SEPARATE FINANCIAL STATEMENTS

2021

CONTENT

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
Control and risks 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 pursuant to Legislative decree no. 231/2001	Chairperson	Fabio Pinelli
	Member	Arianna Giglio
	Member	Alessandro Grassetto

Separate financial statements and notes thereto

at 31 december 2021

STATEMENT OF FINANCIAL POSITION

(in Euros)	NOTE	31.12.2021	31.12.2020
Property, plant and equipment	1	24,534,770	25,020,848
Intangible assets	2	11,507,060	12,027,142
Equity investments	3	152,979,320	117,497,857
Other non-current assets	4	23,396,818	9,884,981
Deferred tax assets	5	1,797,572	1,771,274
Non-current assets		**214,215,540**	**166,202,102**
Trade receivables	6	48,835,935	36,782,785
Inventories	7	25,160,491	18,821,530
Current tax assets	8	1,810,801	1,552,727
Other current assets	9	5,509,868	5,222,898
Current financial assets	10	665,400	7,522,254
Cash and cash equivalents	11	53,646,914	70,705,564
Total current assets		**135,629,409**	**140,607,758**
TOTAL ASSETS		**349,844,949**	**306,809,860**
Equity	12	106,369,182	89,915,930
Equity		**106,369,182**	**89,915,930**
Financial liabilities	13	82,258,056	101,994,987
Provisions for risks	14	1,110,101	1,042,510
Defined benefit plans	15	4,969,369	5,140,774
Deferred tax liabilities	16	197,727	241,861
Other non-current liabilities	17	8,057,186	-
Non-current liabilities		**96,592,439**	**108,420,132**
Current financial liabilities	13	78,100,896	55,763,973
Trade payables	18	52,400,843	37,634,976
Current tax liabilities	19	50,982	118,958
Provisions for risks	14	1,907,436	2,103,893
Other current liabilities	20	14,423,171	12,851,998
Current liabilities		**146,883,328**	**108,473,798**
TOTAL LIABILITIES AND EQUITY		**349,844,949**	**306,809,860**

STATEMENT OF PROFIT OR LOSS

(in Euros)	NOTE	2021	2020
Revenue	21	215,424,960	180,367,359
Other revenue	22	7,448,063	4,667,811
Costs of raw materials, consumables and goods and change in inventories	23	(114,812,228)	(94,417,153)
Services	24	(30,130,074)	(26,281,340)
Capitalised development expenditure	25	886,991	1,856,559
Personnel expense	26	(46,500,274)	(42,172,501)
Other expense, net	27	(764,212)	(538,652)
Amortisation, depreciation and impairment losses	28	(8,525,156)	(8,244,653)
OPERATING PROFIT		**23,028,070**	**15,237,430**
Net financial income	29	7,798,965	13,900,532
Net exchange gains (losses)	30	147,317	(428,062)
Net impairment gains (losses) on financial assets	31	957,003	(3,284,372)
PROFIT BEFORE TAX		**31,931,355**	**25,425,528**
Income taxes	32	(4,612,908)	(4,529,610)
PROFIT FOR THE YEAR		**27,318,447**	**20,895,918**

STATEMENT OF COMPREHENSIVE INCOME

(in Euros)	NOTE	2021	2020
PROFIT FOR THE YEAR		**27,318,447**	**20,895,918**
Other items that may be subsequently reclassified to profit or loss:			
Variation in hedging reserve	12	506,104	(96,130)
Variation in hedging reserve - tax effect	12	(121,465)	23,071
Total items that may be subsequently reclassified to profit or loss		**384,639**	**(73,059)**
Other items that may not be subsequently reclassified to profit or loss:			
IAS 19 - Actuarial gains (losses) on post-employment benefits	12	(95,145)	(76,156)
IAS 19 - Actuarial gains (losses) on post-employment benefits - tax effect	12	26,546	21,247
IAS 19 - Actuarial gains (losses) on post-term of office benefits for directors	12	(11,767)	23,556
IAS 19 - Actuarial gains (losses) on post-term of office benefits for directors - tax effect	12	-	(39,598)
Total other items that may not be subsequently reclassified to profit or loss		**(80,366)**	**(70,951)**
COMPREHENSIVE INCOME		**27,622,720**	**20,751,908**

STATEMENT OF CASH FLOWS

(in Euros)	2021	2020
Profit for the year	27,318,447	20,895,918
Adjustments for:		
Amortisation, depreciation and impairment losses	7,568,153	11,529,025
Accruals to provisions	2,450,999	1,706,965
Non-monetary financial income	(8,245,116)	(13,998,823)
Income taxes	2,396,308	3,268,767
Gains on the sale of non-current assets	(70,918)	(1,505)
	31,417,873	**23,400,347**
Changes in working capital:		
Change in trade receivables and other current assets	(11,638,822)	(517,127)
Change in inventories	(6,819,446)	(942,584)
Change in trade payables and other current liabilities	14,864,380	9,827,478
Change in non-current assets	89,524	-
Change in non-current liabilities	(430,027)	(394,171)
Cash flows from operating activities	**27,483,482**	**31,373,943**
Net interest paid	(1,097,639)	(978,052)
Income taxes paid	(2,323,199)	(3,536,632)
Net cash flows from operating activities	**24,062,644**	**26,859,259**
Investments in property, plant and equipment	(4,388,076)	(3,760,667)
Investments in intangible assets	(3,370,153)	(4,226,321)
Disinvestments of property, plant and equipment and intangible assets	306,775	98,685
Investments in investees	(25,099,722)	(15,000)
Cash flows used in investing activities	**(32,551,176)**	**(7,903,303)**
Repurchase of treasury shares	-	(957,622)
Dividend distributions	(11,987,937)	(11,979,815)
Dividends collected	9,139,818	14,944,286
Interest collected	143,848	41,802
Increase in financial liabilities	66,913,198	74,022,395
Decrease in financial liabilities	(63,702,382)	(44,971,375)
Decrease in lease liabilities	(1,615,411)	(1,446,634)
Increase in financial assets	(14,982,894)	(7,500,023)
Decrease in financial assets	7,521,642	4,011,208
Cash flows from (used in) financing activities	**(8,570,118)**	**26,164,222**
Change in cash and cash equivalents	**(17,058,650)**	**45,120,178**
Cash and cash equivalents - opening balance	**70,705,564**	**25,585,386**
Cash and cash equivalents - closing balance	**53,646,914**	**70,705,564**

STATEMENT OF CHANGES IN EQUITY

(in Euros)	Share capital	Legal reserve	Hedging reserve	Actuarial reserve
Balance at 31 December 2019	**10,000,000**	**2,000,000**	**(362,698)**	**(220,397)**
Allocation of prior year profit				
- dividend distributions				
- other allocations				
Movements in stock grant reserve				
Repurchase of treasury shares				
Profit for the year				
Other comprehensive expense			(73,059)	(70,951)
31 December 2020	**10,000,000**	**2,000,000**	**(435,757)**	**(291,348)**
Allocation of prior year profit				
- dividend distributions				
- other allocations				
Movements in stock grant reserve				
Repurchase of treasury shares				
Assignment of treasury shares				
Profit for the year				
Other comprehensive income			384,639	(80,366)
31 December 2021	**10,000,000**	**2,000,000**	**(51,118)**	**(371,714)**

Income-related reserves and other reserves	Equity-related reserves	IFRS reserve	Treasury shares	Stock grant reserve	Retained earnings	Profit for the year	Total
34,580,278	**10,397,335**	**2,145,495**	**(807,278)**	**417,469**	**476,149**	**22,708,460**	**81,334,813**
						(11,979,815)	(11,979,815)
10,728,645						(10,728,645)	-
				766,646			766,646
			(957,622)				(957,622)
						20,895,918	20,895,918
					-	-	(144,010)
45,308,923	**10,397,335**	**2,145,495**	**(1,764,900)**	**1,184,115**	**476,149**	**20,895,918**	**89,915,930**
(8,123)						(11,979,815)	(11,987,938)
8,950,188				(34,085)		(8,916,103)	-
				161,440			161,440
			657,030				657,030
						27,318,447	27,318,447
					-	-	304,273
54,250,988	**10,397,335**	**2,145,495**	**(1,107,870)**	**1,311,470**	**476,149**	**27,318,447**	**106,369,182**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS AT 31 DECEMBER 2021

CONTENT AND FORMAT OF THE SEPARATE FINANCIAL STATEMENTS

Carel Industries S.p.A. (the "company") is an Italian company limited by shares, with registered office in Via Dell'Industria 11, Brugine (PD). It is registered with the Padua company registrar.

Carel Industries S.p.A. provides control instruments to the air-conditioning and commercial and industrial refrigeration markets and also produces air humidification systems.

These separate financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and cover the year from 1 January to 31 December 2021.

The company has prepared its separate and consolidated financial statements in accordance with the IFRS endorsed by the European Union on 1 January 2015 (the transition date).

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

The separate financial statements have been prepared in accordance with the updated accounting records.

STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The separate financial statements at 31 December 2021 were prepared in accordance with the 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 separate 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 using the historical cost principle and assuming the company will continue as a going concern. The company assumed that it could adopt the going concern assumption pursuant to IAS 1.25/26 given its strong market position, very satisfactory profits and solid financial structure.

