2019

REMUNERATION **REPORT**


CAREL

Remuneration report

at 31 December 2019

Index

Chairperson's letter

Dear shareholders,
As chairperson of the remuneration committee and on its behalf, I am very pleased to present the remuneration report of CAREL (the "report").

The first section of the report sets out the remuneration policy for 2020 in line with the guidelines defined for our entire mandate with respect to both the structure and remuneration and incentive levels.

CAREL continues to be committed to improving its remuneration system to comply with the recommendations set out in the Code of Conduct and, especially, changes in Italian and European regulations and the reference best practices.

In addition, with respect to the transparency parameters defined by Directive (EU) no. 2017/828, which requires the presentation of the links between the variable incentive criteria and the company's business strategy over the long term in the remuneration policy, we have set out herein a more comprehensible overview of this link between the short and long-term performance parameters and the main strategic drivers, described with respect to business integration, sustainability objectives and operating, economic and financial efficiency.

A retribution policy developed in line with the following guidelines:
- ***Fairness and meritocracy:** enhancing know-how and competencies of resources and recognition of their duties and responsibilities, results achieved and quality of their professional contribution;*
- ***Sustainability:** consistency of the overall remuneration packages with the fundamental requirement of maintaining the company's financial balance over time;*
- ***Competitiveness:** balance and consistency with market practices for similar positions and roles with identical levels of responsibility and complexity using benchmark analysis of a panel of comparables in terms of their size and sector;*
- ***Transparency:** recognition of the incentives linked to variable remuneration after a careful analysis of the results actually achieved and possible clawback clauses for behaviour that violates company, contractual or legal regulations.*

As CAREL is currently undergoing great change and strategic innovation, we believe that the 2020 remuneration policy is consistent with the group's clear and distinctive vision, in line with the remuneration models rolled out in 2019. It confirms that the enhancement of human capital is an essential competitive factor to achieve long-term sustainable objectives that also match customer and investor expectations.

A policy that meets the need to assist company management and employees achieve increasingly challenging objectives, that has remuneration levers that help the beneficiaries focus on the strategic goals and the company's milestones in particular, in terms of its development and integration, in line with its market growth. It must be able to manage integrated business processes and specialised know-how in the context of strong geographical and socio-cultural diversity.

Specifically, in early 2020, we will define the company's objectives, focusing on in particular:
- *the definition of pre-set and measurable targets of both a traditional financial nature and also new business development and environmental and social sustainability nature;*

- guaranteeing the ongoing link between the group's operating performance over the long term and management's activities by launching the third and last cycle of the long-term incentive (LTI) plan, which reinforces the link with the plan objectives;
- continuation of the process to align CAREL's remuneration system with national and European best practices and regulations while also ensuring it complies with the company's strategic plan;
- monitoring the short-term and long-term incentive plan's objectives;
- completion of the overhaul of the corporate governance and remuneration systems of the foreign group companies;
- introduction of the main guidelines and recommendations of the new Shareholder Rights Directive II.

The second section provides details of the remuneration actually paid to each director and statutory auditor, the general manager and, collectively, the key management personnel in line with the remuneration policy approved in 2018.

During 2019, company management worked hard to continue the sustainable development and growth plan presented to the market. The 2019 results confirm the excellent progress made with respect to the financial and operating goals the company has set itself, with a +16.8% growth rate and a profitability margin (EBITDA/revenue) of just under 20%. The company's efforts were rewarded with the prestigious "Small&Mid Cap Award" for the company with the best performance on international markets.

Specifically, in 2019, it achieved the following results:

- ongoing alignment of the remuneration of the chief executive officer, the general manager and key management personnel with the peers benchmark;
- review of the short-term incentive (MBO) indicators and introduction of parameters to measure economic/financial, business and ESG efficiency;
- review of the group's corporate governance structure with respect to the boards of most of the foreign group companies and the related review of their remuneration criteria;
- introduction of the second wave of the LTI plan.

We would like to emphasise how CAREL has given great importance to dialogue and ongoing engagement with the main recipients of its remuneration policy since the start of its stock market listing process. It intends to continuously adopt market best practices and implement insights provided by its shareholders and proxy advisors in particular.

I would like to thank you all for your constructive approach to dialogue with the company, aimed at understanding and meeting everyone's requirements.

In 2019, the remuneration report received a large percentage of favourable votes, confirming our efforts to propose amendments to the board of directors that are best suiting to ensuring that the company's remuneration model is aligned with national and international best practices and to implementing recommendations from stakeholders.

I hope that our work meets with your approval again this year and would like to thank you in advance for your comments.

Finally, I would like to thank the other members of the remuneration committee for their precious contribution to our activities during the year as well as all the staff of the HR & Organisation Unit with whom we have always worked in a constructive and friendly manner.

Cinzia Donalisio

Chairperson of the remuneration committee


CAREL

Introduction

Since CAREL INDUSTRIES' listing on the stock exchange in June 2018, it has been required to comply with the requirements of the Consolidated Finance Act on the transparency of management remuneration.
This report is designed to provide a very transparent view of this remuneration to the stakeholders to reinforce their trust in the company and to provide all the information necessary to properly evaluate the company and exercise their rights in an informed manner.
CAREL has invested in its remuneration policy, partly as a result of its stock market listing and also because it considers it to be a strategic lever to enhance the value of its human capital and achieve its growth objectives.
Remuneration of the executive directors and key management personnel is an essential tool to ensure the correct working of the corporate governance mechanisms and the effectiveness of the strategies introduced by the company. It is fundamental to create value for the shareholders and, in general, all the group's stakeholders in an adequate and sustainable manner.
Once again for 2020 and in line with the previous year, CAREL has defined a general remuneration policy designed to attract, motivate and retain the company's key resources while concurrently continuing to pursue its medium to long-term objectives and the values that inspire its work set out in its Code of Ethics.
This report confirms the company's full compliance with the ruling regulations and the recommendations set out in the Code of Conduct for listed companies, including with respect to the correct working of its corporate governance mechanisms.

Report structure

The company's board of directors prepared and approved this report on the remuneration policy for the directors, statutory auditors, general managers and key management personnel on 5 March 2020 in accordance with: (i) article 123-ter of the Consolidated Finance Act, as recently amended by Legislative decree no. 49 of 10 June 2019, implementing Directive (EU) no. 2017/828 (the "Shareholder Rights Directive II") of the European Parliament and of the Council of 17 March 2017, which amends Directive no. 2007/35/EC (the "Shareholder Rights Directive I") with respect to the encouragement of long-term shareholder engagement; (ii) article 84-quater of the Issuers' Regulation and related Annex 3A, tables 7-bis and 7-ter; and (ii) article 6 of the Code of Conduct in force at the date of this report.
At the date of this report, the review of the secondary regulation, set out in article 84-quater and Annex 3A, table 7-bis of the Issuers' Regulation, had not been completed. It covers the tables for the preparation of the remuneration report with respect to the remuneration policy (Section I) and the remuneration paid during the year (Section II) and is intended to include specific elements set out in the Shareholder Rights Directive II, the disclosure of which is not requested by the current Issuers' Regulation, and additional clarifications following developments in market practices about remuneration transparency. Therefore, this report has been prepared using the tables provided for by the regulations currently in force, updated as required from time to time to comply with the ruling primary regulations.
Section I of this report provides clear and understandable details of the company's and group's remuneration policy for 2020 for the:

1. directors and statutory auditors;
2. general managers:
3. key management personnel;

and the procedures used to adopt and implement the remuneration policy as per article 123-ter.3 of the CFA.
Pursuant to article 123-ter.4 of the CFA, Section II includes a clear and understandable presentation of the individual

remuneration items for each director, statutory auditor and general manager and, collectively, for the key management personnel as well as the remuneration paid in 2019 by the company, its subsidiaries and associates (Table 1, Table 3A and Table 3B).

As provided for in the related party regulation and included in the company's relevant procedure and available on its website (www.carel.com), the shareholders' approval of the remuneration policy, after its preparation by the board of directors based on the recommendations made by the remuneration committee (comprising three non-executive independent directors) and input from the board of statutory auditors, implies that the company's resolutions on the remuneration of its directors and key management personnel are excluded from the procedures provided for by Consob's related party regulation.

Glossary

Board of directors	CAREL's board of directors.
Board of statutory auditors	CAREL's board of statutory auditors.
CARELor company or issuer	CAREL INDUSTRIES S.p.A.
CAREL Group or group	CAREL and the companies controlled directly or indirectly by it from time to time as provided for by article 93 of the CFA and article 2359 of the Italian Civil Code.
CFA	Legislative decree no. 58 of 24 February 1998 as subsequently amended and integrated.
Code of Conduct or code	The Code of Conduct of Listed Companies approved in July 2018 by the Corporate Governance Committee of Listed Companies and promoted by Borsa Italiana, ABI (the Italian Bankers Association), ANIA (the Italian Insurance Association), Assogestioni (the Italian Investment Management Association), Assinome (the Association of Italian Joint Stock Companies) and Confindustria (General Confederation of Italian Industry).
ESG	Environmental, social and governance aspects considered when defining the MBO.
Executive directors	Collectively, the chairperson of the board of directors, deputy chairperson of the board of directors, chief executive officer and the other executive directors.
Gross annual remuneration (GAR)	The annual fixed remuneration (excluding any variable remuneration) paid to employees.
Issuers' Regulation	The regulation issued by Consob with its resolution no. 11971 of 14 May 1999 on issuers, as subsequently amended and integrated.
Key management personnel	Managers who have the power and direct or indirect responsibility for the planning, management and control of the company's activities.
Key performance objectives or KPIs	Performance objectives set in the short and long-term incentive plan, achievement of which is mandatory to obtain the bonus.
Pay-mix	The weight of the various components (fixed, short and long-term variable) of remuneration, shown as a percentage of total remuneration.
Performance share/cash plans (LTI plan)	The long-term incentive plan.
Related party regulation	The regulation issued by Consob with its resolution no. 17221 of 12 March 2010 on related party transactions, as subsequently amended and integrated.

