

CAREL

Organisational, Management, and Control Model

Pursuant to Legislative Decree no. 231 of 8 June 2001,

Approved by the CAREL Industries S.p.A. Board of Directors on 30 March 2017, and most recently updated pursuant to Board of Directors Resolution of 12 November 2018

Contents

1. Description of the Regulatory Framework	8
1.1 Introduction	8
1.2 Nature of the Liability	9
1.3 Criteria for imputing liability	10
1.4 The Organisational, Management, and Control Model's value as a liability shield	11
1.5 Criminal fact patterns	12
1.6 Sanction Mechanism	16
1.7 Events which Modify the Entity	19
1.8 Crimes committed overseas	21
1.9 Proceeding to adjudicate the offence	22
1.10 Code of conduct (Guidelines)	23
2. The CAREL Industries S.p.A. Governance Model and Corporate Ownership	24
2.1 CAREL Industries S.p.A.	24
2.2 Institutional Framework: corporate bodies and entities	25
2.3 CAREL's <i>governance</i> tools	27
2.4 Internal-control system	28
2.5 Company Structure	28
3. The CAREL Industries S.p.A. Organisational, Management, and Control Model	29
3.1 Foreword	29
3.2 Model Function	29
3.3 The CAREL Industries S.p.A. project to generate its Model	30
3.4 Model Structure	34
3.5 Relationship between the Model and the Code of Ethics	34
3.6 Offences germane to Company operations	35
3.7 Implementing, updating, and adjusting the Model	35
4. Supervisory Board	37
4.1 Supervisory Board Function	37
4.2 Requirements	37
4.3 Composition, appointment, and term	39
4.4 Removal	40
4.5 Reasons for suspension	40
4.6 Temporary Restriction	41
4.7 Functions and powers	42
4.8 Information flows to and from the Supervisory Board	44
5. The penalty system	48
5.1 General principles	48
5.2 Action taken as against employees	48
5.3 Action as against directors	52
5.4 Actions as against statutory auditors	53
5.5 Actions against the Supervisory Board	53
5.6 Actions as against trade <i>partners</i> , consultants, or other parties in contractual relationships with the Company	53
6. The training and communication plan	54
6.1 Foreword	54
6.2 Employees	55
6.3 Members of the corporate bodies, and persons who represent the Company	56
6.4 Other recipients	56

Definitions

“Agent”

- Those persons, whether natural or legal, to whom CAREL Industries S.p.A. has contracted the selling of its products;

“At-Risk Activities”

- CAREL Industries S.p.A. activities wherein the risk for Crimes to be committed lies;

“CCNL”

- National Collective Bargaining Agreements executed with those labour unions deemed most representative for non-executive personnel within Carel Industries S.p.A., and for the executives of the same;

“Code of Ethics”

- The code of conduct implemented by CAREL Industries S.p.A., and posted to the Company website, which sets forth the minimum standards to which all Recipients of the instant Model must comply, as well as the Executives and the members of the corporate bodies of all Group subsidiaries, in order to prevent situations which might undermine the integrity of Company and Group;

“Consultant”

- Parties acting in the name of and/or on behalf of CAREL Industries S.p.A., pursuant to an agency or other contractual arrangement, such as financial or legal advisers;

“Legislative Decree no. 231/2001” or the “Decree”

- Legislative Decree no. 231 (8 June 2001, as subsequently amended);

“Employer”

- The person granting employ to another, or in any case the party who, depending on the business type and structure, is liable for the company itself in that the party has decision-making and spending authority;

“Recipients”

- Employees and members of the CAREL Industries S.p.A. corporate bodies, as well as Company’s Agents, Distributors, and Trade Partners;

“Employees”

- Parties in the employ of CAREL Industries S.p.A., including Executives;

“Executive”

- The party who, thanks to a certain benchmark of professional skill, and their position in the chain of command, and the management authority vested in the same because of the position held, implements the strategy set by the Employer by organising work operations and monitoring the same;

“Distributor”

- Those persons, whether natural or legal, whom CAREL Industries S.p.A. has contracted to distribute its products;

“PPD” or “Personal Protection Device”

- Any equipment intended to be worn and kept by the worker to protect him/her against one or more risks which are hazardous to the worker's health or safety on the job, as well as any support or accessory intended for such purpose;

“DUVRI” or “Consolidated Contractor-Interference Risk Assessment Document”

- The document generated by the Employer/Contracting Authority when works are contracted to a general contractor or to subcontractors operating within their own production area, which sets forth a risk assessment along with the steps to be taken to eliminate them, or where that is not possible to reduce to a minimum any risk of interference in any general contract, contract for works, or subcontracting scenario;

“DVR” or “Consolidated Risk Assessment Document”

- The document generated by the Employer setting forth an assessment of the risks impacting health and safety on the job, and the criteria used for the foregoing assessment, which identifies the prevention/protection measures put in place, along with the personal-protection devices as identified during such assessment, the schedule of measures deemed fitting to ensure safety levels improve over time, identification of the procedures to implement those steps to be taken, as well as the company's role in the same, which must identify the “RSPP” (Prevention/Protection Officer) and “RLS” (Workers' Safety Deputy) along with the Company Physician who took part in the risk assessment, as well as the identification of those job duties, if any, which might expose Workers to specific hazards requiring a certain level of expertise, education, and training or experience;

“Group”

- CAREL Industries S.p.A. and its subsidiaries;

“Key Officer”

- Persons at the highest levels within the organisation able to provide detailed information on individual company processes, and the activities of the individual Company Division, in order to reach a level of information/detail sufficient to comprehend the existing internal-control system;

“Workers”

- Parties who, regardless of their contract type, perform job duties within Company;

“Guidelines”

- Recommendations from industry associations developed systematically, based on know-how which is kept constantly up to date and valid (e.g. Confindustria Guidelines for Generating Organisation, Management, and Control Models for the Insurance Industry pursuant to Art. 6, paragraph 3, of Legislative Decree no. 231/2001);

“Company Physician”

- A physician - meeting the educational, training, and professional experience requirements under Art. 38 of Legislative Decree no. 81/2008 - who works with the Employer, as permitted under Art. 29, paragraph 1, of the aforementioned decree, in order to assess risks, and who is appointed by the same to carry out Health Monitoring;

“Model”

- The organisation, management, and control model contemplated under Legislative Decree no. 231/2001;

“Corporate Bodies”

- Both the Board of Directors and the Board of Statutory Auditors of CAREL Industries S.p.A. and its members;

“Supervisory Board”

- The internal-control entity tasked with supervising Model function and compliance, as well as updating the same.

“P.A.”

- Public Administration; and with reference to crimes committed against the public administration, public officials and public-service contractors (e.g. those adjudicated a public-service contract);

“Partner” or “Trade Partner”

- CAREL Industries S.p.A. Counterparts with whom Company enters into any type of collaboration governed by contract (temporary association of businesses, joint ventures, consortia, collaborations in general, supply agreements, general or subcontracting) which do not fall into the category of Agents, Distributors, or Consultants, or those intended to cooperate with the Company within any At-Risk area;

“Supervisor”

- The Party who, thanks to his/her professional ability, and insofar as allowed by his/her managerial or executive function arising from his/her position, supervises work activities, and ensures the implementation of all directives received, monitoring the correct execution of the same by the Workers, and exercising initiative within the scope of his/her role;

“Crimes”

- The criminal fact patterns to which the rules established under Legislative Decree no. 231/2001 (whether in its present version, or as hereafter amended) apply;

“RLS” or “Workers’ Safety Representative”:

- The party elected or appointed to represent the Workers on issues of workplace safety and health;

“RSPP” or “Prevention/Protection Director”

- The party possessing the capacity and professional requirements identified in Legislative Decree no. 81/2008, appointed by the employer, to whom they also report, to coordinate the Prevention/Protection Service;

“Company” or “CAREL”

- CAREL Industries S.p.A., with registered office in Brugine (PD), at Via dell’Industria, 11.

“Senior Management”

- Persons who hold positions wherein they represent, administer, or direct Company or any organisational unit thereof vested with independent spending and operational authority, as well as by persons who exercise, whether officially or in a de-facto capacity, management and control of the same;

“Company Divisions”

- Those components within CAREL which head up the individual company functions, as identified in Company’s organisational structure.

1. Description of the Regulatory Framework

1.1 Introduction

Legislative Decree no. 231 of 8 June 2001 (hereinafter, Legislative Decree no. 231 or the “Decree”), in implementation of the delegation of authority vested in the Administration through Art. 11 of Law no. 300 (29 September 2000), establishes the rules for “*entity liability for administrative offences predicated on a criminal act*”, applicable to both incorporated entities and to unincorporated associations¹.

The Decree was born out of a set of international and EU treaties, subsequently ratified in Italy, which attach liability for specific crimes to certain legal entities. Such entities, indeed, may be deemed “culpable” for certain attempted or consummated unlawful acts, including where attempted or consummated in the entity’s interest or advantage by those in a position of authority within the company (such parties may be denoted “top management” or “senior management”) or by those subject to the direction and supervision of the latter (Art. 5, paragraph 1, of Legislative Decree no. 231/2001)².

Legislative Decree no. 231/2001 thus introduces (insofar as they are newly applicable to entities directly and independently) a series of sanctions into the Italian legal system.

¹ *Falling within the scope of application are economic public entities, and private entities to whom public services have been contracted; on the other hand, non-economic public entities, and those entities who perform constitutionally significant functions (as well as the State and district public entities) shall not fall within its scope of application.*

² *Art. 5, paragraph 1, of Legislative Decree no. 231/2001: “Entity liability – the entity shall be liable for crimes committed in its own interest or for its own advantage: a) by persons in a position to represent, administer, or direct the entity or any division thereof vested with independent financial and operational authority, as well as by persons who exercise, whether officially or in any de facto capacity, the management and control of the same; b) by persons subject to the direction or supervision of one of the parties under subpart (a) hereof.”*

These can be pecuniary or injunctive in nature, and apply to those crimes ascribed to persons or parties who can be linked in any operative way to such entities, pursuant to Art. 5 of the Decree³.

Administrative Liability (applicable to an entity) is distinct from the criminal liability attaching to the natural person who committed the crime; therefore, it does not replace, but is in addition to, the personal culpability of the person who committed the crime.

On the other hand, such culpability shall not attach if the implicated entity has, *inter alia*, approved and effectively implemented, prior to such crimes being committed, Organisational, Management, and Control Models pursuant to Legislative Decree no. 231/2001 apposite to prevent such crimes.

Administrative culpability shall, moreover, not attach where senior management and/or their subordinates acted solely in their own, or solely in any third-party, interest⁴.

1.2 Nature of the Liability

With reference to the nature of the administrative liability under Legislative Decree no. 231/2001, the Report illustrating the decree underscores the “*birth of the tertium genus, which brings together the essential aspects of criminal and administrative law, in an attempt to balance effective prevention with the even more important need for the highest warranty*”.

Legislative Decree no. 231/2001 indeed introduced into our legal system a type of “administrative” liability which intersects on a number of points with that of “criminal” liability, without running afoul of the Italian Constitution which states, at Art. 27, first paragraph: “*Criminal culpability is personal*”⁵.

3 Pursuant to Art. 8 of Legislative Decree no. 231/2001: “Independent entity liability – 1. Liability shall also likewise attach to the entity when: a) the perpetrator has not been identified and culpability cannot be imputed; b) the crime is dismissed or not prosecuted for a reason other than amnesty. 2. Unless the law requires otherwise, the entity shall not be prosecuted when amnesty is granted for a crime in respect of which it would otherwise be liable, but the defendant has waived his/her right to amnesty. 3. The entity may waive amnesty”.

The Supreme Court, with reference to a crime committed through an entity or natural-person accomplice who had provided professional consultancy for the company itself, has held that the entity may not be deemed innocent of the crime, and therefore may be held independently culpable. Indeed the principle of subsidiarity shall not apply to any action of civil forfeiture of the liability for the natural person who perpetrated the crime; furthermore, given the punitive nature of a forfeiture of an equivalent amount of funds, the joint liability rule under which the entire criminal act and the effect arising from the same shall attach to both co-defendants applies (Ct. of Cass. 27 September 2006, n. 31989).

4 Art. 5, paragraph 2, of Legislative Decree no. 231/2001: “Entity Liability – The entity shall not be liable if the persons identified in paragraph 1 acted in their own self interest, or that of any third party, exclusively”.

5 To wit, we would mention – amongst the more salient provisions – Art. 2, 8 and 34 of Legislative Decree no. 231/2001 wherein the first reaffirms the legal principle intrinsic to criminal law; the second underscores the independent liability attaching to the natural person who perpetrated the criminal act or omission; the third establishes that this form of liability, predicated as it is on a crime, shall be adjudicated within a criminal proceeding, with all rights attendant to criminal trials. Consider, furthermore, the punitive nature of sanctions applicable to the entity.

1.3 Criteria for imputing liability

The commission of one or more predicate crimes shall constitute just one of the conditions for the application of the rules established by the Decree.

There are, indeed, further conditions that relate to how liability for a crime might be imputed to the entity. These indicia of culpability can be divided into attendant circumstances and mental intent.

The required attendant circumstances are:

- the criminal act or omission was committed by a party with operational ties to the entity;
- the crime was committed in the interest of, or the advantage of, the entity.

To wit, the category of senior management may include directors, general managers, legal representatives, but it may also include (although it is not limited to) supervisors in any secondary locations, division directors or plant directors. It would also include *parties delegated by the directors* to exercise management and control functions for the company or any satellite offices, who shall be deemed senior management.

The category of “subordinates” shall include all those subject to the direction and supervision of senior management and who, in a nutshell, carry out the decisions made by top management. Falling into this category are all entity employees, as well as all those who act in the name of, and on behalf of, the entity, including but not limited to associates, para subordinates, and consultants.

For liability against the entity to attach, it is therefore necessary that the crime be committed *in the interest of* or the *advantage of*, the entity.

Regardless, the entity shall not be held liable where the crime is committed *in the exclusive interest of the perpetrator or any third party*.

Imputation criteria with respect to *mental intent* in nature relate to the assessment of the entity's fault. Entity liability shall attach if *adequate standards* regarding healthful management or control relating to its organisation and the carrying on of its business are lacking or violated. Entity *culpability* and thus the option to impugn the same, is predicated on a determination of whether the company has an unethical policy, or whether there were any deficits in the company's organisational structure, which failed to prevent the commission of a predicate crime.

Indeed, the Decree excludes entity liability where *prior to the commission of the crime*, the entity has vested itself with, and effectively implemented an “organisation, management, and control model” (the Model) apposite to prevent the commission of the type of crime which later occurred.

