technical team collaborates with world leaders in the sector and develops innovative solutions dedicated

to the most complex needs. The Group not only addresses the consumer side of coffee machines, but professional and HORECA as well: CEME's technical team engineers' tailor-made solutions satisfy the most demanding requests from industrial clients.



CEME manufactures solenoid valves and pumps for multiple applications in the beverage world and a wide range of products for drinking water applications, in compliance with worldwide standards. In this sector, in addition to

the equipment for the control of the principal refrigerant fluids, CEME has developed a family of vibration pumps

for dealing with syrups, concentrates and alcoholic liquids. The Group's product portfolio for the beverage market can also count on patented plastic valves and control and safety components (pressure switches, transducers, safety valves) that allow clients to have a complete set of components available for the design of new, fully automated drink distributors.

CEME offers a wide range of solenoid valves designed specifically for refrigeration systems and applications in the refrigeration and air conditioning industry. These include directly operated and servo-controlled valves, made up of coils with different voltages, solenoid valves for water and water-glycol used on chiller units, and peripheral

pumps ideal for recirculation functions. Furthermore, CEME is the absolute reference for condensated discharge systems for air conditioning machines.







CEME has always been a pivotal player in the world of ironing and steam cleaning. The most important brands in the sector rely on the Group for solenoid valves, pumps, pressure switches and safety valves to guarantee maximum efficiency

and quality for their products. Temperature and pressure make steam a critical element, especially when the system concerns common and daily use appliances. For this reason, the Company performs frequent and rigorous tests on its components.

The search for innovative and reliable products, combined with high quality standards derived from fully automated production, allowed CEME to enter the medical field. The Group produces solenoid valves and pumps that are used in various medical systems such as sterilizers, autoclaves, oxygen concentrators, solutions for dentists and others.

The range of plastic and steel solenoid valves is completed by a series of total separation pinch solenoid valves, specifically developed for this market.



CEME is one of the leaders in the supply of solenoid valves and pumps for welding systems. The Group's excellence in the sector has led to the forging of solid relationships with the most renowned brands in the market thanks to the

development of innovative and customized solutions. CEME produces a wide range of solenoid valves for inert gases, peripheral and vibrating pumps for cooling circuits and pressure switches for system control and safety.

CEME offers a wide choice of solenoid valves for water flow control in all conditions. The catalog includes solenoid valves with hydraulic connections, different types of seals and gaskets and a series of coils for all types of electrical voltage. Used for thermo-hydraulic systems, washing systems, sanitation, cooling systems, irrigation, and

water treatment, the Group has recently added a new series of bi-stable solenoid valves (latching valves), ideal for specific sanitary systems, such as automatic taps and timed showers.



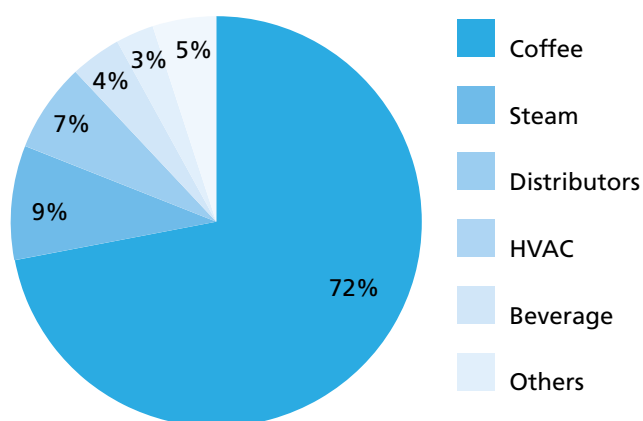
The following graph shows that out of the seven main market segments, Coffee alone represents almost three quarters of the Group's revenues and stands out as the fundamental revenue source for CEME (showing a +9% share on a year-over-year basis).

Market leadership in Steam translates into 9% of the Company's total revenue, while Distributors and Beverage combined make up 10%.

The booming trend of the Coffee segment – that almost showed a +30% leap in revenues with respect to 2019 – can be attributed to the Coronavirus pandemic and the indirect outcomes of lockdown measures imposed by local and national governments in Italy as well as in other European countries, and remote-working: this latter aspect, in particular, turned out to be a huge push for the home appliances market as a whole.



## REVENUE BY MARKET SEGMENT



### A FOCUS ON SUPPLY CHAIN

CEME's success is a mix of innovation and the automation of its processes, attention to clients' needs and, in the upstream side of the Group's value chain, the quality of the materials procured by suppliers. Transformation and production processes are structured in a way that takes advantage of the Company's 40+ years of expertise and mastery, and are thus carried out almost entirely internally, from R&D to product delivery. CEME relies on a group of trusted suppliers from the steel sector that deals mainly with feeding production with materials essential for the crafting of valves and pumps.

A crucial element is proximity – a pivotal and strategic component. Primarily, a short supply chain allows the development of a long-lasting relationship based on trust, and entails a profound knowledge of one another's specific dynamics: CEME and its suppliers are tied together by framework contracts, which can be regarded as open, on-call contracts activated by the Group, depending on clients' requests and production volumes. This element then gives rise to a very stable trend over the years as far as the total number of suppliers involved is concerned. Secondly, a relationship based on reliability and flexibility allows CEME to boost its credibility with clients by guaranteeing fast production and quick delivery times with unmatched levels of quality. Lastly, a short supply chain demonstrates attention to the broader community as well, since the vast majority of suppliers are located around the three Italian regions of Lombardy, Piedmont and Veneto.

The tight relationship that ties together CEME and its suppliers proved to be a fundamental and key strength during the global pandemic that broke out in March 2020. Indeed, the Group took advantage of belonging to priority production sectors as deemed by the Italian government to concretely engage with the supply chain and avoid any stop in its activities.

This attitude and the relentless work that has been carried on during the pandemic resulted in a stable flow of inbound materials and products, with a lead time in line with previous years. Specifically, one of the aspects that contributed the most to enable such an extraordinary performance during such a particular year is the so called C/Stock contracts: complementary to the General Conditions of Purchase, some key suppliers are engaged with on consignment measures that explicitly pursue the aim of stabilizing procurement volumes by absorbing the variability that depends on downstream client's demands. In other words, thanks to a proactive and preventive strategy, CEME has been able to guarantee business continuity and material procurement in the smoothest way possible.

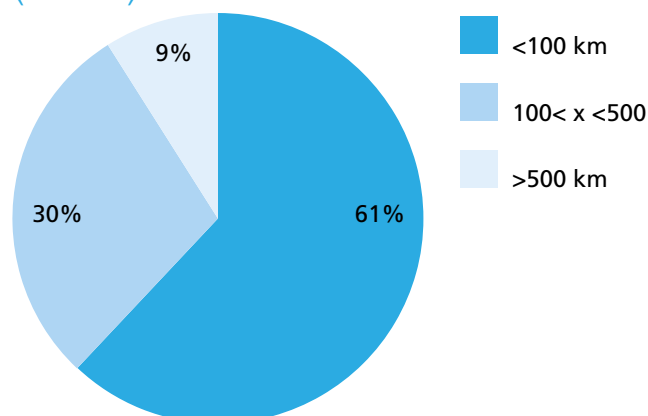
In its manufacturing process, the Group uses semi-finished items produced both externally (with more than 100 suppliers of raw materials and components) and internally (Trivolzio and Tarquinia, Italy). The assembly of finished products can be carried out internally in the plants of Trivolzio, Italy and Zhongshan, China, and externally by selected subcontractors. In some cases of externally assembled items, CEME purchases raw materials that are later sent from CEME to the subcontractors in charge of assembling, only to come back at a later stage. In 2020 and the beginning of 2021, CEME is evaluating the feasibility of restructuring the logistics referred to here.

The aim is to avoid CEME's warehouse from being a pivot and to facilitate the creation of a straight channel between suppliers and subcontractors – thus erasing the double logistics passage at CEME and contributing to a reduction in the associated environmental impact. As shown, almost two thirds of CEME's suppliers are less than 100 km away from the Group's Italian headquarters, while 30% are located between 100 and 500 kilometres away and only 9% are more than 500 km away. This latter statistic is mirrored by the Company's expenditure on suppliers (10%), while the remainder 90% is split into two almost identical shares for suppliers located within 100 km (44%) and those between 100 and 500 km (46%).

By grouping the distance ranges into two separate clusters and fixing the cut-off point at 300 kilometres, it is possible to observe an almost perfect alignment between the share by distance (83%-17%) and the expenditure share (82%-18%).<sup>2</sup> As previously noted, the Coronavirus pandemic did not impact suppliers' composition, provenance and expenditure: in fact, the shares reported for 2020 are almost identical to those reported 2019.

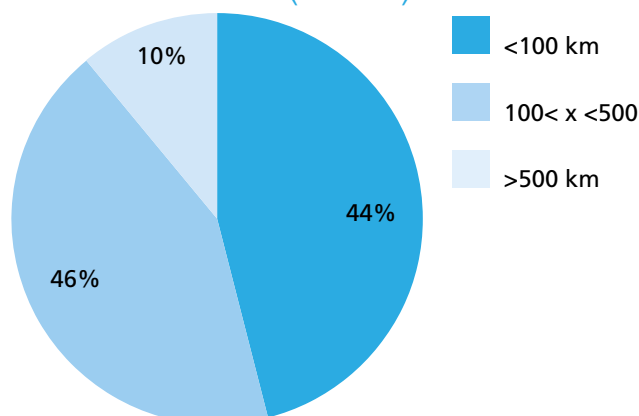
<sup>2</sup> Distances are calculated taking into consideration CEME Italian HQs and the suppliers' HQs.

## SUPPLIERS, BY DISTANCE (ITALY)



By contrast, Zhongshan has a different supply chain structure, mainly due to regional characteristics and its tight relationship with the Italian HQs. As a result, 67% of suppliers are less than 200 kilometres away from the regional hub, while 11% are more than 10,000 km away, and the remaining 22% are between 1,000 and 10,000 km away. Expenditure on suppliers shows a reversed trend with respect to distance: 70% goes to suppliers that are established more than 10,000 kilometres away (that are typically located in Europe, and more specifically in Italy), while 27% and 3% goes respectively to suppliers between 1,000 and 10,000 km away and less than 200 km away.<sup>3</sup> The composition of suppliers by distance is almost identical with respect to last year, while far-away procurement increased (61% share in 2019) at the expense of local procurement

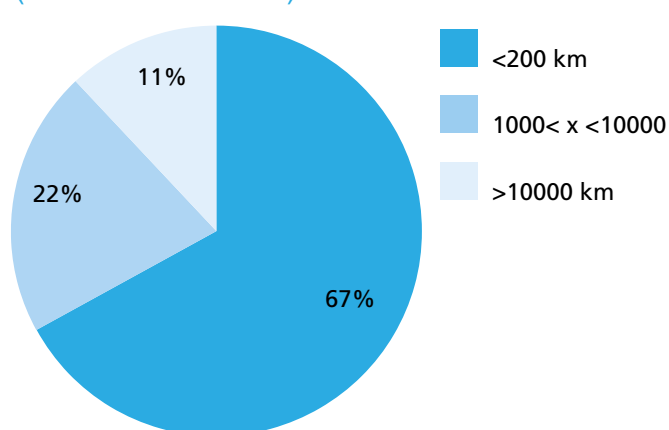
## EXPENDITURE ON SUPPLIERS, BY DISTANCE (ITALY)



(13% share in 2019): this latter shift can be partially attributed to the indirect effects of the Coronavirus pandemic on Chinese suppliers, to be observed versus CEME Italy's robust procurement practice and supply chain management which guaranteed stability and problems offsetting.

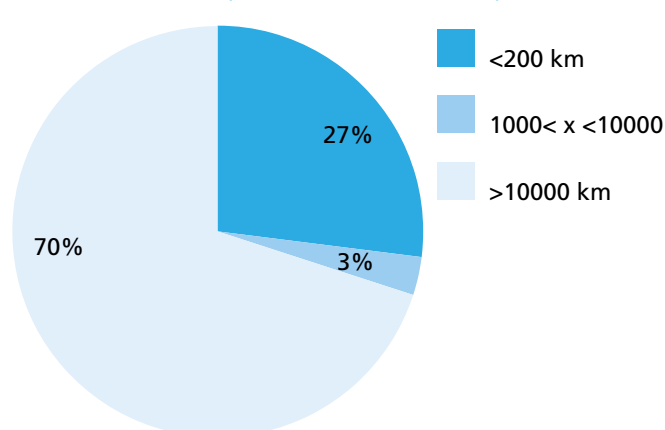
Nonetheless, it is worth noticing that if on the one hand CEME Italy's overall procurement expenditure on suppliers decreased by 11% on a yearly basis, on the other hand Zhongshan's jumped to +96% with respect to 2019. For this reason, and in light of the increasing weight in terms of procurement and production volumes, the Group is evaluating the possibility of restructuring CEME China's supply chain in order to divert not only downstream, selling activities, but also upstream procurement towards a local-to-local dimension.