Remuneration committee or committee	The remuneration committee set up and appointed by the company's board of directors in accordance with the Code of Conduct.
Report	This remuneration report prepared in accordance with article 123-ter of the CFA, article 84-quater of the Issuer's Regulation and article 6 of the Code.
Shares	The company's ordinary shares traded on the STAR segment of the stock market organised and managed by Borsa Italiana S.p.A.
Shareholder Rights Directive II	Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 which amends Directive no. 2007/36/EC (the Shareholder Rights Directive I), as regards the encouragement of long-term shareholder engagement, transposed into Italian law by Legislative decree no. 49 of 10 June 2019.
Short-term incentives (MBO or STI)	Variable remuneration system defined ex ante that provides for a bonus to be granted when set performance targets are met.
Vesting period	The periods over which the performance objectives of the LTI plan split into three rolling cycles are measured, i.e., January 2018 - December 2020 (the 2018-2020 vesting period), January 2019 - December 2021 (the 2019-2021 vesting period), January 2020 - December 2022 (the 2020-2022 vesting period) after which the shares will be assigned once achievement of the performance objectives has been checked.


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Section I

2020 Remuneration policy

a) Bodies or parties involved in the preparation and approval of the remuneration policy, specifying their roles, and the bodies and parties responsible for the correct implementation of the policy

The governance process to define the remuneration policy

Definition of the company's remuneration policy is the end product of a clear and transparent corporate governance process that involves:

- the HR & organisation unit, which provides the board of directors and the remuneration committee with analyses used to define the policy;
- the remuneration committee, as the body responsible for providing advice, input and guidance about the policy's adoption;
- the board of statutory auditors, which provides its opinion on the policy, especially as regards the executive directors and the key management personnel;
- the board of directors, which approves the policy;
- the shareholders, required to resolve on the report with a binding vote on the policy described in the first section and an advisory vote on the second section, as provided for by Legislative decree no. 49/2019 which implements the Shareholder Rights Directive II;
- independent experts, that assist the remuneration committee to provide advice and input about the policy.

Assisted by the HR & organisation unit, the board of directors, the remuneration committee and the board of statutory auditors oversee the application of the policy once it has been approved and adopted. They are responsible for its correct implementation.

Remuneration committee

More information about this committee's composition, competencies and working is available in point b) below.

Board of directors

At the date of this report, the board of directors included:

- Executive chairperson: Luigi Rossi Luciani;
- Executive deputy chairperson: Luigi Nalini;
- Chief executive officer: Francesco Nalini;
- Executive director: Carlotta Rossi Luciani;
- Non-executive independent director: Cinzia Donalisio;
- Non-executive independent director: Marina Manna;
- Non-executive independent director: Giovanni Costa.

As the company's main administrative body, the board of directors is entrusted with the responsibility for defining the remuneration policy based on the recommendations made by the remuneration committee.

Once a year, the board of directors approves the remuneration report and presents it to the shareholders in accordance with and to the extent of the limitations of article 123-ter of the CFA. It ensures the policy is implemented and sets the remuneration of the directors with operating powers or special duties, as proposed by the remuneration committee within the limits of the total remuneration set by the shareholders in accordance with article 2389.3 of the Italian Civil Code, after consulting the board of statutory auditors.

The board of directors approves remuneration in the form of shares as recommended by the remuneration committee and proposes it be approved by the shareholders, ensuring it is implemented.

Board of statutory auditors

The board of statutory auditors provides its opinions on remuneration as required by the ruling regulations, especially as regards the remuneration of directors with special duties in accordance with article 2389 of the Italian Civil Code. It also checks that this remuneration complies with the company's general remuneration policy.

At the date of this report, the board of statutory auditors comprised:

- Chairperson: Saverio Bozzolan;
- Standing statutory auditor: Claudia Civolani;
- Standing statutory auditor: Paolo Ferrin;
- Alternate statutory auditor: Giovanni Fonte;
- Alternate statutory auditor: Fabio Gallo.

Shareholders

The shareholders approve the directors' remuneration as per articles 2364.1.3 and 2389.3 of the Italian Civil Code during their ordinary meetings.

As described in Section I of this report and in accordance with article 123-ter.3-bis/3-ter of the CFA, introduced by Legislative decree no. 49/2019, the remuneration policy requires the binding vote of the shareholders in their ordinary meeting called to approve the financial statements as per article 2364.2 of the Italian Civil Code. In addition, the shareholders also vote on additional remuneration based on financial instruments for the directors, general managers, employees, consultants or other key management personnel in accordance with article 114-bis of the CFA.

As required by the new point 6 of article 123-ter of the CFA, introduced by Legislative decree no. 49/2019, Section II requires the advisory vote rather than the binding vote of the shareholders that are required to vote for or against the section at their ordinary meetings.

The company provides the shareholders with the remuneration policy for their vote at the agreed dates over the policy's term or when it is amended.

The company only pays remuneration in compliance with the policy most recently approved by the shareholders. However, in exceptional circumstances, it may temporarily derogate from this policy, provided that the policy includes the procedural conditions under which the derogation can be applied and specifies the elements of the policy from which a derogation is possible (see letter o-bis) of Section I of this report).

Exceptional circumstances are only situations in which the derogation from the remuneration policy is necessary to serve the long-term interests and sustainability of the company as a whole or to ensure its ability to stay on the market, being both its reference market (i.e., the design, manufacturing and distribution of technologically innovative components and solutions to achieve energy-efficient control and regulation instruments for the air

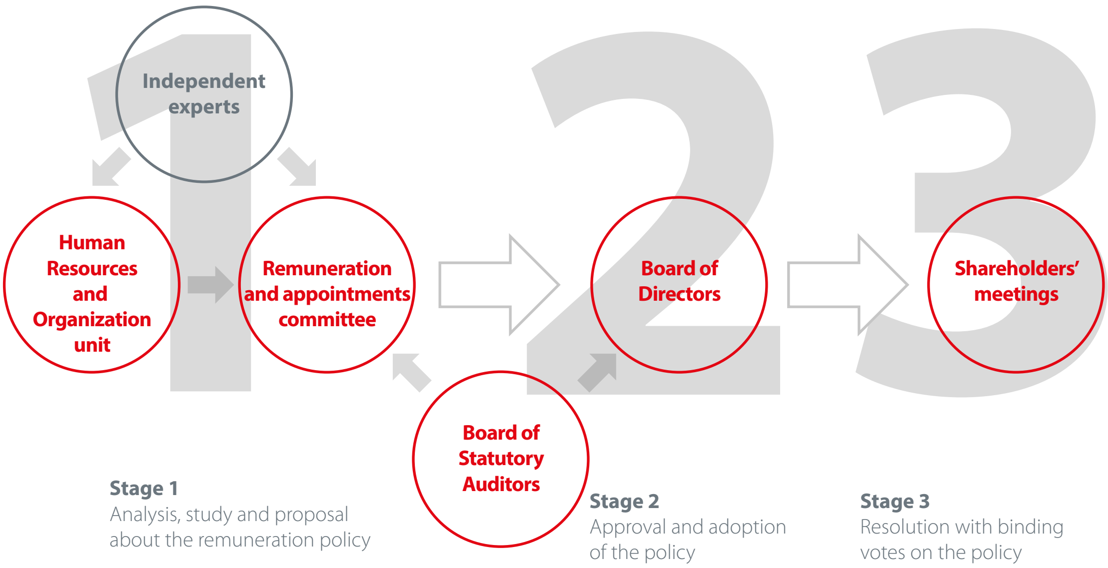
conditioning (HVAC) and refrigeration markets) and the labour market.
Should the shareholders not approve the remuneration report presented for their vote, the company continues to pay remuneration in line with the most recent report approved by the shareholders or, if this is not possible, it may continue to pay remuneration in accordance with its existing practices. In this case, the company presents the shareholders with a revised remuneration report for their approval at the next shareholders' meeting called in accordance with article 2364.2 of the Italian Civil Code at the latest.

Independent experts

The remuneration committee avails of the assistance of independent experts to perform its consulting duties. The experts provide information and analyses on remuneration trends, practices and levels on a benchmark basis using peer groups. CAREL was assisted by Mercer Italia for the 2020 report, like in the previous two years.

Process to define the remuneration policy

Definition of the remuneration policy, described in section 1 of this report, is the result of a clear and understandable process, structured in line with the regulations and recommendations of the Code of Conduct. The remuneration committee and the board of directors play a key role in its definition. The latter adopts and approves the policy once a year upon the committee's recommendation and presents it to the shareholders for their vote.
The board of statutory auditors expresses its opinion on the policy, especially as regards the remuneration of directors with special duties. The board of directors monitors the implementation of the corporate governance rules provided for by the Code of Conduct, including how resolutions are taken about remuneration and other benefits.
Assisted by the HR & organisation unit, the board of directors, the remuneration committee and the board of statutory auditors oversee the application of the policy once it has been approved and adopted. They are responsible for its correct implementation.