The separate financial statements were prepared in Euros, which is the company's functional and presentation currency as per IAS 21, unless indicated otherwise.

The company availed itself of the option allowed by article 40.2-bis of Legislative decree no. 127 of 9 April 1991, as amended by Legislative decree no. 32 of 2 February 2007, which provides for the preparation of a single directors' report for the separate and consolidated financial statements of Carel Industries S.p.A.

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 company 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 company 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 company's internal management reporting system and international best practices for its sector. Following adoption of revised IAS 1, the company decided to present the statement of profit or loss and other comprehensive income in 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 company 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 and income taxes are included in the cash flows from operating activities, except for interest accrued on available-for-sale financial assets and dividends received, which are presented under cash flows from financing activities. The company 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 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:

- the allocation of the profit for the year 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.

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 assumed 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 excess 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. Goodwill is only recognised after its recoverability has been tested by analysing its future cash flows.

If the acquisition-date fair value of the assets acquired and liabilities assumed 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 PRINCIPLES

The separate 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 company's functional currency, i.e., the currency of the primary economic environment in which it mainly operates. Amounts are rounded to the nearest unit.

The separate financial statements at 31 December 2021 present the company's financial position and performance, in accordance with the IFRS.

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 separate 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 separate financial statements at 31 December 2017, the company referred to the standards applicable from 1 January 2017 to prepare its separate 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 company 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 significantly affect the separate financial statements.

STANDARDS, AMENDMENTS AND INTERPRETATIONS ENDORSED BY THE EU BUT NOT YET MANDATORY AND NOT ADOPTED EARLY BY THE COMPANY 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 a company 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 company's separate 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 company's separate 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 entities 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 company's separate 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 entities 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 company's separate 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 company recognises revenue when control of the goods or services is transferred to the customer. Revenue is recognised to the extent it is probable the company 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 company calculates the amount of variable considerations 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: (i) OEM (Original Equipment Manufacturers), (ii) Dealers and (iii) Projects. Non-core revenue is earned on products that do not make up the company's core business.

The warranties related to these categories of products are warranties for general repair and in most cases, the company does not provide such warranties. The company 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 company's tax burden, calculated in accordance with the current regulations; 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 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 as required by IAS 12 Income taxes. The company does not apply any netting of current and deferred taxes. Deferred tax liabilities on untaxed reserves are accounted for in the year in which the liability to pay the dividend is recognised.

Income taxes relative to prior years include prior year tax income and expense.

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 are retranslated using the spot closing rate and the related exchange rate gains or losses are recognised in profit or loss. Non-monetary items are recognised using the transaction-date exchange rate.

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 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:

Category of assets	Aliquote %
Buildings:	
- Light constructions	10.00%
- Industrial buildings	3.00%
Plant and machinery:	
- Generic plant	10.00%
- Automatic operating machinery	10.00%-15.50%
Industrial and commercial equipment	25.00%
Other items of property, plant and equipment:	
- Office furniture and equipment	12.00%-20.00%
- Hardware	20.00%
- Cars	25.00%
- Telecommunication systems	20.00%
- Other items of property, plant and equipment	20.00%
- Right-of-use assets	Contract term

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

Assets held under lease are recognised as right-of-use assets at the present value of the lease payments.

The liability to the lessor is shown under financial liabilities. The leased 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.

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.

Leasehold improvements that are not economically separable from the assets in use are depreciated over the useful life of the costs incurred, from the moment they are incurred or when the asset become available for use.

Intangible assets

These are identifiable, non-monetary assets without physical substance that are controlled by the entity 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 ten 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.

Goodwill

This is the excess 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 amounts of the assets acquired and liabilities assumed. Goodwill is not amortised but is tested annually for impairment or whenever a trigger event occurs. For the purposes of impairment testing, goodwill is allocated to each of the company's cash-generating units that is expected to benefit from the business combination.

Development expenditure

This is for the development of new products and the improvement of existing products and for the development and improvement of production processes. It is capitalised in accordance with IAS 38 if the innovations introduced create processes that are technically feasible and/or marketable products provided that they are aimed at completing development projects and the resources necessary for the completion and the costs and economic benefits of such innovations can be reliably measured. The expenses that are capitalised include internal and external design costs (including personnel expense and the cost of the services and materials used) reasonably attributable to the projects. As development expenditure is an intangible asset with a finite useful life, it is amortised in line with the period in which the economic benefits are expected to be obtained, generally identified as five years. The expenses are adjusted for impairment losses that could occur after first recognition. Amortisation begins from the moment that the products become available for use. The useful life is reviewed and adjusted in line with the expected future use.

Impairment losses on non-financial assets

Assets with an indefinite useful life are not amortised but are tested for impairment 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 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 company 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 subsidiaries and associates are recognised as financial assets based on the acquisition cost criterion, including ancillary costs and are adjusted for impairment in accordance with IAS 36. Specifically, if there are indicators of potential impairment losses, an impairment test is carried out.

The carrying amount is adjusted for impairment, the effect of which is recognised in profit or loss as a reduction of the asset. If these losses no longer exist or they decrease, the carrying amount is increased in line with the new recoverable amount, which must not exceed the original cost. The reversal of impairment is recognised in profit or loss.

The company has a call option for the non-controlling interest in one of its investees. It has, therefore, included the fair value of this option in the equity investment's carrying amount, as required by the IFRS.

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 company 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 company 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 company 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 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 and interest on the principal amount outstanding 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.

The company has zero-balance cash pooling contracts with certain European group companies. These instruments are intended to ensure optimal management of cash flows, allowing for the centralised management of the group's financial needs by transferring to a pooler, namely Carel Industries S.p.A., the credit and debit balances of current accounts of the individual group companies. The main aim is to use the cash surplus of one or more group companies to eliminate or reduce the debt exposure of the other companies. Following the transfer of the balances to the pool account, the individual companies must recognise a liability in the case of a negative balance and an asset in the case of a positive balance. Subsequently, the pooler recognises the individual transactions, sending a statement to the group companies on a regular basis. At the agreed expiry, the pooler manages the payment of the assets/liabilities.

The companies that take part in the cash pooling scheme are: CAREL INDUSTRIES S.p.A. (pooler) and its subsidiaries Carel U.K. Ltd, Carel France s.a.s., Carel Deutschland GmbH, Carel Control Iberica Sl; Carel Adriatic D.o.o., Alfaco Polska Sp.z.o.o, HygroMatik GmbH and Recuperator S.p.A.

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. Law no. 296/06 changed the Italian post-employment benefits scheme and benefits accrued after 1 January 2007 are now classified as defined contribution plans (using the terminology provided in IAS 19), regardless of whether the employee decides to have them transferred to the INPS (the Italian social security institution) treasury fund or an external pension plan. Benefits vested up until 31 December 2006 continue to be recognised as part of a defined benefit plan and are subject to actuarial valuation, excluding the future salary increase component. The company does not have plan assets. It recognises actuarial gains and losses in the period in which they arise. Pursuant to IAS 19 (revised), they have been recognised directly in other comprehensive income starting from 2015.

Provisions for risks

As required by IAS 37 Provisions, contingent liabilities and contingent assets, the company recognises a provision when (i) it has a present legal or constructive obligation to third parties as a result of a past event, (ii) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and (iii) 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 company 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 company has an unconditional right to defer their payment for at least 12 months after the reporting date. The company removes the financial liability when it is extinguished and the company 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.

Other non-current liabilities

This caption mainly includes the liability for the call option for a non-controlling interest. The call option was initially measured at its fair value at the acquisition date and it is remeasured at each reporting date. Any resulting fair value gains or losses are recognised in profit or loss under financial income or expense.

The other non-current liabilities are initially recognised at cost, which is equal to their nominal amount.

Derivative financial instruments

The company 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 company'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 company reclassifies the fair value gains or losses on the derivative directly to profit or loss.

Use of estimates

Preparation of the separate financial statements requires management to apply accounting policies and methods that, in certain circumstances, are based on complex 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 or profit or loss and the statement of cash flows as well as the disclosures. Actual results may differ from those presented in the separate 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 separate financial statements are:

- **allowance for doubtful accounts:** 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 company operates, especially in an economic situation still impacted by the ongoing Covid-19 pandemic, although the company did not detect a worsening in credit positions at the reporting date;
- **allowance for inventory write-down:** Islow-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 company sets up an allowance; like for the loss allowance, this allowance is calculated considering past experience and the market, potentially worsened by the uncertainties generated by the pandemic. Any changes in the reference scenarios or market trends could significant modify the criteria used as a basis for the estimates;
- **right-of-use assets:** 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 company considers any renewal options that it reasonably expects to exercise. The incremental borrowing rate is calculated by considering the type of leased asset, the jurisdiction 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

If there are any internal or external factors that may indicate an impairment loss, the company tests property, plant and equipment, intangible assets and equity investments for impairment. Goodwill is tested for impairment at least once a year, regardless of the occurrence of any trigger events. The company 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).

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;

- reference should be made to note [10] for information on the fair value of the short-term investments.

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.

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 Financial instruments: recognition and measurement.

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

The units establish tools and techniques to protect the company 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 company's exposure to the different financial risk categories is set out below.