## SUPPLIERS, BY DISTANCE (ZHONGSHAN)



Since CEME's business model and reputation are dependent on product quality and client satisfaction, quality assessment is pivotal in supply chain management. Suppliers are constantly monitored and controlled by the Group: they are required to deliver the materials in a timely manner, and in compliance with technical standards. The

## EXPENDITURE ON SUPPLIERS, BY DISTANCE (ZHONGSHAN)



Group's Quality Department makes an assessment, from which point the suppliers are either accepted according to CEME's stringent quality and financial standards or rejected. In particular, suppliers are assigned to three categories: A-grade, where the supplier does not need to be further audited; B-grade, where corrective measures

<sup>3</sup> Distances are calculated taking into consideration CEME Zhongshan HQs and the suppliers' HQs.

are requested; and C-grade, where the supplier is not eligible and needs to undertake important changes in subsequent years in order to be upgraded. Although this latter category signifies the Group's hold on the quality of its products and components, it does, on the other hand constitute an element of attention towards its suppliers, entailing the transfer of the Company's expertise and know-how in order to help C-graded suppliers to

identify points of improvement and work to mitigate flaws. In general, suppliers are internally audited on a yearly basis under the ISO 9001:2015 Quality Management System, ISO 14001:2015 Environmental Management System and Food Contact Materials (FCM) standards checklists. Furthermore, they must adhere to CEME's Code of Ethics and Anti-Corruption Policy, as required by law.

### A GLIMPSE TO THE FUTURE: TOWARDS A RENOVATED VENDOR RATING SYSTEM

During 2020, CEME has been working on a substantial update of the vendor rating system, for which the go-live is foreseen by the end of 2021.

In particular, the new structure the Group has been composing will evaluate the following aspects:

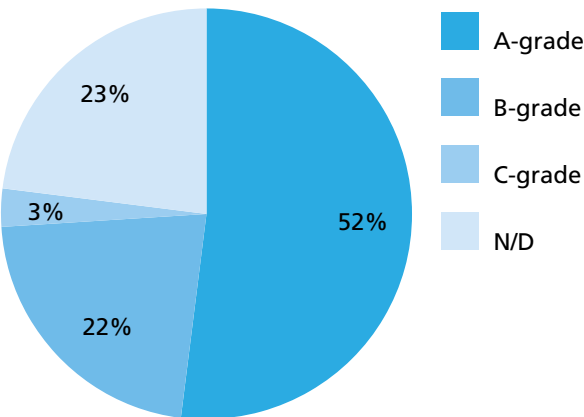
- **Quality** of the materials/products delivered;
- **On-time delivery** of materials/products procured;
- Outcome of the **audit** performed;
- Economic and **financial solidity**;
- Suppliers **availability, responsiveness** and **collaboration**;
- **Certifications** the suppliers are awarded (e.g. ISO 9001, ISO 14001, ISO 45001, IATF 16949).

For the time being, the Group does not screen its suppliers through a sustainability assessment, but it is expected to be implemented within the next one or two years.

The following graphs show the share of and expenditure on suppliers by quality level for the Italian plants of Trivulzio and Tarquinia. A-grade and B-grade suppliers represent 74% of the total (respectively, 52% and 22%), while C-grade suppliers represent 3%. As for expenditure,

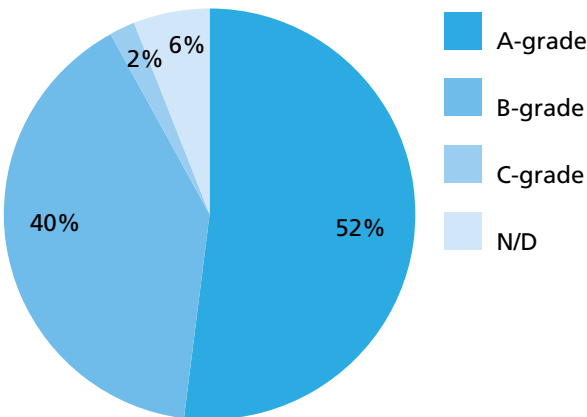
in line with last year A-graders account for more than half of the budget, while B-grade and C-grade suppliers account for 40% (a sharp increase on a yearly basis if compared with 2019's 19%) and 2% (plummeting from 26% in 2019) respectively.

SUPPLIERS, BY QUALITY LEVEL (ITALY)



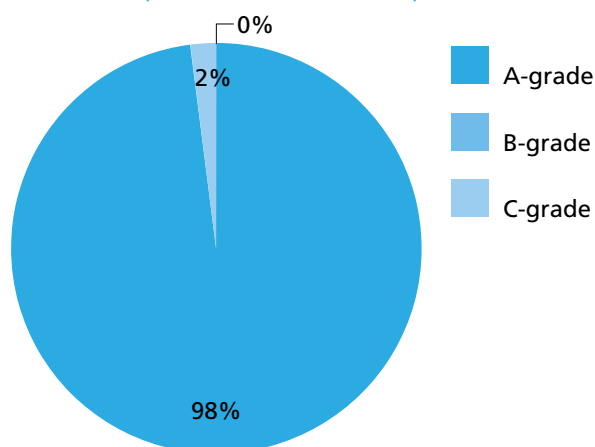
At the Zhongshan plant in China, both suppliers and expenditure on suppliers are decisively oriented towards A-graded entities, mirroring the regional hub's dedication to guaranteeing the highest levels of quality for its products starting from the procurement phase. Indeed, the A-grade

EXPENDITURE ON SUPPLIERS, BY QUALITY LEVEL (ITALY)

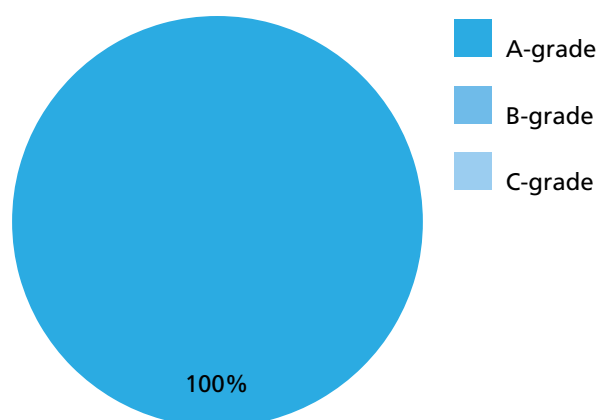


represents as much as 98% of all CEME Zhongshan's suppliers, while the remaining 2% belongs to B-graded suppliers. This pattern is even more marked as regards expenditure on suppliers: in fact, A-graded account for all the budget (100%).

## SUPPLIERS, BY QUALITY LEVEL (ZHONGSHAN)



## EXPENDITURE ON SUPPLIERS, BY QUALITY LEVEL (ZHONGSHAN)



## GOVERNANCE

In 2018, CEME implemented a control and governance system based on a Board of Directors (BoD) that comprises 6 members<sup>4</sup> and which is entrusted with the powers to ensure the ordinary and extraordinary management

of the Company. The following table reports the BoD composition as of the end of 2020: with respect to last year, in December 2020 Alessandro Luongo was replaced as a Board member by Bruno Romeo.

## CEME BOARD MEMBERS

<b>Cesare Piovene Porto Godi</b>	Chair of the Board – Company's representative
<b>Roberto Zecchi</b>	Chief Executive Officer – Company's representative
<b>Bruno Romeo</b>	Board member
<b>Federico Andrea Fasciolo</b>	Board member
<b>Chiara Palmieri</b>	Board member
<b>Salvatore Catapano</b>	Board member

<sup>4</sup> In 2020, the Board membership consisted of one female and five males. As regards age composition, there are no members under 30 years of age, 4 members over 50 years of age and the remainder in the middle-age group. No changes are to be highlighted either in gender or age composition across 2018, 2019 and 2020.



## ETHICAL BUSINESS

CEME organizes its activities to comply with the laws and regulations in force, as well as with the principles and rules of conduct expressed in its Code of Ethics. These principles, with specific reference to the Company's "anti-corruption" policy, are calibrated against the UK Bribery Act, issued in 2010. The Code of Ethics represents an enunciation of corporate values, as well as the rights, duties and responsibilities of CEME with respect to all of its stakeholders. The document contains general principles and the rules of conduct that inform the Group's daily activities and represents its standard of reference. CEME strongly believes that business ethics are an inescapable precondition for the success of the Company. Thus, the Group pursues its mission by operating legally and fairly, creating added value for its shareholders and fostering the growth of the Company, its employees and collaborators.

As provided by the Model 231, pursuant to the Italian Legislative Decree no. 231/2001, and all applicable legislation, CEME has appointed a Supervisory Body (Organismo di Vigilanza, OdV) entrusted with the task of controlling internal implementation and corporate

compliance with the model, as well as its updating process. The Supervisory Board comprises one external member, who fulfils the regulatory requirements in terms of autonomy, independence and continuity, and an internal secretary.

The implementation of the Code of Ethics and of the Model 231, together with CEME's certified ISO 9001:2015 and 14001:2015 Quality and Environmental Management System, represents the framework to ensure compliance with national and international applicable laws and regulations.

There were no incidents of corruption, significant fines or sanctions, activities under human rights safeguard scrutiny recorded in 2020. Furthermore, there were no recorded legal actions for anti-competitive behaviour, anti-trust or monopolistic practices, non-compliance with norms and laws concerning social and environmental topics, nor privacy and personal data mismanagement complaints. Moreover, in the 2018-2020 triennium no cases of discrimination were reported.

## OUR SUSTAINABILITY PATH

CEME is pleased to present its second Sustainability Progress Report and considers this to be a important milestone on its sustainability path.

The Company is committed to making ongoing progress and strengthening its relationship with key stakeholders along the way.

As a direct consequence of this commitment, the Group aims to continue to increase its understanding of how social and environmental sustainability matters relate to

its daily activities: this is the reason that brought CEME to the fundamental decision to extend its GHG emissions monitoring and reporting to new Scope 3 categories – a topic that is covered in the "Sustainable production" chapter.

As regards the external sphere, and in line with the 2019 Sustainability Progress Report, the present document will give insights to the impacts resulting from the Company's way of doing business.

### CEME'S KEY STAKEHOLDERS

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As part of its sustainability journey, CEME mapped its key stakeholders: the following table shows the outcome of

this process. Furthermore, for each stakeholder group, a description of engagement activities is provided.

## STAKEHOLDER GROUPS AND ENGAGEMENT ACTIVITIES<sup>5</sup>

<b>Employees</b>	Continuous dialogue between the HR department and employees; specific initiatives
<b>Suppliers</b>	Continuous dialogue
<b>Commercial partners</b>	Continuous dialogue; periodic meetings
<b>Local communities</b>	Continuous dialogue; formal meetings and collaborations; specific initiatives
<b>Competitors</b>	None
<b>Clients</b>	Continuous dialogue; periodic meetings; cooperation on R&D of new products; fairs
<b>Investors</b>	Formal meetings; periodic management reports
<b>Regulatory and certification bodies</b>	Formal meetings; continuous dialogue
<b>Unions</b>	Continuous dialogue between the HR department and the Unions
<b>Public administration</b>	Formal, continuous dialogue

The impact CEME has on its stakeholders largely depends on the Group's financial performance and economic results. The following table shows the direct and indirect

economic impacts that CEME has on its key stakeholders through the distribution of value generated directly by its daily activities.

## DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED

	<b>UoM</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>Direct economic value generated</b>	<b>€ thousands</b>	<b>159,107</b>	<b>156,492</b>	<b>171,943</b>
<b>Direct economic value distributed</b>	<b>€ thousands</b>	<b>167,520</b>	<b>139,316</b>	<b>152,140</b>
Operating costs	€ thousands	142,977	117,454	124,187
Employee's wages and benefits	€ thousands	14,036	14,483	13,059
Payments to providers of capital	€ thousands	9,253	6,070	7,652
Payments to government	€ thousands	1,254	1,309	7,191
Community investments	€ thousands	-	-	50
<b>Economic value retained</b>	<b>€ thousands</b>	<b>-8,413</b>	<b>17,176</b>	<b>19,803</b>

<sup>5</sup> The engagement activities that require direct, personal relationships and meetings as indicated in the table were all postponed in 2020 due to the Coronavirus pandemic and the restrictions imposed by local and national governments as regards social distancing and safety measures put in place to mitigate the risk of contagion; personal relationships were however constantly maintained through online meetings.

## MATERIALITY ANALYSIS

A key step in the development of the Sustainability Progress Report is a materiality analysis, which has been updated in order to map the most significant topics that reflect CEME's economic, environmental and social impacts and that may influence the decisions of the key stakeholders identified. A benchmarking analysis was undertaken to review peers and competitors as well as best practices in sustainability reporting. In addition, a Company management meeting was scheduled with the aim of evaluating the results of the materiality analysis and of weighting possible changes and updates in terms of topics' relevance and priority with respect to last year's matrix.

This phase was performed taking into account different sources of information:

- The GRI Sustainability Reporting Standards;
- Actual or potential requests from clients;
- Results of a sector-specific media analysis, which included news about CEME;
- The Regulatory framework.

