



REPORT ON **CORPORATE  
GOVERNANCE AND  
THE OWNERSHIP  
STRUCTURE**

**2020**



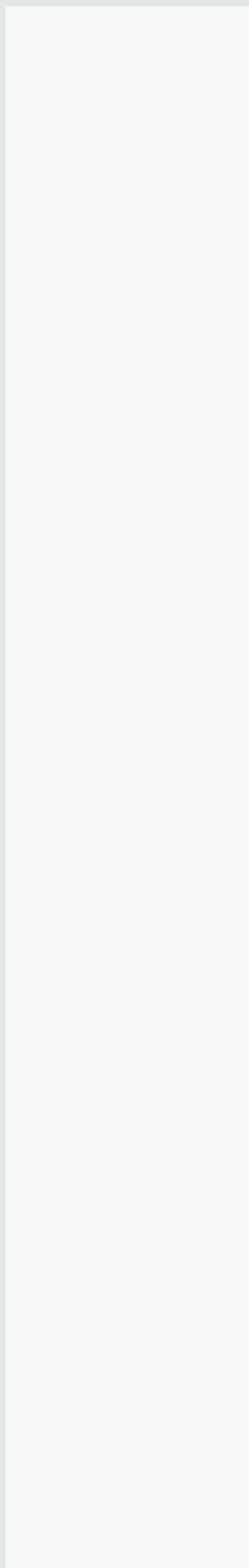
CAREEL

# Report on corporate governance and the ownership structure

## at 31 December 2020

The board of directors approved this report on corporate governance and the ownership structure of Carel Industries S.p.A. on 4 March 2021.

in accordance with article 123-bis of Legislative decree no. 58 of 24 February 1998  
(traditional administration and control model)



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## Glossary

Borsa Italiana	Borsa Italiana S.p.A., registered office in Piazza Affari 6, Milan
Carel, issuer or company	Carel Industries S.p.A., registered office in Via dell'Industria 11, Brugine (PD), VAT no., tax code and Padua company registration no. 04359090281.
Code/Code of Conduct	The Code of Conduct of Listed Companies approved in March 2006 by the <i>Corporate Governance</i> Committee and promoted by Borsa Italiana, as subsequently amended, integrated and updated in July 2018.
Code of Corporate Governance	The Code of <i>Corporate Governance</i> of Listed Companies adopted on 31 January 2020 by the Corporate Governance Committee of Listed Companies and promoted by Borsa Italiana, ABI (the Italian Bankers Association), ANIA (the Italian Insurance Association), Assogestioni (the Italian Investment Management Association), Assonimi (the Association of Italian Joint Stock Companies) and Confindustria (General Confederation of Italian Industry). Companies that adopt the Code of <i>Corporate Governance</i> apply it from the first reporting period after 31 December 2020, disclosing this fact to the market in the corporate governance report to be published in 2022.
Cod. civ. / c.c.	The Italian civil code
Consob	The national commission for listed companies and the stock exchange, registered office in Via Martini 3, Rome.
Report date	4 March 2021, the date on which this report was approved by the issuer's board of directors.
231 decree	Legislative decree no. 231 of 8 June 2001.
Year	The year ended 31 December 2020 to which this report refers.
Group or Carel Group	Collectively Carel Industries S.p.A. and the companies it controls as per article 2359 of the Italian Civil Code and article 93 of the CFA.
Instructions to the Market Rules	Instructions to the rules for the markets organised and managed by Borsa Italiana.
MTA	Stock market organised and managed by Borsa Italiana.
Related party procedure	This has the meaning set out in section 12 of this report, as defined below.
Market Rules	The rules for the markets organised and managed by Borsa Italiana.
Issuers' Regulation	The regulation issued by Consob with resolution no. 11971 of 14 May 1999 for issuers, as subsequently amended and integrated.
Related party regulation	The regulation issued by Consob with resolution no. 17221 of 12 March 2010 for issuers, as subsequently amended and integrated.
Report	This <i>corporate governance</i> report prepared in accordance with article 123-bis of the CFA and article 89-bis of the Issuers' Regulation (as defined above).
By-laws	The issuer's by-laws in force at the report date.
CFA or Consolidated Finance Act	Legislative decree no. 58 of 24 February 1998, as subsequently amended and integrated.





## Introduction

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As required by the legislation and regulations applicable to boards of directors of companies listed on the Italian stock exchange and to ensure the correctness and transparency of corporate disclosures, this report presents Carel's *corporate governance* system.

Its format complies with that made available to issuers by Borsa Italiana in January 2019.

Carel has been listed on the STAR segment of the MTA organised and managed by Borsa Italiana since 23 May 2018.

The issuer complies with the Code of Conduct, which it has adapted to meet its characteristics.

In its meeting of 18 February 2021, Carel's board of directors resolved on the adoption of the new Code of *Corporate Governance*, which guarantees compliance with international best practices. Carel will inform the market on how it intends to apply this new Code in its report on corporate governance and the ownership structure to be published in 2022.

The report has been published in the *Investor Relations/Shareholders' Meetings/Shareholders' Meeting 20 April 2021* section of the company's website [www.carel.com](http://www.carel.com).

## 1. Issuer profile

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Carel's *corporate governance* structure, based on the traditional administration and control system, comprises the following bodies:

- i. the board of directors, which oversees the company's running;
- ii. (ii) the board of statutory auditors, whose tasks comprise monitoring (i) compliance with the law and by-laws and correct administration principles, (ii) the internal controls and administrative-accounting system, and the latter's reliability in properly presenting the company's operations, (iii) the proper implementation of the corporate governance rules established by the codes of conduct issued by the managers of regulated stock markets or sector associations that the company confirms it complies with in a public statement, (iv) the adequacy of the instructions given to the subsidiaries about the disclosure of inside information, and (v) the financial reporting process, the efficiency of internal controls, internal audit and risk management systems, the statutory audit of separate and consolidated financial

statements and the independence of the audit company;

- iii. (iii) the shareholders, authorised to resolve on all matters reserved to them by the law or by-laws. The board of directors has two committees:
  - the control, risks and sustainability committee, which supports the board of directors' assessments and decisions on the internal control and risk management system by performing appropriate checks, as well as the board's approval of the company's financial reports; it also advises on transactions with related and associated parties; it advises the board of statutory auditors and performs checks for it on the statutory audit of the company's accounts in accordance with Legislative decree no. 39 of 27 January 2010 and advises the board of directors about the company's equity investments;
  - the remuneration committee, which mainly advises and makes recommendations to the board of directors on remuneration issues and oversees the preparation of the

documentation to be presented to the board of directors to support the relevant decisions. Each committee has three non-executive, independent directors as its members. They have an internal regulation which establishes their role and duties.

The statutory audit is performed by an audit company, included in the register of independent auditors, appointed by the shareholders on the basis of a reasoned proposal made by the board of statutory auditors.

In addition and in accordance with the Code of Conduct and regulations in force, the company has also:

- a. elected three independent directors out of a total of the seven members of the board of directors (Application Criterion 3.C.3 of the Code of Conduct);
- b. defined the guidelines for the internal control and risk management system, appointing the managers in charge (Application Criteria 7.C.1, 7.C.4 and 7.C.5 of the Code of Conduct);
- c. adopted an inside information procedure, an insider register and an *internal dealing* procedure;
- d. adopted the related party procedure required by article 4 of the Related party regulation;
- e. appointed an *Investor Relator* to liaise with the

shareholders (Application Criterion 9.C.1 of the Code of Conduct);

- f. adopted a shareholders' meeting regulation (Application Criterion 9.C.3 of the Code of Conduct);
- g. adopted an organisational, management and control model as per the 231 decree (Article 1A.2.10.1 of the Instructions to the Market Rules).

The provisions contained in the Code of Corporate Governance, which Carel's board of directors resolved to adopt on 18 February 2021, will be applied from the first reporting period after 31 December 2020. The company will disclose this new initiative in its report on corporate governance and the ownership structure to be published in 2022.

At the report date, the issuer qualified as an SME in accordance with article 1.1.w-quater.1) of the CFA and article 2-ter of the Issuers' Regulation as shown by the list of SMEs published by Consob on its website pursuant to article 2-ter.2 of the Issuers' Regulation. This list shows that Carel qualifies solely due to its turnover in accordance with the transitional regime provided for by article 44-bis.2 of Decree law no. 76 of 16 July 2020, coordinated with the Conversion law no. 120 of 11 September 2020.

## 2. The ownership structure (article 123-bis of the CFA) at the report date

### a) Share capital (article 123-bis.1.a) of the CFA)

At the report date, Carel's subscribed and paid-up share capital amounted to €10,000,000.00, split into 100,000,000 ordinary shares without a nominal amount.

The shares are dematerialised in accordance with article 83-bis and following articles of the CFA. They can be transferred and have the same dividend and voting rights established by the law and the by-laws, except for that provided for by article 13 of the by-laws.

At the report date, the company has not issued other share categories, convertible financial instruments or financial instruments that can be exchanged with shares.

Table 1 attached to this report provides more information about the ownership structure.

On 7 September 2018, the shareholders approved an incentive plan involving the free allocation of ordinary Carel shares, the "2018-2020 share-based performance plan", to beneficiaries to be identified, including on more than one occasion, from among the executive directors, key management personnel and employees of the company or its subsidiaries depending on the strategic importance

of their positions.

One of the matters on the agenda for the shareholders' meeting of 20 April 2021 is the adoption, in accordance with article 114-bis of the CFA, of another incentive plan involving the free allocation of ordinary Carel shares, the "2021-2025 share-based performance plan", to beneficiaries to be identified, including on more than one occasion, from among the executive directors, key management personnel and employees of the company or its subsidiaries depending on the strategic importance of their positions.

More information about the plans is available in the document prepared in accordance with article 114-bis of the CFA and article 84-bis of the Issuers' Regulation, which is available for consultation at the company's registered office, at Borsa Italiana and on the company's website ([www.carel.com](http://www.carel.com)) in the Investor Relations/Shareholders' Meetings section. Information is also available in the remuneration report drawn up in accordance with article 123-ter of the CFA and article 84-quater of the Issuers' Regulation, available on the company's website [www.carel.com](http://www.carel.com) and as provided for by the ruling regulations.

### b) Restrictions to the transfer of shares (article 123-bis.1.b) of the CFA)

At the report date, there were no restrictions to the transfer of Carel's shares.

### c) Significant investments in share capital (article 123-bis.1.c) of the CFA)

At the report date, the issuer qualified as an SME in accordance with article 1.1.w-quater.1) of the CFA and article 2-ter of the Issuers' Regulation as shown by the list of SMEs published by Consob on its website pursuant to article 2-ter.2 of the Issuers' Regulation.

Therefore, the minimum investment percentage that requires disclosure in accordance with article 120 of the CFA is 5% rather than 3%.

Given the continuing uncertainty about the evolution of the economic and financial situation generated by the Covid-19 pandemic, Consob extended the transitional

regime of enhanced transparency for changes in significant equity investments and the communication of investment objectives for companies with a particularly widespread shareholder base (as defined by article 120 of the CFA) for an additional three months from 14 January 2021 to 13 April 2021 with its resolution no. 21672 of 13 January 2021.

This regime provides for the introduction of a 3% threshold before the 5% threshold for certain SMEs included in the list that comprises Carel. In addition, a 5% threshold has been introduced before the 10% threshold for the obligation to communicate (via Consob) a statement of intent to the market, i.e., the investment objectives for the next six months after the acquisition of interests that bring an equity investment in a company to above 5%.

At the report date, based on the shareholder register, communications received pursuant to article 120 of the CFA and other information available to the company, the

parties indicated in Table 1 attached hereto hold company shares equal to or greater than 5% of its share capital directly or indirectly. Specifically, they are:

- **Luigi Rossi Luciani S.a.p.a.**, which directly holds shares equal to 36.17% of the share capital, with voting rights of 45.05% due to the shareholder's inclusion in the list of loyalty shares;
- **Luigi Nalini S.a.p.a.**, which directly holds shares equal to 20.00% of the share capital, with voting rights of 24.91% due to the shareholder's inclusion in the list of loyalty shares;
- **Capital Research and Management Company**, which directly holds shares equal to 7.53% of the share capital, with voting rights of 4.69% as it is not included in the list of loyalty shares;
- **7 Industries B.V.**, which directly holds shares equal to 4.93% of the share capital, with voting rights of 5.81% due to the shareholder's inclusion in the list of loyalty shares.

#### d) Shares with special rights (article 123-bis.1.d) of the CFA)

At the report date, the company has not issued shares that give special controlling rights, nor do the by-laws provide for special powers for certain shareholders or holders of specific categories of shares.

In accordance with article 127-*quinquies* of the CFA, article 13 of the by-laws establishes that each share held by the same party for at least 24 consecutive months from the date of its inclusion in the relevant register kept by the company has two votes. The holder of the voting rights may irrevocably waive its right, in whole or in part, to the second vote.

The company keeps a loyalty share list which it updates every three months (31 March, 30 June, 30 September and 31 December) or at other dates as provided for by the

sector regulations and, moreover, before the record date.

Loyalty shares are considered in the calculation of the constitutive and deliberative *quorums*. They do not affect rights other than voting rights attributable to holders of specific investment percentages.

The by-laws and loyalty shares regulation provide more information about this and are available on the company's website [www.carel.com](http://www.carel.com). In accordance with article 143-*quater* of the Issuers' Regulation, identifying data of the shareholders that have requested inclusion in the special list and details of their investments (which are higher than the ceilings indicated in article 120.2 of the CFA) and the date of their inclusion are also available on the website.

### e) Shares held by employees: voting right exercise mechanism (article 123-bis.1.e) of the CFA)

At the report date, the company does not have share-based plans for its employees that would give them voting rights. Information about the 2018-2022 share-based performance plan is available in the remuneration report and the document on the plan published in accordance with the ruling regulations and posted on the company's website [www.carel.com](http://www.carel.com).

One of the matters on the agenda for the shareholders'

meeting of 20 April 2021 is the adoption, in accordance with article 114-bis of the CFA, of another incentive plan involving the free allocation of ordinary Carel shares, the "2021-2025 share-based performance plan", to beneficiaries to be identified, including on more than one occasion, from among the executive directors, key management personnel and employees of the company or its subsidiaries depending on the strategic importance of their positions.

### f) Restrictions to voting rights (article 123-bis.1.f) of the CFA)

At the report date, there were no restrictions to the voting rights attributable to the company's shares, nor

dividend or first option rights tied to the shares separate to ownership of the shares.

### g) Shareholder agreements (article 123-bis-1-g) of the CFA)

At the report date, the issuer was aware of two shareholder agreements.