CREDIT RISK

The company 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 generate adequate cash flow.

The company's credit risk management policy includes rating its customers, setting purchase limits and taking legal action. It prepares periodic reports to ensure tight control over credit collection.

The company has a credit manager in charge of credit collection on sales made in their markets. Group companies active in the same market (e.g., the Italian companies) exchange information about common customers electronically and coordinate delivery blocks or the commencement of legal action.

The allowance for doubtful accounts is equal to the nominal amount of the uncollectible receivables after deducting the part of the receivables secured with bank collateral. The company 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 company 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 provides a breakdown of trade receivables and related allowance for doubtful accounts by ageing bracket:

	31.12.2021		31.12.2020	
(in Euros)	**Trade receivables**	**Allowance**	**Trade receivables**	**Allowance**
Not yet due	47,306,832	(436,117)	35,405,508	(111,791)
Past due < 6 months	1,643,260	(56,097)	1,214,514	(3,957)
Past due > 6 months and < 12 months	497,071	(119,014)	303,559	(25,048)
Past due > 12 months	86,948	(86,948)	331,121	(331,121)
Total	**49,534,111**	**(698,176)**	**37,254,702**	**(471,917)**

LIQUIDITY RISK

The company has a high level of liquidity and limited net financial debt. During the year, the company had easy access to additional funding, without additional costs. The company 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 company mainly deals with well-known and reputable customers. Its policy is to submit to assignment procedures and costantly monitor those customers that request payment extensions.

As required by IFRS 7, the next table shows the cash flows of the company's financial liabilities by maturity:

(in Euros)

31.12.2021	TOTAL	Total cash flows	Within one year	From one to five years	After five years
- Non-current bank loans and borrowings at amortised cost	67,920,086	68,374,540	-	68,374,540	-
- Non-current lease liabilities	12,108,309	12,405,239	-	4,939,399	7,465,840
- Effective designated derivative hedges	108,401	108,401	-	108,401	-
- Other non-current loans and borrowings at amortised cost	681,246	692,355	-	692,355	-
- Other non-current financial liabilities	1,440,014	1,440,014	-	1,000,000	440,014
Non-current financial liabilities	**82,258,056**	**83,020,549**	**-**	**75,114,695**	**7,905,854**
- Current portion of bank loans at amortised cost	60,196,202	60,531,973	60,531,973	-	-
- Current lease liabilities	1,310,656	1,385,118	1,385,118		
- Other current loans and borrowings at amortised cost	191,170	197,816	197,816	-	-
- Derivatives held for trading at fair value through profit or loss	40,625	40,625	40,625	-	-
- Financial liabilities with group companies	16,343,510	16,367,526	16,367,526	-	-
- Other current financial liabilities	18,733	18,733	18,733	-	-
Current financial liabilities	**78,100,896**	**78,541,791**	**78,541,791**	**-**	**-**

(in Euros)

31.12.2020	TOTAL	Total cash flows	Within one year	From one to five years	After five years
- Non-current bank loans and borrowings at amortised cost	86,908,727	87,593,024	-	87,593,024	-
- Non-current lease liabilities	13,635,510	14,040,611	-	4,941,958	9,098,653
- Effective designated derivative hedges	578,334	578,334	-	578,334	-
- Other non-current loans and borrowings at amortised cost	872,416	890,172	-	791,264	98,908
Non-current financial liabilities	**101,994,987**	**103,102,141**	**-**	**93,904,580**	**9,197,561**
- Current portion of bank loans at amortised cost	42,462,870	42,946,044	42,946,044	-	-
- Current lease liabilities	1,351,377	1,405,679	1,405,679		
- Other current loans and borrowings at amortised cost	314,653	323,131	323,131	-	-
- Derivatives held for trading at fair value through profit or loss	2,744	2,744	2,744	-	-
- Financial liabilities with group companies	11,632,329	11,632,329	11,632,329	-	-
Current financial liabilities	**55,763,973**	**56,309,927**	**56,309,927**	**-**	**-**

The next table shows the categorisation of financial assets and liabilities at the reporting date in accordance with IFRS 9 and their fair value:

(in Euros)			Fair value		
31.12.2021	**IFRS 9 category**	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**
Intragroup financial assets	Loans and receivables	14,404,493			14,404,493
Derivatives	Financial instruments held for trading	81,766		81,766	
Other non-current financial assets		**14,486,259**			
Derivatives	Financial instruments held for trading	4,621		4,621	
Intragroup financial assets	Loans and receivables	660,779			660,779
Other current financial assets		**665,400**			
Trade receivables	**Loans and receivables**	**48,835,935**			**48,835,935**
Total financial assets		**63,987,594**			
including:	**Financial instruments held for trading**	**86,387**	-	**86,387**	-
	Loans and receivables	**63,901,207**	-	-	**63,901,207**
Bank loans and borrowings	Financial liabilities at amortised cost	(67,920,086)		(67,920,086)	
Other loans and borrowings	Financial liabilities at amortised cost	(2,121,260)		(681,246)	(1,440,014)
Non-current lease liabilities	Financial liabilities at amortised cost	(12,108,309)			(12,108,309)
Effective derivatives	Derivatives	(108,401)		(108,401)	
Non-current financial liabilities		**(82,258,056)**			
Current bank loans	Financial liabilities at amortised cost	(60,196,202)		(60,196,202)	
Other loans and borrowings	Financial liabilities at amortised cost	(209,903)		(191,170)	(18,733)
Current lease liabilities	Financial liabilities at amortised cost	(1,310,656)			(1,310,656)
Effective derivatives	Derivatives	(40,625)		(40,625)	
Financial liabilities with group companies	Financial liabilities at amortised cost	(16,343,510)			(16,343,510)
Current financial liabilities		**(78,100,896)**			
Trade payables	**Financial liabilities at amortised cost**	**(52,400,843)**			**(52,400,843)**
Total financial liabilities		**(212,759,795)**			
including:	**Financial liabilities at amortised cost**	**(212,610,769)**	-	**(128,988,704)**	**(83,622,065)**
	Derivatives	**(149,026)**	-	**(149,026)**	-

(in Euros)			Fair value		
31.12.2020	IFRS 9 category	Carrying amount	Level 1	Level 2	Level 3
Other financial assets	Loans and receivables	415			415
Financial assets with the group	Loans and receivables	160,000			160,000
Other non-current financial assets		**160,415**			
Other current financial assets	Available-for-sale financial assets	7,520,536		7,520,536	
Financial assets with the group	Loans and receivables	1,718			1,718
Other current financial assets		**7,522,254**			
Trade receivables	**Loans and receivables**	**36,782,785**			**36,782,785**
Total financial assets		**44,465,454**			
including:	**Available-for-sale financial assets**	**7,520,536**	-	**7,520,536**	-
	Loans and receivables	**36,944,918**	-	-	**36,944,918**
Bank loans and borrowings	Financial liabilities at amortised cost	(86,908,727)		(86,908,727)	
Other loans and borrowings	Financial liabilities at amortised cost	(872,416)		(872,416)	
Lease liabilities	Financial liabilities at amortised cost	(13,635,510)			(13,635,510)
Effective derivatives	Derivatives	(578,334)		(578,334)	
Non-current financial liabilities		**(101,994,987)**			
Current bank loans	Financial liabilities at amortised cost	(42,462,870)		(42,462,870)	
Other loans and borrowings	Financial liabilities at amortised cost	(314,653)		(314,653)	
Lease liabilities	Financial liabilities at amortised cost	(1,351,377)			(1,351,377)
Effective derivatives	Derivatives	(2,744)		(2,744)	
Financial liabilities with group companies	Financial liabilities at amortised cost	(11,632,329)			(11,632,329)
Current financial liabilities		**(55,763,973)**			
Trade payables	**Financial liabilities at amortised cost**	**(37,634,976)**			**(37,634,976)**
Total financial liabilities		**(195,393,936)**			
including:	**Financial liabilities at amortised cost**	**(194,812,858)**	-	**(130,558,666)**	**(64,254,192)**
	Derivatives	**(581,078)**	-	**(581,078)**	-

MARKET RISK

CURRENCY RISK

As the company 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 purchases and sales in currencies like the US dollar, the Polish zloty and the Japanese yen.

The company 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 company's net exposure using currency forwards and/or plain vanilla options in line with the group's financial policy. The hedged risk is part of the global risk and the hedges are not speculative.

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 company 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 company's results and, hence, indirectly the cost of and return on financing and investing activities.

The company regularly checks its exposure to interest rate fluctuations and manages such risks through the use of derivatives, in accordance with its risk management 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 company's debt mainly bears floating interest rates. When deemed significant, the company agrees hedges 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, notwithstanding the difficult market conditions caused by the continuation of the Covid-19 pandemic, the company 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 company 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 company 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 company 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 company'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 company's constant commitment to searching for innovative technological solutions make it easier to be competitive.

In 2021, demand for group products did not significantly slow down due to the Covid-19 pandemic. The dynamics of the different markets, in terms of both their geographical size and product families, included in legislative measures, were closely monitored, both in order to adjust commercial, procurement and production policies and to identify opportunities to develop new products.

Lastly, the company is exposed to risks of purchase prices fluctuations and availability of certain raw materials used in the different production processes, specifically semiconductors. These risks have also increased as a result of the continuation of the pandemic. 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.