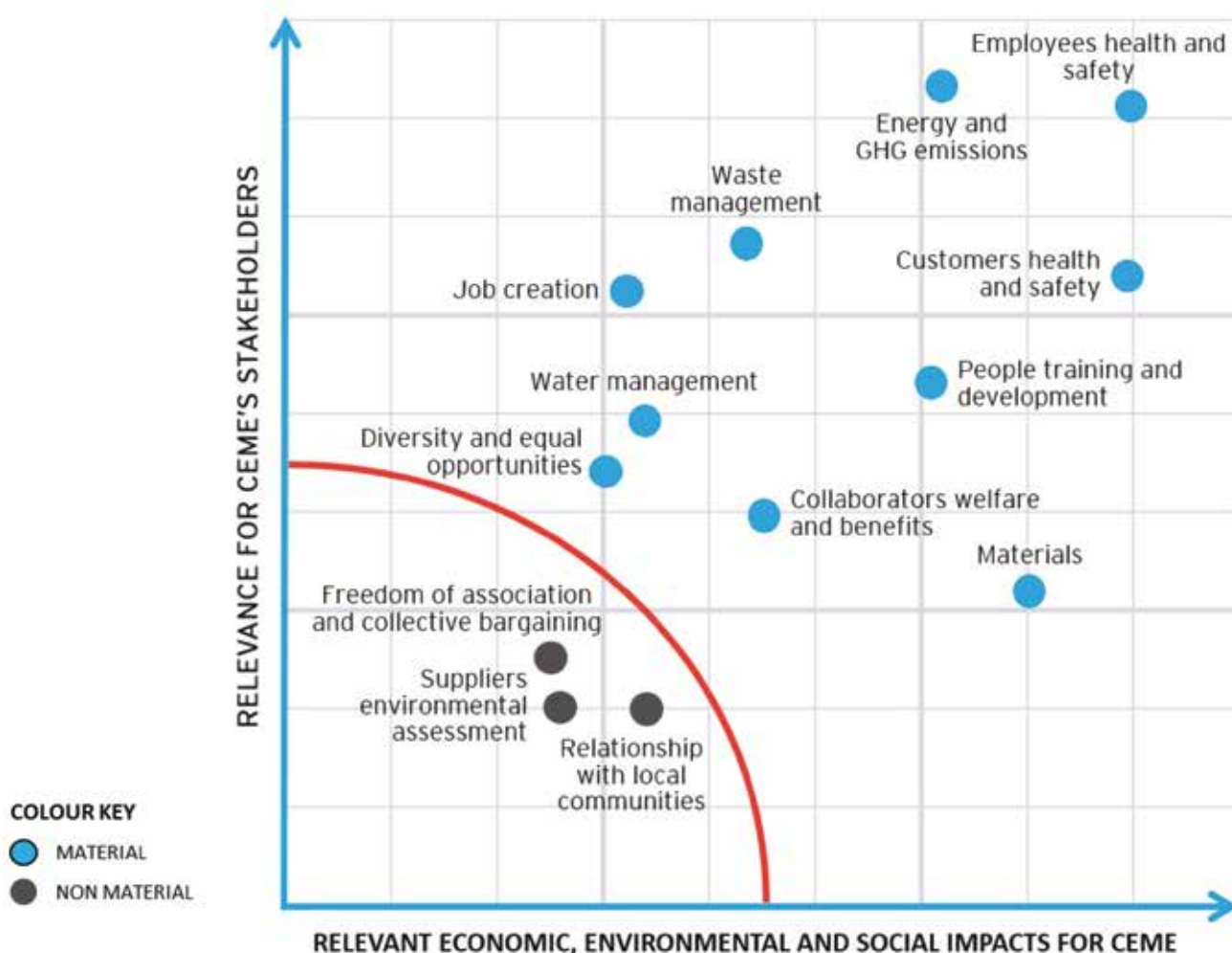
CEME's management discussion confirmed the importance for the Group of the topics "Suppliers environmental assessment" and "Relationship with local communities". However, these were not among the most relevant topics

for stakeholders, as the context analysis highlighted.

Furthermore, in defining the most material issues, the following aspects are considered to be operating preconditions and are thus excluded from the materiality matrix:

- Respect for human rights;
- Fight against corruption;
- Regulatory compliance;
- Customer privacy.

As a consequence of the external context, the topic "Employees health and safety" moved upwards reflecting the impacts generated by the Coronavirus pandemic, while "Energy and GHG emissions" migrated upwards and rightwards, gaining pre-eminence and importance as far as both dimensions – external and internal – are concerned. Moreover, with respect to 2019 the topics "Customers health and safety", "People training and development", "Waste management" and "Job creation" all experienced a slight leftwards shift: it is important to point out that this move does not mean a loss of relevance in terms of economic, environment and social impacts for CEME in absolute terms, but rather a relative decrease of relevance with respect to other topics which were considered as top priorities during 2020's emergency.



## UNITED NATIONS GLOBAL COMPACT

The United Nations Global Compact (UNGC) is a voluntary initiative based on CEO commitments to implement universal sustainability principles and to undertake partnerships in support of UN goals. The ten principles address the areas of human rights, labor, the environment and anti-corruption. In April 2020, CEME engaged with the UNGC as a signatory.

At present, CEME's Sustainability Report does not directly address the UNGC issues and principles related to Human Rights, since the majority of the Group's direct activities and suppliers are located in Europe, where Human Rights are regulated by law. As for Zhongshan, the Group's Code of Ethics directly applies to the Chinese plant practices.

In addition, some of the most important human rights issues related to the Group's activity, such as occupational health and safety, are already included among the "Labour" principles and issues the Company is reporting on.

An integral part of the UNGC commitment is to take concrete action and be an active supporter of the 17 Sustainable Development Goals (SDGs) of the 2030 Agenda for Sustainable Development — adopted by world leaders in September 2015. The SDGs aim to end poverty and other deprivations, develop strategies that improve health and education, reduce inequality and spur economic growth, while tackling climate change and working to preserve oceans and forests. CEME has identified four SDGs which it commits to contribute to through its activities and initiatives. The Group's selected SDGs are highlighted in the figure below.



# SUSTAINABILITY AND ESG OBJECTIVES

The 2020 Progress Report represents a valuable opportunity to make a decisive step further in CEME's sustainability path: this means not only keeping on monitoring performances and reporting on initiatives, but also setting clear, specific and measurable objectives for the future.

The Group is thus ready to take its commitment to its stakeholders to the next level, guaranteeing timely

and fully accountable updates on targets status.

In other words, CEME is willing to gradually shift from telling what has happened to the Group and its surroundings, to shaping its future by committing to sustainability in all of its facets.

The following chapters will provide a deep dive into the seven ESG objectives presented.

ESG objective	Target	Year to reach the target
Scope 1 + Scope 2 - Market based emissions reduction aligned with WB2C-SBT	-27.5%	2030
Electricity sourced produced from renewable energy sources (Trivolzio and Tarquinia)	100%	2021
Turnover increase for sanitary, solenoid valves that allow to reduce water spillages thanks to an automatic flow regulator	50%	2021
Replacement of consumer, disposable, monouse plastics with recycled or eco-sustainable materials (Trivolzio and Tarquinia)	100%	2022
Implementation of a Health & Safety Management System according to ISO 45001 standard (Trivolzio and Tarquinia)	Certification completion	2021
Replacement of lead-acid batteries of Trivolzio's forklifts with lithium batteries	100%	2022
Reduction in the severity of injuries through structural and training actions	-20%	2021



# SAFETY AT THE BASIS OF QUALITY



*With over 40 years of experience, CEME is able to meet the different needs and expectations of its clients. We constantly focus our effort to delivering top quality, innovative fluid control solutions, never compromising on product safety.*

**Simone Calvi**, Group Quality & Sustainability Director

## VERTICAL CONTROL

CEME's ability to stand out in the solenoid pumps and valves market is principally due to the combination of the Group's technical and engineering know-how, top-quality materials carefully procured from certified suppliers and flexibility in developing innovative solutions for national and international clients. Attention to product quality is a key aspect of CEME's commitment towards sustainability:

it aims to establish long-lasting relationships with clients, inspired by mutual trust and collaboration, and to manage the production process in a responsible way. CEME pursues its objectives by combining the utmost attention to client safety and dedication to continuous technological improvement in its processes.

## CEME PRODUCTS

Year after year, CEME has diversified its range of products and their possible applications, thereby enriching its portfolio of solutions. In 2020, CEME produced more than

50 product series, divided into six main categories suitable for different uses and client needs:

### SOLENOID VALVES

CEME valves are suitable for managing different elements such as water, steam, air, refrigerants and oils. Solenoid valves are used to open and close paths, thanks to the combination of a twofold, essential system: an electromagnet and a valve body that offers several ways to regulate flow.

### SOLENOID PUMPS

CEME pumps are composed of different materials and have different dimensions, providing compact solutions for high flow rate and low-pressure applications. Solenoid pumps are used mainly in household devices, such as steam irons and coffee machines. Nonetheless, they are also suitable for dealing with both water and highly viscous fluids for many different applications in medical and refrigeration systems. Solenoid pumps include high pressure and vibration pumps.

### PERIPHERAL PUMPS

Peripheral pumps are principally used in cooling and re-circulation systems. They are suitable for use with water and chemically non-abrasive fluids. Some CEME models falling within this category are fully compatible with drinking water and are ideal for usage in reverse osmosis depuration systems and in espresso coffee machines, as well as for industrial purposes, with the capacity to reach high flow rates with relatively small engines.

### SAFETY VALVES

Safety valves have been engineered mainly for home ironing and professional ironing systems. They are suitable for water, steam and air. CEME diaphragm safety valves have been designed in order to integrate a special device into common safety valves to prevent potentially dangerous failures when the pressure grows.

### TRANSDUCERS

Transducers generate a signal that is directly proportional to the pressure applied and thus can be used in various applications, such as beverage and heating.

### PRESSURE SWITCHES

Pressure switches are used mainly for boilers, flatirons, small home appliances, air conditioners and cooling systems. They are compatible with several types of gaseous or liquid elements with a maximum temperature of 155°C.

## QUALITY AND SAFETY

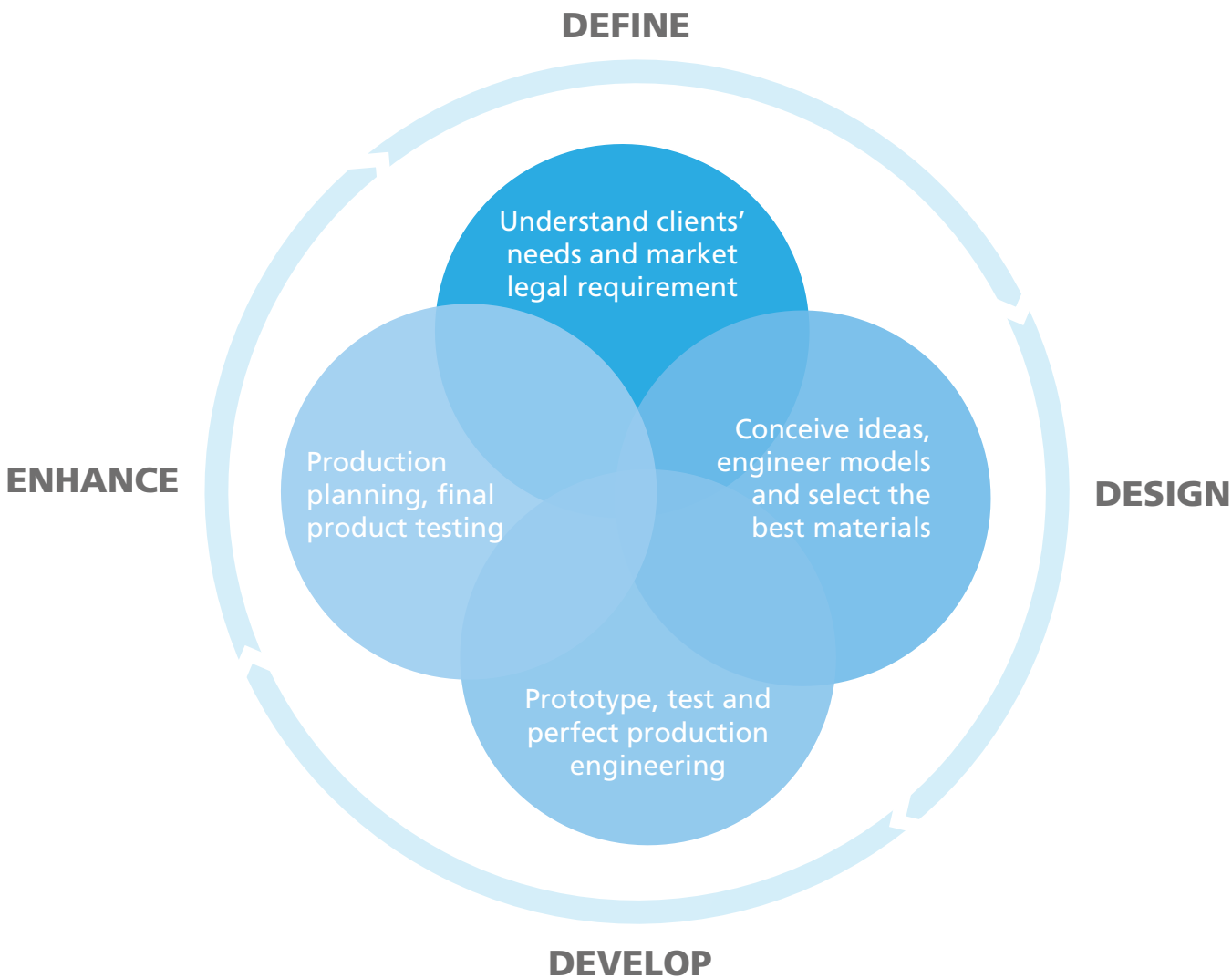
The continuous quest for quality is one of CEME's gold standards. Indeed, ensuring top product quality is an indispensable criterion for maintaining market dominance. Over the years, the Group has developed complete and meticulous quality control procedures that allow for checking of all the production phases and delivery of the best product quality to its clients.

