REMUNERATION REPORT

2021


CAREL

E-MARKET SDIR CERTIFIED

Remuneration report

Content

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").

During 2020, Carel's management team worked hard to keep on track with the strategic plan and budget forecasts presented to the investors despite the very difficult market situation due to the uncertainty engendered by the Covid-19 pandemic.

In this extraordinary situation where the commitment and efforts requested of the company's resources was and continues to be greater than normal, we felt it necessary to revisit their remuneration packages to make them financially and ethically compatible with the results achieved and efforts requested.

Therefore, 2020 was a very busy year for the remuneration committee as well. We actively ensured that the policies planned at the start of our work were implemented and we defined the policy for the incoming board of directors in an increasingly complex situation due to the pandemic and the greater legislative pressure on remuneration. We designed a more balanced remuneration policy as a tool to encourage, support and guide management and employees in a coordinated and purposive manner towards achievement of the company's strategic objectives.

This policy hinges on a responsible approach, focused on ***expertise, performance and sustainability****. Specifically, the company's greater commitment to these objectives is reflected clearly in its remuneration policy where targets tied to the impact of the company's business on the environment and social aspects are given more weight than its financial performance.*

The company's objective is to pursue "sustainable success" that "creates long-term value to the shareholders' benefit, considering the interests of the other stakeholders important to the company", which can be seen in Carel's commitment to steadily improving its remuneration systems in line with the recommendations in the new Code of Corporate Governance, regulations and best practices.

The report continues to have two main sections as well as, like in previous years, an introduction providing some key information about the general situation for a better understanding of the proposed and implemented policies.

On behalf of my committee members, I would like to draw your attention to the great care taken to present the link between the company's strategies and the policy proposed for the directors' and key management personnel's remuneration in Section I. Similarly, our aim in Section II was to provide transparent information about how the current policy has been implemented and an immediate understanding of the results achieved as part of each plan with the related remuneration paid during the year.

The guidelines of the remuneration policy for the incoming board of directors

On 4 March 2021, the board of directors approved the remuneration policy and the remuneration paid, as proposed by our committee, after a preliminary analysis of the reference legislative framework, market practices and a benchmark analysis performed with the assistance of a leading consultancy company specialised in this area. You will be asked to approve this in your shareholders' meeting of 20 April.

Specifically, together with the company's HR department and the chief executive officer, we designed and proposed a remuneration policy in line with previous policies based on the following guiding principles:

- ***Equity, diversity and inclusion:*** *enhance expertise and merit as well as also diversity as an opportunity to create value; focus on the pay-ratio and achievement of a better gender balance as drivers of a fairer and more balanced policy;*
- ***Sustainability:*** *define (financial and non-financial) performance targets, that the variable components are tied to and that are defined in advance, measurable and consistent with the company's strategic objectives to foster its sustainable success;*
- ***Competitiveness:*** *focus on 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; proper weighing of the fixed and variable remuneration components;*
- ***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 growth, change and strategic innovation, we believe that this policy is consistent with the group's strategic vision. 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. All this in a market situation expected to be extremely complicated and uncertain for some time.

Section I presents the proposed policy's remuneration and incentive strategies. At the date of this report, the remuneration received by the executive and independent directors is not expected to increase in 2021, apart from those increases approved for directors whose proxies have been changed or who have special duties.

With respect to the incentive system proposed as part of the guidelines for the 2021-2025 policy, we have provided for continuation of the ***short-term plan*** *and a* ***cash-based*** *and* ***share-based long-term plan****. This variable system promotes development of the company's strategic plan in which its sustainable development objectives are an inherent part of its business model. A close tie between the policy and the business strategy.*

Specifically, we have maintained a well-defined and balanced structure of annual objectives, which are interrelated and designed to ensure the company's profitability and operating efficiency in its traditional business sectors while *concurrently promoting the importance placed by the company on protecting the environment and focusing on social aspects. Carel's primary objective is to encourage energy transition with the adoption of concrete solutions to protect the environment by reducing CO2 emissions as well as policies to foster diversity and inclusion starting from gender balance and equality.*

With respect to the long-term incentive plan for Carel's senior managers and other key management personnel, which is a cornerstone of its remuneration policy, the committee will present the new 2021-2025 long-term incentive plan to the shareholders for its approval. This plan is very similar to the previous plan but its performance parameters have been revisited with the introduction of specific sustainability performance targets accounting for 20% of the total.

These guidelines are described in detail in Section I of this report and will be applicable for the next three years, if approved by you.

***Section II** provides details of the remuneration paid in 2020 to each director and statutory auditor, the general manager and, collectively, the key management personnel in line with the approved remuneration policy.*

During 2020, company management worked hard to continue the sustainable development and growth plan presented to the market despite the serious Covid-19-triggered crisis. The 2020 results confirm the excellent progress made with respect to the financial and operating goals the company has set itself, with a +1.3% growth rate for the group and a profitability margin (EBITDA/revenue) up 3.3% on the previous year.

Specifically, with respect to the remuneration policy, in 2020, it achieved the following results:

- *further alignment of the remuneration of the chief executive officer, the general manager and key management personnel with the peers benchmark;*
- *continuation of the short-term incentive (MBO) indicators, with adjustment of the parameters that measure economic/financial and ESG efficiency to reflect the Covid-19 pandemic and its effects on the business and company organisation;*
- *introduction of the third part of the LTI plan and extension of the beneficiary scope.*

We would like to emphasise how Carel has given great importance to dialogue and ongoing engagement with the main recipients and beneficiaries 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 2020, the remuneration report received a large percentage of favourable votes (98%), confirming our efforts to propose amendments to the board of directors that are best suited 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 report presented for your review once again shows our ongoing commitment and,

also on behalf of the other committee members, I would like to thank you in advance for your acceptance and support of the remuneration policy proposed for the incoming board of directors.
Finally, I would like to thank the other members of the remuneration committee and the board of statutory auditors for their precious contribution to our activities during the year as well as all the staff of the HR & organisation department with whom we have always worked in a constructive and friendly manner to find balanced and shared solutions.

Cinzia Donalisio
Chairperson of the remuneration committee

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Introduction

The board of directors of Carel Industries S.p.A. ("**Carel**" or the "**company**") approved this report on the remuneration policy for 2021 (Section I) and the remuneration paid to the directors, statutory auditors, chief executive officer, general manager and key management personnel in 2020 (Section II) (the "**report**") on 4 March 2021. It was prepared in accordance with article 123-ter of Legislative decree no. 58/1998 (the "**Consolidated Finance Act**" or "**CFA**"), as amended by Legislative decree no. 49/2019 which implemented Directive (EU) no. 2017/828 (the "Shareholder Rights Directive II") of the European Parliament and of the Council in accordance with article 84-quater of the Issuers' Regulation and the Code of Corporate Governance of Borsa Italiana S.p.A. ("**Borsa Italiana**").

The report shows that, while 2020 was heavily affected by the rapid spread of the Covid-19 pandemic, company management moved swiftly to deal with the resulting uncertainties and changes (in the end market, business and product plans, management of the head office and foreign operations) by rolling out policies to both protect the business and support customers around the world as well as, especially in the second half of the year, to recoup the shortfall of the first six months to end the year with a sales performance that was actually better than that of 2019.

The main pillars of the "**Secure&Retune**" strategy adopted in 2020 to counter the adverse effects of the pandemic were:

- definition of a single strategic target for all the internal units based on the need to defend and protect the company's business (**One Company, One Target**);
- concentration on pushing sales by the group's entire sales force on all markets, channels and applications;
- investment of energy and focus at all levels (S&M, R&D and Operations) on the more resilient applications, i.e., those that were less exposed to the pandemic's adverse effects;
- removal of all hindrances blocking the development of high value projects with quick short-term returns;
- effective promotion of new communication methods and digital marketing to bolster sales and engagement with the main customers;
- optimisation of the Operations department's performance (in terms of service levels and lead times) to achieve volumes and product types that meet market needs.

This meant the company did not have to change the incentive system (either short - MBO - or long term - LTI) offered to its executive directors and key management personnel. The company performed exceedingly well in a year characterised by great uncertainty and a weak domestic and international economy.

Therefore, the 2021 remuneration policy will continue along the path approved by the shareholders on 20 April 2020 with the same key elements and basis of previous years notwithstanding the continued great concerns about the time required to exit the pandemic.

The new LTI plan has been tweaked compared to that introduced in 2018 but the variable component (both short and long term) continues to be the key factor for calculation of management's remuneration packages. The objective is to align the interests of all the group's stakeholders and to continue to create sustainable value for the shareholders.


CAREL

Executive summary

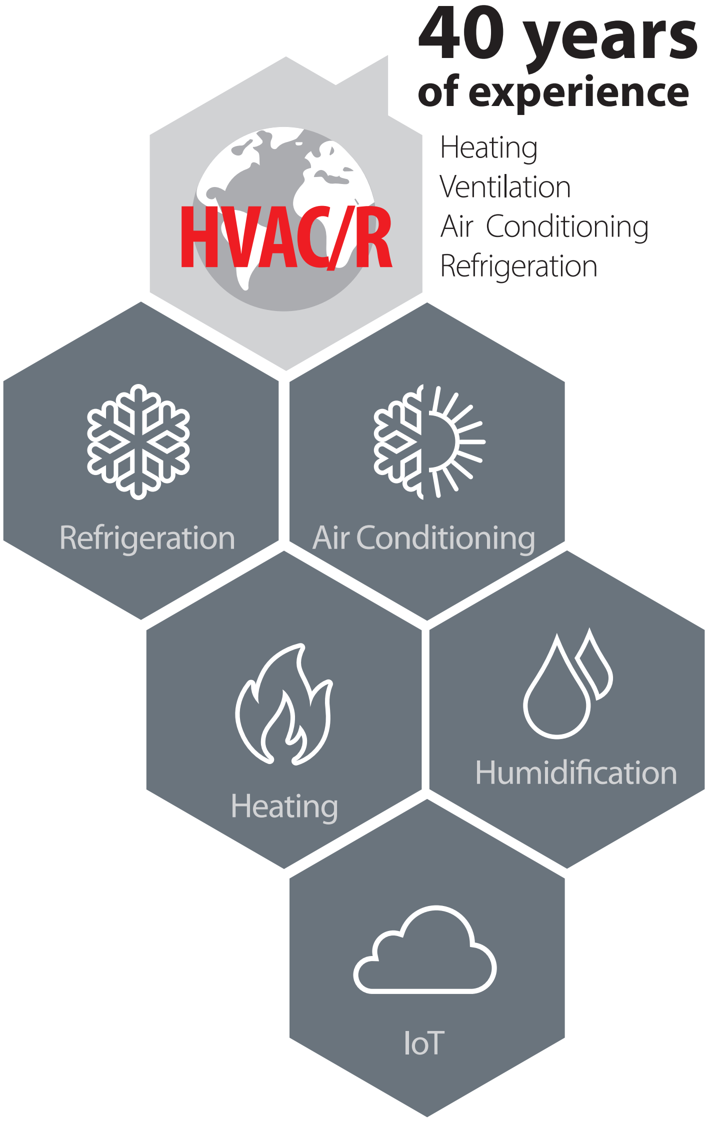
CAREL'S REMUNERATION POLICY DRIVERS

Our experience in the HVAC/R sector goes beyond the single components: our way of perceiving and understanding the system as a whole means we are able to provide innovative and efficient solutions that meet our customers' different needs.

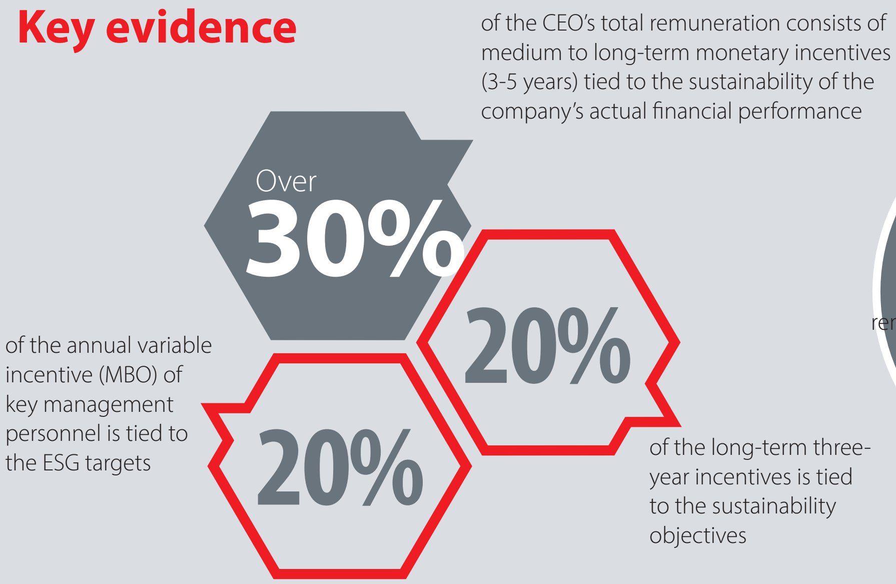
Bolstered by more than 40 years of experience and our in-depth knowledge of the various end applications of our products, we offer integrated solutions that improve the systems' overall efficiency, measured in terms of energy saving, without curtailing their working or performance.