The remuneration committee makes its proposals on remuneration based on assessments that consider the Code of Conduct's relevant recommendations.
The principles upon which CAREL bases its remuneration policy are:
1. Fairness and meritocracy: the remuneration and incentive levels are always defined to enhance know-how and competencies of resources and recognition of their duties and responsibilities, concurrently assessing the results achieved and quality of their professional contribution;
2. Sustainability: CAREL's share-based and cash-based incentive systems develop over the medium to long-term in line with its risk profile and intention to increase the group's value in line with its stakeholders' expectations;
3. Competitiveness: in line with market best practices,

a significant component of the remuneration of the CEO and key management personnel is linked to the company's business results both in the short and medium to long-term;

4. Transparency: the company has a transparent corporate governance system and is committed to providing regular and transparent information about its remuneration policy. It deems that the greater involvement of management in the incentive systems is the best way to ensure their active participation in its results.

The HR & organisation unit assists the remuneration committee to draw up the policy as do independent experts, when necessary. The board of statutory auditors expresses its opinion on the policy's content.

The remuneration committee provides the board of directors with the draft remuneration policy for its approval after which the shareholders are requested to cast their binding vote on Section I of the report.

b) Intervention of the remuneration committee, its composition (non-executive and independent directors), its competencies and working method

AAt the date of this report, the remuneration committee that provided the board of directors with the draft policy, comprised the following non-executive independent directors:

Cinzia Donalisio	Chairperson	Indipendent	Non- executive
Marina Manna	Member	Indipendent	Non- executive
Giovanni Costa	Member	Indipendent	Non- executive

All the committee members have extensive and well-honed experience as well as specific expertise in economic and financial subjects and remuneration policies as assessed by the board of directors at the time of their appointment.

In line with the recommendations made by Borsa Italiana in the Code of Conduct, which CAREL applies, the board of directors is assisted by a board committee (the remuneration committee) when taking decisions about remuneration and incentives. Specifically, it provides assistance with the:

- preparation of the remuneration report and provides specific proposals once a year;
- regular assessment of the adequacy, overall compliance, sustainability and actual application of the policy;
- presentation of proposals and opinions to the board of directors on the remuneration of the directors (especially the executive directors or those with special duties) and the key management personnel, as well as on the performance objectives linked to the short-term variable component of the remuneration;
- checking that the board of directors' decisions are applied and the performance objectives are actually achieved;
- presentation of recommendations about the application of the LTI plan (cash or performance shares) and technical aspects related to their preparation and application.

The committee has its own regulation, based on which it meets whenever necessary to carry out its duties and whenever deemed necessary by its chairperson or when at least one committee member or the chairperson of the board of statutory auditors presents a reasoned request. The committee meets at least once a year and when the board of directors meets to resolve on the remuneration of the delegated directors or those with special duties and/or senior management, or to discuss stock option plans or the assignment of shares.

The board of statutory auditors is invited to attend committee meetings.

Executive directors do not attend committee meetings when proposals are made about their remuneration for

presentation to the board of directors.
Meetings are properly called when the majority of the committee members are present and its resolutions are passed by majority vote.
In order to carry out its duties, the committee has access to all internal information and units necessary and may also consult independent experts, if necessary, within the terms set by the board of directors.
In 2019, the committee met once a month except in August, October and November (10 times). (?9 times)
The HR & organisation manager participated in all meetings as the committee secretary.

c) Independent experts involved in the preparation of the remuneration policy

The remuneration committee avails of the assistance of independent experts to perform its consulting duties. The experts provide information and analyses on remuneration trends, practices and levels on a benchmark basis using peer groups. CAREL was assisted by Mercer Italia for the 2020 report, like in the previous two years.

d) Scope of the remuneration policy, its underlying principles and any changes compared to the previous year

The remuneration committee prepared the remuneration policy (and related implementation procedure) in its meeting of 5 March 2020 and it was approved by the board of directors on the same date. The approved policy will be presented to the shareholders for their binding vote at their meeting called for 20 April 2020.
The remuneration policy contributes to the company's strategies, long-term interests and sustainability. It presents the methods applied to use this contribution.
As stated on several occasions, the group's remuneration policy is designed to achieve two main objectives:

- align management's interest with those of the shareholders;
- attract, retain and motivate the resources deemed most important to achieve the company's development and growth objectives.

Alignment of management's interest with those of the shareholders is one of the company's main objectives to be achieved also through the creation of a strong link between the remuneration policy and its business results. The policy is designed to attract, retain and motivate the company's key resources. In order to ensure that its remuneration policy is in line with those of its competitors, CAREL checked its remuneration practices in 2019 by carrying out analyses and benchmarking activities assisted by leading Italian and international consultancy companies.
In line with the project launched with its stock market listing, the company's remuneration policy for senior management and key resources strengthens the link between a significant component of the remuneration to achievement of performance objectives tied to both the company's operations and ESG sustainability targets, using annual (MBO) and long-term (LTI) incentive systems.
The policy reflects both the recommendations set out in the Code of Conduct and market best practices with respect to a competitive remuneration system and the typical corporate governance issues.
The 2020 remuneration policy is substantially unchanged from the previous year's policy except for its alignment with the new text of article 123-ter of the CFA, as recently amended by Legislative decree no. 49/2019, implementing the Shareholder Rights Directive II.

e) Description of the fixed and variable remuneration components, especially as a percentage of total remuneration and differentiation between short and medium to long-term variable components

The 2020 remuneration policy reflects the scope indicated in letter d) of Section I, market practices and the Code of Conduct, especially as regards Application Criterion 6.C.1 (referred to below).

As required by the Rules of markets organised and managed by Borsa Italiana S.p.A. for issuers listed on the STAR segment, the company's policy provides that a significant portion of the remuneration of the executive directors and key management personnel consists of an incentive variable component, linked to achievement of specific company and individual (financial and non-financial) performance objectives. In line with the approach taken in the previous year, objectives linked to ESG results will be defined again in 2020 as described later in this report.

CAREL POLICIES

Application Criterion 6.C.1 of the Code of Conduct

- la the fixed and variable components are properly balanced in line with the company's strategic objectives and risk management policy, considering the business sectors in which it operates and the nature of its activities;
- caps are in place for the variable components;
- the fixed component is sufficient to remunerate the director's services should the variable component not be paid due to non-achievement of the performance objectives set by the board of directors;
- the performance objectives (i.e., the results and any other specific objectives to which payment of the variable component is linked, including the objectives for share-based remuneration plans) are set in advance, can be measured and are linked to the creation of value for shareholders in the medium to long-term term;
- payment of a large portion of the variable remuneration component is deferred by a suitable period of time compared to when it vests; measurement of this portion and the deferral period are consistent with the nature of the company's activities and related risk profiles;
- agreements are in place that allow the company to request the return of all or part of the variable components paid (or to withhold the deferred portions) on the basis of data which was subsequently found to be incorrect;
- entitlement paid at the end of the term of office of a director is calculated so that its total amount does not exceed a specified amount or number of years of remuneration. This entitlement is not paid if termination of the relationship is due to the objective non-achievement of results.

In addition, the remuneration policy allows the company to pay entrance bonuses to encourage key talents to joint and remain with it.

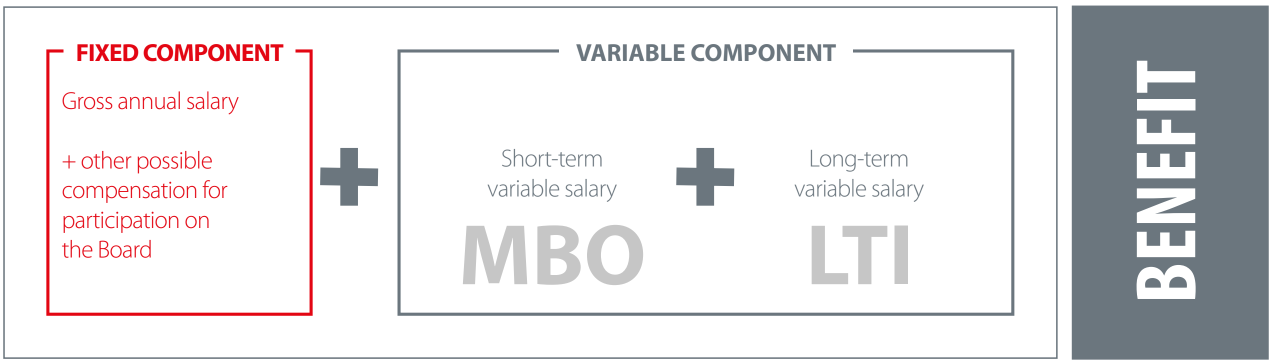
Scope of application

The key characteristics of the remuneration policy for 2020 are presented below, with details of the remuneration package and its calculation, for the following groups of persons:

- directors without special duties;
- statutory auditors;
- directors with special duties: executive chairperson, executive deputy chairperson, executive director with specific powers and the chief executive officer;
- general manager;
- key management personnel.

The remuneration package of the executive directors, chief executive officer, general manager and key management personnel, as detailed below, comprises a fixed component and a variable component and internal benefits (pay mix);

Monetary salary package elements



Specifically:

- the fixed component is designed to enhance their responsibilities and the importance of their role; it remunerates the services provided by the beneficiary should the variable component not be paid because the performance objectives have not been met;
- the variable component is linked to achievement of set performance objectives that can be measured and pegged to the creation of value for the shareholders and sustainability, defined by also considering ESG objectives. The variable component included in the MBO and LTI plans may vary, depending on achievement of the performance objectives, from a minimum (below which the premium is cancelled) to a maximum (already set and linked to the overperformance of the set objectives); specifically, the long-term incentive is calculated using multiple performance factors (2 KPMIs) and a vesting period of three years;
- the pay mix is designed to even out the fixed and variable components of the remuneration packages of the chief executive officer, the general manager and the key management personnel, in order to remunerate in a balanced manner both the typical business responsibilities of their positions (fixed component) and their achievement of their short and medium to long-term performance objectives (variable component). The percentage of the fixed component is calculated to discourage excess risk taking and, concurrently, short termism;
- The other executive directors receive a long-term variable component to align their interests with the company's long-term strategy.

