



CAREL INDUSTRIES S.p.A.

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

**ILLUSTRATIVE REPORT OF THE BOARD OF DIRECTORS
ON ITEMS 2 AND 3 ON THE AGENDA FOR THE ORDINARY SHAREHOLDERS' MEETING**

*Drawn up in accordance with article 125-ter of Legislative decree no. 58 of 24 February 1998 (the **Consolidated Finance Act, "CFA"**) and article 84-ter of the regulation adopted by Consob (the Italian commission for listed companies and the stock exchange) with resolution no. 11971/99 (the **"Issuers' Regulation"**), as subsequently amended and integrated, for the ordinary shareholders' meeting of Carel Industries S.p.A. ("**Carel**" or the "**company**") scheduled on single call for 20 April 2021.*

Illustrative report of the board of directors of Carel Industries S.p.A., drawn up under article 125-*ter* of Legislative decree no. 58 of 24 February 1998, as amended and integrated (“CFA”), and article 84-*ter* of the regulation adopted by Consob with resolution no. 11971 of 14 May 1999 as subsequently amended and integrated (the “Issuers’ Regulation”)

Dear Shareholders,

This report describes the proposals the board of directors of Carel Industries S.p.A. (“Carel” or the “company”) intends submitting for your approval as regards items 2 and 3 on the agenda of the ordinary shareholders’ meeting that will be held on single call on 20 April 2021, at 11.00 am, at the company’s registered office in Brugine (PD), Via dell’Industria 11.

Item no. 2 on the agenda:

2. Election of the board of directors; related and ensuing resolutions.

- 2.1 Establishment of the number of members of the board of directors;**
- 2.2 Establishment of the length of term of office of the board of directors;**
- 2.3 Election of the directors;**
- 2.4 Election of the chairperson and deputy chairperson of the board of directors;**
- 2.5 Definition of the fees for the board of directors.**

Dear shareholders,

With regard to the second item on the agenda of the ordinary shareholders’ meeting, we remind you that the term of office of the current board of directors, elected by you on 29 March 2018, expires with the approval of the financial statements at 31 December 2020. Therefore, you are required by law and the applicable regulations and article 17 of the by-laws (to which reference is made for all that not specified below) to elect a new board of directors, after establishing the number of directors and the length of their term of office, and its chairperson and deputy chairperson, and to define its fees.

Pursuant to article 18 of the by-laws, the incoming board of directors will be asked to elect the chief executive officer and, should you not do so, the chairperson of the board of directors and its deputy chairperson.

Therefore, we invite you to take the related resolutions to elect a new board of directors.

2.1 Establishment of the number of members of the board of directors.

Dear shareholders,

In accordance with article 17 of the by-laws, to which reference is made, the company is managed by a board of directors which has between 5 (five) and 13 (thirteen) members, decided by the shareholders in an ordinary meeting when they elect the directors or changed in a subsequent resolution.

We propose that the incoming board of directors have 7 (seven) members to maintain continuity with the current structure.

That being said, we submit for your approval the following proposed resolution:

“At their ordinary meeting, the shareholders of Carel Industries S.p.A., having acknowledged the illustrative report of the board of directors and in observance of the legal and by-laws requirements

resolve

to establish the number of members of the board of directors as 7 (seven).”

2.2 Establishment of the length of term of office of the board of directors.

Dear shareholders,

In accordance with article 17 of the by-laws, to which reference is made, the board of directors has a term of office of not longer than three years, as established by you. This term ends with the approval of the financial statements for the last year of their engagement.

We propose that the incoming board of directors have a term of office of three years (i.e., 2021–2023) and until the date of the ordinary shareholders’ meeting called to approve the financial statements at 31 December 2023.

That being said, we submit for your approval the following proposed resolution:

“At their ordinary meeting, the shareholders of Carel Industries S.p.A., having acknowledged the illustrative report of the board of directors and in observance of the legal and by-laws requirements

resolve

to establish the length of the term of office of the board of directors as 3 (three) years (i.e., 2021–2023) and until the date of the shareholders’ meeting called to approve the financial statements at 31 December 2023.”

2.3 Election of the directors and 2.4 Election of the chairperson and deputy chairperson of the board of directors

Dear shareholders,

In accordance with the by-laws, the board of directors will be elected using voting lists as established by article 17 of the by-laws to which reference is made.

Shareholders that, when the list is presented, either individually or jointly hold a number of shares equal to the percentage established by Consob pursuant to the applicable legislation and regulations (1% as per Consob management decision no. 44 of 29 January 2021) may present lists of candidate directors.

