ANNUAL REPORT

CAREL

2021

DIRECTORS' REPORT

at 31 December 2021

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LETTER TO THE SHAREHOLDERS

Dear shareholders,

2021 was a year of strong contrast: on the one hand, thanks to the widespread vaccination campaign against Covid-19, new shut-downs of industrial and production sites were avoided facilitating an upswing in the global economy, while on the other, the scarcity of raw materials, especially electronic parts, held back global growth which was already struggling to deal with inflationary pressures (the inflation rate in the Eurozone was 5% in December and 7% in the US).

The group achieved record-breaking results again this year, which we are very proud of, in this quite positive but very volatile scenario. At the end of the year, revenue was up 26.8% on the previous year (+21.9% on a like-for-like basis) which, partly bolstered by its operating leverage, reflected on profitability bringing the ratio of EBITDA to revenue to 20.3%, up 60 bp. Growth and profitability positively impacted on strong cash generation: net of the M&A transactions, net debt shrank from around €49.6 million to under €23 million, an improvement of about 45%.

The group engaged in two important M&A transactions this year: in May, it acquired 51% of CFM, a distributor and its long-standing partner in Turkey which provides digital and on-field services and high value added complete solutions. It then finalised its acquisition of 100% of Enginia S.r.l., which designs, produces and markets dampers and other components for air handling units. These transactions were made in the wake of the 2018 acquisitions of Recuperator and HygroMatik as part of the Group's external growth strategy.

This strategy is increasingly intertwined with Carel's sustainability vision. During the year, we approved our first long-term sustainability plan summarised by the concept "Driven by the Future - Sustainability in action". The plan identifies six areas of commitment (Sustainable Strategy and Governance, Environmental Policies, Innovation and Technology, People, Communication, and Sustainable Development of Local Communities) and comprises 55 sustainability objectives (22 social, 22 environmental and 11 governance), broken down in turn into 68 specific targets, spread over a period of several years. By defining these six areas of commitment, Carel intends to affirm its intention to contribute to advancement of certain Sustainable Development Goals (SDGs). The plan's forward-looking nature is matched by some important initiatives commenced in 2021, such as the first sustainability-linked loan, whose interest rate will decrease upon achievement of annual quantitative social sustainability targets which in this special case relate to the gender balance within the group.

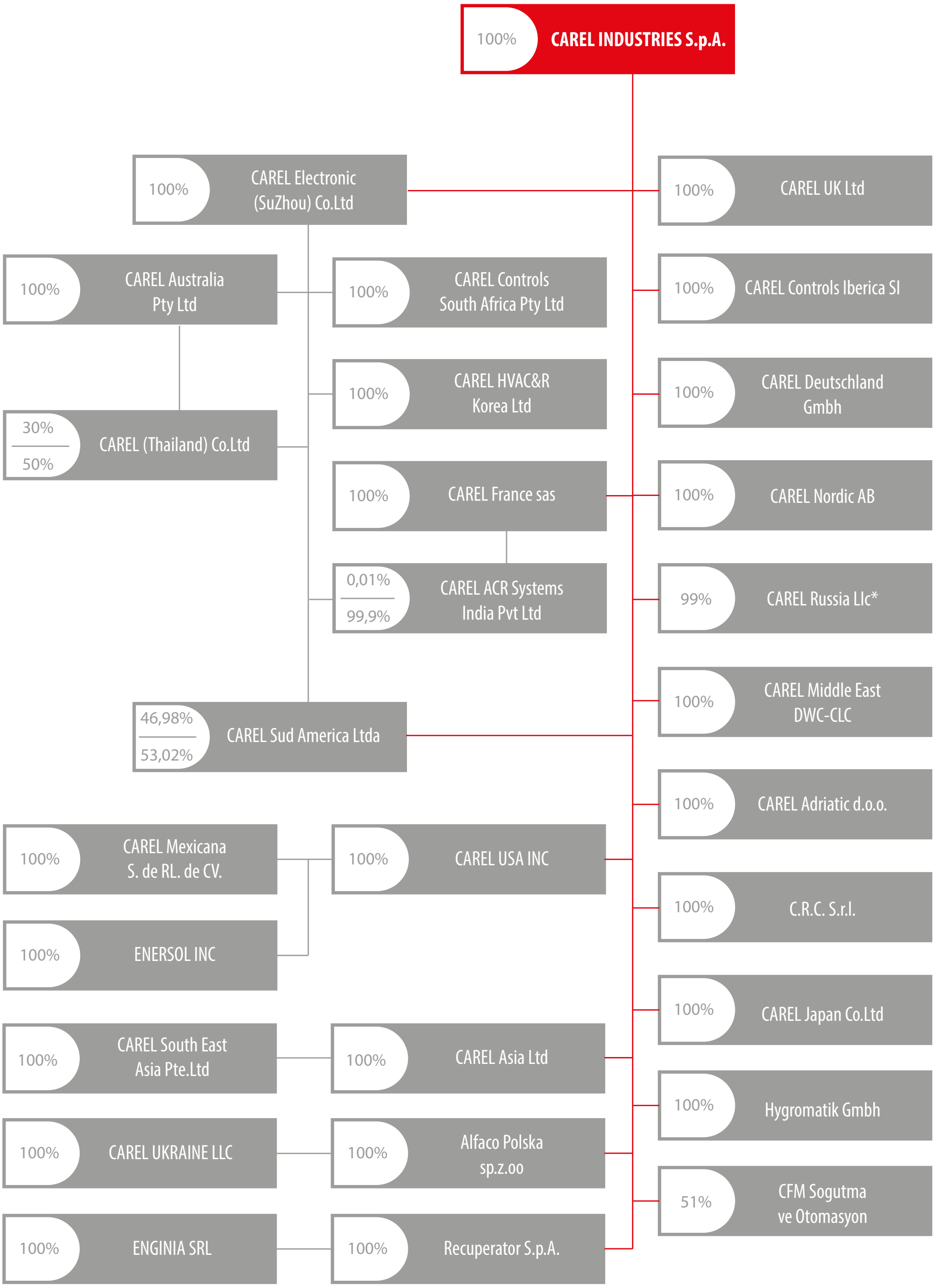
Growth, resilience, development and sustainability were the drivers of Carel's operations in 2021 and will underpin its strategies again in 2022 together with a strong move towards digitalisation. This will allow us to be well placed with our customary enthusiasm to take on the tough challenges facing us in the coming months and years

Chairperson
Luigi Rossi Luciani

"...the results are based on three strategic pillars: organic growth, external expantion and a strong focus on connectivity and innovation..."

CAREL INDUSTRIES GROUP STRUCTURE

The following graph shows the group's structure at 31 December 2021:



*= 1% held by Carel France sas

CORPORATE BODIES

Board of directors	Chairperson	Luigi Rossi Luciani
	Executive deputy chairperson	Luigi Nalini
	Chief executive officer	Francesco Nalini
	Executive director	Carlotta Rossi Luciani
	Independent director	Cinzia Donalisio
	Independent director	Marina Manna
	Independent director	Maria Grazia Filippini
Board of statutory auditors	Chairperson	Paolo Prandi
	Standing statutory auditor	Saverio Bozzolan
	Standing statutory auditor	Claudia Civolani
	Alternate statutory auditor	Fabio Gallo
	Alternate statutory auditor	Alessandra Pederzoli
Independent auditors		Deloitte & Touche SpA
Audit, risk and sustainability committee	Chairperson	Marina Manna
	Member	Cinzia Donalisio
	Member	Maria Grazia Filippini
Remuneration committee	Chairperson	Cinzia Donalisio
	Member	Marina Manna
	Member	Maria Grazia Filippini
Supervisory body as per Leg. dec. no. 231/2001	Chairperson	Fabio Pinelli
	Member	Arianna Giglio
	Member	Alessandro Grassetto

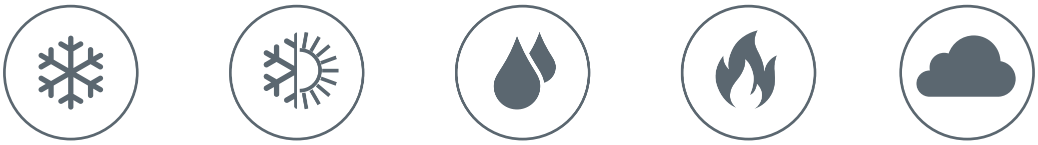
REFRIGERATION applications

Industrial applications HVAC

RESIDENTIAL APPLICATIONS
Heating, Ventilation and Air Conditioning

OPERATIONS AND MARKETS

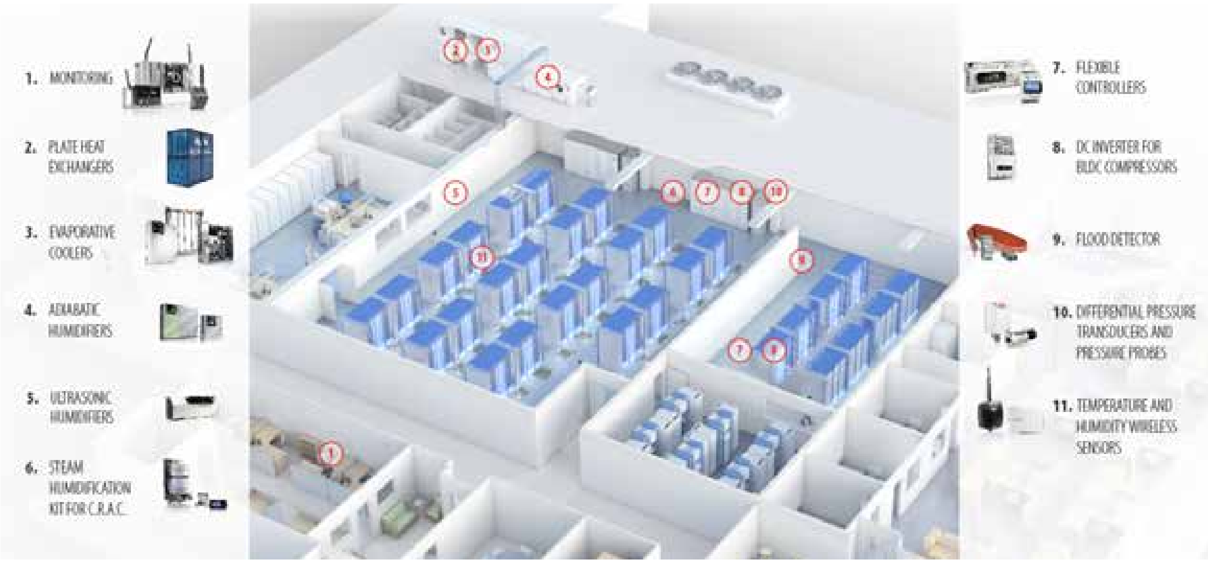
The group is active in the design, manufacturing and global distribution of technologically innovative components and solutions (hardware and software) to achieve energy-efficient control and regulation instruments for the air conditioning (Heating Ventilation Air Conditioning, "HVAC") and refrigeration markets (together "HVAC/R"). In this context, the group designs, manufactures and markets control and humidification solutions for the application segments:



With reference to the **HVAC sector**, the group offers solutions for integration into individual units, such as heat pumps, shelters, rooftops, computer room air conditioners (CRAC), chillers and air handling units. Its industrial applications for the air-conditioning sector are designed for data centres, the process industry, commercial applications mainly consisting of components for air-conditioning systems in commercial buildings, and residential applications principally comprising control solutions for heat pumps.

The following charts show the Carel systems:

- for applications in data centre air-conditioning systems:

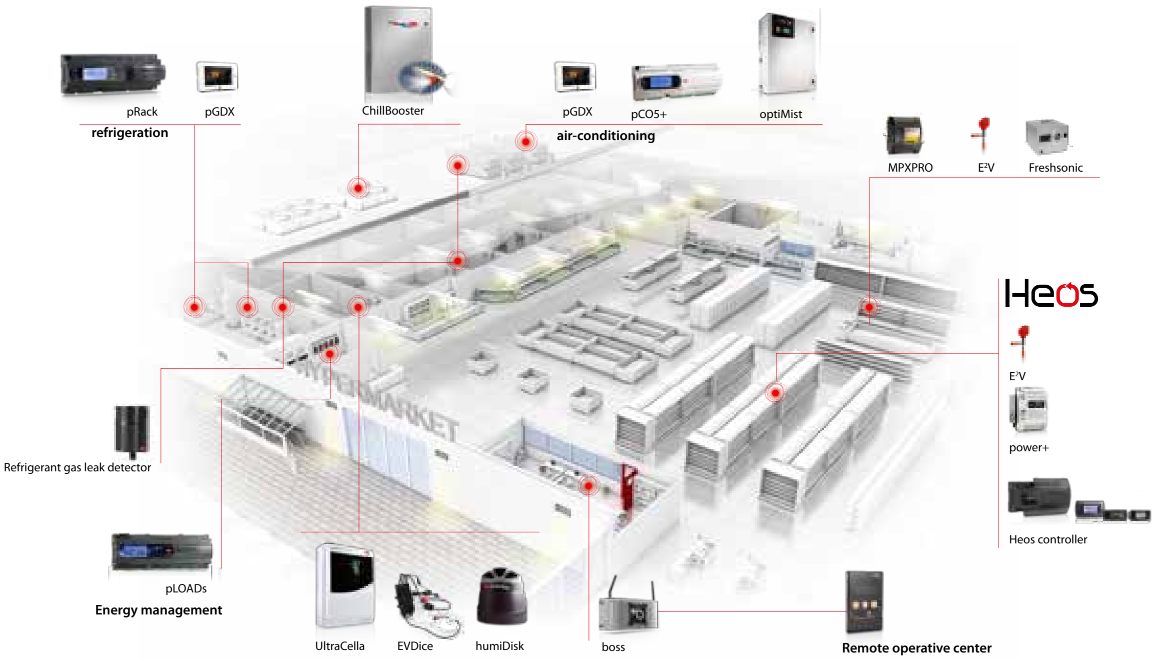


- for air treatment systems:

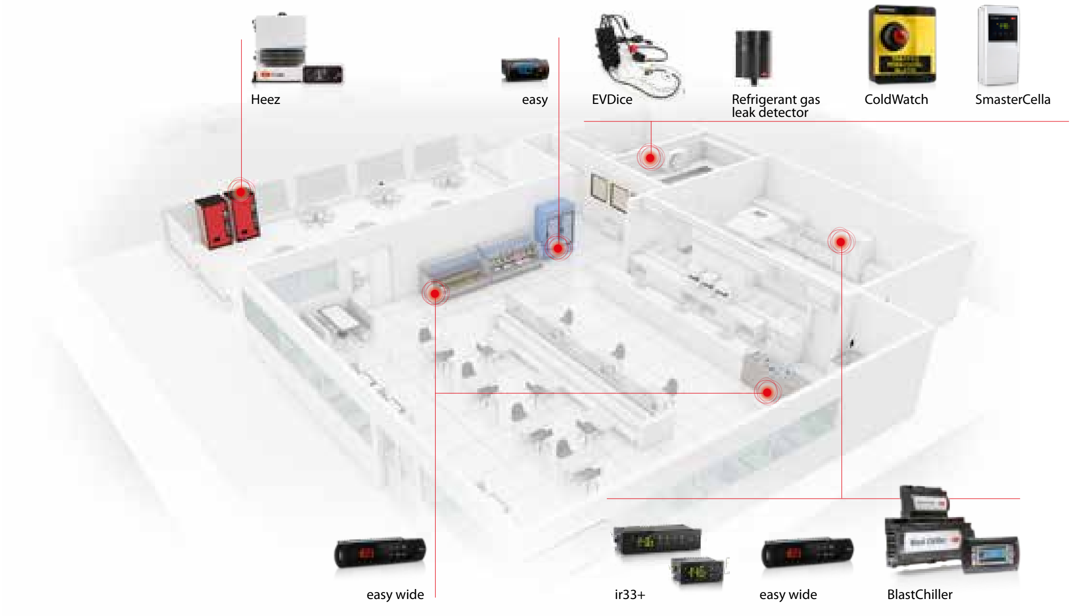
In the **refrigeration sector**, the group specialises in the design, manufacturing and distribution of control systems for the food retail and food service segments. Carel's offer is for:

- individual refrigerator units, such as beverage coolers, plug-in refrigerators and display cabinets;
- complex and interconnected commercial refrigeration systems, such as those for supermarkets of all sizes, convenience stores and foodcourts;
- supervisory systems for individual machines, such as plant and remote supervision centres.

Example application of Carel's solutions for commercial refrigeration in food retail (supermarkets):



Example application of Carel's solutions for commercial refrigeration in food service (quick service restaurants):

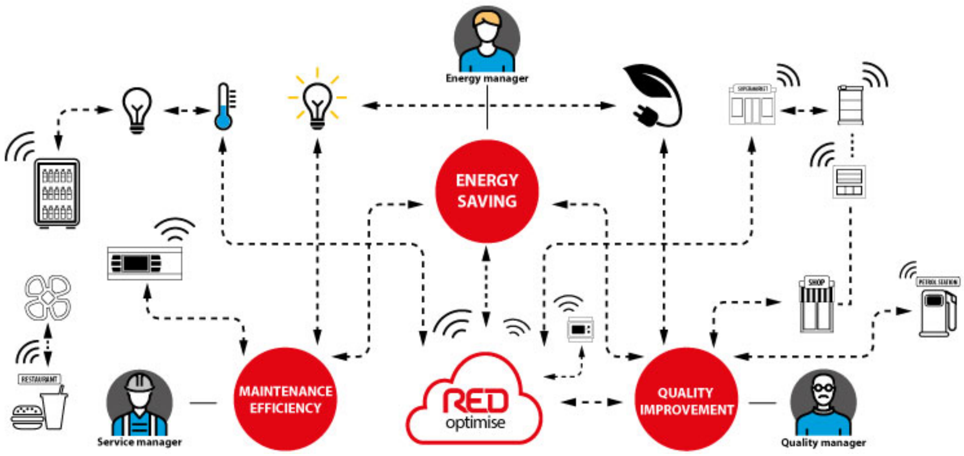


Example application of Carel's solutions for commercial refrigeration in food service (beverage coolers):

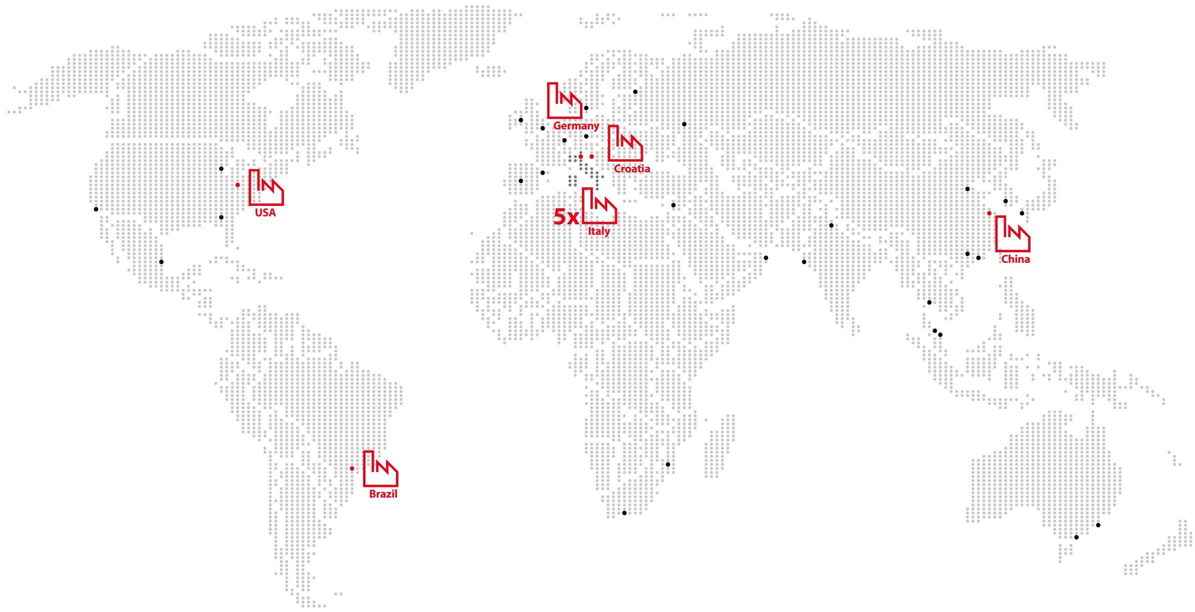
The group's portfolio is complemented by services linked to Carel's solutions, such as **commissioning** (contract work), remote management and monitoring of the group's HVAC/R systems and application components, which allows for "dialogue" between the group's service centres and end customers, subscriptions for services dedicated to the remote management and monitoring of plant and machinery through the processing of data collected using **Internet of Things** features.

The **IoT** solution has been developed to integrate the specific solutions of the HVAC/R markets via cloud and on-site solutions. The portfolio includes benchmarking, statistics, alarms and standard reporting, whereby users can optimise their daily activities and achieve their goals more effectively in terms of services, energy, quality and marketing. The development of this business is crucial for Carel, including for its future.

Example IoT solutions for the HVAC and refrigeration markets



The group operates through 29 companies with ten production sites in Italy, Croatia, Germany, China, the US and Brazil.



OVERVIEW OF THE GLOBAL MARKET

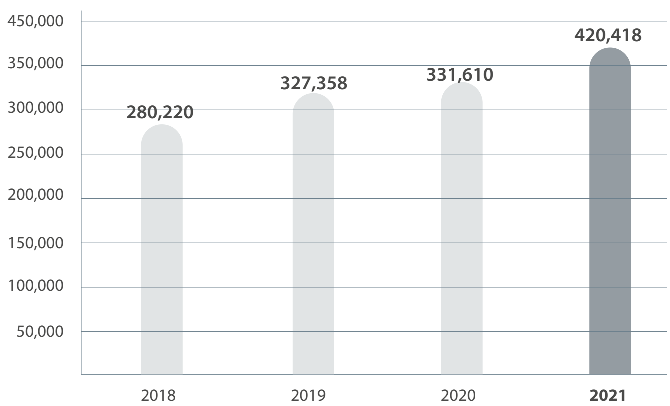
The commercial **refrigeration** market registered a strong uptick in demand during the year, especially in the food retail segment where the sector operators made large investments to upgrade and open small and medium sized stores. One factor driving the most requested technologies was the adoption of natural refrigerants, particularly in Europe with the F-Gas Regulation and high energy saving solutions. The food service segment, which had been hit hard by the pandemic, also saw steady strong growth in demand during the year.

Nearly all the segments of the **HVAC** market saw fast-paced growth, especially the residential segment, thanks to the introduction and growing use of increasingly environmentally-friendly technologies (heat pumps), and the data centre sector, reflecting the large increase in the generation, exchange and use of data from the industrial sector to the use of videoconferencing and entertainment, a trend that was accentuated during the pandemic. In addition, Covid-19 has heightened people's awareness of the importance of living in healthy environments, to the advantage of the air treatment sector. Finally, companies began to make industrial investments again after putting them on hold in 2020.

BUSINESS OVERVIEW

2021 was an extremely positive year for the Carel Group with a **26.8% rise in turnover**, while the increase would have been 27.1% using constant exchange rates. This satisfactory achievement is partly due to the two acquisitions made during the year: CFM, the group's long-standing distributor in Turkey, and Enginia S.r.l., which designs, produces and markets dampers and plastic components for air handling units.

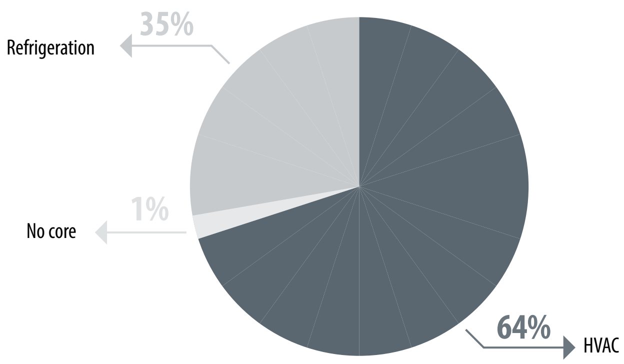
On a like-for-like basis, revenue would have grown 21.9% at current exchange rates and 22.3% at constant exchange rates.



REVENUE BY BUSINESS SEGMENT

The breakdown of revenue by business segment shows an increase in the HVAC segment (24.1% at current exchange rates and 24.5% at constant exchange rates). The refrigeration segment's revenue increased by 32.2% and 32.5% at current and constant exchange rates, respectively, in 2021. Overall, revenue of the core business (HVAC/R) rose by 26.8% (27.2% at constant exchange rates).

The upturn in demand continued throughout the year, although it was held back by the obvious and generalised tensions and difficulties of the supply chain, in Carel's case, for electronic and electromechanical materials. However, the counter measures introduced by the group improved its flexibility and resilience enabling it to narrow (although not eliminate) the gap between demand and delivery.