CLIMATE CHANGE AND POSSIBLE IMPACT ON THE COMPANY AND 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 is available in the group's 2021 consolidated non-financial statement.

The directors do not currently believe that there are specific risks that climate change could impact the assets of the company and the group 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

The changes shown below are calculated using the balances at 31 December 2020 related to the statement of financial position and for 2020 with regard to the statement of profit or loss. As already mentioned, amounts are in Euros.

PROPERTY, PLANT AND EQUIPMENT (NOTE 1)

The following table provides an analysis of the changes in property, plant and equipment over the two years:

(in Euros)	Buildings	Light constructions	Plant and machinery	Industrial and commercial equipment	Other items of property, plant and equipment	Assets under construction and payments on account	Total
Historical cost	17,141,208	10,709	13,200,276	28,852,759	8,764,049	702,333	68,671,334
Accumulated depreciation and impairment losses	(2,197,168)	(5,686)	(10,324,842)	(24,243,241)	(6,879,549)	-	(43,650,486)
Balance at 31 December 2020	**14,944,040**	**5,023**	**2,875,434**	**4,609,518**	**1,884,500**	**702,333**	**25,020,848**
Changes in 2021							
Investments	116,986	-	1,204,601	2,330,611	369,598	362,780	4,384,576
Investments in right-of-use assets	-	-	-	-	230,943		230,943
Restatement of right-of-use assets	(241,700)	-	-	-	7,381	-	(234,319)
Reclassifications	7,879	-	23,752	618,644	14,554	(664,829)	-
Termination of investments in right-of-use assets	(2,224,133)	-	-	-	(170,590)	-	(2,394,723)
Disinvestments - cost	-	-	(365,904)	(377,124)	(115,144)	(21,487)	(879,659)
Disinvestments - accumulated depreciation	-	-	330,455	358,140	113,692	-	802,287
Depreciation	(19,129)	(1,071)	(491,322)	(2,193,135)	(494,987)	-	(3,199,644)
Depreciation of right-of-use assets	(1,134,395)	-	-	-	(300,882)	-	(1,435,277)
Termination of inv. in right-of-use assets - Acc. depr.	2,074,061	-	-	-	165,677	-	2,239,738
Total changes	**(1,420,431)**	**(1,071)**	**701,582**	**737,136**	**(179,758)**	**(323,536)**	**(486,078)**
Balance at 31 December 2021	**13,523,609**	**3,952**	**3,577,016**	**5,346,654**	**1,704,742**	**378,797**	**24,534,770**
including:							
Historical cost	14,800,240	10,709	14,062,725	31,424,890	9,100,791	378,797	69,778,152
Accumulated depreciation and impairment losses	(1,276,631)	(6,757)	(10,485,709)	(26,078,236)	(7,396,049)	-	(45,243,382)

Buildings include leasehold improvements that are not economically separable from the assets in use on the leased buildings where the company operates (€125 thousand).

Plant and machinery include generic and specific plant related to production lines for a total of €3,577 thousand. Increases in generic plant include a new LED lighting system (€50 thousand), a new fumes intake system (€37 thousand) and the upgrading of the electrical system (€32 thousand). The increases in specific plant include a new welding machine (€200 thousand), two new YMS surface fitting systems (€269 thousand), a new component testing machine (€56 thousand), a new aspiration system for the valve line (€52 thousand) and the integration of the valve line (€36 thousand). Specific plant includes divestments of €342 thousand, mainly scrapping of obsolete items or sales to group companies for new production lines.

The increase in industrial and commercial equipment mostly relates to moulds, testing machines and other production equipment. It also comprises a valve testing system (€183 thousand), a camera vision system (€114 thousand), two 3D optical inspection systems (€139 thousand) and two elastometer assembly systems (€100 thousand).

Equipment includes divestments of €399 thousand, mainly scrapping of obsolete and disused items or sales to subsidiaries for new production lines.

Increases in other items of property, plant and equipment mainly include new right-of-use assets relating to leased vehicles of €238 thousand, furniture and fittings of €116 thousand, office and electronic machines of €230 thousand, internal means of transport of €10 thousand and telephone systems of €28 thousand.

The decrease is mostly due to the replacement of electronic office equipment (mainly as part of the upgrading of the company's information systems), owned cars, telephone systems and internal means of transport.

Assets under construction include payments on account and self-constructed machinery not yet completed at the reporting date.

Depreciation amounts to €4,635 thousand and was calculated based on all depreciable assets at 31 December 2021, applying the criteria and rates indicated in the section on Property, plant and equipment.

The company's property, plant and equipment were not mortgaged or pledged at 31 December 2021. They are suitably hedged for risks deriving from losses and/or damage thereto through insurance policies taken out with leading insurers.

Lastly, in line with previous years, the company did not capitalise borrowing costs.

INTANGIBLE ASSETS (NOTE 2)

The following table provides an analysis of the changes in intangible assets over the two years.

(in Euros)	Development expenditure	Software	Goodwill	Assets under development and payments on account	Other assets	Total
Historical cost	23,432,924	17,114,816	1,618,357	3,574,531	80,216	45,820,844
Accumulated amortisation and impairment losses	(18,904,191)	(13,573,040)	(1,259,765)	-	(56,706)	(33,793,702)
Balance at 31 December 2020	**4,528,733**	**3,541,776**	**358,592**	**3,574,531**	**23,510**	**12,027,142**
Changes in 2021						
Investments	-	1,804,492	-	1,292,287	-	3,096,779
Internal cost capitalisation	276,874	-	-	-	-	276,874
Reclassifications	2,429,313	198,616	-	(2,627,929)	-	-
Sales	-	-	-	(3,500)	-	(3,500)
Amortisation	(1,725,327)	(2,152,393)	-	-	(12,515)	(3,890,235)
Total changes	**980,860**	**(149,285)**	**-**	**(1,339,142)**	**(12,515)**	**(520,082)**
Balance at 31 December 2021	**5,509,593**	**3,392,491**	**358,592**	**2,235,389**	**10,995**	**11,507,060**
including:						
Historical cost	26,139,111	19,117,924	1,618,357	2,235,389	80,216	49,190,997
Accumulated amortisation and impairment losses	(20,629,518)	(15,725,433)	(1,259,765)	-	(69,221)	(37,683,937)

Development expenditure: in 2021, the company capitalised development expenditure of €2,706 thousand related to projects developed internally, of which €277 thousand related to 2021 and €2,429 thousand related to projects that were ongoing at the previous year end and were completed in 2021.

Amortisation is applied over the estimated useful life of five years.

Capitalised development expenditure refers entirely to the development of projects for the production of new innovative products or substantial improvements to existing products. The capitalisation is based on feasibility studies and business plans approved by management.

Software refers to management programs and network applications. Investments of the year mainly related to new implementations of the Oracle management system to support the relevant departments.

Goodwill refers to the goodwill arising on the merger of the wholly-owned Carel Applico S.r.l. on 1 September 2015.

The increase in assets under development and payments on account may be analysed as follows:

- development of innovative products still in progress at the reporting date (€560 thousand);
- payments on account to suppliers for the implementation and launch of new management software (€732 thousand.

Lastly, intangible assets were not revalued during the year, nor in previous years and the acquisition cost does not include borrowing costs.

EQUITY INVESTMENTS (NOTE 3)

This caption may be broken down as follows:

(in Euros)	Subsidiaries	Associates and other companies	Total
Balance at 31 December 2020	**117,364,095**	**133,762**	**117,497,857**
Changes in 2021			
Initial cost:			
Increases	34,496,960	27,500	34,524,460
Impairment gains	914,645	42,358	957,003
Total changes	**35,411,605**	**69,858**	**35,481,463**
Balance at 31 December 2021	**152,775,700**	**203,620**	**152,979,320**

Changes in the carrying amount of equity investments during the year refer to the following investees:

(in Euros)	2021
Subsidiaries	
CFM Sogutma ve Otomasyon A.S.	34,496,960
Associates and other companies	
Arion S.r.l	-
Smact Società Consortile per azioni	15,000
Fondazione ITS Academy "Mario Volpato"	12,500
Total increases	**34,524,460**

On 31 May 2021, the company acquired 51% of 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, for a cash consideration of €26,512 thousand.

At the reporting date, part of the consideration (€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 company 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 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 option's acquisition-date fair value of €7,985 thousand has been recognised under equity investments, concurrently recognising the same amount under other non-current liabilities as a balancing entry. The fair value gain on the liability at the reporting date (€61 thousand) has been recognised under other financial income.

The directors compared the carrying amount of the equity investments to the company's share of each investee's equity. Since the carrying amount of the following equity investments that underwent impairment in previous years exceeded the company's share of their equity, the directors decided to recognise a write-down recovery thereon as they believed the investees will continue to recognise a profit in the coming years:

(in Euros)	2021
Subsidiaries	
Carel Asia Ltd	285,396
Carel Controls Iberica SL	586,143
Carel Middle East DWC Llc	43,106
Associates	
Arion S.r.l.	42,358
Total impairment gains	**957,003**

The directors tested the investments in the subsidiaries HygroMatik, Recuperator and CFM, whose carrying amount was €57,216 thousand, €22,044 thousand and €34,497 thousand, respectively, for impairment pursuant to IAS 36, since the continuation of the Covid-19 pandemic was considered a trigger event, as in the previous year.