The Model can act as a liability shield whether the crime is committed by senior management, or whether committed by a subordinate. However, for those crimes committed by senior management, the Decree introduced a type of *presumption of liability for the entity*, wherein liability shall not lie, provided the entity can prove:

- The Board of Directors had adopted and effectively implemented, prior to the crime being committed, a Model apposite to prevent the type of crime later committed;

- Responsibility for monitoring the Model (in terms of function, compliance, and any required updates) is a task assigned to *a body within the entity vested with independent initiative and control authority* (Supervisory Board);
- The persons committed the crime by *fraudulent evasion* of the Model;
- *No omissions* or insufficiency in oversight has been found with respect to the Supervisory Board.

For crimes committed by subordinates, the entity shall only be held liable if it is proven that *“the commission of the crime was made possible through a breach of the duties of direction or supervision”* which would typically fall upon company leadership. In those cases, once again, adopting and fully implementing the Model prior to the commission of the crime rules out any breach of the duties of direction and supervision, and thus the entity shall be shielded from liability.

The adoption and actual implementation of a Model, albeit not constituting a legal *duty*, is therefore the only tool available to the entity to prove that it was not implicated in the crime, and thus shielded from liability as established by the Decree.

1.4 The Organisational, Management, and Control Model's value as a liability shield

The Model can therefore only function as a liability shield for the entity if it is apposite to prevent the predicate crimes, and only if effectively implemented.

The Decree, however, does not dictate the characteristics and content of the Model. Rather, it establishes certain general principles, and the essential components thereof.

In general – according to the Decree – the Model shall contemplate, with respect to organisational type and size, and the business it conducts, suitable measures to ensure activities are carried out pursuant to the law, and such that risky situations might be identified and swiftly eliminated.

To wit, the Model shall:

- identify those activities wherein crimes might be committed (“at-risk activities”;
- contemplate specific protocols intended to establish a training schedule, and to implement entity decisions, with respect to the crimes to be prevented;
- identify the financial-resource management modalities necessary to prevent crimes from being committed;
- contemplate duties of disclosure toward the entity deputised to supervise the models’ functioning and compliance;
- introduce a disciplinary system apposite to sanction any failure to abide by the measures set forth in the Model.

With reference to *the actual functioning of the Model*, the Decree further contemplates the need for *periodic audits* and a *modification* of the same, where any material breach of its rules is uncovered, or for intervening changes to the organisation or its line of business.

Along with such provisions, Law no. 179 (30 November 2017) sets forth the *“Provisions for protections of whistleblowers reporting crimes or anomalies discovered in the course of their job duties, whether in the private or in the public sector”* which incorporated into the body of the Decree a series of additional requirements (to wit, Art. 6, paragraph 2-bis, 2-ter and 2-quater), aimed at safeguarding and protecting those who, within an entity, promptly report the commission of illicit conduct which is significant for purposes of the Decree (known as *whistleblowing*).

Indeed, under Art. 6, paragraph 2-bis, subpart (a), the Model must now also include one or more channels allowing for senior management and subordinates alike *“to submit, for purposes of protecting the entity’s integrity, substantiated reports of illicit conduct, deemed material under the [...] decree, and predicated on accurate, concordant factual elements, or any violation of the entity’s organisational and management model, discovered in the course of their duties.”* Those channels of communication shall likewise ensure *“the confidentiality of the whistleblower as the report is handled.”*

Furthermore, that same provision, paragraph 2-bis notes (at subpart [b]) that the Model must then identify at least one alternative reporting channel *“sufficient to ensure, through information-technology tools, whistleblower anonymity”*. That same provision, 2-bis establishes (subpart [c]) the restriction against retaliation or discrimination, be it direct or indirect, as against the whistleblower for reasons relating, whether directly or indirectly, to the report. Finally, it establishes (at subpart [d]), that the Model must create (within the disciplinary system adopted pursuant to the Decree) sanctions *“as against those who violate any whistleblower protection, as well as those who make, either intentionally or recklessly, a report found to be unsubstantiated”*.

1.5 Criminal fact patterns

Under Legislative Decree no. 231/2001, the entity may be deemed responsible only for those crimes expressly cited by Legislative Decree no. 231/2001, if committed in its own interest or advantage by those parties enumerated under Art. 5, paragraph 1, of the Decree itself, or in case of any specific legal provisions which the Decree cites, as well as in the case of Art. 10 of Law no. 146/2006.

The fact patterns may, for simplicity’s sake, be divided into the following categories:

- **Crimes committed in interactions with the Public Administration** (Art. 24 and 25 of the Decree) ⁶;

⁶ This involves the following crimes: *misappropriation to the detriment of the State or other public entity (Art. 316-bis of the Civil Code), undue receipt of funds to the detriment of the State or public entity, or the European Communities (Art. 316-ter of the Criminal Code), defrauding the State or another public entity (Art. 640 paragraph 2 n. 1 of the Criminal Code), aggravated fraud to secure public grants or subsidies (Art. 640-bis of the Criminal Code), cyber fraud to the detriment of the State or other public entity (Art. 640ter of the Criminal Code), extortion (Art. 317 of the Criminal Code), bribery to induce performance of one’s official duties (Art. 318 of the Criminal Code; Art. 321 of the Criminal Code), bribery to induce an act contrary to one’s official duties, simple and aggravated (Art. 319 of the Criminal Code, Art. 319-bis of the Criminal Code; Art. 321 of the Criminal Code), bribery in a court proceeding (Art. 319-ter of the Criminal Code.; Art. 321 of the Criminal Code), undue solicitation to give or promise a benefit (Art. 319-quater of the Criminal Code), bribery of a public-service contractor (Art. 320 of the Criminal Code; Art. 321 of the Criminal Code), solicitation of bribery (Art. 322 of the Criminal Code), embezzlement, extortion, undue solicitation to give or promise a benefit, bribery and solicitation of bribery of members of the International Criminal Court,*

- **Cybercrimes and unlawful data processing** (Art. 24-bis of the Decree.)⁷;
- **Organised crime** (Art. 24-ter of the Decree)⁸;
- **Counterfeiting currency and public tender, tax-revenue stamps, and trafficking in stolen identities** (Art. 25-bis of the Decree)⁹;
- **Crimes against industry and commerce** (Art. 25-bis.1 of the Decree)¹⁰;
- **Corporate crimes** (Art. 25-ter of the Decree.)¹¹;

or of entities of the European Communities and functionaries of the European Communities and foreign states (Art. 322-bis of the Criminal Code).

7 These are the crimes of forgery relating to any public or private electronic document with evidentiary value (Art. 491-bis of the Criminal Code), hacking (Art. 615-ter of the Criminal Code), unlawful possession or dissemination of access codes to IT or online systems (Art. 615-quater of the Criminal Code), dissemination of IT equipment, devices, or software intended to tamper with an electronic or online system (Art. 615-quinquies of the Criminal Code), unlawful wire-tapping, obstruction, or interruption of any electronic or online communications (Art. 617-quater of the Criminal Code), installation of equipment intended to tap, obstruct, or interrupt online or electronic communications (Art. 617-quinquies of the Civil Code), tampering with electronic data or software (Art. 635-bis of the Criminal Code), tampering with electronic, data, and software programmes belonging to the State or other public entity, or which is otherwise a public utility (Art. 635-quinquies of the Criminal Code), cyberfraud against the entity providing electronic-signature-certification services (Art. 640-quinquies of the Criminal Code).

8 These include organised crime (Art. 416 of the Criminal Code), Mafia-type associations whether foreign or domestic (Art. 416-bis of the Criminal Code), political-Mafia vote rigging (Art. 416-ter of the Criminal Code), kidnapping for robbery or ransom (Art. 630 of the Criminal Code), conspiracy to traffic in mood-altering or psychotropic drugs (Art. 74, Presidential Decree no. 309/1990), unlawful manufacturing, trafficking, and possession of mood-altering or psychotropic drugs (Art. 73, Presidential Decree no. 309/1990), maximum length of preliminary investigations (Art. 407 of the Code of Criminal Procedure), unlawful manufacturing, introduction into the country, placement into the stream of commerce, alienation, possession, or carrying into a public place or place which is open to the public, of any military or military-style weapons or any component of the same, explosives, concealed weapons, as well as the common firearm, with the exception of those permitted under Art. 2, paragraph 3, of Law no. 110 of 18 April 1975 (Art. 407, paragraph 2, subpart (a), number 5), of the Code of Criminal Procedure).

9 These involve the crimes of counterfeiting money, or the spending or introduction into the State, through conspiracy, of counterfeit money (Art. 453 of the Criminal Code), currency alteration (Art. 454 of the Criminal Code), crimes of counterfeiting money, or the spending or introduction into the State, acting alone, of counterfeit money (Art. 455 of the Criminal Code), spending counterfeit money received in good faith (Art. 457 of the Criminal Code), forgery of tax revenue stamps, introducing into the country, purchasing, possessing, or circulating forged tax-revenue stamps; (Art. 459 of the Criminal Code); manufacturing or possession of watermarks or counterfeiting equipment, tax-revenue stamps or watermarked paper (Art. 461 of the Criminal Code), use of counterfeit or altered tax-revenue stamps (Art. 464 of the Criminal Code), counterfeiting, alteration, or use of distinctive marks or signs, or patents, models, or designs (Art. 473 of the Criminal Code), introduction into the State and marketing of counterfeit products (Art. 474 of the Criminal Code).

10 These are crimes relating to disruption of the freedom of trade or industry (Art. 513 of the Criminal Code); unlawful competition through threat or violence (Art. 513-bis of the Criminal Code); fraud against domestic industries (Art. 514), fraud in the exercise of commerce (Art. 515 of the Criminal Code), sale of non-genuine foodstuffs as genuine (Art. 517 of the Criminal Code), sale of industrial products with misleading marks (Art. 517 of the Criminal Code), manufacturing and marketing assets generated by usurping industrial property (Art. 517-ter of the Criminal Code), counterfeiting geographical-provenance indicators, or denominations of origin for farm and food products (Art. 517-quater of the Criminal Code).

11 These involve false corporate disclosures (Art. 2621 and 2621-bis of the Civil Code), false corporate disclosures by listed companies (Art. 2622 of the Civil Code), obstructed controls (Art. 2625, paragraph 2, of the Civil Code), undue restitution of conveyances (Art. 2626 of the Civil Code), illegal distribution of profits and reserves (Art. 2627 of the Civil Code), unlawful transactions on

- **Crimes for the purpose of terrorism or subversion of the democratic order as contemplated under the criminal code, or by any special legislation** (Art. 25-*quater* of the Decree.)¹²;
- **Female genital mutilation** (Art. 25-*quater*.1 of the Decree -)¹³;
- **Crimes against the person** (Art. 25-*quinquies* of the Decree)¹⁴;
- **Market abuse** (Art. 25-*sexies* of the Decree)¹⁵;
- **Manslaughter or severe or egregious bodily injury resulting from a violation of occupational safety and health regulations** (Art. 25-*septies* of the Decree)¹⁶;
- **Fencing, laundering of money, assets, or other ill-gotten gains, or self-money-laundering** (Art. 25-*octies* of the Decree)¹⁷;

corporate or subsidiary shares or quotas (Art. 2628 of the Civil Code), transactions to the detriment of any creditor (Art. 2629 of the Civil Code), failure to disclose a conflict of interests (Art. 2629-bis of the Civil Code), fictitious formation of share capital (Art. 2632 of the Civil Code); undue distribution of corporate assets by liquidators (Art. 2633 of the Civil Code), private-sector bribery (Art. 2635, paragraph 3, of the Civil Code, included in Law no. 190 of 6 November 2012, abetting extortion in the private sector (Art. 2635-bis, paragraph 1 of the Civil Code), inserted into Legislative Decree no. 38 (15 March 2017), undue influence over the shareholders' meeting (Art. 2636 of the Civil Code), insider trading (Art. 2637 of the Civil Code), obstruction of public supervisory functions (Art. 2638, paragraphs 1 and 2 of the Civil Code).

¹² *These are crimes perpetrated for purposes of terrorism and subversion of the democratic order as punishable under the Criminal Code and by specialty legislation (Art. 25-*quater* of the Decree, as added by Law no. 7 of 14 January 2003, as subsequently amended), including: terrorist organisations both foreign and domestic, or subversion of the democratic order (Art. 270-bis of the Criminal Code); domestic or foreign recruitment for purposes of terrorism (Art. 270-*quater*.1 of the Criminal Code); training and other terrorist operations both foreign and domestic (Art. 270-*quinquies* of the Criminal Code); arranging travel and transfers for purposes of terrorism (Art. 270-*sexies* of the Criminal Code); terroristic or subversive attacks (Art. 280 of the Criminal Code); acts of terrorism using explosives or lethal devices (Art. 280-bis of the Criminal Code); kidnapping with a terroristic or subversive motive (Art. 289-bis of the Criminal Code); solicitation to commit any crime enumerated in the first or second chapters (Art. 302 of the Criminal Code), urgent measures to protect the democratic order and public safety (Art. 1 of Law Decree no. 625 of 15 December 1979, amended and converted into Law no. 15 of 6 February 1980), those crimes contemplated under Art. 2 of the International Convention for the Suppression of the Financing of Terrorism signed in New York on 9 December 1999, urgent measures to protect the democratic order and public safety (Art. 1 of Law Decree no. 625 of 15 December 1979, amended and converted into Law no. 15 of 6 February 1980).*

¹³ *These are the crimes of female genital mutilation (Art. 583-bis of the Criminal Code).*

¹⁴ *The crimes sanctioned are: enslavement, slavery, or subjugation (Art. 600 of the Criminal Code); child prostitution (Art. 600-bis of the Criminal Code); child pornography (Art. 600-ter of the Criminal Code); possession of pornographic material (Art. 600-*quater*); virtual pornography (Art. 600-*quater*.1 of the Criminal Code); tourism for the purpose of accessing child prostitution (art. 600-*quinquies* of the Criminal Code); purchase or transfer of slaves (Art. 602 of the Criminal Code); enticement of a minor (Art. 609-*undecies* of the Criminal Code, crime included in Legislative Decree no. 39 of 4 March 2014), unlawful brokering and exploitation of labour (Art. 603-bis of the Criminal Code).*

¹⁵ *These are crimes involving misuse of privileged information (Art. 184 of Legislative Decree no. 58 of 24 February 1998, known as the "T.U.F."; the Consolidated Law on Financial Intermediation), market manipulation (Art. 185 of the T.U.F.) We would further note the form of administrative liability attaching to entities in the commission of administrative offences (Art. 187-bis and 187-ter of the T.U.F.) of the abuse of privileged information or market manipulation (Art. 187-*quinquies* of the T.U.F.)*

¹⁶ *These are the crimes of negligent homicide (Art. 589 of the Criminal Code), grievous bodily injury (Art. 590, paragraph 3, of the Criminal Code).*

¹⁷ *These are the crimes of fencing (Art. 648 of the Criminal Code), money-laundering (Art. 648-bis*

- **Criminal copyright infringement** (Art. 25-*novies* of the Decree)¹⁸;
- **Witness tampering** (Art. 25-*decies* of the Decree)¹⁹;
- **Environmental crimes** (Art. 25-*undecies* of the Decree)²⁰;

of the Criminal Code), use of ill-gotten money, assets, or other gains (Art. 648-ter of the Criminal Code), self-money-laundering (Art. 648-ter.1 inserted into the Law no. 186 of 15 December 2014).