Revenue by business segment is broken down in the following table (thousands of Euros):

(thousands of Euros)	2021	2020	Variation %	Fx variation %
HVAC revenue	270,011	217,498	24.1%	24.5%
REF revenue	145,826	110,337	32.2%	32.5%
Total core revenue	**415,837**	**327,836**	**26.8%**	**27.2%**
Non-core revenue	4,581	3,775	21.4%	21.4%
Total revenue	**420,418**	**331,610**	**26.8%**	**27.1%**

REVENUE BY GEOGRAPHICAL SEGMENT

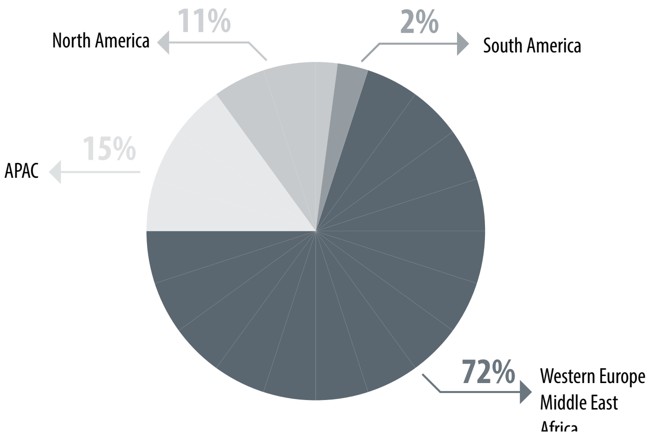
In geographical terms, growth was extensive and steady in all areas in which the group operates, aso if the acquirees are excluded. Specifically, the EMEA area saw a 28.0% increase in revenue (28.1% at constant exchange rates and 22.1% on a like-for-like basis), driven especially by the rise in revenue in both western and eastern Europe.

The group's performance in the refrigeration market was particularly positive thanks to the implementation of sales projects and the acquisition of market share for both high efficiency solutions (mostly in the more receptive food retail segment) and entry level solutions (mainly in the food service segment). The positive trend in the HVAC market continued and the group increased its foothold in the residential and industrial segments thanks, respectively, to its heat pump and data centre applications.

Revenue earned in North America grew by 19.7% (+23.2% at constant exchange rates), mostly pushed by the results achieved in the refrigeration market, especially the acquisition of new market share in the food service segment.

The group's revenue increased at a very satisfactory pace in South America, by 30.4% at current exchange rates and even better at constant exchange rates (+38.8%). This trend was seen in both markets and especially in the food service and food retail segments of the refrigeration market.

Finally, revenue achieved in Asia grew by 26.2% at current exchange rates and 24.0% at constant exchange rates. Both markets grew and especially the HVAC market thanks to greater demand for data centre and heat pump applications. The number of units for export and the domestic market increased significantly.



A breakdown of revenue by geographical segments is provided below (thousands of Euros):

(thousands of Euros)	2021	2020	Variation %	Fx variation %
Europe, Middle East and Africa	302,311	236,267	28.0%	28.1%
APAC	62,725	49,714	26.2%	24.0%
North America	46,030	38,456	19.7%	23.2%
South America	9,352	7,173	30.4%	38.8%
Total	**420,418**	**331,610**	**26.8%**	**27.1%**

LISTING ON THE STOCK MARKET

Carel Industries S.p.A.'s ordinary shares were listed on the STAR segment of the stock market organised and managed by Borsa Italiana S.p.A. on 11 June 2018. The transaction entailed the placement of 35,000,000 ordinary shares, which subsequently increased to 40,250,000 on 25 June 2018 following the exercise of the greenshoe option. The placement with institutional investors involved 40.25% of the share capital and 25.20% of shares with voting rights.

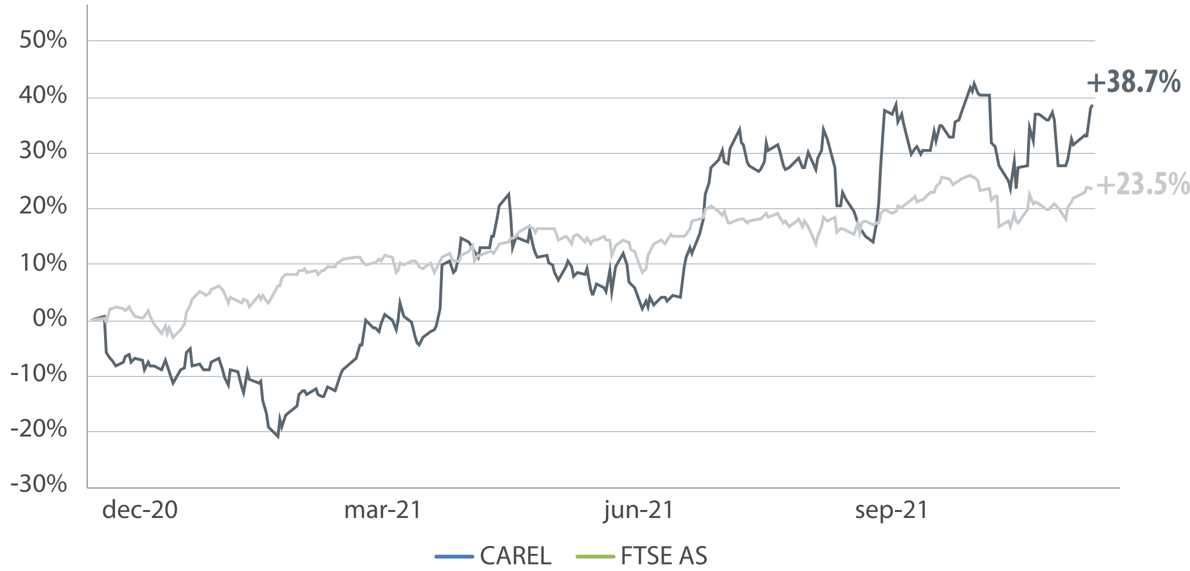
On 5 January 2021, Luigi Nalini S.a.p.a. sold 3,582,560 ordinary Carel shares, equal to around 3.6% of its share capital.

During 2021, the share price increased by 38.7%, levelling off at €26.60 per share on the last trading day of the year. Considering the initial offering price of €7.20 per share, this increase is even more significant: it rocketed by 269.4%. The average daily volume traded during 2021 was approximately 56,000 shares, while the maximum price reached in the same year was €27.30 per share.

CAREL INDUSTRIES SHARE AT 31 DECEMBER 2021:	
Stock exchange:	Borsa Italiana STAR segment
Isin code:	IT005331019
Ticker:	CLR
Indexes:	FTSE All-share Capped, FTSE Italia All-Share, FTSE Italia Mid Cap, FTSE Italia Star, FTSE Italia Industria, FTSE
Number of shares:	100,000,000.00
Nominal amount:	Not assigned
Earnings per share:	0.49
Dividend per share:	0.15

MAJOR SHAREHOLDERS AT 31 DECEMBER 2021	Number of shares	% share capital	Voting rights	% of voting rights
Luigi Rossi Luciani S.a.p.a.	36,167,433	36,17%	72,334,866	45,05%
Luigi Nalini S.a.p.a.	20,000,007	20,00%	40,000,014	24,91%
7 Industries B.V.	4,932,595	4,93%	9,332,595	5,81%
Other *	38,899,965	38,90%	38,899,965	24,23%
TOTAL	**100,000,000**	**100,00%**	**160,567,440**	**100,00%**

* Including 100,521 treasury shares



OTHER SIGNIFICANT EVENTS

MERGERS & ACQUISITIONS

In the first half of 2021, the group focused on two important business acquisitions aimed at implementing one of the group's strategic pillars, external growth, aiming to strengthen its core business by acquiring market shares in the reference geographical segments and in complementary applications.

Acquisition of CFM Sogutma ve Otomasyon A.S.

On 31 May 2021, the parent company acquired 51% of the share capital of CFM Sogutma ve Otomasyon A.S. ("CFM"), a Turkish company with registered office in Izmir (Turkey) that is a long-standing Carel product distributor and partner in the region.

In 2020, CFM generated revenue of approximately €14.5 million and a gross operating profit of approximately €5.0 million (according to its last set of financial statements approved before its acquisition); its net financial position was roughly €6.0 million. For more information about the assets acquired and liabilities assumed at the acquisition date, reference should be made to the Consolidation scope section of the notes to the consolidated financial statements. The transaction became effective on 31 May 2021 and the amount paid for 51% of the company's share capital amounted to €26.5 million, after the normal price adjustment procedure, of which €23.1 million to cover the shares and €3.9 million for 51% of the net cash recognised at the acquisition date (net of the effects of the application of IFRS 16). At the date of this report, €1.4 million of the consideration has been recognised under financial liabilities as provided for in the acquisition agreement as warranty and to cover any possible contractual risks to be borne by the seller.

Furthermore, under the acquisition agreement, the interest held by the non-controlling investor is subject to mutual put and call options which were measured at their fair value at the acquisition date and remeasured at 31 December 2021. The related liability amounts to approximately €49.6 million and is included under other non-current liabilities. Reference should be made to the Consolidation scope section of the notes for further information. Remeasurement of the liability at year end led to the recognition of costs of €0.5 million in profit or loss.

CFM contributed revenue of approximately €9.1 million in 2021.

Acquisition of Enginia S.r.l.

On 23 June 2021, the subsidiary Recuperator S.p.A. acquired a 100% of the share capital investment in Enginia S.r.l., a company operating in the aeraulic sector in the design, production and marketing of dampers and other plastic and metal components for air handling units, with solutions dedicated to OEM customers.

This transaction is part of the group's strategy to expand the offer of its product portfolio in the HVAC market, consolidating its role as a supplier of complete solutions to manufacturers of air handling units via advanced performance and highly energy efficient solutions.

In 2020, Enginia S.r.l. generated revenue of approximately €12.3 million and a gross operating profit of approximately €1.5 million (according to its last set of financial statements approved before its acquisition). For more information about the assets acquired and liabilities assumed at the acquisition date, reference should be made to the Consolidation scope section of the notes. The transaction became effective on 23 June 2021 and the amount paid for the company's entire quota share capital amounted to €12.4 million, of which €3.3 million to cover the cash acquired and €1.6 million for the building complex.

Enginia contributed revenue of approximately €7.9 million in 2021.

EFFECTS OF THE COVID-19 PANDEMIC ON THE CAREL INDUSTRIES GROUP

2021 was blighted by the persisting Covid-19 pandemic in almost all areas of the world where the group operates, though with varying intensity depending on the region. All plants and commercial companies were operating during the year and there were no significant disruptions to the supply chain.

Though not directly linked to how the pandemic unfolds, the group is closely monitoring global price trends and availability of certain raw materials used in the different production processes, specifically semiconductors and aluminium. In line with measures adopted in the previous year, it rolled out processes to procure supplies from various sources in order to mitigate the risk of shortages or excessive purchase price fluctuations.

OTHER SIGNIFICANT EVENTS RELATED TO FINANCING ACTIVITIES

The group's main financing activities in 2021 were as follows:

SIGNING OF NEW NON-CURRENT LOANS

The parent completed the following main transactions during the year:

- in June, it took out a 60-month €20,000 thousand loan from Mediobanca; to hedge the interest rate risk, the parent entered into an IRS with the same term;
- in July, it prepaid part of an unsecured loan to BNL (BNP Paribas) by repaying €10,000 thousand plus the interest accrued at the date; the loan was for an original amount of €20,000 thousand at a fixed interest rate with a 48-month term and a bullet repayment on its expiry date.

All loans bear a fixed rate of less than 1%.

For more details on the contractual terms, reference should be made to note [14] to the consolidated financial statements.

DIVIDEND DISTRIBUTIONS

In June 2021, the parent distributed dividends of €11,988 thousand, in accordance with the shareholders' resolution of 20 April 2021.

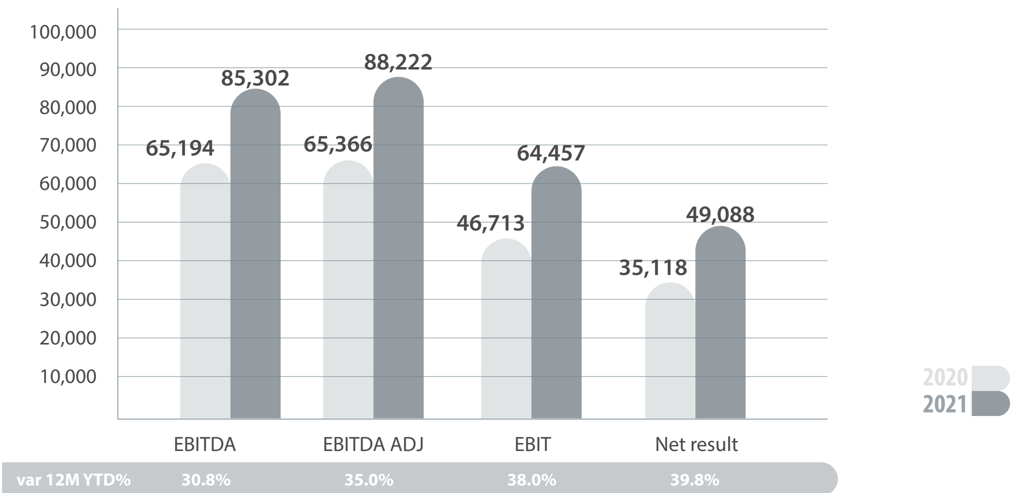
OVERVIEW OF THE GROUP'S PERFORMANCE

The main performance figures for 2021 compared to the previous year are as follows:

(thousands of Euros)	2021	2020	Delta	Delta%
EBITDA[1]	85,302	65,194	20,107	30.8%
Adjusted EBITDA	88,222	65,366	22,855	35.0%
OPERATING PROFIT	64,457	46,713	17,745	38.0%
PROFIT FOR THE YEAR	49,088	35,118	13,971	39.8%

2021 EBITDA amounts to €85.3 million equal to 20.3%[2] of revenue, up €20.1 million compared to €65.2 million for the previous year (when it was equal to 19.7% of revenue). This improvement is mostly a result of the higher business volumes in all geographical segments and a more efficient management of operating costs, which partly offset the rise in the cost of purchasing raw materials caused by inflation and shortages, seen especially in the second half of the year. The two acquirees contributed roughly €4.9 million to the group's EBITDA.

Net of non-recurring effects, which accounted for around €2.9 million in 2021 (€0.2 million in 2020) and related to costs incurred for M&A related activities and the reversal to profit or loss of inventories of the two acquirees measured at fair value on the date of their first consolidation, adjusted EBITDA would have come to €88.2 million, equal to 21.0% of revenue compared to 19.7% in 2020.



The FX adjusted EBITDA (i.e., at constant exchange rates) amounts to €88.7 million (21.1% of revenue).

The profit for the year came to €49.1 million, up 39.8% on the previous year. It is equal to 11.7% of revenue compared to 10.6% for 2020.

1 The group calculates EBITDA as the sum of the profit before tax, the gain or loss on equity-accounted investments, exchange differences, net financial income (expense), amortisation, depreciation and impairment losses. It uses EBITDA to assess its operating performance.

2 The EBITDA ratio is the ratio of EBITDA to revenue.

The main financial position indicators at 31 December 2021 and 2020 are as follows:

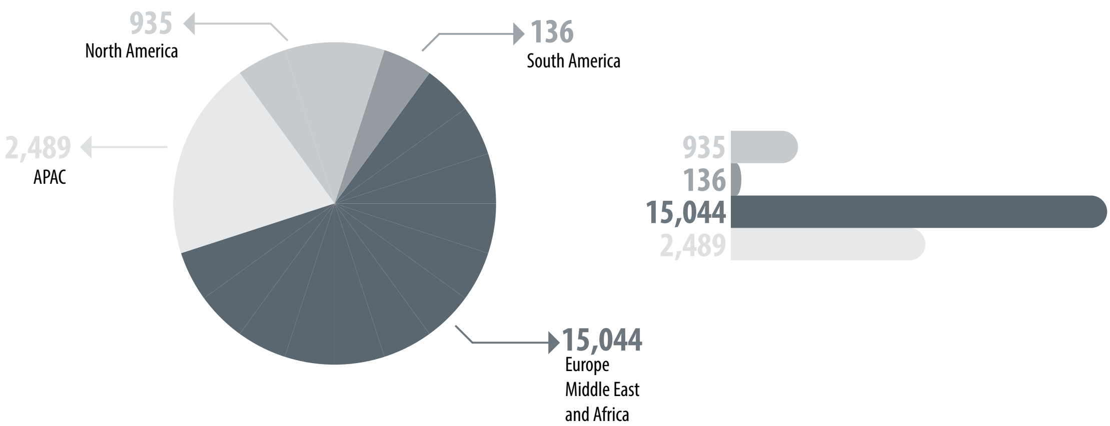
(thousands of Euros)	31.12.2021	31.12.2020	Delta	Delta %
Non-current assets[3]	230,630	176,413	54,217	30.7%
Working capital[4]	55,591	41,007	14,584	35.6%
Defined benefit plans	(8,612)	(8,189)	(423)	5.2%
Net invested capital[5]	**277,610**	**209,231**	**68,379**	**32.7%**
Equity	169,875	159,621	10,254	6.4%
Non-current liabilities	49,894	-	49,894	>100%
Net financial debt[6]	57,841	49,610	8,231	16.6%
Total	**277,610**	**209,231**	**69,379**	**32.7%**

Non-current assets amount to €230.6 million, increased by €54.2 million from €176.4 million at the previous year end, mostly due to the acquisitions made during the year which led to the recognition of intangible assets of approximately €50.1 million as a result of the PPA procedure. Reference should be made to the notes to the consolidated financial statements for more information.

Net of right-of-use assets, the group's investments amount to €18.6 million compared to €13.3 million at 31 December 2020. During the year, work started on the second production site in Croatia, strategic to allow the group to meet growing demand in the EMEA area, which led to the capitalisation of costs of approximately €4 million. The group also made large investments in equipment and machinery at the Italian sites (including Recuperator) and in China for roughly €4.2 million and €1.8 million, respectively.

The investments in intangible assets, mostly made by the parent, amounted to €3.4 million and related principally to licences and research projects.

Amortisation and depreciation, including the effects of the application of IFRS 16, totalled €20.8 million in 2021 compared to €18.5 million in 2020. This includes €4.1 million related to the PPA procedure.



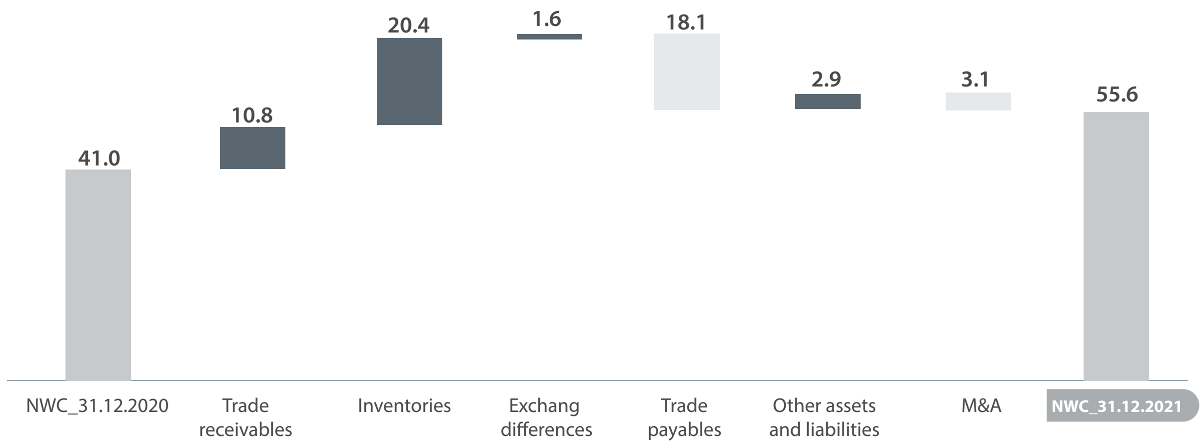
3 Net non-current assets is the sum of property, plant and equipment, intangible assets, equity-accounted investments and other non-current assets.

4 Net working capital is the sum of trade receivables, inventories, tax assets, other current assets, deferred tax assets, trade payables, current tax liabilities, other current liabilities, deferred tax liabilities and provisions for risks.

5 Net invested capital is the sum of (i) net non-current assets, (ii) net working capital and (iii) defined benefit plans.

6 The group calculates net financial debt using the method set out in paragraph 127 of the CESR recommendation 05/054b, which implemented Commission Regulation (EC) 809/2004 (see chapter X, paragraph 10.1).

Net working capital increased significantly (+€14.6 million) from €41.0 million to €55.6 million at 31 December 2021, driven mainly by higher volumes which, in turn, drove up inventories (+€20.4 million) and trade receivables (+€10.8 million) only partly offset by the rise in trade payables (+€18.1 million).



Inventories grew considerably as part of the group's procurement policy to resolve shortages of certain components and to ensure production levels in line with market demand, as well as the generalised hike in purchase prices.

Trade receivables and payables both increased strongly, mostly as a reflection of the upturn in business volumes.

Non-current liabilities mainly relate to the option for the other 49% of CFM (see the Consolidation scope section in the notes to the consolidated financial statements for more information).

Net financial debt increased by €8.2 million from €49.6 million at 31 December 2020 to €57.8 million. Net bank loans and borrowings performed similarly, going from €21,425 thousand to €28,845 thousand at the reporting date. During the year, the group disbursed cash of around €35 million (net of cash acquired) for its acquisitions of Enginia and CFM and €12 million to pay dividends. Lease liabilities are substantially stable. Reference should be made to the statement of cash flows for more information on the cash flows for the year.

A breakdown of net financial debt is as follows:

(thousands of Euros)	31.12.2021	31.12.2020
Non-current financial liabilities	70,180	89,059
Current financial liabilities	61,213	45,492
Non-current lease liabilities	23,520	24,597
Current lease liabilities	4,037	3,588
Cash and cash equivalents	(100,625)	(105,586)
Current financial assets	(483)	(7,540)
Net financial debt	**57,841**	**49,610**
Net financial debt excluding the effects of IFRS 16	**30,285**	**21,425**
Net bank loans and borrowings	**28,845**	**21,425**

The net financial debt is mainly comprised of:

- current and non-current bank loans and borrowings totalling €128,380 thousand (€132,468 thousand at 31 December 2020);
- current and non-current other loans and borrowings totalling €1,573 thousand;
- current and non-current financial liabilities for acquisitions totalling €1,440 thousand;
- current and non-current lease liabilities totalling €27,556 thousand;
- cash and cash equivalents totalling €100,625 thousand;
- other current financial assets totalling €483 thousand.

The group complied with the covenants provided for in its loan agreements.

At 31 December 2021, over 60% of cash and cash equivalents and current financial assets was held by Italian group companies and approximately 7% by the Chinese subsidiary. The remaining amount was split between the other group companies.

INDEX	2021	2020
ROS [7]	15.3%	14.1%
ROI [8]	23.2%	22.3%
ROE [9]	28.8%	22.0%
ROA [10]	12.7%	11.3%
Inventory turnover [11]	2.9	2.8
Average DSO [12]	58.0	64.0
Average DPO [13]	82.0	82.0
Group tax rate [14]	19.6%	21.1%
R&D investments [15]	19,034	17,499
R&D as % of revenue [16]	4.5%	5.3%
Capex as % of revenue [17]	4.4%	4.0%
Cash conversion rate [18]	60.34%	79.3%

7 The Return on Sales (ROS) is the ratio of operating profit (loss) to revenue.

8 The Return on Investment (ROI) is the ratio of operating profit (loss) to net invested capital.

9 The Return on Equity (ROE) is the ratio of the profit (loss) for the year to equity.

10 The Return on Assets (ROA) is the ratio of the operating profit (loss) to total assets.

11 Inventory turnover is calculated as the ratio of (i) purchases of raw materials, consumables, goods and changes in inventories to (ii) average inventories at the end of the previous and current years. This ratio is multiplied by 365.

12 Average DSO is the ratio of (i) the average of trade receivables at the end of the previous and current years to (ii) revenue. This ratio is multiplied by 365.

13 Average DPO is the ratio of (i) the average of trade payables at the end of the previous and current years to (ii) the sum of purchases of raw materials, consumables and goods and changes in inventories and cost of services. This ratio is multiplied by 365.

14 The group tax rate is the ratio of income taxes to the profit before tax.

15 The R&D investments are the sum of Opex R&D and Capex R&D.

16 The R&D investments as a percentage of revenue is the ratio of R&D investments to revenue.

17 The Capex as a percentage of revenue is the ratio of cash flows from investing activities to revenue.

18 (17) The cash conversion rate is calculated as the ratio of (i) operating cash flows net of cash flows from investing activities to (ii) EBITDA.

Key cash flows are as follows:

CASH FLOWS FROM OPERATIONS (INDIRECT METHOD)		
(thousands of Euros)	**2021**	**2020**
Profit for the year	49,088	35,118
Profit for the year net of amortisation, depreciation and impairment losses, provisions, net financial (income) expense, income taxes and (gains)/losses on the sale of non-current assets	**84,158**	**62,349**
Cash flows before changes in net working capital	(15,083)	3,908
Interest and income taxes paid	(14,957)	(9,153)
Net cash flows from operating activities	**54,118**	**57,103**
Cash flows used in investing activities	(41,783)	(20,536)
Increase (decrease) in share capital	-	(925)
Sales (acquisitions) of equity investments	-	-
Dividends to owners of the parent and non-controlling investors	(11,988)	(12,030)
Cash flows from (used in) financing activities	(6,996)	21,049
Change in cash and cash equivalents	**(6,648)**	**44,662**
Opening cash and cash equivalents	107,273	60,925
Closing cash and cash equivalents	100,625	105,586

Net cash flows from operating activities decreased slightly from €57.1 million for 2020 to €54.1 million, mostly due to the increase in net working capital and higher income taxes for the year.

