

Annual Report

The CAREL logo is a red oval with the word "CAREL" in white, uppercase letters. The letters "A", "R", and "E" have horizontal lines underneath them. The logo is positioned in the upper right quadrant of the cover, overlapping a dark grey diagonal shape and a background image of hands writing on a document.

CAREL

2019

Remuneration report

Annual Remuneration Report

2019





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Letter from the Chair

Dear Shareholders

As Chair of the Remuneration Committee, I am pleased to present CAREL's annual Remuneration report. Last year, 2018, was a very successful one for CAREL, which among other things saw the company listed on the stock exchange, in the Star segment, the renewal of its corporate governance system and the definition of a challenging 2018-2020 business plan with a clear focus on cash generation and creation of sustainable value for shareholders.

In this context, salary is a key element, as it both recognises and supports results, while at the same time guiding company behaviour and strengthening its values.

This report, the first following the renewal of its corporate governance and the stock exchange listing, illustrates the company's Remuneration policy for 2019, as prepared by the Committee and approved by the Board of Directors. Heartfelt thanks to the Committee members and to Corrado Sciolla, who had to leave his position on the committee due to incompatibility of commitments with an important new assignment. This policy is based on the concept of transparency, a way of protecting and strengthening the company's reputation and creating value over the long term, in the interest of all stakeholders. The aim is to attract, motivate and retain the best human resources, rewarding merit and talent and guaranteeing a valid performance assessment process, while avoiding excessive risk taking.

As a result, in the 2019 policy our aim was to define a salary system that is in line with applicable legislation and with national and international best practices, consistent with the interests of all stakeholders, and inspired by the awareness that a fair, balanced and incentivising Remuneration policy is a fundamental driver in motivating people, as well as a lever to attract and retain the talent needed to achieve the challenging

objectives identified in the company's 2018-2020 business plan.

The performance and reward practices adopted by CAREL are aimed at combining the need to on the one hand promote the achievement of long-term objectives, and on the other to assess and monitor the achievement of annual targets, encouraging performance that is distributed in an increasingly balanced way over the entire three-year cycle. The salary system should also tend to progressively balance the fixed and variable components of compensation packages according to the company's strategic objectives, taking into account the sector it operates in and the current nature of the business.

More specifically, with a view to retaining key employees and, at the same time, motivating and incentivising them to meeting our long-term goals over the three-year period 2018-2020, specific long-term stock incentive plans have been introduced for the first time, with roll-over options for maximum flexibility. These include both economic-financial performance indicators linked to the business plan, but are also open to include parameters such as ESG.

These plans represent the main news in the 2018 Remuneration policy accepted at the shareholder meeting on 7 September, by a wide majority (89.67% of those present).

In defining the short-term variable salary component, in continuity with the past year, the structure and performance indicators adopted previously were confirmed, in line with the business plan and considered fundamental from a perspective of sustainable value creation.

The Remuneration Committee has also started to monitor the salary market, in terms of benchmarks and salary practices, so as to verify the competitiveness of the salaries paid to top management. This analysis was carried out together with a leading consulting firm, defining a peer group for comparison based on both business similarities and size and governance criteria.

This led to the definition of a proposal for greater balance between the need to ensure key people a "salary package" that is performance-based, competitive and motivating with regard to the challenges faced, and the need to maintain a trend that is consistent with applicable market references in the specific sector and in compliance with the principles adopted by the company.

As Chair of the Remuneration Committee, I would like to personally thank my colleagues for the excellent work done and the people from the various company departments who constantly support the Committee in its various tasks.

On behalf of the Committee, I would like to thank you the Shareholders for your willingness to discuss and share your respective needs and points of view, as well as obviously for the time you will dedicate to reading our 2019 report.

Confident you will appreciate this report,

Best regards,

Cinzia Donalizio

Chair of the Remuneration Committee

A handwritten signature in black ink, appearing to read 'Cinzia Donalizio', written in a cursive style.



Company Profile

- The CAREL Group is a leader in the design, production and marketing at a global level of technologically-advanced components and solutions for high energy efficiency in the control of air-conditioning ("HVAC") and refrigeration equipment and systems (together "HVAC/R").
- Starting in the 1990s, CAREL began focusing on HVAC/R markets as a supplier of control solutions and humidification systems for applications in certain vertical market niches, with steady growth in the Group's consolidated revenues. Vertical niches feature extremely specific needs, which require dedicated solutions developed with fine detail to meet these needs, as opposed to mass markets, whose needs can be satisfied with a vast assortment of standard products. The Group designs, produces and markets hardware, software and algorithmic solutions with a globally-recognised brand in the sectors it operates in and a distinctive positioning in the reference niches in these markets.
- Since 2001, the company has experienced a period of solid growth, increasing its workforce from 210 to the current 1500 employees, accompanied by similarly strong growth in sales. In 2018, CAREL was successfully listed on the Milan stock exchange.

Preamble

In view of its recent listing on the STAR segment of the electronic stock market organised and managed by Borsa Italiana S.p.A., CAREL INDUSTRIES is required for the first time to comply with the requirements of the Consolidated Law on Finance regarding transparency in management pay.

Through its annual Remuneration report, the company aims to ensure all stakeholders a high level of disclosure in order to strengthen the trust they and the market have placed in us, guaranteeing the tools needed to accurately value the company and to exercise their rights in an informed way.

CAREL's financial growth has led the company to evolve and invest in its salary policies as a strategic lever for the development of human capital and as a fundamental tool for achieving the Group's growth objectives.

Indeed salaries, in particular for executive directors and key management personnel, are the primary tool for on one hand guaranteeing the correct functioning of corporate governance mechanisms, and on the other the effectiveness of the strategies implemented by the company, with the aim of encouraging the creation of sustainable value for both shareholders and more broadly for all of the Group's stakeholders.

CAREL has therefore defined and applies a general Remuneration policy aimed at attracting, motivating and retaining key employees, so as to effectively and profitably pursue its interests in the medium- to long-term, while at the same time being aligned with CAREL's values, expressed through the company's code of ethics. In this first report, CAREL is in compliance with the regulations in force and the recommendations of the Code of Conduct for listed companies, which it fully adheres to in order to guarantee the proper functioning of its corporate governance mechanisms.

Structure of the document

This report is divided into the following sections:

- **SECTION I: Remuneration policies and practices for 2019**

With reference to company board members, the Managing Director and key management personnel, the report contains information on the principles and guidelines with which CAREL has determined its Remuneration policy for the 2019 financial year, as well as information on the procedures used for the adoption and implementation of such policy.

- **SECTION II: Application of the Remuneration policy for 2018**

This section describes the salaries paid in 2018 by the Group, individually for board members, and as aggregated data for key management personnel.

The annual Remuneration report pursuant to article 123-ter of the Italian Consolidate Law on Finance (article introduced in Legislative Decree 58/1998 by Legislative Decree 259/2010) was approved by the Board of Directors, on the proposal of the Remuneration Committee, at the board meeting on 7 March 2019.

Section one will be submitted to the shareholder meeting called for 15 April, 2019.