On 10 June 2018, Luigi Rossi Luciani S.a.p.a. and Luigi Nalini S.a.p.a. entered into a shareholder agreement for the appointment of members to Carel's corporate bodies (the "agreement"). At the report date, the total number of Carel shares transferred as part of the agreement after the change in the number of shares held by Luigi Nalini S.a.p.a. (it sold 3,582,560 ordinary shares with loyalty shares) is 56,167,440, equal to 56.17% of the company's share capital and 112,334,880 voting rights or roughly 69.6% of the share capital with voting rights. The agreement was entered into to create a voting syndicate for the appointment of the members of the company's corporate bodies in accordance with article 122.1 of the CFA.

On 27 July 2015, Cecilia Rossi Luciani, Carlotta Rossi Luciani and Vittorio Rossi Luciani, who have investments equal to 99.99% of Luigi Rossi Luciani S.a.p.a. as bare ownership with voting rights shared in an undivided co-ownership regime, agreed a regulation to govern this undivided co-ownership (the "regulation"). The regulation includes, inter alia, shareholder agreements for voting and blocking syndicates pursuant to article 122.1/5.b) of the CFA. In turn, Luigi Rossi Luciani S.a.p.a. holds 45.28% of Carel's shares carrying voting rights.

The complete versions of the agreement and the regulation were sent to Consob and filed with the Padua Company Registrar on 14 June 2018. The key information taken from these documents was published on the company's website [www.carel.com](http://www.carel.com) in the Corporate Governance/Shareholders' Agreements section.

#### **h) Change of control clauses (article 123-bis.1.h) of the CFA and by-laws provisions for takeover bids (articles 104.1-ter and 104-bis.1 of the CFA)**

The company has not entered into significant agreements that become effective, can be amended or voided in the case of a change of control over the company or its subsidiaries. Its by-laws do not provide for waivers from

the passivity rule as per article 104.1/1-bis of the CFA or the application of the neutralisation rules as per article 104-bis.2/3 of the CFA.

#### **i) Proxies to increase share capital and authorise the repurchase of treasury shares (article 123-bis.1.m) of the CFA)**

The board of directors has not been given proxies to increase share capital as per article 2443 of the Italian Civil Code.

Pursuant to article 6 of the by-laws, the shareholders may authorise the board of directors to increase share capital or issue convertible bonds up to a set amount and for a maximum period of five years from the date on which they pass the related resolution.

In accordance with article 2441.4.2 of the Italian Civil Code, the company may resolve to increase share capital with the rights of first option for up to 10% of its existing capital, as long as the issue price matches the shares' market price and this is confirmed by the audit company in a specific report.

On 26 March 2020, Carel informed the market again (it had already done so on 7 March and 15 April 2019) that it had launched a treasury share repurchase programme for a maximum of 100,000 Carel shares, equal to 0.1% of its share capital, as the partial implementation of the resolution approved by the shareholders on 15 April 2019 and its methods, terms and conditions. The programme's main objective was to repurchase treasury shares to be used for the *2018-2022 share-based performance plan* approved by the shareholders on 7 September 2019.

On 20 April 2020, the shareholders revoked the authorisation

to repurchase and allocate treasury shares, for the part not yet performed, which it had given the company's board of directors on 15 April 2019. The shareholders concurrently authorised the board of directors to repurchase treasury shares in one or more instalments up to a maximum of 5,000,000 shares (considering the treasury shares already held by the company and its subsidiaries from time to time), equal to 5% of the company's share capital. The authorisation had the following purposes: (i) to comply with obligations arising from share-based performance plans or other share plans for the employees, directors and statutory auditors of the company, its subsidiaries or associates; (ii) to carry out transactions to support market liquidity to thereby facilitate regular trading and avoid price fluctuations that are not in line with market trends; and (iii) to undertake sale, exchange, trade-in, contribution transactions or other acts of disposal of treasury shares to acquire equity stakes and/or real estate and/or enter into agreements (including commercial ones) with strategic partners and/or implement industrial projects or extraordinary finance transactions that fall within the development goals of the company and of the Carel Group. The authorisation to repurchase treasury shares was given for the maximum period of time envisaged by article 2357.2 of the Italian Civil Code, i.e., 18 months from the resolution date.

The repurchases must be made within the limits of the distributable profits and available reserves shown in the

most recent regularly approved financial statements at the date of each transaction (i) at a price that does not deviate, by excess or defect, by more than 20% from the reference price recorded by the share at the stock exchange session of the day preceding each individual transaction, and in any event (ii) at a price that does not exceed the higher of the price of the last independent transaction and the price of the highest current independent purchase offer made at the trading venue where the repurchase is made.

The shareholders also authorised the company's board of directors to sell (in whole or in part, or in more than one instalment), for the same purposes as those set out above, treasury shares in portfolio in line with the ruling regulations without any time constraint, including before the maximum number of treasury shares has been repurchased and possibly when they are repurchased

so that the treasury shares held by the company and, if necessary, by its subsidiaries, do not exceed the authorised number.

The resolution was passed with the favourable vote of the majority of the company's shareholders attending the meeting, other than the shareholders who hold, including jointly, the majority stake, including a relative majority, provided that it exceeds 10% (ten) (i.e., Luigi Rossi Luciani S.a.p.a. and Luigi Nalini S.a.p.a.). The exemption under the combined provisions of article 106.1/1-bis/1-ter, to the extent applicable, and article 3 of the CFA and article 44-bis.2 of the Issuers' Regulations, shall apply to such shareholders.

At the report date, the company holds 168,209 treasury shares.

#### **j) Management and coordination (article 2497 and following articles of the Italian Civil Code)**

The issuer is not managed and coordinated by another party as per the provisions of article 2497 and following articles of the Italian Civil Code. After reviewing its situation, the company deems that it does not perform any of the activities that would require management and coordination in accordance with article 2497 and following articles of the Italian Civil Code. Specifically, although it is controlled by another company, Carel does not deem that it is required to comply with the disclosure requirements of article 16.1.a) of the Market Rules, as none of its shareholders, including Luigi Rossi Luciani S.a.p.a., which holds 45.05% of its share capital with voting rights, manages and coordinates it as per the provisions of article 2497 and following articles of the Italian Civil Code, as per the communication received by the issuer on 9 November 2015 and duly notified to the competent Company Registrar on 10 November 2015. In addition, the company

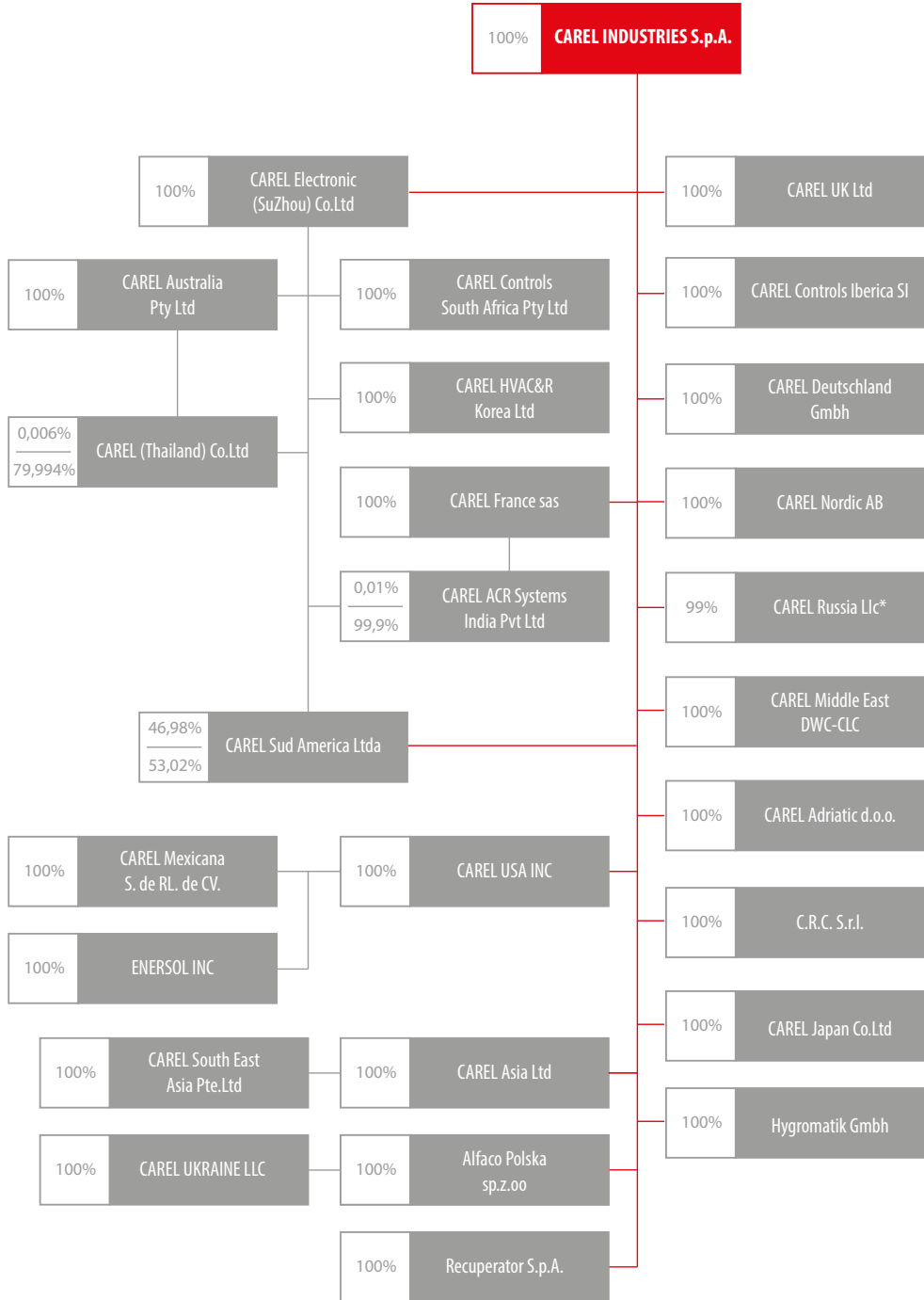
is included in the consolidated financial statements of Luigi Rossi Luciani S.a.p.a..

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The following graph shows the group companies and the company's investments therein at the report date.

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The information required by article 123-bis.1.i) (term of office entitlement paid to directors in the case of their resignation, dismissal without just cause or termination of the relationship due to a takeover bid) and point l) (appointment and replacement of directors and changes to by-laws) of the CFA is provided in i) the remuneration report prepared in accordance with article 123-ter of the CFA and article 84-quater of the Issuers' Regulation, which is available on the company's website ([www.carel.com](http://www.carel.com)) and with the other legally-required methods; and ii) paragraph 4.1 of this report.



\*= 1% held by CAREL FRANCE SAS



### 3. Compliance (article 123-bis.2.a) of the CFA)

As resolved by the board of directors on 29 March 2018, the company complies with the Code of Conduct of Borsa Italiana S.p.A. as updated in July 2018, available for consultation on the *Corporate Governance* Committee's website (<http://www.borsaitaliana.it/comitato-corporate-governance/codice/codice.htm>).

In its meeting of 18 February 2021, Carel's board of directors resolved on the adoption of the new Code of Corporate Governance, which guarantees compliance with international best practices. Carel will inform the market on how it intends to apply this new Code in its report on corporate governance and the ownership structure to be published in 2022. The Code of *Corporate Governance* issued by the *Corporate Governance* Committee in January 2020 is available on the committee's website <http://www.borsaitaliana.it/comitato-corporate-governance/codice/codice.htm>.

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Neither the company nor its subsidiaries are required to comply with non-Italian laws that would affect its corporate governance structure.

More information about the company's measures to prevent risks of illegal behaviour or corruption in the public and private sectors is provided in paragraph 11.3 of this report.

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The company's main corporate governance tools are set out below (they comply with the most recent regulatory and legislative requirements, the Code of Conduct and national and international best practices):

- By-laws;
- Shareholders' meeting regulations;
- 231 organisational, management and control model;
- Code of Ethics;
- Regulation of the control, risks and sustainability committee;
- Regulation of the remuneration committee;
- Regulation of the board of directors;
- Shareholder engagement policy;
- Related party procedure adopted in accordance with article 4 of the Related party regulation;
- Inside information procedure and register of people with access to inside information;
- *Internal dealing* procedure.

## 4. Board of directors

### 4.1 Appointment and replacement (article 123-bis.1.I) of the CFA)

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

The directors have a term of office of not more than three years, as decided by the shareholders. Their term of office

expires when the shareholders meet to approve the financial statements related to their last year of office.

On 29 March 2018, the shareholders set the number of directors as seven and their term of office as three years, until approval of the financial statements at 31 December 2020.

The shareholders appoint the directors in an ordinary meeting using the lists system, except when decided otherwise or provided for by mandatory laws or regulations.

Shareholders that, when the list is presented, either individually or jointly hold a number of shares equal to the percentage established by Consob pursuant to the applicable legislation and regulations may present lists of candidate directors. In accordance with the applicable legal, regulatory and by-laws provisions and Consob management decision no. 44 of 29 January 2021, the lists of candidates may be presented by shareholders that either individually or jointly hold a number of shares equal to at least 1% of the shares with voting rights in ordinary shareholders' meetings.

The lists are lodged at the company's registered office using the methods established by the ruling regulations at least 25 days before the meeting called to resolve on the appointment of directors. The company shall make the lists available to the public at least 21 days before the meeting date using the methods established by the ruling regulations.

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

Each candidate may be presented in just one list in order to be eligible.

Each list:

- shall include no more than 13 candidates, listed in consecutive order;
- shall include and specifically state that at least one director meets the independence requirements established by the by-laws (the "independence requirements"); if the

list has more than seven candidates, it shall include and specify at least two candidates with these requirements;

- may not be comprised solely of candidates of the same gender (male or female), if it has three or more candidates, but rather shall have a number of the less represented gender that ensures the presence of directors of the less represented gender in accordance with the laws and regulations in force from time to time about gender balance, without prejudice to the fact that if this is not a whole number, it shall be rounded as provided for by the laws and regulations applicable from time to time;
- shall have the documentation required by the by-laws and all other statements, information and/or documents required by law and the applicable regulations attached as an annex thereto.

**A)** When two or more lists are presented, the candidates are voted for and the directors appointed using the following methods:

- candidates from the two lists with the most votes are elected by applying the following criteria: (i) a number of candidates equal to the total number of directors to be elected less one is taken from the list that obtained the most votes (the "majority list") in consecutive order of presentation; (ii) one director, the first on the list, is taken from the list that received the second most votes and is not linked (including indirectly) to the shareholders that presented or voted for the majority list (the "minority list");
- the lists that have not received a number of votes at least equal to half the number of shares required to present a list are not considered;
- should lists receive the same number of votes, the shareholders re-vote solely for these lists and the winning list is that which receives the most votes;
- should the independence requirements not be met using the above methods, the following approach is taken: the candidate who does not meet the independence requirements established by the law for directors of listed companies and who has been elected

last in consecutive order from the list that received the most votes is replaced by the first candidate with the independence requirements established by the law for directors of listed companies not elected from the same list, in consecutive order. If this approach does not lead to a sufficient number of independent directors as established by the law for directors of listed companies, the elected non-independent director is replaced by means of a resolution taken by the shareholders by majority vote, after presentation of candidates with the independence requirements established by the law for directors of listed companies;

- if the regulations about gender balance are not complied with using the above methods, the candidates of the most represented gender elected last in consecutive order from the majority list are replaced with the first unelected candidates on the same list of the other gender; if this is not possible, in order to comply with the above regulations about gender balance, the shareholders shall appoint directors using the ordinary methods and majority vote, without using the list voting mechanism.