CEME products are designed, engineered and realized almost completely within the Group's perimeter. The machining of raw materials (such as steel and brass) is concentrated in the Tarquinia plant while assembly takes place in Trivolzio. The Zhongshan site, on the other hand, deals with both production and assembly activities, thus

emerging as a potentially independent facility as far as satisfaction of market demands is concerned.

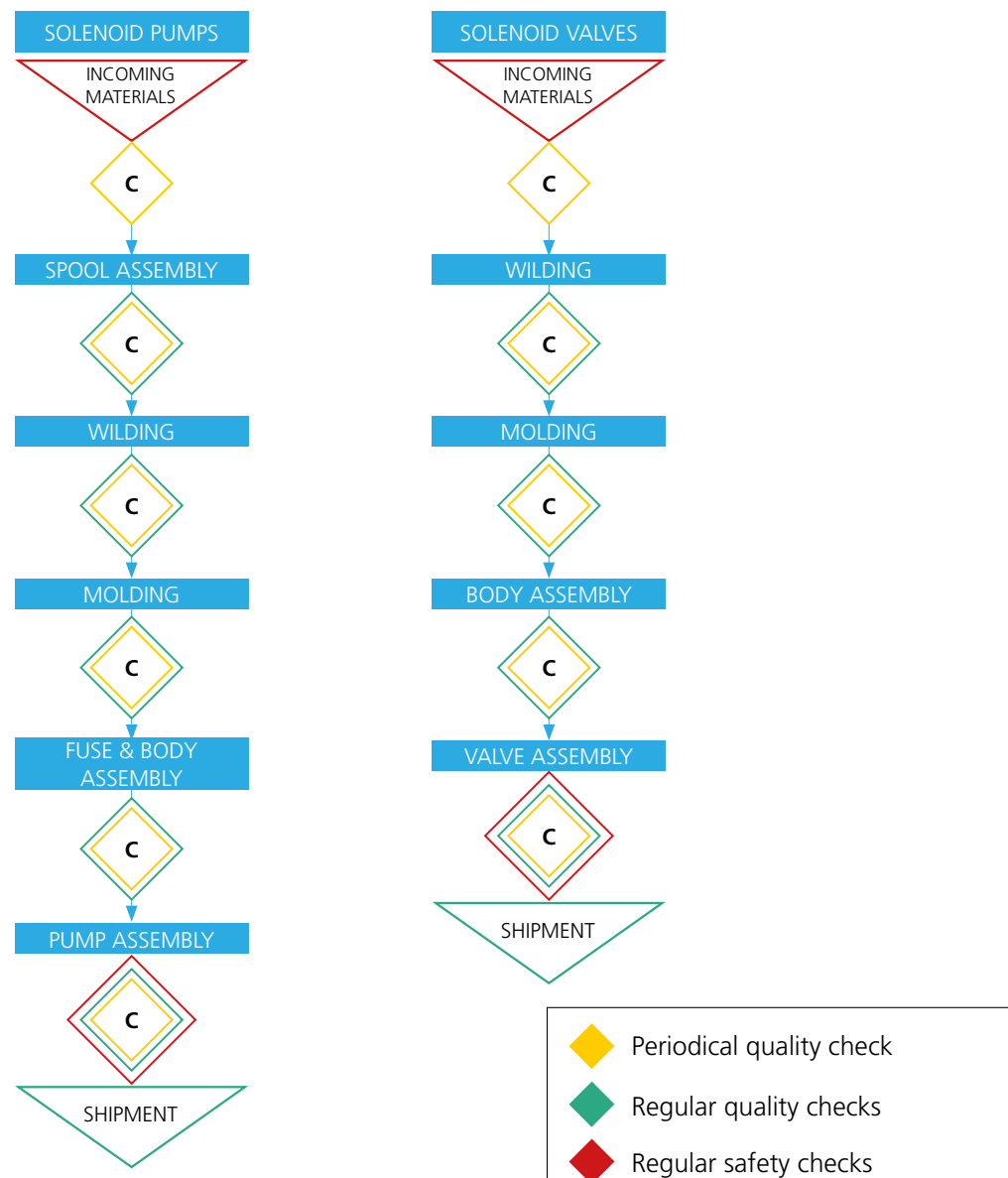
Thus, production verticalization allows the Group to control product quality and safety in every phase of the process.

All production steps are automatically controlled with the use of statistical software and data archives that enable the operators to seamlessly monitor processes. Products are also checked by CEME Quality Department internal audits. Quality is an intrinsic feature of CEME project development systems, which can be summarized as a circle made up of four distinctive steps: define, design, develop and enhance.



The set of tests includes a variety of visual, dimensional, mechanical, chemical, physical and functional checks that can be divided into two main groups: regular checks carried out on 100% of production, including

safety and quality controls; and periodic quality checks, whose frequency depends on clients' needs and normative compliance, along with CEME's 40+ years' experience.



Additionally, CEME implemented a system that allows for testing of the control devices themselves along the production process in order to guarantee top quality standards not only for products, but for internal control systems as well. The company has introduced certified sample products that are tested on a daily basis. Finally, CEME Quality Department carries out safety controls on product electrical features and performs several other inspections before shipping, including visual controls, maximum flow, maximum pressure, as well as labelling and packaging conformity checks.

During 2020, CEME strengthened its efforts to reduce production discards, i.e. products that do not comply with the Group's quality standards, by introducing a series of initiatives aimed at improving controls on production process and enhancing efficiency in the production of solenoid valves and solenoid pumps. Specifically, CEME strengthened the collection of data about production metrics and the periodic revision of production documents and introduced employee training to raise awareness about quality protocols and check procedures. Moreover, the company worked on a general optimization of the several production phases and introduced some new

testing machines to measure valves vibrations without the influence of surrounding noise, delivering an all-time high level of accuracy. Thanks to these procedures, during 2020 production scraps have been reduced by 4.8% for solenoid valves and 1.3% for solenoid pumps, allowing to increase production efficiency and the number of pieces produced on a daily day. A natural consequence of the Group's attention to quality matters is safety. CEME products are carefully evaluated for possible impact on clients' safety. The highest risks occur during the installation of CEME products in final goods destined for the market. The risks include electric shock, moving parts and sharp parts, and their use in combination with flammable gases or in high-pressure conditions. CEME products are also suitable for the control of drinking water and beverages: for this reason, CEME evaluates the possible risks connected to end customer health and safety, in compliance with food contact materials (FCM) protocols. Out of the six product categories in CEME's portfolio, four are evaluated for possible impacts on client and customer safety: they include solenoid valves, solenoid pumps, peripheral pumps and safety valves and are assessed in terms of electrical security and food contact safety.

## FOOD CONTACT MATERIALS (FCM)

CEME strongly believes that product safety is key to client satisfaction, as it constitutes a fundamental element in the delivery of top-quality solutions.

CEME products are conceived to control and manage any type of fluid, including beverages and drinking water. In particular, the ULKA division's solenoid pumps and valves are designed for use with the best coffee machines and, together with a wide range of products such as pressure switches and flow meters, they are also suitable for vending machines and the beverage sector. As a result, CEME is required to abide by specific security protocols in order to guarantee Food Contact Materials (FCMs) compliance under national and international laws while ensuring product safety for final users.

CEME relies on external quality consultants who help the Group evaluate and implement new compliance obligations that may have an impact on product characteristics and materials procurement. Attention is given to the selection of materials used in the production of food contact elements.

To this end, CEME asks its suppliers to issue an FCM conformity declaration. Furthermore, the Company relies on external laboratories that check the material composition and assess material specific migration rates whenever the supplier's declaration is not available.

In accordance with clients' needs and based on its 40+

years of experience, every two years CEME performs overall and specific migration tests, in order to quantify the transfer of chemical substances from FCM to food. Extraordinary tests are performed when new materials or suppliers are introduced or if an update in landmark legislation enters into force.

Finally, CEME releases a declaration of food contact conformity for each of its products falling within FCM requirements. The declaration includes the product registration number, the supplier's registration number and the general and specific regulations the item complies with.

CEME has also drafted a Good Manufacturing Practice manual (GMP) in order to ensure that products are produced and controlled according to food contact material quality standards. The document covers all aspects of production, from materials procurement to staff training on production practices and personal hygiene. The manual identifies the production phases where FCM requirements apply and analyzes the possible related risks.

Specific areas of the Group's plants have been assigned to FCM product manufacturing: in these zones, specific rules and protocols have been put in place in order to guarantee compliance with all applicable requirements and ensure the highest product safety.

Testing pumps



The production of top-quality valves, pumps and pressure switches is designed to satisfy demand from clients all around the world and it is thus subject to a multitude of different requirements and laws. CEME products are engineered and built in compliance with the most important national and international standards.

In addition to internal tests and assessments on product quality and safety, regular controls are also carried out by several external certification bodies, which contributes to guaranteeing compliance with international quality standards.

RELATIONS WITH CERTIFICATION BODIES	CERTIFIED PRODUCTS
<b>VDE</b> Product electrical conformity and safety in Europe	Solenoid pumps Solenoid valves
<b>UL</b> Electrical component safety in USA and Canada	Solenoid pumps Solenoid valves
<b>CSA</b> Product conformity for flammable gas use in USA	Solenoid valves
<b>CE GAS</b> Product conformity for flammable gas use in Europe	Solenoid valves
<b>IMQ</b> Product electrical conformity and safety in Europe	Solenoid pumps Pressure switches
<b>NSF</b> Product conformity for food and drinking water contact in USA	Solenoid pumps Solenoid valves
<b>ACS</b> Product conformity for drinking water contact in France	Solenoid valves
<b>NSF61</b> Product conformity for food and drinking water contact	Solenoid valves

In 2018, CEME achieved ISO 9001:2015 Quality Management System certification, which is validated by independent third parties and covers the engineering and production processes in all the Group's operational plants. Full implementation of the Quality Management System is the key to meeting all regulatory requirements and standards. CEME's commitment to product quality and safety is attested by the positive results of client

audits, which require continuous improvement and the conservation of top-quality standards. Thanks to this engagement, CEME can count on stable and long-lasting relationships with some of the world's largest brands across all relevant market segments. The effectiveness of the Group's Quality Management System led to the absence of non-compliance issues with regulations concerning health and safety impacts in the last three years.

## RESEARCH AND DEVELOPMENT

CEME Research and Development department is constantly working to find innovative and hyper-customized solutions for fluid control systems. In particular, the Group's R&D Department is divided into two principal areas: Advanced R&D, involved in the continuous improvement of the CEME product portfolio, develops new solutions to respond to new market demands; the second area is dedicated to the satisfaction of clients' needs, working in close connection with them to define tailor-made specifics and production processes.



# CHOOSING QUALITY MATERIALS



*CEME ensures product quality and safety, and continuously researches the highest performance, starting from the meticulous selection of the best quality materials and suppliers, in light of its extensive experience and know-how.*

*Pierluigi Zampese, VP Sales and Marketing*

In order to guarantee the best product quality, CEME carefully selects the materials and semi-finished products needed in the production process. As previously noticed for supply chain structure and composition, the Coronavirus pandemic did not negatively impact on CEME materials consumption for production and packaging. Indeed, the overall consumption of raw materials and semi-finished components showed a fairly regular trend with an increase of 1% compared to 2019 and 5% compared to 2018.

Between 2018 and 2020, the materials purchased included mainly steel, copper and brass, representing more than 50% of the total purchased weight combined. In particular, the primary material used by the company, representing 33% of the total weight, is steel. It is purchased in bars that are processed in the Tarquinia plant. CEME makes use of two different kinds of steel, ferritic steel (94% of total

steel weight in 2020) and austenitic steel: these are able to satisfy different technical requirements of CEME products thanks to differences in crystalline structure and magnetic characteristics. In addition to steel, copper and brass respectively accounted for 20% and 4% of production materials in 2020. Steel, copper and brass purchased by CEME are almost always derived from the recycling of previous production scrap.

Besides raw materials, CEME buys accessory components, made up of the same main materials, but which are used less frequently or occasionally or cannot be produced internally, such as steel spring (6% of the total of purchased steel), or specific electric components like diodes. Chemical products represent 0.5% of production materials and mainly include lubricant grease and oils, used for machinery maintenance.

## PRODUCTION AND PACKAGING MATERIALS

	UoM	2018	2019	2020
<b>Production</b>				
<b>Copper</b>	ton	3,918	4,589	4,146
<b>Steel</b>	ton	5,722	5,291	6,733
of which semi-finished components	ton	157	153	376
<b>Brass</b>	ton	733	986	758
of which semi-finished components	ton	113	115	148
<b>Plastic<sup>6</sup></b>	ton	2,975	2,852	3,091
of which semi-finished components	ton	1,336	883	1,612
Iron components	ton	4,073	4,350	4,368
Electrical components	ton	22	21	17
Chemicals (lubricant oils)	ton	81	85	110
<b>Total production materials</b>	<b>ton</b>	<b>17,524</b>	<b>18,591</b>	<b>19,223</b>



	UoM	2018	2019	2020
<b>Packaging</b>				
Paper and cardboard	ton	1,494	1,535	692
Wood	ton	417	472	499
Plastic	ton	49	32	25
<b>Total packaging materials</b>	<b>ton</b>	<b>1,960</b>	<b>2,039</b>	<b>1,216</b>

CEME's packaging materials consisted mainly of cardboard boxes: cardboard and paper represented 57% of the total packaging material weight in 2020, while wood and plastic amounted to 41% and 2% respectively.