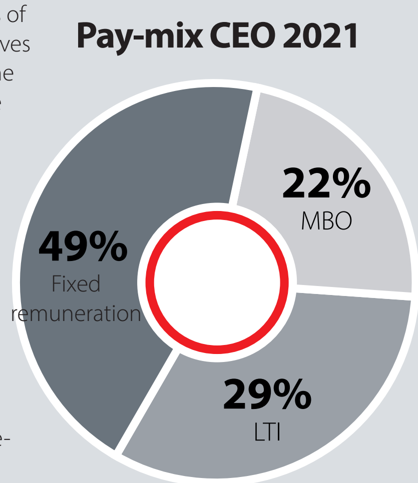
This is why the issue of sustainability is important to Carel: promoted by the upper echelons and supported by all the internal departments, sustainability is the company's growth driver with objectives that cover the environment, social aspects and the group's overall operations.

Growth that contributes significantly to creating long-term sustainable value, partly due to the inclusion of ESG targets in the business plan and their direct tangible tie to management's remuneration and incentive systems.



Key evidence





WE ENABLE SUSTAINABILITY

In 2020

Climate Change Program

We joined CDP's Climate Change programme confirming our commitment to combating climate change and limiting its impact.

We defined our policy on alternative and renewable energy sources and energy efficiency.

We launched and successfully completed a stakeholder engagement survey of 850 stakeholders to update our materiality analysis in line with the GRI Standards.

We commenced initiatives to improve the workplace environment, foster collaboration and the sharing of knowledge between colleagues and to enable each employee to achieve a better work-life balance.

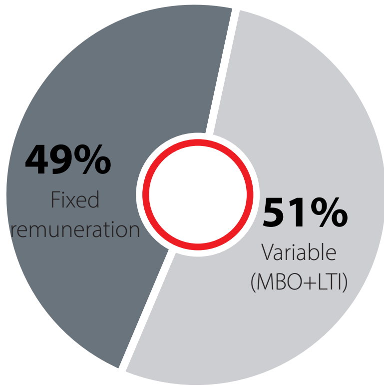
The remuneration policy is designed to transparently and effectively lead management to pursue objectives that create sustainable value for all stakeholders over time.

THE RESULTS-REMUNERATION LINK

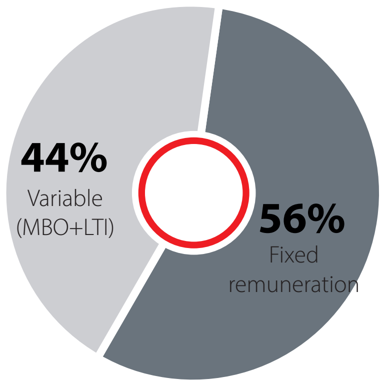
The remuneration of the CEO and key management personnel is closely tied to the company's short-term and medium to long-term results.

Their performance is assessed in terms of both business achievements and the effective attainment of ESG objectives. The latter's weight has been increased to 20% of the total (both for the MBO and LTI plans).

Pay-mix CEO 2021



DRS 2021



MBO 2021 | CEO

ON/OFF access gate

TARGET	WEIGHT	MIN	TARGET	MAX
Group Adjusted EBITDA	45%	0	100K	150K
Group Consolidated Turnover	20%	0	40K	60K
Individual Performance target	15%	0	20K	30K
ESG target	20%	0	40K	60K
			200K	300K

The CEO's incentive is capped if the maximum threshold is achieved for all targets simultaneously. Other results above the minimum thresholds are calculated using the linear interpolation method.

If the CEO does not achieve the access gate (EBIT >0), the incentive system is not triggered and no incentives are paid.

2021 -2025 LTI | CEO, Executive directors and key management personnel

The new 2021-2025 LTI system, to be approved by the shareholders on 20 April with a specific resolution as per article 114-bis.1 of Legislative decree no. 58/1998, is an essential component of the company's remuneration policy and fundamental for the long-term retention of key resources. The system has two plans:

CASH-SETTLED PERFORMANCE

Award of a monetary incentive if performance objectives are met over three years.

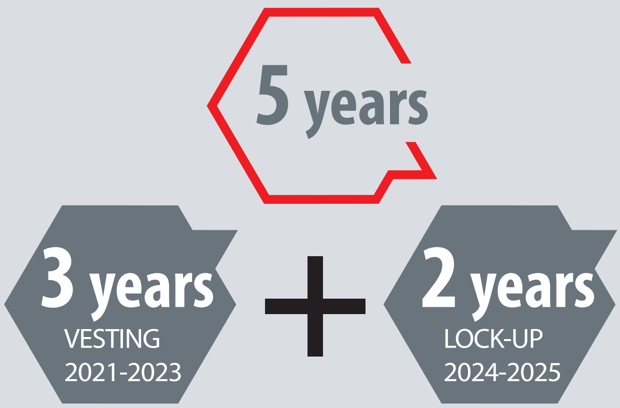
SHARE-BASED PERFORMANCE

Free award of shares if performance objectives are met over three years.

THE 2021-2025 LTI PLANS

The share-based and cash-settled performance plans comprise three rolling three-year vesting periods as follows:

First period: 2021 – 2023.
Second period: 2022 – 2024.
Third period: 2023 – 2025.



Each three-year vesting period is extended by a 24-month lock-up period even when the objectives are only partly met as follows:

- For the CEO and executive directors: 40% of the awarded amount.
- For the key management personnel: 20% of the awarded shares.
- For the other beneficiaries: 20% of the awarded cash amount, 10% of the awarded shares.

CEO PERFORMANCE CONDITIONS

	WEIGHT	80%*	TARGET 100%	120%**
Cumul. adjusted EBITDA in the three years	50%	108k€	135k€	162k€
Adjusted cash convers. in the three years	30%	65k€	81k€	97k€
ESG Target	20%	43k€	20K€	30K€
TOT.		216k€	270k€	324k€

* Minimum bonus amount
** maximum bonus amount

DRS PERFORMANCE CONDITIONS

	WEIGHT
EBITDA Adj. Cumulato nel triennio	50%
Cash Conversion Adj. nel triennio	30%
ESG Target	20%

CEO

60% of the bonus accrued for the performance achieved in the three-year period (X) is awarded in cash in year X+1.

40% of the bonus accrued for the performance achieved in the three-year period (X) is awarded in cash in year X+3, i.e., after a 24-month lock-up period.

KEY MANAG. PERSONNEL

80% of the bonus accrued for the performance achieved in the three-year period (X) is awarded in shares in year X+1.

20% of the bonus accrued for the performance achieved in the three-year period (X) is awarded in shares in year X+3, i.e., after a 24-month lock-up period.

STAKEHOLDER ENGAGEMENT AND TRANSPARENCY

Carel has always prioritised high levels of transparency and engagement to align its shareholders' interests with those of its stakeholders.

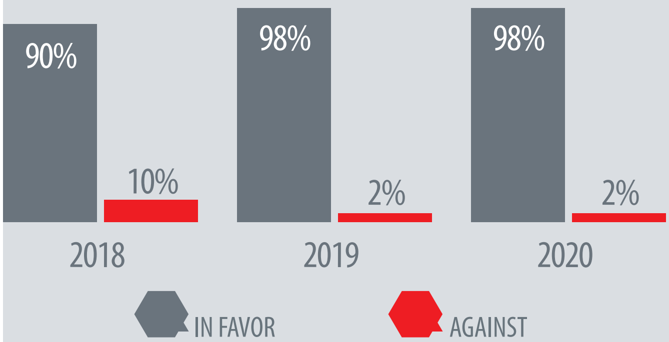
Accordingly, we have worked to act on the opinion expressed by the shareholders that voted against approving the 2020 remuneration policy. When we presented the new 2021-2025 LTI plans, we adjusted the long-term incentive system for the CEO and the executive directors, transitioning from a share-based plan to a plan that could be based both on cash and shares.

Remuneration policy and shareholders' votes

TRADITIONALLY, THE REMUNERATION POLICIES PRESENTED TO THE SHAREHOLDERS HAVE RECEIVED VERY POSITIVE ENDORSEMENT WITH VOTES CAST IN FAVOUR OF THEIR

APPROVAL REACHING **98%**

IN THE LAST TWO YEARS.



LONG-TERM SUSTAINABILITY PLAN

Carel will finalise its long-term sustainability plan in 2021. This is the output of a dedicated interfunctional team (the ESG team) and will pinpoint the main action areas, sustainability objectives and key performance indicators (KPIs) to be used to measure the company's progress over the next few years.
The plan is a roadmap which includes a number of non-financial indicators that have already been agreed and included in both the short-term (MBO) and medium to long-term (LTI) incentive systems for the CEO and key management personnel.
Two indicators are:

GENDER BALANCE:

the % of female white collars hired with an «indefinite time» employment contracts

Target 2021
25%

CEO Pay Ratio

REPORT	YEARS	REM DIP ITA	REM CEO
1:9	2019	40.066 €	348.534 €
1:20	2020	42.618 €	846.960 €

In order to clearly and transparently present senior management's remuneration policies, this table shows the ratio of total remuneration received by the CEO in 2019 and 2020 and the average remuneration received by the employees of the group's italian companies in the same period.

calculated as fixed salary, variable short-term remuneration and first vesting period of the LTI plan estimated using the average share price in the period from 11 January 2021 to 12 February 2021.

ENVIRONMENT:

Reduction of the group's production sites' tCO_2 emissions a year

Target 2021
4%

SUSTAINABILITY PLAN

Commitment to develop an integrated, systematic and controlled approach

+

Change in company culture and behaviour

+

Allocated resources (financial and non-financial)

CAREL'S 2021 REMUNERATION POLICY TAKEAWAYS

Fixed salary (Remuneration + fees)

Defined considering the role's difficulties, effective responsibilities and experience needed
Monitoring the external reference remuneration market
Considering individual performance achievements.

Scope

Able to attract, motivate and retain the best resources.

CHAIRPERSON	250,000 €
DEPUTY CHAIRPERSON	180,000 €
EXECUTIVE DIRECTOR	100,000 €
CEO	450,000 €
GENERAL MANAGER	282,000 €
KEY MANAGEMENT PERSONNEL*	173,000 €

*(average combined figure)

Short-term variable bonus (MBO)

Tied to financial, operating and sustainability performance targets defined in advance:

- Group EBITDA - 45%
- Group turnover - 20%
- Individual performance objective - 15%
- ESG - 20%

Bonus CAP: for everyone at 150% of the nominal amount.

Scope

Tie remuneration to performance in a clear and direct manner linking behaviour and actions to the company's short-term strategic objectives.

CEO	200,000 €
GENERAL MANAGER	100,000 €
KEY MANAGEMENT PERSONNEL*	61,250 €

*(average combined figure)

Long-term variable bonus (LTI)

Carel's LTI system has two separate plans:

- Share-based performance plan
- Cash-settled performance plan

The two plans are very similar and differ solely with respect to payment of the bonus if all the objectives are met.

Bonus CAP: 120% of the number of shares or monetary incentive awarded when the bonus is defined.

Vesting: three rolling three-year cycles (2021-2023, 2022-2024, 2023-2025).

Scope

Guarantee behaviour taken to ensure sustainable performance in the medium to long-term.

Performance conditions:

- Cumulative adjusted EBITDA in the three years - 50%
- Adj. cash conversion/region-country turnover - 30%
- ESG target - 20%

Lock-up: two years for part of the shares or monetary incentive awarded at the end of the three-year period.

Other elements

Benefits

As part of our Total Rewards model, we offer additional social security, healthcare and mobility benefits

Scope

They supplement the remuneration package to be more attractive on the market and assist retention.

Non-compete agreements

Individual agreements that vary depending on the term and range of the ban against payment of a monetary fee calculated as a percentage of gross annual remuneration.

Scope

They protect the company's interests against unfair competition.

Retention/discretionary bonus

The CEO, executive directors and key management personnel do not receive discretionary remuneration, which can only be offered to the rest of the company's workforce.

Scope

They reward employees who achieve particularly brilliant results as part of achieving the company's business objectives with discretionary one-off bonuses.

Severance payment

Ex ante individual agreements regulating payments in case of termination of employment relationships or departure of a director do not exist.