Glossary	
Executive Directors	jointly the President of the Board of Directors, the Vice President of the Board of Directors, the Chief Executive Officer and the other executive directors of the company.
Shares	CAREL ordinary shares traded on the STAR segment of the electronic stock market organised and managed by Borsa Italiana S.p.A.
Ordinary Shareholder Meeting	the ordinary meeting of CAREL shareholders.
Code of Conduct	Code of Conduct for listed companies adopted by the Committee for Corporate Governance of listed companies and promoted by Borsa Italiana, ABI, Ania, Assogestioni, Assonime and Confindustria.
Remuneration Committee	the Remuneration Committee established and appointed by the Company's Board of Directors in compliance with the Corporate Governance Code.
Board of Directors ("BoD")	the CAREL Board of Directors.
Key management personnel ("KMP")	managers who have the authority and responsibility for planning, directing, and controlling the company's activities, either directly or indirectly, excluding directors (and executive directors).
Short-term incentives (also "MBO" or "STI")	variable compensation system defined in advance and paid based on the achievement of specific performance targets.
CAREL Group or Group	CAREL and its subsidiaries.
Performance Objectives or KPIs	pre-defined performance objectives in the short-term and long-term incentive plan, which need to be achieved in order to obtain bonuses.
Pay mix	summary, in percentage terms, of the weight of the various components (fixed, short-term variable and long-term variable) as a part of total salary.
Vesting period	the periods for measuring performance objectives for the LTI plan, divided into three cycles (rolling), respectively January 2018 - December 2020 (2018-2020 vesting period); January 2019 - December 2021 (2019-2021 vesting period); January 2020 - December 2022 (2020-2022 vesting period), at the end of which shares will be assigned, subject to verification that the performance objectives have been achieved.
Performance shares/cash plan (also LTI Plan)	the long-term incentive plan.
Gross annual income (GAI)	represents the fixed annual salary (i.e. not including any form of variable compensation) paid to employees.
Regulations	regulations concerning the definition of the criteria, methods and terms for implementation of variable incentive plans.
Subsidiaries	without distinction, each of the companies that are directly or indirectly controlled by the company, pursuant to art. 2359 of the Italian Civil Code, with which one or more beneficiaries has a relationship.





SECTION I

Remuneration policies and
procedures for 2019

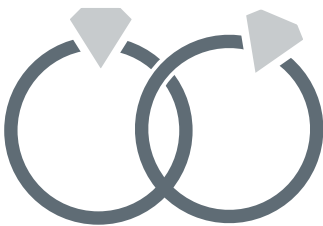
Information on the procedures used for the adoption and implementation of the Remuneration policy

Objectives and principles of the policies

The CAREL Group Remuneration policy is aimed at achieving two main objectives:



Align the interests of shareholders and management, through the creation of a close relationship between compensation on one hand, and the Group's performance on the other.



Attract, motivate and retain key personnel and top talent through a competitive salary policy.

Alignment of the interests of key personnel with those of shareholders is one of the company's primary objectives. This is also pursued through the creation of a close relationship between compensation, in its various forms, and the Group's economic and business results.

The company's Remuneration policy is also aimed at attracting, retaining and motivating its key employees; in order to ensure the competitiveness of its compensation packages, CAREL has conducted detailed analysis of its salary practices against its reference market, with the support of leading consulting firms in salary analysis and benchmarking and actuarial and welfare services.

In order to achieve the aforementioned objectives, the Remuneration policy for top management and key personnel, as explained below, involves linking part of the salary to the achievement of performance

objectives, specified and determined in advance, through an annual incentive system, also called "Management by Objectives" (MBO), and a long-term incentive plan (LTI).

The policy is also defined in accordance with the recommendations of the Corporate Governance Code and is in line with market best practices, not only in terms of competitiveness of salary procedures, but also in terms of governance.

Governance and parties involved

Following its stock exchange listing, the Group defined a governance process to define its Remuneration policy.

The policy has therefore been defined based on a clear and transparent process involving the following bodies, in different ways:

- The company's Human Resources & Organisation Department, responsible for analysis to support the Board of Directors and the Remuneration Committee in defining the policy;
- The Remuneration Committee, being the body assigned the task of providing proposals, advice and guidelines for the adoption of the policy;
- The Board of Statutory Auditors, which expresses its opinion on the policy with specific reference to executive directors and key management personnel;
- The Board of Directors, which is called on to approve the policy;
- The shareholders meeting, which votes on the first section of the salary procedures and gives a non-binding opinion on the policy adopted.

In general, the Board of Directors, the Remuneration Committee and the Board of Statutory Auditors, with the support of the relevant company structures, oversee application of the policy once this has been adopted.

Remuneration Committee

As of the date of this report, the Remuneration Committee comprises the following **independent non-executive directors**:

COMMITTEE MEMBERS

Cinzia Donalisio (Committee Chair)

Marina Manna

Giovanni Costa

NOTE: For the sake of clarity, please note that independent director Giovanni Costa replaced the resigning member Corrado Sciolla on 25 January 2019.

The Remuneration Committee provides advice and proposals to the Board of Directors on all the components of the compensation packages offered to Directors and key management personnel (for the latter, as

instructed by the Chief Executive Officer and the Chief HR & Organization Officer), including the proposal of performance objectives related to the variable salary component.

The Committee, within the scope of its powers, also offers guidance for the purposes of correct implementation in the company of "Performance Shares" and "Performance Cash" plans for key personnel. These plans are considered essential incentive and retention tools to attract and motivate employees with appropriate professionalism and experience. In particular, the Committee, as part of its duties, formulates proposals to the Board of Directors on the incentive system that is considered most appropriate in terms of potential beneficiaries and monitors the evolution and application over time of the plans approved at the shareholder meeting based on the proposal of the Board of Directors.

The Committee also prepares the documentation to be submitted to the BoD for resolutions to be adopted regarding salaries, and monitors the application of the decisions adopted by the Board of Directors, specifically verifying that the performance objectives have been met and providing general recommendations on the matter to the Board of Directors.

During the 2018 financial year, the Committee met five times, in July, August, October, November and December.

In particular, at the meetings held in July and August, the Committee defined in detail its proposal on the long-term incentive plans for executive directors, the Chief Executive Officer and key management personnel. This proposal was then subsequently approved by the Board of Directors and at the shareholder meeting on 7 September 2018.

Board of Directors

The Board of Directors has responsibility for defining the Remuneration policy based on the proposal submitted by the Remuneration Committee.

The Board approves the Remuneration Report each year, and submits it to the shareholder meeting pursuant to and within the limits defined by art. 123-ter, paragraph 6, of the Consolidated Law on Finance, and ensures implementation of the Remuneration policy, determining the salary of the Directors holding special offices, based on the proposal of the Remuneration Committee, within the limits of the overall salary determined by the shareholder meeting pursuant to art. 2389, paragraph 3, of the Italian Civil Code, after having consulted the Board of Statutory Auditors.

The Board also approves, based on the proposal of the Remuneration Committee, any salaries involving the allocation of shares, and submits these to the shareholder meeting for approval and ensures their implementation.

Board of Statutory Auditors

With regard to salaries, the Board of Statutory Auditors expresses opinions as required by current regulations, with specific reference to the salary of Directors holding special offices, pursuant to article 2389 of the Italian Civil Code, also verifying that such salaries are consistent with the general policy adopted by the company.