Overall, the group used cash flows of €6.6 million after distributing dividends of €12 million and making investments of €35.1 million.

OVERVIEW OF THE PARENT'S PERFORMANCE: CAREL INDUSTRIES S.P.A.

The parent, Carel Industries S.p.A., has its offices at the main production site in Brugine (Padua).

The parent manufactures and markets products which it distributes to the end customers in the markets it manages directly (mostly Italy) and its foreign subsidiaries in the markets they manage.

The parent provides centralised treasury services to the group and the European companies have a cash pooling system in which it acts as pooler. At year end, it had financial liabilities of €16.3 million related to the cash pooling account. During the year, the parent provided Recuperator S.p.A. with a non-current loan to allow it to acquire Enginia. At year end, the loan amounted to €14.4 million.

The parent's net financial debt amounts to €91.6 million (31 December 2020: €79.5 million).

It also distributed dividends of €12.0 thousand to its shareholders during the year.

The parent's key figures are summarised below.

CAREL INDUSTIRES S.P.A.

(thousands of Euros)	2021	2020	Variation %
Revenue from third parties	118,227	98,437	20.1%
Intragroup revenue	97,198	81,930	18.6%
Other revenue	7,448	4,668	59.6%
Operating costs	(191,320)	(161,553)	18.4%
EBITDA	**31,553**	**23,482**	**34.4%**
Amortisation, depreciation and impairment losses	(8,525)	(8,245)	3.4%
Operating profit	**23,028**	**15,237**	**51.1%**
Net financial income	8,903	10,188	-12.6%
Profit before tax	**31,931**	**25,426**	**25.6%**
Income taxes	(4,613)	(4,530)	1.8%
Profit for the year	**27,318**	**20,896**	**30.7%**

The parent performed well in 2021; revenue from third parties amounts to €118.2 million increased by 20.1% on the previous year. Intragroup revenue increased by 18.6%.

Other revenue mainly consists of royalties from group companies for know-how licences and tax assets for R&D activities as provided for by national laws.

Operating costs include the capitalisation of development expenditure of €0.9 million (compared to €1.9 million in 2020). The increase in operating costs is mainly due to higher costs to purchase raw materials and semi-finished products and personnel expense.

The number of employees increased from 682 to 697 at the reporting date.

Financial income includes dividends of €9.1 million (2020: €14.9 million) received from foreign companies, mainly the Chinese, US and Croatian subsidiaries.

The reclassified statement of financial position as at 31 December 2021 compared with the previous year end is as follows:

CAREL INDUSTIRES S.P.A.			
(thousands of Euros)	**31.12.2021**	**31.12.2020**	**Delta %**
Non-current assets	198,701	164,431	**20.8%**
Working capital	12,203	10,157	20.1%
Defined benefit plans	(4,969)	(5,141)	-3.3%
Net invested capital	**205,935**	**169,447**	**21.5%**
Equity	106,369	89,916	18.3%
Other liabilities for call option	7,924	-	>100%
Net financial debt	91,642	79,531	15.2%
Total coverage	**205,935**	**169,447**	**21.5%**

The increase in non-current assets is mainly due to:

- investments in property, plant and equipment and intangible assets of €4.4 million and €2.3 million, respectively;
- the investment in CFM of €34.4 million. The consideration paid for 51% of the investment is €26.5 million while the remainder of €7.9 million relates to the fair value of the call option for the other 49% of CFM at 31 December 221. The parent recognised a non-current liability for this amount. The consolidated financial statements are not affected by the recognition of the fair value of the call option or the related liability as the option is recognised under Other non-current liabilities.

Amortisation and depreciation amount to €8.5 million.

Working capital increased, mostly as a result of the increase in inventories and trade receivables (from €25.1 million compared to €18.8 million at 31 December 2020 and from €48.8 million to €36.8 million, respectively), only partly offset by the rise in trade payables from €37.6 million to €52.4 million. The variations are principally driven by the higher business volumes.

Lastly, the net financial debt amounts to €91.6 million at 31 December 2021, comprising cash and cash equivalents of €53.6 million (31 December 2020: €70.5 million) and current and non-current financial assets of €15.6 million, offset by financial liabilities of €160.4 million, including lease liabilities of €13.4 million.

The reconciliation of the parent's and group's equities at 31 December 2021 is provided below:

	12_2021		**12_2020**	
(thousands of Euros)	**Total**	**Profit for the year**	**Total**	**Profit for the year**
Carel Industries S.p.A.	**106,369**	**27,318**	**89,916**	**20,896**
Profit and equity of consolidated companies	175,146	38,627	136,748	29,665
Elimination of the carrying amount of investments in consolidated companies	(174,364)	(915)	(128,402)	3,242
Eimination of intragroup dividends	-	(9,140)	-	(15,145)
Elimination of intragroup profits on inventories	(9,124)	(2,687)	(6,694)	(1,461)
Purchase price allocation	107,035	(3,015)	67,656	(2,089)
Other adjustments	(49,990)	(1,009)	93	4
Carel Industries Group	**154,951**	**49,059**	**159,317**	**35,112**

Other adjustments mostly relate to the fair value measurement of the call option for 49% of CFM (more information is provided in the Consolidation scope section of the notes to the consolidated financial statements.

OCCUPATIONAL HEALTH AND SAFETY

There were no fatal injuries during the year, continuing the trend of previous years. One of the parent's employees applied for occupational disease from one of its employees which the relevant ministerial body did not accept after a scrupulous review of the requested documentation.

In 2021, 12 (twelve) minor events were reported in the workplace (nine involving group employees and three involving temporary workers), which led to their time off work. No injuries during the commute to and from work using transport organised by the group took place during the year.

Considering the average trend of the injury frequency rate of the last three years and despite there being an increase compared to 2020, the injury frequency rate decreased by roughly 20% in 2021, although the number of hours worked grew by approximately 9% (again based on the average for the last three years).

The group did not receive any complaints nor was it ordered to appear in court for alleged violations of occupational health and safety regulations or environmental crimes in 2021.

During 2021, Carel Industries S.p.A. confirmed its ISO 45001:2018 health and safety certification and ISO 14001:2015 environmental certification.

Given the ongoing emergency situation caused by Covid-19 in 2021, the group continued and designed tailored structural, organisational and behavioural measures at its sites to ensure maximum health and safety protection in the workplace.

More information about this is available in its consolidated non-financial statement (NFS) prepared pursuant to Legislative decree no. 254/16.

HR AND ORGANISATION

The group's growth, also in terms of the total number of employees, continued in 2021. At year end, a breakdown of the **group's employees** by geographical segment is as follows:

	31.12.2021	31.12.2020	Variation
Europe, Middle East and Africa	1,353	1,214	139
APAC	328	339	(11)
North America	136	146	(10)
South America	48	46	2
Total	**1,865**	**1,745**	**120**

Blue and white collars account for 37% and 63%, respectively, as shown in the table below. A breakdown of the workforce by gender shows that women make up 37% of the total.

	2021		
	Men	Women	Total
Managers	57	5	62
White collars	826	288	1,114
Blue collars	294	395	689
Total	**1,177**	**688**	**1,865**

DEVELOPMENT AND SELECTION

The group continued to enhance its organisational structure in 2021, with an increased growth of the workforce involved in operating processes, especially to support the group's production capacity.

Overall, the group hired 302 resources, of whom 37% were women, while 250 left, of whom 66% were men, and many of whom had reached retirement age.

This additional surge in the group's growth in terms of its organisation and number of employees is due to the acquisitions made during the year in line with its stated policies designed to achieve its development objectives.

The trend seen in recent years with rather high turnover levels, especially at the production sites, has continued in a very competitive global labour market, especially for highly-qualified resources. The NFS prepared pursuant to Legislative decree no. 254/16 (to which reference should be made) incudes a detailed description of the group's talents retention and attraction policies pursued in 2021.

2021 TRAINING COURSES

Training of one of the key tools for developing the group's business strategy. It is absolutely fundamental given the rapidly developing markets and technologies of the HVAC/R segment.

Therefore, in order to ensure the utmost professionalism within all company areas, the group has always implemented top-class employee training and development programmes. In 2021, a total of 32,924 hours of training were provided at the various offices.

The group's ongoing financial and organisational resources dedicated to training programmes meant it provided a total of 18,814 hours of training to white collars and 14,110 hours to production personnel.

Its training courses focused on operations, with 34% of the total hours dedicated to this area in 2021. Other aspects covered were Lean principles and methodologies, health, safety and the environment (HSE) and technical-commercial knowledge related to HVAC/R applications and solutions.

More information about the group's training initiatives is provided in the non-financial statement prepared pursuant to Legislative decree no. 254/16, to which reference should be made.

INDUSTRIAL RELATIONS

The group's HR offices and representatives of the trade unions at the group's sites in Italy and abroad worked together with positive results during the year.

Specifically, given the continuation of the Covid-19 emergency, the group maintained the Covid-19 committee at its headquarters, which is also its main production site. The committee comprises the HR manager, HSE manager, trade union representatives, safety representatives and the company doctor. Its tasks are to regularly update the employee healthcare protocol adopted by the parent, assess the best policies for employee access to offices (via a balanced mix of in-person and remote working) and provide policies and guidelines to be used as standards at group sites and companies abroad in compliance with local regulations and the ruling legislation of each country.

Attesting the positive labour relations is the fact that just three days of strikes were called at the parent in 2021, all linked to actions organised by trade unions at national level (about occupational safety, the national emergency management plan and the budget act). The average participation rate was 13.2%. In October 2021, negotiations commenced with the trade unions to renew the supplementary internal agreement (second level bargaining) for the 2022-2024 three-year period. The agreement will be signed by the end of March 2022 and will cover flexibility, better work conditions and more welfare and other benefits for all employees.

The unionisation level at group level also remained very low, proving that "direct" industrial relations, i.e., without the arbitration of an internal or external trade union representative, are often preferred, especially at local level.

So, the atmosphere at the group remained largely harmonious via constructive and transparent collaboration styles. In this regard, there were three individual cases in 2021 that led to trade union disputes. These occurred at Carel South America and the commercial company in South Africa. Two of them were already resolved in 2021, while the remaining one is close to resolution. During 2021, no complaints about discrimination were reported.

2021 R&D ACTIVITIES

The group has always put R&D at the centre of its business to retain its leadership position in the HVAC/R market, ensure its competitive edge and provide customers with technologically innovative solutions at advantageous prices.

The development teams continue to focus on solutions for more energy efficient products and the possibility to use natural refrigerants. The cost of refrigerants in Europe is sky-rocketing due to the restrictions on those with the greatest environmental impact.

Services also increased both in the field, bolstered by the group's expertise in the various applications offered, and online with digital services to collect information from the systems used to write reports and descriptive analytics that improve and optimise management of refrigeration and conditioning systems.

Currently the R&D unit comprises the three IoT, Knowledge Centre and humidification divisions and the centres for electronics, mechanics and software tools competence centres.

In 2021, the group set up the humidification division, which includes all the business activities (sales, marketing and technical) of both the parent and HygroMatic in order to better concentrate and coordinate the humidification business.

Recuperator S.p.A. acquired Enginia S.r.l., specialised in the design and marketing of dampers and plastic components for the air handling systems sector, in 2021. Its projects are complementary to Recuperator's heat exchange business and the acquiree's technical operations are being integrated into the mechanics competence centre.

In 2021, the R&D unit had an average of 224 employees (including 153 at the parent, 12 in the US, 50 in China, four at HygroMatik GmbH and five at Recuperator S.p.A.) who are very qualified and have a high educational level (roughly two thirds are university graduates).

Costs (personnel expense, opex and capex) of the R&D activities equalled 4.5% of turnover and amounted to €19.0 million, up on the previous year (+8.8%).

As the IFRS requirements were met for some of the projects developed or underway, the group capitalised the related expenditure of roughly €1.2 million under intangible assets (31 December 2020: €2.2 million).

The group finished its organisational and management structure in 2021. It completed the system managers structure, specifically in the mechanical areas (to help full integration with Recuperator). The ongoing integration with this group company focused on the increasingly driven sharing of the group's development process, the use of lean tools (visible planning, barashi, issue board, A3-T), the harmonisation of product certification processes and the design, simulation and verification tools and methods.

It focused especially on honing development skills at the other global sites through its global competence centres to improve their ability to meet group design requirements. It maintained its development processes, methods and standards and circulated them throughout the group to be used as a basis for all design activities and guarantee identical quality levels at each site. A production part approval process (PPAP) has been put in place for suppliers of materials, in particular of customised materials, in order to improve the quality in terms of both the design and the reliability of the production flows. This will improve the reliability of the supply flows, with the resulting improvements in logistics and quality. Similarly, the group reinforced its production part approval process regarding customers, exploiting the market's move to using flammable refrigerants, investigating FEMEA techniques on the production process, in addition to formalising the process flow and process control plan.

The group confirmed its modular approach to product development in the various areas (electronic, mechanical and software) to encourage as far as possible the re-use and re-usability of the modules and thus reduce development times, achieve greater reliability and reduce product costs.

It is engaged in a preliminary study and initial design of PLM (product lifecycle management) software to make development activities more efficient, simplify product configuration and customisation thus boosting its business (enhancing the very modular structure and configuration and customisation flexibility provided for in the production lines). The intention is to achieve greater integration between the product engineering and industrialisation activities and to structure information flows among the different group sites where the products are produced.

Furthermore, R&D activities are also developed through long-standing partnerships with the Padua University, Udine University, Milan Politecnico University and the SMACT Competence Centre (in areas ranging from analogue and digital electronics, evolved calculation design, power electronics to the theory of systems and controls, thermodynamic applications, technical physics and mechanical production processes), CNR (National Research Institute) and the most important sector associations, such as EPEE (European Partnership for Energy and the Environment), AICARR (Italian Association of Air conditioning, Heating and Refrigeration), ASHRAE (American Society of Heating and Air-Conditioning Engineers), AHRI (Air-Conditioning, Heating and Refrigeration Institute), EHPA (European Heat Pump Association), CRAA (Chinese Refrigeration and Air Conditioning Industry Association) and CAR (Chinese Association of Refrigeration).

During the year, four guiding principles underpinned product development projects:

- acquisition of new base technologies and processes;
- development of new products/product platforms;
- operating improvement of platform products, specifically focused on the market use of flammable refrigerants;
- development of new vertical solutions using available products.

The four guiding principles led to:

- energy efficiency;
- natural refrigerants;
- monitoring, data analysis and streamlining of systems;
- revision and expansion of current product ranges

Product development activities were hugely affected by the Covid-19 pandemic again in 2021. The lack of electronic components made it necessary to redesign some product groups to ensure their availability on the market. Fundamental to this chip pivoting was the speed required, and the group mobilised its best resources for this very delicate process in order to ensure product quality in an urgent situation where the group's customers' validation availability was also limited.

Initiatives were rolled out at the work sites to make business more sustainable, mostly in the first half of the year. This included the homologation of alternative sources in the main critical situations with the duplication of moulds, also to serve the overseas sites and to more generally strengthen the logistics and production chain.

The group maintained a vigilant watch on the pandemic and internal safety measures to avoid contagion in the workplace.

During the year, it continued to develop the new range of **iJ** refrigeration controls. This range features highly appealing aesthetics, can easily be integrated into the refrigeration units and its design, parameters and functionalities can be customised. The new platform has excellent connectivity (BLE, NFC), is highly integrated with the controller systems, compatible with flammable refrigerants and very resistant to polluting agents.

The group currently markets **iJF for food storage & display** for the HO.RE.CA. market and **iJM for merchandisers** (bottle coolers, ice cream chest freezers and commercial cabinets) and **iJS for scientific and medical applications**.

The new family for commercial and supermarket refrigeration cabinets, **MPXzero**, is also based on iJ.

In 2021, the group continued to upgrade some product families to use both A2L and A3 (propane) **flammable refrigerants**. They are intended to support the high efficiency applications that use low-environmental impact natural refrigerants, a key issue for the market, in both air-conditioning and refrigeration products.

The **HEOS BOX** system for food retail water loop systems using HFC/HFO refrigerants was extended to CO2 applications. This solution is aimed at facilitating the HEOS water loop system's market penetration by directly supplying the finished refrigeration module with a data connection and REDoptimize data analysis system, as well as electronic systems for OEMs that prefer to develop the refrigeration units themselves.

RED Optimize is the next generation Cloud portal dedicated to Retail applications. It consists of a multi-site centralisation portal, where data from the entire retail chain is collected and processed to provide valuable insights through intuitive dashboards, advanced algorithms and clear messages with optimisation suggestions. This new cloud portal is the evolution of RemotePRO, keeping all its features and improving its usability thanks to the new user interface, which allows users to easily deal with daily tasks and accessibility, as each page is developed considering the use from mobile device such as smartphone or tablet. Internet of Things (IoT) solutions have been proven to help food retailers maintain food quality, safety, and reducing the energy use. RED Optimise is offered to the market as a service for contractors and retails.

The group introduced the advanced **CloudGate** gateway for both WiFi and LTE connections to the tERA portal, in order to allow the collection of information from field controls. With an affordable cost, it allows an extremely wide variety of LTE connections for the most important 4G standards (CAT1, CATM1 and NB-IoT), as well as the traditional 2G.

The gateway family has been extended to include the low range gateway, Cloud gate mini, suitable for individual installation.

Numerous functionalities have been introduced for use on the same applications with very high cyber security, usability and flexibility levels. They are based on the experience and reliability of the boss range, the internal logical and user interface of **BOSSone**. Two SW versions are available, gateway and supervisor, both of which can manage a single unit but differ in terms of the type of application. The gateway version has been developed mainly to allow the unit's integration into a local BMS which communicates using Modbus, BACnet and SNMP protocols. The supervisor version is aimed at applications that, in addition to field protocols, require supervision functionalities, such as log file management, sending emails or instantaneous alarm messages and communication with the external world (internet) to Carel cloud systems or third party systems using XML or MQTT protocols.

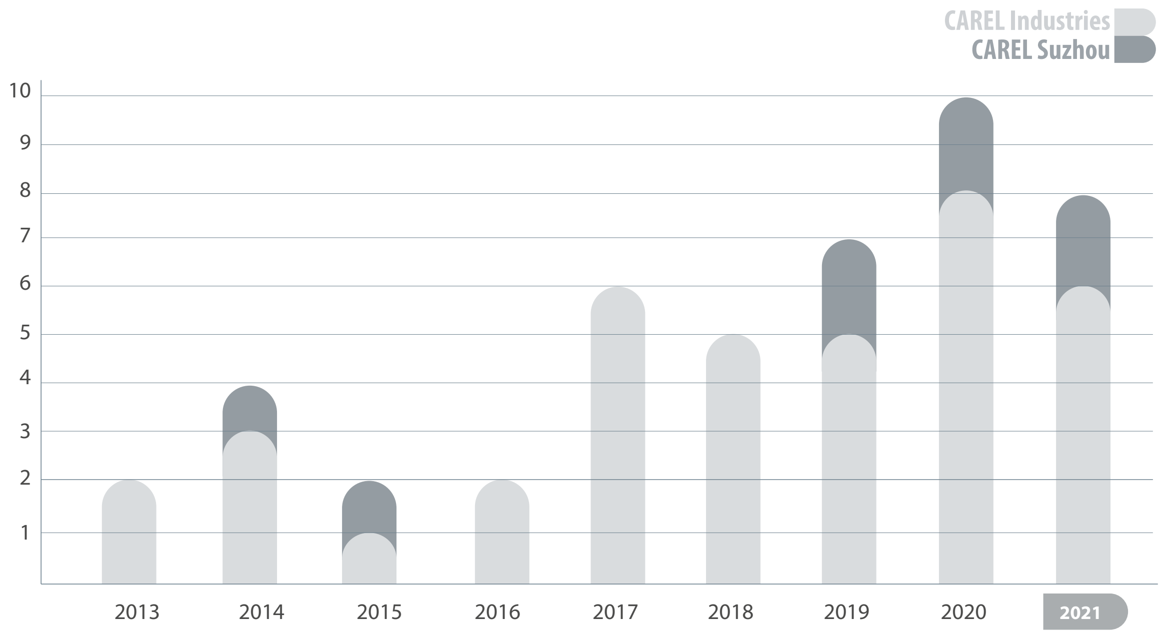
The programming environment for the programmable family was extended with the addition of new services and to include the c.pCO families.

With respect to the adiabatic humidification area, the group continued to renew the Humifog product range to include a touch screen version, with optimised features that allow the product's easier installation, application management and information about water and energy consumption. The high range version of the touch screen product also facilities a more user-friendly and complete visibility of the system.

The working range of the gas isothermal humidifier has been extended to -40°C to meet the requirements of countries with very low winter temperatures.

Eight new patents were added to the group's portfolio, bringing the total to 56 invention patents (approved - filed) and 31 utility patents.

Group Patent Portfolio



EVENTS AFTER THE REPORTING DATE

The first few months of 2022 were still impacted by the lasting pandemic in many of the group's markets. However, the measures put in place by the group ensured that ordinary production activities could continue at all sites.

Management is carefully observing developments in the Russia-Ukraine conflict. The group works in the areas affected solely as a distributor and its volumes qualify as low single digit considering its revenue as a whole.

OUTLOOK

Demand for the group's applications continued to be strong in the first few months of 2022 despite the lingering presence of Covid-19 and inflationary pressures which could significantly affect households and hold back growth. In addition, the scarcity of raw materials and electronic materials seen throughout 2021 continues to be an issue although its severity cannot yet be defined.

This generalised uncertainty is exasperated by the recent international tensions generated by the conflict between Russia and Ukraine, which could have very worrying repercussions on the European and global economies.

E-MARKET SDIR CERTIFIED

CAREL INDUSTRIES GROUP CONSOLIDATED FINANCIAL STATEMENTS AND NOTES THERETO

at 31 December 2021

STATEMENT OF FINANCIAL POSITION

(thousands of Euros)	Note	31.12.2021	31.12.2020
Property, plant and equipment	1	84,403	74,880
Intangible assets	2	134,570	89,498
Equity-accounted investments	3	1,250	724
Other non-current assets	4	10,407	11,311
Deferred tax assets	5	7,022	5,265
Non-current assets		**237,652**	**181,678**
Trade receivables	6	74,455	57,728
Inventories	7	80,907	52,012
Current tax assets	8	3,886	2,156
Other current assets	9	9,788	7,445
Current financial assets	10	483	7,540
Cash and cash equivalents	11	100,625	105,586
Current assets		**270,144**	**232,468**
TOTAL ASSETS		**507,796**	**414,145**
Equity attributable to the owners of the parent	12	154,952	159,317
Equity attributable to non-controlling interests	13	14,923	304
Total equity		**169,875**	**159,621**
Non-current financial liabilities	14	93,700	113,657
Provisions for risks	15	2,157	1,292
Defined benefit plans	16	8,612	8,189
Deferred tax liabilities	17	17,110	10,212
Other non-current liabilities	18	49,894	-
Non-current liabilities		**171,473**	**133,350**
Current financial liabilities	14	65,250	49,080
Trade payables	19	66,444	43,234
Current tax liabilities	20	4,775	2,991
Provisions for risks	15	1,907	2,104
Other current liabilities	21	28,073	23,766
Current liabilities		**166,449**	**121,175**
TOTAL LIABILITIES AND EQUITY		**507,796**	**414,145**

STATEMENT OF PROFIT OR LOSS

(thousands of Euros)	Note	2021	2020
Revenue	22	420,418	331,610
Other revenue	23	5,779	3,704
Costs of raw materials, consumables and goods and changes in inventories	24	(190,138)	(139,644)
Services	25	(51,034)	(42,536)
Capitalised development expenditure	26	1,249	2,227
Personnel expense	27	(99,379)	(88,620)
Other expense, net	28	(1,594)	(1,548)
Amortisation, depreciation and impairment losses	29	(20,844)	(18,482)
OPERATING PROFIT		**64,457**	**46,713**
Net financial expense	30	(2,355)	(1,489)
Net exchange losses	31	(1,430)	(921)
Fair value loss on call option	32	(125)	-
Share of profit of equity-accounted investees	33	508	208
PROFIT BEFORE TAX		**61,055**	**44,511**
Income taxes	34	(11,967)	(9,393)
PROFIT FOR THE YEAR		**49,088**	**35,118**
Non-controlling interests		29	5
PROFIT FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF THE PARENT		**49,059**	**35,112**

STATEMENT OF COMPREHENSIVE INCOME

(thousands of Euros)	Note	2021	2020
Profit for the year		**49,088**	**35,118**
Items that may be subsequently reclassified to profit or loss:			
- Fair value gains (losses) on hedging derivatives net of the tax effect		385	(73)
- Exchange differences		6,639	(6,279)
Items that may not be subsequently reclassified to profit or loss:			
- Actuarial losses on employee benefits net of the tax effect		(103)	(177)
Comprehensive income		**56,009**	**28,589**
attributable to:			
- Owners of the parent		55,880	28,619
- Non-controlling interests		129	(31)
Earnings per share			
Earnings per share (in Euros)	12	0.49	0.35

STATEMENT OF CASH FLOWS

(thousands of Euros)	Note	2021	2020*
Profit for the year		49.088	35.118
Adjustments for:			-
Amortisation, depreciation and impairment losses	29	20.844	18.482
Accruals to/utilisations of provisions		2.599	(560)
Non-monetary net expense		1.358	1.187
Income taxes		10.636	8.122
Gains on the sale of non-current assets		(367)	-
Changes in working capital:			
Change in trade receivables and other current assets		(11.887)	692
Change in inventories	7	(22.020)	(4.348)
Change in trade payables and other current liabilities		19.415	5.887
Change in non-current assets		(351)	1.592
Change in non-current liabilities		(241)	84
Cash flows from operating activities		**69.075**	**66.256**
Net interest paid		(2.076)	(1.650)
Income taxes paid		(12.881)	(7.503)
Net cash flows from operating activities		**54.118**	**57.103**
Investments in property, plant and equipment	1	(14.890)	(8.260)
Investments in intangible assets	2	(3.753)	(5.086)
Investments/Disinvestments of financial assets	10	7.541	(7.500)
Disinvestments of property, plant and equipment and intangible assets		952	148
Interest collected		81	178
Investments in equity-accounted investees	3	(27)	(15)
Business combinations net of cash acquired	2	(31.686)	-
Cash flows used in investing activities		**(41.783)**	**(20.536)**
Disposals (acquisitions) of non-controlling interests		-	-
Capital increases		-	33
Repurchase of treasury shares		-	(958)
Dividend distributions	12	(11.988)	(11.980)
Dividends distributed to non-controlling interests		-	(50)
Increase in financial liabilities	14	57.774	69.797
Decrease in financial liabilities	14	(60.011)	(44.510)
Decrease in lease liabilities	14	(4.759)	(4.238)
Cash flows from (used in) financing activities		**(18.984)**	**8.094**
Change in cash and cash equivalents		**(6.648)**	**44.662**
Cash and cash equivalents - opening balance		**105.586**	**62.798**
Exchange differences		1.687	(1.873)
Cash and cash equivalents - closing balance		**100.625**	**105.586**

(*) Investments in financial assets have been reclassified from cash flows from financing activities to cash flows from investing activities to make some of the figures for 2020 more comparable.