Scope

The company always complies with the recommendations in the Code of Conduct and the laws and national employment agreements, when applied.

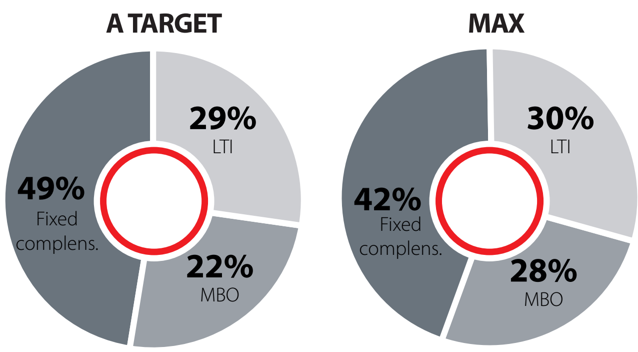
Pay for Performance

The remuneration package of the CEO, executive directors with special duties and key management personnel comprises:

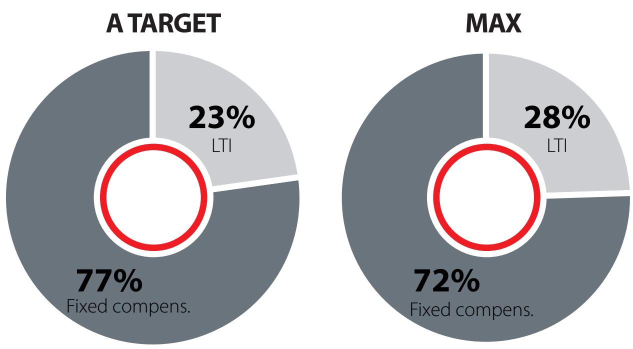
- a large part tied to achievement of results defined in advance;
- a short-term variable component paid in cash;
- a medium to long-term variable component consisting of shares for the key management personnel or cash for the CEO and executive directors. In both cases, part of the bonus due is subject to lock-up clauses.

PAY MIX

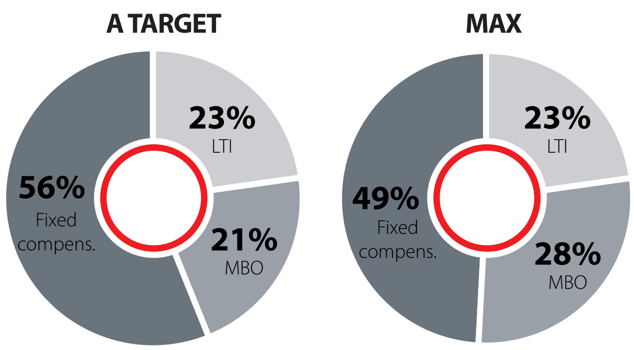
Target and maximum performance
CEO



Target and maximum performance
Executive directors



Target and maximum performance
Key management personnel (average combined figure)




CAREL

Section I
2021 Remuneration policy

The policy's principles and beneficiaries

The group's remuneration policy (the "**remuneration policy**") continues to hinge on its **responsible approach underpinned by its expertise, performance and sustainability**. Specifically, the company's increased commitment to these goals can be seen in its remuneration policy where the greatest weight is given to targets tied to its impact on the environment and social aspects, as well as its financial performance.

The remuneration policy is a means to ensure the company's continued sustainable success and reflects the need to recruit, retain and motivate people with the expertise and professionalism required by their position.
The group's remuneration policy also aims to encourage management to work towards operating performance goals that reflect the company's culture and values in an ongoing and sustainable manner. In a highly competitive market, it is designed to attract and retain talents who can contribute significantly to achievement of its business objectives.

As a result of the close and tangible link between the variable remuneration component and the individual beneficiary's and the group's performance, the policy is based on the following principles:

- **Equality, diversity and inclusion**
  Management's remuneration levels are defined to enhance their expertise and merit as well as diversity as a significant opportunity to create value, which is why the pay ratio is very important as is the achievement of a better gender balance as drivers of a fairer and more sustainable policy.
- **Sustainability**
  The (financial and non-financial) performance targets (which Carel's bonus systems are tied to) are defined in line with the company's strategic objectives and to foster sustainable success. These bonus systems (cash-settled and share-based incentive plans) have been developed over time and reflect the company's risk profile and intention to increase value over time for the group's investors and all its stakeholders.
- **Competitiveness**
  The remuneration policy is designed to attract, retain and motivate key resources, given that people are fundamental to achieve the company's strategic objectives in both the short and long-term. It sets remuneration levels in line with best market practices considering the resources' real experience and know-how as well as their performance over time.
- **Transparency**
  The company has a transparent governance system that is always available to provide information about managers' remuneration in the most transparent manner possible.

Beneficiaries

The remuneration policy covers the group's executive, non-executive and independent directors, statutory auditors and key management personnel.

Results of the shareholders' votes, improvement actions taken and new concepts introduced into the 2021 remuneration policy

On 20 April 2020, in line with the ruling regulations, the shareholders approved the 2020 remuneration policy described in Section I of the remuneration report published in 2020 with the favourable vote of 98.436%.
The large majority showed the shareholders' approval of the 2020 remuneration policy.
As the 2021 remuneration policy will be presented to the shareholders for their approval in the meeting to be held on 20 April 2021, in line with the procedure adopted in previous years, the company revised the remuneration policy to best align remuneration to the company's performance, balance the pay mix, address sustainability over the long term and include ESG indicators in the new share-based and cash-settled LTI plans to respond to the position of some shareholders that had voted against the approval of the 2020 remuneration policy.
Specifically, the beneficiaries of the new cash-settled 2021-2025 LTI plan now include the CEO and the executive directors.
The shareholders will be asked to vote on the new variable share-based LTI plan in their meeting on 20 April 2021.
The 2021 remuneration policy described in this Section I: (i) incorporates the main new requirements introduced by Consob about remuneration transparency with its amendments to the Issuers' Regulation. Its resolution no. 21623 of 10 December 2020 was designed to align the secondary regulations with the provisions of the Shareholder Rights Directive II and to revisit the disclosure tables to comply with changes in market practices for remuneration transparency; and (ii) reflects the instructions of Borsa Italiana's new Code of Corporate Governance.

Salaries and employment conditions of employees and remuneration policy

All the group's white collar employees participate in an annual assessment initiative to identify their individual contribution to achievement of the business objectives using the KPS (Key People Score) indicator. Their skills and know-how are assessed and the group estimates the possible difficulty in recruiting equally-valid resources on the market should they leave the group.

The KPS assessment impacts the remuneration policies applied as it measures the value contributed by the individual employee (fixed remuneration) and their achievement of their personal goals (variable remuneration).

In addition, at the start of 2021, the company rolled out a pay design and modelling project to design a more structured but agile approach to remuneration policy management with the more objective measurement of the employees' remuneration compared to their peers inside the company and on the market.

As a result, the company will be able to develop an internal fast and easy-to-use levelling system using a payband tool and to analyse each individual employee's deviations from the remuneration structure designed for their professional profile, identifying the reasons for any differences and tailoring action plans to close any gaps.

The analyses of the remuneration paid will be flanked by assessments of employees' potential for the higher performers and talents, after which the company will define succession plans for the senior positions, suitable development and training programmes as well as career paths that match employee expectations both to retain valuable resources and enhance their expertise.

Therefore, when drawing up the remuneration policy, the company considered its employees' salaries and employment conditions (described above) and decided that the salaries of the chief executive officer, key management personnel and senior management in general would be based on their positions and duties (for the fixed component and as part of the total reward approach) while their contribution to the company based on their meeting the set short and long-term targets assigned to them would be considered for the variable part.

Governance

Definition of the company's remuneration policy is the result of a transparent and structured governance process that, in line with the guidance and recommendations of Borsa Italiana's Code of *Corporate Governance*, involves the proactive involvement of the following parties:

- the remuneration committee;
- the board of directors;
- the board of statutory auditors;
- shareholders;
- the HR department;
- independent experts.

These parties also contribute to any revisions to the remuneration policy.

The remuneration policy is the end product of the following process.

The remuneration committee prepares a number of proposals for the board of directors about the form and content of the remuneration policy in line with its advisory and guidance duties and using the analyses and support provided by the HR department. Together with the board of directors, the committee oversees the policy's correct roll-out, involving the competent internal units if necessary, also in order to review it.
The board of statutory auditors checks that the proposals are in line with the company's general remuneration practices and expresses an opinion on them, especially with respect to the directors with special duties (as per article 2389 of the Italian Civil Code).

After reviewing and approving the remuneration policy, the board of directors presents it to the shareholders that, starting from 2020 with the enactment of Legislative decree no. 49/2019 (which implements the *Shareholder Rights Directive II*), express an opinion on the policy with their binding vote on Section I (remuneration policy) and advisory vote on Section II (the remuneration paid in the previous year).

The remuneration policy is drafted using analyses and regular monitoring of market remuneration and incentive practices as well as assessments of the effects of the remuneration policies approved in previous years.
Assisted by the HR department, 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

The remuneration committee plays a pivotal role in assisting the board of directors to draft, oversee and possibly revise the group's remuneration policy and design short and medium to long-term share-based and cash-settled incentive plans.

As provided for by Borsa Italiana's recommendations in the Code of *Corporate Governance*, the committee advises and guides the board of directors specifically for the remuneration of the executive directors, the directors with special duties and the group's key management personnel.

The committee's duties include:

- the review and presentation of proposals about the remuneration policy for the executive directors, the directors with special duties, the statutory auditors and the key management personnel to the board of directors;
- the regular assessment of the adequacy, overall compliance, economic sustainability and actual application of the adopted remuneration policy;
- the provision of assistance to set and check that *performance* goals underpinning the short and long-term incentive systems are met for the executive directors, directors with special duties and key management personnel;
- the assessment and presentation of proposals about share-based incentive plans and *stock option* or similar plans to engage and retain *management* over the long-term to the board of directors.

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 chief executive officer, the general manager and key management personnel, or to discuss stock option plans or the award of shares.

The board of statutory auditors is invited to attend committee meetings. As provided for by recommendation 26 of the Code of Corporate Governance, none of the directors attend committee meetings when proposals are made about their remuneration.

1. Composition

At the date of this report, the remuneration committee that provided the board of directors with the proposed draft 2021 policy for approval, comprised the following non-executive independent directors:

- **Cinzia Donalisio**, chairperson.
- **Marina Manna**, member.
- **Giovanni Costa**, member.

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.

2. Activities

In 2020, the remuneration committee met nine times: due to the restrictions imposed to deal with the Covid-19 pandemic and the public health measures introduced to minimise the risks of contagion, only three meetings were held in-person while the others were held by video conference. The committee members participated at all the scheduled meetings while none of the executive directors were invited to participate at meetings where their remuneration was being discussed. The board of statutory auditors attended all the meetings as invited.

The group's HR chief officer attended all the committee meetings as secretary, sending out notices of the meetings and writing up the minutes afterwards.

The activities performed by the committee, assisted and supported by the group's HR chief officer, covered in particular:

Activities performed	Time period
Analysis and preparation of proposals to adjust the remuneration of the chief executive officer and the key management personnel	January 2020
Check that the qualitative targets (ESG) included in the 2019 short-term incentive plan (MBO), in particular for the chief executive officer, the key management personnel and the internal auditor, were met	February 2020
Review of the remuneration policy that the company had drafted to be included in the remuneration report after approving it and present it to the board of directors and the shareholders for their approval	February 2020
Analysis of any adjustments to be made to the 2020 MBO guidelines to reflect the impact of Covid-19 on the business	April/May 2020
Definition of the structure, weight and targets of the 2020 MBO for the chief executive office, the general manager, the internal auditor and the key management personnel	May 2020
Check of the votes cast by the shareholders on Section I (binding vote) and Section II (advisory vote) of the remuneration report	May 2020
Analysis of any adjustments to be made to the current LTI plan to reflect the post-Covid-19 performance targets	June 2020
Study of possible new 2021-2025 LTI plans	September 2020
Preparation of comments and guidelines for the 2021-2024 staffing policy to ensure compliance with the internal gender balance targets	November 2020
Drafting a salary adjustment proposal for the chief executive officer to be implemented in 2021	December 2020

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 and approving the remuneration policy once a year based on the recommendations made by the remuneration committee. This is the outcome of a transparent procedure. 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.

The board of directors approves remuneration in the form of medium to long-term share-based incentive plans as recommended by the remuneration committee and proposes it be approved by the shareholders, ensuring it is implemented.

It checks that the remuneration paid and accrued is consistent with the principles and criteria set out in the policy, based on the results achieved and other relevant factors.

Board of statutory auditors

The board of statutory auditors plays an important role in drawing up the remuneration policy. It provides its opinions and comments on the directors' remuneration, particularly that of the directors with special duties, in accordance with article 2389 of the Italian Civil Code.