Shareholder Meeting

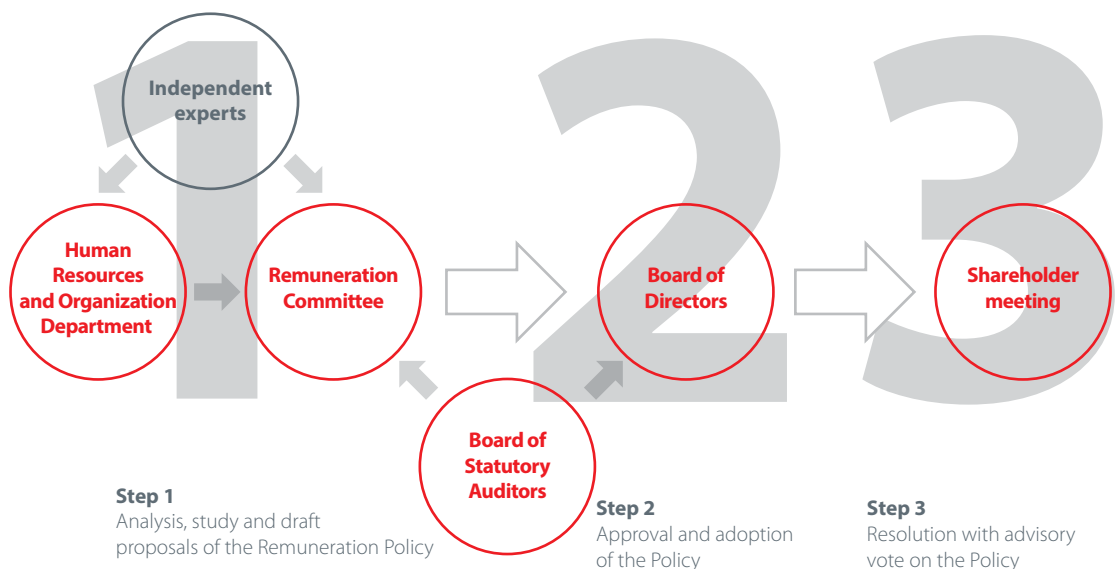
With regard to salaries, the shareholder meeting approves the salary of Directors pursuant to articles 2364, paragraph 1, no. 3 and 2389, paragraph 3, of the Italian Civil Code.

Pursuant to art. 123-ter, paragraph 6, of the Consolidated Law on Finance, upon approval of the financial statements, shareholder votes in favour of or against Section I of the Remuneration Report prepared by the Board of Directors; votes on any salaries involving financial instruments intended for Directors, Managing Directors, employees, associates or other key management personnel, pursuant to art. 114-bis of the Consolidated Law on Finance.

Independent Experts

CAREL uses the advice of independent experts in carrying out its activities. In particular, the company defines its policies and verifies its salary structure also on the basis of analyses conducted with the support of consultants on market benchmarks with reference to companies operating in the sector considered comparable in terms of size (peer group). For 2019, the company was advised by Mercer Italia.

Process for defining and implementing the policy



The Remuneration Committee formulates its own salary proposals based on an assessment that considers the recommendations of the Code of Conduct on compensation, and taking into account, among other things, the following parameters:

- importance of the recipient of the salary proposal and his/her responsibilities within the company's

- organisational structure;
- impact on company results and on acceptance of related risks;
- economic and financial results achieved by the company;
- benchmarking surveys with the market and with sector peers with similar assignments, with the possibility to be advised by outside professionals with expertise in the field.

In the preparation of the same, the Remuneration Committee avails itself of the support of the Human Resources and Group Organization Department in order to collect market data in terms of practices, policies and benchmarking for a better elaboration of the policy itself and, where necessary, also for independent experts in the field.

The Board of Statutory Auditors expresses opinions on the contents of the policy.

The proposal by the Remuneration Committee relating to the Remuneration Report is subject to approval by the Board of Directors and subsequently the shareholder meeting is required to vote on Section one.

Information on the company's Remuneration policy

The 2019 Remuneration policy was defined taking into account the objectives of the policy described above, market practices, and the requirements of the Corporate Governance Code, with particular reference to Application Criterion 6.C.1.

As also required by stock exchange regulations for issuers listed on the STAR segment, the company's Remuneration policy specifies that a significant portion of the salaries paid to executive directors and key management personnel is variable and based on incentives, with payment linked to the achievement of specific business/operational objectives, both for the company as a whole and individually.

CAREL POLICIES

Application criterion 6.C.1. of the Corporate Governance Code

- the fixed and variable components are properly balanced according to issuer's strategic objectives and risk management policy, taking into account the business sector in which it operates and the nature of the business carried out;
- the variable components shall be capped;
- the fixed component shall be sufficient to reward the director when the variable component was not delivered because of the failure to achieve the performance objectives specified by the Board of Directors;
- the performance objectives – i.e. the economic performance and any other specific objectives to which the payment of variable components (including the objectives for the share-based compensation plans) is linked – shall be predetermined, measurable and linked to the creation of value for the shareholders in the medium-long term;
- the payment of a significant portion of the variable component of the compensation shall be deferred for an appropriate period of time; the amount of that portion and the length of that deferral shall be consistent with the characteristics of the issuer's business and associated risk profile;
- contractual arrangements shall be provided in order to permit the company to reclaim, in whole or in part, the variable components of compensation that were awarded (or to hold deferred payments), as defined on the basis of data which subsequently proved to be manifestly misstated;
- any indemnities defined by the issuer in case of termination of directorships shall not exceed a fixed amount or fixed number of years of annual compensation. Termination payments shall not be paid if the termination is due to inadequate performance.

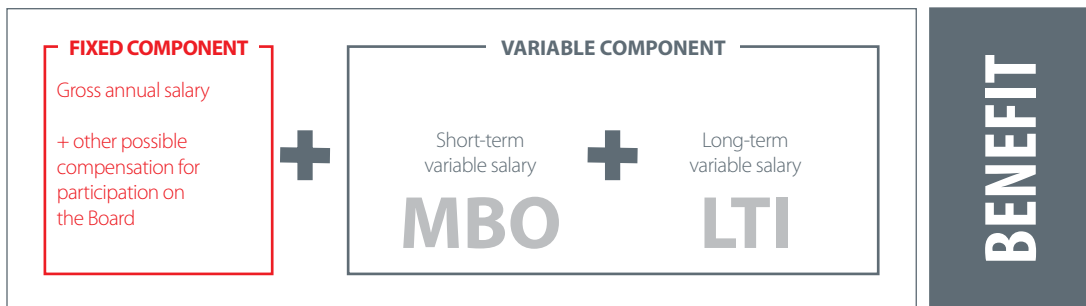
Scope

The main features of the 2019 Remuneration policy are highlighted below, in terms of the elements making up the salary package and how this is determined, for the following parties:

- Directors not holding specific offices;
- Board members;
- Directors holding specific offices: executive president, executive vice-president, executive director with specific powers and Chief Executive Officer;
- Managing Director, as appointed on 25 January 2019;
- Key management personnel.

The salary package for executive directors, the Chief Executive Officer, the Managing Director and key management personnel, as detailed below, comprises a **fixed component** and a **variable component**, which may include the following elements, and company benefits:

Monetary salary package elements



In particular, as defined in the Remuneration policy:

- The **fixed component** is intended to assess the responsibilities assigned and the strategic importance of the position held, and is such as to reward performance of the recipient in the event where no variable salary is paid;
- the **pay mix** identified intends to balance the fixed and variable components of the salary of the Chief Executive Officer, the Managing Director and key management personnel, considering the need to offer a variable incentive that can guide short- and long-term performance and at the same time the need to offer a fixed salary that is sufficient to allow the variable part to be reduced considerably;
- for the other **executive directors**, a **long-term variable component** is established in order to align the interests of the recipient with the long-term strategy pursued by the company.