CEME uses reusable packaging, such as plastic trays, internal movement of products or for semi-finished products that are delivered to third-parties for the final assembly.

Recently, the Group started to use reusable packaging for the product delivery to a selected client. The long-lasting relationships that CEME tends to develop with its clients and suppliers will be a key point for the introduction of

reusable packaging with a higher number of clients in the next few years.

CEME attention to the sustainable use of resources led to the choice of purchasing paper and cardboard packaging with FSC<sup>7</sup> Mix and FSC Recycled certifications, in full compliance with food industry requirements.

FSC Mix certification attests that products are made with wood from certified forests, meaning forests managed in a way that preserves biological diversity and benefits the lives of local people and workers. Similarly, the FSC Recycled label certifies that all the wood or paper in the products comes from reclaimed or re-used materials.

<sup>6</sup> TWith respect to last year's figures, 2018 and 2019 plastic parts value has been updated due to a more precise monitoring of materials data.

<sup>7</sup> The Forest Stewardship Council (FSC) is an international Non-Governmental Organization. The certification aims at ensuring correct forest management and the traceability of related products. For further details, please visit <https://fsc.org/en/fsc-labels>.

# VALUING OUR PEOPLE

“

*The year of the Covid-19 pandemic has been polarizing Human Resources department's activities, which have all been absorbed by the efforts aimed at safeguarding CEME's people – both from a health and safety point of view, and with regards to business resilience and continuity. More than ever, in 2020 the Group is deeply convinced that its people represent one of its most valuable assets.*

**Marino Forchin**, Group HR Director

## EMPLOYEES AT THE CENTER

At the end of 2020, CEME had a workforce of 904 people across the three Italian and Chinese plants, including both employees and agency workers.

The figure shows a slight increase of 5.5% with respect to the previous year-end, a trend which can be highlighted

across all employees, agency workers and on a much smaller scale in absolute terms interns.

These figures stem from the constant and continuous effort put by the Group on growth and evolution even during such a difficult period.

## CEME WORKFORCE

### WORKFORCE (EMPLOYEE CATEGORY AND GENDER)

	UoM	2018	2019	2020
Employees	n.	847	857	888
	Male	391	426	479
	Female	456	431	409
Agency workers	n.	140	0	15
	Male	86	0	7
	Female	54	0	8
Interns	n.	-	-	1
	Male	-	-	1
	Female	-	-	0
Total	n.	987	857	904
	Male	477	426	487
	Female	510	431	417

As the table shows, employee numbers in 2020 were 3.6% higher than in 2019. Employees are located mainly in the three operating plants of Trivolzio (Italy), Tarquinia (Italy) and Zhongshan (China) and make up 99% of the Group's overall labour force at a consolidated level<sup>8</sup>. Furthermore, the Company's personnel is split into two almost identical parts, with a majority of men over women – the opposite of last year's data, where females were slightly more numerous than males.

Diversity and equal opportunities have always been among CEME's priorities: as a consequence, the Group is committed to creating an inclusive working environment in which its employees are treated the same way, regardless of gender or other individual differences. In more detail,

CEME largely favours Full-Time over Part-Time contracts, with a division of 99% to 1% in 2020 – a pattern that shows considerable stability from one year to the other. The majority of the Company's personnel is permanently employed, acknowledging a decisively growing trend with respect to 2019: indeed, permanent contracts increased by 16% on an annual basis (+14% 2019 vs 2018), reaching a share of 69% of all contracts at Group level (55% in 2018, 62% in 2019). On the contrary, temporary contracts decreased by 17% on a yearly basis (-15% in 2019). As for gender, in 2020, female employment showed a greater increase in new permanent contracts (31%, 15% in 2019) and a bigger decrease in temporary contracts (-37%, -18% in 2019) than male hires (respectively +7% and +39% in 2020, 14% and -6% in 2019) with respect to last year.

## EMPLOYEES (CONTRACT TYPE, FULL-TIME AND PART-TIME, CATEGORY, AGE AND GENDER)

	UoM	2018	2019	2020
<b>Contract type</b>				
<b>Permanent</b>	<b>n.</b>	<b>464</b>	<b>531</b>	<b>619</b>
Male	n.	289	330	355
Female	n.	175	201	264
<b>Temporary</b>	<b>n.</b>	<b>383</b>	<b>326</b>	<b>269</b>
Male	n.	102	96	124
Female	n.	281	230	145
<b>Full-Time and Part-Time</b>				
<b>Full-Time</b>	<b>%</b>	<b>99%</b>	<b>99%</b>	<b>99%</b>
<b>Part-Time</b>	<b>%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>
<b>Category</b>				
<b>Executives</b>	<b>%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>
<b>Managers</b>	<b>%</b>	<b>2%</b>	<b>3%</b>	<b>3%</b>
<b>White collars</b>	<b>%</b>	<b>16%</b>	<b>16%</b>	<b>15%</b>
<b>Blue collars</b>	<b>%</b>	<b>81%</b>	<b>80%</b>	<b>81%</b>
<b>Age</b>				
<b>&lt;30 years</b>	<b>%</b>	<b>22%</b>	<b>19%</b>	<b>19%</b>
<b>30 ≤ x ≤ 50 years</b>	<b>%</b>	<b>66%</b>	<b>66%</b>	<b>65%</b>
<b>&gt; 50 years</b>	<b>%</b>	<b>12%</b>	<b>15%</b>	<b>16%</b>

The vast majority of the CEME population falls into the blue-collar cluster, followed by office workers, managers and executives – a pyramidal structure that traditionally witnesses stability from one year to the other.

This aspect is mainly due to the labour intensiveness of the production of the Group's renowned electro-pumps and electro-valves, together with the high level of integration

and internalization of competences in all the manufacturing phases. To conclude, the Group's personnel is relatively young, with over 8 out of 10 people under 50 years of age (19% under 30 and 65% between 30 and 50) and only 16% over 50. The trend does not show noteworthy differences across the three-year reporting period.

<sup>8</sup> CEME additionally employed 3 people in its Hong Kong office, and 2 people in its Cleveland, US headquarter.



## HIRING AND TURNOVER RATES

As for hires and terminations, the table shows a decisive downward trend for both the former and the latter. In particular, total hires decreased by 43% with respect

to 2018 – with peaks concerning women (-51%) and workers under 30 years of age (-48%) – while terminations decreased by 25%.

### HIRES AND TERMINATIONS

	UoM	2018	2019	2020
<b>Hires</b>	<b>n.</b>	<b>349</b>	<b>200</b>	<b>191</b>
Male	n.	138	97	123
Female	n.	211	103	68
<30 years	n.	169	87	94
30 ≤ x ≤ 50 years	n.	166	99	84
> 50 years	n.	14	14	13
Employee hiring rate <sup>9</sup>	%	-	20%	22%
<b>Terminations</b>	<b>n.</b>	<b>254</b>	<b>190</b>	<b>155</b>
Male	n.	73	62	66
Female	n.	181	128	89
<30 years	n.	116	91	56
30 ≤ x ≤ 50 years	n.	124	91	88
> 50 years	n.	14	8	11
Employee turnover rate <sup>10</sup>	%	-	19%	18%

Accordingly, the hiring rate, calculated as the ratio between the total number of hires and the total number of employees at the end of the prior reporting period, followed a slight upward annual trend, standing at 22% in 2020 against 20% in 2019. The turnover rate – the ratio between the number of terminations and the overall employees at the end of the prior reporting period – slightly decreased to 18% in 2020 against 19% in 2019.

CEME's personnel turnover shows quite a stable pattern in Tarquinia, since it is one of the biggest production plants in the centre of Italy, and the most important in the Viterbo province as far as labour attraction is concerned. Furthermore, and to confirm its territorial weight, around 70% of the plant's employees reside in Tarquinia.

Thus, the high hiring and turnover rates emerging from the table are mainly due to the Northern Italian and Chinese plants. In particular, a natural renewal of CEME's employee population is taking place in Trivulzio, driven by the migration towards plant consolidation in Trivulzio – a process that was formally concluded in 2017 but whose consequences are still incomplete.

A further effect can be traced to the outcomes of the ongoing transition towards cutting-edge technology and automation processes in Trivulzio. Another reason can be attributed to the pandemic: indeed, during 2020 the number of temporary contracts augmented due to flexibility needed to face the contingent emergency and to cover unpredictable production volumes peaks generated by fluctuating clients demands<sup>10</sup>.

## INVESTING IN OUR PEOPLE

### EMPLOYEE TRAINING

CEME believes that training represents one of the best assets to guarantee legislative compliance and to ensure the highest levels of quality and safety along the production process. In this sense, training programs are structured in a way that gives to all the employees the most suitable level of knowledge required by their role and competences. Thus, almost all courses deal with technical matters as required by law and are delivered by CEME teachers – a choice that takes advantage of and draws directly from the Group's human capital, thus

valuing internal skills and expertise. The Trivulzio site has a dedicated training room featuring all the components of CEME products that are used as samples during training classes. Furthermore, language classes give the Company's people the chance to improve their English, from starters to advanced learners. It is important to point out that the sharp downward trends in training hours is due to the Coronavirus pandemic, that forced the Group to postpone non-urgent training activities in order to comply with social distancing prescriptions as emanated by the local and

<sup>9</sup> With respect to last year's figures, the 2019 ratio has been updated by considering the 2018 total workforce.

<sup>10</sup> This aspect is not traced in the "Employees (contract type, Full-Time and Part-Time, category, age and gender)" table since this data refers to year-end data – i.e. as registered as of December 31st.



national governments. Furthermore, the almost totality of training carried out for all employee categories except blue collars – for which physical presence is required due to the

nature of the activities performed – has been shifted to remotely supplied modules.

## TRAINING

	UoM	2018	2019	2020
<b>Training hours</b>	<b>hours</b>	<b>4,237</b>	<b>3,485</b>	<b>2,014</b>
Male	hours	2,603	2,549	1,521
Female	hours	1,634	936	493
Training on Health & Safety topics	hours	1,307	1,125	763
<b>Average training hours</b>				
Male	hours	6.7	6.0	3.2
Female	hours	3.6	2.2	1.2
Executives	hours	12.8	0.8	2.6
Managers	hours	26.3	11.2	6.3
White collars	hours	15.6	6.3	2.9
Blue collars	hours	2.1	3.3	1.9

For the coming years, CEME is considering expanding the offer of training opportunities for its people in order to increase its ability to meet its employees' professional and personal needs in a dynamic and complete manner.

One of the projects CEME has been working on for the last few years is the development and implementation of a management system that leverages Talentia software: the aim is to map the Company's know-how and competences

through an annual evaluation process, while providing a platform for performance evaluation and review. By doing so, CEME aims to foster the highest levels of quality and commitment through the identification of strong points and improvement areas. The project has been properly implemented and the first performance review has been carried out on the first two management levels.

## WELFARE

Corporate welfare is one of the means with which CEME pursues the aim of building a positive workplace environment where its people can fulfil their potential. CEME intends to focus its attention on its employees in order to value their activities, fully aware that a positive balance between work and workers' personal needs is essential to unleash the full expression of their skills. Therefore, the Company undertook a process of identification and promotion of an innovative welfare system designed to increase the purchasing power of individuals' and family's income. Stemming from the Group's awareness and aiming to help its people reconcile their private and working lives, in 2018 CEME introduced a web platform-based welfare plan for all employees in Trivulzio and Tarquinia.

The scheme makes goods and services available in the form of flexible benefits. As a way to engage its people at all levels, the welfare value in Trivulzio is provided as a performance bonus: thus, it is tied to corporate revenue targets. In Tarquinia, however, the welfare amount is fixed and is given once a year as a Christmas gift. Furthermore, during the difficult months of March and April when the Coronavirus emergency broke out, CEME Italy established a compensation incentive for all the employees that turned up in CEME's offices and production sites.

As a demonstration of the gratitude the management bears towards the enormous burden CEME people had to carry during these difficult times, at the end of 2020 the production bonus tied to revenues and super-productivity was awarded to all employees.

The Italian welfare plan is integrated with additional benefit measures, such as those required by national law, and specific ones that target all permanent employees, with differences depending on contract levels: life insurance, healthcare assistance, disability and invalidity insurance, meal vouchers, canteen services and fiscal assistance in agreement with an external provider. Moreover, the Company offers facilitated access to healthcare services through the Metasalute web portal. During 2020, a Covid-specific insurance was stipulated to cover all employees in case of contagion and intensive care hospitalization. Benefits provided differ for the Zhongshan plant, where the State's public social insurance covers all the areas mentioned for the Italian sites: the benefits are delivered to all employees – both permanent and temporary – with the exception of Part-Time workers who are entitled to disability and invalidity cover only.

### COLLECTIVE BARGAINING

The totality of CEME employees in all the three production plants of Trivulzio, Tarquinia and Zhongshan are covered by collective bargaining agreements. Furthermore, since 2016 the Group's Italian sites are covered by a second level contract integrating the national agreement already in force. The contract allows for better regulation of the employment relationship, guaranteeing adequate labor protection and essential flexibility for the Company.

## PROMOTING A SAFE WORK ENVIRONMENT

### ESG OBJECTIVE

Complete replacement of lead-acid batteries of Trivulzio's forklifts with lithium batteries by 2022.