CAREL checks that its remuneration is in line with its peers by assessing the "weight" of each position in order

to compare it to the market and concurrently ensure its alignment with the peer group.
A specific paragraph presents the characteristics and working mechanisms of the short and long-term variable incentive systems. The working mechanism is the same for all the plan beneficiaries.
The various elements making up the remuneration packages of the in-scope beneficiaries are summarised below.

Summary of the remuneration package elements

	Remuneration package items				
	Fee	GAR	MBO	LTI	Benefits
Luigi Rossi Luciani, executive chairperson	•			•	•
Luigi Nalini, executive deputy chairperson	•			•	•
Francesco Nalini, chief executive officer	•	•	•	•	•
Carlotta Rossi Luciani, executive director	•	•		•	•
Cinzia Donalisio, independent director	•				
Giovanni Costa, independent director	•				
Marina Manna, independent director	•				
General manager	•	•	•	•	•
Key management personnel	•	•	•	•	•

Remuneration policy for non-executive directors and statutory auditors

Board of directors and directors without special duties

The shareholders set the total fixed component of the remuneration of the directors (executive and independent) as €850,000 a year plus 15% of this amount as their end of office entitlement in their meeting of 29 March 2018. Of this amount, €780,000 gross was allocated pro rata temporis among the directors in an unequitable manner.

The annual gross remuneration of the non-executive independent directors is not linked to the achievement of results by the company and/or the group but solely to their commitment to carrying out their different roles as members of the board of directors and its committees (the remuneration committee and the control, risks and sustainability committee).

The remuneration of the independent auditors is as follows:

- Cinzia Donalisio:
  - €50,000 a year as non-executive director;
  - €15,000 as chairperson of the remuneration committee;
  - €10,000 as member of the control, risks and sustainability committee.
- Marina Manna:
  - €50,000 a year as non-executive director;
  - €15,000 as chairperson of the control, risks and sustainability committee;
  - €10,000 as member of the remuneration committee.
- Giovanni Costa:
  - €50,000 a year as non-executive director;
  - €10,000 as member of the control, risks and sustainability committee;
  - €10,000 as member of the remuneration committee.

The board of directors approved the remuneration of the chairpersons and committee members on 11 May 2018 after receiving the favourable opinion of the board of statutory auditors.

Like for all the members of the board of directors (both executive and independent), agreements were not entered into for the payment of special fees or compensation in the case of dismissal or revocation without just cause or termination of the employment relationship for any reason whatsoever.

Board of statutory auditors

The shareholders elected the board of statutory auditors in office at the date of preparation of this report in their ordinary meeting of 29 March 2018 for a three-year period until approval of the financial statements at 31 December 2020.

In accordance with article 19.2 of Legislative decree no. 39/2010, the board of statutory auditors also acts as the audit committee.

The remuneration established for each member of the board of statutory members solely comprises a fixed component and is not linked to the company's results.

Pursuant to article 2402 of the Italian Civil Code, the statutory auditors' remuneration is set by the shareholders when they are elected for their entire term of office. On

29 March 2018, the shareholders established the gross annual remuneration of the board of statutory auditors as €90,000 a year, including €40,000 for the chairperson and €25,000 for each standing statutory auditor.

Remuneration policy for executive directors, general directors and key management personnel

The company's board of directors has four executive directors: its chairperson, deputy chairperson, an executive director with special powers and the chief executive officer.

The 2020 remuneration policy for the executive directors comprises:

For the chairperson and deputy chairperson:

a. fixed fee to remunerate each person for their specific duties, equal to €250,000a year for the executive chairperson and €180,000 a year for the deputy chairperson;

b. a variable long-term component, consisting of share-based plans, linked to achievement of specific medium to long-term objectives (LTI - performance shares, explained in a dedicated paragraph), equal to 30% of the current annual fixed fee at the assignment date. During 2020, the options for the third and last cycle of the rolling plan will be assigned and the number of options assigned will be equal to 30% of the fixed fee, based on the share's reference price, being the average of the stock market price of the ordinary CAREL share of the month before the option assignment date;

c. non-monetary benefits.

For the executive director with special powers:

a. fixed fee to remunerate the director for their duties equal to €60,000;

b. a fixed salary for their employee position as a company manager of €66,000;

c. a variable long-term component, consisting of a share-based plan, linked to achievement of specific medium to long-term objectives (LTI - performance shares, explained in a dedicated paragraph), equal to 30% of the current annual fixed fee at the assignment date. During 2020, the options for the third and last cycle of the rolling plan will be assigned and the number of options assigned will be equal to 30% of the fixed fee, based on the share's reference price, being the average of the stock market price of the ordinary CAREL share of the month before the option assignment date;

d. non-monetary benefits.

For the chief executive officer:

a. fixed fee to remunerate the director for their duties equal to €70,000;

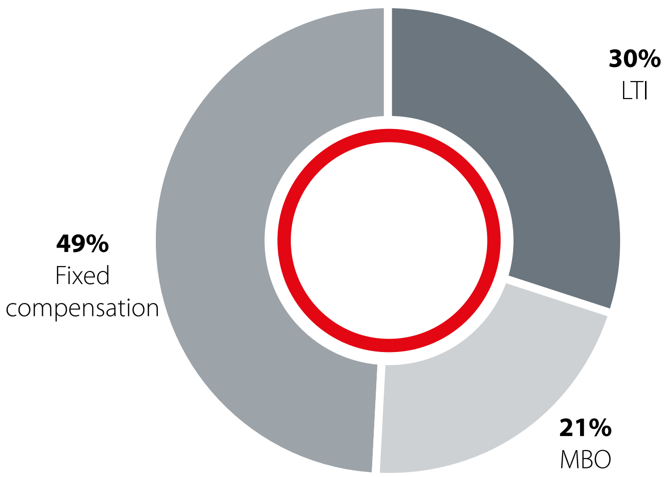
b. a fixed salary for their employee position as a senior manager of €280,000. This amount was proposed by the remuneration committee after obtaining the favourable opinion of the board of statutory auditors as resolved by the board of directors on 30 January 2020;

c. a variable component, equal to the maximum nominal amount set for achievement of the short-term objectives (MBO), specifically the group's revenue and gross operating project set in the 2020 budget approved by the board of directors. The MBO component is €150,000 per year for each nominal target (equal to 150% of the target in the case of overperformance). This short-term variable component was proposed by the remuneration committee after obtaining the favourable opinion of the board of statutory auditors as resolved by the board of directors on 30 January 2020;

d. a variable component, consisting of a share-based plan, linked to achievement of specific medium to long-term objectives (LTI - performance shares, explained in a dedicated paragraph), equal to 60% of the current annual fixed fee at the assignment date. During 2020, the options for the third and last cycle of the rolling plan will be assigned and the number of options assigned will be equal to 60% of the fixed fee, based on the share's reference price, being the average of the stock market price of the ordinary CAREL share of the month before the option assignment date;

e. non-monetary benefits.

CEO's Pay-mix 2020



Note: the 2020 MBO is considered a target for calculation of the pay mix while the fair value as per the Mercer method was considered for the LTI component for the 2020 assignment.

CAREL

General manager and key management personnel

At the date of this report, the key management personnel, excluding the executive directors, were:

Giandomenico Lombello	General manager
Giuseppe Viscovich	Group Chief Financial Officer
Pietro Rossato	Group Chief Operations Officer
Carlo Vanin	Group Chief HR&Organization Officer
Alberto Bianchi	Group Chief R&D Officer

Note: Giuseppe Viscovich, CFO of CAREL Group had resigned at the date of this report (see the press release of 4 December 2019) and he left the company on 8 March 2020.

The remuneration policy for the general manager and the key management personnel includes the following components:

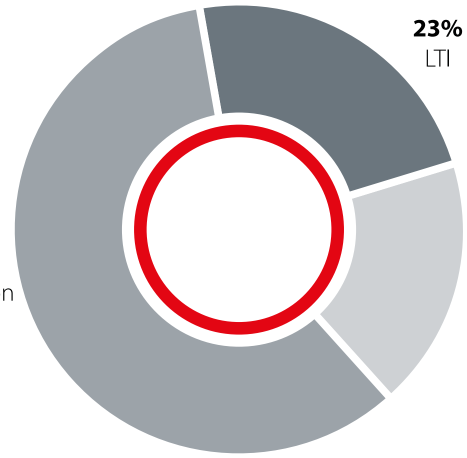
a. a fixed fee to remunerate their positions as general manager and key management personnel within the group and as directors in other group companies;
b. a fixed salary as manager of CAREL Group;
c. a variable component with a defined maximum nominal amount linked to achievement of the company's short-term objectives (MBO). This variable component is on average equal to 30% of the fixed fee; maximum limits have been defined for this component;
d. a variable component in the form of a share-based plan, linked to achievement of specific medium to long-term objectives (LTI plan) equal to, at the option assignment date, 40% of the current fixed fee defined on an annual basis (during 2020, the options for the third and last cycle of the rolling plan will be assigned as detailed later in this report);
e. non-monetary benefits.

In extraordinary conditions, a one-off fee may be paid when special projects of particular importance to the company or the group are completed.

Specifically, on 30 January 2020, a remuneration adjustment was approved for the general manager, which defines their remuneration as follows:

a. fixed remuneration of €230,000 as their gross annual remuneration;
b. fees of €32,000 to remunerate other positions held with group companies;
c. a short-term variable component (MBO) of €80,000 per target;
d. a medium to long-term variable component (LTI) equal to 40% of the annual fixed remuneration.