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

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

Should directors leave office, the legal provisions apply without the obligation to use the list voting mechanism, as long as the minimum number of independent directors and gender balance requirements are met.

The loss of independence by a director entails their resignation pursuant to article 147-ter.4 of the CFA solely if the minimum number of independent directors established by the CFA is no longer met.

The issuer does not have to comply with any other regulations covering the composition of its board of directors.

On 1 January 2020, the measures of Law no. 160 of 27 December 2019 (the "2020 budget law") became applicable, modifying article 147-ter.1-ter and article 148-ter.1.bis of the CFA introduced by Law no. 120 of 12 July 2011 (the "Golfo-Mosca Law") about gender balance in the corporate bodies of listed companies. The 2020 budget law requires that the less represented gender on management and control bodies of listed companies be equal to "at least two fifths" of their members (rather than one third). It also established that this requirement is to be applied for "six consecutive mandates" instead of three. Therefore, when Carel's corporate bodies are next renewed (the board of directors will be re-appointed by the shareholders in their meeting of 20 April 2021), the lists should be formed and the election take place in accordance with the requirements of the 2020 budget law and Consob's regulations.

#### 4.1.1 Succession plans

The board of directors has not deemed it necessary to adopt a succession plan for its executive directors given its duties and the size and ownership structure of the company and the group and the practice of appointing people with significant experience with the company as

its executive directors.

As a result, Carel does not have a succession plan for its executive directors at the report date. Given its ownership

structure, it may request its board of directors to promptly take the necessary resolutions.

#### 4.2 Composition (article 123-bis.2.d) of the CFA)

The board of directors in office at 31 December 2020 was appointed by the shareholders in their ordinary meeting of 29 March 2018 for a three-year term, i.e., until approval of the financial statements at 31 December 2020. It initially comprised Luigi Rossi Luciani, Luigi Nalini, Francesco Nalini, Carlotta Rossi Luciani, Corrado Sciolla, Cinzia Donalizio and Marina Manna. On 15 January 2019, Corrado Sciolla resigned and was replaced by Giovanni Costa coopted by the board of directors on 25 January 2019 and appointed by the shareholders in their meeting of 15 April 2019.

Therefore, at the report date, the directors in office are Luigi Rossi Luciani, Luigi Nalini, Francesco Nalini, Carlotta Rossi Luciani, Giovanni Costa, Cinzia Donalizio and Marina Manna.

As the board of directors in office at 31 December 2020 was appointed on 29 March 2018 and the by-laws became applicable on the listing date of the Carel ordinary shares, the provisions about list voting included therein (which require that one member be elected from the list that received the second largest number of votes after the majority list and who is not linked in any way, including indirectly, to the shareholders that presented or voted for the majority list), will only become applicable when the board of directors is re-elected after the listing date of the Carel ordinary shares (23 May 2018).

As provided for by the by-laws, the board of directors appointed Luigi Rossi Luciani as the chairperson and Luigi Nalini and Francesco Nalini as the executive deputy

chairperson and chief executive officer, respectively. Carlotta Rossi Luciani is the company's executive director. At the report date, the non-executive, independent (as per the definitions of article 148 of the CFA and article 3 of the Code of Conduct) directors are Giovanni Costa, Cinzia Donalizio and Marina Manna.

The company deems that the number of its independent directors is sufficient to ensure their opinions have a significant weight when board decisions are made.

The directors' personal and professional characteristics are summarised below.

**Luigi Rossi Luciani**, after earning a high school diploma in accounting, he commenced his business career in 1966, founding Nastrificio Victor S.p.A. in Piove di Sacco (Padua) of which he is the chairperson at the report date. Since the 1990s, he has been involved in various business associations; in particular, from 2000 to 2005, he was chairperson of Confindustria (General Confederation of Italian Industry) for the Veneto region and a member of Confindustria's executive board. He is one of the company's founders and serves as its chairperson, including at the report date.

**Luigi Nalini**, he obtained a degree in Mechanical Engineering from "La Sapienza" University of Rome in 1970. He began his career with Hiross Group, initially as R&D Manager and then as Technical Director. From 1988 to 1997, as co-founding shareholder, he served as Technical Director and General Manager of Uniflair S.p.A.. He is one of the company's founders and was chief executive director from 1997 to 2018. He is Carel's

executive deputy chairperson, including at the report date.

**Francesco Nalini**, he obtained a degree in Engineering Management from the University of Padua in 1997, worked at McKinsey from 2001 to 2002 and, from 2002 to 2005, was ICT Manager at Errennegi S.r.l.. Since November 2017, he is a member of the board of directors of Università degli Studi in Padua. He joined the company in 2005, where he served as Director of Operations before becoming general manager of the company from 2005 to 2018. Since March 2018, he has been the company's chief executive officer, including at the report date.

**Carlotta Rossi Luciani**, she holds a degree in Industrial Design from the Italian Design School of Padua, and a Master's Degree in Lean Management from the University Corporate Organization Center of Altavilla Vicentina (province of Vicenza). From 2009 to 2012 she was a *graphic designer* for a number of companies and joined Carel in 2013, specialising in the "lean" sector. Since January 2017 she has been Lean Development Office Manager for Carel Adriatic. Since March 2018, she has been a director of Carel, including at the report date.

**Cinzia Donalizio**, she obtained a degree in Computer Science from the University of Pisa in 1984. She held a number of managerial positions, mostly in financing and insurance related roles, in companies such as Olivetti S.p.A., Ericsson Telecomunicazioni S.p.A., SIA S.p.A. and Thesia S.p.A.. From 2011 and 2012, she was the Head of Banking Division of Wincor-Nixdorf S.p.A. Since 2013, she has been a founding shareholder and she is also a managing partner of Governance Advisory S.r.l., including at the report date, which provides support to companies in the development of corporate strategies and corporate governance policies. She does not hold positions as a director or statutory auditor in other companies or bodies.

**Marina Manna** she obtained a degree in Economics and Business from the Ca' Foscari University of Venice in 1984. She is included in the register of chartered accountants of the Padua Court and the register of independent auditors since 1989. She has worked as a chartered accountant since 1989 mostly providing tax consulting services and technical services for civil and criminal proceedings. She is a lecturer at the Scuola di Alta Formazione of the Italian Association of Chartered Accountants. She has held positions at the Padua branch of the Italian Association of Chartered Accountants. She was a director of Banco di Napoli S.p.A.. She is currently a non-executive director of Carraro S.p.A. and Busitalia Veneto and a statutory auditor of medium and large companies (including Nice Group S.p.A., BLM S.p.A. and Pandolof Alluminio S.p.A.).

**Giovanni Costa** he is Professor Emeritus of Business Strategy and Organizational Theory and Design at the University of Padua where he lectured from 1996 to 2017. He has carried out business consultancy activities for many years supporting management development projects for Italian and international companies and public administrations. He has also held governance roles in many companies and bodies.

More information about the company's board of directors is provided in Table 2 (attached).

This report also includes an attached list of all the positions held by the directors in other companies at the report date, using the criteria established herein.

#### 4.2.1 Diversity criteria and policies

Given the company's structure and size, as well as its ownership structure and list voting mechanism provided for by the by-laws, which guarantees transparent elections and a balanced composition of the board of directors, in its meeting of 18 February 2021, the board of directors did not deem it necessary

to adopt specific diversity policies and/or practices with respect to the composition of the boards of directors and statutory auditors and the age, gender and educational and professional background of the various members.

On 1 January 2020, the measures of Law no. 160 of 27 December 2019 (the “2020 budget law”) become applicable, modifying article 147-ter.1-ter and article 148-1.bis of the CFA introduced by Law no. 120 of 12 July 2011 (the “Golfo-Mosca Law”) about gender balance in companies bodies of listed companies. The 2020 budget law requires that the less represented gender on management and control bodies of listed companies be equal to “at least two fifths” of their members (rather than one third). It also established that this requirement is to be applied for “six consecutive mandates” instead of three. Therefore, when Carel’s company bodies are next renewed (the board of directors will be re-appointed by the shareholders in their meeting of 20 April 2021), the lists and election should take place in accordance with the requirements of the 2020 budget law and Consob’s regulations.

#### **4.2.2 Maximum number of positions held in other companies**

On 18 February 2021, the board of directors agreed not to define general criteria about the maximum number of positions held in other companies as director or statutory auditor that can be considered acceptable for the effective performance of duties as a director of the company, without prejudice to each director’s obligation to assess the compatibility of their positions as director and statutory auditor in other listed companies (including abroad), financial companies, banks, insurance companies or large companies with their diligent performance of their duties taken on as a director of Carel, also considering their involvement in board committees.

Considering their positions held in other companies, the company’s board of directors deemed that the number and nature of such positions did not interfere with and are, therefore, compatible with their efficient performance of their duties as director of Carel on the same date.

#### **4.2.3 Induction Programme**

The company deems that the directors and, especially the executive directors, have sufficient knowledge of the business sectors in which the company and the group operate.

With respect to the projects designed to provide the directors, and specifically the independent directors, with a suitable understanding of the business sectors in which Carel operates, the chairperson of the board of directors habitually organises board induction sessions to provide its members with a suitable understanding of the business sectors, also in the light of the company’s performance and changes in its ownership structure.

These sessions provide an overview and in-depth look at the company’s various business segments through reports and presentations prepared by those who report to the CEO in the areas of R&D, marketing and sales, HR and organisation, operations and administration and finance and control. Thanks to these meetings, the directors obtain an understanding of the group’s business model and products/markets, its competitive leverage, its typical activities and R&D, HRM strategies and the working of the administration, finance and control unit, especially as regards critical issues and risks.

During board meetings, the chief executive officer regularly reports on the business sectors in which the company operates, providing updates on its performance and future trends, the legislative framework and internal regulations.

### 4.3 Role of the board of directors (article 123-bis.2.d) of the CFA)

The board of directors plays a pivotal role in guiding and managing the company. In accordance with article 20 of the ruling by-laws, it has exclusive powers for the company's management. It has the most wide-ranging powers to carry out all those transactions deemed necessary or suitable to achieve the company's business object, except for those reserved to the shareholders by law or the by-laws.

Again as provided for by the by-laws, in accordance with article 2365.2 of the Italian Civil Code, the board of

directors is responsible for taking the following decisions, without prejudice to the shareholders' powers: (i) mergers and demergers in the instances covered by articles 2505 and 2505-bis of the Italian Civil Code; (ii) the opening or closing of branches; (iii) the reduction of share capital should one or more shareholders withdraw; (iv) the alignment of the by-laws with regulations; and (v) the transfer of the registered offices within Italy.

During the year, the board of directors met 13 times with the following attendance percentages of each director:

<b>Luigi Rossi Luciani</b> , Executive chairperson	13/13	100%
<b>Luigi Nalini</b> , Vice Executive chairperson	13/13	100%
<b>Francesco Nalini</b> , Chief executive officer	13/13	100%
<b>Carlotta Rossi Luciani</b> , executive director	13/13	100%
<b>Cinzia Donalisio</b> , Independent director	13/13	90%
<b>Marina Manna</b> , Independent director	13/13	100%
<b>Giovanni Costa</b> , Independent director	13/13	100%

Each meeting lasted an average of two hours. Eight meetings have been scheduled for 2021, of which two have already been held at the report date.

The chairperson of the board of directors ensures that all the information and documents necessary to allow the directors take decisions are made available to them in due time and using the appropriate methods. During the year, documentation about the meeting agendas was sent to the directors and statutory auditors roughly three to four days before the meeting date.

When the documentation was large or bulky, the information was provided in brief presentations accompanied by tables and charts.

As provided for by the by-laws, the chairperson calls a board meeting whenever they deem it opportune or when at least two directors request it be called. If the chairperson is absent or unable to do so, the board meeting is called by the deputy chairperson, when appointed, or the longest-serving delegated director.

The board of statutory auditors or just one standing statutory auditor may also call a board meeting in accordance with article 151 of the CFA.

Board meetings are called by a notice sent by letter, telegram, telefax or e-mail with notice of receipt to the address of each director or standing statutory auditor at least three days before the date set for the meeting. Urgent meetings can be called with notice sent one

day beforehand. Board meetings and their resolutions are valid, even when the meeting has not been formally called, when all the directors and standing statutory auditors in office are present. Should the chairperson be absent or unable to attend, meetings are chaired by the deputy chairperson, if appointed, or in their absence or impediment, by the longest-serving delegated director present at the meeting or, in their absence or impediment, the longest-serving director present.

Board meetings can be held by audio or video conference as long as: (i) the meeting chair and meeting secretary are present in the same place and write and sign the minutes given that the meeting is deemed to have been held in that location; (ii) the meeting chair can check the identity of the participants, direct the meeting and check and announce the results of any votes; (iii) the meeting secretary can adequately follow the meeting for which they are taking the minutes; and (iv) the participants can participate in the discussions and simultaneous voting on the matters on the agenda and can view, receive and send documents.

Moreover, due to the measures brought in by the Italian government to contain and manage the Covid-19 epidemiological emergency (decrees of the Prime Minister applicable to all of Italy), imposing a ban on social and personal contact, ten of the 13 meetings were only held by video conference. The issuer provided all the participants with the related credentials and access methods each time.

Board resolutions can be taken when the majority of the directors in office are present and by majority vote. In the case of a tie, the vote of the meeting chair prevails.

The chairperson of the board of directors has always ensured that adequate time is given to each of the matters on the agenda to allow a constructive debate and exchange of ideas.

Accordingly, non-members are often invited to take part in the board meetings, mainly the company's managers and unit heads depending on the matters to be discussed, to ensure the directors and statutory auditors are provided with sufficient details thereon.

As the company complies with the Code of Conduct for Listed Companies, the board of directors has responsibility for:

- the review and approval of business, strategic and financial plans of the company and the group, as well as the regular checks that they are being implemented;
- the definition of the company's corporate governance system;
- the definition of the structure of the group headed by the company;
- resolutions about transactions performed by the company and its subsidiaries when these activities are of strategic, economic, financial or capital importance to it.

The board of directors did not deem it necessary to define general criteria to identify these key transactions as it prefers to assess each situation individually based on the information received from the executive directors.