18 *This involves the following crimes: making publicly available, within an online system, through any type of connection, a protected creative work, or any part of the same (Art. 171, paragraph 1, subpart a-bis of Law no. 633/1941), crimes under the prior point committed against the property of another which is not intended for publication, by usurping the authorship of such work, or through adulteration, mutilation, or other modification of the work itself, where the integrity or reputation of the work is tarnished thereby (Art. 171, paragraph 3, of Law no. 633/1941), unlawful copying, with an intent of profiting thereby, of any software programme; importing, distributing, selling, or possessing with the intent to sell or for other commercial purpose, or licensing programmes stored on media not marked "SIAE" [Italian Copyright Collection Agency], arbitrary or intentional removal of protective devices on software programmes (Art. 171-bis, paragraph 1, Law no. 633/1941), copying, transferring onto another device, distribution, disclosure, presentation, or demonstration in public, of the database, on devices not labelled "SIAE"; extraction or reuse of the database, distribution, sale, or licensing of databases (Art. 171-bis, paragraph 2, Law no. 633/1941), unlawful copying, reproduction, transmission, or dissemination amongst the public through any means whether in whole or in part, of any creative work intended for television, cinematic broadcast, or the sale or rental of discs, tapes, or analogue media, or any other device containing phonograms, videograms of any musical, cinematic, or audiovisual work or the like, or any sequence of moving pictures, literary, dramatic, or scientific work, or teaching materials or multimedia works, even where included in collective works or composite works or databases; unlawful reproduction, duplication, transmission, or dissemination, sale or commerce, licensing for any reason or unlawful importing of more than fifty copies or exemplars of a copyrighted work; downloading or uploading into any online system, through any type of connection, of a work protected by copyright, or any portion of the same (Art. 171-ter of Law no. 633/1941), failure to disclose to SIAE the identifiers for devices not subject to labelling requirements, or any false statement relating to the same (Art. 171-septies of Law no. 633/1941), fraudulent production, sale, importation, promotion, installation, modification, utilisation for public or private use of devices or any portion of devices intended to decode audiovisual transmission and conditional access made via Ethernet, satellite, or cable connection, whether through analogue or digital means (Art. 171-octies of Law no. 633/1941).*

19 *Witness tampering (Art. 377-decies of the Criminal Code).*

20 *The aforementioned article has been introduced by Legislative Decree no. 121 of 7 July 2011 "Implementation of Directive 2008/99/EC on criminal protections for the environment, as well as Directive 2009/123/CE, which amended Directive 2005/35/EC relating to pollution from ships, or the introduction of sanctions for violations" which entered into effect 16 August 2011. Furthermore, on 28 May 2015, Law no. 68 of 22 May 2015 was published in the Official Gazette, entitled "Provisions regarding crimes against the environment" which, along with Art. 8, served to amend Art. 25-undecies of Legislative Decree no. 231/01, introducing new criminal fact patterns and amending the sanctions contemplated therein: environmental pollution (Article 452-bis of the Criminal Code), environmental catastrophe (Art. 452-quater of the Criminal Code), negligent environmental crimes (Article 452-quinquies of the Criminal Code), trafficking and dumping highly radioactive material (Article 452-sexies of the Criminal Code), aggravated conspiracy crimes (Article 452-octies of the Criminal Code), poaching, destroying, capturing, taking, or possessing any exemplars of protected wildlife (Article 727-bis of the Criminal Code), habitat destruction or deterioration within a protected site (Article 733-bis of the Criminal Code), criminal sanctions (Article 137, paragraphs 2, 3, 5, 11, and 13 of Legislative Decree no. 152 of 3 April 2006, the "Environmental Code"), unauthorised waste management (Article 256, paragraph 1, subparts [a] and [b], 3, 5, and 6, first sentence, Environmental Code), site reclamation (Article 257, paragraphs 1 and 2 of the Environmental Code), violation of the duties of disclosure, the keeping of all required registers and forms (Article 258, paragraph 4, second sentence of the Environmental Code), unlawful trafficking in waste (Article 259, paragraph 1, of the Environmental Code), organising activities for purposes of trafficking in waste (Article 260, paragraphs 1 and 2 of the Environmental Code); we note that Legislative Decree no. 21 (1 March*

- **Employment of out-of-status immigrants** (Art. 25-*duodecies* of the Decree);
- **Racism and Xenophobia** (Art. 25-*terdecies* of the Decree – introduced by Law no. 167/2017);
- **Transnational crimes**, Art. 10 of Law no. 146 (16 March 2006) contemplates the Entity's administrative liability, including with reference to crimes specified in the same law which are transnational in nature²¹.

The categories listed *supra* are slated to be further expanded in the near future. We can forecast this based on trends in the legislature to expand the scope of the decree, including with a view towards aligning it with international and EU law. The complete list of predicate crimes enumerated in the Decree, along with a description of the same, appears in Annex E to the instant organisational and control model as well.

1.6 Sanction Mechanism

The following sanctions, pursuant to Art. 9-23 of Legislative Decree no. 231/2001, shall attach to the entity pursuant to the commission or attempted commission of the foregoing crimes:

- fines (and pre-trial seizure);

*2018) in effect as of 6 April 2018, which establishes the "Provisions implementing a delegation of authority with respect to the Criminal Code" repealed Art. 260, of Legislative Decree no. 152/2006 and included the same unlawful fact pattern into Art. 452-*quaterdecies* of the Criminal Code), an electronic waste-monitoring system (Article 260-bis, paragraphs 6, Article 7, second and third sentence, and Article 8, first sentence of the Environmental Code), sanctions (Article 279, paragraph 5, of the Environmental Code), Article 1, paragraphs 1, Article 2, paragraphs 1, 2, Article 3-bis, paragraph 1, and Article 6, paragraph 4 of Law no. 150 of 7 February 1992, cessation and reduction of the use of harmful substances (Article 3, paragraph 6 of Law no. 549 of 28 December 1993), intentional pollution (Article 8, paragraphs 1 and 2 of Legislative Decree no. 202 of 6 November 2007), negligent pollution (Article 9, paragraphs 1 and 2 of Legislative Decree no. 06 November 2007, n. 202).*

²¹ *The crimes set forth in the aforementioned Art. 10 of Law no. 146/2006 (organised crime, Mafia-type association, organised crime for the purpose of trafficking in tobacco processed overseas, or conspiracy for the purpose of drug trafficking, human smuggling, witness tampering, acting as an accessory after the fact) are considered transnational when the offence is committed in more than one country, or if committed within one country, a substantive part of the preparation and planning of the offence occurred in a different country, or alternatively committed in one country, but an organised criminal group with operations in more than one State is implicated in the same. On that occasion, no further provisions were inserted into Legislative Decree no. 231/2001. Liability arises from an independent provision contained in the aforementioned Art. 10, which sets forth specific administrative sanctions applicable to the aforementioned crimes, setting forth, to cite the last paragraph directly, that "unlawful administrative acts contemplated under the instant article would apply to the provisions of Legislative Decree no. 08 June 2001, n. 231". To wit, "Transnational Crime" is defined (under Art. 3, Law no. 146/2006) as a "crime with a range of punishment of at least four years' detention, the maximum, when an organised criminal group is involved", and the crime:*

- a) is committed in more than one country;*
- b) or if committed in one country, a part of the preparation, planning, direction, or control took place in another country;*
- c) or is committed in one country, but a criminal group with operations in more than one country is implicated in the same;*
- d) or is committed in one country, but has substantial impact in another State.*

- interdictory sanctions (applicable as a pre-trial measure as well), lasting no less than three (3) months, and no more than two (2) years, with the notation that pursuant to Art. 14, paragraph 1, of Legislative Decree no. 231/2001, “The interdictory sanctions are for the purpose of those specific operations to which the entity’s offence refers” which, in turn, may consist of:
 - restriction against the exercise of activities;
 - suspension or revocation of the authorisations, licenses, or concessions which were used to commit the offence;
 - restriction against contracting with the public administration, except to secure the performance of a public service;
 - restriction from special programmes, loans, grants, or subsidies, and the revocation of any previously granted;
 - restriction against publicizing goods and services;
- civil forfeiture (and pre-trial seizure);
- publication of the sentence (where an interdictory sanction applies).

Any fine would be set by the criminal court using a “quota”-based system, with “quotas” ranging from 100 to 1000. In meting out the sanction, the court will determine:

- the number of quotas, bearing in mind the severity of the incident, the degree of entity liability, as well as the activities carried out to eliminate or mitigate the consequences of the incident, and to prevent the commission of other offences;
- the amount of each individual quota, based on the entity’s economic and equity positions.

The entity shall be liable for paying the fine using its own equity, or through a common fund (Art. 27, paragraph 1, of the Decree)²².

Interdictory sanctions shall apply only to those crimes for which they are expressly contemplated, and provided at least one of the following conditions is met:

- a. the entity gleaned significant advantage from the consummation of the crime, and the crime was committed by senior management or those subject to the direction of another when, in the latter case, the commission of the crime was the fruit of, or facilitated by, serious lapses within the organisation;
- b. in instances of reiterated offences²³.

²² The term “equity” shall refer to incorporated companies and entities, whereas the term “common fund” applies to unincorporated associations.

²³ Art. 13, paragraph 1, subparts a) and b) Legislative Decree no. 231/2001. To that end, please further see Art. 20 of Legislative Decree no. 231/2001, under which “Recidivism occurs when the entity, having been previously convicted (where the conviction is no longer subject to appeal) for an offence predicated on a crime, commits another within five years of the conviction made final”. Regarding the relationship amongst the foregoing regulations, see De Marzo (previously cited) at 1315: “Alternatively, with respect to the requirements under subpart (a) [of Art. 13 - Ed.] identifies, as a prerequisite for applying the interdictory sanctions expressly contemplated by the Legislator, that the conduct be reiterated. Pursuant to Art. 20, recidivism occurs when the entity, previously having been finally adjudicated for an offence predicated on a crime, commits another one within five years after the final conviction. In this case, the commission of crimes notwithstanding the intervening conviction which (since rendered irrevocable) did indeed sanction the prior violation of law, reflects a propensity or tolerance with respect to crimes being committed. Therefore, no inquiry need be made into the amount of profit, nor whether any organisational models had been adopted. Hence an understanding that the ordinary system of fines (and potentially of injunctions, for circumstances in which on previous occasions, with prior offences, the elements under subparts [a] or [b] of Art. 13,

Interdictory sanctions are contemplated for any of the following: crimes against the public administration, certain crimes in violation of the public faith, terroristic crimes, and subversion against the democratic order, crimes against the person, female genital mutilation, transnational crimes, health and safety-related crimes, fencing, money-laundering, and use of ill-gotten money, assets, or other gains, as well as cybercrimes and unlawful data processing. The court shall determine the type and length of the interdictory sanction, bearing in mind the fitness of the individual sanctions to prevent the types of crimes later committed and, if necessary, they may be applied concurrently (Art. 14, paragraphs 1 and 3, of Legislative Decree no. 231/2001).

The sanctions involving a restriction against business operations, a restriction against contracting with the public administration, and a restriction against publicizing goods and services may be applied - in the most severe of cases - on a permanent basis²⁴. The court may allow entity operations to continue (rather than through an interdictory sanction), as permitted under the scenarios set forth in Art. 15 of the Decree. In such cases, the court appoints a receiver whilst the interdictory sanction is in place²⁵.

paragraph 1 were met) was insufficient to act as an effective deterrent to an act or omission which fundamentally violates the very principle of lawfulness”.

24 See, in that respect, Art. 16 of Legislative Decree no. 231/2001, according to which: “1. A permanent restriction against conducting business may be imposed if the entity has derived significant profit from the crime, and has had temporary injunctions against carrying on their business imposed at least three times over the prior seven years. 2. The court may apply, as against the entity, on a permanent basis, a restriction against contracting with the public administration, or a restriction against publicizing goods and services; when they have had such sanction imposed at least three times in the last seven years. 3. If the entity or any division thereof is used on an ongoing basis for the sole or prevailing purpose of permitting or facilitating the commission of crimes in respect of which entity liability might attach, a permanent injunction against carrying on the business may be imposed, and the provisions of Article 17 shall not apply”.

25 Art. 15 of Legislative Decree no. 231/2001: “Court-appointed receiver – should the conditions for applying a restriction which leads to an interruption in entity business, the court, instead of applying the sanction, shall allow entity operations to be carried on by a court-appointed receiver for the duration of the interdictory penalty which might be applied provided at least one of the following conditions is met: a) the entity carries on a public service or a publicly necessary service, the interruption of which might jeopardise community interests; b) interrupting the entity’s business might have, given its size and the economic conditions of the region in which it operates, a serious impact on employment. Within the order allowing for operations to continue, the court vests the receiver with all necessary authority and powers, bearing in mind the specific activities in which the offence in which the entity is implicated occurred. Within the scope of such court-vested authority, the receiver shall pass and effectively implement the organisational and control models apposite to prevent the type of crime committed. The receiver shall not carry out any special acts of administration absent court approval. The profit arising from the ongoing activities shall be forfeited. Continuation of activities by the receiver shall not be an option when business interruption follows upon an interdictory sanction”.

1.7 Events which Modify the Entity

Art. 28-33 of Legislative Decree no. 231/2001 govern the impact of any entity-modification events (such as transformation, merger, spin-off, and company transfer) on company administrative liability²⁶.

In case of any transformation (pursuant to the nature of such operation, wherein a simple change is made in terms of choice of entity, without extinguishing the original legal entity), the entity shall remain liable for crimes committed before the date in which the transformation took effect (Art. 28 of Legislative Decree no. 231/2001).

In instances of merger, the entity resulting from the merger (including through any acquisition) shall be liable for those crimes for which the entities participating in the merger or acquisition were liable (Art. 29 of Legislative Decree no. 231/2001).

Art. 30 of Legislative Decree no. 231/2001 contemplates that, for any partial spin-off, the spun-off company shall remain liable for crimes committed prior to the date in which the spin-off took effect.

The entities benefiting from the spin-off (be it total or partial) shall be jointly liable to pay the fines owed by the spun-off company for crimes committed prior to the spin-off date, limited to the actual amount of net equity transferred to the single entity.

That limit shall not apply to the beneficiary companies to which even a portion of the branch of operations within which the crime was committed was transferred.

Interdictory sanctions relating to crimes committed before the date in which the merger took effect shall apply to the entities who retained, or which received via transfer (whether in whole or in part) the branch of operations wherein the crime was committed.