For CEME, the health and safety of its people is paramount. H&S matters are dealt with at Regional level: both Italian and Chinese plants can count on established practices, policies and management systems that guarantee full compliance with local legislative requirements. As provided by law, in the Trivulzio and Tarquinia sites health and safety topics are subject to the direct and structured involvement of different functions at all levels of the Company's organizational chart: specific competences and responsibilities over the application of safety procedures are attributed to them and updated through regular training sessions. Risk assessment is at the core of H&S management: in full compliance with local laws, health and safety managers, or equivalent, hold inspections and consult employees in order to anticipate risks, assess them and propose all the necessary prevention efforts. The same procedure has been implemented as far as work-related injuries are concerned. As regards health and safety issues, employees can also count on their representative, one for each of the Italian sites, who attends regular internal meetings with management. Furthermore, integration with the unions on this issue actively helps prevent any whistleblowing-related repercussions on health and safety matters. As required by law, the H&S procedure requires a doctor to be present in each Italian plant.

The Zhongshan plant relies on a legally certified third party to take care of occupational assessments concerning H&S risks.

On an annual basis, consultants release a risk assessment report: this is fundamentally important for the identification of potentially dangerous situations, and the consequent drafting of mitigation and prevention measures.

Together with daily monitoring of employees' health and safety and the presence of a doctor onsite, CEME China provides important on-the-job H&S training to its people.

The main risk factors identified differ according to the nature of the activities carried out. As regards the plants in Tarquinia and Zhongshan, the main risks include, among others, cuts, bruises, crushing, and lifting and handling of heavy weights. In the more automated, assembly-focused Trivulzio site, load handling and repeated movements are the main risks identified. For the coming years, CEME is considering developing and implementing a healthy eating promotion through the substitution of junk food with healthy options from snack machines.

### ESG OBJECTIVE

Implementation of a Health & Safety Management System according to ISO 45001 standard in Trivulzio and Tarquinia by 2021

### ESG OBJECTIVE

20% reduction in the severity of injuries through structural and training actions

## EMPLOYEE HEALTH & SAFETY<sup>11</sup>

	UoM	2018	2019	2020
Total number of worked hours	hours	1,943,562	2,004,109	1,984,654
Total number of recordable work-related injuries	n.	13	5	19
Work-related injury rate <sup>12</sup>	-	1.34	0.50	1.91

During 2020, CEME recorded 19 injuries, of which 13 occurred in the Italian plants of Trivulzio and Tarquinia, while the remainder 6 in Zhongshan.

4 injuries caused more than 3 days of incapacitation while 13 caused more than 7 days of incapacitation: these are related mainly to injuries of hands, feet and ankles. During the 2018-2019-2020 triennium, neither high-consequence work-related injuries, nor fatalities

as a result of work-related injuries were recorded. Furthermore, from 2020 the Group is monitoring and disclosing health and safety data concerning workers that are not employees but whose work and/or workplace is controlled by CEME: the overall worked hours amounted to 10,440 and neither injuries of sort, nor fatalities as a result of work-related injuries were recorded.

<sup>11</sup> The reported data refers to the three operational plants of Trivulzio, Tarquinia and Zhongshan.

<sup>12</sup> Calculated as the total number of injuries multiplied by 200,000 and divided by the overall number of hours worked in the reporting period.

## OUR RESPONSE TO THE COVID-19 PANDEMIC

The outbreak of the Coronavirus pandemic in the first half of 2020 has indirectly affected CEME's business. This said, the plants of Trivolzio and Tarquinia did not fall within the scope of economic activities suspended by the Italian Government in the first week of March 2020, since the Group belongs to a selection of specific supply chain branches whose continued operation was directly requested.

For its part, the Zhongshan plant remained closed from January 18<sup>th</sup> until February 17<sup>th</sup>, 2020.

According to government requirements, the Group appointed a special Covid Manager and a specific Task Force in charge of handling the situation and undergoing all necessary actions to mitigate the risk of contagion (that has been added to the plants' Risk Evaluation Document – DVR as required by law). Indeed, CEME implemented advanced security measures, such as thermoscanners and PPE from the outset – even before the Italian Government made them obligatory – in order to give prior and due protection to its people. Along with this and the fostering of remote working for white collars, managers and executives and of social distancing inside the Group's spaces, a COVID-19 specific healthcare insurance scheme was offered

to all employees for the duration of 2020. With the aim of sustaining its employees in moments of need, CEME introduced threefold coverage in the event of contagion: hospitalization compensation, convalescence compensation and post-hospitalization assistance. Furthermore, in Tarquinia a Covid serological, complete mapping was carried out twice, while in Trivolzio such mapping regarded some selected groups only: the tests highlighted no positive cases. CEME's efforts in the prompt introduction of security measures enabled it to face the emergency by guaranteeing employees safety and business continuity: as a consequence, Covid cases recorded were limited and never spread so as to become an internal hotspot.

CEME's response to the emergency went well beyond corporate perimeters towards the local communities where Trivolzio and Tarquinia plants are located. The Group donated an entire intensive care unit to the San Raffaele hospital in Milan, Italy, while Tarquinia employees autonomously decided to donate a part of their monthly pay to that same hospital. The overall amount of these actions is portrayed under the "Community investments" section of the table "Direct economic value generated and distributed".

# SUSTAINABLE PRODUCTION



*CEME's sustainability path is reinforcing our awareness about our operational impacts and will unleash progressive improvements concerning our environmental performance through the definition of concrete management strategies.*

**Sandro Messina, Chief Operations Officer**

CEME is conscious of the effect that its activities have on society and the environment, and of the importance of implementing solutions to reduce its footprint. Therefore, the Company is committed to a better understanding of how environmental sustainability relates to its daily activities and to the development of ad hoc management strategies able to deliver concrete results. This approach is tightly intertwined with the Group's practice towards modernization and enhancing efficiency in its plants, carried out with progressive, carefully selected actions.

From an environmental perspective, the Company strives to guarantee full compliance with all applicable laws and regulations in its three production plants: no incidents of environmental non-compliance have been recorded in the last two years<sup>13</sup>.

CEME has implemented an ISO 14001:2015 certified Environmental Management System that covers the Trivolzio, Tarquinia and Zhongshan sites, and sets out the requirements for managing environmental aspects within the Company.

## OUR CARBON FOOTPRINT

CEME is engaged in the progressive improvement of its environmental performance, raising awareness of the impact of its activities, and along its value chain. The Company's sustainability journey started with continuous monitoring and disclosing of data in the first Sustainability Progress Report concerning energy consumption,

Greenhouse Gas emissions, water consumption and waste management – ultimately evolving in 2020 from mere reporting to setting specific, measurable and accountable targets aiming to improve CEME's ESG performance for the future (for further details, see "Sustainability and ESG objectives").

## ENERGY CONSUMPTION

Energy consumption is one of the most important priorities for CEME and the Company in recent years started to rationalize its consumption through specific initiatives aimed at enhancing energy efficiency.

In particular, in 2020 in Trivolzio CEME installed twilight sensed LED lights and new skylights to increase natural lighting and reduce electricity consumption. Furthermore, from January 2021 CEME Italian plants sourced 100% of electricity from renewable resources certified by Guarantees of Origins (GOs).

Total energy consumption remained broadly constant between 2018 and 2020, with a slight increase in comparison to 2019 (+5%). Electricity represents 88% of overall energy consumption: much of it is used in production processes, such as the use of machines in the Tarquinia production site (accounting for 61% of CEME total electricity consumption).

Other relevant energy vectors are natural gas (6% of overall energy consumption in 2020), diesel and gasoline used by the car fleet (5%), diesel used by emergency generators (less than 1%) and LPG (1% of overall

energy consumption in 2020). In particular, the primary source of thermal energy in Trivolzio is natural gas, in Tarquinia LPG and in Zhongshan electricity. Additionally, the heat from the air compressor systems in the new Trivolzio HQ production lines is recycled and used in the plant's offices.

Overall, fuel consumption decreased in 2020 in respect to 2019 as a result of the Coronavirus pandemic: indeed,

### ESG OBJECTIVE

100% energy consumption sourced by renewable energy sources in Trivolzio and Tarquinia plants by 2021

<sup>13</sup> In 2019, CEME identified a groundwater contamination issue in the neighboring areas of the Tarquinia plant, caused by a site's solvent spillage in the past. Therefore, CEME is implementing a remediation plan: the installation of Pump and Treat wells in 2019 and a bioremediation treatment process to be carried out in the next 4 years are the main actions for the recovery of the contaminated area. In 2020, the operations are still ongoing.

in the first months of the emergency, remote working and the lockdown measures imposed by local and national governments impacted on natural gas and LPG consumption for heating (-11 %) and on diesel and gasoline

consumption for the car fleet. Nonetheless, despite the outbreak of Coronavirus pandemic, CEME production volumes increased and thus electricity consumption showed a slight increase of 9% with respect to 2019.

## ENERGY CONSUMPTION

	UoM	2018	2019	2020
Electricity	GJ	57,872	60,025	65,629
Natural gas for heating purposes	GJ	5,950	5,311	4,735
Diesel for car fleet	GJ	3,988	3,567	941
LPG for heating purposes	GJ	671	1,053	659
Gasoline for car fleet	GJ	667	761	2,630
Diesel for emergency generators	GJ	2	2	2
<b>Total energy consumption</b>	<b>GJ</b>	<b>69,150</b>	<b>70,719</b>	<b>74,596</b>

## GHG EMISSIONS

In order to monitor the environmental impact of the production process and to plan effective management strategies, CEME measures and discloses the Greenhouse Gas (GHG) emissions from its activities.

In accordance with the GHG Protocol Corporate Accounting and Reporting Standard, the Company reports all the relevant direct GHG emissions (Scope 1), indirect emissions from electricity purchased from the national grid (Scope 2) and a selection of the relevant indirect emissions occurring outside the Company (Scope 3). CEME is undertaking to reduce its Scope 1 and Scope 2 – Market based GHG emissions by 27.5% by

2030 (baseline 2019), in line with the WB2C (well-below 2°C) scenario as provided by the Science-Based Targets initiative's calculation methodology<sup>14</sup>. For 2020, in order to improve the monitoring of GHG emissions from its value chain CEME extended Scope 3 reporting, including several emissions categories as shown in the table below.

### ESG OBJECTIVE

Scope 1 + Scope 2 emissions reduction of 27.5% by 2030 (aligned with the Science-Based Targets initiative (SBTi) well-below 2°C pathway).

GHG Scope 3 Emissions Categories <sup>15</sup>	Description
<b>1 - Purchased goods and services</b>	Upstream emissions from the production of products purchased or acquired.
<b>3 - Fuel and energy-related activities</b>	Emissions related to the production of fuels and energy purchased and consumed.
<b>4 - Upstream transportation</b>	Emissions related to the transportation and distribution services purchased by CEME in the reporting year, including inbound logistics, outbound logistics (e.g. of sold products), and transportation and distribution between CEME's own facilities.
<b>5 - Waste generated in operations</b>	Emissions from third-party disposal and treatment of waste generated by the Group's owned or controlled operations.
<b>6 - Business travel</b>	Emissions from the transportation of employees for business-related activities.
<b>7 - Commuting Emissions from the transportation of employees between their homes and their worksites.</b>	Emissions from the transportation of employees for business-related activities.
<b>8 - Upstream leased assets</b>	Operation of assets leased by CEME (lessee) in the reporting year and not included in scope 1 and scope 2.

<sup>14</sup> The Science-Based Targets initiative was created by the collaboration between the CDP, the UN Global Compact (UNGC), the World Resources Institute (WRI) and the World Wide Fund for Nature (WWF). It is acknowledged to be one among the We Mean Business Coalition's commitments. The initiative supports companies in defining emission reduction targets that will cap global warming well below 2°C (WB2C) aiming to stay within +1.5°C compared to pre-industrial temperatures, in line with what is foreseen by the Paris Agreement.

<sup>15</sup> The Greenhouse Gas Protocol – A Corporate Accounting and Reporting Standard – Revised edition.



GHG Scope 2 emissions have been calculated both with the location-based and market-based methods. The first one reflects the average emission intensity of grids, while the second reflects emissions from the electricity source the Group has purposefully chosen.

Mirroring energy consumption trends, Scope 1 (which includes emissions from refrigerant gas refills and fuel consumption for heating, car fleet and emergency

generators) slightly decreased in 2020 (-2%), while Scope 2 emissions (location-based method) slightly increased from 2019 to 2020 (+6%). Scope 3 emissions, equal to 97,097 ton CO<sub>2</sub>e, are mainly related to the purchase of raw materials and semi-finished components to produce and package products, that accounts for 94% of the total amount. Of course, since 2020 the Scope 3 boundary has widened, meaning that direct data comparison with 2018 and 2019 is not possible.