During the year, the board of directors:

- with respect to Application Criterion 1.C.1.c) of the Code of Conduct, confirmed the adequacy of the organisational, administrative and accounting structure of the issuer and its key subsidiaries, especially as regards their internal control and risk management system;
- with respect to Application Criterion 1.C.1.e) of the Code of Conduct, assessed the company's general performance based on the regular, detailed information received from the competent bodies at each board meeting held once a month and by regularly checking results against the budget;
- with respect to Application Criterion 1.C.1.j) of the Code of Conduct, adopted the inside information procedure and the insider register;



- with respect to Principal 3.P2 of the Code of Conduct, assessed the independence of the directors Marina Manna, Cinzia Donalisio and Giovanni Costa;
- with respect to Application Criterion 7.C.1.c) of the Code of Conduct, approved the audit plan prepared by the internal audit manager for 2020 after consulting the control, risks and sustainability committee, the board of statutory auditors and the director in charge of the internal control and risk management system.

The shareholders have not authorised departures from the competition ban as per article 2390 of the Italian Civil Code.

In addition, during 2021, the board of directors:

- assessed the board itself and its committees, the working, size and composition of the board and the committees using the questionnaires completed by the directors which included (i) assessments on the compliance of the company's corporate governance system with the recommendations of the Code of Conduct; and (ii) recommendations for their better application. The directors sent the questionnaires anonymously through the company secretary to the lead independent director and the board reviewed them on 18 February 2021;
- assessed the adequacy of the organisational, administrative and accounting structure of the issuer and its subsidiaries, especially as regards their internal control and risk management system on 18 February 2021;
- checked that the directors Marina Manna, Cinzia Donalisio and Giovanni Costa continued to meet the

independence requirements on 18 February 2021;

- On 18 February 2021, in accordance with article 3, recommendation 11 of the Code of *Corporate Governance*, the board of directors adopted a regulation defining the rules for its working, including the minutes taking method and the procedures to manage information to be provided to the directors. These procedures specify the timeline for the timely transmission of information and the methods to protect data and information provided so as not to jeopardise the timeliness and completeness of information streams. The regulation is available on the company's website [www.carel.com](http://www.carel.com) in the Corporate Governance/Procedures and Regulations section, to which reference should be made for more information.
- On 4 March 2021, in accordance with article 1, recommendation 3 of the Code of Corporate Governance, the board of directors adopted a shareholder engagement policy as proposed by the chairperson and agreed with the chief executive officer. This policy is available on the company's website [www.carel.com](http://www.carel.com) in the *Corporate Governance/Procedures and Regulations* section, to which reference should be made for more information.

The provisions contained in the Code of Corporate Governance, which Carel's board of directors resolved to adopt on 18 February 2021, will be applied from the first reporting period after 31 December 2020. The company will disclose this new initiative in its report on corporate governance and the ownership structure to be published in 2022.

## 4.4 Delegated bodies

The board of directors comprises executive and non-executive directors.

As provided for by the by-laws, the board of directors appoints one or more delegated directors, establishing their operating and representation powers within the limits of the law and the by-laws. These powers, limited to certain transactions or categories of transactions or duties, may be delegated to other members of the board of directors.

### 4.4.1 Delegated directors

On 29 March 2018, the board of directors identified Luigi Rossi Luciani, as chairperson of the board of directors, and Luigi Nalini and Francesco Nalini, the company's chief executive officer and joint chief executive officer, respectively, as its executive directors.

On 11 May 2018, the board of directors amended this decision in part, confirming Luigi Rossi Luciani as chairperson of the board of directors and Francesco Nalini as chief executive officer and appointing Luigi Nalini as executive deputy chairperson.

On 29 March 2018, the chief executive officer was given the following operating powers by the board of directors: (i) all ordinary administration powers not reserved by law or the by-laws solely to the board of directors and/or the shareholders to be exercised by single and joint signature up to the threshold of €1,000,000.00 (one million) or its equivalent in another

currency or up to the threshold of €5,000,000.00 (five million) or its equivalent in another currency to agree framework supply or sale agreements for each individual transaction; and (ii) all extraordinary administration powers not reserved by law or the by-laws solely to the directors and/or the shareholders to be exercised by single or joint signature up to the threshold of €1,500,000.00 (one million and five hundred thousand) or its equivalent in another currency or up to the threshold of €5,000,000.00 (five million) or its equivalent in another currency to agree, amend or terminate loan or financing agreements for each individual transaction and for a total of €15,000,000 (fifteen million) or its equivalent in another currency on an annual basis; and (iii) the specific power to sub-delegate and/or give proxies within the limits of the powers received. The chief executive officer has principal responsibility for the company's operations.

At the report date, the company does not have an executive committee.

### 4.4.2 Chairperson of the board of directors

On 11 May 2018, the board of directors gave the chairperson of the board of directors the following powers with individual signatory powers and the option to sub-delegate: (i) to explore and assess the strategies

and opportunities for business combination (for example and not limited to, mergers, acquisitions, joint ventures) or business development; (ii) to maintain and enter into transactions with banks and credit institutions to agree,

amend and terminate loan and financing agreements of all types within the threshold of €5,000,000 (or its equivalent in another currency) per transaction and for a total of €15,000,000 (or its equivalent in another currency) per year; (iii) to maintain relations and manage communications within the group; and (iv) to assign mandates to management consultants up to a threshold of €500,000 (or its equivalent in another currency).

The chairperson of the board of directors is the representative of the company's majority shareholder and

#### 4.4.3 Deputy chairperson of the board of directors

On 11 May 2018, the board of directors appointed Luigi Nalini as executive deputy chairperson of the company giving him the powers, to be exercised with single signature and that can be sub-delegated, to define, explore, assess and propose commercial strategic projects for the company and the group as well as responsibility

#### 4.4.4 Reporting to the board

The delegated bodies report on their activities at the first board meeting and, in particular, on any atypical, unusual or related party transactions and those of economic, financial or capital significance performed by the company and its subsidiaries.

In addition and pursuant to the by-laws, the directors promptly report to the board of directors at the board meeting or send a written report to the board of statutory

is a separate person to the chief executive officer, who has principal responsibility for the company's operations.

The allocation of powers to the chairperson is in line with the company's traditional structure for its management body and is balanced by the appointment of a lead *independent director* (Giovanni Costa since 25 January 2019) as required by article 2.C.4 of the Code of Conduct and article 3, Recommendation 13 of the Code of *Corporate Governance*.

for the new products and technologies sector. He was also given the same powers assigned to the chief executive officer Francesco Nalini to be exercised with single signature and that can be sub-delegated in the case of the chief executive officer's absence or impediment.

auditors at least once a quarter on the activities and transactions of economic, financial or capital significance performed by the company and its subsidiaries.

Specifically, they report on transactions in which they have a direct interest or an interest on behalf of third parties or transactions that are affected by the party that carries out management and coordination activities.

#### 4.5 Other executive directors

On 4 March 2021, the board of directors resolved to assign Carlotta Rossi Lucini the following operating powers to:

- define policies for the group's sustainability vision and strategy with the chief executive officer;
- design a sustainability governance system with the chief executive officer;
- establish the periodic improvement objectives with the chief executive officer and check regularly that they are met;
- support the integration of the sustainability activities into the business plan in accordance with the company's Code of Ethics and the Code of Corporate Governance together with the chief executive officer and the dedicated internal units (such as the ESG team and the legal and compliance office);
- identify tools and methods to measure the creation of value over the medium to long term once the sustainability plan has been implemented;
- periodically check the company's sustainability status;
- provide regular reports to the board of directors on sustainability issues;
- participate in the meetings of the control, risks and

sustainability committee, when invited to do so, to report on the progress of the activities underway and programmed, the sustainability risks and related organisational structure;

- participate in the meetings of the remuneration committee, when invited to do so, to define the ESG objectives in the remuneration policies;
- monitor compliance with the relevant regulations, changes in such regulations and national and international best practices;
- supervise the preparation of the sustainability report/non-financial statement;
- define and coordinate the stakeholder engagement policies and channels (including the company website) in terms of their sustainability in compliance with the defined strategy;
- manage the group's reputation as seen by the stakeholders in terms of its sustainability policies.

As a result, Carlotta Rossi Luciani's proxies assigned by the board of directors on 29 March 2018 and her position as Group Head of Lean Management were revoked.

#### 4.6 Independent directors

On 18 February 2021, the board of directors checked that the non-executive directors Cinzia Donalisio, Marina Manna and Giovanni Costa met the independence requirements of article 147-ter.4 of the Consolidated Finance Act (which refers to article 148.3 of the Consolidated Finance Act) and the independence requirements of article 3 of the Code of Conduct using the documents provided by each director.

On the same date, the board of statutory auditors checked that the assessment criteria and procedures applied by the board of directors to assess its members' independence had been applied correctly.

At the report date, the independent directors had met on 16 December 2020 to discuss the working of the board of directors and its committees, the powers assigned to the directors and the information provided by the executive directors to the independent directors.

The provisions contained in the Code of Corporate Governance, which Carel's board of directors resolved to adopt on 18 February 2021, will be applied from the first reporting period after 31 December 2020. The company will disclose this new initiative in its report on corporate governance and the ownership structure to be published in 2022.

#### 4.7 Lead independent director

In accordance with the recommendations included in Application Criteria 2.C.4 and 2.C.5 of the Code of Conduct, following Corrado Sciolla's resignation from the board of directors on 15 January 2019, the company's board of

directors co-opted Giovanni Costa in its meeting of 25 January 2019 in accordance with the ruling regulations and by-laws. He is now the company's *lead independent director*.

## 5. Processing of corporate information

### 5.1 Procedures for the management of inside information and the insider register

On 29 March 2018, the company's board of directors introduced a procedure for the management of inside information and the insider register of the people who have regular or infrequent access to inside information due to their professional or business activities or duties with effect from the date of presentation of its IPO to Borsa Italiana. The procedure regulates (i) the management and processing of inside information as defined in the procedure; (ii) the operating procedures to be complied with for the communication of such information inside or outside the company, and (iii) the operating procedures to be complied with to keep the register.

The procedure identifies, inter alia, (i) the parties required to comply therewith; (iii) the responsibilities and duties of the board of directors and other parties identified by the procedure; (iv) how to identify and manage inside information; (v) the process to

activate the procedure to delay the communication of inside information to the market and check that the conditions for delaying the communication continue to exist; and (iv) the methods for communicating the inside information to the market.

With respect to the insider register, the procedure establishes: (i) the identification of the parties that will keep the register; (ii) the criteria to identify the people to be included in the register (in the "infrequent section" or the "permanent section"); (iii) how the register will be kept; (iv) the content and notification of entries; and (v) updates to the register.

Reference should be made to the procedure available in the Corporate Governance/Procedures and Regulations section of the company's website [www.carel.com](http://www.carel.com).

### 5.2 Internal dealing procedure

On 29 March 2018, the company's board of directors adopted a procedure to manage the disclosure requirements for internal dealing as per article 19 of the MAR, article 114.7 of the CFA and article 152-quinquies and following articles of the Issuers' Regulation effective from the first day of the listing of its shares. The procedure defines (i) the rules to

comply with the company's disclosure obligations vis-à-vis Consob and the market on significant transactions involving financial instruments issued by the company or other related financial instruments, performed by the directors or statutory auditors of the company, including indirectly, or other senior managers with regular access

to inside information, “relevant shareholders” (as defined elsewhere) and persons closely linked to them; as well as (ii) the related limitations.

The internal dealing procedure regulates, inter alia, disclosure obligations with the market and limitations to transactions involving purchases, sales, subscriptions and exchanges performed by or on behalf of: (i) the company’s directors or statutory auditors; (ii) senior managers who, while they are not directors or statutory auditors, have regular access to inside information directly or indirectly about the company or have the power to take management decisions that would affect the company’s future development and outlook; (iii) any party that has an investment of at least 10% of the company’s share capital, calculated in accordance with article 118 of the Issuers’

Regulation, consisting of shares with voting rights or another party that controls the company; and (iv) persons closely linked to the above parties.

In accordance with the internal dealing procedure, the following are not communicated: (a) transactions of amounts that do not exceed €20,000 before year end; (b) transactions performed by the relevant party with persons closely linked to it; and (c) transactions performed by the company and its subsidiaries.

More information is available in the internal dealing procedure in the Corporate Governance/Procedures and Regulations section of the company’s website [www.carel.com](http://www.carel.com).

## 6. Board committees (article 123-bis.2.d) of the CFA)

On 29 March 2018, in order to ensure the effective performance of its duties in line with article 18 of the by-laws, the board of directors set up a control and risks committee, effective from the first day of the listing of the company’s shares, and defined its regulation. This committee was given the duties of the related party

transactions committee and the remuneration committee. On 28 February 2019, the board of directors also gave the control and risks committee responsibility for sustainability issues, renaming it the control, risks and sustainability committee.

## 7. Appointments committee

Given the structure and size of the company, its ownership structure, the list voting mechanism provided for in its by-laws, which ensures the transparent election and balanced composition of the board of directors, including with respect to a sufficient number of independent directors,

the board of directors has not deemed it necessary to set up an appointments committee (which it confirmed in its meeting of 7 March 2019). Its duties are carried out by the board of directors as set out in the Code of Conduct.

## 8 Remuneration committee

### 8.1 Composition and working of the remuneration committee

Except for that set out below, reference should be made to the relevant sections of the remuneration report published in accordance with article 123-ter of the CFA for information about this committee.

In accordance with Principle 6.P3 of the Code of Conduct, on 29 March 2018, the board of directors set up a remuneration committee, comprising three non-executive, independent directors, Cinzia Donalisio (chairperson), Corrado Sciolla and Marina Manna, effective from the first day of the listing of the company's shares. It also approved the committee's regulation. On the same date, the board of directors checked that all the committee members had experience and familiarity with financial or remuneration policies. Following Corrado Sciolla's resignation, Giovanni Costa, co-opted on 25 January 2019, is now a member of this committee.

The remuneration committee meets when called by its chairperson who coordinates the meetings. Minutes are duly drawn up.

During the year, the remuneration committee met nine times, with the participation of all the independent directors and the board of statutory auditors. The HR manager also attended all the meetings upon the

chairperson's invitation.

The average length of the committee meetings was one and a half hours.

The committee has scheduled at least eight meetings for 2021, of which two have already been held at the report date.

During the meetings, the content of the remuneration policy approved by the board of directors on 4 March 2021 was discussed in-depth. The remuneration committee also rolled out a procedure to assess and review the criteria for the executive directors' and key management personnel's fixed and variable remuneration and fees.

In accordance with the remuneration committee's regulation, directors do not attend committee meetings at which their fees are being discussed.

The provisions contained in the Code of Corporate Governance, which Carel's board of directors resolved to adopt on 18 February 2021, will be applied from the first reporting period after 31 December 2020. The company will disclose this new initiative in its report on corporate governance and the ownership structure to be published in 2022.