In this regard, the Group has constantly monitored its reference market in order to verify the alignment in qualitative terms of the policies adopted and to verify the competitiveness of the salaries of its key employees against a peer group of comparable companies.

The characteristics and mechanisms of the short- and long-term variable incentive systems are detailed in a specific paragraph, and the mechanism by which these operate is the same for all participants in the plan.

The following is a summary of the various elements that make up the salary package of the different clusters covered by the scope.

Summary table of salary package elements

Board of Directors: Name, Surname and Position	SALARY PACKAGE ELEMENTS				
	Comp.	GAI	MBO	LTI	Benefits
Luigi Rossi Luciani , <i>Executive President</i>	•			•	•
Luigi Nalini , <i>Executive Vice President</i>	•			•	•
Francesco Nalini , <i>Chief Executive Officer</i>	•	•	•	•	•
Carlotta Rossi Luciani , <i>Executive Director</i>	•			•	•
Cinzia Donalisio , <i>Independent Director</i>	•				
Giovanni Costa , <i>Independent Director</i>	•				
Marina Manna , <i>Independent Director</i>	•				
Managing Director	•	•	•	•	•
Key management personnel	•	•	•	•	•

For the sake of clarity, please note that independent director Giovanni Costa replaced the resigning member Corrado Sciolla on 25 January 2019.

Giandomenico Lombello was appointed Managing Director on 25 January 2019. Previously he was already employed by the company as Group Chief Sales and Marketing Officer, and was fully part of the company's key management personnel.

Board of Directors and directors not holding specific offices

The total amount of the fixed component of the salary of directors (both executive and independent) was determined at the shareholder meeting held on 29 March, 2018, to be 850,000 euros plus 15% of said sum as severance pay: this amount was then allocated as 780,000 euros gross salary, time-based, subdivided differently between the various Board members.

The gross annual income of independent non-executive directors is not linked to the economic results

achieved by the company but is exclusively dependent on the commitment required of each director for the performance of their duties, both as part of the Board of Directors, and on the Committees (Remuneration, Audit and Risk Control) they are appointed to in various roles. The relative compensation was set at 50,000 euros per year for each independent member.

On 11 May 2018, the Board of Directors resolved, again with the favourable opinion of the Statutory Board: (i) to attribute an additional gross annual salary of € 35,000 to members of the Audit and Risk Committee, of which € 15,000 to Marina Manna, as Chair of the Audit and Risk Committee, and € 10,000 respectively to the other members of the committee; and (ii) to attribute an additional gross annual salary of € 35,000 to the members of the Remuneration Committee, of which € 15,000 to Cinzia Donalisio, as Chair of the Remuneration Committee, and € 10,000 to the other members of the committee.

As of the date of preparation of this report, there are no agreements in place between the company and the members of the Board of Directors that provide for compensation in the event of resignation or revocation without just cause or termination of employment for any cause.

Board of Statutory Auditors

The company's Board of Statutory Auditors as of the date of preparation of this report was appointed at the ordinary shareholder meeting on 29 March, 2018, for a period of three years, until approval of the financial statements for the year ending 31 December, 2020.

The following table lists the members of the company's Board of Statutory Auditors as of the date of preparation of this report.

Saverio Bozzolan Chair

Paolo Ferrin Statutory Auditor

Claudia Civolani Statutory Auditor

Giovanni Fonte Alternate Auditor

Fabio Gallo Alternate Auditor

Pursuant to the provisions of article 19, paragraph 2, of Italian Legislative Decree no. 39/2010, the functions of auditing and oversight were assigned to the Board of Statutory Auditors.

Also on 29 March, 2018, the ordinary shareholder meeting established the gross annual salary of the Board of Statutory Auditors appointed on the same date to be a total of 90,000 euros, of which 40,000 euros for the Chair and 25,000 for each statutory auditor.

Remuneration policy for executive directors

As already mentioned, the CAREL Board of Directors includes four executive directors: President, Vice-President, an Executive Director with special powers and the Chief Executive Officer.

The Remuneration policy for executive directors for 2019 includes the following components:

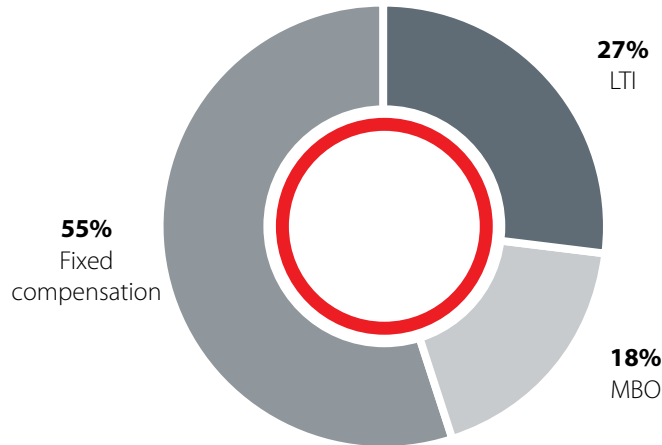
• **President, Vice-President and Executive Director:**

1. fixed compensation intended to reward each party for their respective roles, respectively, € 250,000 annually for the Executive President and € 180,000 annually for the Vice-President. Executive directors are paid a gross annual salary of 60,000 euros;
2. a variable component, in the form of share incentive plans, linked to the achievement of specific medium- to long-term corporate objectives (so-called LTI - Performance Share, as explained in the specific paragraph), equal to, as of the date of assignment, 30% of the current fixed annual compensation. In 2019, the rights relating to the second cycle of the rolling plan will be assigned, and the number of rights assigned will be equal to 30% of the fixed salary, based on the reference share price, calculated as the arithmetic average of the stock exchange price for ordinary CAREL shares in the month preceding the date of attribution of said right;
3. non-monetary benefits (see the specific paragraph for more details).

• **Chief Executive Officer:**

1. a fixed salary to reward the office of company Executive Director, equal to 70,000 euros;
2. a fixed salary linked to the top-management employment contract between the Chief Executive Officer and the company, amounting to 230,000 euros;
3. a variable component, with a maximum pre-defined nominal value linked to the achievement of short-term corporate objectives (MBO - Management by Objectives), in particular the Group's consolidated sales and Group's consolidated EBITDA, as set in the 2019 budget approved by the Board of Directors. The MBO component is equal to 100,000 euros per year on reaching the target (capped at 150% of the target in the event of overperformance);
4. a variable component, in the form of a share incentive plan, linked to the achievement of specific medium- to long-term corporate objectives (so-called LTI - Performance Share, as explained in the specific paragraph), equal to 60% of the fixed annual salary defined at the time of assignment. In 2019, the rights relating to the second cycle of the rolling plan will be assigned, and the number of rights assigned will be equal to 60% of the fixed salary, based on the reference share price, calculated as the arithmetic average of the stock exchange price for ordinary CAREL shares in the month preceding the date of attribution of said right;
5. non-monetary benefits.

Pay-mix CEO 2019



Note: the MBO for 2019 is considered a target in the composition of the pay mix, while for assignment of the LTI component for 2019, the fair value was considered as per the Mercer method.