STATEMENT OF CHANGES IN EQUITY

	Share capital	Legal reserve	Translation reserve	Hedging reserve	Other reserves	Retained earnings	Profit for the year	Equity	Equity att. to non-controlling interests	Total equity
Balance at 01.01.2020	**10,000**	**2,000**	**3,557**	**(363)**	**46,166**	**46,487**	**35,019**	**142,868**	**353**	**143,220**
Owner transactions										
Allocation of prior year profit	-	-	-	-	22,711	12.308	(35,019)	-	-	-
Defined benefit plans	-	-	-	-	767	-	-	767	-	767
Repurchase of treasury shares	-	-	-	-	(958)	-	-	(958)	-	(958)
Dividend distributions	-	-	-	-	(11,980)	-	-	(11,980)	(50)	(12,030)
Total owner transactions	**10,000**	**2,000**	**3,557**	**(363)**	**56,706**	**58,795**	**-**	**130,697**	**336**	**131,032**
Profit for the year							35,112	35,112	5	35,118
Other comprehensive expense	-	-	(6,243)	(73)	(177)	-	-	(6,493)	(36)	(6,529)
Comprehensive income	**-**	**-**	**(6,243)**	**(73)**	**(177)**	**-**	**35,112**	**28,619**	**(31)**	**28,589**
Balance at 31.12.2020	10,000	2,000	(2,686)	(436)	56,530	58,795	35,112	159,317	304	159,621
Balance at 1.01.2021	**10,000**	**2,000**	**(2.686)**	**(436)**	**56,530**	**58,795**	**35,112**	**159,317**	**304**	**159,621**
Owner transactions										
Allocation of prior year profit	-	-	-	-	20,896	14,216	(35,112)	(0)	-	(0)
Defined benefit plans	-	-	-	-	818	-	-	818	-	818
Dividend distributions	-	-	-	-	(11,988)		-	(11,988)	-	(11,988)
Call options for non-controlling interests					(49,075)			(49,075)		(49,075)
Change in consolidation scope	-	-	-	-		-	-	-	14.490	14.490
Total owner transactions	**10,000**	**2,000**	**(2,686)**	**(436)**	**17,181**	**73,011**	**-**	**99,072**	**14,794**	**113,866**
Profit for the year							49,059	49,059	29	49,088
Other comprehensive income	-	-	6,539	385	(103)	-	-	6,821	100	6,921
Comprehensive income	**-**	**-**	**6,539**	**385**	**(103)**	**-**	**49,059**	**55,880**	**129**	**56,009**
Balance at 31.12.2021	**10,000**	**2,000**	**3,853**	**(51)**	**17,079**	**73,011**	**49,059**	**154,952**	**14,923**	**169,875**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTENT AND FORMAT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Carel Industries S.p.A. (the "parent") heads the group of the same name and has its registered office in Via Dell'Industria 11, Brugine (PD). It is a company limited by shares and its tax code and VAT number is 04359090281. It is included in the Padua company register.

The group provides control instruments to the air-conditioning, commercial and industrial refrigeration markets and also produces air humidification systems. It has 29 commercial companies including ten production sites which serve all the main markets.

As it is required to prepare consolidated financial statements, on 28 November 2016, the parent opted to draw up separate and consolidated financial statements starting from 31 December 2017 under the International Financial Reporting Standards (IFRS) endorsed by the European Union as per Regulation (EC) no. 1606/2002 of 19 July 2002, transposed into Italian law by Legislative decree no. 38/2005.

The parent's board of directors approved the consolidated financial statements at 31 December 2021 on 3 March 2022.

The consolidated financial statements include the results of the parent and its subsidiaries, based on their updated accounting records.

STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The Carel Industries Group's consolidated financial statements at 31 December 2021 were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission with the procedure set out in article 6 of Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002.

The IFRS include all the standards as well as the interpretations of the International Financial Reporting Standards Interpretations Committee (IFRS IC), previously called the Standing Interpretations Committee (SIC), endorsed by the European Union at the reporting date and included in the related EU regulations published at that date.

The consolidated financial statements include the statement of financial position, statement of profit or loss, statement of comprehensive income, statement of changes in equity, statement of cash flows and these notes. They were prepared assuming the parent and its subsidiaries will continue as going concerns. The group deems that it could adopt a going concern assumption pursuant to IAS 1.25/26 given its strong market position, very satisfactory profits and solid financial structure.

The consolidated financial statements were prepared in thousands of Euro, which is the group's functional and presentation currency as per IAS 21 The effects of changes in foreign exchange rates. There may be rounding differences when items are added together as the individual items are calculated in Euros.

FINANCIAL STATEMENTS SCHEDULES

Statement of financial position. Assets and liabilities are presented as current or non-current as required by paragraph 60 and following paragraphs of IAS 1.

An asset or liability is classified as current when it meets one of the following criteria:

- the group expects to realise the asset or settle the liability, or intends to sell or consume it, in its normal operating cycle; or
- it holds the asset or liability primarily for the purpose of trading; or
- it expects to realise the asset or settle the liability within twelve months after the reporting period.

All other assets and liabilities are classified as non-current.

Statement of profit or loss. The group has opted to present the statement of profit or loss classifying items by their nature rather than their function, as this best represents the transactions undertaken during the year and its business structure. This approach is consistent with the group's internal management reporting system and international best practices for its sector. Following adoption of revised IAS 1, the group decided to present the statement of profit or loss and other comprehensive income as two separate statements.

Statement of comprehensive income. This statement, prepared in accordance with the IFRS, presents other items of comprehensive income that are recognised directly in equity.

Statement of cash flows. The group prepares this statement using the indirect method. Cash and cash equivalents included herein comprise the statement of financial position balances at the reporting date. Interest income and expense, dividends received and income taxes are included in the cash flows generated by operating activities. The group presents cash flows from operating activities and investing activities and changes in non-current financial position, current liabilities and current financial assets separately. If not specified, exchange rate gains and losses are classified in the operating activities as they refer to the translation of trade receivables and payables into Euros.

Statement of changes in equity. This statement shows changes in the equity captions related to:

- allocation of the profit for the year of the parent and its subsidiaries to non-controlling interests;
- owner transactions (repurchase and sale of treasury shares);
- each profit or loss item, net of the related tax effects, that is recognised either directly in equity (gain or loss on the repurchase/sale of treasury shares) or in an equity reserve (share-based payments), pursuant to the IFRS;
- changes in the hedging reserve, net of the related tax effects;
- the effect of any changes in the IFRS.

CONSOLIDATION SCOPE

The consolidated financial statements include the separate financial statements and financial statements of the parent, Carel Industries S.p.A., and its Italian and foreign subsidiaries, respectively, at 31 December 2021.

Subsidiaries are those entities over which the parent has control, as defined in IFRS 10 Consolidated financial statements. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of the subsidiaries are consolidated starting from the date when control exists until when it ceases to exist.

Note [35] Other information lists the companies included in the consolidation scope at 31 December 2021.

Information on the acquisition of CFM Sogutma ve Otomasyon

On 31 May 2021, the Carel Industries Group acquired 51% of share capital of CFM Sogutma ve Otomasyon for a cash consideration of €26,512 thousand, of which €1,440 thousand has been recognised as a non-current financial liability as per the acquisition agreement as a warranty and to cover any possible contractual risks to be borne by the seller. The latter amount will be paid in instalments when certain contractually-agreed events occur. As meeting these conditions is deemed probable, management considers such amount an adjustment of the consideration paid at the acquisition date.

Furthermore, under the acquisition agreement, the interest held by the non-controlling investor is subject to mutual put and call options. Specifically, the non-controlling investor's put option can be exercised within 30 days of the approval of the company's financial statements for each year from 2024 to 2026 on all of the company's remaining shares (i.e., 49%) at an amount calculated using a specific multiple applicable to the company's average gross operating profit over the three years prior to the year when the put option is exercised and adjusted to take into consideration the company's net financial position. The group can exercise the call option any time after the put option expires and up to 31 December 2027. The option includes rewarding mechanisms if the company's performance exceeds expectations.

The call option was measured at its fair value at the acquisition date and remeasured at 31 December 2021. The directors engaged an independent expert to determine such fair value by estimating the most probable scenario in which the option would be exercised, based on a high number of possible gross operating profit and equity value scenarios based respectively on the Bachelier and Black-Scholes frameworks. The present value of the liability is equal to the sum of the following amounts:

- the present value of the liability as per the 2021-2026 business plan approved by the parties during the acquisition, in the most likely scenario;
- the present value of the option component implicit in the exercise price, assuming that the option will be exercised in the most likely scenario.

The liability was discounted at 1.54% to approximate the cost of the group's liability. It is measured at each subsequent reporting date with any fair value gains or losses taken to profit or loss.

Given that the risks and rewards on the residual 49% remain attributable to non-controlling interests, the liability at the acquisition date reduced the equity attributable to the owners of the parent. The respective portions of gains and losses for the year are regularly allocated to the non-controlling interest.

The Carel Industries Group acquired control on 1 June 2021 and thus has included the investee in the consolidation scope since such date.

As the assets acquired and liabilities assumed are a business, the transaction is considered a business combination in accordance with IFRS 3. Allocation of the consideration at 31 December 2021 is still provisional as provided for by IFRS 3 due to de fact that some information, known at the acquisition date, are still under analysis.

The assets acquired and liabilities assumed are detailed below:

CFM SOGUTMA OTOMASYON			
(thousands of Euros)	Statement of financial position at the acquisition date	Allocation	Fair value of acquired assets
Property, plant and equipment	409	-	409
Intangible assets	10	24,125	24,135
Other non-current assets	58	-	58
Deferred tax assets	26	-	26
Non-current assets	**503**	**24,125**	**24,628**
Trade receivables	1,216	-	1,216
Inventories	3,545	1,277	4,822
Current tax assets	397	-	397
Other current assets	60	-	60
Current financial assets	3,892	-	3,892
Cash and cash equivalents	3,561	-	3,561
Current assets	**12,671**	**1,277**	**13,948**
TOTAL ASSETS	**13,174**	**25,402**	**38,576**
Non-current financial liabilities	(340)	-	(340)
Provisions for risks	(719)	-	(719)
Deferred tax liabilities	-	(5,843)	(5,843)
Non-current liabilities	**(1,059)**	**(5,843)**	**(6,902)**
Current financial liabilities	(37)	-	(37)
Trade payables	(720)	-	(720)
Current tax liabilities	(722)	-	(722)
Provisions for risks	(234)	-	(234)
Other current liabilities	(391)	-	(391)
Current liabilities	**(2,104)**	**-**	**(2,104)**
TOTAL LIABILITIES	**(3,163)**	**(5,843)**	**(9,006)**

When allocating the acquisition price, the group recognised €24,125 thousand to customer lists and €1,277 thousand to inventories, in addition to the relevant deferred tax. €11,431 thousand of the difference between the consideration paid, the assets acquired and the liabilities assumed was provisionally allocated to goodwill, calculated using the proportional method.

The group acquired control of the company on the acquisition date (1 June 2021) and thus has included it in the consolidation scope since such date. The acquired business contributed net sales of €9,124 thousand.

Information on the acquisition of Enginia S.r.l.

On 23 June 2021, the subsidiary Recuperator S.p.A. acquired the entire quota capital of Enginia S.r.l. for a cash consideration of €17,404 thousand, of which €12.4 million for the entire quota capital, €3.3 million to cover the cash acquired and €1.6 million for the building complex.

Since such date, the Carel Industries Group has had control over the company and has included it in the consolidation scope. The company has prepared its financial statements at 30 June 2021 as the effects on the financial position and performance between the acquisition date and 30 June 2021 are considered immaterial.

As the assets acquired and liabilities assumed are a business, the transaction is considered a business combination in accordance with IFRS 3. Allocation of the consideration at 31 December 2021 is still provisional as provided for by IFRS 3 due to de fact that some information, known at the acquisition date, are still under analysis.

The assets acquired and liabilities assumed are detailed below:

ENGINIA S.R.L.			
(thousands of Euros)	**Statement of financial position at the acquisition date**	**Allocation**	**Fair value of acquired assets**
Property, plant and equipment	2,774	1,433	4,207
Intangible assets	21	6,533	6,554
Deferred tax assets	-	11	11
Non-current assets	**2,795**	**7,977**	**10,771**
Trade receivables	3,323	-	3,323
Inventories	1,439	285	1,724
Other current assets	127	-	127
Current financial assets	324	-	324
Cash and cash equivalents	3,336	-	3,336
Current assets	**8,548**	**285**	**8,833**
TOTAL ASSETS	**11,364**	**8,262**	**19,625**
Non-current financial liabilities	(1,466)	-	(1,466)
Provisions for risks	(35)	-	(35)
Defined benefit plans	(899)	(44)	(943)
Deferred tax liabilities	-	(2,302)	(2,302)
Non-current liabilities	**(2,400)**	**(2,346)**	**(4,747)**
Current financial liabilities	(316)	-	(316)
Trade payables	(3,127)	-	(3,127)
Current tax liabilities	(347)	-	(347)
Other current liabilities	(329)	-	(329)
Current liabilities	**(4,119)**	**-**	**(4,119)**
TOTAL LIABILITIES	**(6,520)**	**(2,346)**	**(8,866)**

When allocating the acquisition price, the group recognised €6,533 thousand attributable to customer lists and €285 thousand to inventories in addition to the relevant deferred tax. €6,644 thousand of the difference between the consideration paid, the assets acquired and the liabilities assumed was provisionally allocated to goodwill, calculated using the proportional method.

The group acquired control of the company on the acquisition date (23 June 2021) and thus has included it in the consolidation scope since such date. The acquired business contributed net sales of €7,909 thousand.

BASIS OF CONSOLIDATION

The consolidated financial statements include the separate financial statements and financial statements of Carel Industries S.p.A. and the Italian and foreign companies over which it has direct or indirect control, respectively. Specifically, the consolidation scope includes:

- the subsidiaries, over which the parent has control as defined by IFRS 10 Consolidated financial statements; these companies are consolidated on a line-by-line basis;
- the associates, over which the parent has the power to exercise significant influence over their financial and operating policies despite not having control; investments in these companies are measured using the equity method.

The parent adopted the following consolidation criteria:

- assets, liabilities, revenue and expenses of the consolidated companies are consolidated using the line-by-line approach where the carrying amount of the parent's investments therein is eliminated against its share of the investee's equity. Any differences are treated in accordance with IFRS 10 Consolidated financial statements and IFRS 3 Business combinations. The portions attributable to non-controlling interests are recognised at the fair value of the assets acquired and liabilities assumed without recognising goodwill;
- the group companies are excluded from the consolidation scope when control thereover ceases to exist and any effects of exclusion are recognised as owner transactions in equity;
- intragroup receivables and payables, revenue and expenses and all significant transactions are eliminated, including intragroup dividends. Unrealised profits and gains and losses on intragroup transactions are also eliminated;
- equity attributable to non-controlling interests is presented separately under equity; their share of the profit or loss for the year is recognised in the statement of profit or loss;
- the financial statements of the consolidated foreign companies using a functional currency other than the Euro are translated into Euro using the average annual exchange rate for the statement of profit or loss captions and the closing rate for the statement of financial position captions. Any differences between these exchange rates or due to changes in the exchange rates at the start and end of the year are recognised under equity.

The reporting date of all the consolidated companies is 31 December, except for Carel India, whose year end is 31 March. However, the Indian company prepares a reporting package at 31 December for consolidation purposes. The group monitors Carel India for any significant events between 31 December and 31 March, to identify possible adjustments.

Business combinations

Business combinations are treated using the acquisition method. The consideration is recognised at fair value, calculated as the sum of the acquisition-date fair values of the assets transferred and liabilities incurred by the acquirer and the equity interests issued in exchange for control of the acquiree. Transaction costs are usually recognised in profit or loss when they are incurred.

The assets acquired and the liabilities assumed are recognised at their acquisition-date fair value, except for the following items which are measured in line with the relevant IFRS:

- deferred tax assets and liabilities;
- employee benefits;
- liabilities or equity instruments related to share-based payment awards of the acquiree or share-based payment awards of the acquirer issued to replace the acquiree's awards;
- assets held for sale and disposal groups.

Goodwill is calculated as the cost of the aggregate of the consideration transferred for a business combination, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree and the net of the acquisition-date fair value of the assets acquired and liabilities assumed. If this fair value is greater than the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree, the resulting gain is recognised immediately in profit or loss.

The amount of any non-controlling interest in the acquiree at the acquisition date is the pre-combination carrying amount of the acquiree's net assets.

Contingent consideration is measured at its acquisition-date fair value and included in the consideration exchanged for the acquiree to calculate goodwill. Any subsequent changes in fair value, which are measurement period adjustments, are included in goodwill retrospectively. Changes in fair value which are measurement period adjustments are those that arise due to additional information becoming available about facts and circumstances that existed at the acquisition date and was obtained during the measurement period (that cannot exceed one year from the acquisition date). Any subsequent change in contingent consideration is included in profit or loss.

ACCOUNTING POLICIES

The consolidated financial statements at 31 December 2021 were prepared in accordance with the IFRS issued by the IASB, endorsed by the European Commission and applicable at the reporting date. They are presented in Euros, which is the group's functional currency, i.e., the currency of the primary economic environment in which it mainly operates. Amounts are rounded to the nearest thousand.

The consolidated financial statements present the financial position and performance of the parent and its subsidiaries. The financial statements used for consolidation purposes are those prepared by the subsidiaries pursuant to the IFRS at 31 December 2021.

The consolidated financial statements include the statement of profit or loss, statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and these notes, which are an integral part thereof.

They were prepared using the historical cost criterion, except for derivative financial instruments hedging currency and interest rate risks and available-for-sale financial assets, which were measured at fair value as required by IFRS 9 Financial Instruments: Recognition and measurement.

Preparation of consolidated financial statements under the IFRS requires management to make estimates and assumptions that affect the amounts in the financial statements and the notes. Actual results may differ from these estimates. Reference should be made to the "Use of estimates" section for details of the captions more likely to be affected by estimates.

Following its decision to adopt the IFRS starting from the consolidated financial statements at 31 December 2017, the group referred to the standards applicable from 1 January 2017 to prepare its consolidated financial statements at 31 December 2021, in accordance with the provisions of IFRS 1.

STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLICABLE TO ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2021

The group applied the following standards, amendments and interpretations for the first time starting from 1 January 2021:

- In light of the reform of interbank interest rates such as IBOR, on 27 August 2020, the IASB published **Interest Rate Benchmark Reform - Phase 2** which contains amendments to the following standards:
  - IFRS 9 Financial instruments;
  - IAS 39 Financial instruments: recognition and measurement;
  - IFRS 7 Financial instruments: disclosures;
  - IFRS 4 Insurance contracts;
  - IFRS 16 Leases.

All of these amendments became effective on 1 January 2021. Their adoption did not affect the group's consolidated financial statements.

STANDARDS, AMENDMENTS AND INTERPRETATIONS ENDORSED BY THE EU BUT NOT YET MANDATORY AND NOT ADOPTED EARLY BY THE GROUP AT 31 DECEMBER 2021

- On 14 May 2020, the IASB published the following amendments:
  - ***Amendments to IFRS 3 Business combinations***: to update the reference to the conceptual framework in the revised IFRS 3 without changing the requirements of the standard.
  - ***Amendments to IAS 16 Property, Plant and Equipment***: to prohibit deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while testing the asset. Instead, the sales proceeds and relevant costs shall be recognised in profit or loss.
  - ***Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets***: to clarify the costs an entity should include as the cost of fulfilling a contract when assessing whether a contract is onerous. Accordingly, the costs of fulfilling a contract shall include both incremental costs (e.g., materials directly used in production) and all other costs that relate directly to fulfilling contracts.
  - ***Annual Improvements 2018-2020***: amendments were made to IFRS 1 First-time adoption of International Financial Reporting Standards, IFRS 9 Financial instruments, IAS 41 Agriculture and Illustrative examples of IFRS 16 Leases.

These amendments become effective on 1 January 2022. The directors do not expect these amendments to significantly affect the group's consolidated financial statements.

STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET ENDORSED BY THE EU

At the reporting date, the EU's relevant bodies had not yet completed the endorsement process for adoption of the following amendments and standards.

- On 23 January 2020, the IASB published "***Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current***". These amendments become effective on 1 January 2023 but earlier application is allowed. The directors do not expect these amendments to significantly affect the group's consolidated financial statements.
- On 12 February 2021, the IASB published "***Disclosure of Accounting Policies—Amendments to IAS 1 and IFRS Practice Statement 2***" and "**Definition of Accounting Estimates—Amendments to IAS 8**". The amendments improve accounting policy disclosures so that they provide more useful information to investors and other primary users of the financial statements and help companies distinguish changes in

accounting estimates from changes in accounting policies. These amendments will be effective for annual reporting periods beginning on or after 1 January 2023, but earlier application is allowed. The directors do not expect these amendments to significantly affect the group's consolidated financial statements.

- On 7 May 2021, the IASB published "***Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction***" that clarifies how companies account for deferred tax on transactions that can give rise to equal amounts of assets and liabilities such as leases and decommissioning obligations. The amendment will be effective for annual reporting periods beginning on or after 1 January 2023, but earlier application is allowed. The directors do not expect these amendments to significantly affect the group's consolidated financial statements.

ACCOUNTING POLICIES

Revenue and costs

Revenue is measured based on the fee contractually-agreed with the customer and does not include amounts collected on behalf of third parties. The group recognises revenue when control of the goods or services is transferred to the customer. Revenue is recognised to the extent it is probable the group will receive the economic benefits and it can be measured reliably. Most contracts with customers provide for commercial discounts and discounts based on volumes, which modify the revenue itself. In defining the amount of the variable consideration that may be included in the transaction price, the group calculates the amount of variable consideration that cannot yet be considered realised at each reporting date.

Revenue from the sale of HVAC products and services refer to sales of products for air control and humidification in the industrial, residential and commercial segment (heat ventilation and air conditioning), while refrigeration revenue refers to sales to the food retail and food service segment. The sales in both markets can be divided into the following three macro channels: OEM (Original Equipment Manufacturers), Dealers and Projects. Non-core revenue is earned on products that do not make up the group's core business.

The warranties related to these categories of products are warranties for general repairs and in most cases, the group does not provide extended warranties. The group recognises warranties in compliance with IAS 37 Provisions, contingent liabilities and contingent assets.

There are no significant services provided for a lengthy period of time.

Advertising and research costs are expensed in full as required by IAS 38 Intangible assets. Revenue from services is recognised when the services are rendered.

Interest

Revenue and expenses are recognised on an accruals basis in line with the interest accrued on the carrying amount of the related financial assets and liabilities using the effective interest method.

Dividends

They are recognised when the shareholder's right to receive payment is established, which normally takes place when the shareholders pass the related resolution. The dividend distribution is recognised as a liability in the financial statements of the period in which the shareholders approve such distribution.

Income taxes

They reflect a realistic estimate of the group's tax burden, calculated in accordance with the laws enacted in the countries where the Carel Industries Group operates; current tax liabilities are recognised in the statement of financial position net of any payments on account.