The recoverable amount of equity investments is determined by calculating their 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 CGUs' markets to prepare the plans;
- 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 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:

	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
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 all three CGUs.

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. Specifically, the growth estimates could change considerably due to the continuation of the pandemic or in the event of an upsurge of the pandemic in certain geographical segments.

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

- the gross operating profit 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.

These stress tests reveal that the following equity investments passed the test even if the gross operating profit decreases or the WACC increases as set out below:

	Gross operating profit +/-	WACC +/-
Recuperator	-7,00%	0,20%
Hygromatik	-90,00%	1,50%
CFM	-55,00%	2,80%

Therefore, there was no indication of impairment of the above equity investments.

At 31 December 2021, the company has not accrued a provision for equity investment risks, recognised in the non-current provisions for the recapitalisation obligations of the investees.

The following table provides a breakdown of the equity investments at the reporting date:

	31.12.2021			31.12.2020		
(in Euros)	Historical cost	Acc. impairment losses	Carrying amount	Historical cost	Acc. impairment losses	Carrying amount
Subsidiaries:						
Recuperator S.p.A.	25,743,625	(3,700,000)	22,043,625	25,743,625	(3,700,000)	22,043,625
Carel Deutschland Gmbh	138,049	-	138,049	138,049	-	138,049
Carel Adriatic d.o.o.	7,370,289	-	7,370,289	7,370,289	-	7,370,289
C.R.C S.r.l.	1,600,000	-	1,600,000	1,600,000	-	1,600,000
HygroMatik Gmbh	57,216,335	-	57,216,335	57,216,335	-	57,216,335
Carel France Sas	91,469	-	91,469	91,469	-	91,469
Carel Sud America Ltda	5,396,848	(1,983,740)	3,413,108	5,396,848	(1,983,740)	3,413,108
Carel U.K. Ltd	1,624,603	-	1,624,603	1,624,603	-	1,624,603
Carel Asia Ltd	1,761,498	-	1,761,498	1,761,498	(285,396)	1,476,102
Carel Electronic (Suzhou) Co. Ltd	9,276,379	-	9,276,379	9,276,379	-	9,276,379
Carel Controls Iberica SL	4,330,149	(624,577)	3,705,572	4,330,149	(1,210,720)	3,119,429
Carel RUS Llc	160,936		160,936	160,936		160,936
Carel Usa Llc	5,466,439		5,466,439	5,466,439		5,466,439
Carel Nordic AB	60,798		60,798	60,798		60,798
Carel Middle East	1,060,614	(961,495)	99,119	1,060,614	(1,004,601)	56,013
Alfaco Polska Sp.z.o.o.	3,820,413	-	3,820,413	3,820,413	-	3,820,413
Carel Japan Co. Ltd	475,003	(44,895)	430,108	475,003	(44,895)	430,108
CFM Sogutma ve Otomasyon A.S.	34,496,960	-	34,496,960	-	-	-
Total	160,090,407	(7,314,707)	152,775,700	125,593,447	(8,229,352)	117,364,095
Associates:						
Arion S.r.l	140,000	-	140,000	140,000	(42,358)	97,642
Total	140,000	-	140,000	140,000	(42,358)	97,642
Other companies:						
CONAI	45	-	45	45	-	45
Smact Società Consortile per azioni	51,075	-	51,075	36,075	-	36,075
Fondazione ITS Academy "Mario Volpato"	12,500	-	12,500	-	-	-
Total	63,620	-	63,620	36,120	-	36,120
Total equity investments	**160,294,027**	**(7,314,707)**	**152,979,320**	**125,769,567**	**(8,271,710)**	**117,497,857**

The following table provides the information about equity investments at 31 December 2021 required by article 2427 of the Italian Civil Code:

(in Euros)	Registered office	Currency	Share/quota capital (in currency)
Subsidiaries:			
Carel Deutschland GmbH	Frankfurt	EUR	25,565
Carel Adriatic d.o.o.	Labin-HR	HRK	54,600,000
C.R.C S.r.l.	Bologna-IT	EUR	98,800
Carel France Sas	St. Priest, Rhone-FR	EUR	100,000
Carel Sud America Instrumentacao Eletronica Ltda	São Paulo-BR	BRL	31,149,059
Carel U.K. Ltd	London-GB	GBP	350,000
Carel Asia Ltd	Honk Kong-HK	HKD	15,900,000
Carel Electronic (Suzhou) Co. Ltd	Suzhou-RC	CNY	75,019,566
Carel Controls Iberica SL	Barcelona-ES	EUR	3,005
Carel RUS Llc	St. Petersburg-RU	RUB	6,600,000
Carel Usa Llc	Wilmington Delaware-USA	USD	5,000,000
Carel Nordic AB	Höganäs-SE	SEK	550,000
Carel Middle East	Dubai-UAE	AED	4,333,878
Alfaco Polska Sp.z.o.o.	Wrocław-PL	PLN	420,000
Recuperator S.p.A.	Rescaldina-IT	EUR	500,000
HygroMatik GmbH	Henstedt-Ulzburg-DE	EUR	639,115
Carel Japan Co. Ltd	Tokyo-JP	JPY	60,000,000
CFM Soğutma ve Otomasyon Anonim Şirketi	Izmir-TR	TRY	2,565,400
Total			
Associates:			
Arion S.r.l (*)	Brescia-IT	EUR	100,000
Total			
Other companies:			
CONAI		EUR	
SMACT Società Consortile per azioni		EUR	
Fondazione ITS Academy "Mario Volpato"		EUR	
Total			
Total equity investments			

(*) amounts at 31.12.2020

		Investment percentage			
Equity (Euro)	Profit/loss for the year (Euro)	Direct	Indirect	Carrying amount (Euro)	Equity diff. % and carrying amount (Euro)
3,645,704	2,740,965	100.00%		138,049	3,507,655
25,013,204	5,018,539	100.00%		7,370,289	17,642,915
5,032,622	1,006,045	100.00%		1,600,000	3,432,622
3,546,949	1,542,492	100.00%		91,469	3,455,480
6,219,781	725,607	53.02%	46.98%	3,413,108	(115,380)
3,648,389	780,914	100.00%		1,624,603	2,023,786
2,594,669	965,448	100.00%		1,761,498	833,171
59,146,925	8,860,203	100.00%		9,276,379	49,870,546
3,705,572	1,086,135	100.00%		3,705,572	-
1,354,893	766,473	99.00%	1.00%	160,936	1,180,408
23,378,263	4,387,128	100.00%		5,466,439	17,911,824
945,698	376,013	100.00%		60,798	884,900
99,119	36,804	100.00%		99,119	-
10,041,407	3,588,710	100.00%		3,820,413	6,220,994
10,482,064	582,470	100.00%		22,043,625	(11,561,561)
10,601,575	3,414,278	100.00%		57,216,335	(46,614,760)
285,253	45,768	100.00%		430,108	(144,855)
12,635,616	1,683,539	51.00%		34,496,960	(28,052,796)
				152,775,700	
398,741	154,637	40.00%		140,000	19,496
				140,000	
				45	-
				51,075	-
				12,500	-
				63,620	
				152,979,320	

OTHER NON-CURRENT ASSETS (NOTE 4)

These amount to €23,397 thousand and can be analysed as follows:

(in Euros)	31.12.2021	Variation Increases	Reclassification	Decreases	31.12.2020
Subsidiaries	14,404,493	14,404,493		-	-
Associates	-	-	(160,000)	-	160,000
Substitute tax	7,206,818		(1,698,875)	-	8,905,693
Other tax assets	1,703,741	1,253,462	(357,304)	(11,290)	818,873
Effective designated derivative hedges	81,766	81,766			-
Others	-	-		(415)	415
TOTAL	**23,396,818**	**15,739,721**		**(11,705)**	**9,884,981**

Amounts due from subsidiaries increased due to the interest-bearing loan granted to Recuperator S.p.A. of a maximum amount of €17.5 million, disbursable in instalments from 23 June 2021 and expiring in June 2026. It may be fully or partly prepaid.

The loan was granted to allow the subsidiary to acquire 100% of share capital of Enginia S.r.l. on 23 June 2021, 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. The consideration paid for the acquisition of the equity investment amounts to €17.4 million.

The decrease in amounts due from associates is due to the reclassification of the non-interest-bearing loan granted to Arion S.r.l. to current assets.

The substitute tax reflects the directors' decision in 2019, supported by their consultants, to pay this tax in order to align the higher carrying amounts recognised at the time of the December 2018 acquisition against consideration of Recuperator S.p.A. (Italy) and HygroMatik GmbH (Germany) with the relevant tax bases, as per article 15.10-bis of Decree law no. 185/2008. The decrease is due to the reclassification of the portion related to 2022 to current assets.

The increase in other tax assets refers to amounts accrued during the year ("Industry 4.0 – Law no. 160/2019"; "Maxi-depreciation – Law no. 178/2020; "Ecobonus – Law no. 296/2006"; "Tax credit for research and development activities – Law no. 178/2020") that will be offset against other taxes based on the timeframes set by the relevant laws, net of the reclassification of the portion offsettable in 2022 to current assets.