- **Managing Director and key management personnel (“KMP”)**

As of the date of this report, the KMP, excluding executive directors, are the following:

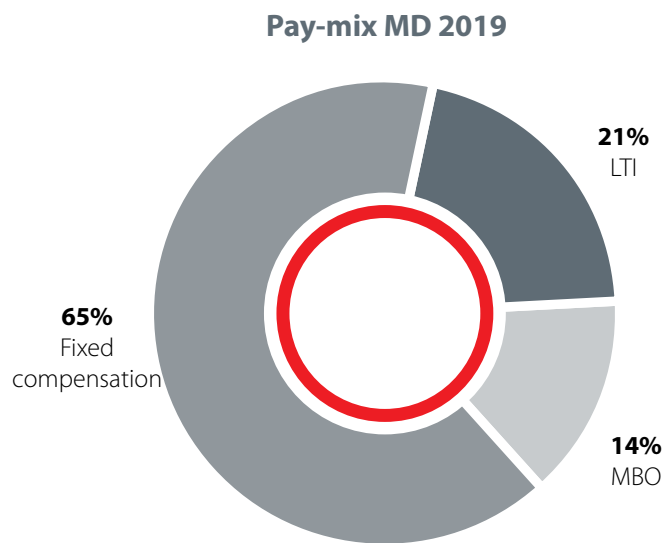
Giuseppe Viscovich	Group Chief Financial Officer
Giandomenico Lombello	MD and Group Chief Sales and Marketing Officer
Pietro Rossato	Group Chief Operation Officer
Carlo Vanin	Group Chief HR and Organization Officer
Alberto Bianchi	Group Chief R&D Officer

The Remuneration policy for the Group Managing Director, appointed as described earlier on 25 January 2019, and for the key management personnel, includes the following components:

1. a fixed salary to reward the various positions held within the Group by the Managing Director and by some key management personnel, such as directors in other Group companies;
2. a fixed salary based on the employment contract;
3. a variable component, with a pre-defined maximum nominal value, linked to the achievement of short-term business objectives (MBO - Management by Objectives). This variable component is on average equal to 25% of the fixed salary, with caps defined for the component;
4. a variable component, in the form of a share incentive plan, linked to the achievement of specific medium- to long-term corporate objectives (LTI - Long term incentive plan), equal to, as of the date of assignment, on average around 40% of the current fixed annual salary (in 2019, the rights relating to the second cycle of the rolling plan will be attributed as explained below);
5. non-monetary benefits.

In extraordinary circumstances, a "one-off payment" made be made to complete special projects of particular importance for the company or the Group.

In particular, for the Managing Director, on 25 January 2019 a fixed salary of 200,000 euros was approved as GAI, plus 28,000 euros as compensation for other pre-existing positions within the Group, a short-term variable component (MBO) equal, on reaching the target, of 50,000 euros, and a variable medium- to long-term component (LTI) equal to 40% of the fixed annual salary.



Note: the MBO for 2019 is considered a target in the composition of the pay mix, while for assignment of the LTI component for 2019, the fair value was considered as per the Mercer method.

- **Other Executives**

It should be noted that for executives other than key management personnel, the company will evaluate salary schemes in line with those adopted for key managers that include, in addition to the short-term variable component (MBO), also a medium- to long-term incentive component based on "performance share" and/or "cash performance" plans. The goal is to retain and motivate the best and most qualified managers.

Please refer to the specific paragraph for information on the structure and operation of the MBO and LTI plans, the characteristics of which are the same for all beneficiaries.

Short-term variable salary: MBO 2019

Beneficiaries of the annual incentive system planned for 2019, the so-called MBO, include the Chief Executive Officer, the Managing Director and key management personnel, as mentioned previously.

For the Chief Executive Officer, the Managing Director and the KMP, the Board of Directors, on proposal of the Remuneration Committee and having considered the opinion of the Board of Statutory Auditors, have confirmed for 2019 the incentive scheme already used in 2018.

This scheme is based on the achievement of performance objectives that are defined both at an individual company and Group level, as well as based on individual performance objectives that are closely related to the main activities that the beneficiaries are responsible for.

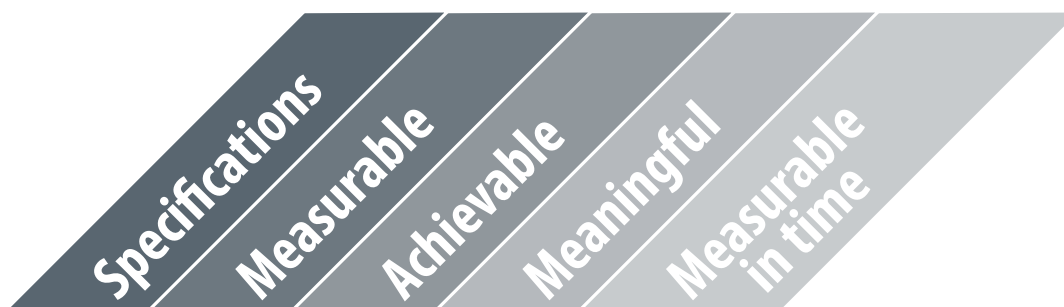
The short-term variable component is aimed at supporting the achievement of corporate, team and individual results, ensuring consistency in the specification of objectives through the assignment of challenging targets across the entire organisation.

The objectives are set with reference to quantitative indicators that are representative of and consistent with strategic and business priorities, measured according to predefined and objective criteria.

The plan provides, for each recipient:

- **one or more Group performance objectives** linked to the achievement of certain levels of (for example, but not limited to) Group consolidated EBITDA, Group consolidated sales, regional sales and/or an individual legal entity. These objectives have different weights in percentage terms of the total incentive, depending on the recipient;
- **Individual performance objectives**, linked to the position held and/or specific strategic planning aspects.