Deferred tax assets and liabilities arise on temporary differences between the carrying amount of an asset or liability pursuant to the IFRS and its tax base, calculated using the current tax rates or tax rates reasonably expected to be enacted in future years. Deferred tax assets are only recognised when their recovery is probable while deferred tax liabilities are always recognised, except in the situations in which recording a tax liability would not be appropriate under IAS 12 Income taxes (for example on initial recognition of goodwill or a situation in which the group does not anticipate the reversal of the liability in the foreseeable future). The group does not apply any netting of current and deferred taxes. A tax liability is accounted for in the year in which the liability to pay a dividend is recognised, if untaxed reserves are distributed.

Translation criteria

Foreign currency receivables and payables are translated into Euros using the transaction-date exchange rate. Any gains or losses when the foreign currency receivable is collected or the payable settled are recognised in profit or loss.

Revenue, income, costs and expenses related to foreign currency transactions are recognised at the spot rate ruling on the transaction date. At the closing date, foreign currency assets and liabilities, excluding non-current assets (which continue to be recognised using the transaction-date exchange rate) are re-translated using the spot closing rate and the related exchange gains or losses are recognised in profit or loss.

The main exchange rates (against the Euro) used to translate the financial statements of foreign currency operations at 31 December 2021 and 2020 (comparative figures) are set out below:

Currencies	Average rate		Closing rate	
	31.12.2020	31.12.2021	31.12.2020	31.12.2021
Pound sterling	0,890	0.860	0.899	0.840
Hong Kong dollar	8.859	9.193	9.514	8.833
Brazilian real	5.894	6.378	6.374	6.310
US dollar	1.142	1.183	1.227	1.133
Australian dollar	1.655	1.575	1.590	1.562
Chinese renminbi (yuan)	7.875	7.628	8.023	7.195
Indian rupee	84.639	87.439	89.661	84.229
South African rand	18.766	17.477	18.022	18.063
Russian ruble	82.725	87.153	91.467	85.300
South Korean won	1,345.580	1,354.060	1,336.000	1,346.380
Mexican peso	24.519	23.985	24.416	23.144
Swedish krona	10.485	10.147	10.034	10.250
Japanese yen	121.846	129.877	126.490	130.380
Polish zloty	4.443	4.565	4.560	4.597
Thai baht	35.708	37.837	36.727	37.653
Croatian kuna	7.538	7.528	7.552	7.516
UAE dirham	4.195	4.344	4.507	4.160
Singapore dollar	1.574	1.589	1.622	1.528
Norwegian krone	10.723	10.163	10.470	9.989

Currencies	Average rate		Closing rate	
	31.12.2020	31.12.2021	31.12.2020	31.12.2021
Swiss franc	1.071	1.081	1.080	1.033
Ukrainian hryvnia	30.851	32.259	34.769	30.922
Canadian dollar	1.530	1.483	1.563	1.439

Property, plant and equipment

They are recognised at historical cost, including ancillary costs necessary to ready the asset for the use for which it has been purchased.

Maintenance and repair costs that do not extend the asset's life and/or enhance its value are expensed when incurred; otherwise, they are capitalised.

Property, plant and equipment are stated net of accumulated depreciation and any impairment losses calculated using the methods described later in this section. The depreciable amount of an asset is allocated on a systematic basis over its useful life, which is reviewed once a year. Any necessary changes are applied prospectively.

The depreciation rates of the main categories of property, plant and equipment are as follows:

Industrial buildings	from 3% to 5%
Plant and machinery	from 10% to 15.5%
Industrial and commercial equipment	from 12% to 40%

Land has an indefinite useful life and therefore is not depreciated.

Assets held under finance lease are recognised as right-of-use assets at the present value of the minimum lease payments. The liability to the lessor is shown under financial liabilities. The assets are depreciated over the lease term. Lease payments for short-term leases or leases of low-value assets are recognised in profit or loss over the lease term.

The liability to the lessor is shown under financial liabilities. The right-of-use assets are depreciated using the above rates.

When the asset is sold or there are no future economic benefits expected from its use, it is derecognised and the gain or loss (calculated as the difference between the asset's sales price and carrying amount) is recognised in profit or loss in the year of derecognition.

Goodwill

This is the cost of the aggregate of the consideration transferred for a business combination, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date fair value of the assets acquired and liabilities assumed. Goodwill is not amortised but is tested annually for impairment or whenever events take place that suggest it may be impaired.

Other intangible assets

These are identifiable, non-monetary assets without physical substance that are controlled by the group and from which future economic benefits are expected to flow to the entity. They are initially recognised at cost when this can be reliably determined using the same methods applied to property, plant and equipment.

These assets are subsequently presented net of accumulated amortisation and any impairment losses. Their useful life is reviewed regularly and any changes are applied prospectively. Costs incurred to internally generate an intangible asset are capitalised in line with the provisions of IAS 38.

Their estimated average useful life is between three and fifteen years.

Gains or losses on the sale of an intangible asset are calculated as the difference between the asset's sales price and its carrying amount. They are recognised in profit or loss at the sales date.

Impairment losses on non-financial assets

Assets with an indefinite useful life are not amortised but are tested for impairment at least once a year to check whether their carrying amount has undergone impairment. The board of directors adopted a policy that defines the criteria for the impairment test, the controls to be carried out to guarantee the reliability of the process and the procedure to approve the test, in line with Consob (the Italian Commission for listed companies and the stock exchange) recommendation no. 0003907 of 15 January 2015.

Amortisable assets are tested for impairment whenever events or circumstances suggest that their carrying amount cannot be recovered (trigger events). In both cases, the impairment loss is the amount by which the asset's carrying amount exceeds its recoverable amount, which is the higher of the asset's fair value less costs to sell and its value in use. If it is not possible to determine an asset's value in use, the recoverable value of the cash-generating unit (CGU) to which the asset belongs is calculated. Assets are grouped into the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The group calculates the present value of the estimated future cash flows of the CGU using a discount rate that reflects the time value of money and the risks specific to the asset.

If an impairment loss on an asset other than goodwill subsequently decreases or no longer exists, the carrying amount of the asset or the CGU is increased to the new estimate of its recoverable amount which will not, in any case, exceed the carrying amount the asset would have had if no impairment loss had been recognised.

Reversals of impairment losses are recognised immediately in profit or loss using the model provided for in IAS 16 Property, plant and equipment.

Equity investments

Investments in associates and joint ventures are measured using the equity method, while other investments are measured at fair value through other comprehensive income. If fair value cannot be reliably determined, the investments are measured at cost adjusted for impairment losses, which are recognised in profit or loss.

If the reasons for the impairment loss no longer exist, the equity investments recognised at cost are revalued with reversal of the impairment loss through profit or loss.

Financial assets

They are initially recognised at their fair value and subsequently measured at amortised cost. Financial assets are initially recognised at their fair value increased, in the case of assets other than those recognised at fair value through profit or loss, by ancillary costs. When subscribed, the group assesses whether a contract includes embedded derivatives. The embedded derivatives are separated from the host contract if this is not measured at fair value when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract.

The group classifies its financial assets after initial recognition and, when appropriate and permitted, reviews this classification at the reporting date.

It recognises all purchases and sales of financial assets at the transaction date, i.e., the date on which the group assumes the commitment to buy the asset.

All financial assets within the scope of IFRS 9 are recognised at amortised cost or fair value depending on the business model for managing the financial asset and the asset's contractual cash flow characteristics.

Specifically:

- debt instruments held as part of a business model whose objective is to hold financial assets in order to collect contractual cash flows and the related cash flows are solely payments of principal and interest on the principal amount outstanding and are subsequently recognised at amortised cost;
- debt instruments held as part of a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the related cash flows are solely payments of principal amount outstanding and interest on the principal are subsequently measured at fair value through other comprehensive income (FVTOCI);
- all other debt and equity instruments are subsequently measured at fair value through profit or loss (FVTPL).

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. On the other hand, when an equity instrument measured at FVTOCI is derecognised, the cumulative gain or loss that was previously recognised in other comprehensive income is transferred to retained earnings, without affecting profit or loss.

Debt instruments subsequently measured at amortised cost or FVTOCI are tested for impairment.

Any impairment losses are recognised in profit or loss after use of the fair value reserve if this has been set up. Subsequent reversals of impairment losses are recognised in profit or loss except in the case of equity instruments for which the reversal is recognised in equity.

Inventories

They are measured at the lower of purchase and/or production cost, calculated using the weighted average cost method, and net realisable value. Purchase cost comprises all ancillary costs. Production cost includes the directly related costs and a portion of the indirect costs that are reasonably attributable to the products.

Work in progress is measured at average cost considering the stage of completion of the related contracts.

Obsolete and/or slow moving items are written down to reflect their estimated possible use or realisation through an allowance.

The write-down is reversed in subsequent years if the reasons therefor no longer exist.

Trade receivables

They are initially recognised at fair value, which is the same as their nominal amount, and subsequently measured at amortised cost and impaired, if appropriate. Their carrying amount is adjusted to their estimated realisable amount through the loss allowance.

Foreign currency trade receivables are translated into Euros using the transaction-date exchange rate and subsequently retranslated using the closing rate. The exchange gain or loss is recognised in profit or loss.

Cash and cash equivalents

They include cash, i.e., highly liquid investments (maturity of less than three months) that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Employee benefits

This caption includes the Italian post-employment benefits ("TFR") and other employee benefits covered by IAS 19 Employee benefits. As a defined benefit plan, independent actuaries calculate the TFR at the end of each reporting period. The liability recognised in the statement of financial position is the present value of the defined benefit obligation at the end of the reporting period. These benefits are calculated using the projected unit credit method.

Provisions for risks

As required by IAS 37 Provisions, contingent liabilities and contingent assets, the group recognises a provision when it has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Changes in estimates from one period to another are recognised in profit or loss.

Where the effect of the time value of money is material and the payment dates of the obligation can be estimated reliably, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. Any subsequent changes arising from the passage of time are recognised as financial income or expense in the statement of profit or loss.

No provision is made for possible but not probable risks but the group provides adequate disclosure thereon in the notes.

Trade payables and other current liabilities

Trade payables and other current liabilities which fall due within normal trading terms are initially recognised at cost, which equals their nominal amount, and are not discounted. When their due date is longer than normal trading terms, the interest is separated using an appropriate market rate.

Financial liabilities

They are classified as current liabilities unless the group has an unconditional right to defer their payment for at least 12 months after the reporting date. The group removes the financial liability when it is extinguished and the group has transferred all the risks and rewards related thereto. Financial liabilities are initially recognised at their fair value and subsequently measured using the amortised cost method.

Derivative financial instruments

The group solely uses derivatives to hedge currency risk on foreign currency commercial transactions and interest risk on its medium to long-term debt.

Initial recognition and subsequent measurement is at the derivatives' fair value, applying the following accounting treatments:

Fair value hedge - if a derivative is designated as a hedge of the group's exposure to changes in fair value of a recognised asset or liability that could affect profit or loss, the gain or loss from remeasuring the hedging instrument at fair value is recognised in profit or loss as is the gain or loss on the hedged item.

Cash flow hedge - if a derivative is designated as a hedge of the exposure to variability in cash flows of a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income; the cumulative gain or loss is reclassified to profit or loss in the same period during which the hedged forecast cash flows affect profit or loss; the gain or loss on the hedge or the ineffective portion of the gain or loss on the hedging instrument is recognised in profit or loss.

When the conditions for application of hedge accounting are no longer met, the group reclassifies the fair value gains or losses on the derivative directly to profit or loss.

Use of estimates

Preparation of the consolidated financial statements requires management to apply accounting policies and methods that, in certain circumstances, are based on difficult and subjective judgements, past experience or assumptions that are considered reliable and realistic at that time depending on the related circumstances. Application of these estimates and assumptions affects the amounts recognised in the statement of financial position, the statement of profit or loss and the statement of cash flows as well as the disclosures. Actual results may differ from those presented in the consolidated financial statements due to the uncertainty underlying the assumptions and the conditions on which the estimates were based. As detailed later on, the estimates took into consideration the uncertainties generated by the ongoing Covid-19 pandemic, also beyond the reporting date.

The captions that require the greater use of estimates and for which a change in the conditions underlying the assumptions may affect the consolidated financial statements are:

- loss allowance: this allowance comprises management's best estimates about expected credit losses on receivables from end customers. Management estimates the allowance on the basis of the expected credit losses, considering past experience for similar receivables, the performance of past due receivables, assessments of the credit quality and forecasts of economic and market conditions. Management's estimates, which are based on past experience and the market, may be affected by changes in the competitive scenario or the market in which the group operates, especially in an economic situation still impacted by the ongoing Covid-19 pandemic, although the group did not detect a worsening in credit positions at the reporting date;
- allowance for inventory write-down: slow-moving raw materials and finished goods are tested for obsolescence regularly using historical data and the possibility of their sale at below-market prices. If this test shows the need to write down inventory items, the group sets up an allowance; like for the loss allowance, this allowance is calculated considering past experience and the market. However, management does not believe that changes in the reference scenarios or market trends could significant modify the criteria used as a basis for the estimates;
- leases: the recognition of right-of-use assets and the related lease liabilities requires significant management estimates, especially in determining the lease term and the incremental borrowing rate. In determining the lease term, in addition to the contractual deadlines, the group considers any renewal options that it reasonably expects to exercise. The incremental borrowing rate is calculated by considering the type of

leased asset, the jurisdictions in which it is acquired and the currency in which the lease is denominated. Any changes in the reference scenarios or market trends could require a review of the above components. The continuation of the pandemic could impact the estimates related to leases, changing the directors' decisions on determining the lease term in addition to affecting the incremental borrowing rate.

Impairment test of goodwill

At least once a year, the group tests goodwill for impairment. It calculates the recoverable amount of the CGU as the value in use using the discounted cash flow method applying assumptions, such as estimates of future increases in sales, operating costs, the growth rate of the terminal value, investments, changes in working capital and the weighted average cost of capital (discount rate).

The value in use may change if the main estimates and assumptions made in the plan change and, hence, the impairment test. Therefore, the realisable value of the recognised assets may also change.

The impairment test took into consideration the effects of the Covid-19 pandemic, especially with regard to forecast cash flows which were estimated using the information available to the directors regarding market conditions and the prospects of recovery from the crisis.

Fair value

IFRS 13 is the only reference source for fair value measurement and the related disclosures when this measurement is required or permitted by another standard. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This standard replaces and extends the disclosure required about fair value measurement in other standards, including IFRS 7 Financial instruments: disclosures.

IFRS 13 establishes a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value in hierarchical order as follows:

- Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 inputs: unobservable inputs for the asset or liability.

The method used to estimate fair value is as follows:

- the fair value of available-for-sale quoted instruments is calculated using quoted prices (level 1);
- the fair value of currency hedges is calculated by discounting the difference between the forward price at maturity and the forward price for the remaining term at the measurement date (the reporting date) at a risk-free interest rate (level 2);
- the fair value of interest rate hedging derivatives is based on broker prices and is calculated considering the present value of the future cash flows discounted using the reporting-date interest rates (level 2).

Reference should be made to the specific comments provided in the notes to the assets or liabilities for more information about the assumptions used to determine fair value.

The fair value of financial instruments not quoted on an active market is calculated in accordance with valuation techniques generally adopted by the financial sector and specifically:

- the fair value of interest rate swaps (IRS) is calculated using the present value of the future cash flows;
- the fair value of forwards to hedge foreign currency risk is calculated using the present value of the difference between the contractual forward exchange rate and the spot exchange rate at the reporting date;

- the fair value of the options to hedge foreign currency risk is calculated using mathematical models that consider the contractual forward exchange rate, the spot exchange rate at the reporting date and the cost incurred to agree such option.

RISKS AND FINANCIAL INSTRUMENTS

The objective of IFRS 7 is to require entities to provide disclosures in their financial statements that enable users to evaluate:

- the significance of financial instruments for an entity's financial position and performance;
- the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.

The principles in this standard complement the principles for recognising, measuring and presenting financial assets and financial liabilities in IAS 32 Financial instruments: presentation and IFRS 9.

This section presents the supplementary disclosures required by IFRS 7.

The accounting policies applied to measure financial instruments are described in the section on the Accounting policies.

The group's operations expose it to a number of financial risks that can affect its financial position, financial performance and cash flows due to the impact of its financial instruments.

These risks include:

a. credit risk;
b. liquidity risk;
c. market risk (currency risk, interest rate risk and other price risk).

The parent's board of directors has overall responsibility for the design and monitoring of a financial risk management system. It is assisted by the various units involved in the operations generating the different types of risk.

The units establish tools and techniques to protect the group against the above risks and/or transfer them to third parties (through insurance policies) and they assess the risks that are neither hedged nor insured pursuant to the guidelines established by the board of directors for each specific risk.

The degree of the group's exposure to the different financial risk categories is set out below.

CREDIT RISK

The group operates on various national markets with a high number of medium and large-sized customers, mostly regional or local distributors. Therefore, it is exposed to credit risk in conjunction with its customers' ability to obtain credit from banks.

The group's credit risk management policy includes rating its customers, setting purchase limits and issuing periodic reports, to ensure tight control over credit collection. Each group company has a credit manager in charge of credit collection on sales made in their markets. Coordination between the companies active in the same market (e.g., the Italian Companies) is based on the electronic exchange of information about common customers and the coordination of delivery blocks or the commencement of legal action.

The loss allowance is equal to the nominal amount of the uncollectible receivables after deducting the part secured with bank collateral. The group analyses all the collateral given to check collectability. Impairment losses are recognised considering past due receivables from customers with financial difficulties and receivables for which legal action has commenced. The directors did not detect a deterioration in credit quality or collection times due to the spread of Covid-19, as can be seen in the breakdown below. Furthermore, the group did not modify payment terms applied to customers or its credit risk management policies, while it prudently reinforced monitoring of credit positions with customers.

The following table shows a breakdown of trade receivables by past due bracket.

(thousands of Euros)	31.12.2021		31.12.2020	
	Trade receivables	Loss allowance	Trade receivables	Loss allowance
Not yet due	67,699	(724)	53,284	(278)
Past due < 6 months	7,430	(159)	4,608	(40)
Past due > 6 months	134	(134)	225	(74)
Past due > 12 months	456	(247)	632	(630)
Total	**75,719**	**(1,265)**	**58,750**	**(1,022)**

LIQUIDITY RISK

The group has a high level of liquidity and limited net financial debt. During the year, the group had easy access to additional funding, without additional costs. The group has shown itself to be consistently profitable and able to generate significant liquidity. Therefore, it is not believed that liquidity risk was increased by the pandemic.

The group mainly deals with well-known and reputable customers. Its policy is to constantly monitor those customers that request payment extensions. As required by IFRS 7, the next table shows the cash flows of the group's financial liabilities by maturity:

(thousands of Euros)	31.12.2021				
	TOTAL	Total cash flows	Within one year	From one to five years	After five years
Bank loans and borrowings at amortised cost	67,942	68,394	-	68,394	-
Non-current lease liabilities	23,520	25,812	-	12,134	13,678
Effective designated derivative hedges	27	30	-	30	-
Other non-current loans and borrowings at amortised cost	771	792	-	792	-
Other non-current financial liabilities	1,440	1,440	-	1,440	-
Non-current financial liabilities	**93,700**	**96,467**	**-**	**82,789**	**13,678**
Current portion of bank loans at amortised cost	60,281	60,647	60,647		-
Current lease liabilities	4,037	4,402	4,402		
Current bank borrowings at amortised cost	85	85	85	-	-

(thousands of Euros)	31.12.2021				
	TOTAL	Total cash flows	Within one year	From one to five years	After five years
Other current loans and borrowings at amortised cost	802	812	812	-	-
Derivatives held for trading at fair value through profit or loss	45	45	45	-	-
Current financial liabilities	**65,250**	**65,991**	**65,991**	**-**	**-**

MARKET RISK

Currency risk

As the group sells its products in various countries around the world, it is exposed to the risk deriving from changes in foreign exchange rates. This risk mainly arises on sales in currencies like the US dollar, the Chinese renminbi and the Polish zloty.

In addition, the parent has investments in subsidiaries denominated in foreign currency. Changes in equity due to fluctuations in exchange rates are recognised in the translation reserve. The group does not currently hedge against the risk arising on the translation of equity. The following table shows the group's exposure arising from foreign currency assets and liabilities, highlighting the most significant for each year:

(thousands of Euros)	31.12.2021					
	EUR	USD	PLN	CNY	Other currencies	Total
Total assets	375,571	55,867	17,815	36,834	21,709	**507,796**
Total liabilities	292,839	30,661	4,072	10,343	7	**337,922**

The next table shows a sensitivity analysis of the risk arising on the translation of foreign currency financial statements of the consolidated companies assuming a 10% increase or decrease in the average annual exchange rate. The effect is calculated considering the impact of this increase or decrease on the key performance indicators used by management:

NET REVENUE						
	31.12.2021			31.12.2020		
(thousands of Euros)	Average annual rate	Rate +10%	Rate -10%	Average annual rate	Rate +10%	Rate -10%
USD	46,220	42,018	51,356	41,129	37,390	45,699
GBP	7,787	7,079	8,652	6,686	6,078	7,429
CNY	40,695	36,995	45,217	30,004	27,276	33,338
AUD	5,751	5,228	6,390	5,302	4,820	5,891
ZAR	5,376	4,887	5,973	3,429	3,117	3,810
BRL	7,070	6,427	7,856	5,568	5,062	6,187
PLN	29,545	26,859	32,828	22,751	20,683	25,279

Other currencies	11,967	n.a	n.a	6,531	n.a	n.a
EURO	266,007	266,007	266,007	210,210	210,210	210,210

PROFIT BEFORE TAX

(thousands of Euros)	31.12.2021			31.12.2020		
	Average annual rate	Rate +10%	Rate -10%	Average annual rate	Rate +10%	Rate -10%
USD	5,153	4,685	5,726	26,124	23,749	29,026
GBP	6,237	5,670	6,930	4,896	4,450	5,439
CNY	(12,523)	(11,385)	(13,914)	(9,855)	(8,959)	(10,950)
AUD	3,520	3,200	3,911	3,447	3,133	3,830
ZAR	4,304	3,913	4,782	2,498	2,271	2,776
BRL	4,769	4,335	5,299	3,794	3,449	4,216
PLN	7,908	7,189	8,787	7,349	6,681	8,165
Other currencies	(7,996)	n.a	n.a	(12,218)	n.a	n.a
EURO	49,683	49,683	49,683	18,477	18,477	18,477

The group agrees currency hedges to set the exchange rate in line with forecast sales and purchases volumes to protect itself against currency fluctuations with respect to its foreign currency transactions. The hedges are based on the group's net exposure using currency forwards, to hedge the transaction risk, and/or plain vanilla options to hedge the economic risk in line with its financial policy. The hedged risk is part of the global risk and the hedges are not speculative.

Moreover, as the parent prepares its consolidated financial statements in Euros, fluctuations in the exchange rates used to translate the financial statements of the foreign subsidiaries into the presentation currency could affect the group's financial position, financial performance and cash flows.

Exchange rates were more volatile in 2021 continuing the trend of the previous year. As a result, there was an increase in financial statements captions linked to the translation of amounts into Euro. Management constantly monitors exchange rates and the exposure of current assets and liabilities in foreign currencies so that it can put suitable hedges in place to mitigate the risk.

Interest rate risk

This is the risk that the fair value and/or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The group is exposed to interest rate risk due to its need to finance its operating activities, both production and financial (the purchase of assets), and to invest its available liquidity. Changes in market interest rates may negatively or positively affect the group's results and, hence, indirectly the cost of and return on financing and investing activities.

The group regularly checks its exposure to interest rate fluctuations and manages such risks through the use of derivatives, in accordance with its financial policies. With regard to such policies, the use of derivatives is reserved exclusively for the management of interest rate fluctuations connected to cash flows and they are not agreed or held for trading purposes.

It solely uses interest rate swaps (IRS), caps and collars to do so.

The group's debt mainly bears floating interest rates. When deemed significant, the group agrees hedging instruments to neutralise fluctuations in interest rates and agrees a set future expense to cover up to 100% of its future cash outflows. Given its ample liquidity, it has an immaterial liquidity risk with respect to its short-term deadlines and, therefore, this risk principally refers to its medium to long-term financing. In 2021, the group had significant access to credit at reduced interest rates. Therefore, it is not believed that interest rate risk increased during the year.

The derivatives used to hedge such risk are generally cash flow hedges in order to set the interest to be paid on financing and obtain an optimum blend of floating and fixed interest rates applied to its financing.

The counterparties are major banks. Derivatives are measured at fair value.

Other market and/or price risks

The group is subjected to increasing competitive pressure due to the entry of new players into the OEM market (large international groups) and the development of new organised markets which constantly push prices down, especially in the electronics sector.

Demand for the group's products is also affected by fluctuations affecting the distribution channels of products and applications which, as noted, are mostly the OEM operating indirectly in the construction sector and operators linked to the food distribution sector (for the refrigeration business).

The group protects itself from the business risks deriving from its normal involvement in markets with these characteristics by focusing on technological innovation and geographical diversification and expansion leading to the group gaining international status as it is active on all the continents either directly or through exclusive third party franchisees.

The production sites in Italy, China, Brazil, the United States, Croatia and Germany aim to optimise production. They will also act as potential disaster recovery centres to deal with catastrophes that shut down production at the main site in Italy, where the parent has its registered office. The group's strategy is also to base its production near its markets and customers to provide faster time-to-market services and increase its production output to serve the rapidly growing markets.