Art. 31 of Legislative Decree no. 231/2001 contemplates provisions common to both merger and spin off concerning the determination of sanctions in instances where such special operations occurred prior to the adjudication by a court. The court shall set a fine pursuant to the criteria established by Art. 11, paragraph 2, of Legislative Decree no. 231/2001²⁷, and moreover in a manner commensurate with the economic and equity position of the entity originally liable for the same, rather than with respect to the entity liable for the sanction following the merger or spin-off.

²⁶ *The Legislator has taken two competing needs into consideration: on the one hand, keeping such operations from being leveraged to evade liability, and on the other hand, avoiding penalising reorganisations devoid of evasive intent.*

The Decree's Illustrative Report states: "The preliminary consideration followed was to govern the effects of the fines in accordance with the principles set forth by the civil code in terms of the other debts attached to the original entity; on the other hand, the interdictory sanctions would remain tethered to the company wherein the crime was committed".

²⁷ *Art. 11 of Legislative Decree no. 231/2001: "Criteria for setting fines - 1. In meting out the sanction, the court will determine the number of quotas, taking into account the severity of the incident, the degree of entity liability, as well as the steps taken to eliminate or mitigate the consequences of the incident, and to prevent the commission of other offences; 2. The quota amount shall be set based on the economic and equity position of the entity to ensure the efficacy of the fine (...)"*

For any restriction, the entity liable for the same following the merger or the spin-off may request the court to convert the restriction into a fine, provided that: (i) the institutional negligence which made it possible for the crime to be committed has been cured; and (ii) the entity has repaid the damages and granted access (for purposes of forfeiture) to the portion of profit as may have been earned. Art. 32 of Legislative Decree no. 231/2001 allows the court to take into account any convictions already entered as against the entities taking part in the merger, or the parent companies of the spun-off company, for purposes of assessing recidivism under Art. 20 of Legislative Decree no. 231/2001, with respect to the offences of the entity surviving the merger, or the beneficiary of the spin-off, with respect to crimes committed thereafter²⁸. In instances of spin-off and company transfer, a single set of rules shall apply, to wit, Art. 33 of Legislative Decree no. 231/2001²⁹; the entity resulting from the spin-off (when the crime was committed within the company later spun-off) shall be jointly liable for paying the fine charged to the entity initiating the spin-off, with the following limitations:

- i. the transferor's prior right of enforcement shall stand;
- ii. transferee's liability shall be limited to the value of the company transferred, and to the fines which are mandatory as recorded in applicable accounting entries, or if arising from administrative offences of which the transferee was, regardless, on notice.

On the other hand, any injunctions ordered against transferor shall not apply to transferee.

²⁸ Art. 32 of Legislative Decree no. 231/2001: "Impact on the merger or spin-off for purposes of recidivism - 1. For any liability of the surviving entity (following a merger, or benefiting from the spin-off) for crimes committed after the date in which the merger or spin-off would take into effect, the court may make a finding of recidivism under Article 20, including with respect to convictions against the entities taking part in the merger or the entity spun off for crimes committed prior to such date. 2. To that end, the court shall bear in mind the nature of the violations, and the operations within which the violations were committed, as well as the characteristics of the merger or spin-off. 3. With respect to the beneficiaries resulting from the spin-off, recidivism may likewise be found, under paragraphs 1 and 2, only if those business operations in which the crime was committed (and for which the spun-off entity was convicted) were transferred, whether in whole or in part". The Illustrative Report under Legislative Decree no. 231/2001 clarifies that "Recidivism in such instances is not per-se; rather, it shall be subject to a finding by the court, based on facts presented. As against the entities benefiting from the merger, recidivism may only be found when those business operations in which the crimes was committed was transferred to the former, whether in whole or in part".

²⁹ Art. 33 of Legislative Decree no. 231/2001: "Conveyance of the company. - 1. For any transfer of a company wherein the crime was committed, the transferee shall be jointly liable, subject to the benefit of prior enforcement as against the entity-transferor, and within the limits of the company's value, to pay the fine. 2. Transferee's duty shall be limited to the fines which are mandatory as recorded in applicable accounting entries, or if arising from administrative offences of which the transferee was on notice. 3. The provisions of the instant article shall apply even where a company is transferred". On that aspect, the Illustrative Report for Legislative Decree no. 231/2001 goes on to clarify: "We understand that such operations might likewise be susceptible to attempts to evade liability; however, the countervailing concern is the need to provide safeguards (in terms of reliability and security) within the courts. After all, this specific type of succession leaves both the identity and the liability of transferor or transferee intact".

1.8 Crimes committed overseas

The entity may be made to answer in Italy for crimes punishable under that same Legislative Decree no. 231/2001, but which are committed abroad (Art. 4 of Legislative Decree no. 231/2001)³⁰.

The elements for entity liability for crimes committed overseas are as follows:

- i. the crime must be committed by a party who is functionally tied to the entity, pursuant to Art. 5, paragraph 1, of Legislative Decree no. 231/2001;
- ii. the entity must be headquartered in Italy;
- iii. the entity may only be shall only be liable in those cases and under those conditions contemplated under Art. 7, 8, 9, 10 of the Criminal Code. (in instances where the law contemplates that the perpetrator - natural person - be punished upon motion of the Ministry of Justice, the entity shall only be prosecuted when the complaint is lodged against the entity as well)³¹ and, pursuant to the

30 The Illustrative Report under Legislative Decree no. 231/2001 makes it clear that such a common scenario within the criminal-justice framework not be left bereft of an applicable sanction, lest the entire regulatory framework in question be subverted. Art. 4 of Legislative Decree no. 231/2001 contemplates: "1. In those instances, and under those conditions contemplated under Articles 7-10 of the Criminal Code, the entities whose principal headquarters are in Italy shall be liable for crimes committed overseas as well, provided no prosecution has been instituted in the country where the incident occurred. 2. Where the law contemplates that the perpetrator is punished upon motion of the Ministry of Justice, the entity shall only be prosecuted when the perpetrator is likewise prosecuted.

31 Art. 7 of the Criminal Code: "Crimes committed overseas - The citizen or foreigner who commits any of the following crimes in a foreign country shall be punished in accordance with Italian law: 1) crimes against the Italian State; 2) counterfeiting the State seal, and use of such counterfeit seal; 3) counterfeiting money which is legal currency in Italy, or in Italian tax-revenue stamps or legal tender; 4) crimes committed by Italian civil servants who abuse their authority and violate the duties of their office; 5) any other crime for which special provisions of law, or international treaties, contemplate the application of Italian law". Art. 8 of the Criminal Code: "Political crime committed overseas - the citizen or foreigner, who commits, in a foreign country, a political crime which is not contemplated under number 1 of the preceding article, shall be punished pursuant to Italian law upon motion of the Ministry of Justice. Where the crime is punishable upon charges being pressed by the injured party, in addition to such motion, such individual complaint shall be required. Under criminal law, a political crime shall be any crime which offends a political interest of the State, or any political right of a citizen. Likewise a political crime shall be any common crime arising whether in whole or in part from political motives". Art. 9 of the Criminal Code: "Common crime by a citizen in a foreign jurisdiction - With the exception of those scenarios noted in the two prior articles, should any citizen commit a crime overseas which would be punishable by life imprisonment, or a minimum of three years' detention under Italian law, shall be punished under such law, provided the perpetrator is in Italy. For any crime subject to a lower range of punishment, the perpetrator shall be punished upon motion of the Ministry of Justice, or upon charges being pressed or a complaint filed by the injured party. For those cases contemplated under the preceding points, when the subject is a crime committed for the harm of the European Communities, of a foreign state or a foreigner, the perpetrator shall be punished upon charges being filed by the Ministry of Justice, unless extradition has been granted or accepted by the Administration of the State in which he committed the crime". Art. 10 of the Criminal Code: "Common crime committed overseas - The foreigner who, outside of those cases enumerated in Articles 7 and 8, commits in a foreign country, to the detriment of the State or any citizen, or a crime for which Italian law contemplates life imprisonment, or at least one year's detention, shall be punished as required by the law itself, provided the person is found in Italy, and charges have been filed by the Ministry of Justice or pressed by the injured party. If the crime is committed to the detriment of the European Communities of a foreign state or a foreigner, the perpetrator shall be punished in accordance with Italian law, upon request of the Ministry of Justice, provided that: 1) the perpetrator in which Italy; 2) the crime is punishable by life imprisonment or no

- principle of lawfulness under Art. 2 of Legislative Decree no. 231/2001, only in consideration for crimes for which liability is contemplated by *ad hoc* legislation;
- iv. where the scenarios and conditions under the foregoing articles of the Criminal Code arise, the country wherein the incident was committed shall not prosecute the entity

1.9 Proceeding to adjudicate the offence

Liability for the administrative offence predicated on the crime is adjudicated within a criminal proceeding. To that end, Art. 36 of Legislative Decree no. 231/2001 states *"Jurisdiction for making a finding on an administrative offence with respect to an entity shall align with the court with jurisdiction over the related predicate crimes. With respect to the procedure to adjudicate the administrative offence as against the entity, the provisions on the make-up of the court, and the rules of criminal procedure (as applicable to the underlying crime) shall apply"*.

Another rule, intended to generate effectiveness, standard application of the law, and judicial economy, is the rule to consolidate cases. The case against the entity shall be consolidated, insofar as possible, with the criminal proceeding instituted against the natural person who perpetrated the predicate crime giving rise to potential entity liability (Art. 38 of Legislative Decree no. 231/2001). A corollary to that rule may be found with Art. 38, paragraph 2, of Legislative Decree no. 231/2001 which, conversely, governs instances wherein the administrative offence is to be prosecuted separately³². The entity shall take part in the criminal proceeding through its own legal representative, unless the representative perpetrated the predicate offence; in situations where the legal representative does not appear, the entity entering the criminal case shall be represented by counsel alone (Art. 39, paragraphs 1 and 4, Legislative Decree no. 231/2001).

less than three years' detention; 3) extradition has not be granted or accepted by the Administration of the country in which the crime was committed, or by the perpetrator's home country"

32 Art. 38, paragraph 2, of Legislative Decree no. 231/2001: *"The administrative offence by the entity is prosecuted separately only when: a) the procedure is suspended pursuant to Article 71 of the Code of Criminal Procedure [proceedings suspended due to the perpetrator's legal incapacity - Ed.]; b) the proceeding was adjudicated through an abbreviated procedure, or through an adjudication under Article 444 of the Code of Criminal Procedure [pursuant to a plea bargain - Ed.], or where a criminal fine is imposed in lieu of detention; c) compliance with procedural rules dictates such action". For the sake of completeness, we would further cite Art. 37 of Legislative Decree no. 231/2001 under which " The entity shall not be prosecuted when the criminal case cannot be instituted or continued as against the perpetrator because of any failure of standing to prosecute" (that means those contemplated under Title III of Book V of the Code of Criminal Procedure: charges pressed by the individual, complaint, indictment, or other authorisations to prosecute under Art. 336, 341, 342, or 343 of the Code of Criminal Procedure.)*

1.10 Code of conduct (Guidelines)

In generating the instant Model, the Company shall be inspired by *Confindustria Guidelines to build an Organisational, Management, and Control Model under Legislative Decree no. 231/2001*, in the latest version approved in March of 2014, subject to a determination of insufficiency by the Ministry of Justice in terms of reaching the objectives established by Art. 6, paragraph 3, of the Decree³³.

To wit, the Confindustria Guidelines suggest member companies use *risk assessment and risk management* procedures, and incorporate the following phases for creating the Model:

- identification of risks and protocols;
- adoption of a set of general tools, primarily a code of ethics with reference to the crimes punishable under Legislative Decree no. 231/2001, and a disciplinary system;
- identification of the criteria for appointing a Supervisory Board, identifying the requirements, tasks, authority, and disclosure duties of the same.

Any divergence from those points specifically enumerated in the Confindustria Guidelines shall be prompted by the organisational/management needs of the business actually carried on by the company, and the environment in which such business is carried out.

³³ Art. 6, paragraph 3, of Legislative Decree no. 231/2001 states: "The Organisation, Management, and Control Models may be implemented, provided they make those warranties under paragraph 2, based on codes of conduct generated by the entities' representative associations, as identified to the Ministry of Justice which, in concert with the other Ministries with jurisdiction over the matter, may within thirty (30) days issue an opinion on whether the model is sufficient to prevent crimes".

2. The CAREL Industries S.p.A. Governance Model and Corporate Ownership

2.1 CAREL Industries S.p.A.

CAREL Industries S.p.A. (hereinafter CAREL or “Company”) is owned, with respect to a 36.17% stake, by Luigi Rossi Luciani S.A.P.A., with a 23.58% stake held by Luigi Nalini S.A.P.A.; following an initial public offering, the remaining share capital was listed on the Screen-Based Stock Exchange (“MTA”) organised and managed by Borsa Italiana S.p.A.³⁴. CAREL is a world leader in control solutions for air conditioning, refrigeration and heating and systems for humidification and evaporative cooling. The Company’s customers are both companies, through its B2b (business to business) channel, as well as end users and distributors.

The Company is a provider of testing instruments for the air conditioning, commercial and industrial refrigeration markets, in the production of air humidification systems. The solutions developed by the company are used in commercial, industrial and residential applications.

Within such industry segments, Company may further carry out, whether in Italy or overseas, the following operations:

- the design, development, prototype-creation, production of electronic, electrical, and mechanical devices in general;
- marketing of such items, and the sale of products, including those which the Company did not produce, provided they are like and/or complementary, and/or fall within the scope of Company's core business;
- technical support or maintenance of such assets, or of assets similar or complementary those those forming the principal object of the same;
- development, production, and marketing of technologies and software;
- provide, in favour of any Company subsidiaries and affiliates, technical, commercial, and administrative services, and activities for solving problems in the financial arena, including by pledging guarantees, performance bonds, and any other security interest; make payments in any form, including advance payment for share capital increase, into the capital reserve account, without any right to refund of the amounts paid, and/or to cover losses; approve loans insofar as transparency-in-banking legislation allows, with any activities restricted by statute to registered professionals expressly precluded.

³⁴ Following approval of the informational prospectus by the National Commission for Companies and the Stock Exchange (“CONSOB”), Borsa Italiana S.p.A. issued, as of 23 May 2018, an order to allow CAREL to be listed on the exchange. With the placement-of-shares period complete, trading began on the shares on 11 June 2018.

2.2 Institutional Framework: corporate bodies and entities

Shareholders' Meeting

The Shareholders' Meeting is held in Italy, but it need not take place within the Municipality where the Company's registered office is located. The Meeting shall be convened through a notice posted to Company's website, and in the other modalities as contemplated under applicable statutes and regulations.

The Shareholders' Meeting shall be presided by the Chairman of the Board of Directors or, in instances of the Chair's absence or unavailability, by the Vice President if appointed, or in the absence or unavailability of the latter, by the person appointed by the Shareholders' Meeting.

The Shareholders' Meeting shall, in any Regular or Special Meeting, pass resolutions on those matters reserved to the same, and with the quorum and majority requirements contemplated by law, and by the Company's Articles or Bylaws.