The board of statutory auditors also checks that the salaries and fees paid are in line with the company's general remuneration practices.

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 Gallio**.

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 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 article 123-ter.6 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 shareholders vote on the remuneration policy at least every three years or whenever the policy is amended.
The Italian legislator indicated in the report accompanying Legislative decree no. 49/2019 that amendments to the remuneration policy of a formal or presentation nature need not be submitted for the shareholders' vote as this is only required for amendments to the policy's content. Moreover, in order to need a new vote, Consob clarified that the amendment to the policy's content must relate to aspects already presented in the previously approved policy or introduce new aspects with the result that the previously approved policy is no longer representative of the amended policy, which is why the shareholders are required to re-approve it.

Should the shareholders not approve the remuneration policy presented for their vote, the company continues to pay remuneration in line with the most recent policy approved by the shareholders or, if this is not possible, it may continue to pay remuneration in accordance with its existing practices. Consob states that this term (existing practices) refers to the decisions already taken by the company about remuneration which could be based on market practices such as recommendations of the codes of conduct the company states it adheres to. 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 examines numerous market analyses, including those prepared by independent experts, to perform its consulting and advisory duties. The experts provide information and research on remuneration trends, practices and levels on a benchmark basis using peer groups to monitor the adequacy of senior management's remuneration. Once again in 2021 like in previous years, Carel will be assisted by Mercer Italia.

Remuneration and fees paid

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.

The company's 2021 remuneration policy comprises the following elements:

- fees for the position of director (for the parent or associates);
- fixed remuneration;
- short-term variable remuneration (MBO);
- long-term variable remuneration (LTI);
- benefits.

These elements are combined in different formats to make up the remuneration packages of the executive and independent directors, the chief executive officer, the general manager and key management personnel.

The various elements making up the remuneration packages of the above-mentioned beneficiaries are summarised below:

	Remuneration package items				
	Fee	GAR	MBO	LTI	Benefit
Luigi Rossi Luciani, executive chairperson	•			•	•
Luigi Nalini, executive deputy chairperson	•			•	•
Francesco Nalini, chief executive officer	•	•	•	•	•
Carlotta Rossi Luciani, executive director	•			•	•
Cinzi Donalisio, indipendent director	•				
Giovanni Costa, indipendent director	•				
Marina Manna, indipendent director	•				
General manager	•	•	•	•	•
Key managment personnel	•	•	•	•	•

As noted in the introduction, the group's remuneration policy is designed to achieve the following main objectives:

- align the interests of shareholders and senior *management*, including by closely tying the remuneration policy to the business results;
- attract, retain and motivate the resources deemed most important to achieve the company's growth and development objectives;
- pursue the company's long-term and sustainability interests, considering the total remuneration paid and employment conditions offered to all employees.

Conscious of the difficult situation created by the fall-out of the Covid-19 pandemic, the company introduced a number of initiatives in 2020 to support and assist employees carry out their work. The most important of these are:

- adoption of strict prevention and safety protocols in the workplace in line with the national public health authorities' recommendations;
- agreement of a "Covid-19" insurance policy to cover the costs of possible contagion;
- resort to massive use of *remote working*, compatibly with the type of job performed;
- continuation of all the *salary review* and bonus policies approved before the pandemic broke out;
- provision of IT devices and tools to employees to facilitate their working from home;
- consolidation of the previously-adopted *welfare* policies (scholarships, *education* grants, assistance with childcare, etc.) to provide additional assistance to employees and their families;
- transition of employee training programmes online in the form of *digital e-learning*, webinars and/or dedicated events.

The group's remuneration policy is proposed for 2021 and lasts one year.

The shareholders' meeting called for 20 April 2021 to approve the separate financial statements at 31 December 2020 will also be asked to renew the board of directors and, therefore, to approve the total annual fixed fee of its members pursuant to article 22 of the by-laws. This fee is proposed by the outgoing board of directors considering the guidance and recommendations made by the remuneration committee. It proposed that the fee of an annual gross €850,000 approved by the shareholders in their meeting of 29 March 2018 be confirmed (inclusive of the fees of the directors on board committees), while the fixed and variable fees of the directors with special duties will be decided by the new board of directors after consulting the remuneration committee and the board of statutory auditors in accordance with the criteria set out in the company's remuneration policy. The incoming board of directors will adhere to the guidelines of the 2021 remuneration policy and will decide the fees of the directors with special duties and the non-executive directors who participate in board committees in accordance with the applicable legislative and by-laws requirements and the resolution passed by the shareholders on 20 April 2021.

1. Commitment to sustainability

Following on from previous years, the remuneration policy adopted for senior management and key management personnel strengthens the tie between a significant part of their remuneration to both operating performance targets and **ESG** sustainability goals using short-term (MBO) and long-term (LTI) incentive systems.

In the case of the MBO plans, 20% of the nominal amount of the total awards is tied to achievement of specific internal sustainability indicators related to safety, the environment and diversity. The remuneration committee assesses the employees' *performance* assisted by the HR department.

Similarly, the new 2021-2025 LTI plans also provide that 20% of the nominal amount of the awards (both for share-based and cash-settled plans) is tied to a sustainability target, which is the mathematical average of two indicators used to measure the company's environmental, social and governance commitments.

The remuneration policy complies with both the recommendations of Borsa Italiana's Code of *Corporate Governance* and market *best practices* in terms of the alignment and competitiveness of the group's remuneration policies and the typical issues of sustainability and *corporate governance*.

Remuneration of the non-executive independent directors

In their meeting of 29 March 2018, the shareholders set the total fixed component of the directors' remuneration as gross annual €850,000 (plus 15% of this amount as their end of office entitlement). This amount was divided up as €820,000 gross, pro rata temporis among the directors in an unequitable manner.

The fees of the non-executive independent directors are as follows:

- **Cinzia Donalisio** - 75,000 a year, broken down as follows:
  - 50,000 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** - 75,000 a year, broken down as follows:
  - 50,000 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** - 70,000 a year, broken down as follows:
  - 50,000 as non-executive director;
  - €10,000 as member of the control, risks and sustainability committee;
  - €10,000 as member of the remuneration committee.

The remuneration policy for the non-executive directors provides that they receive a fee based on their expertise, professionalism and the commitment required to carry out their duties as directors and committee members.

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.

Like for the executive directors, at the date of this report, additional agreements have not been entered into other than that for the end of office entitlements 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.

Remuneration of the board of statutory auditors

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.

The current board of statutory auditors was appointed by the shareholders in their ordinary meeting of 29 March 2018 for a three-year term, i.e., until approval of the separate financial statements at 31 December 2020. On the same date, the shareholders established its annual gross remuneration as €90,000 a year, including €40,000 for the chairperson and €25,000 for each standing statutory auditor. Therefore, at the date of this report, the remuneration of the statutory auditors is as follows:

- **Saverio Bozzolan**, chairperson: €40,000;
- **Claudia Civolani**, standing statutory auditor: €25,000;
- **Paolo Ferrin**, standing statutory auditor: €25,000.

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.

The shareholders' meeting called for 20 April 2021 to approve the separate financial statements at 31 December 2020 will also be asked to renew the board of statutory auditors. Therefore, the shareholders will also resolve on its total remuneration, which is expected to be in line with that of the previous three-year mandate and is established considering information about the activities carried out by the outgoing board of statutory auditors which it has regularly communicated to the board of directors during its term of office.

Remuneration of the executive directors and key management personnel - remuneration components

A significant part of the remuneration package of the group's executive directors and the key management personnel is tied to the achievement of business and sustainability targets (both short and long-term) defined in advance and paid over time.

Specifically, the long-term incentive (LTI) plans' variable component is paid in company shares and is also partly subject to *lock-up* and *clawback* clauses.

When deciding the *pay mix* and targets for the variable remuneration component, the company performs market analyses using tailored assessment methods to obtain comparative information.

The reference market for senior management is a panel of 16 companies that can be considered significant peers in the labour market given their business sector, size, group organisation and international footprint.

These comparables are:

Ariston Thermo	**Danieli &C. Officine Meccaniche**
Bosch Rexroth	**Danfoss**
Dè Longhi	**Elecrolux**
Elco E-Trade	**HBT Italy**
Elica	**Siemens**
Modine Pontevico	**Sensata Tech Italy**
IR Italiana	**Baxi**
Samsung Electronics Italy	**Safilo**

The company's external independent consultant, Mercer Italia, expert in remuneration and incentive systems, provides the market data and comparative analyses for each position.

In 2021, Carel will also check and review a panel of companies that currently make up its reference market to verify their comparability, also given the group's growth in recent years and its market capitalisation.

2. Fixed remuneration

Carel defines the fixed remuneration of the executive directors with special duties and key management personnel considering:

- the complexity, actual responsibility and experience required for their role and duties;
- the external reference remuneration market to ensure competitiveness;
- individual *performances*.

The fixed component is between 45% and 55% of the total remuneration packages of the senior managers. Even if the variable component (short and long-term) is not paid due to non-achievement of the related performance targets, the fixed component is set so as to reduce excessively risk-orientated behaviour and to focus the managers' attention on short-term results.

The remuneration committee regularly, and at least once a year, prepares salary updates for the senior positions which are presented to the board of directors for its approval. These proposals may include an adjustment to the fixed component, the short-term variable component or both. The remuneration committee considers various factors such as:

- how competitive the remuneration is compared to the reference market;
- how important the manager is within the organisation;
- the manager's individual performance;
- sustainability;
- internal fairness.

3. Variable component

The variable component of the remuneration packages offered by Carel to its executive directors with special duties and key management personnel comprises two key elements:

- an annual *bonus* system (**MBO** - *management by objectives*);
- long-term incentives (**LTI**) which may comprise **share-based** or **cash-settled** performance plans.

The remuneration committee balances the fixed and variable component in line with the company's strategic objectives and risk management policy. It also considers the nature of Carel's business and its business sector. The variable component always makes up a large part of the overall remuneration.

Annual incentive system – MBO

<u>**Scope and characteristics**</u>

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 targets (one year) with payment of a bonus in proportion to the actually-achieved results.
The annual variable incentive system is based on a well-honed format, approved by the board of directors on 14 May 2019 as proposed by the remuneration committee and after consulting the board of statutory auditors. The remuneration committee reviews the parameters and targets each year and proposes them to the board of directors for its approval.

The incentive plan for each beneficiary is based on a regulation and the method used to communicate it is clear and transparent.

The format is based on the achievement of measurable economic and financial performance targets that are defined at individual company and group level, as well as individual operating performances, linked to the main activities for which the beneficiaries are responsible.

The targets are defined using indicators that are usually quantitative, representing the company's strategic and industrial priorities. They are measured using objective and pre-defined parameters.

The plan has four targets for each senior position as follows:

- **two group financial performance targets** equal to 65% of the total:
  - group EBITDA (45%)
  - group revenue (20%).
- **an individual performance target** equal to 15% of the total. This may be either financial or non-financial and is defined considering the beneficiary's role, responsibilities and/or specific projects/or strategic duties.
- **an individual ESG target**, equal to 20% of the total, linked to sustainability targets connected to the beneficiary's duties. In 2021, the ESG targets assigned to the chief executive officer and key management personnel are as follows.
  - **chief executive officer**: level of integration of the targets included in the sustainability plan to be approved by the board of directors in 2021 into the group's business plan;
  - **general manager**: % of female white collars hired with "indefinite time" employment contracts;
  - **chief financial officer**: level of integration of the targets included in the sustainability plan to be approved by the board of directors in 2021 into the group's business plan;
  - **chief HR&Org. officer**: % of female white collars hired with "indefinite time" employment contracts;
  - **chief R&D officer**: greater disclosures to be provided about the 3TG conflict materials;
  - **chief operation officer**: reduction of the production sites' CO_2 emissions measured in ton/year.

Performance conditions

The above incentive system is designed to focus *management's* attention on achieving value drivers for the group. It provides for:

- an ON/OFF access gate tied to the group's EBIT. If the EBIT is negative, pay out of the MBO does not take place regardless of the results achieved for the individual targets;
- a minimum threshold (0) for achievement of each target, which if not reached, implies that the percentage of the bonus assigned to that target is zero;
- a "target" threshold (100%) which if reached implies that 100% of the bonus is paid for that target;
- a maximum threshold (150%) which if reached implies payment of a bonus of 150% for that target.

	Minimum threshold (0%)	Target threshold (100%)	Maximum threshold (150%)
Chief executive officer	0	200,000€	300,000€
General manager	0	100,000€	150,000€
Key management personnel (average)	0	61,250€	91,875€

Note: These are possible pay-outs calculated using the total nominal amounts awarded to each beneficiary.