### 8.2 The remuneration committee's duties

The remuneration committee provides input, makes recommendations and performs supervisory activities to ensure that the group defines and applies remuneration policies designed to motivate and retain resources with the professional skills required to achieve the group's objectives and that also merge management's interests with those of the shareholders.

Specifically, the committee:

- carries out preliminary investigations to assist the board of directors in assessing and taking decisions about the remuneration policy for directors and key management personnel;
- provides the board of directors with non-binding opinions and proposals about how to calculate the remuneration packages for the chairperson of the board of directors, the executive deputy chairperson,

the chief executive officer and the executive director as well as the persons whose remuneration and incentives are decided by the board. It also advises on the performance objectives to which the variable part of their remuneration is pegged;

- regularly assesses, including with the assistance of the control and/or internal units, the adequacy, overall consistency and proper application of the remuneration policy for the directors, key management personnel and other persons whose remuneration and incentives are decided by the board, in accordance with the company's incentive plans (if it has any);
- monitors the application of the board of directors' decisions and checks, specifically, that the performance objectives are met; it provides the board of directors with general recommendations;
- prepares non-binding opinions and proposals about stock option plans, share-based plans or other share-

based incentive systems and recommends the goals to which these benefits should be pegged and the criteria to assess their achievement.

When carrying out its duties, the committee has access to information and the company units necessary to perform its duties as well as external experts, within the budget approved by the board of directors (€35,000 for 2020).

The provisions contained in the Code of Corporate Governance, which Carel's board of directors resolved to adopt on 18 February 2021, will be applied from the first reporting period after 31 December 2020. The company will disclose this new initiative in its report on corporate governance and the ownership structure to be published in 2022.

## 9. Directors' remuneration

Information about the directors' remuneration is available in the remuneration report, prepared in accordance with article 123-ter of the CFA and article 84-quater of the Issuers' Regulation, which can be found on the company's

website ([www.carel.com](http://www.carel.com)) or consulted using the other methods provided for by the ruling regulations.

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### 9.1 Term of office entitlement for directors in the case of their retirement, dismissal or termination of the relationship due to a takeover bid (article 123-bis.1.i) of the CFA)

At the report date, the company has not entered into agreements with its directors that provide for entitlement to be paid in the case of their retirement, dismissal/ revocation without just cause or termination of the relationship due to a takeover bid.

During 2020, none of the executive directors or the general manager left office.

More information is available in the remuneration report, prepared in accordance with article 123-ter of the CFA and article 84-quater of the Issuers' Regulation, which can be found on the company's website ([www.carel.com](http://www.carel.com)) or consulted using the other methods provided for by the ruling regulations.



## 10. Control, risks and sustainability committee

### 10.1 Composition and working of the control, risks and sustainability committee

In accordance with Principle 7.P.4 of the Code of Conduct, on 29 March 2018, the board of directors set up a control and risks committee, comprising three non-executive, independent directors, Marina Manna (chairperson), Corrado Sciolla and Cinzia Donalisio, effective from the first day of the listing of the company's shares. It also approved the committee's regulation.

On the same date, the board of directors checked that all the committee members had experience and familiarity with accounting, financial or risk management policies. Following Corrado Sciolla's resignation, Giovanni Costa, co-opted on 25 January 2019, is now a member of this committee (after the inclusion of sustainability duties among the committee's mission on 28 February 2019).

The committee supports the board of directors' assessments and decisions on the internal control and risk management system as well as the board's approval of the company's financial reports in accordance with article 7 of the Code of Conduct.

The control, risks and sustainability committee meets when called by its chairperson, Marina Manna, who

coordinates the meetings. Minutes are duly drawn up.

During the year, the committee met 11 times, with the participation of all the independent directors, the chief executive officer, the internal audit manager and the board of statutory auditors in its role as the internal audit committee in accordance with Legislative decree no. 39 of 27 January 2010.

Non-members were also invited to attend meetings by the chairperson depending on the matters on the agenda. The average length of the committee meetings was two hours.

The committee has scheduled nine meetings for 2021, of which three have already been held at the report date.

The provisions contained in the Code of Corporate Governance, which Carel's board of directors resolved to adopt on 18 February 2021, will be applied from the first reporting period after 31 December 2020. The company will disclose this new initiative in its report on corporate governance and the ownership structure to be published in 2022.

### 10.2 The control, risks and sustainability committee's duties

Specifically, the control, risks and sustainability committee's duties include:

- assessing, together with the manager in charge of financial reporting and after consulting the audit company and the board of statutory auditors, the correct application of the accounting policies and, in the case of groups, their suitability for the preparation of consolidated financial statements;
- preparing opinions on specific aspects to identify the company's main risks;
- reviewing the regularly-prepared reports on the internal control and risk management system and special reports prepared by the internal audit unit and other units with specific responsibilities for ensuring compliance with regulations;
- monitoring the independence, adequacy, efficiency and effectiveness of the internal audit unit and other units with specific responsibilities for ensuring compliance with regulations;
- asking the internal audit unit to perform checks of

specific operating areas and concurrently informing the chairperson of the board of statutory auditors;

- reporting to the board of directors on its activities at the board meetings held to approve the draft financial statements and the interim financial statements;
- assisting the board of directors in defining strategies, guidelines and the adequacy of the internal control and risk management system, based on the company's characteristics and risk profile, and its effectiveness by focusing on all the related and necessary activities so that the board of directors can prepare a correct and efficient risk governance policy;
- assisting the board of directors by providing supporting documentation, in assessing and taking decisions about risks arising from events or circumstances that the board of directors has become aware of.

In addition, pursuant to its regulation and article 7 of the Code of Conduct, the committee:

- assists the board of directors in approving, at least once a year, the action plans prepared by the internal audit unit and other units with specific responsibilities for ensuring compliance with regulations;
- assists the board of directors in preparing the report on corporate governance for the matters pertinent to it, such as, for example and not limited to, the main characteristics of the internal control and risk management system, the methods used to coordinate the various parties involved in the system and the committee's assessment of the system's overall adequacy;
- after consulting the board of statutory auditors, assists the board of directors in assessing the recommendations of the audit company in their management letter and any report on key audit matters identified during their audit work; and
- expresses its opinion to the board of directors on the appointment and removal of the internal audit manager and whether this manager's remuneration has been defined in line with the company policies.

When carrying out its duties, the committee has access to information and the company units necessary to perform its duties as well as external experts, within the budget approved by the board of directors (€35,000 for 2020).

In addition, the board of directors gave the control, risks and sustainability committee, comprising non-executive, independent directors, the duties of the related party transactions committee as well as the duties and responsibilities that, pursuant to the related party regulation, are attributed to committees whose members are all or mostly independent.

On 28 February 2019, the board of directors approved amendments to the committee's regulation with respect to the inclusion of sustainability duties and responsibilities.

To this end, the committee, *inter alia*:

- assists the board of directors by making proposals and offering recommendations with assessments and decisions related to sustainability issues;
- defines and provides the board of directors with guidelines about sustainability and monitors compliance with the relevant norms of behaviour adopted by the company and its subsidiaries;
- provides the board of directors with assessments and opinions on sustainability policies defined to ensure the creation of value over time for the shareholders and all the other stakeholders in the medium to long term in compliance with sustainable development principles;
- provides the board of directors with assessments and opinions on sustainability guidelines, objectives and related processes and the sustainability report provided to the board of directors once a year;
- assists the board of directors in assessing and approving the non-financial information as per Legislative decree no. 254/2016;
- assists the board of directors in ensuring that the company properly implements, understands and assesses the impact of sustainability regulations and legislation on its business, allocating specific duties and

functions to the competent internal units to ensure this.

The provisions contained in the Code of Corporate Governance, which Carel's board of directors resolved to adopt on 18 February 2021, will be applied from the first

reporting period after 31 December 2020. The company will disclose this new initiative in its report on corporate governance and the ownership structure to be published in 2022.

## 11. Internal control and risk management system

The company's internal control and risk management system is designed to contribute to the company's management in line with the objectives set by the board of directors through a process to identify, manage and monitor the key risks.

The system allows the identification, measurement, management and monitoring of the key risks and ensures the reliability, accuracy and timeliness of the financial reporting.

The system allows the mapping, monitoring and management of risks that could compromise the internal processes' adequacy in terms of their efficiency and effectiveness, the reliability of the information provided to the corporate bodies and the market, the protection of the company's assets and compliance with external regulations, the by-laws and internal procedures. Specifically, the latter are tied to the sector and market context as well as all the stakeholders' perception of the group's operations.

Carel's risk management procedures are based on the Italian and international best practices, such as, for example, the Code of Conduct for Listed Companies.

The following bodies monitor the internal control and risk management system, to the extent of their responsibilities:

- board of directors;
- control, risks and sustainability committee;

- remuneration committee;
- director in charge of the internal control and risk management system;
- board of statutory auditors;
- supervisory body;
- *internal audit* unit;
- manager in charge as per article 154-bis of the Consolidated Finance Act.

Responsibility for the introduction of an adequate internal control and risk management system lies with the board of directors. Assisted by the control, risks and sustainability committee, the board of directors carries out its duties as assigned by the Code of Conduct, including:

- a. the definition of guidelines for the internal control and risk management system so that the main risks to which the company and its subsidiaries are exposed (including risks that may become significant for sustainability purposes in the medium to long term) are correctly identified and properly measured, managed and monitored, also setting the degree of compatibility of these risks with the company's management in line with the strategies identified;
- b. the assessment, at least once a year and unless unforeseen events occur that would require exceptional analysis to check the effectiveness of the controls for specific situations, of the adequacy of the internal control and risk management system considering the company's characteristics and its risk profile and its effectiveness;

- c. the approval, at least once a year, of the audit plan prepared by the internal audit manager after consulting the board of statutory auditors and the director in charge of the internal control and risk management system;
- d. the description of the main characteristics of the internal control and risk management system in the report on corporate governance and how the various parties involved coordinate their work, with the inclusion of an opinion on the system's adequacy.

With respect to Application Criterion 7.C.1.a) of the Code

of Conduct, on 27 February 2020, the board of directors updated the guidelines for the internal control and risk management system, defined on 7 March 2019, and assessed its adequacy and effectiveness in accordance with Application Criterion 7.C.1.b).

The provisions contained in the Code of Corporate Governance, which Carel's board of directors resolved to adopt on 18 February 2021, will be applied from the first reporting period after 31 December 2020. The company will disclose this new initiative in its report on corporate governance and the ownership structure to be published in 2022.

### 11.1 Director in charge of the internal control and risk management system

On 29 March 2018, the board of directors appointed Francesco Nalini as the director in charge of the internal control and risk management system to reinforce the system and work with the control, risks and sustainability committee. He carries out the duties listed in Application Criterion 7.C.4 of the Code of Conduct. The company deems that the appointment of a chief executive officer, i.e., Francesco Nalini, to this position is in line with that required by the Code of Conduct, which emphasises the positive aspects of this decision, also based on the specific knowledge acquired by the appointee.

The director has ensured the identification of the main corporate risks (strategic, operational, financial and compliance), considering the company's activities and those of its subsidiaries, and periodically reports thereon to the board of directors. He has introduced a process to identify and formalise the guidelines defined by the board of directors, which has involved the design, drafting and management of the internal controls. He also monitors the system's overall

adequacy, effectiveness and efficiency on an ongoing basis. The director ensured that the system reflects the company's operating conditions and the legislative and regulatory framework.

The director in charge of the internal control and risk management system may ask the internal audit unit to carry out checks of specific operating areas and of compliance with internal rules and procedures. He reports thereon to the chairperson of the board of directors, the chairperson of the control, risks and sustainability committee and the chairperson of the board of statutory auditors. He also reported promptly to the control, risks and sustainability committee on the issues and critical matters that were identified during his activities or that he was informed of so that the committee could take the necessary actions.

The provisions contained in the Code of Corporate Governance, which Carel's board of directors resolved to adopt on 18 February 2021, will be applied from the first reporting period after 31 December 2020. The

company will disclose this new initiative in its report on corporate governance and the ownership structure

to be published in 2022.

## 11.2 Internal audit manager

On 5 March 2020 and again to strengthen the company's internal control and risk management system, in accordance with the instructions set out in the Code of Conduct (Application Criterion 7.C.1), the board of directors appointed Fabio Boeri, a company employee, as the internal audit manager as proposed by the director in charge of the internal control and risk management system, as proposed by the HR unit, approved by the control, risks and sustainability committee and after consulting the board of statutory auditors. He replaced Andrea Baggio who had been appointed on 18 June 2018. Fabio Boeri is a company employee but he is not in charge of any operating area and reports directly to the board as required by Application Criterion 7.C.5.b) of the Code of Conduct.

With the same resolution, the board of directors set the internal audit manager's remuneration, again as proposed by the director in charge of the internal control and risk management system, approved by the control, risks and sustainability committee and after consulting the board of statutory auditors. It gave the internal audit manager spending autonomy and sufficient resources to carry out their activities, although the manager has to respect the annual budget for the internal audit unit, unless this is amended and/or integrated should this be necessary.

On 28 September 2020, a junior internal auditor joined the internal audit unit.

In addition, on 16 December 2020, the board of directors approved the audit plan and the related investment plan prepared by the internal audit manager for 2021 after

consulting the control, risks and sustainability committee, the board of statutory auditors and the director in charge of the internal control and risk management system.

The audit plan covered the audit activities to assist the board of directors, to provide operating assistance to the supervisory body and to coordinate with the control, risks and sustainability committee and the board of statutory auditors.

The internal audit manager is assisted in the performance of the audit by external experts from an audit company with the appropriate professional, independence and organisational requirements.

Upon completion of the audit, the existing procedures are updated and fine-tuned to strengthen and improve the most significant aspects of the internal control system.

The *internal audit* manager:

- checks the functioning and suitability of the internal control and risk management system on an ongoing basis and in line with the company's specific requirements and compliance with international standards, using the audit plan approved by the board of directors based on a structured process of analyses and prioritisation of the main risks;
- had access to all the information necessary to carry out his duties during the year;
- prepared regular reports containing suitable details of his activities, the methods used to manage risks, compliance with the plans defined to contain the risks and an assessment of the suitability of the internal control and risk management system, which are sent to the chairpersons of the board of statutory auditors,

the control, risks and sustainability committee and the board of directors and the director in charge of the internal control and risk management system;

- prepared timely reports on particularly important events and sent them to the chairpersons of the board of statutory auditors, the control, risks and sustainability committee and the board of directors and the director in charge of the internal control and risk management system;
- checked the reliability of the information systems,

including the accounting systems, as part of the audit plan.

The provisions contained in the Code of Corporate Governance, which Carel's board of directors resolved to adopt on 18 February 2021, will be applied from the first reporting period after 31 December 2020. The company will disclose this new initiative in its report on corporate governance and the ownership structure to be published in 2022.