Moreover, the following shall be reserved to the Shareholders' Meeting:

- approving the financial statements and the disbursement of dividends;
- covering losses;
- the appointment of Directors – upon a determination of the number of the same, if not set directly by the Articles – and their removal; the appointment and removal of members of the Board of Statutory Auditors, the compensation for the same, the appointment of the Chairman of the Board of Statutory Auditors, and the appointment of an external auditor or auditing firm;
- resolutions relating to ratifying actions of Directors and Auditors;
- resolutions on other purposes reserved by law to the Shareholders' Meeting, as well as any authorisations as may be requested by the Articles or Bylaws to carry out the acts of the Directors, without prejudice to the liability of the latter for the acts so carried out;
- general resolutions relating to any decisions which do not amend the Articles or Bylaws.

The Special Shareholders' Meeting passes resolutions, on the other hand, on any matter involving an amendment to the Articles or Bylaws, on the appointment, replacement, and allocation of authority to any liquidator.

Board of Directors

Pursuant to the Company Articles, the Company shall be governed by a Board of Directors composed of a minimum of five (5) and a maximum of thirteen (13) Members, as determined by resolution of the Ordinary Shareholders Assembly upon appointment of the Board of Directors, or as amended by resolution thereafter.

The Directors' terms shall be set by the Shareholders' Meeting, and shall be no longer than three (3) financial years; such term shall end on the date of the Shareholders' Meeting convened for approving the financial statements relating to the last financial year of such term of office.

Directors shall meet the following minimum requirements:

- all Directors shall meet eligibility, professional, and character requirements as established by statute or regulation;
- at least one Director (or two Directors, if the Board of Directors is made up of more than seven members) shall meet the independence requirements established by Art. 147-ter, of paragraph 4, of the T.U.F.

The Board of Directors shall be vested with plenary authority to manage the Company, with the sole exception of those powers reserved to the Shareholders' Meeting by law or by the Company Articles / Bylaws.

Pursuant to applicable provisions of statute or regulation, the Articles and Bylaws shall further identify how the Board of Directors is appointed, and how the Board operates (Art. 17-22).

An Internal Control and Risk Committee, and a Compensation Committee shall be formed from within the Board of Directors.

Board of Statutory Auditors

The Board of Statutory Auditors shall be made up of three auditors and two substitutes, who shall be appointed initially through the Articles of Incorporation, and thereafter by the Regular Shareholders' Meeting. They shall serve for a three financial-year term, are not subject to term limits, and their term shall expire upon the date of the Shareholders' Meeting convened for the approval of the financial statements relating to the third financial year.

The management-supervisory duties of the Board of Statutory Auditors shall be exercised pursuant to applicable statutes and regulations, as well as compliance with the Company's Articles and Bylaws.

Pursuant to applicable provisions of statute or regulation, the Articles and Bylaws shall further identify how the Board of Statutory Auditors is appointed, and how it operates (Art. 23-24).

Auditor

Pursuant to applicable law, the Company's books shall be audited by an external auditor or auditing firm meeting statutory or regulatory requirements for the same.

2.3 CAREL's *governance* tools

The organisational governance tools ensuring proper Company functioning may be summarised as follows:

- **Articles of Incorporation and Bylaws** - pursuant to applicable provisions of law, these contemplate various provisions relating to corporate governance aimed at ensuring management operations are duly carried out.
- **Job descriptions** - the drafting of *Job descriptions* allows for everyone to understand how fundamental responsibilities are divided, and how responsibilities to such parties are delegated.
- **Delegation of Authority and Powers of Attorney** - through which powers to represent or bind the Company are assigned. Updates to the system for delegating authority and granting powers-of-attorney shall take place upon the review/modification of the Company Division.
- **Procedure, Policies, and Guidelines System** – CAREL shall be equipped with an internal-regulatory system aimed at providing a clear and effective framework for major company procedures.
- **Integrated Quality, Environment, Safety, and Health Management System** – is the set of documents (including the Quality, Environment, Safety, and Health Manual) describing the procedures established for purposes of quality, environmental, safety, and health standards.
- **Code of Ethics** - sets forth the ethical principles and rules of professional responsibility which the Company recognises as its own, compliance with which is required of all persons pursuing Group objectives. The Code of Ethics sets forth, *inter alia*, guidelines and principles of behaviour aimed at preventing those crimes punishable under Legislative Decree no. 231/2001, and expressly cites the Model as a useful tool for compliance with such laws.

The set of *governance* tools used by CAREL, cited very briefly *supra*, and the provisions of the instant Model, allow one to identify, with respect to any operation, how entity decisions are made and thereafter implemented (*see* Art. 6, paragraph 2, subpart b, of Legislative Decree no. 231/2001).

The system for the foregoing internal documentation, as well as their being subject to continual monitoring by those authorities with jurisdiction over such matters, shall likewise constitute an invaluable tool to support prevention of unlawful acts in general, including those contemplated under specific laws wherein administrative liability might attach to an entity.

2.4 Internal-control system

CAREL has vested itself with an internal-control system apposite to provide a garrison, on an ongoing basis, for those risks intrinsic to company operations.

The internal-control system is a set of rules, procedures, and Company Divisions established for the purpose of monitoring compliance with company strategy and the pursuit of the following objectives:

- i. procedural efficacy and efficiency of company operations (whether administrative, commercial, etc.);
- ii. quality and reliability of economic and financial disclosures;
- iii. compliance with statutes and regulations, and all company rules and procedures;
- (iv) safeguarding the value of company assets, equity, and protection against losses.

In accordance with the terms of its own administration and control system, the key parties currently responsible for control processes, monitoring, and supervision within the Company are:

- Board of Directors;
- Board of Statutory Auditors;
- Internal Control and Risk Committee;
- *Internal Audit* Function;
- Supervisory Board appointed pursuant to Legislative Decree no.

2.5 Company Structure

CAREL's organisational structure is reflected in the organisational chart, as well as the set of other company organisational tools (such as the *Job descriptions*, Policy, Procedure, and Guidelines System) which contributes to the formation of a Company "regulatory body" and in which duties, areas, and responsibilities with different functions through which Company operates.

Activities entrusted by CAREL to companies within the Group are governed by specific service agreements. Such contracts shall contemplate the duty to comply with the standards of organisation, management, and control apposite to prevent the commission of offences under Legislative Decree no. 231/2001 by any third party. Furthermore, all CAREL Group Companies shall abide by behavioural standards set forth in the Code of Ethics.

3. The CAREL Industries S.p.A. Organisational, Management, and Control Model

3.1 Foreword

The adoption of an Organisational, Management, and Control Model pursuant to Legislative Decree no. 231/2001 (hereinafter also denoted “Model”), which also represents a potential liability shield for the Company with respect to the commission of certain crimes, is an official document reflecting a corporate undertaking. For this reason, Company, following the initial formal adoption of the Model, continues to keep a close watch on any intervening regulatory or statutory updates on the issue of entity criminal liability. That way, any necessary updates may be timely made.

Thus, a process was launched (hereinafter, the “Project”) to make CAREL’s Model one that:

- conforms to the regulatory requirements contemplated under Legislative Decree no. 231/2001, and any amendments to the same;
- aligns both with those standards which have long been a hallmark of Company’s *Governance* culture, and with the instructions set forth in Confindustria’s Guidelines;
- complies with applicable provisions of statute or regulations, following the company’s listing on the Screen-Based Stock Exchange managed by Borsa Italiana S.p.A.

The approach as taken:

- allows for the optimisation of Company know-how;
- allows for the management, using unambiguous criteria, of company’s standard operating procedures, including those applicable to “at-risk” areas;
- facilitates the ongoing cycle of implementation and adjustment for both SOP and the internal regulatory system as company operations and structure evolve.

3.2 Model Function

CAREL intends to affirm and disseminate a corporate culture focussed on:

- lawfulness, so that no unlawful conduct, even when carried out in the purported interest or advantage of the company, could be construed as according with Company policy;
- control, which shall govern all decision-making and operational decisions of corporate activities, with the full awareness of those risks arising from the potential commission of a crime.

The achievement of the foregoing purposes takes shape through a fitting system of standards, and those organisational, management, and control procedures, and provisions which give bring the Model to life, and which Company, pursuant to the considerations enumerated *supra*, has generated and subsequently approved.

That Model has the following objectives:

- to raise awareness amongst those who, in whatever capacity, work with the Company (employees, associates, suppliers, etc.) by asking them (within the scope of any work performed on CAREL's behalf) to behave in an ethical and transparent manner, pursuant to the ethical standards which guide CAREL in the pursuit of its corporate purpose, and in a manner to prevent the risk of offences punishable under the Decree being committed;
- make such persons aware that, should they breach any instruction provided by Company, they run the risk of disciplinary and/or contractual sanctions, not to mention criminal prosecution and administrative fines or restrictions;
- establish and/or bolster those controls allowing CAREL to react promptly to prevent the commission of any offence by senior management, and by those persons subject to the direction or supervision of the latter, wherein Company might be subject to administrative liability;
- allow Company, through a monitoring of at-risk operations, to quickly intervene in order to prevent or combat the commission of such crimes, and to sanction any conduct which violates Company's Model;
- ensure Company's integrity through compliance with Art. 6 of the Decree;
- improve transparency in the management of Company affairs;
- make it clear to any potential criminal actor that the commission of any crime is strenuously condemned: to wit, not only is it against the law and those ethical standards to which Company holds itself, but it is contrary to Company interests, regardless of whether Company might gain an advantage thereby.

3.3 The CAREL Industries S.p.A. project to generate its Model

The methodology selected to carry out the Project, in terms of organisation, setting standard operating procedures, defining the Project phases, and assigning responsibility to the various Company Divisions, was predicated on an assurance of both quality and authoritativeness of the results achieved.

Please find below the methodology used, and the criteria chosen, for the various phases of the Project.



3.3.1 Planning operations and identifying at-risk areas wherein the crimes punishable under Legislative Decree no. 231/2001 might be committed

Art. 6, paragraph 2, subpart (a) of Legislative Decree no. 231/2001 identifies, amongst the Model's requirements, the identification of those processes and the operations within which the crimes contemplated thereunder might be committed. In other words, these are company activities and operations which are commonly known as "at-risk" (hereinafter, "at-risk activities" and "at-risk processes").

The purpose of Phase 1 is, to wit, analysing the Business Model, identifying those company operations subject to the programme, and an initial round of identifying at-risk processes and activities.

To wit, following the presentation of the Project, a Work Team made up of both in-house and outsourced professionals was formed.

In preparation for identifying at-risk activities, Company has conducted an analysis (primarily of documents) of CAREL's corporate and organisational activities, for the purpose of better understanding Company operations, and to identify the company areas subject to the Project plan.

By gathering the relevant records (e.g. corporate dossier, Articles, Bylaws), and conducting an analysis on the same from a technical/organisational view, allowed for an initial identification of the at-risk processes/activities, and a preliminary identification of the Company Divisions responsible for such processes/activities.

At the end of Phase 1, a detailed work plan setting forth subsequent phases was generated, subject to revision as certain results are achieved, and as prompted by the Project findings.

The activities carried out in Phase 1 are listed *infra*. Phase 1 concluded with an in-house disclosure of the identified processes/activities:

- gathering documentation relating to corporate and organisational infrastructure (e.g. organisational structure, key documents on internal rules and regulations, delegations of authority, powers of attorney, etc.);
- analysis of the collected documentation with a view toward understanding the Company's business model;
- identifying the company activity areas and related division of responsibility amongst company functions;
- preliminary identification of at-risk procedures/activities under Legislative Decree no. 231/2001;
- preliminary identification of Company Divisions (*key officers*) responsible for the at-risk procedures so identified.

The *key officers* were identified as persons at the highest levels within the organisation able to provide detailed information on individual company processes, and the activities of each Company Division, in order to reach a level of information/detail sufficient to comprehend the existing internal-control system;

3.3.2 Analysis of 231 procedures, risks, and controls

The purpose of Phase 2 was to interview those company staff persons ("*key officers*") with an in-depth knowledge of the at-risk processes/activities, and the control mechanisms currently in place. This would be done by taking the preliminary identification of the at-risk activities and processes, and the implicated Company Divisions and parties a step further, in order to finalise the identification in a more in-depth manner.

These essential data were collected both through an analysis of the documents and records supplied over the course of Phase 1, including those relating to the powers-of-attorney and delegation of authority, as well as through interviews.

The analysis was conducted through a series of interviews of *key officers*. An important goal was to establish management procedures and control instruments for each at-risk activity, with special focus on *compliance* and the preventative controls set up as garrisons to the same.

Below is a list of operations conducted over the course of Phase 2, at the end of which a preliminary "map of at-risk processes/activities" was generated, which would be subject to further analysis using both interviews and more in-depth review:

- collecting additional information through a more detailed analysis of all documents produced, and meetings with in-house contact persons on the Project;
- identification of other parties who might be able to provide greater understanding/analysis of the at-risk activities, and the related control mechanisms;
- generating a map that cross-references at-risk processes/activities with the related *key officer*;
- conducting the interviews set up with *key officers*, as well as with any staff identified by the key officers in order to gather, for the at-risk processes/activities identified during the prior phases, all information necessary to understand:
 - basic processes/activities performed;
 - Company Divisions / internal/external entities involved;
 - related roles/responsibilities;
 - the existing control systems;
- sharing information with *key officers* regarding the findings of the interviews;
- finalising a map of at-risk processes/activities in a specific record which brings together all information obtained, and any issues uncovered with the controls on the at-risk process analysed.

During this phase, therefore, a map was generated for those activities which, due to their specific nature, might generate a risk of crimes punishable under the Decree being committed. Reasons might include that the activity contemplates contact/interaction between the CAREL staff member and any party who might be deemed a civil servant or public-service contractor, or for any activities wherein the corporate crimes contemplated under Art. 25-ter of the Decree might be committed.

In analysing the existing control system, the following control principles were, *inter alia*, taken into consideration:

- existence of codified organisational documentation;
- after-the-fact tracking and auditing of transactions through sufficient documentary/informational supports;
- segregation of functions;
- existence of codified delegations of authority which align with the organisational roles as assigned.

3.3.3 Gap analysis and action plan

The purpose of Phase 3 is to identify the organisational requirements which characterise a Model apposite to prevent the crimes punishable under Legislative Decree no. 231/2001.

In order to identify and analyse the existing Control Model (established as a garrison over the risks uncovered and highlighted over the course of the aforementioned *risk assessment*) and to assess the Model's compliance with Legislative Decree no. 231/2001, a comparative analysis was conducted (known as a "*gap analysis*") between the current control system ("*as is*"), and a theoretical Model, assessed in accordance with the rules under Legislative Decree no. 231/2001 ("*TBD*").