It is the company's general practice that all the targets (and especially the financial ones) are defined to ensure ongoing sustainable growth from year to year.

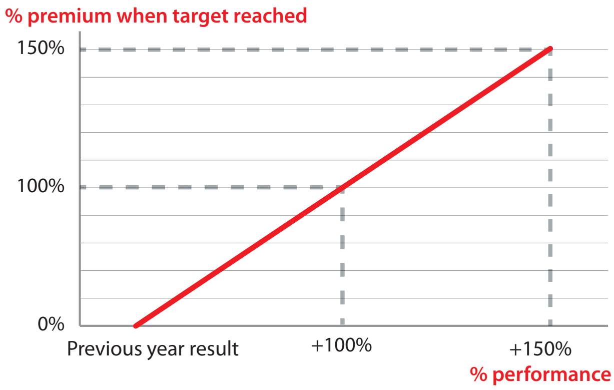
The *performance* curves and related *pay-out* are measured on a linear basis starting from the minimum threshold (0%) and arriving at the *target* threshold (target met = 100%) or, in the case of particularly brilliant or significant performances, a maximum threshold of 150 (*cap*).

Bonuses are paid on the basis of the months effectively worked with the group. Usually, a minimum period of six months of service is required to receive part of the bonus for the year.

The *pay-outs* are calculated considering the results achieved in the reference year (X) and paid in February of the following year (X+1), usually after the board of directors has approved the draft consolidated financial statements and only if the ON/OFF access gate has been delivered.

MBO

Linear and steady curve



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

Performance range: 0% - 150%

% Payout: 0% - 150% of the target

Long-term incentive system – LTI

<u>Scope and characteristics</u>

This system has two types of plan:

- ***share-based performance plans***, where the pay-out is in the form of shares if the business targets set by the company are met.
- ***cash-settled performance plans***, ith a cash pay-out if the targets are met.

The beneficiaries of the LTI plans are the executive directors, the chief executive officer, the general manager, key management personnel and another group of managers held to be extremely important for achievement of the business targets. These targets are defined in line with the business plan and, for the ESG issues, the sustainability plan which the company is currently approving.

The 2018-2022 share-based performance plan and the 2018-2022 cash-settled performance plan (described in more detail in the remuneration report published in 2020 to which reference is made - Section I, paragraph g)) are still in place for the 2019-2021 and 2020-2022 vesting periods. Both plans qualify as incentive plans as they are valid for more than one year and involve the free award of ordinary Carel shares and a cash-based plan. They comprise 3 (three) *rolling* vesting periods, each of three years, after which the shares are awarded or the cash bonus disbursed after checking that the specific performance targets (*adjusted* consolidated EBITDA for each vesting period and the cash conversion ratio) have been met.

The 2018-2022 share-based performance plans are presented in the illustrative report of the board of directors prepared for the shareholders' meeting of 7 September 2018 and in the information memorandum as per article 84-bis of the Issuers' Regulation, available on the company's website (www.carel.com) in the Investors Relations/Shareholders' Meetings section and in the storage system eMarket STORAGE (www.emarketstorage.com).

The shares vested after the first vesting cycle of the new variable long-term incentive plan will be awarded in 2021 after the shareholders' approval in their meeting called for 20 April 2021.

The new 2021-2025 LTI plan has three-year rolling vesting periods like the previous 2018-2022 plan. It has three vesting periods during which the performance targets assigned to the beneficiaries will be checked. The periods are as follows:

- First period: January 2021 – December 2023 (the 2021-2023 vesting period);
- Second period: January 2022 – December 2024 (the 2022-2024 vesting period);
- Third period: January 2023 – December 2025 (the 2023-2025 vesting period).

In continuation with its policy pursued in previous years, the company intends to achieve the following with its new incentive plan:

- link the long-term variable remuneration component of senior management to the group's strategic objectives, measured in terms of profitability and sustainability;
- strengthen the retention rate of the group's key resources and concurrently increase the company's ability to attract highly qualified resources for its more critical positions;
- better align the remuneration package offered to the LTI plan beneficiaries with market practices and, in particular, with the company's peers (identified by type and size of business);
- direct *senior management's* adoption of practices designed to ensure a sustainable performance over the long term.

The targets assigned for each year of each three-year *rolling* cycle based on the new 2021-2025 LTI plans are:

- *Share-based performance plans*:
  - cumulative group EBITDA[1] – 50%;
  - adjusted cash conversion"[2] – 30%;
  - ESG Target – 20%;
- *Cash-settled performance plan*:
  - Adjusted cumulative group EBITDA[1] – 50%;
  - Adjusted cash conversion[2] or the regional/country turnover – 30%;
  - ESG Target – 20%.

Achievement of the ESG target is measured considering two indicators, calculating the mathematical average of the results achieved by each one which have the same weight (50%). These indicators for the 2021-2023 cycle are:

- % of female white collars hired with "indefinite time" employment contracts;
- % of reduction of the production sites' CO2 emissions (tCO2/y).

This target may be supplemented with other indicators for the cycles starting in 2022 and 2023 depending on the sustainability plan to be approved by the board of directors in 2021.

Performance conditions

L'The award of the bonus for both the share-based and cash-settled plans is tied to the degree of achievement of each individual target (as a percentage). In addition, a minimum threshold (min=80%), target threshold (100%) and maximum threshold (MAX=120%) is set for each target and used to measure its effective achievement.

	Minimum threshold (80%)	Target threshold (100%)	Maximum threshold (120%)
Chief executive officer	216,000€	270,000€	324,000€
General manager	90,000€	113,000€	136,000€
Key management personnel (average)	55,000€	69,000€	83,000€

Note: These are possible pay-outs calculated using the total nominal amounts awarded to each beneficiary for the first vesting period (2021-2023.

1 Adjusted EBITDA: calculated as the sum of the profit before tax, the gain or loss on equity-accounted investments, exchange differences, net financial income (expense), amortisation, depreciation and impairment losses and costs of non-recurring transactions. The financial effects of non-recurring transactions (M&A) will be included in the actual adjusted EBITDA of the years after that in which the transaction took place, even when not included in the plan EBITDA. The actual adjusted EBITDA will also include any "non-plan" transactions as long as the board of directors has formally approved them. In this case, the plan EBITDA ratio that did not include this "non-plan" transaction will be recalculated to be consistent with the actual figure.

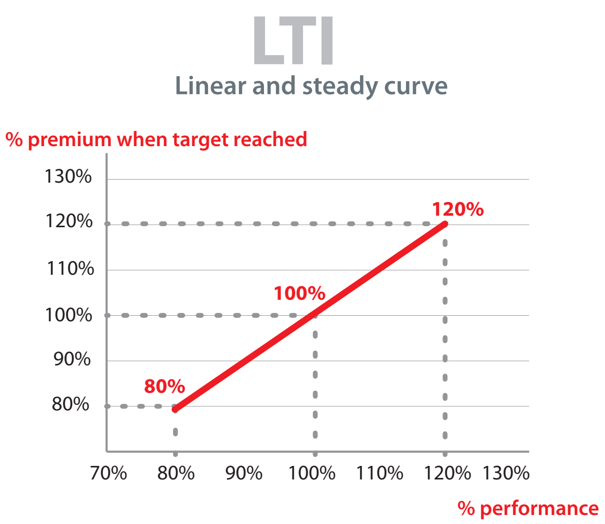
2 CASH CONVERSION: the calculation of the actual cash conversion in the year in which M&A transactions take place excludes the investments and net working capital related to the transaction. The cash conversion calculation will only include any "non-plan" transactions if they have been approved by the board of directors. In this case, the plan cash conversion ratio that did not include this "non-plan" transaction will be recalculated to be consistent with the actual figure.

The actual bonus to be awarded to each beneficiary (either shares or cash) should they reach their individual performance targets will be calculated as follows:

Achievement of individual indicator (as % of the individual performance targets for each vesting period)	Bonus to be awarded for each performance target as a % of the nominal amount of the shares/cash (for each vesting period)
<80%	0%
=80%	80%
>80% and ≤120%	80%-120% pro rata
> 120% (*over performance*)	120%

The *pay-outs* are calculated using the actual results achieved at the end of each vesting period and are awarded during the 60 calendar days after approval of the consolidated financial statements for the last year of the three-year cycle when the plan regulation's conditions are met.

The next table shows the percentage of shares/cash to be awarded to each beneficiary should they achieve their individual performance targets (within the limitations set out above, each 1% increase in the achievement rate is matched by a 1% increase in the actual number of shares or cash bonus awarded).



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: 8% - 120%

% Payout: 80% - 120% (±10%) of the target

Lock-up

The variable component of the LTI plan accrues and is awarded at the relevant vesting date, after checking that the minimum threshold has been met. It is subject to a lock-up clause for a variable percentage depending on the plan beneficiary.

Specifically:

- The lock-up clause is applied to 40% of the shares or cash bonus to be awarded for a period of 24 months in the case of the chief executive officer and the executive directors.
- It is applied to 20% of the shares or cash bonus to be awarded for a period of 24 months (12 months for the 2018-2022 LTI plans) in the case of the key management personnel.
- The lock-up clause for the other beneficiaries is applied to 10% of the shares for the share-based plans or 20% of the cash bonus for the cash-settled plans, again for 24 months. With respect to the 2018-2022 LTI plans, the lock-up clause is applied to 20% of the shares or cash bonus for 12 months).

Considering that the vesting period is three years, the lock-up period has been set as 24 months in line with best practices and article 5, Recommendation 28 of the Code of Corporate Governance, which states that share-based remuneration plans for executive directors and key management personnel should encourage alignment with the shareholders' interests over the long term. It also establishes that most of the plan should have a vesting period of at least five years for the vesting of the rights and holding of the awarded shares.

During the lock-up period, the beneficiaries may not sell their shares or transfer the cash bonus received, except to cover tax liabilities and/or social security contributions if applicable.

Clawback and malus clauses

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 certain objectively proven circumstances. Specifically:

- 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 or 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 awarded or an amount equal to their value or the cash bonus still to be disbursed 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 withholding.

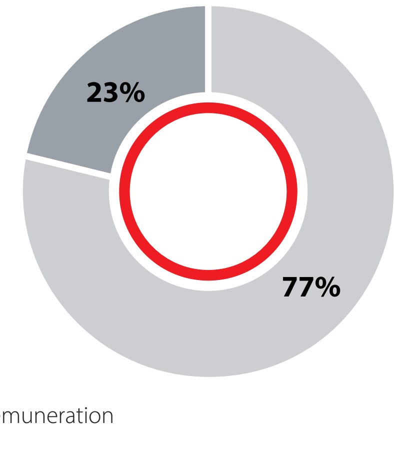
The company may include other contractual clauses that allow it to request the return of all or part of the variable components of the remuneration paid (or to withhold amounts that have been deferred) that had been based on figures subsequently found to be incorrect or other circumstances identified by the company.

4. 2021 remuneration policy

The 2021 remuneration policy for the executive directors is as follows:

- **Luigi Rossi Luciani** – chairperson:
  - Fixed fee for his duties assigned by the board of directors: €250,000;
  - Variable long-term component in the form of cash-settled incentive plans with a nominal amount of €75,000;
  - Non-monetary benefits.

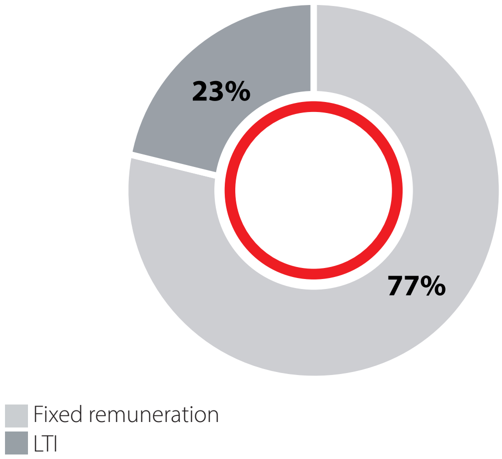
Chairper son's pay mix



Note: in order to calculate the pay mix, the fair value as per the Mercer method was considered for the LTI component for the 2021 award.

- **Luigi Nalini** – executive deputy chairperson:
  - Fixed fee for his duties assigned by the board of directors: €180,000;
  - Variable long-term component (LTI) in the form of cash-settled incentive plans with a nominal amount of €54,000;
  - Non-monetary benefits.