### 11.3 Organisational model as per Decree no. 231

The company adopted an organisational, management and control model pursuant to Legislative decree no. 231/01 (the "231 model") as resolved by the board of directors on 30 March 2017. This Legislative decree is the Italian reference framework for companies' administrative liability. The company also adopted a Code of Ethics that is designed to regulate the activities and conduct of all those parties that operate on behalf of the company and the group through norms of behaviour in line with the company's principles of correctness, loyalty and honesty.

Carel's 231 model has been prepared on the basis of an analysis of the areas at risk to crime. Specifically, it mapped the risks and assessed the various internal processes assisted by a leading consultancy company. Following this risk self-assessment, performed by interviewing the company's key management personnel about the risks to which the company is exposed, especially with respect to corruption, the company updated the model to reflect changes to the relevant regulations during 2018. Specifically, as resolved by the board of directors on 12 November 2018, the model: - was integrated with the regulations about the protection of whistleblowers in line with the provisions of Law no. 179/2017; - was amended to include (i) the crimes provided for by article 2622 of the Italian Civil Code ("*False corporate communications of listed companies*") and article 2638

of the Italian Civil Code ("*Hindering the work of public supervisory authorities*") and (ii) the reformation of private to private corruption as per article 2635 of the Italian Civil Code; and (iii) the instigation to private to private corruption as per article 2635-bis of the Italian Civil Code; - introduced the special sections on the crimes (and administrative offences) of the abuse of inside information and market manipulation by the CFA (market abuse) and the crimes of racism and xenophobia, the latter introduced in the list of predicate crimes of Legislative decree no. 231/2001 as per Law no. 167 of 20 November 2017.

Subsequently, the board of directors resolved on 18 February 2021 that the model was to be integrated both to take into account the organizational changes intervened and the provisions of Law no. 3/2019 (the "Spazzacorrotti Law"), which became effective on 31 January 2019 and set out measures to combat crimes against the public administration, the time barring of this crime and the transparency of political parties and movements. It amended article 322-bis of the Criminal Code and articles 2635 and 2635-bis of the Italian Civil Code which already covered the liability of bodies and included the crime of influence peddling (article 346-bis of the Criminal Code) in the list of predicate crimes again. It also increased the ban for crimes committed against the public administration provided for by article 25 of

Legislative decree no. 231/01. The model was integrated by Law no. 39/2019, which became effective on 17 May 2019, ratifying and transposing the European Council's convention on the manipulation of sports competitions. This law included article 25-quaterdecies in Legislative decree no. 231/01 on fraud in sports competitions, abusive gambling or betting and gambling using banned devices. It was also integrated by Law no. 43/2019, which became effective on 11 June 2019, amending article 416-ter of the Criminal Code on mafia clientelism, already included in article 24-ter of Legislative decree no. 231/01; Law no. 133/2019, which became applicable on 21 November 2019, converting Decree law no. 105 of 21 September 2019 with amendments on the set up of a national cyber security perimeter, introducing a new type of crime to be included in the list of predicate crimes of Legislative decree no. 231/01 to be punished with fines of up to 400 units and bans; Law no. 157/2019, which became applicable on 25 December 2019 and converted Decree law no. 124 of 26 October 2019 with amendments (the "Fiscal decree), introducing the new article 25-quinquiesdecies of Legislative decree no. 231/01 as required by Directive (EU) no. 2017/1371 (the PIF Directive). This included tax crimes in the list of predicate crimes covering the administrative liability of bodies. The model was also integrated by the crimes introduced by Legislative decree no. 75/2020 implementing Delegated law no. 117/2019 which, in turn, followed the PIF Directive and became effective on 30 July 2020, especially covering crimes against the public administration, the new tax crimes committed by fraudulent cross border systems and smuggling. Finally, the board of directors made the related changes to the general part, special part A - Crimes against the public administration and special part B - Corporate crimes, updating them to include the new crimes and the tax crimes (with the introduction of special part R on tax

crimes).

The company has general and specific controls and measures to mitigate the risk of unlawful behaviour.

The supervisory body, appointed by the company's board of directors on 30 March 2017, is responsible for implementing the model. It also monitors the model's effectiveness and efficiency and proposes updates or amendments to align it with changes in the company's structure or in legislation, including through periodic checks of the areas at risk. The supervisory body also ensures compliance with, and the correct functioning and application of the model and the Code of Ethics. It receives any requests for information or reports of violations of either the 231 model or the Code of Ethics.

At the report date, the supervisory body comprises Fabio Pinelli (external member, chairperson), Arianna Giglio (internal member) and Alessandro Grassetto (external member).

The general section of the 231 model and the Code of Ethics are published in the "Legal & Compliance" section of the company's website [www.carel.com](http://www.carel.com).

On 28 February 2019, the board of directors approved the group's anti-corruption procedure to combat unlawful practices and corruption in the public and private sector. The procedure is based on the principles and norms of behaviour set out in the company's Code of Ethics. Its aim is to achieve the objectives of preventing and combating corruption provided for in the 231 model. It describes the conduct policies and principles about anti-corruption, including in accordance with the requirements of Legislative decree no. 254/2016.

### 11.4 Audit company

The company engaged to perform the statutory auditor of the company's accounts is Deloitte & Touche S.p.A. ("Deloitte" or the "audit company"), registered and administrative office in Via Tortona 25, Milan, included in the register of statutory auditors as per article 6 and following articles of Legislative decree no. 39/2010 as amended by Legislative decree no. 135 of 17 July 2016.

On 13 April 2018, the company's shareholders engaged the audit company, with effect from the first day of the listing of the company's shares, to perform: (i) the statutory audit of the company's accounts (including checks of the regular keeping of the accounting records and the related checks of the facts included therein) pursuant to articles 13

and 17 of Legislative decree no. 39/2010 for the years from 2018 to 2026 in relation to the separate and consolidated financial statements and all additional related audit work; and (ii) the review of the condensed interim consolidated financial statements at 30 June of the years from 2019 to 2027.

Following the introduction of the obligation to prepare a non-financial statement by Legislative decree no. 254/2016, on 12 November 2018, the company's board of directors also engaged Deloitte & Touche S.p.A. to review this statement for 2018, 2019 and 2020, as required by the Legislative decree.

### 11.5 Manager in charge of financial reporting

On 4 May 2020, Nicola Biondo was appointed as the Carel Group's *chief financial officer*. On 8 May 2020, after obtaining the positive opinion of the board of statutory auditors and considering the professional and reputation requirements as per the regulations in force and the by-laws, the board of directors appointed him as the manager in charge of financial reporting taking over from the CEO, Francesco Nalini, who had taken on this position temporarily on 5 March 2020, replacing Giuseppe Viscovich.

The board of directors acknowledged Nicola Biondo's eligibility to hold this position, considering also the professional and reputation requirements as per article 25 of the by-laws, whereby the manager in charge of financial reporting shall have at least three years' experience in administration and control or management and consultancy with a listed company and/or group or a company or body of significant size and importance, including with respect to the preparation and checking of accounting and corporate documents.

In accordance with article 154-bis of the CFA, the manager in charge of financial reporting: (a) prepares written statements to accompany the company's communications to the market and for financial

reports (including interim ones); (b) performs adequate administrative and accounting procedures for the preparation of the annual financial statements (and the consolidated financial statements if these are prepared) and all other financial reports; and (c) confirms in a specific report on the annual financial statements, the condensed interim financial statements and, if prepared, the consolidated financial statements (i) the adequacy and effective application of the administrative and accounting procedures for the preparation of the financial statements; (ii) that the financial statements have been prepared in accordance with the applicable IFRS endorsed by the European Community in accordance with Regulation (EU) 1606/2002 of the European Parliament and of the Council of 19 July 2002; (iii) that the financial statements are consistent with the accounting ledgers and records; (iv) that the financial statements are suitable to give a true and fair view of the financial position, financial performance and cash flows of the issuer and the companies included in the consolidation scope; (v) that, with respect to the annual and consolidated financial statements, the directors' report contains a reliable analysis of the performance and results, the position of the issuer and the group



companies included in the consolidation scope and a description of the main risks and uncertainties to which they are exposed; and (vi) with respect to the condensed interim financial statements, that the directors' report includes a reliable analysis of the information as per article 154-ter.4 of the CFA.

On 27 February 2020, the board of directors checked that: (i) the manager in charge of financial reporting had suitable powers and means to carry out the duties assigned to him in accordance with article 154-bis of the CFA; and (ii) the administrative and accounting procedures were effectively respected.

### 11.6 Coordination between the parties involved in the internal control and risk management system

The parties involved in the internal control and risk management system carry out their duties in the manner envisaged by the company to maximise the system's efficiency and to avoid the duplication of procedures. It is normal practice that the board of statutory auditors, the director in charge of risk management and the internal audit manager attend meetings of the control, risks

and sustainability committee, as do the legal affairs & compliance officer and the manager in charge of financial reporting when matters of interest to them are discussed. The committee chairperson ensures that ongoing and comprehensive information about the committee's work is provided to the board of directors.

## 12. Directors' interests and related party transactions

In order to align the company's corporate governance system with the laws and regulations applicable to listed companies and given the guidelines set out in Consob communication no. DEM/10078683 of 24 September 2010, on 29 March 2018, the board of directors resolved to adopt the related party procedure effective from the stock market listing date. Pursuant to article 4 of the related party regulation, after obtaining the favourable opinion of the control, risks and sustainability committee, in its role as the related party transactions committee, the board of directors definitively approved the related party procedure on 18 June 2018.

The procedure regulates, inter alia, how to structure and approve more relevant related party transactions, using the criteria set out in the regulation, and less relevant related party transactions, which are those

that individually involve an amount of over €200,000 or €100,000, respectively, depending on whether the related party is a company or an individual.

As provided for by the related party regulation, the procedure establishes that more relevant related party transactions are those in which at least one of the relevance parameters in Annex 3 to the regulation is higher than 5%. In this case, the company's finance unit checks whether the procedure needs to be applied to the specific transaction, be it either a more or less relevant related party transaction.

The board of directors instructed the finance unit to identify and develop operating solutions for the timely identification of parties that classify as "related" and an efficient system to monitor transactions carried out with these parties.

The full version of the related party procedure is available in the Corporate Governance/Procedures and Regulations section of the company's website [www.carel.com](http://www.carel.com).

Consob approved amendments to the related party regulation with its resolution no. 21624 of 10 December 2020 in order to comply with the Shareholder Rights Directive 2 (Directive (EU) no. 2017/828, "SHRD 2"), which amended Directive 2007/36/EC as regards the encouragement of the long-term shareholder engagement. With respect to related party transactions, companies have a transitional period until 30 June 2021 to align their procedures with the new provisions and the enactment of the regulatory amendments (and the application of the amended procedures).

Unless provided for by the applicable instructions, the directors are not subject to specific obligations when they have interests in a certain transaction either directly or on behalf of third parties. Before the related resolution is passed, the board of directors asks its members whether they have an interest in the transaction to be resolved on either directly or on behalf of a third party.

The board of directors approved the 2019 MBO for the chief executive officer on 5 March 2020 after obtaining the position opinion of the control, risks and sustainability committee in its role as the related party transactions committee.

### 13. Appointment of statutory auditors

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The board of statutory auditors comprises 3 (three) standing statutory auditors and 2 (two) alternate statutory auditors.

The statutory auditors shall meet the reputation, professional and independence requirements and the limit to the number of positions they may hold established by the law and regulations in force from time to time. In accordance with article 1.2.b)/c) of the Ministry of Justice's decree no. 162 of 30 March 2000, subjects related to commercial law, company law, tax law, economics, finance and similar or identical subjects are those considered to be closely related to the company's activities as are the subjects and sectors related to the company's business sector.

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

third year of their office.

As provided for by article 23 of the by-laws, the statutory auditors are elected by the shareholders using lists presented by them.

Shareholders that, when the list is presented, either individually or jointly hold a number of shares equal to the percentage established by Consob pursuant to the applicable legislation and regulations for the presentation of lists of candidate directors may present lists of candidate statutory auditors. In accordance with the applicable legal, regulatory and by-laws provisions and Consob management decision no. 44 of 29 January 2021, the lists of candidates may be presented by shareholders that either individually or jointly hold a number of shares equal to at least 1% of the shares with voting rights in ordinary shareholders' meetings.

The lists are lodged at the company's registered office using the methods established by the ruling regulations at least 25 days before the meeting called to resolve on the appointment of directors. The company shall make the lists available to the public at least 21 days before the meeting date using the methods established by the ruling regulations.

If just one list has been lodged by the deadline for the presentation of the lists, additional lists may be presented up to the third day after the deadline by shareholders that, when the list is presented, either individually or jointly hold a number of shares equal to at least half the minimum number required by the above regulations.

Each list:

- shall set out the names of one or more candidates for the position of standing statutory auditor and one or more candidates for the position of alternate statutory auditor in the relevant section ("standing statutory auditors" section, "alternate statutory auditors" section) in consecutive numbered order for a number of candidates that do not exceed the number of positions to be held;
- shall indicate, if it includes a number of candidates equal to or more than three, a list of candidates in both sections sufficient to ensure that the composition of the board of statutory auditors, both for the standing and alternate statutory auditors, complies with the laws and regulations in force from time to time, about gender balance (should allocation of this requirement not give rise to a whole number, it shall be rounded as provided for by the laws and regulations applicable from time to time);
- shall have the documentation required by the by-laws and all other statements, information and/or documents required by law and the application regulations attached as an annex thereto.

Shareholders, including those belonging to the same group of companies or that have entered into a significant

shareholder agreement as per article 122 of the CFA, may not present or jointly present more than one list, nor may they vote for more than one list, including via trustees or nominees.

Each candidate may be presented in just one list in order to be eligible.

**A)** When two or more lists are presented, the candidates are voted for and the statutory auditors appointed using the following methods:

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

**B)** When just one list is presented, the shareholders vote for this list and, if it obtains a majority, three standing statutory auditors and two alternate statutory auditors indicated as such in that list are elected in line with

the laws and regulations in force from time to time, including with respect to gender balance, and the rounding upwards to a whole number if application of the gender balance criteria does not result in a whole number.

- C)** If no lists are presented, or it is not possible to elect the board of statutory auditors using the methods set out in article 23 of the by-laws for any reason whatsoever, the shareholders elect the three standing statutory auditors and the two alternate statutory auditors by ordinary majority vote as established by law, in accordance with the laws and regulations in force from time to time, including with respect to gender balance, and the rounding as provided for by the laws and regulations applicable from time to time if application of the gender balance criteria does not result in a whole number.

Should a standing statutory auditor leave office for any reason, without prejudice to the requirements about gender balance established by the laws and regulations in force from time to time, the following procedure is adopted: (i) should a standing statutory auditor elected from the majority list leave office, they are replaced by the alternate statutory auditor elected from the same majority list; (ii) should minority statutory auditor, who is also the chairperson, leave office, they are replaced by the minority alternate statutory auditor, who becomes the chairperson. If, for any reason, it is not possible to adopt this procedure, a shareholders' meeting is called so that the shareholders can elect a new statutory auditor using the ordinary majority vote system and without using the list voting mechanism, as long as the requirements about

gender balance established by the laws and regulations in force from time to time are met.