Thanks to the comparison provided by the *gap analysis*, it was possible to identify areas for improvement within the existing internal-control system. Based on what was uncovered, an implementation plan intended to identify the organisational criteria for an Organisational, Management, and Control Model under Legislative Decree no. 231/2001, along with the action plan for improving the internal-control system, was generated.

The following is a list of operations conducted during this third phase:

- *gap analysis* between the current, ("*as is*") system, and the Model as-yet to be determined ("*TBD*"), pursuant to the provisions of Legislative Decree no. 231/2001, with particular reference (in terms of compatibility) to the system for delegating authority and power, the Code of Ethics, the system of company procedures, the characteristics of the entity tasked with supervising Model functioning and compliance;
- generating an implementation plan to identify the key organisational requirements for an Organisational, Management, and Control Model pursuant to Legislative Decree no. 231/2001, and the actions to improve the current internal-control system (processes and procedures).

3.3.4 Defining the Model

The purpose of this phase was to establish a CAREL Organisational, Management, and Control Model *under* Legislative Decree no. 231/2001, broken down into the required components, tracking the related Confindustria Guidelines insofar as possible, whilst tailoring it to the company's culture and environment, and submitting it for the approval of the Board of Directors.

The execution of this phase was made possible thanks to the findings from previous phases, as well as strategic planning by the relevant bodies within the Company.

3.4 Model Structure

The document relating to the Model is structured as follows:

- i. the *General Section*, which describes the statutory and regulatory framework, and governs the overall functioning of the organisation, management, and control model as adopted, aimed at preventing the commission of predicate crimes;
- ii. the *Special Parts*, intended as supplements to the *General Section* including descriptions of:
 - those criminal fact patterns enumerated in the Decree deemed germane to Company operations;
 - at-risk processes and activities, with respect to the aforementioned criminal fact patterns, within the Company and the control *standards* relating to the same.

The following *Annexes* shall likewise be deemed an integral part of the Model:

- Company Articles and Bylaws (Annex A);
- Company Organisational Chart (Annex B);
- Group Structure (Annex C);
- Code of Ethics (Annex D);
- List of predicate crimes for entity, company, and association liability (Annex E);
- Examples of "231" contract boilerplate (Annex F);
- Contract *addendum* draft (Annex G)

No provision contained within the internal regulatory system may, however, justify a failure to abide by the rules contained in the instant Model.

3.5 Relationship between the Model and the Code of Ethics

To supplement those control instruments contemplated within the aforementioned Legislative Decree no. 231/2001, Company has implemented a Code of Ethics, which serves to express a company culture wherein the primary goal is to meet, to the fullest extent possible, the needs and expectations of all *stakeholders* (i.e. Company employees, customers, associates, suppliers).

The Code of Ethics is intended, *inter alia*, to support and promote a high level of professional *standards*, and to avoid behaviours which ill-accord with company interests, or which deviate from the law, or which otherwise conflict with the Company's core values.

The Code of Ethics is intended for the members of the corporate bodies, all employees at any pay grade within the Group, and all those who, on either a permanent or temporary basis, interact with Company.

The Code of Ethics shall therefore be deemed an essential building block of the Model: together, they constitute a body of internal rules and regulations intended to disseminate a culture of corporate ethics and transparency. Furthermore, the Code of Ethics is an essential element of the control system. Indeed, the rules of behaviour set forth in these two documents, although generated for distinct purposes, are complementary:

- the Code of Ethics represents an independently adopted tool; it may be adopted company-wide at Company's discretion in order to establish a set of "professional standards" recognised as the company's own, and to which compliance by all is required;
- The Model, on the other hand, complies with a set of specific provisions contained within the decree, and is intended to prevent the commission of certain types of crimes (for incidents which, purportedly committed in the interest of the company, might give rise to administrative liability under the provisions of the Decree itself).

3.6 Offences germane to Company operations

The implementation of a Model as a tool able to guide the behaviour of those operating within the company, and to promote (company-wide, at all levels in the chain of command) behaviour which is geared toward lawfulness and ethics, will have a positive ripple effect in terms of preventing any crime or offence contemplated under the law.

At the same time, given the detailed analysis of the company's culture and environment, the operations conducted by the Company, and the areas potentially at risk for crimes, only those offences contemplated under the individual Special Parts (for greater detail, please refer to that content directly) were deemed germane.

3.7 Implementing, updating, and adjusting the Model

3.7.1 Jurisdiction

The Board of Directors shall have exclusive jurisdiction over passing and amending the Model's General Section and Special Parts. The Chief Executive Officer may, independently, supplement or modify procedures for any non-substantive changes (which are intended to align the Model with any evolution in organisational structure).

3.7.2 Model audits and controls

The Supervisory Board (as defined *infra at 54*), within the scope of authority vested in the same, pursuant to Art. 6, paragraph 1, subparts (b), and Art. 7, paragraph 4, subpart (a) of the Decree, shall be reserved certain specific functions and tasks with respect to curating, developing, and advocating for ongoing updates to the Model.

To that end, the Supervisory Board shall submit suggestions and proposals relating to the organisation and to the control system. These shall be submitted to the company function or department supervising the same, or where deemed particularly significant, to the Board of Directors.

The Supervisory Board shall be tasked with alerting the Board of Directors in writing in a timely manner, at a minimum in its periodic report (submitted at least every half-year), of any events, circumstances, or organisational lapses found in the course of their supervisory duties, which highlight an amendment to the Model which is either necessary or convenient.

With those aims in mind, the Supervisory Board shall style a Supervisory Plan and Programme through which it creates a schedule (subject to change) for its operations, the content of which is dictated by the Supervisory Board Bylaws.

3.7.3 Updates and adjustments

The Model shall be subject to ad-hoc revisions as changes become necessary or convenient, including but not limited to the following occurrences:

- breaches or evasions of the Model's provisions which reflect a gap or conflict with respect to preventing crimes punishable under Legislative Decree no. 231/2001;
- major changes to Company's organisational structure and/or how it conducts business (e.g. following the acquisition of a company branch);
- changes to the applicable regulatory framework which impact Company (e.g. the introduction of new types of crimes deemed material under the Decree);
- assessments of insufficiency following an inspection or control.

Once approved, the amendments and instructions for their immediate application shall be provided by the Board of Directors (or by the Chief Executive Officer) to the appropriate company functions or to the *key officers* responsible for actually implementing the same. The Supervisory Board shall verify proper implementation of the modification by company functions, and by the *key officers*, reporting their findings to the Board of Directors.

Furthermore, the Board of Directors shall advise (within its half-year report, or in an ad-hoc report if and when needed) the Board of Directors regarding the activities undertaken pursuant to the resolution allowing for the updating and/or adjustment of the Model.

The operating procedures established to implement the instant Model shall be amended under the direction of Company Divisions with authority over the same, should any deficiencies arise regarding proper implementation of the Model. The company Company Divisions with jurisdiction over such matters shall further be responsible for supervising the operating procedures needed to implement any revisions to the instant Model.

The Supervisory Board shall be kept constantly apprised of any updates and implementation of the new operating procedures.

4. Supervisory Board

4.1 Supervisory Board Function

Based on the provisions of Legislative Decree no. 231/2001 – Art. 6, paragraph 1, subparts (a) and (b) – the entity may be exempt from responsibility arising from the commission of crimes by those persons identified in Art. 5 of Legislative Decree no. 231/2001, if the supervisory entity has, amongst other assignments, delegated supervision on Model functioning / compliance (once approved and effectively implemented) and the handling of any updates to an entity vested with independent initiative and control functions (hereinafter, the “Supervisory Board” or “SB”). The task of ongoing supervision on the Model's dissemination and actual implementation, adherence to the same by any recipients, as well as proposals for updating the same in order to improve its efficiency in preventing crimes and offences, has been entrusted to such entity as formed within Company.

The assignment of such tasks to a body vested with independent initiative and control powers, along with the proper and effective carrying out of the same, shall therefore represent a necessary precursor for exemption from liability under Legislative Decree no. 231/2001.

4.2 Requirements

Character and Fitness

Members of the SB shall be sourced from amongst those parties meeting the character and fitness requirements under Ministerial Decree no. 162 of 30 March 2000, for the members of the Board of Statutory Auditors for listed companies, established pursuant to Art. 148, paragraph 4, of the TUF.

The following shall be reasons for ineligibility for, or removal from, the Supervisory Board:

- any conviction (or pleading of guilt) albeit still subject to appeal, for one or more predicate crimes contemplated under the Decree, or in any case a conviction (or pleading of guilt) albeit still subject to appeal, with punishment involving a restriction (permanent or temporary) from holding office in any legal entity or business;
- a sanction meted out by CONSOB for having committed one of the administrative offences relating to market abuse under the TUF.

Any reversal of the conviction (or pleading) which had not yet been made final shall cure the ineligibility, but shall not have an impact on any intervening lapse of the term of, or removal from, office.

Autonomy and Independence

The Confindustria Guidelines identify, amongst the key requirements for the Supervisory Board, autonomy and independence.

The Supervisory Board is vested, in the exercise of its functions, with autonomy and independence from the corporate bodies, and from any other internal control entity. The Supervisory Board has independent spending authority, predicated on an annual budget approved by the Board of Directors, or by a party designated by the same, on motion of the SB itself.

Moreover, the SB may request supplemental funds where the original budget is insufficient for the SB to carry out its duties fully; the SB may extend its spending authority of its own initiative under special circumstances or in an emergency. A full report on the same shall be provided thereafter to the Board of Directors.

Furthermore, the operations carried out by the SB shall not be subject to appeal with any other entity or function within the company.

Plenary authority to conduct assigned functions shall be accorded to the Supervisory Board for any audits or inspections.

In the exercise of their functions, the members of the SB shall not have any actual or potential conflicts of interest relating to any personal / family / professional circumstance. Should any conflict arise, they shall immediately report the matter to other members of the SB, and shall recuse from any discussions or voting on the matter.

Moreover, the Confindustria Guidelines provide that *"if the Supervisory Board has mixed (in-house / external) membership, full independence may not be expected from any in-house members. Therefore, the Supervisory Board's independence shall be assessed with respect to the Board as a whole"*.

Professionalism

The Supervisory Board shall be composed of persons vested with specific auditing-relating skills, as well as experience as internal-control analysts, but also legal analysts (criminal law in particular) as needed to properly carry out the operations of the Supervisory Board, so that a sufficient level of professional expertise can be expected in the performance of their assigned duties.

If and when needed, the Supervisory Board may (with reference solely to the execution of those technical operations needed to carry out their control function, outsource certain operations to external consultants. In such cases, the consultants shall always report their work to the Supervisory Board.

Continuity of action

The Supervisory Board shall be able to ensure continuity of action in their role, including by scheduling operations and controls, taking meeting minutes, and with respect to the rules of informational flows from Company Divisions.

4.3 Composition, appointment, and term

Legislative Decree no. 231/2001 does not provide guidance on the make-up of the Supervisory Board. In the absence of such instructions, Company has opted for a solution which, bearing in mind the legislative intent, is able to ensure (given its size and organisational complexity) the efficacy of those controls with which the Supervisory Board is tasked, in accordance with the requirements of autonomy and independence of as previously discussed.

Within that framework, Company's Supervisory Board is a collegial board, identified in light of the professional expertise present on the same, and the personal characteristics of its members, such as their unique capacity for control, their independence of judgement, and their moral fibre.

The SB shall be appointed by Company's Board of Directors, with an annotated order stating that the nominees meet the required standards of character and fitness, professionalism, autonomy, and independence.

To that end, candidates sourced from outside the organisation are required to send their CV along with a statement in which they state they meet the foregoing requirements.

The Board of Directors reviews the information supplied by interested parties, or which is otherwise available to Company, in order to assess whether they actual meet the requirements.

Upon officially accepting their office, the Members of the SB, having reviewed the Model and having formally pledged to abide by the Code of Ethics, shall guarantee continuity of action, and agree to advise the Board of Directors immediately should any situation which might impact their ability to continue to meet such requirements arise.

Following the appointment of the SB, at least once per year, Company's Board of Directors shall verify whether such requirements continue to be met by SB members individually, and by the SB in its entirety.

For any lapse in eligibility requirements, a Member's term shall automatically terminate. In instances of lapse, death, resignation, or removal, the Board of Directors shall promptly replace the member no longer in office.

The SB shall serve a three-year term.

4.4 Removal

Members of the SB may only be removed for just cause, through a resolution by the Board of Directors.

For such purposes, "just cause" for revocation of powers relating to the onboarding of a Supervisory Board member shall include but not be limited to:

- gross negligence in the discharge of duties relating to their office such as: failing to generate the (at least half-yearly) periodic report or the annual summary report on operations required to be conducted by the SB; any failure to generate a supervision programme.
- The "*omitted or insufficient oversight*" by the Supervisory Board – as defined in Art. 6, paragraph 1, subpart (d), of Legislative Decree no. 231/2001 – resulting from a conviction (even if still subject to appeal) issued as against Company or any other company in which the person served on the Supervisory Board pursuant to Legislative Decree no. 231/2002, or pursuant to any plea bargain;
- for any in-house member, the attribution of operational functions and responsibilities within the company which are incompatible with the requirements of "*autonomy and independence*" and "*continuity of action*" required of the Supervisory Board. Regardless, any provision which is organisational in nature and applicable to the same (e.g. end of employment contract or resignation, modification of job duties, termination, disciplinary proceedings, appointment of a new manager) shall be brought to the attention of the Board of Directors, who shall take note of the same;
- egregious, substantiated instances of incompatibility which fatally compromise the person's independence and autonomy.

Any decision regarding the individual members, or the Supervisory Board as a whole, shall fall within the exclusive jurisdiction of the Board of Directors.

4.5 Reasons for suspension

The following shall be causes for suspension from the Supervisory Board:

- a finding, following appointment, that the member of the Board of Directors served on the Supervisory Board against which sanctions under Art. 9 of the Decree for offences committed during their term of office were applied through any final which is not yet final, including any order under Art. 63 of the Decree;
- the member being sent to trial on charges of a predicate crime under the Decree, or for another crime punishable with a restriction (be it temporary or permanent) against holding corporate office, or a similar role in any business, or in respect of any of the administrative offences regarding market abuse as contemplated under the TUF.

The members of the Supervisory Board shall be under an ongoing duty to report any intervening reason for suspension to the Board of Directors, or be fully liable for the consequences thereof.

The Board of Directors shall suspend such persons or persons (as against whom one of the foregoing causes arises) from their position on the Supervisory Board. This shall likewise apply in all other cases in which the Board of Directors has direct knowledge of any such cause arising.

In such instances, the Board of Directors shall make a determination on whether to temporarily supplement the Supervisory Board by appointing one or more members, who shall serve a term equal to the length of such suspension.

Should the Board of Directors decide not to appoint a temporary substitute to the Supervisory Board, the SB shall continue to operate in its reduced size. In such situations, the Chairman of the SB shall be required to vote in favour of any SB motion in order for it to pass.