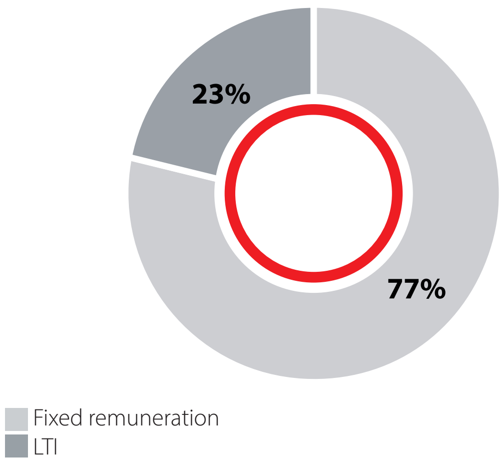
Deputy chairper son's pay mix



Note: in order to calculate the pay mix, the fair value as per the Mercer method was considered for the LTI component for the 2021 award.

- **Carlotta Rossi Luciani** – executive director with special powers:
  - Fixed fee for her duties assigned by the board of directors: €100,000;
  - Variable long-term component (LTI) in the form of cash-settled incentive plans with a nominal amount of €30,000;
  - Non-monetary benefits.

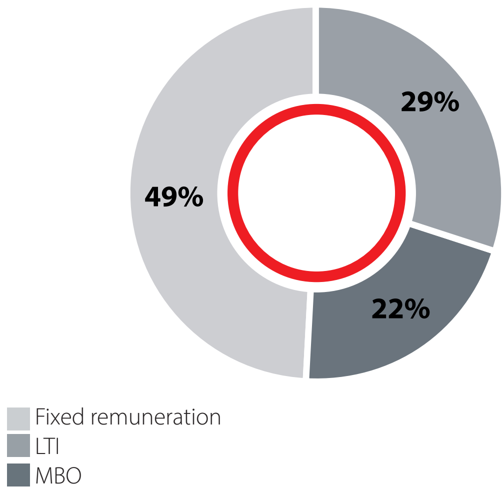
Executive director's pay mix



Note: in order to calculate the pay mix, the fair value as per the Mercer method was considered for the LTI component for the 2021 award.

- **Francesco Nalini** – chief executive officer:
  - Fixed fee for his duties assigned by the board of directors: €70,000;
  - Fixed salary for his employee position as the CEO: €380,000;
  - Variable short-term component (MBO) with a nominal amount of €200,000;
  - Variable long-term component (LTI) in the form of cash-settled incentive plans with a nominal amount of €270,000;
  - Non-monetary benefits.

CEO's pay mix



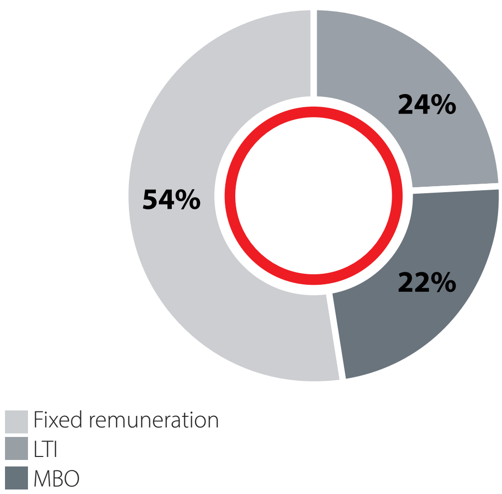
Note: the 2021 MBO is considered a target for calculation of the pay mix while the fair value as per the Mercer method was considered for the LTI component for the 2021 award.

General manager and key management personnel

The remuneration policy for key management personnel (excluding the executive directors) is as follows:

- **Giandomenico Lombello** – General manager:
  - Fixed salary for his employee position as general manager: €250,000;
  - Fixed fee to remunerate other positions held with group companies: €32,000;
  - Variable short-term component (MBO) with a nominal amount of €100,000;
  - Variable medium to long-term component (LTI) as part of the share-based performance plan with a nominal amount of €112,800.

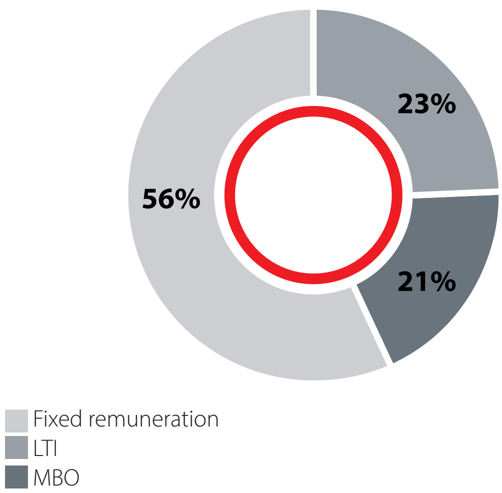
General manager's pay mix



Note: the 2021 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 2021 award.

- Other members of key management personnel (four senior managers as identified in point 2 of this report) - combined figures:
  - Fixed salary as manager of Carel Group: €645,000;
  - Fixed fee for positions held as directors or other positions held in other group companies (excluding the parent): €47,000;
  - Variable short-term component (MBO) with a nominal amount of €245,000;
  - Variable medium to long-term component (LTI) as part of the share-based performance plan with a nominal amount of €276,000.

KMP's pay mix



Note: the 2021 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 2021 award.

Benefits

LThe total remuneration offer, based on the total reward model, of the executive directors and senior management 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. They have been adapted to the foreign countries in which they are offered to be consistent with the local market conditions and reference regulations.

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.

Other than that set out above, the company does not provide any non-mandatory social security or pension benefits.

Other elements

Non-compete agreements

Carel may enter into non-compete agreements with its executive directors, key management personnel and other resources who hold particularly important positions in the organisation. In accordance with the regulations applicable in each country, these agreements include payment of a fee equal to a percentage of the annual gross remuneration which is disbursed considering the agreement's term and geographical coverage.
The agreement refers to the sector in which the group operates and a geographical area that varies depending on the roles and responsibilities of each beneficiary.

Retention/Discretionary bonus

The executive directors, the chief executive officer and the key management personnel do not receive discretionary remuneration. The other employees may receive one-off monetary bonuses which, in addition to the MBO, reward particularly brilliant results that contribute to achievement of the company's business objectives.

As well as these one-off bonuses, the company may grant *retention bonuses* to resources whose contribution to the group's growth and development is particularly important and strategic.

Treatment in the case of departure from office or termination of the employment relationship

At the date of this report, the company does not have ex ante agreements for its executive directors and key management personnel that regulate their economic treatment should they leave office or terminate their employment relationship other than the end of office entitlement approved by the board of directors on 29 March 2018.

In accordance with the remuneration policy described in this Section I, the company may decide to enter into agreements that regulate the economic treatment to be provided in the case of departure from office or termination of the employment relationship in line with the recommendations of the Code of Corporate Governance and the local laws and employment contracts, when applied. However, this treatment will not exceed 24 months of gross remuneration. This entitlement is not paid if termination of the relationship is due to the objective non-achievement of results. Should the requirements for payment of fees for any reason and in any form arising from these contracts be met, the beneficiary may waive their right thereto.

At the date of this report, the company does not have agreements for the continuation or award of non-monetary benefits to parties and/or employees who have left the company, nor does it have consultancy agreements with these persons for the period after termination of the employment relationship.

As provided for in the remuneration policy described in this Section I, the company may enter into agreements which provide for the continuation or award of non-monetary benefits to parties and/or employees who have left the company and consultancy agreements for the period after their departure in line with that set out in the Code of Corporate Governance as long as this complies with the local laws and employment agreements, when applied. Should the requirements for payment of fees for any reason and in any form arising from these contracts be met, the beneficiary may waive their right thereto.

Finally, with respect to the effects of termination of the employment relationship on the LTI plans approved by the shareholders, their regulations define the various effects of such termination depending on the underlying reasons and when it takes place.

Derogation

Pursuant to article 123-ter.3-*bis* of the CFA and article 84-*quater*.2-bis.c) of the Issuers' Regulation, Carel may temporarily derogate from the remuneration policy described in this Section I should exceptional circumstances arise which make this derogation necessary to allow the company to pursue its long-term interests and sustainability or to ensure it can continue as a going concern.

Temporary derogation from the following elements of the remuneration policy is allowed in exceptional circumstances:

- the fixed and variable (short and long-term) components of remuneration and specifically:
  - the weight assigned to each component as part of the remuneration;
  - the financial and non-financial performance targets, which the variable components are tied to (in terms of their achievement);
  - the criteria used to assess achievement of the performance targets and the award of shares, options, other financial instruments or other variable remuneration components, and to measure the variable component to be paid depending on the level of achievement of the objectives;
  - the vesting conditions of the variable components (both MBO and LTI);
  - the possible allocation of share-based remuneration components, options, other financial instruments or other variable remuneration components;
  - the introduction of deferred payments systems and clauses for the holding of financial instruments in the portfolio after their acquisition;
  - ex-post adjustment mechanisms for the variable component (malus or clawback);
- any bonuses (including onboarding bonuses), non-monetary benefits, incentive plans (cash-settled or equity-based), insurance, social security or pension benefits or non-recurring fees;
- the remuneration of the independent directors, directors who are members of committees and those with special duties (chairperson, deputy chairperson, etc.);
- termination benefits should the recipient leave office or terminate the employment relationship.

The above exceptional circumstances, which can be identified in the remuneration policy, could include for example:

- the need to retain particularly strategic resources;
- the need to attract resources on the market who would make a significant contribution to the company's growth and business development;
- the acknowledgement of individual and/or collective results deemed to be particularly important for the company;
- substantial modifications to the company's business organisation that can be either objective (non-recurring transactions, mergers, sales, including of business units, etc.) or subjective (changes in senior management);
- significant changes in the social or economic scenario or the occurrence of non-recurring and unforeseeable events at national or international level (such as conflicts, pandemics, etc.) that affect the group or its sectors/markets and its results and that could drastically change the context of its reference market in individual countries and/or regions or the entire global market.

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 the human resources department as well as possible independent experts, without prejudice to Consob regulation no. 17221 of 12 March 2010 on related party transactions and the company's internal 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.


CAREL

Section 2

Remuneration paid in 2020 to the directors, statutory auditors, general managers and key management personnel

This section provides a clear and understandable picture of the remuneration paid in 2020 to the individual directors, statutory auditors, the general manager and collectively to the key management personnel. It shows the company's compliance with the policies described in Section I of the remuneration report published in 2020 and how such remuneration contributes to the company's long-term results.

In 2020, the remuneration policies and, especially, those for short-term incentives, were key to maintaining all the beneficiaries' focus on the company's strategic objectives in a consistent and coordinated manner.

The short-term incentive plans (MBO) and all the group's management actions were concentrated on its business resilience and operating performances in a year buffeted by the Covid-19 emergency. As a result, in the second half of the year, Carel managed to recoup the shortfall of the first half of the year and end the year with a sales performance that was actually better than that of 2019.

As required by article 123-ter.6 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.

More information about the equity-based incentive plans is available in the information memoranda as per article 114-bis of the CFA and article 84-bis of the Issuers' Regulation published by the company on its website (www.carel.com) and through the other methods stipulated by the applicable legislation and regulations.

First part - Remuneration items

Board of directors

The 2020 remuneration policy for the board of directors was implemented, as described in Section I of the remuneration report published in 2020, 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 targets are met (MBO);
- a variable medium to long-term component (LTI);
- *benefits* provided for by the national employment contract and internal practices.

No disclosure is provided about the targets reached for the variable remuneration component in order to protect information which is sensitive for commercial purposes and/or forecasts that have not been published.

1. Chairperson, deputy chairperson and executive directors

Chairperson

Luigi Rossi Luciani, chairperson of the board of directors, received:

- **Fixed remuneration:** 229,166 gross as his fee for 2020.

On 29 March 2018, the board of directors resolved to pay the chairperson annual gross remuneration of €250,000. However, the chairperson, deputy chairperson and the chief executive officer voluntarily and personally requested that their fees for April 2020 not be paid, given the uncertain economic climate in which the group was navigating caused by the pandemic (this request was accepted.

- **Long-term incentive:** after the board of directors checked that the performance targets had been met on 4 March 2021 and approved the consolidated financial statements for the last year of the 2018-2020 vesting period, the company awarded the chairperson 9,365 shares for his options that had vested in line with his achievement of the targets for the first vesting cycle (2018-2020) of the LTI plan. 40% of these shares are **locked up** for two years.

Performance conditions

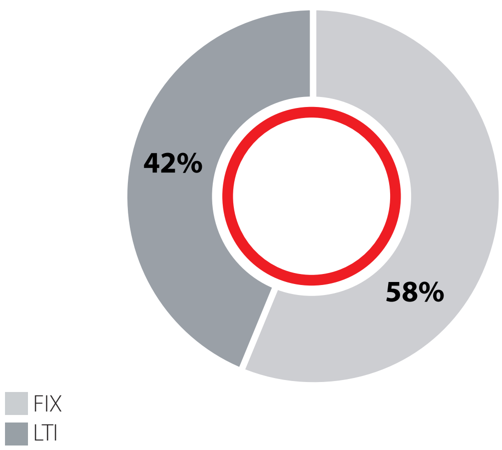
	80% threshold	100% threshold on target	120% threshold	Results
60% cumulative adjusted EBITDA in the 3 years				104, 8%
40% - adjusted cash conversion in the 3 years				Over 120%

The graph shows achievement of the targets, confirming the excellent performance of the three-year period with positive share price trends to the date of preparation of this report, notwithstanding the difficulties caused by the pandemic in 2020.