The continuing production structure reorganisation, the related cost savings, geographical diversification and, last but not least, the group's constant commitment to searching for innovative technological solutions make it easier to be competitive.

Climate change and possible impact on the Carel Industries Group

Once again in 2021, like in the previous year, environmental and social issues and their impact on climate change have influenced political and cultural debate, becoming increasingly central to an entity's engagement with its stakeholders. The financial community is especially sensitive to these issues as they continue to intertwine with business operations and strategies in terms of an entity's development (for example, considering the large investments the EU plans to make in coming years in climate change mitigation and adaptation actions and for the transition to more sustainable energy sources) and riskiness (which includes all facets of ESG - Environment, Social Governance).

The group reiterated its commitment to increasingly sustainable development with a number of initiatives (some of which have already been launched) culminating with the publication of its long-term sustainability plan hinged on the concept "Driven by the Future - Sustainability in action".

More information are available in the letter to the shareholders.

The group concurrently undertook an analysis of its financial indicators (Turnover, CapEx and OpEx) pursuant to EU regulations (the Taxonomy Regulation) to identify the part of its business which is not only eligible but also aligned as per the regulation's definition. The group's strategy includes climate mitigation, as defined in the delegated acts of the European Commission and the results of its analysis of the 2021 data confirm the wisdom of the group's strategic decisions taken over the years.

It analysed 83.7% of its total 2021 revenue (around €351.7 million), finding 82.7% of it to be eligible and 60.4% eligible and aligned as per the regulation. The revenue that was not included in the analysis is however eligible and partly aligned for the group's suppliers, as they generated it.

More information are available in the 2021 non-financial statement.

The directors do not currently believe that there are specific risks that the climate change could impact the group's assets that should be considered, for example, as part of the forward-looking information underlying impairment testing, since there are no production and commercial sites in high-risk areas.

NOTES TO THE STATEMENT OF FINANCIAL POSITION

[1] PROPERTY, PLANT AND EQUIPMENT

At 31 December 2021, property, plant and equipment amount to €84,403 thousand compared to €74,880 thousand at 31 December 2020. The following table provides a breakdown of the caption and the changes of the year.

YEAR CHANGES

(thousands of Euros)	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other items of property, plant and equipment	Assets under construction and payments on account	Total
Balance at 31 December 2020	**44,441**	**15,385**	**8,572**	**5,499**	**984**	**74,880**
- Historical cost	54,757	35,365	42,511	17,900	984	151,517
- Accumulated depreciation	(10,316)	(19,980)	(33,939)	(12,402)	-	(76,637)
Changes in 2021						
- Investments	508	4,370	4,223	968	4,821	14,890
- Investments in right-of-use assets	818	-	-	945	-	1,764
- Business combinations (historical cost)	1,774	1,789	34	349	-	3,946
- Business combinations (right-of-use assets)	2,001	-	304	32	-	2,337
- Reclassifications (historical cost)	(12)	319	704	19	(1,062)	(31)
- Impairment losses	-	-	-	-	-	-
- Sales (historical cost)	(527)	(1,147)	(645)	(787)	(21)	(3,128)
- Sales - Right-of-use assets (historical cost)	(255)	-	-	(0)	-	(255)
- Exchange differences on historical cost	1,446	661	905	276	22	3,310
- Exchange differences on accumulated depreciation	(84)	(275)	(540)	(103)	-	(1,001)
- Exchange differences on right-of-use assets	(12)	-	-	32	-	19
- Depreciation	(745)	(2,859)	(3,402)	(1,380)	-	(8,386)
- Depreciation of right-of-use assets	(3,672)	-	(196)	(796)	-	(4,664)
- Business combinations (accumulated depreciation)	(275)	(1,093)	(34)	(275)	-	(1,677)
- Reclassifications (accumulated depreciation)	9	-	-	-	-	9
- Restatement of right-of-use assets	(155)	-	-	(6)	-	(161)
- Sales (accumulated depreciation)	295	1,042	606	605	-	2,547
- Sales - Right-of-use assets (accumulated depreciation)	4	-	-	1	-	5
Total changes	**1,120**	**2,806**	**1,958**	**(121)**	**3,760**	**9,523**
Balance at 31 December 2021	**45,561**	**18,191**	**10,530**	**5,377**	**4,744**	**84,403**
including:						
- Historical cost	60,344	41,356	48,035	19,727	4,744	174,206
- Accumulated depreciation	(14,792)	(23,165)	(37,505)	(14,350)	-	(89,812)

Land and buildings increased as a result of investments in right-of-use assets after new leases were signed.

"Plant and machinery" and "Industrial and commercial equipment" include industrial investments made partly (60%) to increase production capacity. The strong upturn in demand made it necessary to speed up the investments required to create the conditions for the business to grow.

Specifically, the group set up a new SMT line and equipment to increase the production flexibility of the existing lines in Croatia, a new SMT line and an automated line to produce parametric controllers in China mostly for the local market and a new SMT line in the US. Recuperator invested in a new assembly line for plastic exchangers.

Roughly one fourth of the investments was earmarked to upgrade production processes. In Italy, this led to the reorganisation of the production areas (mechanical and electronic) to achieve synergies between similar processes and increase the flexibility of production resources.

The remainder was invested mainly in new equipment to replace obsolete models or to have duplicates on hand to ensure operating continuity.

Payments on account and assets under construction mostly consist of capitalised costs to build a second production site in Croatia, which will be completed in 2022.

A breakdown of property, plant and equipment by geographical segment is as follows:

PROPERTY, PLANT AND EQUIPMENT

(thousands of Euros)	2021	2020
Europe, Middle East and Africa	56,823	50,380
APAC	18,388	16,280
North America	8,455	7,451
South America	737	770
Total	**84,403**	**74,880**

The group's property, plant and equipment were not mortgaged or pledged in either year. They are suitably hedged for risks deriving from losses and/or damage thereto through insurance policies taken out with leading insurers.

The group did not capitalise borrowing costs, in line with previous years.

[2] INTANGIBLE ASSETS

At 31 December 2021, this caption amounts to €134,570 thousand compared to €89,498 thousand at the end of 2020. The following table presents changes in these assets:

YEAR CHANGES

(thousands of Euros)	Development expenditure	Trademarks, industrial patents and software licences	Goodwill	Other assets	Assets under development and payments on account	Total
Balance at 31 December 2020	**4,947**	**10,384**	**49,041**	**21,216**	**3,910**	**89,498**
- Historical cost	23,889	26,130	49,041	25,792	3,910	128,762
- Accumulated amortisation	(18,942)	(15,746)		(4,576)	-	(39,264)
Changes in 2021						

- Investments	277	1,873	-	15	1,589	3,753
- Business combinations (historical cost)	-	274	18,076	30,658	-	49,008
- Reclassifications (historical cost)	2,830	(39)	-	(3)	(3,029)	(240)
- Impairment losses	-	-	-	-	-	-
- Sales (historical cost)	-	-	-	-	(4)	(4)
- Exchange differences on historical cost	74	19	230	10	31	363
- Exchange differences on accumulated amortisation	(12)	(20)	-	(5)	-	(37)
- Amortisation	(1,850)	(2,858)	-	(3,084)	-	(7,793)
- Business combinations (accumulated amortisation)	-	(244)	-	-	-	(244)
- Reclassifications (accumulated amortisation)	-	261	-	3	-	264
- Sales (accumulated amortisation)	-	-	-	-	-	-
Total changes	**1,319**	**(734)**	**18,306**	**27,594**	**(1,413)**	**45,072**
Balance at 31 December 2021	**6,266**	**9,651**	**67,347**	**48,810**	**2,496**	**134,570**
including:						
- Historical cost	27,070	28,258	67,347	56,472	2,496	181,643
- Accumulated amortisation	(20,804)	(18,607)	-	(7,662)	-	(47,073)

A breakdown of intangible assets by geographical segment is as follows:

INTANGIBLE ASSETS

(thousands of Euros)	2021	2020
Europe, Middle East and Africa	130,622	86,025
APAC	2,389	1,896
North America	1,556	1,574
South America	3	3
Total	**134,570**	**89,498**

With reference to intangible assets:

- the balance of development expenditure shows the expenditure related to projects developed almost entirely by the parent and partially by the Chinese subsidiary that have been capitalised and refer to the production of new innovative products or substantial improvements to existing products incurred before the start of commercial production or use. This expenditure is capitalised when all the requirements of IAS 38.57 are met. Investments made in 2020 and 2021 related to the projects developed and available for use in those years. Assets under development and payments on account include costs incurred for projects that had not been completed at the reporting date. The reclassifications refer to completed projects, for which amortisation has commenced. Impairment losses are recognised as amortisation, depreciation and impairment losses in the statement of profit or loss;
- trademarks, industrial patents and software licences include software for management programs and

network applications.

- Goodwill is the cost of the aggregate of the consideration transferred for a business combination, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date fair value of the assets acquired and liabilities assumed.

At 31 December 2021, goodwill amounts to €67,347 thousand, compared to €49,041 thousand at 31 December 2020. The increase is due to allocation of the consideration paid for the two newly-acquired companies, CFM and Enginia, as described below.

GOODWILL

(thousands of Euros)	31.12.2021	Increase	Other changes	Exchange differences	31.12.2020
HygroMatik GmbH	38,499	-	-	-	38,499
Recuperator S.p.A.	6,326	-	-	-	6,326
Carel Thailand CO Ltd	2,234	-	-	230	2,004
Enersol Inc.	1,449	-	-	-	1,449
CFM Sogutma ve Otomasyon	11,431	11,431	-	-	-
Enginia S.r.l.	6,644	6,644	-	-	-
Other goodwill	763	-	-	-	763
Total	**67,347**	**18,075**	**-**	**230**	**49,041**

Other goodwill includes amounts that are individually and collectively immaterial.

Impairment test

As required by IAS 36, the group tests goodwill recognised in its consolidated financial statements for impairment at least once a year, also if there are no indicators of impairment.

Goodwill is recognised on the acquisitions shown in the previous table considered as the CGUs for impairment testing purposes. Therefore, the group only tested those CGUs to which goodwill had been allocated as impairment factors were not identified for the other CGUs. The principal test methods and results for the main CGUs, Recuperator, HygroMatik, CFM and Enginia, are shown below.

The recoverable amount of goodwill of each CGU is determined by calculating its value in use.

The methods and assumptions underlying the impairment tests of the CGUs included:

- cash flows as per the business plans, using a three/four-year plan horizon (explicit projections) plus an estimate of the terminal value. Specifically, management used the gross margin based on past performance and its expectations about the future development of the group's markets to prepare the plans, which were prepared at consolidation level for each CGU and reflect the pandemic's ongoing impact in certain geographical areas;
- the growth rate (g) to determine the cash flows after the plan horizon, calculated specifically for the individual CGUs subject to analysis;
- the pre-tax WACC rate as the discount rate used to discount operating cash flows. Management calculated the cost of capital using the market returns of the last six months on medium to long-term government bonds (ten year) of the countries/markets in which the CGUs are based, adjusted by the market risk premium of each country to account for the investment risk.

The main parameters used to test each CGU were as follows:

CGU	Plan horizon	Growth rate g	WACC	Plan approval date
Recuperator	2022-2025	1.50%	8.43%	18/02/2022
HygroMatik	2022-2025	2.00%	8.24%	10/02/2022
Enginia	2022-2024	1.50%	8.43%	14/02/2022
CFM	2022-2026	1.00%	13.05%	16/02/2022

The values in use, calculated using the discounted cash flows, confirm the carrying amount of goodwill. Specifically, the tests showed the following coverage:

CGU (thousands of Euros)	Coverage
Recuperator	2,660
HygroMatik	7,203
Enginia	1,406
CFM	10,652

Although the directors believe that the assumptions used are reasonable and represent the most probable scenarios based on the available information, the result of the test could differ should the above assumptions significantly change.

Accordingly, stress tests were carried out, related, in particular, to:

- the (EBITDA) estimated over the explicit period of the plans, assuming that the possible deterioration of the macroeconomic scenario will affect that period;
- certain variables, such as government bond yield and market risk premium, used to determine the WACC discount rate.

The following CGUs pass the stress test even if the gross operating profit decreases or the WACC increases as set out below:

CGU	Ebitda +/-	WACC +/-
Recuperator	(34%)	1,00%
Hygromatik	(52%)	0,75%
Enginia	(38%)	0,60%
CFM	(47%)	2,75%

Therefore, there was no need to impair goodwill at 31 December 2021.

[3] EQUITY-ACCOUNTED INVESTMENTS

At 31 December 2021, this caption amounts to €1,250 thousand compared to €724 thousand at 31 December 2020. It may be analysed as follows:

COMPANY (thousands of Euros)	Registered office	Investment %	31.12.2021	Increase	Exchange differences	Equity-accounting	31.12.2020
Arion S.r.l.	Brescia (IT)	40%	29	-	-		29
Free Polska s.p.z.o.o.	Krakow (PL)	30%	1,159	-	(8)	508	659
Others			63	27	-	-	36
Total			**1,250**	**27**	**(8)**	**508**	**724**

[4] OTHER NON-CURRENT ASSETS

At 31 December 2021, other non-current assets amount to €10,407 thousand compared to €11,311 thousand at 31 December 2020; they are broken down as follows:

(thousands of Euros)	31.12.2021	31.12.2020
Guarantee deposits	432	419
Third parties	176	187
Other assets	9,799	10,705
Total	**10,407**	**11,311**

Other assets include a non-current VAT asset recognised by the South American group company and the substitute tax paid by the parent on the higher values allocated and recognised in the consolidated financial statements at 31 December 2018, implicit in the carrying amount of the equity investment, pursuant to article 15.10-bis of Law decree no. 185/2008. In 2021, the parent deducted the amortisation and depreciation on the above assets for both IRES (corporate income taxes) and IRAP (local tax on production) purposes and it released €1,962 thousand of the related portion of the above tax asset was released to profit or loss. The amount related to 2021 was reclassified to current assets. The caption increased by the tax assets of €1,253 thousand accrued during the year, mostly recognised by the parent, which will be used for offsetting over time as provided for by the applicable laws.

[5] DEFERRED TAX ASSETS

At 31 December 2021, deferred tax assets amount to €7,022 thousand compared to €5,264 thousand at 31 December 2020. The group has recognised deferred tax assets and liabilities on temporary differences between the carrying amount of assets and liabilities and their tax base.

It calculates taxes using the rates enacted in the countries where it operates when the temporary differences reverse. A breakdown of deferred tax assets is as follows:

(thousands of Euros)	2021 tax base	Deferred tax assets at 31 December 2021	2020 tax base	Deferred tax assets at 31 December 2020
Allowance for inventory write-down	7,346	1,632	5,438	1,217
Non-deductible accruals	3,418	879	3.553	922
Amortisation of goodwill	557	114	839	188

(thousands of Euros)	2021 tax base	Deferred tax assets at 31 December 2021	2020 tax base	Deferred tax assets at 31 December 2020
Consolidation adjustments to intragroup inventory transactions	11,949	2,825	8,343	1,905
Carryforward tax losses	975	190	1,254	207
Other	5,077	1,383	3,131	825
Total	**29,322**	**7,022**	**22,557**	**5,264**

Changes in deferred tax assets and liabilities are presented in the next table:

(thousands of Euros)	31.12.2021	Recognised in profit or loss	Change in consolidation scope	Recognised in other comprehensive income	31.12.2020
Deferred tax assets	7,022	1,687	37	33	5,265
Deferred tax liabilities	(17,110)	1,348	(8,145)	(101)	(10,212)
Total	**(10,089)**	**3,035**	**(8,108)**	**(68)**	**(4,947)**

Deferred tax assets on carryforward tax losses amount to €190 thousand. The group believes that these losses can be recovered over time based on the cash flows that the group will generate in future years. The Japanese, South American and Indian group companies did not recognise deferred tax assets on carryforward tax losses, which total €830 thousand.

CURRENT ASSETS

[6] TRADE RECEIVABLES

At 31 December 2021, this caption amounts to €74,455 thousand compared to €57,728 thousand at 31 December 2020. It may be analysed as follows:

(thousands of Euros)	31.12.2021	31.12.2020
Gross trade receivables	75,719	58,750
Loss allowance	(1,265)	(1,022)
Net trade receivables	**74,455**	**57,728**

The next table breaks down gross trade receivables by geographical segment:

(thousands of Euros)	31.12.2021	31.12.2020
Europe, Middle East and Africa	56,684	40,342
APAC	11,185	11,594
North America	6,238	4,883
South America	1,611	1,931
Total	**75,719**	**58,750**

The group does not usually charge default interest on past due receivables. Reference should be made to the section on risks and financial instruments for details of the receivables that are not yet due and/or are past due.

The group's receivables are not particularly concentrated. It does not have customers that individually account for more than 5% of the total receivables at each maturity date.

The loss allowance comprises management's estimates about credit losses on receivables from end customers and the sales network. Management estimates the allowance on the basis of the expected losses, considering past experience for similar receivables, current and historical past due amounts, losses and collections, the careful monitoring of credit quality and projections about the economy and market conditions. It recognises the resulting impairment losses in Other expense (net). Changes in the allowance are shown in the following table:

(thousands of Euros)	31.12.2020	Impairment losses	Utilisations	Exchange differences	31.12.2019
Loss allowance	(1,022)	(262)	327	38	(1,125)

(thousands of Euros)	31.12.2021	Impairment losses	Utilisations	Exchange differences	Change in consolidation scope	31.12.2020
Loss allowance	(1,265)	(354)	162	38	(88)	(1,022)

[7] INVENTORIES

At 31 December 2021, this caption amounts to €80,907 thousand compared to €52,012 thousand at 31 December 2020. It may be analysed as follows:

(thousands of Euros)	31.12.2021	31.12.2020
Raw materials	45,154	26,299
Allowance for inventory write-down	(2,828)	(2,067)
Semi-finished products and work in progress	4,455	4,153
Finished goods	38,515	26,893
Allowance for inventory write-down	(4,716)	(3,348)
Payments on account	328	82
Total	**80,907**	**52,012**

Inventories, gross of the allowance for inventory write-down, increased by a total of €31,023 thousand, partly due to the consolidation of the two acquirees which contributed €6,623 thousand. The group recognised an allowance for inventory write-down (€7,544 thousand) to cover the difference between the cost and estimated realisable value of obsolete raw materials and finished goods. The accrual was recognised in the caption Costs of raw materials, consumables and goods and changes in inventories of the statement of profit or loss.

[8] CURRENT TAX ASSETS

This caption amounts to €3,886 thousand, compared to €2,156 thousand at the previous year end. It includes direct tax assets offset, where possible, against the tax liabilities at the same date.

[9] OTHER CURRENT ASSETS

At 31 December 2021, this caption amounts to €9,788 thousand compared to €7,445 thousand at 31 December 2020. It may be analysed as follows:

(thousands of Euros)	31.12.2021	31.12.2020
Payments on account to suppliers	1,388	384
Other tax assets	3,196	2,693
VAT assets	1,486	1,550
Prepayments and accrued income	2,551	1,868
Other	1,168	950
Total	**9,788**	**7,445**

Other tax assets mainly consist of the tax credits for research and development expenditure in addition to the current portion of the tax asset arising from the substitute tax paid to align the higher carrying amounts with the relevant tax bases upon consolidation as detailed in note 4.

[10] CURRENT FINANCIAL ASSETS

At 31 December 2021, this caption amounts to €483 thousand compared to €7,540 thousand at 31 December 2020. It may be analysed as follows:

(thousands of Euros)	31.12.2021	31.12.2020
Derivatives	13	17
Other financial assets	465	21
Deposit accounts	6	7,503
Total	**483**	**7,540**

At 31 December 2020, the deposit accounts included temporary deposits of liquidity including accrued interest income before tax withholdings. The liquidity was collected during the year.

The derivatives are forwards and currency options agreed to hedge commercial transactions but which do not qualify for hedge accounting. Fair value gains and losses are recognised in profit or loss. More information is available in the paragraph on financial instruments in note [35] Other information.

[11] CASH AND CASH EQUIVALENTS

At 31 December 2021, this caption amounts to €100,625 thousand compared to €105,586 thousand at 31 December 2020. Reference should be made to the statement of cash flows for details of changes in the group's cash and cash equivalents.

(thousands of Euros)	31.12.2021	31.12.2020
Current accounts and post office deposits	100,585	105,549
Cash	40	38
Total	**100,625**	**105,586**

Current accounts and post office deposits are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to immaterial currency risk.

At the reporting date, the group's current account credit balances were not pledged in any way.

EQUITY AND LIABILITIES

[12] EQUITY ATTRIBUTABLE TO THE OWNERS OF THE PARENT

The parent's fully paid-up and subscribed share capital consists of 100,000,000 ordinary shares.

Equity may be analysed as follows:

(thousands of Euros)	31.12.2021	31.12.2020
Share capital	10,000	10,000
Legal reserve	2,000	2,000
Translation reserve	3,855	(2,685)
Hedging reserve	(51)	(436)
Other reserves	17,079	56,530
Retained earnings	73,009	58,795
Profit for the year	49,059	35,112
Total	**154,951**	**159,316**

The hedging reserve includes the fair value gains and losses on interest rate hedges.

The translation reserve increased by €6,907 thousand, mostly due to the Euro's appreciation against the Chinese renminbi and the US dollar.

Other reserves include a reserve related to the share-based long-term incentive (LTI) plan. Note [35] provides more information about this plan. The decrease is mostly due to recognition of the put option for the other 49% of CFM held by the non-controlling investor, as defined in the acquisition agreement. In accordance with the IFRS, the fair value of the call option was recognised in equity.

In order to service the incentive plan, the shareholders authorised the repurchase of treasury shares, up to 5,000,000 or 5% of the parent's share capital. At the reporting date, the parent had 100,521 treasury shares totalling €1,108 thousand.

The earnings per share are calculated by dividing the profit attributable to the owners of the parent by the weighted average number of outstanding ordinary shares. There are no potentially dilutive ordinary shares (e.g., stock options or convertible bonds).

The earnings per share are as follows:

(thousands of Euros)	31.12.2021	31.12.2020
Number of shares (in thousands)	99,899	99,851
Profit for the year (in thousands of Euros)	49,059	35,112
Earnings per share (in Euros)	**0.49**	**0.35**

The shareholders resolved to distribute a dividend of €0.12 per share on 20 April 2021, which resulted in the distribution of €11,988 thousand in June 2021.

[13] EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

At 31 December 2021, this caption amounts to €14,923 thousand compared to €304 thousand at 31 December 2020 and comprises the non-controlling interests in CFM (49%) and Carel Thailand Co. Ltd (20%).

(thousands of Euros)	31.12.2021	Profit for the year	Other comprehensive income	Dividends distributed	Change in consolidation scope	31.12.2020
Equity attributable to non-controlling interests	**14,923**	29	100	-	14,490	**304**

[14] CURRENT AND NON-CURRENT FINANCIAL LIABILITIES

These captions may be analysed as follows:

(thousands of Euros)	31.12.2021	31.12.2020
Non-current bank loans and borrowings at amortised cost	67,942	86,975
Non-current lease liabilities	23,520	24,597
Effective designated derivative hedges	27	578
Other non-current loans and borrowings at amortised cost	771	1,506
Other non-current financial liabilities	1,440	-
Non-current financial liabilities	**93,700**	**113,657**

(thousands of Euros)	31.12.2021	31.12.2020
Current portion of bank loans at amortised cost	60,281	44,767
Current lease liabilities	4,037	3,588
Current bank borrowings at amortised cost	85	148
Derivatives held for trading at fair value through profit or loss	45	55
Other current loans and borrowings at amortised cost	802	523
Current financial liabilities	**65,250**	**49,080**

The following table shows the main characteristics of the bank loans by maturity at 31 December 2021:

BANK LOANS							
(thousands of Euros)	Currency	Original amount	Maturity	Interest rate	Outstanding liability	Current	Non-current
Deutschebank	EUR	400	2023	Fixed	66	44	22
Unicredit	EUR	20,000	2023	Fixed	6,666	4,444	2,222
Unicredit	EUR	20,000	2023	Floating	9,999	6,666	3,333

Mediobanca	EUR	25,000	2023	Floating	25,000	-	25,000
Mediobanca	EUR	20,000	2026	Floating	20,000	4,444	15,556
BNP Paribas	EUR	30,000	2023	Floating	12,858	8,572	4,286
BNP Paribas	EUR	20,000	2023	Floating	9,996	-	9,996
BNP Paribas	EUR	15,000	2022	Fixed	15,000	15,000	-
BNP Paribas	EUR	10,000	2022	Fixed	10,000	10,000	-
Intesa San Paolo	EUR	10,000	2024	Fixed	6,260	2,500	3,760
Intesa San Paolo	EUR	6,000	2022	Fixed	6,000	6,000	-
Credit Agricole	EUR	10,000	2024	Fixed	6,267	2,500	3,767
BNP Paribas	USD	80	2022	Floating	80	80	-
Medio Credito Italiano	EUR	200	2022	Floating	30	30	-
Total					**128,222**	**60,280**	**67,942**

All loans except for the Deutschebank loan bear a fixed interest rate of less than 1%.