Shareholders, including those belonging to the same group of companies or that have entered into a significant shareholder agreement as per article 122 of the CFA, may not present or jointly present more than one list, nor may they vote for more than one list, including via trustees or nominees. Each candidate may be presented in just one list in order to be eligible.

Title to the minimum percentage is calculated considering the shares registered in the shareholder’s name on the day the list is filed with the company, although the related certification may be presented at a later day as long as it is provided before the deadline for publication of the list (i.e., Tuesday, 30 March 2021).

The lists of candidates, signed by the presenting shareholders, are filed at the company’s offices or sent by certified email to carel.industries@legalmail.it, together with the related documentation at least 25 days before the date of the shareholders’ meeting that will resolve on the election of the directors (i.e., Friday, 26 March 2021).

The filed lists will be made available to the public at the company’s offices and published on its website (www.carel.com) in the section on shareholders’ meetings or in the storage system eMarket Storage (www.emarketstorage.com) at least 21 days before the date of the shareholders’ meeting (i.e., Tuesday 30 March 2021).

The directors shall meet the following requirements:

- all the directors shall meet the eligibility, professional and reputation requirements established by the current laws and regulations;

- at least one director (or two directors if the board has more than seven members) shall meet the independence requirements of article 147-ter.4 of the CFA (the “**independence requirements**”). Pursuant to article IA.2.10.6 of the Instructions to the Regulation of markets organised and managed by Borsa Italiana S.p.A., in order to maintain the requirements necessary for STAR issuers (such as Carel), should the board of directors have eight or less members, it should have at least two independent directors; should it have between nine and 14 members, it should have at least three independent directors, and should it have more than 14 members, it should have at least four independent directors. In addition, the Code of Corporate Governance, which the company has stated it complies with, requires at least two directors to be independent.

Each list:

- (a) shall include no more than 13 (thirteen) candidates, listed in consecutive order;
- (b) shall include and specifically indicate at least one director who meets the independence requirements; if it has more than 7 (seven) candidates, it shall include and specifically indicate at least two candidates who meet the independence requirements. The shareholders should consider the guidance about directors’ independence provided in the Code of Corporate Governance;
- (c) may not be comprised solely of candidates of the same gender (male or female), if it has 3 (three) or more candidates, but shall have a number of the less represented gender to ensure the presence of directors of the less represented gender in accordance with the laws and regulations in force from time to time about gender balance; article 147-ter of the CFA, amended by Law no. 160/2019, provides that the less represented gender should obtain seats at least equal to two fifths of the number of directors to be elected.
- (d) shall have attached:
 - (i) the candidates’ curricula vitae;
 - (ii) a statement in which each candidate accepts their candidacy and states, under their own responsibility, the inexistence of causes of ineligibility and incompatibility and their compliance with the requirements of the laws in force for directorships, including the statement about whether they qualify as independent;
 - (iii) the names of the shareholders presenting the lists and their investment percentages;

(iv) all other statements, information and/or documents required by the law and applicable regulations.

Lists or individual candidatures that do not comply with all the by-laws requirements will be considered as not having been presented.

The elections of the directors will take place as follows.

When two or more lists are presented, the candidates are voted for and the directors elected using the following methods:

- candidates from the two lists with the most votes are elected by applying the following criteria:
 - (i) a number of candidates equal to the total number of directors to be elected less one is taken from the list that obtained the most votes (the “**majority list**”) in consecutive order of presentation;
 - (ii) one director, the first on the list, is taken from the list that received the second most votes and is not linked (including indirectly) to the shareholders that presented or voted for the majority list (the “**minority list**”);
- lists that have not received a number of votes at least equal to half the number of shares required to present a list are not considered;
- should lists receive the same number of votes, the shareholders re-vote solely for these lists and the winning list is that which receives the most votes;
- should the independence requirements not be met using the above methods, the following approach is taken: the candidate who does not meet the independence requirements set by the law for directors of listed companies and who has been elected last in consecutive order from the list that received the most votes is replaced by the first candidate with the independence requirements established by the law for directors of listed companies not elected from the same list, in consecutive order. If this approach does not lead to a sufficient number of independent directors as established by the law for directors of listed companies, the elected non-independent director is replaced by means of a resolution taken by the shareholders by majority vote, after presentation of candidates with the independence requirements established by the law for directors of listed companies;
- should the requirements about gender balance not be met with using the above methods, the candidates of the most represented gender elected last in consecutive order from the majority list are replaced with the first unelected candidates on the same list of the other gender; if this is not possible, in order to

comply with the above regulations about gender balance, the shareholders will elect directors using the ordinary methods and majority vote, without using the list voting mechanism.