The decision to remove any suspended members shall be subject to a resolution by the Board of Directors. Any member who is not removed shall be fully reinstated.

4.6 Temporary Restriction

Under circumstances which might temporarily restrict a member of the Supervisory Board from performing his/her duties, or performing them with the requisite autonomy and independence, the latter shall be required to report such actual impediment to the exercise of their function. Should the impediment be due to a potential conflict of interest, the person shall report the cause giving rise to the same, and refrain from taking part in the meetings of the body itself, or recuse him/herself from the discussions to which such conflict relates, until the impediment becomes permanent or is resolved.

A temporary impediment might include, but shall not be limited to, any illness or injury lasting for more than three months, and which prevent the person from taking part in the meetings of the Supervisory Board.

With respect to any temporary impediment, the Board of Directors shall make a determination on whether to temporarily supplement the Supervisory Board by appointing one or more members, who shall serve a term equal to the length of such impediment.

Should the Board of Directors decide not to appoint a temporary substitute to the Supervisory Board, the SB shall continue to operate in its reduced size. In such situations, the Chairman of the SB shall be required to vote in favour of any SB motion in order for it to pass.

The Board of Directors shall reserve the right (where the impediment continues beyond six months, which term may be extended for a further six months, with no more than two such extensions) to remove the member or members in respect of which such impediments have arisen.

4.7 Functions and powers

The Supervisory Board shall be vested with independent authority to take action, intervene, and perform controls company-wide. This authority shall be exercised in order to effectively and promptly carry out the functions contemplated under the Model, and the implementing rules for the same, with a view toward ensuring effective and efficient supervision over Model functioning and compliance in accordance with Art. 6 of Legislative Decree no. 231/2001.

The operations carried out by the Supervisory Board shall not be subject to appeal to any other Company entity or function. All inspection and control operations carried out by the Supervisory Board shall, indeed, be strictly tied to the goal of effective implementation of the Model. These shall not supersede or replace Company's institutional control functions.

Unless already nominated by the Board of Directors, the SB shall appoint from within its ranks a Chairman, who shall act as coordinator, and to whom the Supervisory Board may delegate specific functions.

The Entity shall have the option to appoint a Secretary, who need not be a member of the Supervisory Board.

More specifically, the Supervisory Board is vested with the following duties and powers, in order to carry out and exercise its own functions:

- set rules for its own functioning, which may be codified into a set of bylaws ("Supervisory Board Bylaws") which contemplate: scheduling operations, setting the time intervals for controls, identifying criteria for and analytical procedures, the governance of informational flows from certain company units or functions;
- supervise Model functioning, both respect to preventing the commission of crimes contemplated under Legislative Decree no. 231/2001, as well as to highlight the consummation of the same;
- verify compliance with the Model, rules of behaviour, protocols for prevention, and the procedures contemplated by the Model, uncover any deviations from standards of behaviour which might arise from the analysis of informational flows, and from those reports the heads of various functions are required to make, and to take action as the Model requires;
- carry out periodic inspections and controls (both scheduled and surprise audits) in consideration for the various sectors of intervention or the type of operations and the critical components thereof, in order to verify the Model's efficiency and efficacy. In conducting such operations, the Supervisory Board may:
- demand unobstructed access to any Company Division – with no advance consent required – to request and obtain information, documentation, and data as the Supervisory Board may deem necessary to carry out those tasks contemplated under Legislative Decree no. 231/2001 by all employees and executive staff. Should an objection be raised against producing such records, with reasons provided for such objection, and should the Supervisory Board disagree with the reasons for such objection, it shall generate a report to be sent to the Board of Directors;
- request relevant information, or for documents (whether hard-copy or digital) be produced, when relevant to the at-risk activities, from any director, statutory auditor, auditing firm, associates, consultants, and more generally, any parties required to abide by the Model. The duty of the latter to comply with Supervisory

- Board requests shall be incorporated into their individual contracts;
- develop and proffer Model updates on an ongoing basis, including through an identification, mapping, and classification of at-risk activities, including by tendering proposals for any updates or adjustments to the Board of Directors, to be executed through the modifications and/or amendments as may become necessary;
 - oversee the necessary relationships, and produce those flows of information as against Company organisational units and corporate bodies as required;
 - produce programmes intended to raise awareness of the Model, the content of Legislative Decree no. 231/2001, the impacts of such rules on company operations, on applicable rules of conduct, as well as programmes to train personnel and to cultivate buy-in with respect to Model compliance, setting controls on attendance for all training sessions;
 - verify the presence of an effective internal-communication system which allows for the submitting of whistleblowing reports pursuant to Legislative Decree no. 231/2001, whilst ensuring safeguards and confidentiality for the whistleblower;
 - ensure an understanding of the types of behaviours which must be reported, and the modalities for making such reports;
 - provide all employees and members of the corporate bodies clear instruction regarding the meaning of, and the application of, the Model's provisions, and the proper interpretation/application of the same, the control *standards*, the related implementation procedures, and the Code of Ethics;
 - generate (and thereafter submit for the executive body's approval) a draft budget for those expenses needed to properly carry out assigned functions in a fully independent manner. Such budget, which shall ensure the full and proper carrying out of their operations, is subject to Board of Directors approval. The entity may independently pledge funds in excess of their assigned budget under special circumstances, or in an emergency. In such cases, the Supervisory Board shall alert the Board of Directors of the same thereafter;
 - promptly alert the governing body (so that it might take appropriate action) of any substantiated violations of the Model which might give rise to Company liability, and propose sanctions pursuant to Chapter 5, *supra*, of the instant Model;
 - verify and assess the sufficiency of the disciplinary system under Legislative Decree no. 231/2001.

In conducting operations, the Supervisory Board may avail itself of the support of internal Company functions and divisions, or those vested with specific authority for those areas subject, from time to time, to controls; the Supervisory Board may also outsource such support. In such cases, the consultants shall always report their work to the Supervisory Board.

The Board of Directors shall be responsible for keeping all company functions and divisions aware of the Supervisory Board's functions and its authority.

The SB shall not be vested with any authority to run the company, nor any decision-making authority with respect to Company operations, organisational powers, or any changes to the company's organisational structure, nor any authority with respect to meting out sanctions.

The members of the SB, as well as the persons or entities utilised by the Supervisory Board in whatever capacity, shall be required to comply with the duty of confidentiality attaching to all information accessed by the Board and such persons or entities in the course of their duties.

Any disclosure, alert, *report*, or other submission contemplated under the Model shall be retained by the Supervisory Board pursuant to its own Bylaws.

4.8 Information flows to and from the Supervisory Board

4.8.1 Supervisory Board reporting duties (to corporate bodies)

The Supervisory Board reports on the implementation of the Model, on whether any critical issues have arisen, and on the need for any modifications. Distinct channels of reporting are contemplated for the Supervisory Board:

- i. to the Board of Directors, for the Supervisory Board to advise them, at the Supervisory Board's discretion, on facts and circumstances deemed material for purposes of their own duties. The SB shall provide immediate notice upon the occurrence of any unusual situation (such as major breaches of the standards set forth in the Model, statutory or regulatory updates regarding entity administrative liability, etc.), and any reports received by the SB which are urgent in nature;
- ii. submit at least one written report, on at least a half-yearly basis, to the Board of Directors, and to the Board of Statutory Auditors; such report shall contain the following information, at a minimum:
 - a. a summary of operations conducted over the period, and a schedule of operations slated for the following period;
 - b. any problems or issues arising over the course of their supervisory operations;
 - c. if not previously subject to a report:
 - any remedial measures to be taken in order to ensure the Model's efficacy and/or actual implementation, including those needed to fill any organisational or procedural gaps uncovered which might expose the Company to the risk of crimes deemed material under the Decree being committed, including a description of any new at-risk activities identified;
 - likewise in accordance with the terms and conditions set forth in the Disciplinary System implemented by Company pursuant to the Decree, an identification of behaviours discovered and found to ill-accord with the Model, submitted along with proposed sanctions as against the perpetrator or the implicated function and/or process and/or area;
 - d. a summary of the reports received in-house, as well as from external reports, including anything directly uncovered with respect to alleged violations of the instant Model, the prevention protocols, and the related implementation procedures, as well as any violation of the provisions of the Code of Ethics, and the results of any inspections or controls conducted;
 - e. a notice regarding the commission of any crimes punishable under the Decree;

- f. disciplinary procedures and any sanctions applied by the Company with reference to any violations of the instant Model, or of the prevention protocols and related implementation procedures, as well as violations of the Code of Ethics;
- g. a comprehensive assessment on Model functioning and efficacy, submitted along with any suggestions for amendments, corrections, or modifications;
- h. reporting any changes to the legislative landscape and/or major changes to Company's infrastructure and/or to how the business is run which might require an update to the Model;
- i. reports on any conflicts of interest, including with respect to any member of the SB;

In addition to such information flows, the Supervisory Board shall be tasked with alerting the Board of Directors – in a timely manner, at a minimum in its periodic report (submitted at least every half-year) – of any events, circumstances, or organisational lapses found in the course of their supervisory duties, which highlight an amendment to the Model which is either necessary or convenient.

The Board of Directors and the Board of Statutory Auditors shall have the option to summon the Supervisory Board at any time for a full report on operations falling within the Supervisory Board's span of authority.

Meetings with the corporate bodies to which the Supervisory Board reports shall be documented. The Supervisory Board handles filing all related documentation.

4.8.2 Information flows toward the Supervisory Board

The Supervisory Board shall be promptly notified regarding those acts, behaviours, or events which might give rise to a violation of the Model, or which more generally might be relevant for purposes of Model efficacy and effectiveness.

Details and specific information in that regard are set forth in the document entitled "*Information Flows toward the CAREL Industries S.p.A. Supervisory Board*".

In general, all recipients of the Model shall provide the Supervisory Board all useful information needed to carry out the audits on proper Model implementation. To wit, the *key officers* operating within the scope of at-risk activities shall submit to the Supervisory Board: (i) at agreed-upon intervals, the "information flows", that is, the list of operations/transactions falling within the scope of at-risk operations contemplated under Company's Model; (ii) any anomalies or non-conformities found within the scope of available information. Furthermore, should areas of improvement be found through the process of creating and/or applying those control *standards* established in the instant Model, they shall promptly report such circumstances to the Supervisory Board.

In that respect, the following prescriptions, general in nature, shall apply:

- the Supervisory Board shall have discretion and authority to assess any reports received, and the situations in which its own action is required;
- recommendations predicated on findings shall be detailed in writing.

The SB may request information such as:

- transactions falling within the at-risk activity category (e.g. periodic summary prospectuses on the main activities relating to the management of contractual relationships with agents/distributors, information relating to the use of financial resources for the purchase of goods or services or other investment operations, etc.);
- any other information which, albeit not enumerated immediately *supra*, appears to be relevant for purposes of correct and complete supervision and update of the Model.

The following are types of reporting to the SB:

- a. **event:** information flows which occur upon a specific event occurring, and which is necessarily to promptly report to the SB;
- b. **periodic:** information flows to be sent to the SB by a specific deadline by a specific function (the actual deadlines are set forward in the procedure entitled "*Information flows toward CAREL Industries S.p.A Supervisory Board*");
- c. **whistleblowing:** the term used to describe a report made to the SB by a Company worker of any breach of rules or regulations under the Model; this tool, in particular, creates a channel for *reporting* factual situations and/or behaviours which is distinct from the chain of command, and which allows for personnel to report actual or suspected violations of rules by others within the entity, without any fear of retaliation (*see infra* § 4.8.2.1).

In order to allow for due compliance with the provisions under the instant paragraph, the following dedicated email has been set up: odv@carel.com.

Reports may also be disclosed orally or to the following address:

CAREL Industries S.p.A. Supervisory Board

Via dell'Industria, 11, 35020, Brugine PD

as well as by placing the report in dedicated mailboxes located onsite at the company, which are accessible to all, but which may only be inspected and opened by the SB.

Reports shall be retained by the SB pursuant to the SB Bylaws.

The duty of disclosure for any behaviour which is contrary to the provisions set forth in the Model falls into the broader duty of diligence and loyalty incumbent on the worker. Proper discharge of reporting duties on the part of the worker shall not give rise to the application of disciplinary sanctions.

Company shall undertake suitable and effective measures in order to ensure that the confidentiality of those reporting useful information to the SB, for purposes of identifying behaviour which deviates from that prescribed by the Model, from the procedures established for its implementation, or from any procedures established under the internal control system, subject to any statutory duties or the safeguarding of Company interests, and those of any person wrongfully and/or maliciously accused, shall be ensured.

Retaliation, discrimination, or punishment against those making reports in good faith to the SB shall be strictly prohibited. Company reserves the right to take action against anyone making a false report in bad faith.

4.8.2.1 Whistleblowing

As noted *supra*, with a detailed description of the key provisions, along with such reporting duties with respect to the SB, Law no. 179 (30 November 2017) establishes "*Provisions for protections of whistleblowers reporting crimes or anomalies of which they were apprised in the course of their job duties, whether in the private or in the public sector*" inserted into the body of Art. 6 of the Decree a set of further points (to wit, paragraphs 2-*bis*, 2-*ter* and 2-*quater*), aimed at ensuring and protecting those who, within the entity, promptly report the commission of illicit conduct which is significant under the Decree (known as *whistleblowing*).

In order to ensure maximum confidentiality for whistleblowers and compliance with Law no. 179/2017, Company has also created an alternative reporting channel, that is, a *form* which may be filled out online, which ensures total anonymity of the reporting party.

Additional information may be found in the designated company policy entitled "*Procedures regarding those reporting crimes or other anomalies (a/k/a whistleblowing) of CAREL Industries S.p.A.*".

5. The penalty system

5.1 General principles

Art. 6, paragraph 2, subpart (e), and Art. 7, paragraph 4, subpart (b) of Legislative Decree no. set forth, as a condition precedent for the proper implementation of the Organisational, Management, and Control Model, the introduction of a disciplinary system sufficient to sanction failures to comply with the measures set forth in the Model itself.

Thus, the implementation of a suitable disciplinary system constitutes an essential precursor to the ability of the Organisational, Management, and Control Model (pursuant to Legislative Decree no. 231/2001) to act as a liability shield with respect to administrative liability for entities.

The sanctions contemplated shall apply to each and every violation of the provisions set forth in the Model, regardless of whether a crime has been committed, or whether any criminal proceeding has been launched or adjudicated by the courts.

The sanctions contemplated for any violations of the provisions contained in the Model shall be understood to apply to breaches of the Code of Ethics, as well.

With respect to proceedings involving notice and assessment of any disciplinary sanctions, the powers as conferred upon Company *Management*, within the limits of the related delegations of authority, shall stand.

The Supervisory Board, once it has received the report and conducted all assessments necessary or convenient therefor, shall generate a proposal relating to the steps to be taken, and shall disclose their assessments to the company bodies with authority over the matter, pursuant to the disciplinary system, who will then announce whether they have accepted the modifications proposed by the Supervisory Board (whether in whole or in part) and shall engage whichever Company Division is implicated in the matter in order to ensure proper implementation of such measures.