The effective designated derivative hedges recognised under non-current financial assets include the fair value of IRSs signed to hedge the interest rate risk of the loans. Specifically:

(in Euros)

Lender	Instrument	Notional amount	Maturity	Positive fair value
MEDIOBANCA loan	Interest rate swap	25,000,000	04,08,2023	9,396
MEDIOBANCA loan	Interest rate swap	20,000,000	29,06,2026	72,370
Total				**81,766**

DEFERRED TAX ASSETS (NOTE 5)

Deferred tax assets at 31 December 2021 were generated by the temporary differences between the carrying amounts of assets and liabilities and their tax bases calculated with reference to the tax rates expected to be enacted in the years in which the differences will reverse.

The company considered it appropriate to recognise the deferred tax assets arising on the temporary differences indicated below in the separate financial statements, as it is reasonably certain that they will be offset against taxable profits in the years in which the deductible temporary differences will reverse.

	31.12.2021		31.12.2020	
(in Euros)	Tax base	Deferred tax assets	Tax base	Deferred tax assets
Allowance for inventory write-down	2,482,325	595,758	2,001,840	480,442
Allowance for doubtful accounts	44,261	10,623	-	-
Provision for product warranties	294,732	82,230	222,599	62,105
Provision for complaints	1,982,436	553,099	2,130,392	594,379
Provision for agents' termination indemnity and bonuses	74,026	17,766	74,026	17,766
Unrealised exchange differences	437,912	105,099	305,078	73,219
Deductible cash fees	267,507	64,201	286,333	68,720
Amortisation of goodwill - transfer	71,050	19,822	79,217	22,101
Substitute tax on goodwill (16%)	71,050	11,369	79,217	12,676
Amortisation of goodwill - merger	207,620	57,926	231,484	64,584
Substitute tax on goodwill (12%)	207,620	24,932	231,484	27,796
Amortisation of goodwill - acquisition of business unit	3,427	957	3,822	1,067
Discounting - Post-employment benefits and post-term of office benefits	487,581	136,034	530,194	147,923
Difference between amortisation/ depreciation for IFRS and tax purposes	293,866	81,990	213,958	59,696
Fair value changes on derivatives	149,027	35,766	578,334	138,800
Total	**7,074,440**	**1,797,572**	**6,967,978**	**1,771,274**

Changes in deferred tax assets are presented in the table below:

(in Euros)	31.12.2021	Recognised in profit or loss	Recognised in other comprehensive income	31.12.2020
Allowance for inventory write-down	595,758	115,316	-	480,442
Allowance for doubtful accounts	10,623	10,623	-	-
Provision for product warranties	82,230	20,125	-	62,105
Provision for complaints	553,099	(41,280)	-	594,379
Provision for agents' termination indemnity and bonuses	17,766	-	-	17,766
Unrealised exchange differences	105,099	31,880	-	73,219
Deductible cash fees	64,201	(4,519)	-	68,720
Amortisation of goodwill - transfer	19,822	(2,279)	-	22,101
Substitute tax on goodwill (16%)	11,369	(1,307)	-	12,676
Amortisation of goodwill - merger	57,926	(6,658)	-	64,584
Substitute tax on goodwill (12%)	24,932	(2,864)	-	27,796
Amortisation of goodwill - acquisition of business unit	957	(110)	-	1,067
Discounting - Post-employment benefits and post-term of office benefits	136,034	(38,435)	26,546	147,923
Difference between amortisation/ depreciation for IFRS and tax purposes	81,990	22,294	-	59,696
Fair value changes on derivatives	35,766	-	(103,034)	138,800
Total	**1,797,572**	**102,786**	**(76,488)**	**1,771,274**

TRADE RECEIVABLES (NOTE 6)

These amount to €48,836 thousand (€36,783 thousand at 31 December 2020) and can be broken down as follows:

(in Euros)	31.12.2021	Variation	31.12.2020
Third parties	28,231,010	4,937,229	23,293,781
Subsidiaries	21,278,562	7,337,447	13,941,115
Subsidiaries of parents	10,382	(4,874)	15,256
Related parties	14,157	9,607	4,550
Total trade receivables	49,534,111	12,279,409	37,254,702
Allowance for doubtful accounts	(698,176)	(226,259)	(471,917)
Total	**48,835,935**	**12,053,150**	**36,782,785**

Trade receivables in foreign currency were retranslated using the closing rate, adjusting the originally-recognised amount.

Trade receivables, net of the allowance for doubtful accounts, refer to the following geographical segments:

(in Euros)	31.12.2021	31.12.2020
Europe, Middle East and Africa	39,118,693	29,793,221
APAC	6,359,828	4,538,265
North America	3,030,918	2,186,076
South America	1,024,672	737,140
Total	**49,534,111**	**37,254,702**

The company 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 company'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 allowance for doubtful accounts 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 credit 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.

Changes in the allowance are shown in the following table:

			Variation		
(in Euros)	31.12.2021	Impairment losses	Utilisations	Reversals	31.12.2020
Allowance for doubtful accounts	698,176	290,945	(64,686)	-	471,917
TOTAL	**698,176**	**290,945**	**(64,686)**	**-**	**471,917**

A breakdown of trade receivables from group companies is as follows.

(in Euros)	31.12.2021	31.12.2020
C.R.C. S.r.l.	141,357	117,696
Recuperator S.p.A.	136,895	38,750
Enginia Srl Unipersonale	68	-
Carel U.K. Ltd	1,273,582	1,394,281
Carel France s.a.s.	1,916,828	1,204,874
Carel Asia Ltd	1,470,682	780,675
Carel Sud America Instrumentacao Eletronica Ltda	848,184	585,251
Carel Usa Llc	2,896,974	2,096,757
Carel Australia Pty. Ltd	3,708	
Carel Deutschland GmbH	1,172,199	747,070
Carel Electronic (Suzhou) Co Ltd	3,359,386	2,174,835
Carel Controls Iberica S.L.	1,861,308	1,281,805
Carel ACR Systems India (Pvt) Ltd	695,223	621,301

(in Euros)	31.12.2021	31.12.2020
Carel Controls South Africa (Pty) Ltd	12,367	1,313
Carel Rus Llc	97,807	61,830
Carel Korea Ltd	83,000	140,664
Carel Nordic AB	2,500	1,000
Carel Japan Co. Ltd	37,375	10,907
Carel Mexicana S.De.RL	133,944	89,319
Carel Middle East DWC Llc	82,056	72,500
Alfaco Polska Sp.z.o.o	1,344,648	1,769,833
Carel Adriatic D.o.o.	2,865,234	744,744
HygroMatik GmbH	3,352	5,710
CFM Sogutma Ve Otomasyon San.Tic.A.S.	839,885	-
Subsidiaries	**21,278,562**	**13,941,115**
Eurotest Laboratori S.r.l.	5,807	10,681
Arianna S.p.A.	4,575	4,575
Subsidiaries of parents	**10,382**	**15,256**
RN Real Estate S.r.l	12,444	3,050
Tre Valli S.r.l. Società Agricola	-	1,500
Carel Real Estate Adriatic doo	1,713	-
Related parties	**14,157**	**4,550**

INVENTORIES (NOTE 7)

These amount to €25,160 thousand. They are comprised as follows, net of the allowance for inventory write-down for slow-moving or obsolete items:

(in Euros)	31.12.2021	Variation	31.12.2020
Raw materials and consumables	18,601,486	5,899,616	12,701,870
Allowance for inventory write-down	(1,732,638)	(325,573)	(1,407,065)
Total raw materials, consumable and supplies	16,868,848	5,574,043	11,294,805
Work in progress and semi-finished goods	1,988,651	23,375	1,965,276
Allowance for inventory write-down	(180,967)	(103,912)	(77,055)
Total work in progress and semi-finished goods	1,807,684	(80,537)	1,888,221
Finished goods	7,030,851	911,148	6,119,703
Allowance for inventory write-down	(568,720)	(51,000)	(517,720)
Total finished goods	6,462,131	860,148	5,601,983
Payments on account	21,828	(14,693)	36,521
Total	**25,160,491**	**6,338,961**	**18,821,530**

Inventories, gross of the allowance for inventory write-down, increased by a total of €6,834 thousand. This was due to the increase in both raw materials and semi-finished products (€5,923 thousand), in order to pre-empt any critical issues caused by shortages in components, especially electronic materials, which characterised 2021 and is expected to continue in early 2022, and in finished goods (€911 thousand), in order to meet customer demand.

The company recognised an allowance for inventory write-down 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 change in inventories of the statement of profit or loss.

Inventories were not pledged or subject to property rights restrictions.

CURRENT TAX ASSETS (NOTE 8)

These amount to €1,811 thousand and can be broken down as follows:

(in Euros)	31.12.2021	Variation	31.12.2020
IRES tax asset	1,625,277	448,406	1,176,871
IRAP tax asset	185,524	(190,332)	375,856
Total	**1,810,801**	**258,074**	**1,552,727**

Current tax assets are as follows:

- IRES tax asset of €1,287 thousand resulting from the calculation of the taxes for 2021;
- IRES tax asset of €338 thousand related to the IRES on personnel expense pertaining to 2012, claimed for reimbursement in 2015, unchanged compared to the previous year;
- IRAP tax asset of €137 thousand resulting from the calculation of the taxes for 2021;
- IRAP tax asset of €49 thousand related to the IRES on personnel expense pertaining to 2012, claimed for reimbursement in 2015, unchanged compared to the previous year.