- **Non-monetary benefits:** company car under the mixed use full cost method.

The *pay mix* for 2020 is as follows (estimated value of the shares using the average price in the period from 11 January 2021 to 12 February 2021.

Chairperson Pay Mix



Deputy chairperson

Luigi Nalini, executive deputy chairperson of the board of directors, received:

- **Fixed remuneration:** €165,000 gross as his fee for 2020.

On 29 March 2018, the board of directors resolved to pay the deputy chairperson annual gross remuneration of €180,000. However, he voluntarily and personally requested that his fees for April 2020 not be paid, for the reasons specified above (this request was accepted).

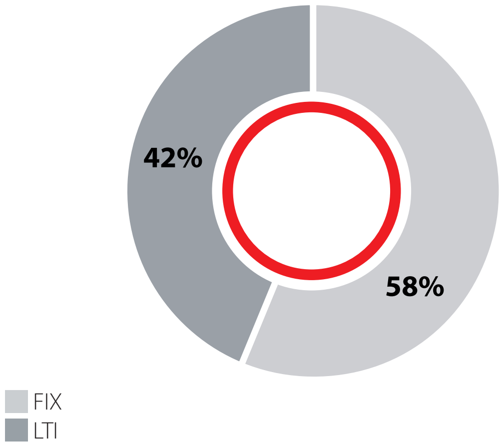
- **Long-term incentive:** after the board of directors checked that the performance targets had been met on 4 March 2021 and approved the consolidated financial statements for the last year of the 2018-2020 vesting period, the company awarded the deputy chairperson 6,743 shares for his options that had vested in line with his achievement of the targets for the first vesting cycle (2018-2020) of the LTI plan. 40% of these shares are locked up for two years.

As described above, the first vesting period ended with a very positive pay-out, reflecting the group's excellent performance in the three years.

- **Non-monetary benefits:** company car under the mixed use full cost method.

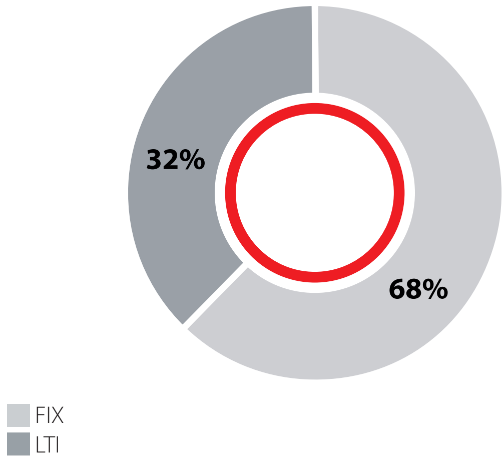
The pay mix for 2020 is as follows (estimated value of the shares using the average price in the period from 11 January 2021 to 12 February 2021)

Deputy chairperson Pay Mix



The pay mix for 2020 is as follows (estimated value of the shares using the average price in the period from 11 January 2021 to 12 February 2021).

Executive director Pay



Executive director

Carlotta Rossi Luciani, executive director of the board of directors, received:

- **Fixed remuneration:** €60,000 gross as her fee for 2020 and €25,384 gross as a salary for her employment contract as senior manager which was terminated on 31 May 2020.
- **Long-term incentive:** after the board of directors checked that the performance targets had been met on 4 March 2021 and approved the consolidated financial statements for the last year of the 2018-2020 vesting period, the company awarded the executive director 2,248 shares for her options that had vested in line with her achievement of the targets for the first vesting cycle (2018-2020) of the LTI plan. 40% of these shares are locked up for two years.

As described above, the first vesting period ended with a very positive pay-out, reflecting the group's excellent performance in the three years.

- **Non-monetary benefits:** injury policy, healthcare, car while she was an employee.

Chief executive officer

Francesco Nalini, chief executive officer, received:

- **Fixed remuneration:** €64,166 gross as his fee for 2020 and €276,000 gross as a salary for his employment contract as senior manager, in line with the remuneration set out in the remuneration policy for 2020 and as proposed by the remuneration committee to the board of directors, which approved it in its meeting of 30 January 2020 with the favourable opinion of the board of statutory auditors.

  On 29 March 2018, the board of directors resolved to pay the CEO annual gross remuneration of €70,000. However, as already noted above, he voluntarily and personally requested that his fees for April 2020 not be paid, given the uncertain economic climate in which the group was navigating caused by the pandemic (this request was accepted.

- **Short-term incentive:** The MBO for 2020 will be paid in 2021.

The results of the MBO plan, presented to the board of directors by the remuneration committee in its meeting of 4 March 2021, led to the board's approval of a pay-out of €211,500 gross as shown below.

As described at the start of this section, the pay-out for the short-term incentive plans (MBO) (see following graph) was made to reward management's actions. Thanks to the adoption of policies and guidelines to shore up the group's business resilience and operating performances in a year buffeted by the Covid-19 emergency, they were able to protect its business and continue to assist its customers around the world. As a result, in the second half of the year, Carel managed to recoup the shortfall of the first half of the year and end the year with a sales performance that was actually better than that of 2019.

Access gate (EBIT>0) Reached - Performance achieved: €46,713,000

Performance conditions

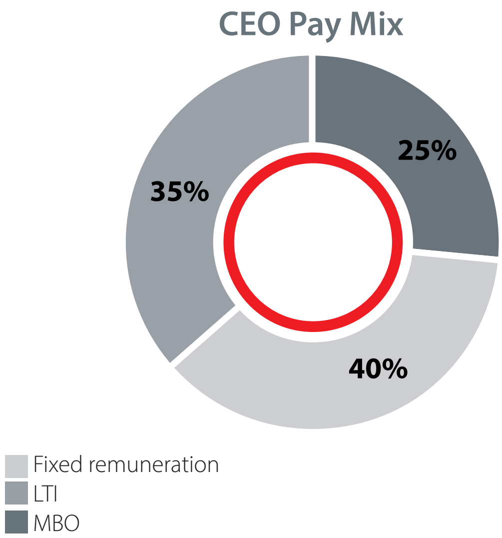
	0% threshold	100% threshold on target	150% threshold	Results
50% adjusted EBITDA vs 2019				150%
20% - core business consolidated turnover vs 2019				150%
10% - Operating profit after the Covid-19 emergency (*with specific reference to the ability to oversee business objectives, appropriate and timely communication to the market and efficient human capital management*)				120%
20% - Adequate management of group employees' safety during the Covid-a9 emergency in ESG terms.				120%

- **Long-term incentive:** after the board of directors checked that the performance targets had been met on 4 March 2021 and approved the consolidated financial statements for the last year of the 2018-2020 vesting period, the company awarded the chief executive officer 16,707 shares for his options that had vested in line with his achievement of the targets for the first vesting cycle (2018-2020) of the LTI plan. 40% of these shares are locked up for two years.

  As described above, the first vesting period ended with a very positive pay-out, reflecting the group's excellent performance in the three years.

- **Non-monetary benefits:** injury policy, healthcare, car, scholarship for eligible children of employees.

  The *pay mix* for 2020 is as follows (estimated value of the shares using the average price in the period from 11 January 2021 to 12 February 2021).



Independent directors

The independent directors received their fees in line with that established by the remuneration policy for 2020:

- **Cinzia Donalisio:** €75,000, including a gross annual fee of €50,000 for her position as director, €15,000 for her position as chairperson of the remuneration committee and €10,000 gross for her position as member of the control, risks and sustainability committee;
- **Marina Manna:** €75,000, including a gross annual fee of €50,000 for her position as director, €15,000 for her position as chairperson of the control, risks and sustainability committee and €10,000 gross for her position as member of the remuneration committee;
- **Giovanni Costa:** €70,000, including a gross annual fee of €50,000 for his position as director, €10,000 for his position as member of the control, risks and sustainability committee and €10,000 gross for his position as member of the remuneration committee.

Board of statutory auditors

In 2020, the members of the board of statutory auditors, elected by the shareholders on 29 March 2018, received the following fees for that year:

- **Saverio Bozzolan** (Chairperson): €40,000;
- **Claudia Civolani:** €25,000;
- **Paolo Ferrin:** €25,000.

General manager and key management personnel

The 2020 remuneration policy for the general manager and key management personnel comprised the following items.

No disclosure is provided about the targets reached for the variable remuneration component in order to protect information which is sensitive for commercial purposes and/or forecasts that have not been published.

General manager

Giandomenico Lombello, general manager, received:

- **Fixed remuneration:** a fee to remunerate his various duties carried out within the group and a fixed salary as senior manager for a total of €259,700 in line with that set out in the 2020 remuneration policy.
- **Short-term incentive:** The MBO for 2020 will be paid in 2021.

The results of the MBO plan, presented to the board of directors by the remuneration committee in its meeting of 4 March 2021, led to the board's approval of a pay-out of a €111,200 gross as shown below.

Access gate (EBIT>0) Reached - Performance achieved: €46,713,000

Performance conditions

	0% threshold	100% threshold "On target"	150% threshold	Result
50% adjusted EBITDA vs 2019				150%
20% - Core business consolidated turnover vs 2019				150%
10% Individual performance Target				100%
20% ESG Target				120%

- **Long-term incentive:** after the board of directors checked that the performance targets had been met on 4 March 2021 and approved the consolidated financial statements for the last year of the 2018-2020 vesting period, the company awarded the general manager 8,843 shares for his options that had vested in line with his achievement of the targets for the first vesting cycle (2018-2020) of the LTI plan. 20% of these shares are **locked up** for two years.

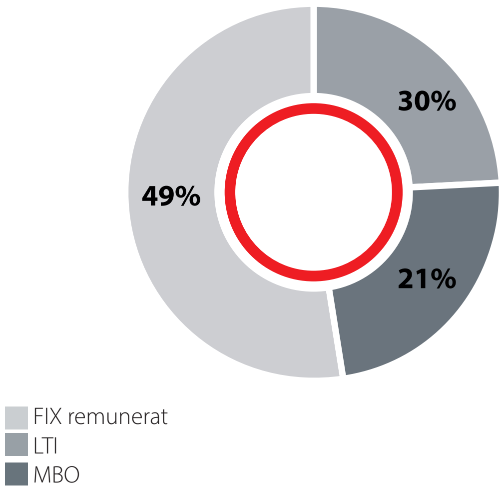
As described above, the first vesting period ended with a very positive pay-out, reflecting the group's excellent performance in the three years.

- **Other bonuses:** in 2020 and in line with the 2020 remuneration policy, the general manager received a one-off bonus of €12,000 for his contribution to the company's results.

- **Non-monetary benefits:** injury policy, healthcare, car.

Il *pay mix* risultante per il 2020 è stato il seguente (stima valore azioni sulla base del prezzo medio 11/01/2021-12/02/2021)

General manager Pay Mix



Key management personnel

- **Fixed remuneration:** a fee to remunerate the different positions held by some key managers in other group companies and a fixed salary for a total of €628.543 gross.
- **Short-term incentive:** The MBO for 2020 will be paid in 2021.

The results of the MBO plan, presented to the board of directors by the remuneration committee in its meeting of 4 March 2021, led to the board's approval of a total pay-out of €263,200 gross, based on the average performances described below.

Access gate (EBIT>0) Reached - Performance achieved: €46,713,000

Performance conditions

	0% threshold	100% threshold on target	150% threshold	Result
50% adjusted EBITDA vs 2019				150%
20% - Core business consolidated turnover vs 2019				150%
10% Individual performance Target				111%
20% ESG Target				111%

- **Long-term incentive:** after the board of directors checked that the *performance* targets had been met on 4 March 2021 and approved the consolidated financial statements for the last year of the 2018-2020 vesting period, the company awarded the key management personnel 18,034 shares for their options that had vested in line with their achievement of the targets for the first vesting cycle (2018-2020) of the LTI plan. 20% of these shares are locked up for two years.