The following loans require compliance with covenants:

- Mediobanca (loan of €25,000 thousand): the loan requires that the following covenants be respected on a six-monthly basis at 31 December and 30 June of each year starting from 30 June 2020 based on the figures recognised in the consolidated financial statements:
  - net financial position / gross operating profit < 3.50x;
  - net financial expense / gross operating profit > 5.00x
- BNL - BNP Paribas (loan of €20,000 thousand): the loan requires that the following covenant be respected at 31 December of each year starting from 31 December 2019 based on the figures recognised in the consolidated financial statements:
  - net financial position / gross operating profit < 3.50x.
- Mediobanca (loan of €20,000 thousand): the loan requires that the following covenants be respected on a six-monthly basis at 31 December and 30 June of each year starting from 31 December 2021 based on the figures recognised in the consolidated financial statements:
  - net financial position / gross operating profit < 3.50x;
  - net financial expense / gross operating profit > 5.00x

At 31 December 2021, such covenants have been respected.

The derivatives included under current financial liabilities are forwards and currency options agreed to hedge commercial transactions which do not qualify for hedge accounting. The effective designated derivative hedges include the fair value of five IRSs agreed to hedge interest rate risk on the Banca Nazionale del Lavoro, Unicredit and Mediobanca loans. More information is available in note [35] Other information.

A breakdown of other loans and borrowings at amortised cost is provided below, with indication of whether they are current or non-current:

(thousands of Euros)	Currency	Original amount	Maturity	Interest rate	Outstanding liability	Current	Non-current
MedioCredito Centrale Progetto Horizon 2020	EUR	1,241	2026	Fisso	872	192	680
Other loans					701	610	91
Total					**1,573**	**802**	**771**

The following tables show changes in current and non-current financial liabilities, comprising lease liabilities (including cash and non-cash changes):

(thousands of Euros)	31.12.2021	Net cash flows	Fair value gains or losses	Reclassification	Exchange differences	31.12.2020
Non-current bank loans and borrowings at amortised cost	67,942	5,693	-	(24,726)	-	86,975
Effective designated derivative hedges	27	(390)	(162)	-	-	578
Other non-current loans and borrowings at amortised cost	771	(43)	-	(692)		1,506
Other non-current financial liabilities	1,440	(7,378)	-		8,818	-
Non-current financial liabilities	**70,180**	**(2,118)**	**(162)**	**(25,418)**	**8,818**	**89,059**

(thousands of Euros)	31.12.2021	Cash flow netto	Variazione di Fair Value	Riclassifica	Variazione di perimetro	31.12.2020
Current bank loans	60,281	(9,263)	-	24,726	50	44,767
Current bank borrowings	85	(62)	-	-	-	148
Other current loans and borrowings	802	(413)	-	692	-	523
Derivatives	45	(55)	45		-	55
Current financial liabilities	**61,213**	**(9,793)**	**45**	**25,418**	**50**	**45,492**

(thousands of Euros)	31.12.2021	Increases	Restatement of financial liabilities	Repayments	Interest	Exchange differences	Change in consolidation scope	31.12.2020
Lease liabilities	27,556	1,764	(692)	(4,759)	670	51	2,337	28,185

A breakdown of net financial debt calculated in accordance with ESMA guideline no. 32-382-1138 of 4 March 2021 is provided below.

FINANCIAL DEBT

	(thousands of Euros)	31.12.2021	31.12.2020
A	Cash	100,625	105,586
B	Cash equivalents	6	7,503
C	Other current financial assets	478	38
D	**Liquidity (A+ B + C)**	**101,109**	**113,126**
E	Current loans and borrowings	130	202
F	Current portion of non-current loans and borrowings	65,119	48,877
G	**Current financial debt (E + F)**	**65,250**	**49,080**
H	**Current net financial position (G - D)**	**(35,859)**	**(64,047)**
I	Non-current loans and borrowings	93,673	113,078
J	Debt instruments	27	578
K	Trade payables and other non-current financial liabilities	-	-
L	**Non-current financial debt (I + J + K)**	**93,700**	**113,657**
M	**Net financial debt (H + L)**	**57,841**	**49,610**

As also required by Consob notice no. 5/21 of 29 April 2021, it is noted that the group has recognised a liability subject to conditions related to the option for the non-controlling interest in CFM, as detailed in note [18]. In compliance with such notice, it is also noted that the group recognised liabilities for defined benefit plans of €8,612 thousand (note [16]) and provisions for risks and charges of €4,064 thousand (note 15).

[15] PROVISIONS FOR RISKS

At 31 December 2021, provisions for risks amount to €4,064 thousand compared to €3,396 thousand at 31 December 2020 and they are broken down as follows:

(thousands of Euros)	31.12.2021	31.12.2020
Provision for agents' termination benefits	851	808
Provision for commercial complaints	93	104
Provision for product warranties	393	337
Other provisions	820	43
Total - non-current	**2,157**	**1,292**
Provision for commercial complaints	1,907	2,104
Total - current	**1,907**	**2,104**
Total	**4,064**	**3,396**

The following table shows changes in this caption:

(thousands of Euros)	31.12.2021	Accruals	Utilisations	Reversals	Reclassifi-cations	Change in consolidation scope	Exchange differences	31.12.2020
Provision for agents' termination benefits	851	23	-	(15)	-	35	-	808
Provision for commercial complaints	93	17	(10)	(25)	-		7	104
Provision for product warranties	393	104	(44)		(4)		-	337
Other provisions	820	57	(2)		-	720	-	43
Total - non-current	**2,157**	**201**	**(56)**	**(40)**	**(4)**	**755**	**7**	**1,292**
Provision for commercial complaints	1,907	556	(718)	(32)	-	-	-	2,104
Total - current	**1,907**	**556**	**(718)**	**(32)**	**-**	**-**	**-**	**2,104**
Total	**4,064**	**757**	**(774)**	**(72)**	**(4)**	**755**	**7**	**3,396**

The provision for agents' termination benefits includes the estimated liability arising from application of the current regulations and contractual terms covering the termination of agency agreements. Unlike the accruals to the provisions for risks and product warranties and the other provisions, the accrual to this provision is classified under services in the statement of profit or loss.

The provision for commercial complaints decreased due to utilisations during the year.

Other provisions represent management's best estimate of the other liabilities that arise during normal operations.

[16] DEFINED BENEFIT PLANS

This caption mainly consists of the group's liability for post-employment benefits and post-term of office benefits for directors recognised by the Italian group companies and the German subsidiary, HygroMatik GmbH. These benefits qualify as defined benefit plans pursuant to IAS 19 and the related liabilities are calculated by an independent actuary. Changes in the liability in both years are shown below.

(thousands of Euros)	31.12.2021	31.12.2020
Opening balance	**8,189**	**7,844**
Interest cost	35	54
Change in consolidation scope	900	-
Other variations	(465)	164
Employee benefits paid	(655)	(357)
Exchange differences	(2)	(32)
Accruals	2,808	2,463
Transfer to pension plans	(2,330)	(2,237)

(thousands of Euros)	31.12.2021	31.12.2020
Actuarial losses	132	290
Closing balance	**8,612**	**8,189**

The group also performed sensitivity analyses to assess reasonable changes in the main assumptions underlying the calculations. Specifically, it assumed an increase or decrease of 0.25% in the discount rate. The resulting change in the liability would be immaterial.

[17] DEFERRED TAX LIABILITIES

At 31 December 2021, this caption amounts to €17,110 thousand, compared to €10,212 thousand at 31 December 2020. Changes in deferred tax liabilities are available in note [5] Deferred tax assets. A breakdown of deferred tax liabilities is as follows:

(thousands of Euros)	2021 tax base	2021 deferred tax liabilities	2020 tax base	2020 deferred tax liabilities
Discounting of non-current liabilities	104	29	90	25
Differences from consolidation adjustments	57,714	15,364	29,664	8,716
Differences on amortisation and depreciation and other differences in standards	6,241	1,177	6,645	1,266
Other	2,968	540	1,100	204
Total	**67,027**	**17,110**	**37,498**	**10,212**

The largest amount is due to the allocation of non-taxable amounts upon the first-time consolidation of Recuperator S.p.A., HygroMatik GmbH, Enginia S.r.l. and CFM.

[18] OTHER NON-CURRENT LIABILITIES

The balance of €49,894 thousand mainly refers to the liability for the call option on the non-controlling interest in CFM. Reference should be made to the Consolidation scope section for more details on such option and the measurement method used.

In 2021, the group recognised interest expense of €402 thousand and a fair value loss of €125 thousand.

[19] TRADE PAYABLES

Trade payables amount to €66,444 thousand, compared to €43,234 thousand at 31 December 2020. The increase is mostly due to the group's greater business volumes and the inclusion of the two new acquirees in the consolidation scope, contributing trade payables of €3,847 thousand.

There are no significant past due amounts at 31 December 2021.

[20] CURRENT TAX LIABILITIES

At 31 December 2021, this caption amounts to €4,775 thousand compared to €2,991 thousand at the end of the previous year. It entirely consists of direct income tax liabilities.

[21] OTHER CURRENT LIABILITIES

This caption is broken down in the following table and mostly includes personnel-related liabilities (wages and salaries, tax withholdings and social security contributions).

(thousands of Euros)	31.12.2021	31.12.2020
Social security contributions	4,888	4,760
Tax withholdings	2,018	1,978
Other tax liabilities	263	403
VAT liabilities	1,467	1,445
Wages and salaries, bonuses and holiday pay	16,301	13,959
Other liabilities	3,135	1,220
Total	**28,072**	**23,766**

NOTES TO THE STATEMENT OF PROFIT OR LOSS

[22] REVENUE

Revenue amounts to €420,418 thousand, compared to €331,610 thousand in 2020, with a year-on-year increase of 26.8%.

It is shown net of discounts and allowances.

Revenue generated by services amounts to €3,524 thousand compared to €2,210 thousand in 2020. A breakdown of revenue by business segment is as follows:

(thousands of Euros)	2021	2020	Delta %
HVAC	270,011	217,498	24.1%
REF	145,826	110,337	32.2%
Total core revenue	**415,837**	**327,836**	**26.8%**
Non-core revenue	4,581	3,775	21.4%
Total	**420,418**	**331,610**	**26.8%**

There are no group customers that individually contribute more than 5% to the group's revenue.

A breakdown of revenue by geographical segment is as follows:

(thousands of Euros)	2021	2020	Delta %
Europe, Middle East and Africa	302,311	236,267	28.0%
APAC	62,725	49,714	26.2%
North America	46,030	38,456	19.7%

(thousands of Euros)	2021	2020	Delta %
South America	9,352	7,173	30.4%
Total	**420,418**	**331,610**	**26.8%**

[23] OTHER REVENUE

Other revenue amounts to €5,779 thousand, an increase on the €3,704 thousand balance in 2020. The caption may be broken down as follows:

(thousands of Euros)	2021	2020
Grants related to income	3,130	1,381
Sundry cost recoveries	1,973	1,583
Other revenue and income	677	740
Total	**5,779**	**3,704**

The grants related to income of €3,130 thousand (2020: €1,381 thousand) mainly relate to the tax credit for development activities recognised as provided for by Law no. 190 of 23 December 2014 (the 2015 Stability Law) in addition to the grants given to the US group company during the Covid-19 pandemic.

Sundry cost recoveries mostly refer to transport and other costs.

Other revenue and income principally comprise amounts charged to suppliers and customers.

[24] COSTS OF RAW MATERIALS, CONSUMABLES AND GOODS AND CHANGES IN INVENTORIES

This caption amounts to €190,138 thousand, compared to €139,644 thousand in 2020. A breakdown of the caption is as follows:

(thousands of Euros)	2021	2020	Delta %
Costs of raw materials, consumables and goods and changes in inventories	(190,138)	(139,644)	36.2%
% of revenue	(45.2%)	(42.1%)	7.4%

The caption includes the inventories of CFM and Enginia measured at fair value at the acquisition date (€1,561 thousand) and reversed as a non-recurring cost in profit or loss.

[25] SERVICES

The group incurred costs of €51,034 thousand for services in 2021, up €8,498 thousand on the previous year. Transport costs increased due to the higher business volumes as did most of the cost items. The rise in consultancies refers to the non-recurring costs for M&A activities (€1,359 thousand).

The two new acquirees contributed costs of around €1,400 thousand for services.

The caption may be broken down as follows:

(thousands of Euros)	2021	2020	Delta %
Transport	(15,843)	(12,076)	31.2%
Consultancies	(8,884)	(6,533)	36.0%
Business trips and travel	(1,726)	(1,529)	12.9%
Use of third party assets	(1,712)	(1,406)	21.8%
Maintenance and repairs	(5,561)	(4,379)	27.0%
Marketing and advertising	(926)	(1,361)	(32.0%)
Outsourcing	(2,307)	(2,774)	(16.8%)
Agency commissions	(1,821)	(1,847)	(1.4%)
Utilities	(1,806)	(1,619)	11.5%
Fees to directors, statutory auditors and independent auditors	(2,143)	(2,062)	3.9%
Insurance	(1,460)	(1,283)	13.7%
Telephone and connections	(922)	(928)	(0.6%)
Other services	(5,923)	(4,741)	24.9%
Total	**(51,034)**	**(42,536)**	**20.0%**

[26] CAPITALISED DEVELOPMENT EXPENDITURE

This caption amounts to €1,249 thousand, compared to €2,227 thousand in 2020 and is almost entirely related to development projects capitalised under intangible assets. Part of the capitalised costs refer to self-constructed equipment and machinery recognised under property, plant and equipment. The caption may be analysed as follows:

(thousands of Euros)	2021	2020	Variation %
Development expenditure	1,117	2,120	(47.3%)
Self-constructed plant and machinery	132	107	23.8%
Total	**1,249**	**2,227**	**(43.9%)**

The group incurred research and development expenditure of €19,034 thousand and €17,499 thousand in 2021 and 2020, respectively. Only the amounts described above were capitalised, as they met the requirements of IAS 24.

[27] PERSONNEL EXPENSE

This caption amounted to €99,379 thousand for 2021 compared to €88,620 thousand for the previous year. Breakdowns of this caption and of the workforce by employee category are as follows:

(thousands of Euros)	2021	2020	Variation
Wages and salaries, including bonuses and accruals	(77,583)	(69,375)	11.8%
Social security contributions	(17,294)	(15,198)	13.8%
Defined benefit plans	(2,808)	(2,463)	14.0%
Other costs	(1,694)	(1,584)	6.9%
Total	**(99,379)**	**(88,620)**	**12.1%**

	31.12.2021		31.12.2020	
	year end	average	year end	average
Managers	62	62	62	**62**
White collars	1,114	1,087	1,059	**1,056**
Blue collars	689	657	624	**600**
Total	**1,865**	**1,805**	**1,745**	**1,717**

[28] OTHER EXPENSE, NET

This caption amounted to €1,594 thousand, compared to €1,548 thousand for the previous year. It may be broken down as follows:

(thousands of Euros)	2021	2020	Variation %
Gains on the sale of non-current assets	367	72	>100%
Prior year income	665	493	35.0%
Release of provisions for risks	57	1,203	(95.3%)
Other income	**1,089**	**1,768**	**(38.4%)**
Losses on the sale of non-current assets	(17)	(19)	(12.7%)
Prior year expense	(157)	(360)	(56.3%)
Other taxes and duties	(1,008)	(1,059)	(4.8%)
Impairment losses on loans and receivables	(354)	(262)	35.5%
Accrual to the provisions for risks	(734)	(1,310)	(44.0%)
Credit losses	(15)	(26)	(42.5%)
Other costs	(398)	(280)	42.2%
Other expense	**(2,683)**	**(3,316)**	**(19.1%)**
Other expense, net	**(1,594)**	**(1,548)**	**3.0%**

The gains on the sale of non-current assets mostly relate to the sale of the French group company's former premises.

Accruals to the provisions for risks mainly comprise accruals to the provision for commercial complaints. Reference should be made to note [15] for more information.

[29] AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES

Amortisation and depreciation amount to €20,842 thousand, up from €18,315 thousand in the previous year. The caption also includes depreciation and amortisation arising from the purchase price allocation (€4,138 thousand). It may be analysed as follows:

(thousands of Euros)	2021	2020	Delta %
Amortisation	(7,792)	(6,493)	20.0%
Depreciation	(13,050)	(11,822)	10.4%
Impairment losses	(2)	(166)	(99.1%)
Total	**(20,844)**	**(18,482)**	**12.8%**

[30] NET FINANCIAL EXPENSE

Net financial expense amounts to €2,355 thousand compared to €1,489 thousand in the previous year. The caption may be broken down as follows:

(thousands of Euros)	2021	2020	Delta %
Gains on financial assets	26	-	>100%
Interest income	81	178	(54.5%)
Gains on derivatives	8	28	(72.2%)
Other financial income	97	145	(33.5%)
Dividends received	107	-	>100%
Financial income	**319**	**351**	**(9.1%)**
Bank interest expense	(861)	(933)	(7.7%)
Lease interest expense	(670)	(416)	61.0%
Other interest expense	(24)	(33)	(25.6%)
Losses on derivatives	(104)	(61)	71.4%
Other financial expense	(613)	(399)	53.8%
Interest expense on call options for non-controlling interests	(402)	0	>100%
Financial expense	**(2,675)**	**(1,841)**	**45.3%**
Net financial expense	**(2,355)**	**(1,489)**	**58.1%**

The caption includes interest expense of €402 thousand accrued on the liability recognised for the call option for 49% of CFM.

[31] NET EXCHANGE LOSSES

Net exchange losses amount to €1,430 thousand compared to €921 thousand in 2020 and are mostly a result of the US dollar's depreciation. They are made up as follows:

(thousands of Euros)	2021	2020	Delta %
Exchange losses	(5,144)	(5,853)	(12.1%)
Exchange gains	3,714	4,932	(24.7%)
Net exchange losses	**(1,430)**	**(921)**	**55.3%**

[32] NET FAIR VALUE LOSS ON THE LIABILITY FOR THE CALL OPTION FOR NON-CONTROLLING INTERESTS

The fair value loss on the call option for 49% of CFM in the period from its initial recognition to the reporting date amounts to €125 thousand.

[33] SHARE OF PROFIT OF EQUITY-ACCOUNTED INVESTEES

This caption shows a net profit of €508 thousand, compared to €208 thousand in 2020. It comprises the group's share of the profit or loss of equity-accounted investees.

[34] INCOME TAXES

This caption amounts to €11,967 thousand compared to €9,392 thousand in the previous year. It may be broken down as follows:

(thousands of Euros)	2021	2020
Current taxes	(15,008)	(11,724)
Deferred taxes	3,035	1,583
Taxes relative to prior years	7	748
Total	**(11,967)**	**(9,392)**

A reconciliation of the tax expense for the year is as follows using the profit before tax shown in the statement of profit or loss:

(thousands of Euros)	2021	2020
Current taxes	(15,008)	(11,724)
Profit before tax	61,055	44,511
Income taxes calculated using the theoretical IRES rate	(14,653)	(10,683)
IRAP	(816)	(819)
Effect of the different rates applied by the group companies operating in other countries	2,056	2,092
Withholding tax on dividends	(438)	(1,250)
Taxes relative to prior years	7	748
Effect of the different rates applied by the group companies operating in other countries and other changes	1,877	519
Total	**(11,967)**	**(9,392)**

Reference should be made to note [5] for information about changes in deferred tax assets and liabilities and their composition.

The tax rate applied for the reconciliation of the tax burden is 24%, in line with the IRES rate in Italy, the country in which most of the group's taxable profit is earned.

[35] OTHER INFORMATION

Segment reporting

Under IFRS 8, an entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. Based on the group's internal reporting system, the business activities for which it earns revenue and incurs expenses and the operating results which are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated and to assess its performance, the group has not identified individual operating segments but is an operating segment as a whole.

Financial instruments

The group is active on international markets and, hence, is exposed to currency and interest rate risks. Specifically, the currencies generating these risks are the US dollar, the Polish zloty and the Chinese renminbi.

The group has a hedging policy to mitigate the risks which involves the use of derivatives, options and forwards, mostly with maturities of less than one year. Transactions in place at the reporting date involving currency hedging transactions are as follows:

(thousands of Euros) *forward*	31.12.2021 Purchases *	Sales *	Positive fair value **	Negative fair value **	31.12.2020 Purchases *	Sales *	Positive fair value **	Negative fair value **
JPY/EUR	-	-	-	-		12,500	-	(1)
EUR/ZAR	-	-	-	-		228	-	-
ZAR/USD	-	6,000	8	(3)		8,800	-	(47)
CNY/USD	-	600	-	(1)		-	-	-
THB/USD	-	5,500	-	(1)		6,200	-	(3)
Total forwards			**8**	**(5)**			**-**	**(51)**
Options								
USD/EUR	-	4,100	4		-	-	-	-
CNY/USD	-	30	-		-	-	-	-
ZAR/USD	-	-	-	-	-	18,000	12	-
THB/USD	-	-	-	-	-	46,000	5	-
Total options			**4**	**-**			**17**	
Total			**12**	**(5)**			**17**	**(51)**

The next table provides information about the interest rate swaps hedging the related risk:

(thousands of Euros)	Notional amount	Maturity	Fair value 31.12.2021	Fair value 31.12.2020
BNL	30,000	19/11/2022	**(41)**	(135)
BNL	20,000	30/04/2023	**(67)**	(262)
Unicredit	20,000	30/04/2023	**(41)**	(113)
Mediobanca	25,000	04/08/2023	**9**	(68)
Mediobanca	20,000	26/06/2026	**72**	n.a.

Derivatives hedging foreign currency assets and liabilities are recognised at fair value with any gains or losses recognised in profit or loss. They are natural hedges of the related risks, which are recognised pursuant to IFRS 9.

Long-term share-based incentive (LTI) plan

The 2018-2022 equity-settled performance plan resolved by the shareholders on 7 September 2018 is an equity-settled incentive plan, with the free assignment of shares to members of boards of directors and/or company employees. The plan is divided into three rolling cycles (vesting periods), each lasting three years (2018-2020, 2019-2021 and 2020-2022), at the end of which the shares will be distributed, after checking that the performance objectives have been reached and based on the date of the board of directors' resolution.

The number of shares assigned is subject to achieving specific performance objectives based on adjusted EBITDA and cash conversion ratios. The performance objectives are independent of one another and will be calculated separately for each vesting period.

In accordance with IFRS 2 Share-based payments, the fair value of the shares calculated at the grant date applying the Black-Scholes method is recognised in profit or loss as personnel/directors expense, on a systematic basis over the vesting period with a balancing entry in equity.

On 4 March 2021, the parent's board of directors approved the assignment of treasury shares upon conclusion of the first rolling cycle (2018-2020). It had granted 68,798 rights with a fair value of €691 thousand on 1 October 2018 for this vesting period.

In April 2021, it assigned 67,688 treasury shares to 12 beneficiaries for a total of €657 thousand. The gain of €34 thousand between the fair value of the shares assigned, measured using the rolling FIFO method, and their fair value at the grant date was reclassified to an available income-related reserve.

On 4 March 2021, the parent's board of directors also approved:

- the regulation for an equity-settled incentive plan involving the free assignment of the parent's ordinary shares, the 2021-2025 equity-settled performance plan;
- the regulation for the 2021-2025 cash-settled performance plan.

The term, vesting periods, beneficiaries and performance objectives (cumulative adjusted EBITDA for each vesting period (weight of 50%), cash conversion - average value of the vesting periods (weight of 30%), ESG targets - average achievement of a number of sustainability indicators (weight of 20%)) are the same for both plans.

On 20 April 2021, the parent's shareholders approved the 2021-2025 equity-settled performance plan for the free assignment of shares to the members of the boards of directors and/or employees, as described earlier.

Finally, on 4 November 2021, the parent's board of directors resolved in favour of the 2021-2025 cash-settled performance plan rather than the 2021-2025 equity-settled performance plan, as the allocation of awards under the former plan is more efficient even through both plans have the same characteristics, the same terms and conditions and the same performance conditions.

On the same date, the board of directors identified the beneficiaries of the 2021-2025 cash-settled performance plan for the first vesting period (2021-2023) and established the percentage of their base gross annual remuneration to be received as a cash benefit for each one. Such incentives total approximately €1,720 thousand.

The cash to be actually paid to each beneficiary will be calculated at the end of the 2021-2023 vesting period considering whether they have met the performance conditions established in the plan's regulation.

In accordance with IFRS 2 Share-based payment, the fair value of the distributions calculated at the allocation date applying the Black-Scholes method is recognised in profit or loss as personnel/directors expense, on a systematic basis over the vesting period with a balancing entry in equity.

In 2021, the parent recognised an expense of €818 thousand in profit or loss and the same amount was also recognised as an increase in equity. This amount represents the amount attributable to:

- the second cycle of the plan (2019-2021), equal to €410 thousand, whose total fair value amounts to €855 thousand;
- the third cycle of the plan (2020-2022), equal to €408 thousand, whose total fair value amounts to €865 thousand.

Pursuant to IAS 19 Employee benefits, cash-settled incentive plans qualify as defined benefit plans and, therefore, the liability was calculated by an independent actuary using the projected unit credit method as required by the standard. This method determines the average present value of the obligations accrued for the service provided by the beneficiary up to the valuation date.

The parent recognised a cost of €133 thousand in profit or loss in 2021 and a similar amount under Other non-current liabilities at 31 December 2021 as provided for in the cash-settled performance plan.