Moreover, whilst the violation is being formally assessed, as well as during the adjudication and penalty phase thereafter, applicable provisions of statute, regulation, collective-bargaining agreement, or company Disciplinary Codes shall apply, to the fullest extent possible.

5.2 Action taken as against employees

Any breach of the individual positions and rules of behaviour under the Model by any CAREL employee shall always constitute a disciplinary infraction.

Company asks its employees to report any breaches. The act of reporting shall be viewed positively, even when the whistleblower contributed to the breach.

To assess any infraction concerning the Model, disciplinary proceedings, and the meting out of the related sanctions, the powers as conferred upon Company *Management*, within the limits of the related delegations of authority, shall stand.

With respect to the type of sanctions which may be levied with respect to any employment relationship, all disciplinary sanctions shall comply with the procedures set forth in Art. 7 of the Workers' Code, which vary depending on the type of infraction and the type of sanction.

Termination and any other disciplinary action shall not prejudice any civil liability for the damages caused, and attaching to the worker.

5.2.1 Action taken as against non-executive staff

Any employee conduct which violates the rules of behaviour set forth in the Model and in the Code of Ethics shall be tantamount to breach of a primary duty of the employment relationship itself; consequently, such violation gives rise to disciplinary sanctions.

With respect to the procedures applicable to non-executive staff, the source of the rules for the Company's disciplinary system is, first and foremost, the applicable National Collective-Bargaining Agreement or "CCNL",

- in this case, the Private Metalworking Industry and Systems-Installation CCNL;

Note that the sanction levied shall be proportional to the severity of the violation committed and, moreover, shall take into account the following:

- the mens rea or scienter, meaning whether the behaviour was intentional, and the severity of fault (negligence, recklessness, or lack of due care);
- the employee's behaviour viewed holistically especially with respect to whether the employee had been subject to any prior disciplinary proceedings;
- the degree of responsibility and autonomy of the employee who perpetrated the administrative offence;
- involvement of other persons;
- the severity of the impact of the disciplinary offence, meaning the risk to which the company might have reasonably been exposed due to the reported violation;
- any other attendant circumstances of the unlawful offence.

The disciplinary proceedings to which an employee might be subject should they violate the Model are as follows:

- a. verbal warning;
- b. written warning;
- c. fine of no less than three (3) hours of hourly wage, calculated as the minimum rate on the pay schedule;
- d. administrative leave without pay up to a maximum of three (3) days;
- e. termination due to breach under Art. 10 of the CCNL.

The worker who does the following may be subject to a *written warning, fine or suspension*:

- a. fails to report for work, or abandons his/her post without just cause, or fails to provide an excuse for such absence by the day after such absence began, except in instances of any legitimate impediment;
- b. without just cause, fails to begin work on time, suspends work, or stops early;
- c. commits an act of minor insubordination as against his/her superiors;
- d. behaves in a negligent or wilfully slow manner in any assigned duty;
- e. exhausts or breaks any plant material or processing material, due to inattention or negligence;
- f. is found in a state of obvious inebriation during the workday;
- g. moonlights for companies who handle work similar or identical to that of the company;
- h. fails to abide by the restriction against smoking if and when in effect, and where a "No Smoking" sign is posted;
- i. carries out, within the company's own shop, minor projects in the interest of the employee or third parties, without using any company material, but using company equipment;
- j. breaches the CCNL in any other way, or commits any breach which causes prejudice to the discipline, morale, or hygiene and security of the plant;
- k. takes action which is retaliatory or punitive as against those who made reports for the benefit of the Supervisory Board;
- l. violates, through either intentional or negligent conduct, the restriction against baseless reporting to the Supervisory Board; or
- m. otherwise breaches the principles of the instant Model and Code of Ethics.

The warning shall apply for minor breaches; fines and suspensions to major ones.

The fine amount, which shall not be construed as restitution, shall be turned over to the existing insurance and benefit funds as established by the company, or where no such fund exists, to the Supplemental Illness Fund.

Termination with notice is a sanction applicable to the worker who commits any infraction with respect to workplace discipline and due care which, albeit more severe than those previously enumerated, falls short of the conduct to which immediate termination applies.

Such infractions shall include but not be limited to:

- a. insubordination to one's superiors;
- b. noticeable, negligent damage to plant material or processing material;
- c. execution of small projects, for oneself or any third party, without authorisation, without using company materials;
- d. brawls within the plant outside processing departments;
- e. abandonment of job post by personnel specifically tasked with surveillance, custody, control, with the exception of those cases contemplated under point (e) of the paragraph entitled Termination without Notice, *infra*;
- f. prolonged absence without excuse (for more than four consecutive days), or reiterated absence over three days in any year, on the day following a holiday, or other holiday leave;

- g. a sentence involving incarceration against the worker, with a conviction no longer subject to appeal, for any act which is not committed in the context of the employment relationship, but which tarnishes the employee's character;
- h. any recidivism of any lapse contemplated *supra*, when two suspension orders have been ordered against the worker.

Termination without notice shall apply against the worker who causes serious moral or tangible harm to the company, or who carries out, within the employment relationship, actions which constitutes a crime under the law.

Such infractions shall include but not be limited to:

- a. serious insubordination to one's superiors;
- b. theft within the company;
- c. asportation of any sketches or drawings of equipment or instruments or other objects or documents belonging to the company;
- d. voluntary damage to company material or processing material;
- e. abandoning one's post when such departure might cause prejudice to the health or safety of any person, or to the safety of any systems, or which otherwise causes harm which might give rise to the same issues;
- f. smoking where such conduct might harm the wellbeing of any person, or the security of any system;
- g. execution of major projects, for oneself or any third party, without authorisation, and with or without using company materials;
- h. brawls inside processing departments;

For any termination of employment for those causes enumerated for instances of *termination without notice*, the company may place the worker on non-disciplinary *administrative leave* on an immediate basis, for a maximum of six (6) days. The employer shall notify the worker in writing of any significant facts germane to the ruling, and shall review any defence if submitted. If the employee is terminated, termination shall take effect from the moment of the suspension.

5.2.2 Actions as against executive staff

Company executives, in carrying out their own professional activities, shall be under a duty both to abide by, and to have their own associates abide by, the Model's rules.

The National Collective Bargaining Agreement for Executives of Companies Producing Goods and Services shall apply to executive staff at the Company.

For example, for any violation of the provisions contained in the Model, executives may be sanctioned for behaviour including but not limited to:

- failing to properly supervise his/her subordinates to ensure compliance with the Model in all at-risk areas and for operations instrumental to those operating processes wherein there is a risk of a crime being committed;

- failing to report any failure to comply with, and/or any non-conformities in the performance of those duties under the Model, when on notice of the same, such that the Model is rendered ineffective, and consequently Company runs the risks of sanctions under Legislative Decree no. 231/2001;
- failing to report any critical issues regarding the at-risk areas discovered during any monitoring operations by persons tasked with such monitoring;
- taking action which is retaliatory or punitive as against those who made reports for the benefit of the Supervisory Board;
- violating, through either intentional or negligent conduct, the restriction against baseless reporting to the Supervisory Board;
- directly committing one or more serious violations of the Model, such the a crime contemplated under the Model is committed, thereby exposing the Company to a sanction being applied pursuant to Legislative Decree no. 231/2001.

For any violation of the rules of conduct or similar provisions contained in the Model by any executive, CAREL, depending on the severity of the same, any recidivism, or direct breach, failure to supervise, shall select the measure deemed most fitting, insofar as permitted by law or by contract.

Where the violation of the Model leads to an intervening breach of the fiduciary relationship between Company and Executive, the sanction shall be termination.

5.3 Action as against directors

Upon notice of any breach of the provisions and the rules of behaviour of the Model by any member or members of the Governing Body, the Supervisory Board shall promptly report the incident to the other members of the Governing Body, or where there are no remaining members, the Shareholders' Meeting. The parties subject to the notice to the Supervisory Board may take all proper measures in order to take the best action in accordance with applicable law.

In order to ensure the full exercise of the right of defence, a deadline within which the interested party might submit explanations and/or a defensive brief; an in-person hearing may be granted.

5.4 Actions as against statutory auditors

Upon notice of the breach of any provisions and rules of behaviour within the Model by one or more statutory auditors, the Supervisory Board shall promptly report the incident to the other members of the Board of Statutory Auditors, and the Board of Directors.

5.5 Actions against the Supervisory Board

For any negligence and/or lack of due care on the part of the Supervisory Board in the proper application of the Model, and compliance with the same, and in not having been able to identify any breach of the same, determining all subsequent remedial measures, the Board of Directors shall take all necessary and convenient action according to the modalities contemplated by applicable law, including removal from office, and without prejudice to seeking damages at law.

In order to ensure the full exercise of the right of defence, a deadline within which the interested party might submit explanations and/or a defensive brief; an in-person hearing may be granted.

5.6 Actions as against trade *partners*, consultants, or other parties in contractual relationships with the Company

The violation on the part of trade *partners* consultants, or other parties under with the Company to carry out activities deemed at-risk for purposes of the provisions and rules of conduct contemplated under the Model applicable to the same, or the commission of crimes contemplated under Legislative Decree no. 231/2001 by the same, shall be sanctioned in accordance with specific contract boilerplate incorporated into the related contracts.

Such clauses, with explicit reference to compliance with the rules of behaviour contemplated under the model, may contemplate, for example the duty on the part of such third parties to refrain from conduct or behaviour which might give rise to a violation of the Model by the Company.

In case of any violation of such duty, Company must have the option to terminate the contract, and to apply any penalties.

The Company shall, regardless reserve the right to request damages arising from the violation of the provisions and the rules of behaviour contemplated in the Model by the aforementioned third parties.

6. The training and communication plan

6.1 Foreword

In order to effectively implement the Model, CAREL shall ensure proper dissemination of the contents and principles set forth in the same, both inside and outside the organisation.

The Company's goal shall be to disclose the contents and principles of the Model to those parties who, albeit not true employees, operate – either on an ongoing or intermittent basis – play a role in pursuing Company objectives pursuant as a matter of contract.

Model recipients shall be both those persons in a position of representing, administering, or directing the Company or any Company Division of the same equipped with independent finances and function, as well as those who exercise, either in a formal or de facto capacity, control and management over the Company, as well as persons subject to the direction or supervision of one of the foregoing parties (pursuant to Art. 5 of Legislative Decree no. 231/2001); however, more generally, it also applies to those who operate in the pursuit of Company objectives and purposes. Amongst the recipients of the Model, therefore, are those members of the corporate bodies, the persons involved in the functions of the Supervisory Board, as well as the employees, associates, external consultants, and *partners*.

The Company, indeed, intends to:

- engender, in all those who operate in Company's name or on Company's behalf in any at-risk activity, an understanding that if they violate the provisions contained therein, they may be subject to sanctions;
- advise all those who operate on the company's behalf for any reason, or which otherwise act in the interest of the company, that the violations of the provisions contained in the Model shall mean the application of specific sanctions, or the termination of the pending contractual relationship;
- emphasize that CAREL shall not tolerate any type of unlawful behaviour, regardless of the ends pursued, in that such behaviour (even under circumstances in which Company might apparently derive a benefit therefrom) is contrary to the ethical standards to which CAREL holds itself.

Communication and training operations shall vary based on the intended recipient; however, they shall always be undertaken in the spirit of completeness, clarity, accessibility, and continuity, so that a plurality of recipients might gain a full understanding of those company rules and regulations they are required to respect, and the ethical standards which must guide their behaviour.

Such recipients shall be required comply fully with each and every provision of the Model, including with respect to their duties of loyalty and due care, which in turn arise from the legal relationship entered into with the Company.

Communication and training operations shall be monitored by the Supervisory Board who shall be assigned amongst other duties, duties to “promote programmes for disseminating awareness and comprehension of the Model, as well as to train staff and to raise awareness of the need to abide by the principles set forth in the Model” and to “foster communication and training in accordance with the contents of Legislative Decree no. 231/2001, regarding the impacts of the law on company operations, and on rules of conduct”.

6.2 Employees

Each employee shall be required to:

- i. gain an understanding of the principles contained in the Model;
- ii. know the operating modalities through which they shall perform their assigned duties;
- iii. contribute proactively, within the scope of their assigned duties and responsibilities, to the effective implementation of the Model, reporting any gaps found in the same.

In order to ensure effective and reasonable communication, Company shall promote an understanding of the Model's content and principles, and the procedures to implement within the organisation applicable to the same, with a level of detail that varies based on the position and the role held.

All employees and new hires shall be provided a copy of an excerpt from the Reference Standards for the Model, and the Code of Ethics, or they shall be given the option of reviewing them directly *on the company intranet* on a dedicated page within the same.

Moreover, for those employees who do not have access to the Intranet, such documentation shall be made available to them through alternative means such as by enclosing it with their pay stub, or by affixing it to company bulletin boards.

The heads of the individual Company Divisions shall assist the Supervisory Board in identifying the best method of accessing training services on Model's standards and specific content, especially for the benefit of those operating in at-risk areas, as defined under Legislative Decree no. 231/2001 (e.g. *staff meetings, online courses, etc.*).

At the end of the training event, the participants shall fill out a form, thereby attesting to having received the same, and having attended the class.

By filling out and sending the form, the party affirm an understanding of the contents of the Model.

Proper communication tools shall be adopted to update the recipients of the instant paragraph regarding any amendments made to the Model, as well as any relevant change in procedure, regulation, or within the organisation.

The Supervisory Board shall gauge Model-receipt levels through specific, periodic audits.

6.3 Members of the corporate bodies, and persons who represent the Company.

Members of the corporate bodies, and parties vested with authority to represent the Company (agents), shall have a hard copy of the full text of the Model and the Code of Ethics made available to them upon acceptance of their appointed office. They shall be made to sign a pledge to abide by the principles set forth therein.

Proper communication tools shall be adopted to apprise them of any intervening modifications to the Model, as well as any relevant change in procedure, regulation, or within the organisation.

6.4 Other recipients

Communication activities with respect to the Model's rules and content shall be directed to third parties who interact with the Company in any contractually regulated manner (e.g.: consultants, agents, and distributors), with particular reference to those who operate in any at-risk area under Legislative Decree no. 231/2001.

To that end, the Company Divisions implicated in the matter shall determine:

- the types of legal relationships with parties outside the Company, wherein (given the activity carried out) the Model's provisions shall apply;
- the method of disclosing an excerpt of the Model and the Code of Ethics to interested parties outside the organisation, and the procedures necessary to abide by the provisions contained therein, in order to ensure actual understanding of the same.

Headquarters ITALY

CAREL INDUSTRIES Hqs.
Via dell'Industria, 11
35020 Brugine - Padova (Italy)
Tel. (+39) 0499 716611
Fax (+39) 0499 716600
carel@carel.com