When just one list is presented, the shareholders vote for this list and if it obtains a relative majority, all the directors are taken from that list in accordance with the legal and regulatory provisions applicable from time to time and the gender balance regulations set out above.

If no list is presented or just one list is presented but does not obtain the relative majority of votes or if the number of elected directors is lower than the number to be elected or if the entire board of directors does not have to be replaced or if it is not possible to elect directors using the methods provided for by article 17 of the by-laws for any reason whatsoever, the shareholders shall elect the directors using the ordinary majority vote system, without using the list mechanism, as long as the minimum number of independent directors and gender balance requirements as set out above are met.

As part of its annual self-assessment, the board of directors expressed its opinion on its composition, given that it is to be renewed, confident that the shareholders will ensure a similar qualitative level of its members when presenting their lists in terms of the expertise and experience represented considering the characteristics, including their gender, of the candidates. It noted the opportunity for the shareholders to evaluate the election of people with experience in managing listed companies or similar companies (in terms of their size, complexity, international footprint and/or business activities) as this would enrich the board with new personalities, professionalism and knowledge.

Pursuant to article 18.1 of the by-laws, should the shareholders not do so, the board of directors elects a chairperson and possibly a deputy chairperson from among its members with the same term of office as the entire board.

In the light of the above, shareholders that intend to present a minority list should consider the recommendations in Consob communication no. DEM/9017893 of 26 February 2009 on the election of directors and statutory auditors.

Therefore, we invite you to elect a board of directors, a chairperson and a deputy chairperson by voting for one of the lists presented by the parties authorised to do so in accordance with the by-laws. Should no lists be presented, you shall elect the directors using the legal majority vote system, as long as the gender balance requirements in force from time to time are met.

2.5 Definition of the fees for the board of directors.

Dear shareholders,

Pursuant to article 2389 of the Italian Civil Code, you should define the fees for the board of directors.

Article 22 of the by-laws provides that: (i) all the directors shall receive a fixed annual fee for their services, defined by the shareholders as a total amount and divided up by the board among its members, including by considering their involvement in board committees; (ii) in addition to an annual fee for their position, the board of directors may allocate a fee to the directors with special duties as provided for by article 2389.3 of the Italian Civil Code and after consulting the board of statutory auditors, within the maximum amount defined in advance by the shareholders; and (iii) the directors shall also receive reimbursement for their expenses incurred to carry out their duties, in line with the methods and criteria set by the board of directors.

On 29 March 2018, you resolved that the board of directors would receive a fee of €850,000.00 (eight hundred and fifty thousand/00) a year (inclusive of the fees of the directors with special duties or the board committees), plus 15% of that amount as end of term of office entitlement, starting from 1 April 2018, to be allocated among the directors as decided by the board.

In line with that resolution and without altering the fact that the fee shall be assigned in compliance with the remuneration policy most recently approved by you, we submit for your approval the following proposed resolution:

“At their ordinary meeting, the shareholders of Carel Industries S.p.A., having acknowledged the illustrative report of the board of directors and in observance of the legal and by-laws requirements

resolve

- *to pay the board of directors a gross annual fee (inclusive of the fees paid to the board committees) of €850,000.00 (eight hundred and fifty thousand/00) to be allocated by the board of directors among its members, it being understood that the additional fixed and variable fees of the directors with special duties will be defined by the board of directors after consulting the remuneration committee and the board of statutory auditors, in line with the criteria set out in the company’s remuneration policy;*
- *to give the chairperson and the chief executive officer separate mandates for the performance of all the activities to ensure these resolutions are fully implemented*

with all necessary and suitable powers (none excluded) and the option to delegate them to third parties.”

Item no. 3 on the agenda:

3. Election of the board of statutory auditors; related and ensuing resolutions

- 3.1 Election of three standing statutory auditors and two alternate statutory auditors;**
- 3.2 Election of the chairperson of the board of statutory auditors;**
- 3.3 Definition of the fees for the board of statutory auditors.**

Dear shareholders,

With regard to the third item on the agenda, we remind you that the term of office of the current board of statutory auditors, elected by you on 29 March 2020, expires with the approval of the financial statements at 31 December 2020. Therefore, you are required by law and the applicable regulations and article 23 of the by-laws (to which reference is made for all that not specified below) to elect a new board of statutory auditors and its chairperson, and to define its fees.

The new board of statutory auditors will remain in office for the period from 2021 to 2023 and, more specifically, until the date of the shareholders' meeting called to approve the financial statements at 31 December 2023.