General manager's pay mix 2020



Note: the 2020 MBO is considered a target for calculation of the pay mix while the fair value as per the Mercer method was considered for the LTI component for the 2020 assignment.

Other managers

With respect to the managers other than the key management personnel, the company will consider remuneration packages in line with those adopted for its strategic managers. They will include a short-term variable component (MBO) and a medium to long-term incentive component based on the performance share and/or cash performance plans. The objective is to retain and motivate the more qualified managers who best contribute to achievement of the company's business objectives.

Reference should be made to the dedicated paragraph for information on the structure and working of the MBO and LTI plans, the characteristics of which are the same for all beneficiaries.

f) Policy for non-monetary benefits

The remuneration offer, based on the total reward model, is integrated by the following additional non-monetary benefits:

- supplementary social security benefits;
- extra professional accident or term life insurance policy;
- additional healthcare benefits;
- company car under the mixed use full cost method;
- accommodation service (if necessary).

These benefits are supplementary to those already provided for in the national employment contract and any supplementary internal agreements applicable to managers.

The company also has a D&O liability insurance policy for the directors and key management personnel to insure against claims for compensation for damage related to their professional activities.

g) Description of the performance objectives linked to the variable component, differentiating between the short and medium to long-term variable components, and information on the link between changes in results and changes in remuneration

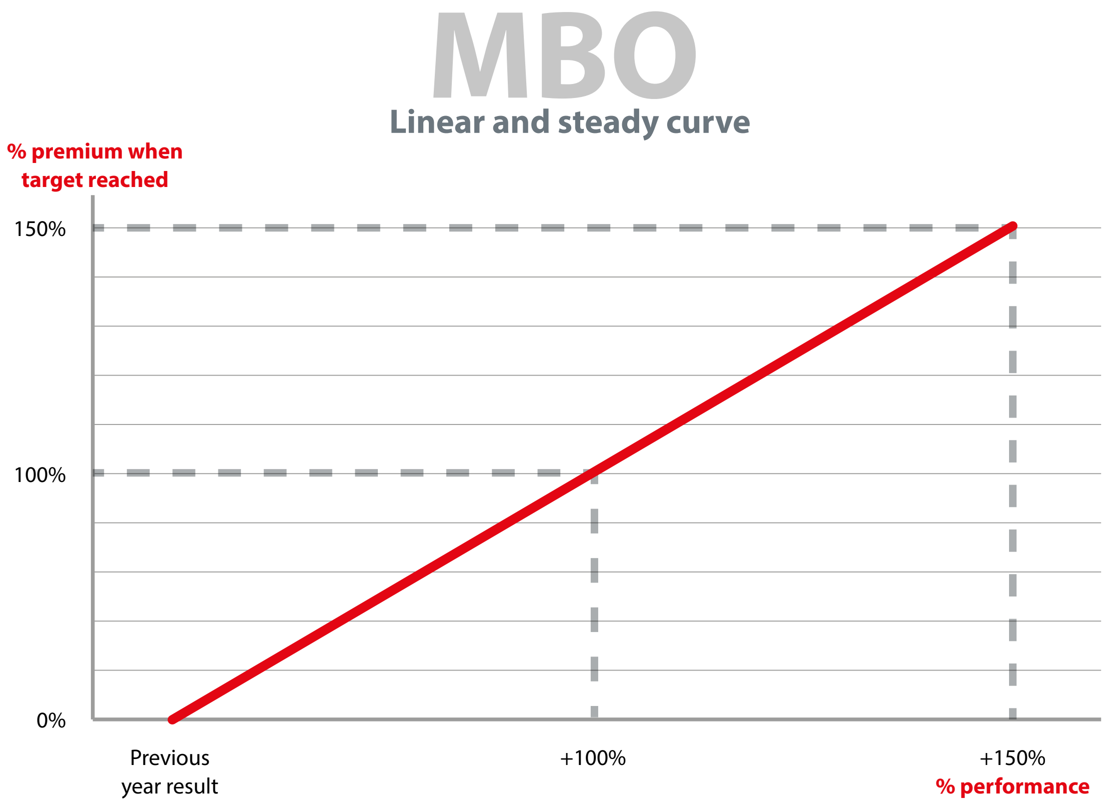
Short-term variable remuneration: 2020 MBO

The annual variable incentive system (MBO) put in place by the company for employees with specific responsibilities is designed to align the beneficiaries' efforts with short-term strategic objectives (annual) with payment of a bonus in proportion to the actually-achieved results.
The MBO plan has a strict regulation and the method used to communicate it is concise and transparent.
The board of directors substantially confirmed the 2019 incentive system for 2020 for the chief executive officer, the general manager and the key management personnel as proposed by the remuneration committee and after consulting the board of statutory auditors.
This system is based on the achievement of measurable economic and financial performance objectives that are defined at individual company and group level, as well as individual operating performances, closely linked to the main activities for which the beneficiaries are responsible.
The objectives are defined using indicators that are usually quantitative, representing the company's strategic and industrial priorities. They are measured using defined objective criteria.
The plan has four objectives for each beneficiary, all of which can be measured, including:

- **two group performance objectives** linked to the achievement of a specific:
  - consolidated EBITDA;
  - consolidated revenue.

  These objectives made up 70% (50% gross EBITDA and 20% revenue) of the total and are the same for all the beneficiaries.
- **an individual performance objective**, linked to the position held and/or specific strategic duties, equal to 15% and identical for all the beneficiaries;
- **an individual ESG objective**, linked to sustainability measures connected to the beneficiary's duties, equal to 15% and identical for all the beneficiaries. The objectives assigned for 2020 relate to the plans to implement the ESG projects assigned during 2019. Specifically:
  - for the chief executive officer: preparation of a brand awareness project to increase awareness of the CAREL brand in its reference market;
  - for the general manager and the chief operation officer: preparation of a safety plan for the company's infrastructure and buildings;
  - for the chief R&D officer: an increase in the number of patents filed for product development and laboratory tests;
  - for the chief financial officer: preparation of an improvement incentive plan in line with the objectives stated in the Consolidated Non-financial Statement;
  - for the chief HR & organisation officer: preparation of a diversity promotion plan, especially focused on decreasing the gender gap.

Caps are determined for each objective and its achievement: they provide that the maximum potential amount that can be paid for each objective may equal 150% of the bonus target. The objectives are usually defined for ongoing growth year after year, especially those linked to the group's financial performance.
In addition, all the MBO plans have an access gateway, i.e., they generate a payout, regardless of the results actually achieved for each objective, only if the group's EBIT is positive (i.e., greater than zero).
The performance payout curve of each annual incentive plan is measured using a linear correlation that goes from 0% (minimum objective) to 100% (objective achieved) and 150% (overperformance).



Working
the minimum performance gateway is the previous year result
Linear correlation used to calculate the payout

Performance range
0%-150%

% payout
0% - 150% (+/- 10%) of the target

The payouts are measured considering the results achieved in the reference year (X) and are paid in February of the subsequent year (X+1).

Long-term variable remuneration (“LTI”)

During 2020, the options of the third and last cycle of the long-term variable incentive plan will be assigned as approved by the shareholders in their meeting of 7 September 2018.

This incentive plan has three-year vesting periods and objectives to be achieved on a rolling basis.

The plan originally had three assignment cycles, with performance objective measurement periods related to, respectively:

- First cycle: January 2018 – December 2020 (the “2018-2020 vesting period”);
- Second cycle: January 2019 – December 2021 (the

"2019-2021 vesting period");

- Third cycle: January 2020 – December 2022 (the "2020-2022 vesting period").

As noted earlier, the long-term incentive plans were offered to the executive directors, the chief executive officer, the general manager, the key management personnel and other managers deemed of particular strategic importance for the achievement of the company's business objectives.

The plans are "performance share plans" for the key resources based in Italy (i.e., they are assigned company shares when certain targets are reached) while the key foreign resources are beneficiaries of "performance cash plans" (i.e., they receive monetary benefits when they achieve their objectives).

The company assigns these plans to the above persons in order to:

- link the incentive system to the group's strategic objectives, measured in terms of profitability and organic growth;
- strengthen the preventative retention of key resources and concurrently increase the company's ability to attract highly qualified resources for its more critical positions;
- raise management awareness of the importance of developing behaviour that ensures that the group's performance is sustainable over the medium to long-term;
- ensure that the remuneration package offered to beneficiaries is more aligned with market practices and, in particular, CAREL's peers.

At the end of each cycle, the shares or cash bonuses are assigned after CAREL checks that the performance objectives have been met.

The long-term variable component is linked to achievement of certain group objectives in line with the company's business plan. Like for the incentive cycles assigned in 2018 and 2019, they include:

- For the beneficiaries of the performance share plan:
  - cumulative group EBITDA (60%);
  - cash conversion (40%);
- For the beneficiaries of the performance cash plan:
  - cumulative group EBITDA (60%);
  - region/country revenue (40%).