OTHER CURRENT ASSETS (NOTE 9)

These amount to €5,510 thousand (€5,223 thousand at 31 December 2020) and can be broken down as follows:

(in Euros)	31.12.2021	Variation	31.12.2020
Other tax assets	3,384,517	17,613	3,366,904
Other assets	2,125,351	269,357	1,855,994
Total	**5,509,868**	**286,970**	**5,222,898**

A breakdown of other tax assets at year end is as follows:

(in Euros)	31.12.2021	Variation	31.12.2020
VAT assets	326,833	(416,550)	743,383
Tax assets	1,095,035	697,937	397,098
Substitute tax	1,962,649	(263,774)	2,226,423
Total	**3,384,517**	**17,613**	**3,366,904**

VAT assets relate to the VAT tax asset at the reporting date.

The substitute tax shows the 2022 portion of the substitute tax paid to align the higher carrying amounts recognised at the time of the December 2018 acquisition against consideration of Recuperator S.p.A. (Italy) and HygroMatik GmbH (Germany) with the relevant tax bases, as per article 15.10-bis of Decree law no. 185/2008, as subsequently amended.

Tax assets are the portion offsettable in 2022 against other taxes and contributions of amounts accrued during the year. These include: "Industry 4.0 – Law no. 160/2019" (€53 thousand); "Maxi-depreciation – Law no. 178/2020" (€396 thousand); "Ecobonus – Law no. 296/2006" (€9 thousand) and "Tax credit for research and development activities – Law no. 178/2020" (€637 thousand).

A breakdown of other assets at year end is as follows:

(in Euros)	31.12.2021	Variation	31.12.2020
Advances to suppliers	146,411	(12,474)	158,885
Sundry assets	325,180	8,884	316,296
Prepayments related to more than one year	30,231	(12,797)	43,028
Other prepayments	1,623,529	285,744	1,337,785
Total	**2,125,351**	**269,357**	**1,855,994**

Advances to suppliers refer to payments on account for services.

Sundry assets include residual insurance compensation of €320 thousand. The insurance appraisers will complete their reports on the reconditioning of the units that lost functionality before 31 March 2022 after which the insurance company will pay the balance.

Prepayments and accrued income refer to income or charges collected/paid before or after the year to which they pertain. They are recognised regardless of the payment or collection date when the related income and charges are common to two or more years and can be allocated over time.

Other prepayments include costs pertaining to the subsequent year including €777 thousand for software maintenance instalments, €528 thousand for insurance premiums and €130 thousand for fairs and exhibitions.

CURRENT FINANCIAL ASSETS (NOTE 10)

These amount to €665 thousand (€7,522 thousand at 31 December 2020) and can be broken down as follows:

(in Euros)	31.12.2021	Variation	31.12.2020
Subsidiaries	500,167	500,167	-
Associates	160,000	160,000	-
Other financial assets	-	(7,520,536)	7,520,536
Cash pooling arrangement	612	(1,106)	1,718
Derivatives	4,621	4,621	-
Total	**665,400**	**(6,856,854)**	**7,522,254**

Amounts due from subsidiaries relate to the interest-bearing loan granted to C.R.C S.r.l. in November 2021, expiring on 31 May 2022.

Amount due from associates relate to the non-interest bearing loan granted to Arion S.r.l., expiring on 31 December 2022, which was reclassified from non-current assets.

Other financial assets referred to temporary deposits of liquidity, including accrued interest income gross of tax withholdings, at banks, which were recovered during the year.

The cash pooling arrangement includes the credit balances of the cash pooling account related to the cash pooling arrangements regarding the following group companies:

(in Euros)	31.12.2021	31.12.2020
Alfaco Polska Sp.z.o.o.	612	1,696
HygroMatik GmbH	-	22
Total	**612**	**1,718**

Derivatives are forwards or currency options agreed to hedge commercial transactions, but do not qualify for hedge accounting. Fair value gains or losses are recognised in profit or loss. The following table reclassifies derivatives by type of financial instrument.

	31.12.2021				31.12.2020			
	Fair value **	Nominal amount **	Currency purchases*	Currency sales*	Fair value **	Nominal amount **	Currency purchases*	Currency sales*
USD options	4,621	3,429,888	-	4,100,000	-	-	-	-
Total	**4,621**				-			

* In foreign currency

** In Euros

CASH AND CASH EQUIVALENTS (NOTE 11)

This caption comprises temporary liquidity in bank accounts and petty cash and amount to €53,647 thousand.

(in Euros)	31.12.2021	Variation	31.12.2020
Bank accounts	56,641,613	(17,058,740)	70,700,353
Cash and cash equivalents	5,301	90	5,211
Totale	**53,646,914**	**(17,058,650)**	**70,705,564**

Cash and cash equivalents are not subject to any obligations or use restrictions by the company.

For more information about changes in such caption, reference should be made to the statement of cash flows.

EQUITY (NOTE 12)

Equity is comprised as follows and underwent the following changes:

(in Euros)	31.12.2021	Changes					31.12.2020
		Total changes	Allocation of prior year profit	Reclassification	Dividends	Comprehensive income	
Share capital	10,000,000	-					10,000,000
Share premium reserve	867,350	-					867,350
Revaluation reserves	3,424,658	-					3,424,658
Legal reserve	2,000,000	-					2,000,000
Treasury shares	(1,107,870)	657,030				657,030	(1,764,900)
Hedging reserve	(51,118)	384,639				384,639	(435,757)
Other reserves							
- Extraordinary reserve	54,250,988	9,059,322	8,916,103	151,342	(8,123)		45,191,666
- Transfer premium reserve	6,105,327	-					6,105,327
- Reserve for unrealised exchange gains	-	(117,257)	-	(117,257)			117,257
- IFRS FTA reserve	2,145,495	-					2,145,495
- Stock grant reserve	1,311,470	127,355		(34,085)		161,440	1,184,115
- Actuarial reserve	(371,714)	(80,366)				(80,366)	(291,348)
Retained earnings	476,149	-	-				476,149
Profit for the year	27,318,447	6,422,529	(8,916,103)		(11,979,815)	27,318,447	20,895,918
Total	**106,369,182**	**16,453,252**	**-**		**(11,987,938)**	**28,441,190**	**89,915,930**

The fully paid-up and subscribed share capital consists of 100,000,000 ordinary shares without a nominal amount for a total of €10,000,000.

The company's shares are not pledged as guarantees or liens.

The share premium reserve includes the carrying amount resulting from the company's merger of the industrial and commercial business units of the former Samos S.r.l. in 2013.

The revaluation reserve includes the revaluation, net of taxes, of property, plant and equipment acquired in 2009 following the transfer of the production business unit from the former parent.

The legal reserve has reached the limit set by article 2430 of the Italian Civil Code.

Treasury shares number 100,521. In April 2021, the company assigned 67,688 treasury shares upon conclusion of the first vesting period (2018-2020). The related rights had been granted on 1 October 2018. The 12 beneficiaries were approved by the board of directors on 4 March 2021. The shares assigned were measured using the rolling FIFO method.

The company did not repurchase any treasury shares during the year.

The hedging reserve includes the fair value gains or losses, net of deferred taxes, on the effective portion of five IRSs entered into to hedge the interest rate risk of floating-rate non-current loans entered into in 2018, 2019, 2020 and 2021. The changes are shown in the following table:

(in Euros)	
31 December 2020	**(435,757)**
Variation	
Fair value gains	506,104
Deferred tax effect	(121,465)
Total	**384,639**
31 December 2021	**(51,118)**

The increase in the extraordinary reserve is mainly due to the resolution passed by the shareholders in their meeting of 20 April 2021 which approved the separate financial statements at 31 December 2020.

The dividends were distributed to the beneficiaries of the assigned treasury shares.

The transfer premium reserve includes the residual balance of the reserve set up in May 2009 following the transfer of the operating business unit from the former parent.

In their meeting of 20 April 2021 called to approve the separate financial statements at 31 December 2020, the shareholders acknowledged the adjustment to the undistributable reserve for unrealised exchange gains as per article 2426-bis of the Italian Civil Code.

The IFRS FTA reserve was set up upon the adoption of the International Financial Reporting Standards on 1 January 2015.

The stock grant reserve includes the fair value at 31 December 2021 of the incentive plan based on financial instruments for the free assignment of the company's ordinary shares approved by the shareholders on 7 September 2018.

The changes are shown in the following table:

(in Euros)	
31 December 2020	**1,184,115**
Variation	
Portion for the year	818,469
Rights vested during the year	(657,029)
Reclassification to income-related reserve	(34,085)
Total changes	**127,355**
31 December 2021	**1,311,470**

In March 2021, the company's board of directors approved the assignment of treasury shares upon conclusion of the vesting period (2018-2020). See the comment on treasury shares for more information.

As a result, the company reversed the fair value accumulated in equity for this equity-settled performance plan. The gain 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.