Therefore, we invite you to take the related resolutions to elect a new board of statutory auditors.

3.1 Election of three standing statutory auditors and two alternate statutory auditors

Dear shareholders,

Article 23 of the by-laws (to which reference is made for all that not specified below) states that the board of statutory auditors shall comprise three standing statutory auditors and two alternate statutory auditors.

The statutory auditors have a term of office of three years, can be re-elected and fall from office at the shareholders' meeting held to approve the financial statements for the third year of their office.

The board of statutory auditors will be elected using voting lists as established by article 23 of the by-laws, to which reference is made.

Shareholders, when the list is presented, that either individually or jointly hold a number of shares equal to the percentage established by Consob pursuant to the applicable legislation and regulations for the presentation of lists of candidate directors may present lists of candidate statutory auditors (1% as per Consob management decision no. 44 of 29 January 2021).

Shareholders, including those belonging to the same group of companies or that have entered into a significant shareholder agreement as per article 122 of the CFA, may not present or jointly present more than one list, nor may they vote for more than one list, including via trustees or nominees. Each candidate may be presented in just one list in order to be eligible.

Title to the minimum percentage is calculated considering the shares registered in the shareholder's name on the day the list is filed with the company, although the related certification may be presented at a later day as long as it is provided before the deadline for publication of the list (i.e., Tuesday, 30 March 2021).

The lists of candidates, signed by the presenting shareholders, are filed at the company's offices or sent by certified email to carel.industries@legalmail.it, together with the related documentation at least 25 days before the date of the shareholders' meeting that will resolve on the election of the directors (i.e., Friday, 26 March 2021).

The filed lists will be made available to the public at the company's offices and published on its website (www.carel.com) in the section on shareholders' meetings or in the storage system eMarket Storage (www.emarketstorage.com) at least 21 days before the date of the shareholders' meeting (i.e., Tuesday 30 March 2021).

As provided for by article 144-sexies.5 of the Issuers' Regulation, if only one list has been filed by the deadline for the presentation of the lists (i.e., Friday 26 March 2021) or just lists that are linked to each other, additional lists may be presented up to the third day after the deadline (i.e., Monday 29 March 2021) by shareholders that, when the list is presented, either individually or jointly hold a number of shares equal to at least half the minimum required percentage (i.e., 0.5%). The related information will be available on the company's website and using the other methods allowed by the ruling legislation.

The lists of candidate statutory auditors have two sections, one for the standing statutory auditors and one for the alternate statutory auditors. Each list:

- (a) shall set out the names of one or more candidates for the position of standing statutory auditor and one or more candidates for the position of alternate statutory auditor in the relevant section (“standing statutory auditors” section, “alternate statutory auditors” section) in consecutive numbered order for a number of candidates that do not exceed the number of positions to be held;
- (b) shall indicate, if it includes a number of candidates equal to or more than 3 (three), a list of candidates in both sections sufficient to ensure the composition of the board of statutory auditors, both for the standing and alternate statutory auditors, that complies with the laws and regulations in force from time to time about gender balance. Article 148.1–*bis* of the CFA, as amended by Law no. 160/2019, provides that the less represented gender should represent at least two fifths of the standing statutory auditors. Should allocation of this requirement not give rise to a whole number when the board of statutory auditors has three members, it shall be rounded downwards to the nearest whole number;
- (c) shall have the following documents attached:
 - (i) the names of the shareholders presenting the lists and their investment percentages;
 - (ii) a statement by the shareholders other than those that hold a controlling investment or relative majority investment, including jointly, confirming the lack of a link with these other shareholders in accordance with the ruling regulations;
 - (iii) extensive information about the candidates’ personal and professional characteristics, a statement by the candidates confirming they meet the legally–required requirements and accept their candidature and a list of positions held by the candidates as directors and statutory auditors in other companies;
 - (iv) all other statements, information and/or documents required by the law and applicable regulations.

The minority lists shall have the related statements confirming the lack of a link as per article 144–*quinquies* of the Issuers’ Regulation. Article 144–*sexies*.4.b) of the Issuers’ Regulation is applicable to the minority lists.

The statutory auditors shall meet the reputation, professional and independence requirements and the limit to the number of positions they may hold in other companies established by the law and regulations in force from time to time. In

accordance with article 1.2.b)/c) of the Ministry of Justice's decree no. 162 of 30 March 2000, subjects related to commercial law, company law, tax law, economics, finance and similar or identical subjects are those considered to be closely related to the company's activities as are the subjects and sectors related to the company's business sector.