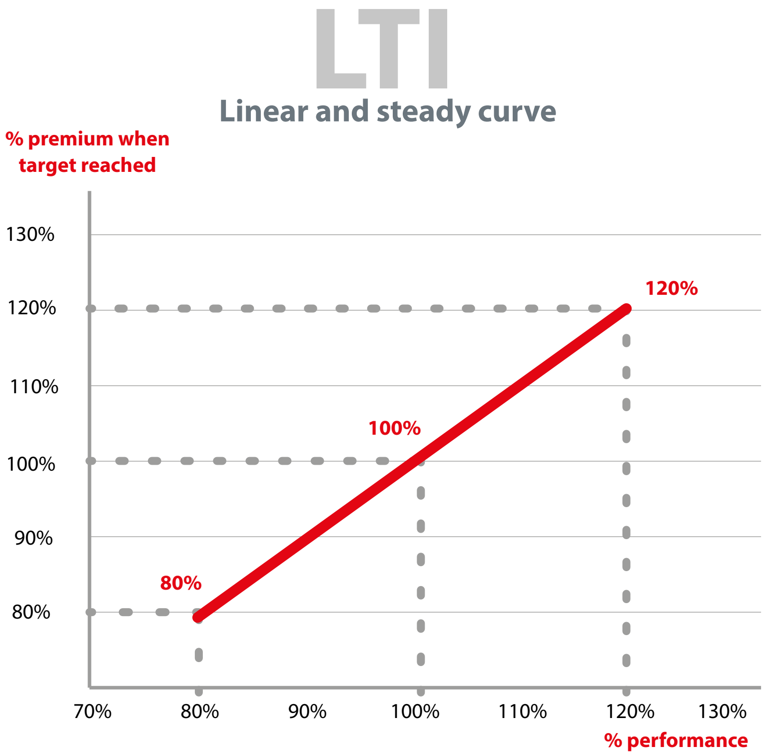
The characteristics of the two LTI plans are compared below:

Performance Shares Plan	
Beneficiaries	CEO, the executive directors, key management personnel and selected key resources in Italy
Indicators	60% cumulated group EBITDA, 40% cash conversion
Start date	2018
Vesting period	three years
Expiry	rolling
Opportunity	depends on the beneficiary group
Allocation	at the end of the third year of the cycle in line with the results achieved
Holding	the holding period is 20% of the bonus for one year. This amount is 40% of the bonus to be held for two years for the CEO and the executive directors

Performance Cash Plan	
Beneficiaries	other key resources based abroad
Indicators	60% cumulative group EBITDA, 40% region/country revenue
Start date	2018
Vesting period	three years
Expiry	rolling
Allocation	at the end of the third year of the cycle in line with the results achieved. 80% of the amount will be paid upfront
Deferral	payment of 20% of the bonus is deferred for one year

Performance is measured using a linear curve in order to encourage a push towards continuous improvement in the results to be achieved, which include a minimum of 80%, a target of 100% and an overperformance target that can be up to 120%.

The performance curve of the payout of the LTI plan is shown below:



Working
between minimum and target, assuming that each 1% marginal increase in the performance is equal to a 1% increase in the payout

Performance range
80%-120%

% payout
80% - 120% (+/- 10%) of the target

The number of shares that the beneficiaries actually vest at the end of the plan will be determined by linear interpolation depending on their performance. Specifically, the number of shares earned by the beneficiaries is calculated as a percentage (lower, equal to or higher than) of the number of shares assigned if they meet their target. The plan has a cap on the maximum number of shares that can be assigned, which shall not exceed 120% of the target.

h) Criteria used to assess the performance objectives based on the assignment of the shares, options, other financial instruments or other variable remuneration components

Reference should be made to letters e) and g) of Section I of this report.

i) Information provided to show the consistency of the remuneration policy with the achievement of the company's long-term interests and its risk management policy

In line with the project launched with its stock market listing, the company's remuneration policy for senior management and key resources strengthens the link between a significant component of the remuneration to achievement of performance objectives tied to both the company's operations and ESG sustainability targets, using annual (MBO) and long-term (LTI) incentive systems. The policy reflects both the recommendations set out in the Code of Conduct and market best practices with respect to a competitive remuneration system and the typical corporate governance issues.

Reference should be made to letters d), e) and g) of Section I of this report.

j) Vesting period, deferred payment systems, with mention of the deferral periods and criteria used to determine these periods and, if provided for, ex post adjustment mechanisms

More information about the vesting requirements and deferred payment systems is available in letters e) and g) of section 1 of this report.

CAREL's long-term incentive plan has three-year malus and clawback clauses for the partial or complete recovery of the bonus (cash or shares), which are activated in the following cases:

- objective circumstances that lead to the restatement of the company's financial results that would have a significant impact on the bonus to be provided as part of the plan;
- conduct that is contradictory to the company's practices (especially its Code of Ethics, the organisational model as per Legislative decree no. 231/01 and the anti-corruption model), the employment contract or the law in the case of wilful or grossly negligent conduct committed to the detriment of the company.

In the above cases, the company may withhold the shares still to be assigned or an amount equal to their value from any amount due to the beneficiary in the form of, for example and not limited to, their remuneration, bonuses or end of office entitlement. The beneficiary shall be obliged to specifically authorise this compensation.

k) Information on clauses about the retention of financial instruments in the beneficiary's portfolio after their acquisition with mention of the retention period and the criteria used to define this period

As provided for in the incentive plan regulation and article 6 of the Code of Conduct, the vested long-term variable component is paid at the end of the reference performance time period, after the company has checked that the minimum objective has been met. 20% of the shares assigned is subject to a holding period of one year in the case of the performance share plan while payment of 20% of the cash bonus is deferred for one year for the performance cash plan so that the grant conditions of both plans are the same. The holding period covers 40% of the shares for the chief executive officer and the executive directors and a two-year period. More information is available in points e) and g) of Section I of this report.

l) Policy for treatment in the case of departure from office or termination of the employment relationship

The company does not have ex ante agreements for its executive directors and/or key management personnel that regulate the economic treatment should they leave office or terminate their employment relationship.

The company will follow the recommendations of the Code of Conduct and will always comply with the law and local employment contracts, when applicable.

m) Healthcare or pension insurance policies other than mandatory policies

In line with best practices, the company also has a D&O liability insurance policy for the directors and key management personnel to insure against claims for compensation for damage related to their professional activities.

n) Remuneration policy for: (i) independent directors, (ii) participation in committees; and (iii) performance of specific duties (chairperson, deputy chairperson, etc.)

Reference should be made to letter e) of Section I of this report.

o) Information about the possible use of the remuneration policies of other companies as a benchmark for the company's remuneration policy

The company referred to benchmark analyses to obtain information about market practices for remuneration policies assisted by a leading international consultancy company (Mercer), in line with previous years.

o)-bis) Elements of the remuneration policy that can be derogated from in exceptional cases and without prejudice to the related party regulation, additional procedural conditions that allow application of the derogation

Pursuant to article 123-ter.3-bis of the CFA, the company may temporarily derogate from the remuneration policy in exceptional circumstances (which are only those situations in which derogation is necessary to achieve its long-term interests, its sustainability and viability), as long as the policy provides for the same procedural conditions whereby the derogation can be applied and specifies which parts of the policy can be derogated from.

The policy can be derogated from with respect to the following:

- the fixed and variable components of the remuneration of the policy recipients, including for example but not limited to, the weight assigned to each component as part of the remuneration, the performance objectives to which the award of the variable components is linked, the related vesting conditions and the part of the remuneration based on shares, options, other financial instruments or other variable components, any deferred payment systems and ex post adjustment mechanisms of the variable component;

- bonuses (including entrance bonuses), non-monetary benefits, incentive plans (cash or equity-based) or non-recurring fees;
- termination benefits should the recipient leave office or terminate the employment relationship.

With respect to the procedural conditions under which the derogation can be applied, any temporary derogation of the remuneration policy shall be approved by the board of directors after consulting the remuneration committee and without prejudice to the related party regulation and the related party procedure, when applicable.

The board of directors decides the length of the derogation period and the specific policy elements to be derogated from in line with that set out above.

Table summarising the 2020 remuneration policy

Position	Component	Applicable conditions and award timing	Weight
Chairperson	Fixed remuneration	Not subject to conditions Once a month	77%
	Long-term variable remuneration (LTI)	**Indicators:** • 60% cumulative group EBITDA • 40% cash conversion **Allocation:** at the end of the third year of the cycle in line with the results achieved. **Lock-up:** two-year holding period of 40% of the bonus **Malus and clawback clauses:** valid for the three years to recover all or part of the bonus paid in the case of objective circumstances that entail restatement of the company's financial results or conduct that does not comply with the company's regulations, contract terms or legal requirements or in the case of wilful or grossly negligent conduct committed to the detriment of the company	23%
	Non-monetary benefits	Company car under the mixed use full cost method.	
Deputy chairperson	Fixed remuneration	Not subject to conditions Once a month	77%
	Long-term variable remuneration (LTI)	**Indicators:** • 60% cumulative group EBITDA • 40% cash conversion **Allocation:** at the end of the third year of the cycle in line with the results achieved. **Lock-up:** two-year holding period of 40% of the bonus **Malus and clawback clauses:** valid for the three years to recover all or part of the bonus paid in the case of objective circumstances that entail restatement of the company's financial results or conduct that does not comply with the company's regulations, contract terms or legal requirements or in the case of wilful or grossly negligent conduct committed to the detriment of the company	23%
	Non-monetary benefits	Company car under the mixed use full cost method.	