Characteristics of individual performance objectives

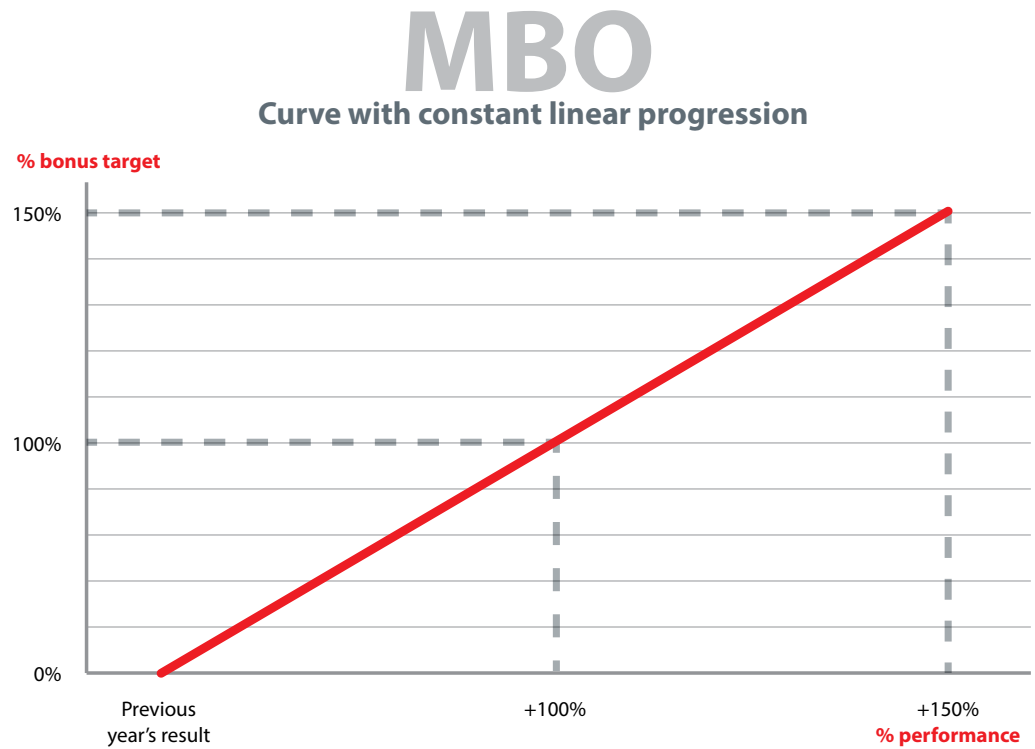


For both corporate and individual objectives, caps are defined relating to the achievement of such objectives: according to these caps, the maximum potential amount payable for each objective is 150% of the target bonus. The target setting is defined in such a way as to pursue continuous growth, year on year.

All annual incentive plans have an entry threshold (access gate), i.e. they generate a payout - regardless of the results actually achieved in terms of individual objectives - only if the Group's consolidated EBIT is

positive (i.e. greater than zero).

The performance-payout curve of the MBO plan is illustrated below.



Operation

The minimum performance gate is the result obtained in the previous year. A linear correlation is displayed for determining the final pay-out

Performance range

0% - 150%

% Pay-out

0% - 150% of the target

The incentives are paid based on the results achieved in the reference year (X) and are paid in February of the year following the reference year (X + 1).

Long-term variable salary (LTI)

The long-term variable incentive has the following objectives:

- align the interests of the beneficiaries with those of shareholders and with the overall strategic plan;
- support "attraction, retention and engagement" in line with corporate culture;
- support a orientation towards sustainability of performance.

As already mentioned, the long-term variable component is offered to CAREL executive directors, to the Chief Executive Officer, to the Managing Director, and to a selected number of key roles, including key management personnel, in order to ensure the company's success.

The plan was approved at the shareholder meeting on 7 September 2018, and is a **rolling plan, with a three-year vesting period**. A performance shares plan is provided for Group-level roles, which allocates company shares on an annual rolling basis. For the remaining key roles residing abroad, a three-year performance cash plan is provided, also on a rolling basis.

The plan includes three assignment cycles, with performance objectives measured over the following periods:

- January 2018 - December 2020 (2018-2020 vesting period);
- January 2019 - December 2021 (2019-2021 vesting period);
- January 2020 - December 2022 (2020-2022 vesting period).

At the end of each cycle, the shares will be allocated or the cash bonuses paid, following verification that the performance objectives have been achieved. In 2019, the second stage of the plan will be assigned.

A holding period is defined for the sale of the shares, whereby 20% of the shares assigned in relation to the performance shares plan are to be held for a period of one year, while for the second type of plan, 20% of the cash bonus accrued for 12 months is deferred, so as to ensure the same conditions of payment for both types of plan.

With regard to the Executive Directors, this amount is equal to 40% of the bonus, to be held for two years.

The long-term variable component is linked to the achievement of certain Group objectives consistent with the company's business plan, including the Group's cumulative EBITDA, regional sales and cash conversion.

The characteristics of the two LTI plans are compared below:

Performance Shares Plan

- **Beneficiaries:** CEO, executive directors, KMP and some selected key roles based in Italy.
- **Indicators:** 60% Group's cumulative EBITDA, 40% cash conversion.
- **Effective date:** from 2018.
- **Vesting period:** three years.
- **Frequency:** rolling.
- **Opportunity:** depending on the cluster it belongs to.
- **Payout:** determined at the end of the third reference year based on the results achieved.
- **Holding:** a holding period of one year is envisaged for 20% of the bonus. With regard to the Executive

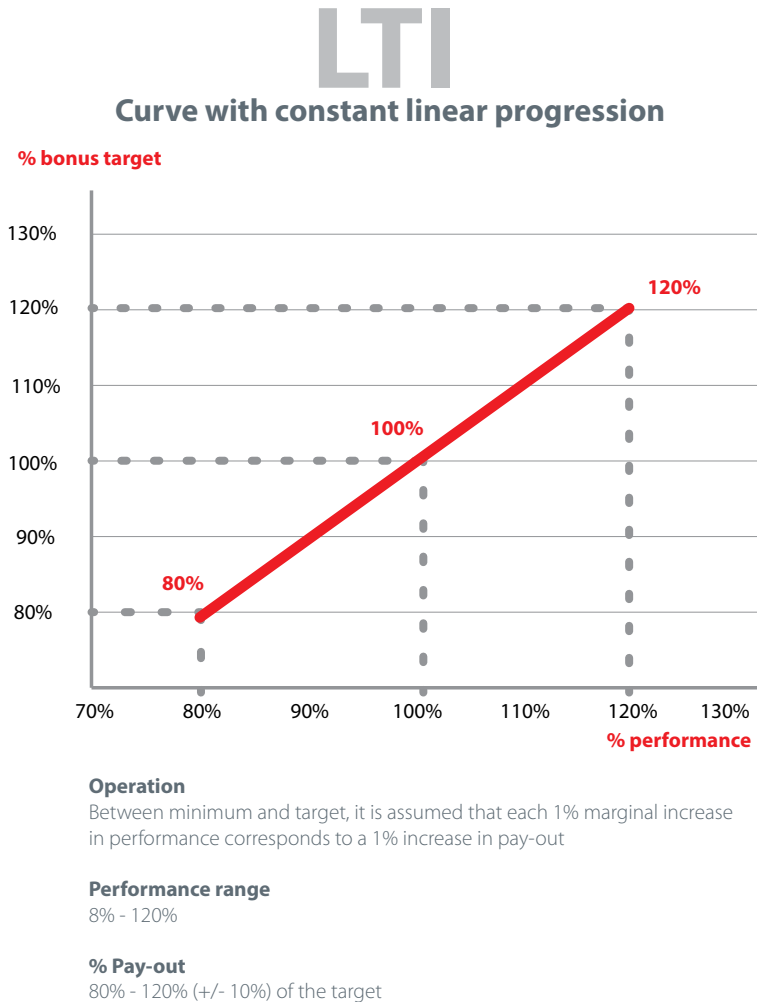
Directors, this amount is equal to 40% of the bonus, to be held for two years.

Performance Cash Plan

- **Beneficiaries:** other key figures based abroad.
- **Indicators:** 60% Group's cumulative EBITDA, 40% regional sales.
- **Effective date:** from 2018.
- **Vesting period:** three years.
- **Frequency:** rolling.
- **Payout:** determined at the end of the third reference year based on the results achieved. 80% of the amount allocated will be paid upfront.
- **Deferral:** payment of 20% of the bonus will be deferred for one year.

Performance is measured on a linear curve, with the aim of favouring the pursuit of continuous improvement; this involves a minimum of 80%, a target set at 100%, and a maximum value of 120% of the assigned target.

The performance-payout curve of the LTI plan is illustrated below.



The number of shares actually accrued by the beneficiaries at the end of the plan will be calculated based on the level of performance achieved. Specifically, the number of shares earned by beneficiaries is determined as a percentage (less than, equal to or greater than) of the number of shares defined for the target. The plan provides for a cap on the number of shares, which cannot exceed 120% of the target.