The shareholders should also consider the guidance about the independence of statutory auditors provided in the Code of Corporate Governance when presenting their lists.

Lists or individual candidatures that do not comply with all the by-laws requirements will be considered as not having been presented.

The election of the statutory auditors will take place as follows.

When two or more lists are presented, the candidates are voted for and the statutory auditors elected using the following methods:

- candidates from the two lists with the most votes are elected by applying the following criteria:
 - (i) two standing statutory auditors and one alternate statutory auditor are taken from the list that obtained the most votes (the "**majority list**") in consecutive order of presentation;
 - (ii) the third standing statutory auditor (the "**minority statutory auditor**"), who will act as the chairperson, and the second alternate auditor (the "**minority alternate statutory auditor**") are taken from the list that received the second most votes and is not linked (including indirectly) to the shareholders that presented or voted for the majority list in accordance with the applicable instructions;
- should lists receive the same number of votes, the shareholders re-vote solely for these lists and the winning list is that which receives the most votes;
- should the requirements about gender balance established by the laws and regulations in force from time to time not be met using the above methods, the candidate for the position of standing statutory auditor or alternate statutory auditor of the most represented gender elected last in consecutive order from the majority list is excluded and is replaced with the first unelected candidate on the same list of the other gender;

When just one list is presented, the shareholders vote for this list and if it obtains a majority, three standing statutory auditors and two alternate statutory auditors

indicated as such in that list are elected in line with the laws and regulations in force from time to time, including with respect to gender balance.

If no lists are presented, or it is not possible to elect the board of statutory auditors using the methods set out in article 23 of the by-laws for any reason whatsoever, the shareholders shall elect the three standing statutory auditors and the two alternate statutory auditors using the ordinary majority vote as established by law, in accordance with the laws and regulations in force from time to time, including with respect to gender balance.

In the light of the above, we invite you to consider the recommendations in Consob communication no. DEM/9017893 of 26 February 2009 on the election of directors and statutory auditors.

Moreover, the board of statutory auditors you will elect will remain in office for the years from 2021 to 2023 and until the date of the ordinary shareholders' meeting held to approve the financial statements at 31 December 2023.

Based on the above, we invite you to resolve on the election of the board of statutory auditors as 3 (three) standing statutory auditors and 2 (two) alternate statutory auditors and to vote for one of the lists presented by the parties authorised to do so in accordance with the by-laws.

3.2 Election of the chairperson of the board of statutory auditors

Dear shareholders,

With regard to the election of the chairperson of the board of statutory auditors, we note that the chairperson is elected from the standing statutory auditors elected from the minority list in accordance with article 148.2-*bis* of the CFA.

If no lists are presented, or it is not possible to elect the board of statutory auditors using the methods set out in article 23 of the by-laws for any reason whatsoever, the shareholders elect the three standing statutory auditors and the two alternate statutory auditors by ordinary majority vote as established by law, in accordance with the laws and regulations in force from time to time, including with respect to gender balance.

We invite you to elect a chairperson from the standing statutory auditors elected by you after the vote as per item 3.1 on the agenda.

3.3 Definition of the fees for the board of statutory auditors

Dear shareholders, you should define the annual fees due to the board of statutory auditors for its entire term of office in accordance with article 2404 of the Italian Civil Code once they have been elected.

On 29 March 2018, you resolved to set the fees for the standing statutory auditors as €90,000,000 (ninety thousand/00) as follows: (i) €40,000.00 (forty thousand/00) to the chairperson; (ii) €25,000.00 (twenty-five thousand/00) to each of the standing statutory auditors.

In line with that resolution, we submit for your approval the following proposed resolution:

“At their ordinary meeting, the shareholders of Carel Industries S.p.A., having acknowledged the illustrative report of the board of directors and in observance of the legal and by-laws requirements

resolve

- *to set the fees due to the standing statutory auditors as €90,000,000 (ninety thousand/00) a year as follows: (i) €40,000.00 (forty thousand/00) a year to the chairperson; (ii) €25,000.00 (twenty-five thousand/00) a year to each of the standing statutory auditors;*
- *to give the chairperson and the chief executive officer separate mandates for the performance of all the activities to ensure these resolutions are fully implemented with all necessary and suitable powers (none excluded) and the option to delegate them to third parties.”*

Each item on the agenda will be voted on separately to allow each shareholder with voting rights and delegates with voting instructions to cast their votes.

Brugine, 4 March 2021

Chairperson of the Board of directors

Luigi Rossi Luciani