Position	Component	Applicable conditions and award timing	Weight
Executive director	Fixed remuneration	Not subject to conditions Once a month	77%
	Long-term variable remuneration (LTI)	**Indicators:** • 60% cumulative group EBITDA • 40% cash conversion **Allocation:** at the end of the third year of the cycle in line with the results achieved **Lock-up:** two-year holding period of 40% of the bonus **Malus and clawback clauses:** valid for the three years to recover all or part of the bonus paid in the case of objective circumstances that entail restatement of the company's financial results or conduct that does not comply with the company's regulations, contract terms or legal requirements or in the case of wilful or grossly negligent conduct committed to the detriment of the company	23%
	Non-monetary benefits	Injury policy, healthcare, car	
	Other remuneration	The conditions set out in the collective employment contracts are applicable in the case of termination of the employment relationship	
Chief executive officer	Fixed remuneration	Not subject to conditions Once a month	49%
	Short-term variable remuneration (MBO)	**CEO objectives:** • 20% consolidated revenue • 50% consolidated EBITDA • 15% individual performance objectives • 15% individual ESG objectives Payable overperformance ceiling 150% and access gateway (EBIT>0) Payment in February of the subsequent year	21%
	Long-term variable remuneration (LTI)	**Indicators:** • 60% cumulative group EBITDA • 40% cash conversion **Allocation:** at the end of the third year of the cycle in line with the results achieved **Lock-up:** two-year holding period of 40% of the bonus **Malus and clawback clauses:** valid for the three years to recover all or part of the bonus paid in the case of objective circumstances that entail restatement of the company's financial results or conduct that does not comply with the company's regulations, contract terms or legal requirements or in the case of wilful or grossly negligent conduct committed to the detriment of the company	30%
	Non-monetary benefits	• supplementary social security benefits • extra professional accident or term life insurance policy • additional healthcare benefits • company car under the mixed use full cost method	
	Other remuneration	The conditions set out in the collective employment contracts are applicable in the case of termination of the employment relationship	

Position	Component	Applicable conditions and award timing	Weight
General manager	Fixed remuneration	Not subject to conditions Once a month	59%
	Short-term variable remuneration (MBO)	**Objectives** • 20% consolidated revenue • 50% consolidated EBITDA • 15% individual performance objectives • 15% individual ESG objectives Payable overperformance ceiling 150% and access gateway (EBIT>0) Payment in February of the subsequent year	18%
	Long-term variable remuneration (LTI)	**Indicators:** • 60% cumulative group EBITDA • 40% cash conversion **Allocation:** at the end of the third year of the cycle in line with the results achieved **Lock-up:** one-year holding period of 20% of the bonus **Malus and clawback clauses:** valid for the three years to recover all or part of the bonus paid in the case of objective circumstances that entail restatement of the company's financial results or conduct that does not comply with the company's regulations, contract terms or legal requirements or in the case of wilful or grossly negligent conduct committed to the detriment of the company	23%
	Non-monetary benefits	• supplementary social security benefits • extra professional accident or term life insurance policy • additional healthcare benefits • Company car under the mixed use full cost method	
	Other remuneration	The conditions set out in the collective employment contracts are applicable in the case of termination of the employment relationship	

Position	Component	Applicable conditions and award timing	Weight
Key management personnel	Fixed remuneration	Not subject to conditions Once a month	Average 61%
	Short-term variable remuneration (MBO)	**Objectives** • 20% consolidated revenue • 50% consolidated EBITDA • 15% individual performance objectives • 15% individual ESG objectives Payable overperformance ceiling 150% and access gateway (EBIT>0) Payment in February of the subsequent year	Average 15%
	Long-term variable remuneration (LTI)	**Indicators:** • 60% cumulative group EBITDA • 40% cash conversion **Allocation:** at the end of the third year of the cycle in line with the results achieved **Lock-up:** one-year holding period of 20% of the bonus **Malus and clawback clauses:** valid for the three years to recover all or part of the bonus paid in the case of objective circumstances that entail restatement of the company's financial results or conduct that does not comply with the company's regulations, contract terms or legal requirements or in the case of wilful or grossly negligent conduct committed to the detriment of the company	Average 24%
	Non-monetary benefits	• supplementary social security benefits • extra professional accident or term life insurance policy • additional healthcare benefits • Company car under the mixed use full cost method	
	Other remuneration	The conditions set out in the collective employment contracts are applicable in the case of termination of the employment relationship	


CAREL

Section 2

Remuneration paid in 2019 to the directors, statutory auditors, general managers and key management personnel

This section provides a clear and understandable picture of the remuneration paid in 2019 to the individual directors, statutory auditors, general managers and collectively to the key management personnel.
As required by the new point 6 of article 123-ter of the CFA, introduced by Legislative decree no. 49/2019, this section requires the advisory vote rather than the binding vote of the shareholders that are required to vote for or against the section at their ordinary meetings.
The audit company checked that the directors had prepared Section II of the report in line with the provisions of article 123-ter.8-bis of the CFA. It did not issue any attestation nor did it perform any engagement designed to check the content of this Section II.

First part - Remuneration items

This part of Section II provides a clear, adequate and understandable presentation of each of the items making up the remuneration of the directors, statutory auditors, general managers and key management personnel in 2019.
The items are presented in the tables in the second part of this section.

1.1 Board of directors

The 2019 remuneration policy for the board of directors was implemented, as described below, through the payment of the following items:

- a fee for the directorship;
- a fee for the position as a director with specific duties;
- gross annual remuneration;
- a fee for participation in committee meetings;
- an annual variable component paid when set objectives are met (MBO);
- a variable medium to long-term component (LTI);
- benefits provided for by the national employment contract and internal practices.

As already noted, on 29 March 2018, the board of directors resolved to pay the chairperson of the board of directors, the executive deputy chairperson and the chief executive officer annual gross remuneration of €250,000, €180,000 and €70,000 in addition to end of office entitlement equal to 15% of their remuneration after obtaining the favourable opinion of the board of statutory auditors. The board of directors also resolved a gross annual remuneration of €60,000 for the executive director Carlotta Rossi Luciani and a gross annual remuneration of €50,000 for the independent directors.
On 11 May 2018, again with the favourable opinion of the board of statutory auditors, the board of directors resolved: (i) to pay an additional annual gross remuneration of €35,000 to the members of the control and risks committee, including €15,000 for Marina Manna, as chairperson, and €10,000 each to Giovanni Costa and Cinzia Donalisio, as committee members; and (ii) to pay

an additional gross annual remuneration of €35,000 to the members of the remuneration committee, including €15,000 to Cinzia Donalisio, as chairperson, and €10,000 each to Giovanni Costa and Marina Manna, as committee members.

With respect to the 2019 MBO plan beneficiaries, the MBO bonus for the 2019 performances will be paid in 2020. The results for 2019 presented to the board of directors as proposed by the remuneration committee in the meeting of 5 March 2020, led to the definition of the following payouts:

- for the chief executive officer 48.5%;
- for the key management personnel, an average of 49.4%.

More information is available in the item "Variable non-equity remuneration/bonuses and other incentives" in Table 1, while details are provided in Table 3B.

Table 1 shows the benefits paid in 2019 calculated using a tax base criterion. They include the following: i) an annual contribution to the supplementary social security fund; ii) an annual contribution to the supplementary healthcare fund; iii) the use of a company car (mixed use); and iv) other supplementary plans.

Detailed information on the 2018-2022 performance share plan is available in the document prepared in accordance with article 114-bis of the CDA and article 84-bis of the Issuers' Regulation, published on the company's website www.carel.com.

1.2 Board of statutory auditors

In 2019, the board of statutory auditors had the following standing members:

- Saverio Bozzolan (chairperson), appointed by the shareholders on 29 March 2018; he received remuneration of €40,000 for 2019;
- Claudia Civolani, appointed by the shareholders on 29 March 2018; she received remuneration of €25,000 for 2019;
- Paolo Ferrin, appointed by the shareholders on 29 March 2018; he received remuneration of €25,000 for 2019.

1.3 General manager and key management personnel

The 2019 remuneration policy for the general manager and key management personnel comprised the following items:

- a fixed fee to remunerate their positions as general manager and key management personnel within the group and as directors in other group companies;
- a fixed salary for their employee position;
- a variable component with a defined maximum nominal amount linked to achievement of the company's short-term objectives (MBO). This variable component is on average equal to 25% of the fixed fee; maximum limits have been defined for this component;
- a variable component in the form of a share-based plan, linked to achievement of specific medium to long-term objectives (LTI plan) equal to, at the option assignment date, 40% of the current fixed fee defined on an annual basis;
- non-monetary benefits.

Specifically, on 25 January 2019, a gross annual fixed remuneration of €200,000 was approved for the general manager, as well as €32,000 to remunerate other positions held within the group, a variable short-term component (MBO) of €50,000 per target and a medium to long-term variable component (LTI) equal to 40% of the annual fixed remuneration.

In 2019 and in line with the 2019 remuneration policy, the general manager received a one-off bonus of €12,000 for his contribution to the company's results.

1.4 Agreements that provide for entitlement in the case of the early termination of the relationship

None.

Upon conclusion of his mandate as independent director on 25 January 2019, Corrado Sciolla received end of office entitlement of €8,047.

Second part - Tables

The following tables show: (i) in Table 1, the remuneration of the individual directors, statutory auditors and general manager and collectively of the key management personnel paid by the company and its subsidiaries and associates for 2019; (ii) in Table 3A, the equity-based incentive plans (other than stock option plans) for the directors, general managers and other key management personnel; and (iii) in Table 3B, the cash incentive plans for the directors, general managers and other key management personnel.