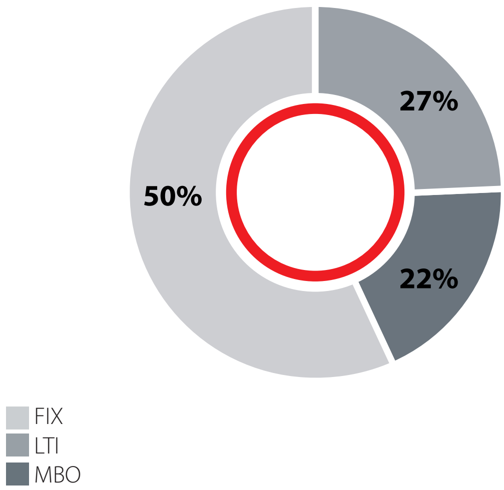
As described above, the first vesting period ended with a very positive pay-out, reflecting the group's excellent performance in the three years.

Since the CFO was replaced during the year, only three of the four key managers vested rights.

- **Non-monetary benefits**: injury policy, healthcare, car, scholarship for eligible children of employees.

The *pay mix* for 2020, whose fixed remuneration component was affected by partially vested rights for the 2018-2020 vesting period of the LTI plan, given the CFO turnover in 2020, as already noted above, is as follows (estimated value of the shares using the average price in the period from 11 January to 12 February 2021.

Key Management personnel Pay Mix



End of office entitlement and/or other benefits for the discontinuation of the position or termination of the employment relationship during the year

No end of office entitlement and/or other benefits were paid in 2020 for the discontinuation of positions or termination of employment relationships.
At the date of this report, the company does not have agreements for the payment of end of office entitlement for the discontinuation of a position or early termination of an employment relationship.

Pay ratio

The following tables provide information for 2019 and 2020 and changes between the two years of:

b. the total gross remuneration paid to the company's directors, statutory auditors and general manager;
c. the company's results;
d. the average annual gross remuneration of the full-time employees of Carel Group's Italian companies and employees other than those set out in point a) above.

For transparency purposes, the ratio of the remuneration of the company's chairperson, deputy chairperson, executive director and chief executive officer (including the gross fixed remuneration received in 2020, the MBO and LTI) to the average remuneration of the employees of the Italian Carel Group companies is provided below.

The calculation scope of the average remuneration of the employees includes the short-term and long-term fixed and variable remuneration of the employees of the Italian group companies as this is deemed to be comparable for remuneration purposes.

	2019	2019/2018	2020	2020/2019
Group turnover	327.400.000	16,8%	331.610.000	1,3%
Group adjusted EBITDA	63.900.000	15,8%	65.366.000	2,3%
CHAIRPERSON Luigi Rossi Luciani	250.000	5%	394.596	58%
DEPUTY CHAIRPERSON Luigi Nalini	180.000	7%	284.107	58%
EXECUTIVE DIRECTOR Carlotta Rossi Luciani	94.375	72%	125.087	33%
CHIEF EXECUTIVE OFFICER Francesco Nalini	348.534	24%	846.960	143%
GENERAL MANAGER Giandomenico Lombello	267.517	NA	527.105	97%
STANDING STATUTORY AUDITOR Saverio Bozzolan (Chairperson)	40.000	33%	40.000	0%
Standing statutory auditor Claudia Civolani	25.000	33%	25.000	0%
Standing statutory auditor Paolo Ferrin	25.000	33%	25.000	0%
Italian employees	40.066	3%	42.618	6%
Pay ratio / Italian employees	**2019**		**2020**	
CHAIRPERSON Luigi Rossi Luciani	6		9	
DEPUTY CHAIRPERSON Luigi Nalini	4		7	
EXECUTIVE DIRECTOR Carlotta Rossi Luciani	2		3	
CHIEF EXECUTIVE OFFICER Francesco Nalini	9		20	
GENERAL MANAGER Giandomenico Lombello	7		12	
Standing statutory auditor Saverio Bozzolan (Chairperson)	1		1	
Standing statutory auditor Claudia Civolani	0,6		0,6	
Standing statutory auditor Paolo Ferrin	0,6		0,6	

LTI : estimated share value based on the average price in the period from 11/01/2021 to 12/02/2021

Shareholders' vote on Section II of the remuneration policy for the previous year

L'AOn 20 April 2020, as required by the ruling legislation, the shareholders cast their favourable vote on Section II of the remuneration report for the remuneration and fees paid in 2020 (98.385% of the participants).

This large majority in favour of Section II illustrates the shareholders' satisfaction with the same section for the previous year.

Nonetheless, the company decided to revisit the policy in order to provide stakeholders with greater and more transparent disclosures in line with its related principles and ensure more engagement with its stakeholders that are at the heart of the company.

Revocations from the remuneration policy and possible application of ex post adjustment mechanisms to the variable component (malus and clawback)

No exceptional circumstances arose in 2020 that would have made derogation from the remuneration policy for that year as approved by the shareholders on 20 April 2020 necessary.

No ex post adjustment mechanisms were applied to the variable component of the remuneration (*malus* or *clawback*) during the year).

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 2020; (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-settled 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	01.01.2020 31.12.2020				
(I) Remuneration from the company preparing the financial statements				229,166		
(II) Remuneration from subsidiaries and associates						
(iii) Total				229,166		
Luigi Nalini	Deputy chairperson (with acting role)	01.01.2020 31.12.2020				
(I) Remuneration from the company preparing the financial statements				165,000		
(II) Remuneration from subsidiaries and associates						
(iii) Total				165,000		
Francesco Nalini	Chief executive officer	01.01.2020 31.12.2020				
(I) Remuneration from the company preparing the financial statements				340,327		
(II) Remuneration from subsidiaries and associates						
(iii) Total				340,327		

	Non-equity-based variable remuneration		Non-monetary benefits	Other remuneration	Total	Fair value of equity-based remuneration	End of office or termination of employment entitlement
	Bonuses and other incentives	Profit sharing					
			3,548		232,714		
			3,548		232,714		
			5,107		170,107		
			5,107		170,107		
	211,500		6,118		557,945		
	211,500		6,118		557,945		

Name	Position	Period of office	End of term of office	Fixed remuneration	Fee for participation in committee meetings
Carlotta Rossi Luciani	Executive director	01.01.2020 31.12.2020			
(I) Remuneration from the company preparing the financial statements				85,385	
(II) Remuneration from subsidiaries and associates					
(iii) Total				85,385	
Cinzia Donalisio	Independent director	01.01.2020 31.12.2020			
(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
Marina Manna	Independent director	01.01.2020 31.12.2020			
(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
Giovanni Costa	Independent director	01.01.2020 31.12.2020			
(I) Remuneration from the company preparing the financial statements				50,000	25,000
(II) Remuneration from subsidiaries and associates					
(iii) Totale				50,000	25,000
Saverio Bozzolan	Chairperson of the board of statutory auditors	01.01.2020 31.12.2020			
(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	01.01.2020 31.12.2020			
(I) Remuneration from the company preparing the financial statements				25,000	
(II) Remuneration from subsidiaries and associates					
(iii) Total				25,000	

	Non-equity-based variable remuneration		Non-monetary benefits	Other remuneration	Total	Fair value of equity-based remuneration	End of office or termination of employment entitlement
	Bonuses and other incentives	Profit sharing					
			1,425		86,810		3,080
			1,425		86,810		3,080
					75,000		
					75,000		
					75,000		
					75,000		
					75,000		
					75,000		
					40,000		
					40,000		
					25,000		
					25,000		

Name	Position	Period of office	End of term of office	Fixed remuneration	Fee for participation in committee meetings	
Claudia Civolani	Standing statutory auditor	01.01.2020 31.12.2020				
(I) Remuneration from the company preparing the financial statements				25,000		
(II) Remuneration from subsidiaries and associates						
(iii) Total				25,000		
Giovanni Fonte	Alternate statutory auditor	01.01.2020 31.12.2020				
(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	01.01.2020 31.12.2020				
(I) Remuneration from the company preparing the financial statements						
(II) Remuneration from subsidiaries and associates				8,000		
(iii) Total				8,000		
Giandomenico Lombello	General manager	01.01.2020 31.12.2020				
(I) Remuneration from the company preparing the financial statements				227,700		
(II) Remuneration from subsidiaries and associates				32,000		
(iii) Total				259,700		
Key management personnel	Key management personnel	01.01.2020 31.12.2020				
(I) Remuneration from the company preparing the financial statements				588,543		
(II) Remuneration from subsidiaries and associates				40,000		
(iii) Total				628,543		

	Non-equity-based variable remuneration		Non-monetary benefits	Other remuneration	Total	Fair value of equity-based remuneration	End of office or termination of employment entitlement
	Bonuses and other incentives	Profit sharing					
					25,000		
					25,000		
					5,000		
					5,000		
					8,000		
					8,000		
	123,200		5,346		356,246		
					32,000		
	123,200		5,346		388,246		
	263,200		16,192		867,935		26,069
					40,000		
	263,200		16,192		907,935		26,069

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

Name	Position	Plan resolution	Financial instruments assigned in previous years not vested during the year		Fi	
			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	
		06/11/2020			4,366	
(II) Remuneration from subsidiaries and associates						
(III) Total					18,348	
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	
		06/11/2020			3,144	
(II) Remuneration from subsidiaries and associates						
(III) Total					10,067	
Francesco Nalini	Chief executive officer					
(I) Remuneration from the company preparing the financial statements		07/09/2018			15,068	
		11/11/2019			13,285	
		06/11/2020			12,224	
(II) Remuneration from subsidiaries and associates						
(III) Total					40,577	

nancial instruments assigned during the year					Financial instruments vested during the year and not assigned	Financial instruments vested during the year and assigned		Financial instruments for the year
	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	01/10/2018	8.88				36,123
	75,192	three-year	01/12/2019	13.55				36,092
	75,997	three-year	19/11/2020	17.18				3,040
	232,465							75,254
	58,517	three-year	01/10/2018	8.88				26,007
	54,139	three-year	01/12/2019	13.55				25,987
	54,726	three-year	19/11/2020	17.18				2,189
	112,656							51,995
	144,999	three-year	01/10/2018	8.88				64,444
	180,441	three-year	01/12/2019	13.55				80,196
	212,778	three-year	19/11/2020	17.18				8,511
	538,218							153,151

Name	Position	Plan resolution	Financial instruments assigned in previous years not vested during the year		Fi	
			Number and type of financial instrument	Vesting period	Number and type of financial instrument	
Carlotta Rossi Luciani	Executive director					
(I) Remuneration from the company preparing the financial statements		07/09/2018			2,027	
		11/11/2019			2,790	
		06/11/2020			1,048	
(II) Remuneration from subsidiaries and associates						
(III) Total					5,865	
Giandomenico Lombello	General manager					
(I) Remuneration from the company preparing the financial statements		07/09/2018			7,975	
		11/11/2019			6,851	
		06/11/2020			6,101	
(II) Remuneration from subsidiaries and associates						
(III) Total					20,927	
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	
		06/11/2020			15,718	
(II) Remuneration from subsidiaries and associates						
(III) Total					58,398	

nancial instruments assigned during the year					Financial instruments vested during the year and not assigned	Financial instruments vested during the year and assigned		Financial instruments for the year
	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
	19,506	three-year	01/10/2018	8.88				8,669
	37,895	three-year	01/12/2019	13.55				18,189
	18,242	three-year	19/11/2020	17.18				730
	75,643							27,588
	76,743	three-year	01/10/2018	8.88				34,108
	93,052	three-year	01/12/2019	13.55				44,665
	106,198	three-year	19/11/2020	17.18				4,248
	275,993							83,021
	231,116	three-year	01/10/2018	8.88				102,718
	253,486	three-year	01/12/2019	13.55				121,674
	273,597	three-year	19/11/2020	17.18				10,944
	758,199							235,335

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

Name	Position	Plan resolution	Bonus for the year		
			To be paid/paid	Deferred	Deferral period
Francesco Nalini	Chief executive officer				
(I) Salary from the company preparing the financial statements		MBO 2020	211,500		
(II) Remuneration from subsidiaries and associates					
(III) Total			211,500		
Giandomenico Lombello	General manager				
(I) Salary from the company preparing the financial statements		MBO 2020	111,200		
(II) Remuneration from subsidiaries and associates					
(III) Total			111,200		
Key management personnel	Key management personnel (4)				
(I) Salary from the company preparing the financial statements		MBO 2020	263,200		
(II) Remuneration from subsidiaries and associates					
(III) Total			263,200		

Table 7: Equity investments held by the directors, statutory auditors, general managers and other key management personnel

Name	Position	Investee	Number of shares held at the end of the previous year
Fabio Gallio	Alternate statutory auditor	CAREL Industries S.p.A.	
Giandomenico Lombello	General manager	CAREL Industries S.p.A.	

Note: The individuals above have title to the equity investments.

	Previous year bonus			Other bonuses
	No longer available	To be paid/paid (1)	Still deferred	
		0		0
				12,000
		0		12,000
		0		0

	Numero azioni acquistate	Number of shares purchased	Number of shares held at year end
	300		300
	500	500	0

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