The long-term variable component accrues and is paid at the end of the reference time period for measuring performance, subject to verification that the minimum threshold has been achieved, while an additional holding/deferral period is envisaged for a total of 20% of the total final bonus.

Malus and Claw Back

No compensation is paid to parties who have acted in violation of company rules (with particular regard to the Code of Ethics, Organisational Model pursuant to Italian Legislative Decree 231/01 and the Anticorruption Model), contractual or legal obligations, or in the event of malicious or grossly negligent behaviour committed against the company.

If, in the three years following assignment of the shares, it should emerge that such assignment was made based on manifestly incorrect data (i.e. that the beneficiary is responsible for calculation errors in determining one or more of the accrual conditions, or voluntary alteration of the data used for determining such or one or more of the vesting conditions through behaviour contrary to laws and/or company rules (violation of the Code of Ethics pursuant to Italian law 231/2001) and/or the Plan Regulations, the beneficiary will be required to return to the company the assigned shares or an amount equal to their value. If the aforementioned circumstances occur, the company may withhold any shares yet to be assigned or an amount equal to their value from any sum due to the beneficiary, such as - by way of example, but not limited to - salary of any kind, bonuses and severance pay due to the beneficiary, who must expressly authorise such compensation.

Non-monetary benefits

Based on a "**total reward**" model and on the basis of company policies and individual agreements, the company offers its executive directors and executives (both key and other management personnel) benefits of a non-monetary nature, mainly social security, insurance and welfare contributions, in addition to those required by national collective bargaining agreements and any supplementary company agreements applicable to management personnel.

Purely by way of example, these include supplementary health care, additional insurance for accidents or fatalities, managerial training programs, full-cost provision of a vehicle for mixed use, and house renting.

An insurance policy known as "D&O Liability" is also provided for third-party liability claims against, among others, directors and key management personnel, so as to cover the risk of compensation for damages relating to the performance of their functions.

Payments in the event of termination of employment with the company

With regard to the payments envisaged in the event of termination of assignment or termination of employment (including executives, directors and key management personnel), CAREL Group practice is to not stipulate agreements in advance that specify the economic aspects relating to the conclusion of the relationship, both whether such occurs under the initiative of the company or the individual.





SECTION II

Application of the Remuneration policies for 2018

This section is divided into two parts and illustrates by name, in the tables enclosed with Part Two, the salaries of members of the various boards and committees, as well as the aggregate salaries of key management personnel.

Part one

Information on compensation paid in the reference year is shown below.

It must be stressed that, following its stock exchange listing, the company adopted a Remuneration policy in compliance with the provisions of legislation applicable to listed companies. The information provided in this Remuneration Report will be presented to the shareholder meeting called to approve the financial statements for the year ending 31 December 2018.

In particular, the 2018 Remuneration policy was implemented through the following items, as described below:

- compensation as Board member;
- compensation as a Director holding a specific office;
- gross annual income (GAI);
- compensation for participation on Committees;
- a variable annual component that can be earned upon the achievement of pre-defined company objectives (so-called MBO);
- a medium/long-term variable component (so-called LTI);
- benefits recognised in the national employment agreement applied and by company practices.

As already mentioned, it should be noted that, on 29 March 2018, the Board of Directors resolved, with the favourable opinion of the Board of Statutory Auditors, to assign the President of the Board of Directors, the Executive Vice-President and the Chief Executive Officer, respectively, a gross annual salary of 250,000 euros, 180,000 euros and 70,000 euros, in addition to the 15% of the salary to be set aside for severance pay. On that occasion, the Board of Directors also allocated to executive director Carlotta Rossi Luciani a gross annual salary of 60,000 euros, and a gross annual salary of 50,000 euros to the independent directors. On 11 May 2018, the Board of Directors resolved, again with the favourable opinion of the Board of Statutory Auditors: (i) to attribute an additional gross annual salary of 35,000 euros to members of the Audit and Risk Committee, of which 15,000 euros to Marina Manna, as Chair of the Audit and Risk Committee, and 10,000 euros respectively to Corrado Sciolla and Cinzia Donalisio as members of the committee; and (ii) to attribute an additional gross annual salary of 35,000 euros to the members of the Remuneration Committee, of which 15,000 euros to Cinzia Donalisio, as Chair of the Remuneration Committee, and 10,000 euros to Corrado Sciolla and Marina Manna, as members of the committee.

With regard to the beneficiaries of the 2018 MBO plan, the MBO incentives for the performance relating to 2018 will be paid in 2019. The results for the 2018 financial year presented to the Board of Directors at the meeting on 07/03/2019, upon proposal of the Remuneration Committee, led to the determination of the following payouts:

- for the Chief Executive Officer, 140%
- for KMPs, an average of 127%

More information is specified under the item "Variable non-equity/bonus payments and other incentives" in Table 1, with detailed indications in Table 3b.

Table 1 shows the value of benefits awarded in 2018, according to the criterion of taxable income; in particular, these values refer to the following benefits: i) annual contribution to the supplementary pension fund; ii) annual contribution to the supplementary healthcare fund; iii) allocation of a vehicle for mixed use; iv) housing; v) other supplementary welfare schemes.

Part two (tables)

The tables in part two of this section show the salaries paid to newly-appointed members, confirmed members and members whose service has been terminated, based on the number of months in which they held office.

TABLE 1: Compensation paid to the members of the various boards and committees, to Managing Directors and other key management personnel

Name Surname	Office	Period in office	Date of termination	Fixed comp.	Compensation for participation on committees
Luigi Rossi Luciani	Executive President	01/01/2018 31/12/2018			
(i) compensation in company preparing financial statements				237,500	
(ii) compensation from subsidiaries or affiliates					
(iii) Total				237,500	
Note: the amount corresponds to the compensation accrued from 1 January to 29 March and to the pro rata compensation as approved by the Board of Directors on 29 March 2018.					
Luigi Nalini	Vice President (& acting President)	01/01/2018 31/12/2018			
(i) compensation in company preparing financial statements				167,500	
(ii) compensation from subsidiaries or affiliates					
(iii) Total				167,500	
Note: the amount corresponds to the compensation accrued from 1 January to 29 March and to the pro rata compensation as approved by the Board of Directors on 29 March 2018.					
Francesco Nalini	Chief Executive Officer	01/01/2018 31/12/2018			
(i) compensation in company preparing financial statements				211,500	
(ii) compensation from subsidiaries or affiliates					
(iii) Total				211,500	
Note: the amount corresponds to the gross annual salary as an employee accrued from 1 January to 29 March and to the pro rata compensation, as approved by the Board of Directors on 29 March 2018.					