In accordance with Principle 8.P1 of the Code of Conduct, the statutory auditors are independent of the shareholders, including those that elected them.

On 1 January 2020, the measures of Law no. 160 of 27 December 2019 (the "2020 budget law") became applying, modifying article 147-ter.1-ter and article 148-1.bis of the CFA introduced by Law no. 120 of 12 July 2011 (the "Golfo-Mosca Law") about gender balance in the corporate bodies of listed companies. The 2020 budget law requires that the less represented gender on management and control bodies of listed companies be equal to "at least two fifths" of their members (rather than one third). It also established that this requirement is to be applied for "six consecutive mandates" instead of three. Therefore, when Carel's corporate bodies are next renewed (the board of directors will be re-appointed by the shareholders in their meeting of 20 April 2021), the lists should be formed and the election take place in accordance with the requirements of the 2020 budget law and Consob's regulations.

The provisions contained in the Code of Corporate Governance, which Carel's board of directors resolved to adopt on 18 February 2021, will be applied from the first reporting period after 31 December 2020. The company will disclose this new initiative in its report on corporate governance and the ownership structure to be published in 2022.

## 14. Composition and working of the board of statutory auditors (article 123-bis.2.d)/d-bis of the CFA)

The board of statutory auditors in office at 31 December 2020 was elected by the shareholders in their ordinary meeting of 29 March 2018 for a three-year term, i.e., until approval of the financial statements at 31 December 2020. It comprises Saverio Bozzolan, as chairperson, Paolo Ferrin and Claudia Civolani as standing statutory auditors and Giovanni Fonte and Fabio Gallio as the alternate statutory auditors.

As the board of statutory auditors in office at 31 December 2020 was appointed on 29 March 2018 and the by-laws became applicable on the stock market listing date of the Carel ordinary shares, the provisions about list voting included therein (which require that a standing statutory auditor, who shall also act as chairperson, and an alternate statutory auditor shall be elected from the list that received the second largest number of vote after the majority list and who is not linked in any way, including indirectly, to the shareholders that presented or voted for the majority list, will only become applicable when the board of statutory auditors is re-elected after the listing date of the Carel ordinary shares (23 May 2018).

The statutory auditors' professional profiles are summarised below.

**Saverio Bozzolan**, he obtained a degree in Statistics and Economics (business specialisation) from Padua University in 1991 and a PhD in Economics from the "Ca' Foscari" University of Venice. He is a full professor of Business Economics at the LUISS Guido Carli University of Rome and, before that, a full professor at Padua University. He mainly focuses on corporate governance, risk analysis and assessment, internal controls/company compliance and economic and financial reporting and has gained research experience (publishing books and articles in national and international journals) and professional experience in these areas. He holds positions as statutory auditor in listed and unlisted companies. At the report date, he is

chairperson of the company's board of statutory auditors.

**Paolo Ferrin**, he obtained a degree in Economics and Commerce from the "Ca' Foscari" University of Venice in 1981 and is included in the register of chartered accountants. Since 1983, he has held positions as statutory auditor or director in several industrial and commercial companies, mostly in north east Italy. He provides tax, corporate and financial consultancy services to industrial companies and was the chairperson of the company's board of statutory auditors in 2017. At the report date, he is a standing statutory auditor of the company.

**Claudia Civolani**, she obtained a degree in Economics and Commerce from the "Ca' Foscari" University of Venice in 1993 and is included in the register of chartered accountants. She is an associate of Studio Ferrin and provides tax, corporate and financial consultancy services. She acts as statutory auditor for several companies. At the report date, she is a standing statutory auditor of the company.

**Giovanni Fonte**, he obtained a degree in Economics and Commerce from Verona University in 1999 and is included in the register of chartered accountants. He worked as an auditor with PWC and subsequently with Studio Pirola Pennuto Zei & Associati and with Studio Legale NCTM (for 11 years). He was partner of Roedl & Partner Italy. He holds several positions as statutory auditor for companies in the industrial sector and was a standing statutory auditor of the company in 2017. At the report date, he is an alternate statutory auditor of the company.

**Fabio Gallio**, he obtained a degree in Economics from the "Ca' Foscari" University of Venice in 1995 and in Law from Parma University in 1997. He worked with the legal companies of the Ernst & Young and Deloitte & Touche networks in the period from 1998 to 2004. Since 2005, he has been an associate of Studio Terrin, based in Padua

and Milan. He was a standing statutory auditor for the company for the 2014-2016 three-year period. In 2017, he became an alternate statutory auditor for the company, as he still is at the date of this report.

The board of statutory auditors was elected without using the list voting mechanism described above, which

will be applied when the board is re-elected during the shareholders' meeting called for 20 April 2021.

During the year, the board of statutory auditors met 20 times, with the following attendance percentage of each standing statutory auditor. The average length of the meetings was three hours.

<b>Saverio Bozzolan</b>	20/20	100%
<b>Paolo Ferrin</b>	20/20	100%
<b>Claudia Civolani</b>	19/20	95%

Fifteen meetings have been scheduled for 2021, of which four have already been held at the report date.

A board of statutory auditors' meeting can be called by any of the statutory auditors. It is deemed to be validly constituted when the majority of its members are present and it passes resolutions by absolute majority vote.

During the year, none of the statutory auditors left office nor were changes made to the board of statutory auditors either at 31 December 2019 or the report date.

More information about the company's board of statutory auditors is provided in Table 3 (attached).

In order to carry out their duties, the statutory auditors may, also individually, ask the directors for updates and clarifications about the information sent to them and, more generally, about the company's operations or specific transactions. They may perform inspections or checks of such information at any time. The board of statutory auditors, the audit company and the control, risks and sustainability committee exchange information and data useful for carrying out their respective duties.

### Diversity criteria and policies

Given the company's structure and size, as well as its ownership structure and list voting mechanism provided for by the by-laws, which guarantees transparent elections and a balanced composition of the management body, the board of directors did not deem it necessary to adopt specific diversity policies and/or practices with respect to the composition of the board of statutory auditors and the age, gender and educational and professional background of the various members.

At least one third of the standing statutory auditors is made up of the less represented gender.

On 1 January 2020, the measures of Law no. 160 of 27 December 2019 (the "2020 budget law") became applying, modifying article 147-ter.1-ter and article 148-1.bis of the CFA introduced by Law no. 120 of 12 July 2011 (the "Golfo-Mosca Law") about gender balance in corporate bodies of listed companies. The 2020 budget law requires that the less represented gender on management and

control bodies of listed companies be equal to “at least two fifths” of their members (rather than one third). It also established that this requirement is to be applied for “six consecutive mandates” instead of three. Therefore, when Carel’s corporate bodies are next renewed (the board of statutory auditors will be re-appointed by the shareholders in their meeting of 20 April 2021), the lists should be formed and the election take place in accordance with the requirements of the 2020 budget law and Consob’s regulations.

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On 3 April 2018, the board of statutory auditors found that its elected members met the independence requirement. On 1 March 2019, 26 February 2020 and 11 February 2021, it carried out its annual check that they continued to do so and found that, in accordance with Application Criterion 8.C.1 of the Code of Conduct, based on the information provided by its members and that available to the company, there were no situations that would compromise the independence or independent judgement of the board members. It applied all the criteria set out in the Code of Conduct applicable to the independence of directors in carrying out this check. The board of statutory auditors informed the board of directors of the results of the check.

The statutory auditors are not subject to specific obligations when they have interests in a certain transaction either directly or on behalf of third parties. Before the related resolution is passed, the board of directors asks the members of the board of statutory auditors whether they have an interest in the transaction to be resolved on.

The board of statutory auditors has also checked the independence of the audit company in accordance with the relevant legislation and regulations. It also checked the nature and scope of the services provided other than the statutory audit by the audit company and its network companies to the company and its subsidiaries. It informed the board of directors of its findings.

In the period from 31 December 2019 to the report date, the board of statutory auditors performed its self-assessment as required by the code of conduct for boards of statutory auditors of listed companies (Rule Q.1.1) and informed the board of directors of its findings. On 11 February 2021, the board of statutory auditors sent the board of directors its self-assessment report, which acknowledged it on 18 February 2021, in accordance with Rule Q.1.1 of the code of conduct for boards of statutory auditors of listed companies issued by the Italian Accounting Profession. It assessed:

- its professionalism, expertise and experience in accordance with the regulations and by-laws;
- the availability given by its members to carry out their duties as planned;
- the number of positions held in line with the regulations and by-laws;
- the correct composition of the board in terms of gender and age;
- the proper composition of the board considering its planned supervisory activities and methods applied to perform them;
- its action plan’s compliance with the company’s requirements;
- the adequacy and timeliness of the information provided.

The provisions contained in the Code of *Corporate Governance*, which Carel’s board of directors resolved to adopt on 18 February 2021, will be applied from the first reporting period after 31 December 2020. The company will disclose this new initiative in its report on corporate governance and the ownership structure to be published in 2022.

With respect to the projects designed to provide the statutory auditors with a suitable understanding of the business sectors in which Carel operates, the chairperson of the board of directors habitually organises board induction sessions to provide the statutory auditors with a suitable understanding of the business sectors, also in

the light of the company's performance and changes in its ownership structure.

These sessions provided an overview and in-depth look at the company's various business segments through reports and presentations prepared by senior management in the areas of R&D, marketing and sales, HR and organisation, operations and administration and finance and control. Thanks to these meetings, the statutory auditors obtained an understanding of the group's business model and products/markets, its competitive leverage, its typical activities and R&D, HRM strategies and the working of the administration, finance and control unit, especially as regards critical issues and risks.

The statutory auditors' remuneration reflects their commitment and roles as well as the company's size and *business*.

The board of statutory auditors liaises regularly with the internal audit unit and the control, risks and sustainability committee. They share their action plans and, when possible, coordinate their activities. Accordingly, and in line with the priorities of each corporate body, the board of statutory auditors availed of the assistance of the *internal audit* unit to carry out some procedures and vice versa. Coordination with the control, risks and sustainability committee and the exchange of information consisted of the statutory auditors' attendance at committee meetings and the discussion of some matters on the agenda of common interest.

## 15. Engagement with shareholders

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In accordance with the recommendations set out in Application Criterion 9.C.1 of the Code of Conduct, on 29 March 2018, the board of directors set up an investor relations unit and appointed Francesco Nalini as the investor relations manager, effective from the stock market listing date, to manage relations with the shareholders. He was replaced by Giampiero Grosso on 27 August 2018. More information about the unit is available in the Investor Relations/Corporate Governance section of the company's website [www.carel.com](http://www.carel.com).

On 4 March 2021, in accordance with article 1, recommendation 3 of the Code of Corporate Governance, the board of directors adopted a shareholder engagement policy as proposed by the chairperson and agreed with the chief executive officer. This policy is available on the company's website [www.carel.com](http://www.carel.com) in the Corporate Governance/Procedures and Regulations section, to which reference should be made for more information.



## 16. Shareholders' meetings (article 123-bis.2.c) of the CFA)

Ordinary and extraordinary meetings of the shareholders are held on single call in accordance with article 2369.1 of the Italian Civil Code. However, the board of directors may provide that a meeting (either ordinary or extraordinary) can be held on more than one call if this is necessary and specifically stated in the notice of the meeting. In this case, the majority votes established by law for meetings that take place on more than one call for listed companies are applied.

The board of directors has the authority to call meetings of the shareholders, while the board of statutory auditors or at least two of its members may also call a meeting as provided for by article 151 of the CFA and other applicable laws and regulations.

In accordance with article 10 of the by-laws, the legitimate participation in a meeting is confirmed by a communication sent to the company by the broker authorised to do so by law, based on the information in its accounts at the end of the accounting day of the seventh open market day before that set for the meeting on single call, as legally provided for.

Shareholders that may legitimately participate in a meeting may be represented by proxy as provided for by law. Electronic notification of the proxy may be made using the methods specified in the notice calling the meeting either by email to the company's certified email address specified in the notice or using the specific section on the company's website.

For each meeting and as specified in the notice calling the meeting, the company may designate a party to which the shareholders can give their proxy with voting instructions on all or some of the matters on the agenda using the methods and timeframe established by law.

Shareholders' meetings can take place in more than one location, near or far apart, by audio or video conference, as long as the collegial method and principles of good faith and equal treatment of the shareholders are respected as well as any other conditions established by the by-laws. The shareholders pass resolutions on matters reserved to them by law or the by-laws in ordinary and extraordinary meetings using the majority votes established by law. Each share has one voting right to be exercised at meetings, unless provided for otherwise by article 13 of the by-laws about the loyalty shares.

Meetings are chaired by the chairperson of the board of directors. Should they be absent or unable to attend, the meeting is chaired by the deputy chairperson, if appointed, or if they are absent or unable to attend, by the person designated by the shareholders. The meeting chair's duties, powers and functions are regulated by law.

As provided for by article 16 of the by-laws, the chair is assisted by a secretary appointed by the shareholders and proposed by the chair. The secretary takes minutes. In the case of extraordinary meetings or when deemed opportune by the chair, a notary public is elected secretary, upon the chair's recommendation and in accordance with the law.

Meeting minutes are written up as per article 2375 of the Italian Civil Code and other ruling laws and regulations. In addition to the law and the by-laws, the meeting proceedings are regulated by the meeting regulation approved by the shareholders on 29 March 2018, effective from the stock market listing date. This regulation can be consulted on the company's website [www.carel.com](http://www.carel.com) in the *Corporate Governance/Procedures and Regulations* section.

In accordance with the meeting resolution, parties that intend to speak at meetings must request the permission of the meeting chair or the secretary, specifying the matter on the agenda they wish to speak on. Requests may be made until the meeting chair states that the discussions on the relevant matter have ended.

Participants may request to speak for a second time during the same discussion for not more than five minutes solely to respond to another party or to communicate how they intend to vote.

The shareholders met once during the year.

All the directors were present at this meeting.

During the year, no changes took place in the market capitalisation of the issuer's shares or in its ownership structure that would have led the board of directors to propose to the shareholders amendments to the by-laws about the percentages necessary to exercise voting rights and the measures in place to protect non-controlling interests.

Like for the shareholders' meeting held on 20 April 2020, the company has communicated that, for the meeting

called for 20 April 2021, it intends to avail of the possibility allowed by Decree law no. 18 of 17 March 2020 extended again with Decree law no. 183 of 31 December 2020 (the "Milleproroghe decree") converted with amendments by Law no. 21 of 26 February 2021 (the "Cura Italia decree"). Decree law no. 18 sets out measures to strengthen the National Health Service and provide financial support to households, workers and companies during the Covid-19 epidemiological emergency to limit the risks arising from this ongoing public health emergency and travel and gatherings as much as possible. Accordingly, the shareholders may intervene at the meeting solely through the aegis of the designated proxy as per article 135.undecies of the CFA, as access to the room housing the meeting is forbidden to the shareholders and their delegates other than the designated proxy. The directors, statutory auditors, representatives of the audit company, the notary public, the designated proxy and other parties allowed to attend the shareholders' meeting by law and the by-laws, other than those with voting rights, may participate using remote connection systems that guarantee their identification and participation in accordance with the regulations applicable from time to time.