Categories of financial instruments and fair value hierarchy

The next table shows the financial assets and liabilities recognised in accordance with IFRS 7, broken down by the categories established by IFRS 9 at 31 December 2021 and 2021 and their fair value:

31.12.2020			Fair value		
(thousands of Euros)	IFRS 9 category	Carrying amount	Level 1	Level 2	Level 3
Securities	Available-for-sale financial assets				
Derivatives	Financial instruments held for trading	17		17	
Other financial assets	Loans and receivables	7,523		7,523	
Total		**7,540**			
Trade receivables	Loans and receivables	57,728			57,728
Total financial assets		**65,268**			
including:	**Available-for-sale financial assets**	**0**			
	Financial instruments held for trading	**17**			
	Loans and receivables	**65,251**			
Bank loans and borrowings	Financial liabilities at amortised cost	86,975		86,975	
Other loans and borrowings	Financial liabilities at amortised cost	1,506		1,506	
Lease liabilities	Financial liabilities at amortised cost	24,597			24,597
Effective designated derivative hedges	Financial instruments held for trading	578		578	
Non-current financial liabilities		**113,657**			
Bank borrowings	Financial liabilities at amortised cost	148		148	
Bank loans	Financial liabilities at amortised cost	44,767		44,767	
Lease liabilities	Financial liabilities at amortised cost	3,588			3,588
Derivatives	Financial instruments held for trading	55		55	
Other loans and borrowings	Financial liabilities at amortised cost	523		523	
Current financial liabilities		**49,080**			

31.12.2020			Fair value		
(thousands of Euros)	IFRS 9 category	Carrying amount	Level 1	Level 2	Level 3
Trade payables	**Financial liabilities at amortised cost**	**43,234**			**43,234**
Total financial liabilities		**205,971**			
including	**Financial liabilities at amortised cost**	**205,338**			
	Financial instruments held for trading	**633**			

31.12.2021			Fair value		
(thousands of Euros)	IFRS 9 category	Carrying amount	Level 1	Level 2	Level 3
Derivatives	Financial instruments held for trading	13		13	
Other financial assets	Loans and receivables	465			465
Total		**478**			
Trade receivables	Loans and receivables	74,455			74,455
Total financial assets		**74,932**			
including:	**Available-for-sale financial assets**	**0**			
	Financial instruments held for trading	**13**			
	Loans and receivables	**74,920**			
Bank loans and borrowings	Financial liabilities at amortised cost	67,942		67,942	
Other loans and borrowings	Financial liabilities at amortised cost	771		771	
Lease liabilities	Financial liabilities at amortised cost	23,520			23,520
Effective designated derivative hedges	Financial instruments held for trading	27		27	
Other non-current financial liabilities	Financial liabilities at amortised cost	1,440			1,440
Non-current financial liabilities		**93,700**			
Bank borrowings	Financial liabilities at amortised cost	85		85	
Bank loans	Financial liabilities at amortised cost	60,281		60,281	
Current lease liabilities	Financial liabilities at amortised cost	4,037			4,037
Current financial liabilities		**65,250**			
Trade payables	**Financial liabilities at amortised cost**	**66,444**			**66,444**
Total financial liabilities		**225,393**			

31.12.2021			Fair value		
(thousands of Euros)	IFRS 9 category	Carrying amount	Level 1	Level 2	Level 3
including	Financial liabilities at amortised cost	225,321			
	Financial instruments held for trading	72			

Off-statement of financial position commitments and guarantees

At the reporting date, the parent has issued sureties of €1,627 thousand, including €213 thousand in favour of subsidiaries.

Related party transactions

During 2021 and 2020, the group carried out commercial transactions with related parties as follows:

RELATED AT 31.12.2020 (thousands of Euros)	Trade receivables	Loan assets	Trade payables	Financial liabilities	Revenue	Costs	Financial expense
Arion S.r.l.	-	160	**(74)**	-	**1**	**(1,692)**	-
Free Polska s.p.z.o.o.	227	-	-	-	7	(8,006)	
Total associates	**227**	**160**	**(74)**	**-**	**8**	**(9,698)**	**-**
RN Real Estate S.r.l.	3	-	-	(14,684)	20	-	(15)
Arianna S.p.A.	5	-	-	-	5	-	-
Nastrificio Victor S.p.A.	-	-	(9)	-	-	(28)	-
Eurotest laboratori S.r.l.	11	-	(73)	-	38	(296)	-
Carel Real Estate Adratic d.o.o.	-	-	-	(2,465)	2	(1)	(96)
Agriturismo Le Volpi	-	-	(9)	-	-	(6)	-
Eurotec Ltd	254	-	-	-	623	(22)	-
Panther S.r.l.	-	-	(7)	-	-	(6)	-
Gestion A.Landry Inc	-	-	-	(5)	-	(2)	(0)
Humide Expert	-	-	-	-	-	(25)	-
Others	2	-	(10)	-	1	(48)	-
Total other related parties	**274**	**-**	**(108)**	**(17,154)**	**689**	**(435)**	**(112)**
Total	**501**	**160**	**(182)**	**(17,154)**	**696**	**(10,133)**	**(112)**

RELATED AT 31.12.2021

(thousands of Euros)	Trade receivables	Loan assets	Trade payables	Financial liabilities	Revenue	Financial income	Costs	Financial expense
Arion S.r.l.	-	160	(70)	-	1	-	(2,366)	-
Free Polska s.p.z.o.o.	887	-	(1,234)	-	17	107	(9,527)	-
Total associates	**887**	**160**	**(1,304)**	**-**	**18**	**107**	**(11,893)**	**-**
RN Real Estate S.r.l.	12	-	(442)	(13,103)	14	-	-	(198)
Arianna S.p.A.	5	-	-	-	5	-	-	-
Nastrificio Victor S.p.A.	-	-	(9)	-	-	-	(71)	-
Eurotest laboratori S.r.l.	6	-	(96)	-	33	-	(29)	-
Carel Real Estate Adratic d.o.o.	2	-	(17)	(2,269)	2	-	(1)	(88)
Agriturismo Le Volpi	-	-	(4)	-	-	-	(4)	-
Eurotec Ltd	235	-	(9)	-	666	-	(29)	-
Panther S.r.l.	-	-	(6)	-	-	-	(8)	-
Gestion A.Landry Inc	-	-	-	(53)	-	-	(2)	(1)
Humide Expert	-	-	-	-	-	-	(77)	-
Murat Cem Ozdemir	-	-	-	(1,698)	-	-	-	(35)
Others	-	-	(9)	-	27	-	(43)	-
Total other related parties	**260**	**-**	**(592)**	**(17,123)**	**747**	**-**	**(264)**	**(322)**
Total	**1,147**	**160**	**(1,896)**	**(17,123)**	**765**	**107**	**(12,157)**	**(322)**

During the year, the Croatian group company acquired the plot adjacent to its current production site to build another site from Carel Real Estate Adriatic d.o.o.. The consideration paid of €210 thousand has been recognised under property, plant and equipment.

Transactions with RN Real Estate S.r.l. and Carel Real Estate Adriatic d.o.o. relate to the lease of the industrial buildings where the parent and the Croatian group company carry out their business. Financial liabilities and expense have been recognised following the application of IFRS 16. Liabilities with RN Real Estate S.r.l. at 31 December 2021 are impacted by the restatement of lease liabilities as described earlier.

Costs from Arion relate to purchases of pressure sensors and those from Free Polska relate to non-group products purchased and resold by the group company Alfaco Polska.

All the related party transactions take place on an arm's length basis.

List of investees included in the consolidated financial statements and other investees

The following table shows the investees directly and indirectly controlled by the parent as well as all the legally-required disclosures necessary to prepare consolidated financial statements:

COMPANY	Registered office	Country	Currency	Share Capital/quota at
				31/12/20
Parent:				
Carel Industries S.p.A	Brugine (Padova)	Italy	Euro	10,000,000
Consolidated investees:				
C.R.C. S.r.l.	Bologna	Italy	Euro	98,800
Carel Deutschland Gmbh	Frankfurt	Germany	Euro	25,565
Carel France Sas	St. Priest, Rhone	France	Euro	100,000
Carel U.K. Ltd	London	GB	Pound Sterling	350,000
Carel Sud America Instrumentacao Eletronica Ltda	San Paolo	Brazil	Real	31,149,059
Carel Usa Inc	Wilmington Delaware	USA	Us Dollar	5,000,000
Carel Asia Ltd	Hong Kong	Honk Kong	Hong Kong Dollar	15,900,000
Carel HVAC&R Korea Ltd	Seul	South Korea	South Korean Won	550,500,000
Carel South East Asia Pte. Ltd.	Singapore	Singapore	Singapore dollar	100,000
Carel Australia PTY Ltd	Sydney	Australia	Australian Dollar	100
Carel Electronic Suzhou Ltd	Suzhou	People's Republic of China	Renminbi	75,019,566
Carel Controls Iberica Sl	Barcelona	Spain	Euro	3,005
Carel Controls South Africa (Pty) Ltd	Johannesburg	South Africa	Rand	4,000,000
Carel ACR System India (Pvt) Ltd	Mumbai	India	Rupee	1,665,340
Carel RUS Llc	St. Petersburg	Russia	Ruble	6,600,000
Carel Nordic AB	Hoganas	Sweden	Swedish Krona	550,000
Carel Middle East	Dubai	Dubai	Dirham	4,333,877
Carel Mexicana, S. DE R.L. DE C.V.	Guerra, Tlalpan	Mexico	Peso	12,441,149
Carel Adriatic D.o.o.	Rijeka	Croatia	Kuna	54,600,000
Carel (Thailand) Co. Ltd.	Bangkok	Thailand	Baht	16,000,000
Alfaco Polska Sp.z.o.o.	Wrocław	Poland	Zloty	420,000
Carel Japan	Tokyo	Japan	Yen	60,000,000
Recuperator	Rescaldina (MI)	Italy	Euro	500,000
Hygromatik G.m.b.H.	Hamburg	Germany	Euro	639,115
Carel Ukraine LLC	Kiev	Ukraine	UAH	700,000
Enersol	Beloeil	Canada	CAD	100
CFM Sogutma Ve Otomasyon	Izmir	Turkey	Euro	ND
Enginia Srl	Trezzo Sull'Adda (MI)	Italy	EUR	ND

Share Capital/quota at	Investment %	Share/quota holder	Consolidation method	Profit for the period 31.12.2021	Profit for the period 31/12/2020
31/12/21	31/12/21			EURO	EURO
10,000,000				27,257,788	20,895,918
98,800	100%	Carel Industries S.p.A.	line by line	1,006,045	564,583
25,565	100%	Carel Industries S.p.A.	Line by line	2,740,965	1,105,460
100,000	100%	Carel Industries S.p.A.	Line by line	1,542,492	406,458
350,000	100%	Carel Industries S.p.A.	Line by line	780,914	1,132,770
31,149,059	53.02%	Carel Industries S.p.A.	Line by line	725,607	1,057,697
	46.98%	Carel Electronic Suzhou Ltd			
5,000,000	100%	Carel Industries S.p.A.	Line by line	4,387,128	2,749,057
15,900,000	100%	Carel Industries S.p.A.	Line by line	965,448	336,342
550,500,000	100%	Carel Electronic Suzhou Ltd	Line by line	(259,795)	(20,519)
100,000	100%	Carel Asia Ltd	Line by line	47,340	72,516
100	100%	Carel Electronic Suzhou Ltd	Line by line	646,691	441,974
75,019,566	100%	Carel Industries S.p.A.	Line by line	8,860,203	6,267,260
3,005	100%	Carel Industries S.p.A.	Line by line	1,086,135	768,405
4,000,000	100%	Carel Electronic Suzhou Ltd	Line by line	752,573	112,713
1,665,340	0.01%	Carel France Sas	Line by line	250,282	66,270
	99.99%	Carel Electronic Suzhou Ltd			
6,600,000	99%	Carel Industries S.p.A.	Line by line	766,473	963,081
	1%	Carel France Sas			
550,000	100%	Carel Industries S.p.A.	Line by line	376,013	208,364
4,333,877	100%	Carel Industries S.p.A.	Line by line	36,804	(7,067)
12,441,149	100%	Carel Usa LCC	Line by line	31,270	(150,973)
54,600,000	100%	Carel Industries S.p.A.	Line by line	5,018,539	7,680,717
16,000,000	50%	Carel Electronic Suzhou Ltd	Line by line	200,803	26,246
	30%	Carel Australia PTY Ltd			
420,000	100%	Carel Industries S.p.A.	Line by line	3,588,710	2,628,957
60,000,000	100%	Carel Industries S.p.A.	Line by line	45,768	23,252
500,000	100%	Carel Industries S.p.A.	Line by line	582,470	674,619
639,115	100%	Carel Industries S.p.A.	Line by line	3,414,278	2,868,867
700,000	100%	Alfaco Polska Zoo	Line by line	84,397	(100,649)
100	100%	Carel Usa Inc	Line by line	267,595	(206,465)
2,473	51%	Carel Industries S.p.A.	Line by line	699,538	ND
10,400	100%	Recuperator S.p.A.	Line by line	898,967	ND

OTHER INFORMATION ON SUBSIDIARIES

The subsidiaries Carel Deutschland GmbH and HygroMatik GmbH, both included in these consolidated financial statements, used the exemption provided for by section 264 (3) of the German Commercial Code (HGB) for the disclosures, audit and the preparation of the notes to and directors' report on their financial statements at 31 December 2021.

FEES PAID TO DIRECTORS, STATUTORY AUDITORS AND KEY MANAGEMENT PERSONNEL

The fees paid to directors and statutory auditors for the year ended 31 December 2021 are as follows:

DIRECTORS

(thousands of Euros)	2021	2020
Remuneration and fees	1,445	1,256
Other non-monetary benefits	23	16
Fair value of share-based payments	175	308
Total	**1,643**	**1,580**

STATUTORY AUDITORS

(thousands of Euros)	2021	2020
Fixed fees and fees for participation in committees	104	103
Total	**104**	**103**

KEY MANAGEMENT PERSONNEL

(thousands of Euros)	2021	2020
Remuneration and fees	1,400	1,243
Other non-monetary benefits	21	22
Post-employment benefits or termination benefits	-	26
Fair value of share-based payments	182	318
Total	**1,603**	**1,609**

EVENTS AFTER THE REPORTING DATE

See the relevant section of the directors' report.

INFORMATION PURSUANT TO ARTICLE 149-DUODECIES OF CONSOB ISSUERS' REGULATION

The following table, prepared pursuant to article 149-duodecies of Consob Issuers' Regulation, highlights the fees pertaining to the year for audit services and non-audit services provided by the independent auditors.

SERVICES				
(thousands of Euros)	Independent auditors	Recipient	2021 fees	2020 fees
Audit	Deloitte & Touche S.p.A.	Carel Industries S.p.A.	238	205
	Deloitte & Touche S.p.A.	Subsidiaries	48	42
	Deloitte & Touche network	Subsidiaries	123	150
Attestation services	Deloitte & Touche S.p.A.	Carel Industries S.p.A.	44	41
	Deloitte & Touche S.p.A.	Subsidiaries	5	5
Total			**458**	**443**

Transparency obligations required by Law no. 124/2017 (Annual market and competition law)

A list of the subsidies, grants, fees for paid positions and any type of economic benefits received from public administrations and other parties defined by article 1.125 of Law no. 124 of 2017, that the group companies received in 2021 is set out below:

Carel Industries S.p.A.:

- Law decree no. 73/2021, converted into Law no. 106/2021, regarding tax credits for costs incurred in 2021 to sanitise work areas and tools and to purchase personal protection equipment (PPE) and other equipment needed to ensure the health and safety of workers and users amounting to €2 thousand.
- Law decree no. 50/2017, converted into Law no. 96/2017, regarding tax credits for advertising investments in daily newspapers and journals, including online, and television broadcasters amounting to €1 thousand.

Recuperator S.p.A.:

- Law decree no. 73/2021, converted into Law no. 106/2021, regarding tax credits for costs incurred in 2021 to sanitise work areas and tools and to purchase personal protection equipment (PPE) and other equipment needed to ensure the health and safety of workers and users amounting to €5 thousand;

STATEMENT ON THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ARTICLE 154-BIS OF LEGISLATIVE DECREE NO. 58/98 AND ARTICLE 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AS SUBSEQUENTLY AMENDED AND SUPPLEMENTED

1. The undersigned Francesco Nalini, as chief executive officer, and Nicola Biondo, as manager in charge of financial reporting of Carel Industries S.p.A., also considering the provisions of article 154-bis.3/4 of Legislative decree no. 58 of 24 February 1998, state that the administrative and accounting policies adopted for the preparation of the consolidated financial statements at 31 December 2021:

- are adequate in relation to the group's characteristics and
- have been effectively applied during the year.

2. There is nothing to report.
3. Moreover, they state that:

3.1. the consolidated financial statements as at and for the year ended 31 December 2021:

a. have been prepared in accordance with the International Financial Reporting Standards endorsed by the European Community pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council on 19 July 2002;

b) are consistent with the accounting ledgers and records;

c) are suitable to give a true and fair view of the financial position, financial performance and cash flows of the issuer and the group of companies included in the consolidation scope;

3.2. the directors' report contains a reliable analysis of the performance, results and the position of the issuer and group companies included in the consolidation scope and a description of the main risks and uncertainties to which the group is exposed.

3.3. The english version of the consolidated financial statements of Carel Group constitute a non-official version with regard to the provisions of the Commission Delegated Regulation (EU) 2019/815.

Brugine, 3 March 2022

Chief executive officer	Manager in charge of financial reporting
Francesco Nalini	Nicola Biondo

INDEPENDENT AUDITORS' REPORT

Deloitte.

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INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010
AND ARTICLE 10 OF THE EU REGULATION 537/2014

To the Shareholders of
Carel Industries S.p.A.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Carel Industries S.p.A. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Carel Industries S.p.A. (the "Company") in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Impairment of goodwill allocated to the Recuperator, Hygromatik, CFM Sogutma ve Otomasyon Anonim Sirketi (CFM) ed Enginia CGU's	
Description of the key audit matter	The consolidated financial statements as at 31 December 2021, include goodwill related to the CGU, Recuperator for Euro 6,3 million, Hygromatic for Euro 38,5 million, CFM Sogutma ve OtomasyonAnonim Sirketi (CFM) for Euro 11,4 million and Enginia for Euro 6,6 million. These amounts were recognized as a result of the acquisition of the companies in 2018, Recuperator and Hygromatic and in 2021, CFM and Enginia. As required by IAS 36 "impairment of assets", goodwill was not amortized, but is subjected to impairment test at least annually, which compares the recoverable value of the CGUs – based on the value of in use methodology – and the carrying value which includes goodwill and other tangible and intangible assets allocated to the CGUs. In their disclosure, the Directors explain the main assumptions applied in performing the test and provide the break-even analysis in relation to the main key factors of the impairment test, to evaluate the degree of sensitivity of the test to the changes in the key variables. The Directors, also, explain that the process of performing the impairment test is complex and is based on assumptions related, among others, to the expectations in term of cash flows for the CGU and the determination of appropriate discount rates (WACC) and long-term growth (g-rate). Despite the Directors believe that the assumptions used are reasonable and are the most likely scenarios based on the information available, if any of the assumptions change significantly, the output of the impairment may be different. We considered the significance of the amount of the goodwill, the subjectivity of the estimates underlying the determination of the cash flows for the CGU and the key variables of the impairment test. As a result we assessed that the impairment test represents a key audit matter for the audit of Carel Group's consolidated financial statements. Note 2 of the consolidated financial statements provides disclosure on impairment tests and the effects of sensitivity analysis resulting from the changes in the key variables used in performing the impairment test.

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Audit procedures performed	As part of our audit, among others, we performed the following audit procedures, supported by the experts belonging to our network: • understanding of the process and relevant controls designed and implemented by the Directors related to the process of performing and approving the impairment test; • analysis of the main assumptions adopted to prepare the expectations in terms of cash flows, also using industry data, and obtaining information from the Directors; • analysis of the actual results obtained by the Group compared to the expectations, in order to investigate the nature of the variations and evaluate the reliability of the planning process; • analysis of the reasonableness of the discount rates (WACC) and long-term growth (g-rate); • test of the clerical accuracy of the model used to calculate the value in use for the CGUs; • test of the accuracy of the determination of the carrying value of the CGUs and comparison with the recoverable value resulting from the impairment test; • examination of the sensitivity analysis prepared by the Directors. Finally we verified the appropriateness and the compliance of the disclosure on the impairment test provided by the Directors to the requirements of IAS 36.

Accounting for Business combination's operations	
Description of the key audit matter	In 2021, Carel Group completed two business combinations: - the acquisition of the 100% of share capital of Enginia S.r.l., a company in the aeraulic sector, in the design, production and marketing of shutters and other plastic and metal components for air treatment units; - the acquisition of the 51% of share capital of CFM Sogutma ve Otomasyon Anonim Sirketi (CFM), a company incorporated under Turkish law, distributor and historical partner of the Group in Turkey. These acquisitions were recognized in the consolidated financial statements in accordance with the IFRS3 "Business combinations", that provides for a "purchase price allocation (PPA)" process, and that required the Directors to assess the fair value of the assets acquired and liabilities assumed, also through the support of independent expert. The allocation of values within the PPA process generated, among others, at the respective acquisition dates, goodwill for Euro 18 million, intangible assets with a defined useful life for Euro 30,7 million, tangible assets with a defined useful life for Euro 1,4 million, in addition to a step-up value of inventories for Euro 1,6 million and the related deferred taxes. Considering that certain information, already present at the date of

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acquisition, are still under analysis, the PPA is not considered as closed, in accordance with the provisions of the IFRS3.

In relation to the acquisition of CFM, in particular to the option granted to the minority shareholder, an initial liability of Euro 49,1 million was recognized, with a corresponding reduction in the Group's equity. This amount corresponds to the present value, at the acquisition date, of the estimate of the consideration in case of option exercise option, determined using the discounted cash flows approach. As at 31 December 2021, the present value of this liability amounted to Euro 49,9 million.

We considered the significance of these business combinations for the consolidated financial statements of Carel Group, the complexity of the assumptions made by the Directors which, by their nature, imply significant judgments. As a result we assessed the Business combinations to be a key audit matter for the audit of Carel Group's consolidated financial statements.

In the disclosure related to the "consolidation scope" and in note 18 of the consolidated financial statements, the Directors described the process implemented and the effects on the consolidated financial statements.

Audit procedures performed	As part of our audit, among others, we performed the following audit procedures, supported by the experts belonging to our network: • analysis of the agreements related to the acquisitions, in order to understand their main terms and conditions; • understanding of the relevant controls designed and implemented by the Directors related to the acquisition accounting process; • analysis of the reports prepared by the independent expert and of the criteria used by the Directors to account for the Business combinations in compliance with IFRS 3, with particular reference to the criteria and assumptions used to identify the assets transferred, liabilities incurred and related deferred taxes, to estimate the fair value and the methods used to determine the value of goodwill; • discussion of the main assumptions adopted by the Directors and independent expert and re-performing of the calculation of the values identified; • analysis of the criteria applied by the Directors to recognize and measure the liability related to the option on the minority interests, with regard to the acquisition of CFM. Finally, we verified the appropriateness of the disclosure on the Business combinations,and the compliance with the applicable accounting standards.

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Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05, and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or

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conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of Carel Industries S.p.A. appointed us on 13 April 2018 as auditors of the Company for the years from 31 December 2018 to 31 December 2026.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

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REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion on the compliance with the provisions of the Delegated Regulation (EU) 2019/815

The Directors of Carel Industries S.p.A. are responsible for the application of the provisions of the European Commission Delegated Regulation (EU) 2019/815 with regard to the regulatory technical standards on the specification of the single electronic reporting format (ESEF – European Single Electronic Format) (hereinafter referred to as the "Delegated Regulation") to the consolidated financial statements, to be included in the annual financial report.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 700B in order to express an opinion on the compliance of the consolidated financial statements with the provisions of the Delegated Regulation.

In our opinion, the consolidated financial statements have been prepared in XHTML format and have been marked up, in all material respects, in accordance with the provisions of the Delegated Regulation.

Opinion pursuant to art. 14 paragraph 2 (e) of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of Carel Industries S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structure of Carel Group as at 31 December 2021, including their consistency with the related consolidated financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and the ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98, with the consolidated financial statements of Carel Group as at 31 December 2021 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structure are consistent with the consolidated financial statements of Carel Group as at 31 December 2021 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the entity and of the related context acquired during the audit, we have nothing to report.

Statement pursuant to art. 4 of the Consob Regulation for the implementation of Legislative Decree 30 December 2016, no. 254

The Directors of Carel Industries S.p.A. are responsible for the preparation of the non-financial statement pursuant to Legislative Decree 30 December 2016, no. 254.

We verified the approval by the Directors of the non-financial statement.

Deloitte.

Pursuant to art. 3, paragraph 10 of Legislative Decree 30 December 2016, no. 254, this statement is subject of a separate attestation issued by us.

DELOITTE & TOUCHE S.p.A.

Signed by
Cristiano Nacchi
Partner

Padua, Italy
March 29, 2022

As disclosed by the Directors on page 98, the accompanying consolidated financial statements of Carel Group constitute a non-official version which is not compliant with the provisions of the Commission Delegated Regulation (EU) 2019/815.

This independent auditor's report has been translated into the English language solely for the convenience of international readers. Accordingly, only the original text in Italian language is authoritative.

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