Variable non-equity compensation		Non-monetary benefits	Other comp.	Total	Fair value of non-equity compensation	Severance pay for termination of office or termination of employment
Bonuses and other incentives	Profit sharing					
		3,232		240,732		
				240,732		
		4,763		172,263		
				172,263		
		3,843		215,343		
				215,343		

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Name Surname	Office	Period in office	Date of termination	Fixed comp.	Compensation for participation on committees
Carlotta Rossi Luciani	Executive Director	01/01/2018 31/12/2018			
(i) compensation in company preparing financial statements				54,785	
(ii) compensation from subsidiaries or affiliates					
(iii) Total				54,785	
Note: the amount corresponds to the gross annual salary accrued as an employee and bonus for working abroad until March 2018 and to the pro rata compensation as approved by the Board of Directors on 29 March 2018, and compensation for participation on committees, as decided on 11 May 2018.					
Cinzia Donalisio	Independent Director	29/03/2018 31/12/2018			
(i) compensation in company preparing financial statements				37,500	16,667
(ii) compensation from subsidiaries or affiliates					
(iii) Total				37,500	16,667
Note: the amount corresponds to the pro rata compensation as approved by the Board of Directors on 29 March 2018, and compensation for participation on committees, as decided on 11 May 2018.					
Marina Manna	Independent Director	29/03/2018 31/12/2018			
(i) compensation in company preparing financial statements				37,500	16,667
(ii) compensation from subsidiaries or affiliates					
(iii) Total				37,500	16,667
Note: the amount corresponds to the pro rata compensation as approved by the Board of Directors on 29 March 2018, and compensation for participation on committees, as decided on 11 May 2018.					
Corrado Sciolla	Independent Director	29/03/2018 31/12/2018			
(i) compensation in company preparing financial statements				37,500	13,333
(ii) compensation from subsidiaries or affiliates					
(iii) Total				37,500	13,333
Note: the amount corresponds to the pro rata compensation as approved by the Board of Directors on 29 March 2018, and compensation for participation on committees, as decided on 11 May 2018.					
Saverio Bozzolan	Chair of the Board of Statutory Auditors	29/03/2018 31/12/2018			
(i) compensation in company preparing financial statements				30,000	
(ii) compensation from subsidiaries or affiliates					
(iii) Total				30,000	
Note: pro rata compensation as approved by the Board of Directors on March 29, 2018.					
Paolo Ferrin	Statutory Auditor	01/01/2018 31/12/2018			
(i) compensation in company preparing financial statements				20,802	
(ii) compensation from subsidiaries or affiliates					
(iii) Total				20,802	

	Variable non-equity compensation	Non-monetary benefits	Other comp.	Total	Fair value of non-equity compensation	Severance pay for termination of office or termination of employment
				54,785		
				54,785		
Directors on 29 March 2018.				54,167		
				54,167		
8				54,167		
				54,167		
8				50,833		
				50,833		
8				30,000		
				30,000		
				20,802		
				20,802		

Name Surname	Office	Period in office	Date of termination	Fixed comp.	Compensation for participation on committees
Note: the amount corresponds to the compensation accrued from 1 January to 29 March and the pro rata compensation as approved by the Board of Directors on 29 March					
Claudia Civolani	Statutory Auditor	29/03/2018 31/12/2018			
(i) compensation in company preparing financial statements				18,750	
(ii) compensation from subsidiaries or affiliates					
(iii) Total				18,750	
Note: pro rata compensation as approved by the Board of Directors on March 29, 2018.					
Giovanni Fonte	Alternate Auditor	01/01/2018 31/12/2018			
(i) compensation in company preparing financial statements				1,539	
(ii) compensation from subsidiaries or affiliates					
(iii) Total				1,539	
Note: compensation accrued from 1 January to 29 March as statutory auditor					
Fabio Gallo	Alternate Auditor	29/03/2018 31/12/2018			
(i) compensation in company preparing financial statements					
(ii) compensation from subsidiaries or affiliates					
(iii) Total					
Ilaria Agostinelli	Statutory Auditor	01/01/2018 29/03/2018			
(i) compensation in company preparing financial statements				1,539	
(ii) compensation from subsidiaries or affiliates					
(iii) Total				1,539	
Note: compensation accrued from 1 January to 29 March as statutory auditor					
Key management personnel	KMP (5)	01/01/2018 31/12/2018			
(i) compensation in company preparing financial statements				702,230	
(ii) compensation from subsidiaries or affiliates				28,164	
(iii) Total				730,394	
Note: the amount corresponds to gross annual salary and compensation.					

	Variable non-equity compensation	Non-monetary benefits	Other comp.	Total	Fair value of non-equity compensation	Severance pay for termination of office or termination of employment
2018.						
				18,750		
				18,750		
				1,539		
				1,539		
				1,539		
				1,539		
				1,539		
				1,539		
		24,110		726,340		
				28,164		
		24,110		754,504		

Table 3A: Incentive plans based on financial instruments other than stock options, paid to board members, Managing Directors and other key management personnel

Name Surname	Office	Plan	Financial instruments assigned in previous years not vested during the financial year	
			No. and type of financial inst.	Vesting period
Luigi Rossi Luciani	Executive President			
(i) compensation in company preparing financial statements		Plan resolution of 07/09/2018		
(II) Compensation from subsidiaries or affiliates				
(III) Total				
Luigi Nalini	Vice President (& acting President)			
(i) compensation in company preparing financial statements		Plan resolution of 07/09/2018		
(II) Compensation from subsidiaries or affiliates				
(III) Total				
Francesco Nalini	Chief Executive Officer			
(i) compensation in company preparing financial statements		Plan resolution of 07/09/2018		
(II) Compensation from subsidiaries or affiliates				
(III) Total				
Carlotta Rossi Luciani	Executive Director			
(i) compensation in company preparing financial statements		Plan resolution of 07/09/2018		
(II) Compensation from subsidiaries or affiliates				
(III) Total				
Key management personnel	KMP (5)			
(i) compensation in company preparing financial statements		Plan resolution of 07/09/2018		
(II) Compensation from subsidiaries or affiliates				
(III) Total				

Financial instruments assigned during the financial year						Financial instruments vested during the financial year and not allocated	Financial instruments vested during the financial year and allocatable		Financial instruments for the financial year
No. and type of financial inst.	Fair value as of assignment date	Vesting period	Date of assignment	Market price at assignment	No. and type of financial inst.	No. and type of financial inst.	Value at date of accrual	Fair value	
8,446	81,276	three years	01 October 2018	8.88				9,031	
8,446	81,276							9,031	
6,081	58,517	three years	01 October 2018	8.88				6,502	
6,081	58,517							6,502	
15,068	144,999	three years	01 October 2018	8.88				16,111	
15,068	144,999							16,111	
2,027	19,506	three years	01 October 2018	8.88				2,167	
2,027	19,506							2,167	
31,992	307,859	three years	01 October 2018	8.88				34,207	
31,992	307,859							34,207	

Table 3b: Monetary incentive plans paid to board members, Managing Directors and other key management personnel

Name Surname	Office	Plan	Bonus for the year			Bonuses from previous years			Other bonuses
			Payable/ paid	Deferred	Deferral period	No longer payable	Payable/ paid (1)	Still deferred	
Francesco Nalini	Chief Executive Officer								
		MBO 2017					51,814		
(i) compensation in company preparing financial statements		MBO 2018	69,891						
									50,000
(II) Compensation from subsidiaries or affiliates									
(III) Total			69,891				51,814		50,000
Carlotta Rossi Luciani	Executive Director								
(i) compensation in company preparing financial statements		MBO 2017					2,089		
		MBO 2018							
(II) Compensation from subsidiaries or affiliates									
(III) Total							2,089		
Key management personnel	KMP (5)								
		MBO 2017					174,835		
(i) compensation in company preparing financial statements		MBO 2018	229,876						
									138,000
(II) Compensation from subsidiaries or affiliates									
(III) Total			229,876				174,835		138,000

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