## GHG EMISSIONS

	UoM	2018	2019	2020
<b>Direct emissions (Scope 1)</b>	<b>tCO<sub>2eq</sub></b>	<b>948</b>	<b>975</b>	<b>955</b>
Natural gas for heating purposes	tCO <sub>2eq</sub>	345	306	271
Diesel for car fleet	tCO <sub>2eq</sub>	298	266	196
Refrigerant gas refills for air-conditioning systems	tCO <sub>2eq</sub>	215	282	381
LPG for heating purposes	tCO <sub>2eq</sub>	43	67	60
Gasoline for car fleet	tCO <sub>2eq</sub>	47	54	46
Diesel for emergency generators	tCO <sub>2eq</sub>	0.1	0.1	0.1
<b>Indirect emissions (Scope 2) - Location based method</b>	<b>tCO<sub>2eq</sub></b>	<b>6,617</b>	<b>6,943</b>	<b>7,213</b>
<b>Indirect Emissions (Scope 2) - Market based method</b>	<b>tCO<sub>2</sub></b>	<b>8,137</b>	<b>8,580</b>	<b>9,090</b>
<b>Other indirect Emissions (Scope 3)</b>	<b>tCO<sub>2eq</sub></b>	<b>2,179</b>	<b>1,715</b>	<b>97,097</b>
<b>Cat. 1 – Purchased good and services</b>	tCO <sub>2eq</sub>	n.a.	n.a.	91,337
Cat. 3 – Fuel and energy related activities	tCO <sub>2eq</sub>	n.a.	n.a.	1,344
Cat. 4 – Upstream transportation <sup>16</sup>	tCO <sub>2eq</sub>	2,054	1,625	3,184
Cat. 5 – Waste generated in operations	tCO <sub>2eq</sub>	n.a.	n.a.	460
Cat. 6 – Business travel	tCO <sub>2eq</sub>	125	91	2
Cat. 7 – Commuting	tCO <sub>2eq</sub>	n.a.	n.a.	768
Cat. 9 – Upstream leased assets	tCO <sub>2eq</sub>	n.a.	n.a.	2
<b>Total (Scope 1 + 2 + 3) – Location based method</b>	<b>tCO<sub>2eq</sub></b>	<b>9,744</b>	<b>9,634</b>	<b>105,265</b>

As a further commitment with respect to climate change, CEME has purchased nature-based carbon credits in order to compensate for its residual GHG Scope 1 and Scope 2 – Market based emissions generated during the 2020 reporting year.

This initiative has allowed the Group to become carbon neutral with respect to the activities falling within the reporting perimeter and is designed as a transition tool to mitigate its impact on the road to effectively reducing carbon emissions.

<sup>16</sup> 2018 and 2019 data consider the parcels sold and shipped by CEME only.

## CARBON OFFSETTING PROJECTS

CEME's carbon neutral status is achieved by offsetting remaining carbon emissions with quality, nature-based carbon credits coming from positive impact projects. Each credit is certified according to international standards and it corresponds to the reduction (or removal) of one ton of CO<sub>2</sub> equivalent. In particular, the two projects the Group purchased its credits from are the "Great bear forest carbon" and the "Guatemalan conservation coast".

The **Great Bear Forest Carbon** project is an Improved Forest Management project in British Columbia (BC), the westernmost province of Canada. The project activities include changes in land-use legislation and regulation that result in increased carbon stocks by converting forests that were previously designated, and coastal wolves sanctioned, or approved for commercial logging to protected forests. Emissions caused by harvesting, road building and other forestry operations are also prevented. It is a landmark project for balancing human well-being and ecological integrity through carbon finance, and it is the first carbon project in North America on traditional territory with unextinguished Aboriginal Rights and Title.

The second project is the **Guatemalan Conservation Coast** project, which works to protect the remaining forests of the region by addressing the drivers of deforestation through effective law enforcement, land-use planning, education, economic opportunities, and sustainable agroforestry initiatives. Over the 30 year lifespan of the project, close to 22million tCO<sub>2</sub>e will have been avoided. There are also important biodiversity benefits. Over 400 species of birds have been documented in the project area and 120 species depend on the corridor to sustain their great journeys.

# RESPONSIBLE RESOURCE MANAGEMENT

## WASTE MANAGEMENT & RECYCLING

CEME manages waste production and disposal in full compliance with all applicable national requirements and with ISO 14001:2015 standards. In the Zhongshan plant, waste is entirely handled by a certified third-party collector that deals with waste separation, recycling and disposal.

The Company's waste production derives mainly from production processes, as they include both hazardous and non-hazardous waste, the vast majority of which belongs to the latter cluster (97% in 2020). Waste generated that was recycled or reused amounted to 77% of the total waste weight generated in 2020. In the Trivolzio HQs, waste production is mainly from valve and pump assembly processes and packaging materials: the recycled waste share peaked at 98% in 2020. Non-hazardous waste sent to landfill or incineration increased in 2020 in comparison to 2019 due to the disposal of some occasional waste generated at the Tarquinia plant.

### ESG OBJECTIVE

100% replacement of consumer, disposable, mono-use plastic with recycled or eco-sustainable materials in Italian plants by 2022.

CEME is engaged in progressively reducing the volume of waste and in increasing the percentage of recycled waste over total weight disposed. To this end,

the company has installed two waste compactors for cardboard and mixed packaging in the Trivolzio plant,

### FROM STEEL SCRAP TO OIL REDUCTION

In the Tarquinia production site, steel scraps from production processes are recovered and turned into steel briquettes, thanks to a combined system of centrifuge and hydraulic press. Furthermore, the oils used in the machinery are recovered through a high level-filtration system that makes fluids available for reuse by removing impurities.

The combination of a steel scrap press and oil filtration allows the Company to reduce the production of waste, thus enhancing reuse of materials and reducing operating costs.

thus leading to a reduction of waste volumes. In 2020, CEME started a process of progressive reduction of mono-use plastic in the Trivolzio plant, replacing plastic cups with eco-sustainable materials. This initiative will be carried out over the coming years until single-use plastics are completely replaced in Italian plants. Finally, in compliance with national law requirements, the Company is engaged with certified third parties for the recovery and reuse of production metal scraps (including steel, copper and brass) in the turnery process.

## WASTE (DISPOSAL METHOD)

	UoM	2018	2019	2020
<b>Hazardous waste</b>	<b>ton</b>	<b>186</b>	<b>156</b>	<b>122</b>
Recycled	ton	14	140	99
Landfilled or incinerated	ton	172	15	23
<b>Non-Hazardous waste</b>	<b>ton</b>	<b>3,034</b>	<b>2,340</b>	<b>3,458</b>
Recycled	ton	1,205	2,328	2,663
Landfilled or incinerated	ton	1,829	11	795
<b>Total<sup>17</sup></b>	<b>ton</b>	<b>3,220</b>	<b>2,495</b>	<b>3,581</b>

## WATER CONSUMPTION

Apart from civil use in office buildings and in sanitization procedures, CEME water consumption is mainly attributable to manufacturing processes in the Tarquinia plant and to the hydraulic performance testing of finished products in Trivolzio and Zhongshan.

In 2020, the total water consumed by CEME amounted to 47,867 cubic meters. The water used by the Company is drawn mainly from municipal utilities. However, from 2018 the water consumption of Tarquinia plant is in part drawn from ground water (54% in 2020).

## WATER WITHDRAWAL

	UoM	2018	2019	2020
Ground water	m <sup>3</sup>	120	2,019	2,921
Third-party water (Municipality) <sup>18</sup>	m <sup>3</sup>	46,621	43,150	44,946
<b>Total</b>	<b>m<sup>3</sup></b>	<b>46,741</b>	<b>45,169</b>	<b>47,867</b>

## WATER MANAGEMENT VALVES

CEME products are designed to manage several types of fluids, especially water. The company pays the utmost attention to its products' environmental efficiency, in terms of both energy and water saving. In particular, CEME Research and Development department developed a new product series that allows the efficient management of water and the fulfilment of new market and customer needs. For instance, CEME has engineered a series of innovative valves aimed at the sanitary market, suitable for electronically controlled sanitary fittings (such as flush toilet systems or public faucets).

The water flows, passing through a sophisticated system of micro channels, allowing for quick and progressive closing, reducing energy consumption and water waste.

### ESG OBJECTIVE

Increase sanitary solenoid valves turnover of 50% by 2022

CEME makes use of water drawn from municipal aqueducts to test its pumps and valves. However, in order to guarantee the best testing conditions and to comply with FCM best practices, the water is treated through a process of reverse osmosis<sup>19</sup>.

CEME has two internal water treatment plants, located in Trivolzio and Zhongshan: in particular, the Trivolzio water treatment plant is entirely made of plastic and stainless steel in order to prevent any possible product contamination by ferric oxide<sup>20</sup>.

<sup>17</sup> | With respect to last year's figures, 2019 waste data have been updated due to an update in CEME data monitoring systems which allowed a more granular level of detail.

<sup>18</sup> | With respect to last year's figures, 2018 and 2019 data have been updated including Zhongshan plant's water withdrawal.

<sup>19</sup> | Reverse osmosis is a desalinization mechanism based on physical separation of water-dissolved minerals.

<sup>20</sup> | The water treatment comprises several progressive phases, including chemical filtration with hypochlorite addition, activated carbon filtering, physical filtering with two-dimensional net (25 µm and 50 µm), reverse osmosis to reduce water hardness and final treatment with UV lamp.

# METHODOLOGICAL NOTE

CEME's Sustainability Progress Report has been prepared with reference to the GRI Sustainability Reporting Standards. The content of the report reflects the results of the materiality analysis as described in detail in the paragraph "Materiality analysis" (see Introduction). As a signatory to the United Nations Global Compact (UNGC) Initiative since April 2020, CEME, through this

Sustainability Progress Report, fulfils its commitment to produce a Communication on Progress – a public disclosure outlining its progress in implementing the principles of the UNGC.

The UNGC Principles are clearly mapped against the GRI indicators in the GRI Content Index.

## SCOPE OF REPORTING

This document includes a description of initiatives and activities carried out from January 1st to December 31st, 2020 as well as the related key performance indicators, presented for the 2018-2020 period, where available. The information refers to CEME S.p.A and includes the Company's Headquarters in Trivolzio (Pavia, Italy), and the production sites in Tarquinia (Viterbo, Italy) and Zhongshan (Guangdong, China). Exceptions to this scope are explicitly reported in the text. Furthermore, the present Progress Report includes multiple references

concerning the Covid-19 pandemic, a significant event that broke out at the beginning of 2020 and has affected the Group's usual business activity.

The plants falling within the reporting scope are located in:

- Trivolzio, Viale dell'Industria 5, 27020 Pavia, Italy;
- Tarquinia, Via R. Sanzio 34, 01016 Viterbo, Italy;
- Zhongshan, Industrial Road 38, 528415 Guangdong Province, China.

## TOPIC BOUNDARY

The following table provides the link between CEME's material aspects and the corresponding GRI Standards topics. The scope and any eventual limitation concerning the reporting boundary due to the unavailability of data

and information on the external boundary are duly specified. In the coming years, CEME is committed to gradually extending the scope of data collection and reporting for each material topic.

Material aspects	GRI Standards topics	Aspect boundary		Limitations of reporting on boundary	
		Within the organization	Outside the organization	Within the organization	Outside the organization
Collaborators welfare and benefits	Employment	CEME	-	-	-
Customer health and safety	Customer health and safety	CEME	Clients	-	Reporting scope not extended to clients
Diversity and equal opportunities	Diversity and equal opportunity	CEME	-	-	-
Employee health and safety	Occupational health and safety	CEME	Suppliers	-	-
Energy and GHG emissions	Energy	CEME	Suppliers	-	Reporting scope not extended to suppliers
	Emissions				
Job creation	Employment	CEME	-	-	-
Materials	Materials	CEME	Suppliers	-	Reporting scope not extended to suppliers
People training and development	Training and education	CEME	-	-	-
Waste management	Effluents and waste	CEME	Suppliers	-	Reporting scope not extended to suppliers
Water management	Water and effluents	CEME	Suppliers	-	Reporting scope not extended to suppliers



## QUALITY REPORTING PRINCIPLES

CEME's Sustainability Progress Report is drafted in accordance with the principles of balance, comparability, accuracy, timeliness, clarity and reliability, as defined by the GRI Standards. The document highlights both strengths and weaknesses, as well as potential areas of improvement for the Group.

The data collection and reporting process are structured

to ensure comparability over the years and the correct interpretation of information by the key stakeholders interested in CEME's performance evolution.

Furthermore, and as far as the precautionary principle is concerned, a risk-opportunity approach for the management system is applied. The present Sustainability Progress Report is not subject to external assurance.

## CALCULATION METHODOLOGIES

Methodologies and assumptions used to calculate performance indicators included in this report are reported below:

- All 2020 data related to injuries refer to both CEME employees and contractors, while 2018 and 2019 data comprise employees only.  
First-aid cases and commuting injuries for which transportation has not been organized by the Company are not included.
- Where environmental data has not been available, conservative estimates have been used, resulting in the underestimation of CEME's environmental performance.
- The total recycled waste of the Italian plants has been determined based on disposal methods and waste

weights as reported in the Environmental Declaration Form (Modello Unico di Dichiarazione Ambientale).

- Data concerning Trivolzio's water withdrawal is estimated starting from metered water discharged and assumed as 1:1.
- Hiring and turnover rates have been calculated by using the total number of employees at the beginning of the reporting period as denominator.
- Lost time injury frequency rate has been calculated with the total lost time injuries multiplied by 200,000 and divided by the overall no. of hours worked in the reporting period.
- The energy consumption of the Company's owned and long-term leased vehicles has been calculated starting from available fuel consumption data.