Table 1: Remuneration paid to the directors, statutory auditors, general managers and other key management personnel

Name	Position	Period of office	End of term of office	Fixed remuneration	Fee for participation in committee meetings
Luigi Rossi Luciani	Executive chairperson	01.01.2019 31.12.2019			
(I) Remuneration from the company preparing the financial statements				250,000	
(II) Remuneration from subsidiaries and associates					
(III) Total				250,000	
Note: the amount matches the remuneration earned as resolved by the board of directors on 29 March 2018					
Luigi Nalini	Deputy chairperson (with acting role)	01.01.2019 31.12.2019			
(I) Remuneration from the company preparing the financial statements				180,000	
(II) Remuneration from subsidiaries and associates					
(III) Total				180,000	
Note: the amount matches the remuneration earned as resolved by the board of directors on 29 March 2018					
Francesco Nalini	Chief executive officer	01.01.2019 31.12.2019			
(I) Remuneration from the company preparing the financial statements				300,000	
(II) Remuneration from subsidiaries and associates					
(III) Total				300,000	
Note: the amount matches the gross annual remuneration earned as resolved by the board of directors on 29 March 2018					

	Non-equity-settled variable remuneration		Non-monetary benefits	Other remuneration	TOT	Fair value of equity-settled remuneration	End of office or termination of employment entitlement
	Bonuses and other incentives	Profit sharing					
			3,894		253,894		
					253,894		
			5,628		185,628		
					185,628		
			5,537		305,537		
					305,537		

Name	Position	Period of office	End of term of office	Fixed remuneration	Fee for participation in committee meetings
Carlotta Rossi Luciani	Executive director	01.01.2019 31.12.2019			
(I) Remuneration from the company preparing the financial statements				94,375	
(II) Remuneration from subsidiaries and associates					
(III) Total				94,375	
Note: the amount matches the gross annual salary earned as an employee from 24 June 2019 and the remuneration as resolved by the board of directors on 29 March 2018					
Cinzia Donalisio	Independent director	01.01.2019 31.12.2019			
(I) Remuneration from the company preparing the financial statements				50,000	25,000
(II) Remuneration from subsidiaries and associates					
(III) Total				50,000	25,000
Note: the amount matches the remuneration as resolved by the board of directors on 29 March 2018 and fees for participation in committee meetings as resolved on 11 May 2018					
Marina Manna	Independent director	01.01.2019 31.12.2019			
(I) Remuneration from the company preparing the financial statements				50,000	25,000
(II) Remuneration from subsidiaries and associates					
(III) Total				50,000	25,000
Note: the amount matches the remuneration as resolved by the board of directors on 29 March 2018 and fees for participation in committee meetings as resolved on 11 May 2018					
Corrado Sciolla	Independent director	01.01.2019 25.01.2019			
(I) Remuneration from the company preparing the financial statements				3,198	1,279
(II) Remuneration from subsidiaries and associates					
(III) Total				3,198	1,279
Note: the amount matches the remuneration accrued up to 25 January 2019					
Giovanni Costa	Independent director	25.01.2019 31.12.2019			
(I) Remuneration from the company preparing the financial statements				45,833	18,333
(II) Remuneration from subsidiaries and associates					
(III) Total				45,833	18,333
Note: the amount matches the remuneration as resolved by the board of directors on 29 March 2018 and fees for participation in committee meetings as resolved on 11 May 2018					

	Non-equity-settled variable remuneration		Non-monetary benefits	Other remuneration	TOT	Fair value of equity-settled remuneration	End of office or termination of employment entitlement
	Bonuses and other incentives	Profit sharing					
			1,650		96,025		
					96,025		
					75,000		
					75,000		
					75,000		
					75,000		
					4,477		8,047
					4,477		8,047
					64,167		
					64,167		

Name	Position	Period of office	End of term of office	Fixed remuneration	Fee for participation in committee meetings
Saverio Bozzolan	Chairperson of the board of statutory auditors	01.01.2019 31.12.2019			
(I) Remuneration from the company preparing the financial statements				40,000	
(II) Remuneration from subsidiaries and associates					
(III) Total				40,000	
Paolo Ferrin	Standing statutory auditor	01.01.2019 31.12.2019			
(I) Remuneration from the company preparing the financial statements				25,000	
(II) Remuneration from subsidiaries and associates					
(III) Total				25,000	
Claudia Civolani	Standing statutory auditor	01.01.2019 31.12.2019			
(I) Remuneration from the company preparing the financial statements				25,000	
(II) Remuneration from subsidiaries and associates					
(III) Total				25,000	
Nota: pro rata remuneration as resolved by the board of directors on 29 March 2018					
Giovanni Fonte	Alternate statutory auditor	01.01.2019 31.12.2019			
(I) Remuneration from the company preparing the financial statements					
(II) Remuneration from subsidiaries and associates				5,000	
(III) Total				5,000	
Fabio Gallio	Alternate statutory auditor	01.01.2019 31.12.2019			
(I) Remuneration from the company preparing the financial statements					
(II) Remuneration from subsidiaries and associates				8,000	
(III) Total				8,000	

	Non-equity-settled variable remuneration		Non-monetary benefits	Other remuneration	TOT	Fair value of equity-settled remuneration	End of office or termination of employment entitlement
	Bonuses and other incentives	Profit sharing					
					40,000		
					40,000		
					25,000		
					25,000		
					25,000		
					25,000		
					5,000		
					5,000		
					8,000		
					8,000		

Name	Position	Period of office	End of term of office	Fixed remuneration	Fee for participation in committee meetings
Giandomenico Lombello	General manager	25.01.2019 31.12.2019			
(I) Remuneration from the company preparing the financial statements				200,000	
(II) Remuneration from subsidiaries and associates				32,000	
(III) Total				232,000	
Note: The amount matches the gross annual remuneration and fees, non-monetary benefits including the use of a company car and supplementary policy					
Key management personnel	Key management personnel (4)	01.01.2019 31.12.2019			
(I) Remuneration from the company preparing the financial statements				587,149	
(II) Remuneration from subsidiaries and associates				30,000	
(III) Total				617,149	
Note: The amount matches the gross annual remuneration and fees, non-monetary benefits including the use of a company car and supplementary policy					

Table 3A: Equity-based incentive plans (other than stock option plan) for the directors, general managers and other key management personnel

Name	Position	Plan	Number and type of financial instrument	Vesting period	Number and type of financial instrument
Luigi Rossi Luciani	Executive chairperson				
(I) Remuneration from the company preparing the financial statements		07.09.2018			8,446
		11.11.2019			5,536
(II) Remuneration from subsidiaries and associates					
(III) Total					13,982
Luigi Nalini	Deputy chairperson (with acting role)				
(I) Remuneration from the company preparing the financial statements		07.09.2018			6,081
		11.11.2019			3,986
(II) Remuneration from subsidiaries and associates					
(III) Total					10,067

	Non-equity-settled variable remuneration		Non-monetary benefits	Other remuneration	TOT	Fair value of equity-settled remuneration	End of office or termination of employment entitlement
	Bonuses and other incentives	Profit sharing					
			5,301	12,000	217,301		
					32,000		
			5,301		249,301		
			17,593		604,742		
					30,000		
			17,593		634,742		

	Fair value at the assignment date	Vesting period	Assignment date	Market price at the assignment date	Number and type of financial instrument	Number and type of financial instrument	Value at the maturity date	Fair value
	81,276	three-year	1 October 2018	8,88				36,122
	75,192	three-year	1 December 2019	13,55				3,008
	156,467							39,130
	58,517	three-year	1 October 2018	8,88				26,007
	54,139	three-year	1 December 2019	13,55				2,166
	112,656							28,173

Name	Position	Plan	Number and type of financial instrument	Vesting period	Number and type of financial instrument
Francesco Nalini	Chief executive officer				
(I) Remuneration from the company preparing the financial statements		07.09.2018			15,068
		11.11.2019			13,285
(II) Remuneration from subsidiaries and associates					
(III) Total					28,353
Carlotta Rossi Luciani	Executive director				
(I) Remuneration from the company preparing the financial statements		07.09.2018			2,027
		11.11.2019			2,790
(II) Remuneration from subsidiaries and associates					
(III) Total					4,817
Giandomenico Lombello	General manager				
(I) Remuneration from the company preparing the financial statements		07.09.2018			7,975
		11.11.2019			6,851
(II) Remuneration from subsidiaries and associates					
(III) Total					14,826
Key management personnel	Key management personnel (4)				
(I) Remuneration from the company preparing the financial statements		07.09.2018			24,017
		11.11.2019			18,663
(II) Remuneration from subsidiaries and associates					
(III) Total					42,680

Fair value at the assignment date	Vesting period	Assignment date	Market price at the assignment date	Number and type of financial instrument	Number and type of financial instrument	Value at the maturity date	Fair value
144,999	three-year	1 October 2018	8,88				64,444
180,441	three-year	1 December 2019	13,55				7,218
325,440							71,662
19,506	three-year	1 October 2018	8,88				8,669
37,895	three-year	1 December 2019	13,55				1,516
57,400							10,185
76,743	three-year	1 October 2018	8,88				34,108
93,052	three-year	1 December 2019	13,55				3,722
169,796							37,830
231,116	three-year	1 October 2018	8,88				102,718
253,486	three-year	1 December 2019	13,55				10,139
484,602							112,857

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Table 3B: Cash incentive plans for the directors, general managers and other key management personnel

Name	Position	Plan	Bonus for the year			Previous year bonus			Other bonuses
			To be paid/ paid	Deferred	Deferral period	No longer available	To be paid/ paid (1)	Still deferred	
Francesco Nalini	Chief executive officer								
(I) Salary from the company preparing the financial statements		MBO 2019	48,534						
(II) Remuneration from subsidiaries and associates									
(III) Total			48,534				0		0
Giandomenico Lombello	General manager								
(I) Salary from the company preparing the financial statements		MBO 2019	23,517						
(II) Remuneration from subsidiaries and associates									
(III) Total			23,517				0		0
Dirigenti con responsabilità strategiche	Key management personnel (4)								
(I) Salary from the company preparing the financial statements		MBO 2019	78,994						
(II) Remuneration from subsidiaries and associates									
(III) Total			78,994				0		0

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