## 17. Additional corporate governance practices (article 123-bis.2.a) of the CFA)

At the report date, the company has not adopted any additional corporate governance practices to those indicated herein.

## 18. Changes since 31 december 2020

Except for that set out herein, no changes in the company's *corporate governance* structure have taken place in the period from 31 December 2020 to the report date.

## 19. Considerations on the letter of 22 december 2020 of the corporate governance committee chairperson

The content of the letter of 22 December 2020 written by the chairperson of Borsa Italiana's Corporate Governance Committee was brought to the attention of the board of directors and its committees on 18 February 2021.

As 2021 will be the first year of application of the new Code of Corporate Governance, the *Corporate Governance* Committee has deemed it appropriate to revisit the recommendations made in the last four years and provide certain specific guidelines for areas characterised by ongoing significant weaknesses as their resolution is essential for a better application of the more innovative aspects of the new Code.

The board of directors made the following considerations:

- with respect to the integration to the sustainability of the company's activities and definition of the strategies, internal control and risk management system and the remuneration policy, including on the basis of an analysis of the relevance of factors that may impact the generation of long-term value, as set out in paragraph 6 of this report, on 28 February 2019, the control and risks committee was assigned the duties and responsibilities for sustainability, renaming the committee the control, risks and sustainability committee. Specifically, the committee carried out the duties described in paragraph 10.2 of this report about sustainability;
- with respect to the adequate management of information provided to the board of directors, as set out in paragraph 4.3 of this report, the chairperson of the board of directors ensures that all the information and documents necessary to allow the directors take decisions are made available to them in due time and using the appropriate methods. During the year, documentation about the meeting agendas was sent to the directors and statutory auditors roughly three to four days before the meeting date. On 18 February 2021, in accordance with article 3, recommendation 11 of the Code of Corporate Governance, the board of directors adopted a regulation defining the rules for its working, including the minutes taking method and the procedures to manage information to be provided to the directors. These procedures specify the timeline for the timely transmission of information and the methods to protect data and information provided so as not to jeopardise the timeliness and completeness of information streams. The regulation is available on the company's website [www.carel.com](http://www.carel.com) in the Corporate Governance/Procedures and Regulations sector, to which reference should be made for more information;
- with respect to the application of the independence criteria, the board of directors checked that the non-executive directors met the independence requirements using the documents provided by each director upon their appointment on 29 March 2018 and subsequently on 28 February 2019, 27 February 2020 and 18 February 2021 in line with the Code of Conduct recommendations. Specifically, none of the independent directors were found to fall into the cases provided for by Application Criterion 3.C.1 of the Code of Conduct. In accordance with the recommendations, the board of statutory auditors checked the correct application of the criteria and procedures applied by the board of directors to check its members' independence on 3 April 2018, 25 January 2019 (solely for the director co-opted on that date), 1 March 2019, 26 February 2020 and 11 February 2021. The provisions contained in article 2 of the Code of Corporate Governance, which Carel's board of directors resolved to adopt on 18 February 2021, will be applied from the first reporting period after 31 December 2020. The company will disclose this new initiative in its report on corporate governance and the ownership structure to be published in 2022;

- with respect to the board of directors' self-assessment, as set out in paragraph 4.3 of this report, during 2021, the board of directors assessed itself and its committees, the working, size and composition of the board and the committees using the questionnaires completed by the directors which included (i) assessments on the compliance of the company's corporate governance system with the recommendations of the Code of Conduct; and (ii) recommendations for their better application. The directors sent the questionnaires anonymously through the company secretary to the lead independent director and the board reviewed them on 18 February 2021. The board of statutory auditors also performed a self-assessment exercise as per the code of conduct of statutory auditors of listed companies (Rule Q.1.1.) and informed the board of directors of its findings;
- with respect to the appointment and succession of the directors as part of the renewal of the board of directors to be discussed during the shareholders' meeting called for 20 April 2021, the shareholders will acknowledge the work performed by the board of directors in this area and will consider the recommendation to ensure the completeness and timeliness of proposals for resolutions about the appointment of company bodies;
- with respect to the remuneration policy, the Corporate Governance Committee's recommendations were considered for the preparation of the remuneration report, along with the new regulations introduced by Consob on remuneration transparency to align the secondary regulations with the Shareholder Rights Directive 2 and revisit the disclosure tables to comply with changes in market practices. More information is available in the remuneration report, prepared in accordance with article 123-ter of the CFA and article 84-quater of the Issuers' Regulation, which can be found on the company's website ([www.carel.com](http://www.carel.com)) or consulted using the other methods provided for by the ruling regulations.

\* \* \*

Brugine, 4 March 2021

CAREL INDUSTRIES S.p.A.  
Chairperson of the Board of directors  
**Luigi Rossi Luciani**

Table 1: ownership structure

Share capital				
	No. of shares	% of share capital	Listed (indicate market) / unlisted	Rights and obligations
Ordinary shares (of which loyalty shares)	100,000,000	100% (60.57%)	Listed (STAR segment of the Italian stock market organised by Borsa Italiana)	Dematerialised shares in accordance with article 83-bis and following articles of the CFA. They can be transferred and have the same dividend and voting rights established by the law and the by-laws, except for that provided for by article 13 of the by-laws.
Shares with multiple voting rights	-	-	-	-
Shares with limited voting rights	-	-	-	-
Shares without voting rights	-	-	-	-
Other	-	-	-	-

Other financial instruments (giving the right to subscribe new shares)				
	Listed (indicate market) / unlisted	No. of instruments outstanding	Category of shares to serve conversion/exercise	No. of shares to serve conversion/exercise
Convertible bonds	-	-	-	-
Warrants	-	-	-	-

Significant investments			
Declarant	Direct shareholder	% of ordinary shares	% of shares with voting rights
Carlotta Rossi Luciani (as joint representative of the undivided co-ownership of shares with Cecilia and Vittorio Rossi Luciani)	Luigi Rossi Luciani S.A.P.A	36.17%	45.05
Valerio Nalini (as joint representative of the undivided co-ownership of shares with Francesco and Chiara Nalini)	Luigi Nalini S.A.P.A.	20.00	24.91
Capital Research and Management Company	Capital Research and Management Company	7.53	4,69
Ruth Wertheimer	7 Industries B.V.	4.93	5.81

Table 2: board of directors and board committees

Board of directors							
Position	Members	Year of birth	Date of first appointment*	In office since	In office until	List **	Executive
<b>Chairperson</b>	<b>Luigi Rossi Luciani</b>	1945	23/01/2009	29/03/2018	Approval of financial statements at 31/12/2020	n.a.	YES
<b>Deputy chairperson</b>	<b>Luigi Nalini</b>	1942	23/01/2009	29/03/2018	Approval of financial statements at 31/12/2020	n.a.	YES
<b>CEO</b> ●◆○	<b>Francesco Nalini</b>	1973	23/01/2009	29/03/2018	Approval of financial statements at 31/12/2020	n.a.	YES
<b>Director</b>	<b>Carlotta Rossi Luciani</b>	1982	29/03/2018	29/03/2018	Approval of financial statements at 31/12/2020	n.a.	YES
<b>Director</b>	<b>Cinzia Donalisio</b>	1960	29/03/2018	29/03/2018	Approval of financial statements at 31/12/2020	n.a.	NO
<b>Director</b>	<b>Marina Manna</b>	1960	29/03/2018	29/03/2018	Approval of financial statements at 31/12/2020	n.a.	NO
<b>Director</b> ○	<b>Giovanni Costa</b>	1942	25/01/2019	15/04/2019	Approval of financial statements at 31/12/2020	n.a.	NO

**Number of meetings held in 2020:**

- Board of directors: 13
- Control and risks committee: 11
- Remuneration committee: 9

Non-exec.	Indep. as per Code	Indep. as per CFA	No. of other positions ***	(*)	Control, risks and sustainability committee			Remuneration committee	
					(*)	(**)	(*)	(**)	
NO	NO	NO	13	13/13	-	-	-	-	
NO	NO	NO	4	13/13	-	-	-	-	
NO	NO	NO	5	13/13	-	-	-	-	
NO	NO	NO	0	13/13	-	-	-	-	
YES	YES	YES	0	13/13	11/11	M	9/9	P	
YES	YES	YES	15	13/13	11/11	P	9/9	M	
YES	YES	YES	3	13/13	11/11	M	9/9	M	

NOTE

The following symbols shall be included in the "Position" column:

● Indicates the director in charge of the internal control and risk management system.

◆ Indicates the CEO.

○ Indicates the lead independent director (LID).

\* The date of first appointment of each director is the date on which they were elected for the first time as a member of the company's board of directors.

\*\* The board of directors in office was elected without using the list voting mechanism.

\*\*\* This column shows the number of positions as director or statutory auditor held by the person in other listed companies (including abroad), financial companies, banks, insurance companies or large companies. These positions are detailed in the report on corporate governance.

(\*). This column shows the directors' attendance at board and committee meetings (indicate the number of meetings attended compared to the total number, e.g., 6/8, 8/8, etc.).

(\*\*). This column shows the position of the director in the committee: "C": chairperson; "M": member.

Table 3: board of statutory auditors

Board of statutory auditors									
Position	Members	Year of birth	Date of first appointment *	In office since	In office until	List **	Indep. as per Code	Participation at meetings ***	No. of other positions ****
<b>Chairperson</b>	<b>Saverio Bozzolan</b>	1967	29/03/2018	29/03/2018	Approval of financial statements at 31/12/2020	n.a.	YES	20/20	7
<b>Standing statutory auditor</b>	<b>Claudia Civolani</b>	1966	29/03/2018	29/03/2018	Approval of financial statements at 31/12/2020	n.a.	YES	19/20	8
<b>Standing statutory auditor</b>	<b>Paolo Ferrin</b>	1955	08/05/2017	29/03/2018	Approval of financial statements at 31/12/2020	n.a.	YES	20/20	17
<b>Alternate statutory auditor</b>	<b>Fabio Gallio</b>	1970	16/05/2011	29/03/2018	Approval of financial statements at 31/12/2020	n.a.	YES	-	50
<b>Alternate statutory auditor</b>	<b>Giovanni Fonte</b>	1973	16/05/2011	29/03/2018	Approvazione bilancio chiuso al 31/12/2020	n.a.	YES	-	0
Statutory auditors who left office during the year									
<b>n.a.</b>	<b>n.a.</b>	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Indicate *quorum* necessary to present lists by non-controlling interests to elect one or more members (article 147-ter of the CFA): 2.5%

## NOTE

\* The date of first appointment of each statutory auditor is the date on which they were elected for the first time as a member of the company's board of statutory auditors.

\*\* This column indicates the list from which the statutory auditor was taken ("M": majority list; "m": minority list).

\*\*\* This column shows the statutory auditors' attendance at board meetings (indicate the number of meetings attended compared to the total number, e.g., 6/8, 8/8, etc.).

\*\*\*\* This column shows the number of positions as director or statutory auditor held by the statutory auditors as per article 148-bis of the CFA and related implementation guidelines set out in the Issuers' Regulation. A complete list of the positions is published by Consob on its website in accordance with article 144-quinquiesdecies of the Issuers' Regulation.



**List of positions held by the directors in office at the report date**List of positions held by **Luigi Rossi Luciani**

Company	Position
Carel Industries Spa	Chairperson of the board of directors
Luigi Rossi Luciani Sapa *	Chairperson of the board of directors and general partner
Nastrificio Victor Spa *	Chairperson of the board of directors
Eurotest Laboratori Srl *	Chairperson of the board of directors
Panther Srl *	Chairperson of the board of directors
Ots srl *	Chairperson of the board of directors
Rn Real Estate srl *	Chairperson of the board of directors
New Frontier srl *	Director
Its Meccatronico di Vicenza *	Chairperson
Soc. Agricola Monte Fasolo srl *	Chairperson of the board of directors
Carel Acr Systems India Pvt Ltd.	Chairperson of the board of directors
Carel Middle East dwc	Director
Garmont International srl *	Director
Femogas S.p.A. *	Chairperson of the board of directors

\* The company is not part of the group headed by the issuer.

List of positions held by **Luigi Nalini**

Company	Position
CAREL Industries SpA	Deputy chairperson of the board of directors
Luigi Nalini sapa *	Chairperson of the board of directors - general partner
Crc srl	Director
Eurotest Laboratori srl *	Chief Executive Officer
Rn Real Estate srl *	Chief Executive Officer

\* The company is not part of the group headed by the issuer.

List of positions held by **Francesco Nalini**

Company	Position
Carel Industries S.p.A.	Chief Executive Officer
Università degli Studi di Padova *	Director
Assindustria Venetocentro	Director
RN Real Estate Srl *	Director
RN Real Estate Adriatic doo *	Director
Associazione Amici Università di Padova *	Member of the management board

\* The company is not part of the group headed by the issuer.

List of positions held by **Carlotta Rossi Luciani**

Company	Position
CAREL INDUSTRIES S.p.A.	Director

List of positions held by **Marina Manna**

Company	Position
BLM S.p.A. *	Chairperson of the board of statutory auditors
Celenit S.p.A. *	Standing statutory auditor
Superauto S.p.A. *	Standing statutory auditor
Clodia – Soc. Imm. S.p.A. *	Standing statutory auditor
Pagnan Finanziaria S.p.A. *	Standing statutory auditor
FPT Industrie S.p.A. *	Standing statutory auditor
Nice Group S.p.A. *	Standing statutory auditor
Fonderie Pandolfo S.p.A. *	Standing statutory auditor
Tiche S.p.A. *	Alternate statutory auditor
Busitalia Veneto S.p.A.	Member of the board of directors being formalised
Laboratorio Morseletto S.r.L. *	Sole statutory auditor
Veneto Logistica S.r.l. *	Sole statutory auditor
Fond. Ist. Ricerca Pediatrica Città della Speranza *	Chairperson of the audit body
Carraro S.p.A. *	Director
Carel Industries S.p.A.	Director
Cavour srl *	Sole director

\* The company is not part of the group headed by the issuer.

List of positions held by **Cinzia Donaliso**

Company	Position
CAREL INDUSTRIES S.p.A.	Director

List of positions held by **Giovanni Costa** (in carica da 25 gennaio 2019)

Company	Position
Carel Industries S.p.A.	Director
Gibus S.p.A. *	Director
Edizione srl - holding di partecipazione di rilevanti dimensioni *	Director (left office in July 2020)

\* The company is not part of the group headed by the issuer.





## Headquarters ITALY

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