The following table shows the conversion factors that have been used:

<b>Diesel and Gasoline</b> Fuel density (liter/ton) Calorific Value (GJ/ton)	UK Department of Environment, Food & Rural Affairs (DEFRA), Conversion factors - Full set, 2018, 2019, 2020.
<b>Natural gas</b> Calorific Value (GJ/1000 Stm <sup>3</sup> )	Italian Ministry for Environment, Tabella parametri standard nazionali, 2018, 2019, 2020.
<b>LPG</b> Fuel density (litre/ton) Calorific Value (GJ/ton)	UK Department of Environment, Food & Rural Affairs (DEFRA), Conversion factors - Full set, 2018, 2019, 2020.

- Greenhouse Gas emissions calculations are carried out based on the principles outlined in the GHG Protocol Corporate Accounting and Reporting Standard.  
Scope 2 emissions resulting from the consumption of electricity purchased from the national grid are calculated according to two different methodologies: the location-based method reflects the average emissions intensity of grids where the energy consumption occurs; the market-based approach reflects the emissions from the electricity source that the Company has purposefully chosen. For the Zhongshan plant, Scope 2 market-based emissions have been calculated using the location-based energy mix coefficient. 2018 and 2019

Scope 3 emissions estimates include indirect emissions resulting from outbound logistics and business travels by car, air and train. Outbound logistics distances have been calculated by considering all shipments of sold products from Trivolzio and Zhongshan sites to clients. The calculation does not take into account intercompany and spare parts shipments. As regards 2018 business travel by air, the unavailability of data related to the last quarter of the year means that the calculations include an estimate based on the travel in the same period of 2019.

2020 Scope 3 data account for a selection of emission categories as specified in the table below.

In detail, CEME's GHG Emissions have been calculated as follows:

## GHG EMISSIONS, SCOPE 1

Source	Activity data	Emission factor	Global Warming Potential (GWP)
Natural gas for heating	Fuel consumption	UK Department of Environment, Food & Rural Affairs (DEFRA), Conversion factors - Full set, 2018, 2019, 2020	CO <sub>2</sub> equivalent emissions were considered
LPG for heating			
Diesel and gasoline for car fleet			
Diesel for emergency generators			
Refill of refrigerant gases of air-conditioning systems	Leakages	-	Global Warming Potentials (GWPs) are taken from IPCC Fifth Assessment Report (AR5)

## GHG EMISSIONS, SCOPE 2

Source	Activity data	Emission factor	Global Warming Potential (GWP)
<b>Location-based method</b>			
Electricity purchased from the national grid	Electricity consumption	Terna, Confronti internazionali, 2017, 2018, 2019	Only CO <sub>2</sub> emissions were considered
<b>Market-based method</b>			
Electricity purchased from the national grid	Electricity consumption	Europe - AIB, European Residual Mixes, 2017, 2018, 2019	CO <sub>2</sub> equivalent emissions were considered
		Terna, Confronti internazionali, 2017, 2018	Only CO <sub>2</sub> emissions were considered

## GHG EMISSIONS, SCOPE 3 (2018, 2019)

Source	Activity data	Emission factor	Global Warming Potential (GWP)
Business travel by car and air	Kilometers travelled	UK Department of Environment, Food & Rural Affairs (DEFRA), Conversion factors - Full set, 2018, 2019	CO <sub>2</sub> equivalent emissions were considered
Business travel by train	Kilometers travelled	Ferrovie dello Stato Italiane, "Rapporto di Sostenibilità", 2017, 2018	CO <sub>2</sub> equivalent emissions have been considered
Outbound logistics	Kilometers covered by air, truck or ship multiplied by shipped weight (ton)	UK Department of Environment, Food & Rural Affairs (DEFRA), Conversion factors - Full set, 2018, 2019	CO <sub>2</sub> equivalent emissions were considered

## GHG EMISSIONS, SCOPE 3 (2020)




Source	Activity data	Emission factor	Global Warming Potential (GWP)
Materials procured (Cat. 1)	Weight of raw, process and packaging materials procured	Ecoinvent, v.3.7.1 UK Department of Environment, Food & Rural Affairs (DEFRA), Conversion factors - Full set, 2020	CO <sub>2</sub> equivalent emissions were considered
Water withdrawn (Cat. 1)	Volume of water withdrawn (cubic metres)	UK Department of Environment, Food & Rural Affairs (DEFRA), Conversion factors - Full set, 2020	CO <sub>2</sub> equivalent emissions were considered
Fuel and energy related activities (Cat. 3)	Fuel and electricity consumption	UK Department of Environment, Food & Rural Affairs (DEFRA), Conversion factors - Full set, 2020	CO <sub>2</sub> equivalent emissions have been considered
Fuel and energy related activities (Cat. 3)	Fuel and electricity consumption	UK Department of Environment, Food & Rural Affairs (DEFRA), Conversion factors - Full set, 2020	CO <sub>2</sub> equivalent emissions have been considered
Upstream logistics (Cat. 4)	Kilometres covered by air, truck or ship multiplied by shipped weight (ton)	UK Department of Environment, Food & Rural Affairs (DEFRA), Conversion factors - Full set, 2020	CO <sub>2</sub> equivalent emissions were considered
Waste disposal (Cat. 5)	Weight of waste disposed (ton)	UK Department of Environment, Food & Rural Affairs (DEFRA), Conversion factors - Full set, 2020	CO <sub>2</sub> equivalent emissions were considered
Wastewater discharged (Cat. 5)	Volume of water discharged (cubic metres)	UK Department of Environment, Food & Rural Affairs (DEFRA), Conversion factors - Full set, 2020	CO <sub>2</sub> equivalent emissions were considered
Business travel by air, train and car (Cat. 6)	Kilometres travelled	UK Department of Environment, Food & Rural Affairs (DEFRA), Conversion factors - Full set, 2020 Ferrovie dello Stato Italiane, "Rapporto di Sostenibilità", 2020	CO <sub>2</sub> equivalent emissions have been considered
Employees commuting (Cat. 7)	Kilometres travelled	UK Department of Environment, Food & Rural Affairs (DEFRA), Conversion factors - Full set, 2020 Ferrovie dello Stato Italiane, "Rapporto di Sostenibilità", 2020	CO <sub>2</sub> equivalent emissions were considered
Short-term leased car travel (Cat. 8)	Kilometres travelled	UK Department of Environment, Food & Rural Affairs (DEFRA), Conversion factors - Full set, 2020	CO <sub>2</sub> equivalent emissions have been considered

# GRI

## DISCLOSURES

The material of the present Sustainability Progress Report references the following GRI Disclosures.

If not otherwise specified, the Disclosures applied have been used in full.

GRI Standard	Disclosure	Notes
<b>GRI 102 General Disclosures (2016)</b>	102-1 Name of the organization	
	102-2 Activities, brands, products, and services	
	102-3 Location of headquarters	
	102-4 Location of operations	
	102-5 Ownership and legal form	
	102-7 Scale of the organization	
	 102-8 Information on employees and other workers	
	102-9 Supply chain	
	102-10 Significant changes to the organization and its supply chain	No significant changes to the organization's size, structure, or supply chain were recorded in the reporting period.
	102-11 Precautionary Principle or approach	
	102-12 External initiatives	
	 102-14 Statement from senior decision-maker	
	102-18 Governance structure	No committee responsible for decision-making on economic, environmental, and social topics is foreseen to date.
	102-40 List of stakeholder groups	
	 102-41 Collective bargaining agreements	
	102-42 Identifying and selecting stakeholders	
	102-46 Defining report content and topic Boundaries	
	102-47 List of material topics	
	102-48 Restatements of information	Restatements and related reasons for restatements are clearly identifiable within the text.
	102-49 Changes in reporting	Whenever a change in reporting scope was carried out, it has been duly highlighted and is thus clearly identifiable within the text.
	102-50 Reporting period	
	102-51 Date of most recent report	The 2020 Sustainability Progress Report is the Company's second, annual edition of its kind.
	102-52 Reporting cycle	The data collection process and the report publication activities are structured on an annual basis.
	102-53 Contact point for questions regarding the report	
	102-56 External assurance	

GRI Standard	Disclosure
<b>Economic performance</b>	
GRI 201 – Economic performance (2016)	201-1 Direct economic value generated and distributed
<b>Procurement practices</b>	
GRI 103 – Management approach (2016)	103-1 Explanation of the material topic and its Boundary
	103-2 The management approach and its components
GRI 204 – Procurement practices (2016)	204-1 Proportion of spending on local suppliers
<b>Anti-corruption</b>	
GRI 205 – Anti-corruption (2016)	205-3: Confirmed incidents of corruption and actions taken
<b>Anti-Competitive Behavior</b>	
GRI 206 – Anti-competitive behavior (2016)	206-1 Legal actions for anti-competitive behavior, anti-trust, and monopoly practices
<b>Materials</b>	
GRI 103 – Management approach (2016)	103-1 Explanation of the material topic and its Boundary
	103-2 The management approach and its components
GRI 301 – Materials (2016)	301-1 Materials used by weight or volume
<b>Energy</b>	
GRI 103 – Management approach (2016)	103-1 Explanation of the material topic and its Boundary
	103-2 The management approach and its components
GRI 302 – Energy (2016)	302-1 Energy consumption within the organization
<b>Water and effluents</b>	
GRI 103 – Management approach (2016)	103-1 Explanation of the material topic and its Boundary
	103-2 The management approach and its components
GRI 303 - Water and effluents (2018)	303-3 Water withdrawal
<b>Emissions</b>	
GRI 103 – Management approach (2016)	103-1 Explanation of the material topic and its Boundary
	103-2 The management approach and its components
GRI 305 – Emissions (2016)	305-1 Direct (Scope 1) GHG emissions
	305-2 Energy indirect (Scope 2) GHG emissions
	305-3 Other indirect (Scope 3) GHG emissions
<b>Effluents and waste</b>	
GRI 103 – Management approach (2016)	103-1 Explanation of the material topic and its Boundary
	103-2 The management approach and its components
GRI 306 – Effluents and waste (2016)	306-2 Waste by type and disposal method



GRI Standard	Disclosure
<b>Environmental compliance</b>	
<b>GRI 103 – Management approach (2016)</b>	103-2 The management approach and its components
<b>GRI 307 – Environmental compliance (2016)</b>	307-1 Non-compliance with environmental laws and regulation
<b>Employment</b>	
<b>GRI 103 – Management approach (2016)</b>	103-1 Explanation of the material topic and its Boundary
	103-2 The management approach and its components
<b>GRI 401 – Employment (2016)</b>	401-1 New employee hires and employee turnover
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees
<b>Occupational Health and Safety</b>	
<b>GRI 103 – Management approach (2016)</b>	103-1 Explanation of the material topic and its Boundary
	103-2 The management approach and its components
<b>GRI 403 – Occupational Health and Safety (2018)</b>	403-1 Occupational Health and safety management system
	403-2 Hazard identification, risk assessment, and incident investigation
	403-3 Occupational health services
	403-4 Worker participation, consultation, and communication on occupational health and safety
	403-5 Worker training on occupational health and safety
	403-6 Promotion of worker health
	403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships
	403-9 Work-related injuries
<b>Training and education</b>	
<b>GRI 103 – Management approach (2016)</b>	103-1 Explanation of the material topic and its Boundary
	103-2 The management approach and its components
<b>GRI 404 – Training and education (2016)</b>	404-1 Average hours of training per year per employee
<b>Diversity and equal opportunities</b>	
<b>GRI 103 – Management approach (2016)</b>	103-1 Explanation of the material topic and its Boundary
	103-2 The management approach and its components
<b>GRI 405 – Diversity and equal opportunities (2016)</b>	405-1 Diversity of governance bodies and employees
<b>Non-Discrimination</b>	
<b>GRI 406 – Non-Discrimination (2016)</b>	406-1 Incidents of discrimination and corrective actions taken
<b>Customer health and safety</b>	
<b>GRI 103 – Management approach (2016)</b>	103-1 Explanation of the material topic and its Boundary
	103-2 The management approach and its components
<b>GRI 416 – Customer health and safety (2016)</b>	416-2 Incidents of non-compliance concerning the health and safety impacts of products and services

GRI Standard	Disclosure
<b>Customer Privacy</b>	
<b>GRI 418 – Customer Privacy (2016)</b>	418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data
<b>Socioeconomic Compliance</b>	
<b>GRI 419 – Socioeconomic Compliance (2016)</b>	419-1 Non-compliance with laws and regulations in the social and economic area

For further information about this Sustainability Report, please contact:

CEME S.p.A.

Viale dell'Industria, 5

27020 - Trivolzio (PV), Italy

Group Quality & Sustainability Director: Simone Calvi

Tel. +39 0382 93011

e-mail: [info@cemegroup.com](mailto:info@cemegroup.com)

**CEME SPA**  
HQ - Uffici e Stabilimento  
Viale dell'Industria, 5  
27020 Trivolzio (PV)

**CEME CHINA**  
Industrial Road, nr.38  
528415 Xiaolan Town, Zhongshan City,  
Guangdong Province, P.R. China

**CEME USA**  
38227 Western Parkway  
Willoughby OH 44094  
USA

**CEME HONG KONG**  
Suite 915B, 9F Ocean Centre,  
Harbour City,  
KOWLOON HONG KONG

Tel. +39 0382 93 011  
Fax +39 0382 18 058 01  
info@cemegroup.com  
[www.cemegroup.com](http://www.cemegroup.com)

Ph. +86 760 22288986  
Fax +86 760 2288987

Ph. +1 440 2263200