For more information, reference should be made to the section on "Cash-settled and equity-settled payment arrangements" of note [33].

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

The actuarial reserve includes the effects of the discounting of the post-employment benefits and post-term of office benefits for directors.

Retained earnings were recognised upon first-time adoption of the IFRS and relate to 2015 and 2016.

Equity captions are broken down by origin, possible use and distribution and their actual use in the past three years below:

TABLE PURSUANT TO ARTICLE 2427.7-BIS OF THE ITALIAN CIVIL CODE

(in Euros)					Use in the past three years	
	Amount	**Possible use**	**Available portion**	**Distributable portion**	**To cover losses**	**Distribution of reserves**
Share capital	10,000,000					
Equity-related reserves:						
Share premium reserve	867,350	A, B, C	867,350	867,350		
Revaluation reserves	3,424,658	A, B, C	3,424,658	3,424,658		
Transfer premium reserve	6,105,327	A, B, C	6,105,327	6,105,327		
Reserve for treasury shares	(1,107,870)					
Income-related reserves:						
Legal reserve	2,000,000	B	2,000,000			
Extraordinary reserve	54,250,988	A, B, C	53,143,118	43,355,060		30,000,000

(in Euros)					Use in the past three years	
	Amount	Possible use	Available portion	Distributable portion	To cover losses	Distribution of reserves
Reserve for unrealised exchange gains	-	A, B	-			
IFRS FTA reserve	2,145,495	B	2,145,495			
Actuarial reserve	(371,714)		(371,714)			
Hedging reserve	(51,118)		(51,118)			
Stock grant reserve	1,311,470	B	1,311,470			
Retained earnings	476,149	B	476,149			
Total (net of profit for 2021)	**79,050,735**		**69,050,735**	**53,752,395**	**-**	**30,000,000**
Profit for 2021	27,318,447					
Total equity	**106,369,182**					

Key:

A: share capital increases

B: to cover losses

C: dividends

Pursuant to article 2426.5 of the Italian Civil Code, start-up and capital costs and development expenditure pertaining to more than one year may be recognised as assets with the approval of the board of statutory auditors and they are amortised over five years. Until the amortisation is complete, dividends may only be distributed if there are sufficient available reserves to cover the amount of non-amortised costs.

At 31 December 2021, development expenditure not yet amortised amounts to €6,899,962.

The following table provides an indication of the tax regime for the share capital and reserves at 31 December 2021 in case of their repayment or distribution:

(in Euros)	Non-distributable reserves and earnings	Taxable share capital and reserves - company	Taxable share capital and reserves - shareholders	Non-taxable share capital and reserves - company and shareholders	Total
Share capital				10,000,000	10,000,000
Share premium reserve				867,350	867,350
Revaluation reserves				3,424,658	3,424,658
Legal reserve	2,000,000				2,000,000
Treasury shares	(1,107,870)				(1,107,870)
Hedging reserve	(51,118)				(51,118)
Other reserves					-
- Extraordinary reserve			54,250,988		54,250,988
- Transfer premium reserve				6,105,327	6,105,327
- IFRS FTA reserve	2,145,495				2,145,495

(in Euros)	Non-distributable reserves and earnings	Taxable share capital and reserves - company	Taxable share capital and reserves - shareholders	Non-taxable share capital and reserves - company and shareholders	Total
- Stock grant reserve	1,311,470				1,311,470
- Actuarial reserve	(371,714)				(371,714)
Retained earnings	476,149				476,149
Total	**4,402,412**	**-**	**54,250,988**	**20,397,335**	**79,050,735**

Earnings per share

Earnings per share were calculated by dividing the profit attributable to the owners of the company by the weighted average number of outstanding ordinary shares. At 31 December 2021, following the above-mentioned repurchase of treasury shares, the weighted average of outstanding ordinary shares was 99,882,557.

Earnings per share and the number of ordinary shares used to calculate basic and diluted earnings per share in accordance with IAS 33 are shown below:

(in Euros)	31.12.2021	31.12.2020
Earnings per share	27,318,447	20,895,918
Average number of ordinary shares	99,882,557	99,851,068
Basic earnings per share	**0.2735**	**0.2093**

The company's basic and diluted earnings per share are the same.

E-MARKET SDIR CERTIFIED

NON-CURRENT AND CURRENT FINANCIAL LIABILITIES (NOTE 13)

Non-current loans and borrowings can be broken down as follows:

(in Euros)	31.12.2021	Variation	31.12.2020
Bank loans and borrowings at amortised cost	67,920,086	(18,988,641)	86,908,727
Non-current lease liabilities	12,108,309	(1,527,201)	13,635,510
Other non-current loans and borrowings at amortised cost	681,246	(191,170)	872,416
Effective designated derivative hedges	108,401	(469,933)	578,334
Other non-current financial liabilities	1,440,014	1,440,014	-
Non-current financial liabilities	**82,258,056**	**(19,736,931)**	**101,994,987**

Current loans and borrowings can be broken down as follows:

(in Euros)	31.12.2021	Variation	31.12.2020
Current portion of bank loans at amortised cost	60,196,202	17,733,332	42,462,870
Current lease liabilities	1,310,656	(40,721)	1,351,377
Other current loans and borrowings at amortised cost	191,170	(123,483)	314,653
Current intragroup loans and borrowings	800,512	800,512	-
Effective designated derivative hedges	40,625	37,881	2,744
Cash pooling arrangement	15,542,998	3,910,669	11,632,329
Other current financial liabilities	18,733	18,733	-
Current financial liabilities	**78,100,896**	**22,336,923**	**55,763,973**

A breakdown of bank loans and borrowings at amortised cost, net of the interest accrued at the end of the year and the residual amortised cost by due date is provided below:

LOANS AND BORROWINGS BREAKDOWN AS OF 31ST DECEMBER 2021

(in Euros)	Currency	Original amount	Maturity	Rate	Outstanding liabilities in Euros	Current	Non-current
Intesa San Paolo loan	EUR	6,000,000	01/2022	Fixed	6,000,000	6,000,000	-
BNL (BNP Paribas) loan	EUR	15,000,000	03/2022	Fixed	15,000,000	15,000,000	-
BNL (BNP Paribas) loan	EUR	10,000,000	08/2022	Fixed	10,000,000	10,000,000	-
Unicredit S.p.A. loan	EUR	20,000,000	04/2023	Fixed	6,666,666	4,444,444	2,222,222
Unicredit S.p.A. loan	EUR	20,000,000	04/2023	Floating	10,000,000	6,666,667	3,333,333
BNL (BNP Paribas) loan no. 6141372	EUR	20,000,000	04/2023	Floating	9,995,657	-	9,995,657
BNL (BNP Paribas) loan no. 6139218	EUR	30,000,000	05/2023	Floating	12,839,426	8,571,429	4,267,997
Mediobanca – Banca di Credito Finanziario S.p.A. loan	EUR	25,000,000	08/2023	Floating	25,001,307	-	25,001,307

(in Euros)	Currency	Original amount	Maturity	Rate	Outstanding liabilities in Euros	Current	Non-current
Intesa San Paolo loan	EUR	10,000,000	03/2024	Fixed	6,261,790	2,499,953	3,761,837
Crédit Agricole FriulAdria S.p.A. loan	EUR	10,000,000	04/2024	Fixed	6,267,648	2,499,934	3,767,714
Mediobanca – Banca di Credito Finanziario S.p.A. loan	EUR	20,000,000	06/2026	Floating	20,014,463	4,444,444	15,570,019
Total					**128,046,957**	**60,126,871**	**67,920,086**

All loans bear interest at a rate of less than 1%.

During the year, the company regularly repaid the financing instalment as per the repayment plan. Specifically:

- in June, it obtained a current account facility of €6,000 thousand from Intesa San Paolo S.p.A. expiring in January 2022;
- in June, it took out a 60-month €20,000 thousand unsecured loan with Mediobanca – Banca di Credito Finanziario S.p.A.. To hedge the interest rate risk, the company 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 to 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.
- in August, it took out a 7-month €15,000 thousand unsecured loan with BNL (BNP Paribas);
- in October, it took out a 10-month €10,000 thousand unsecured loan with BNL (BNP Paribas.

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 no. 6141372 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.

Other non-current financial liabilities show the amount due to the non-controlling investor of CFM for the acquisition of the investment. On 31 May 2021, the company acquired 51% of share capital of CFM, a Turkish company with registered office in Izmir (Turkey) that is a long-standing Carel product distributor and partner in the region.

The sales agreement provides that part of the consideration (€1,440 thousand at the reporting date) will be paid in instalments considering that the achievement of the certain-agreed events occur. As meeting these conditions is deemed probable, management considers such amount an adjustment of the consideration paid at the acquisition date.

Lease liabilities refer to the lease liabilities recognised following the adoption of IFRS 16.

A breakdown of other loans and borrowings at amortised cost are broken down by due date below:

31.12.2021							
(in Euros)	**Currency**	**Original amount**	**Maturity**	**Rate**	**Outstanding liabilities in Euros**	**Current**	**Non-current**
MedioCredito Centrale Horizon 2020 Project	EUR	1,489,851	06/2026	Fixed	872,416	191,170	681,246
Total					**872,416**	**191,170**	**681,246**

The loan granted by Mediocredito Centrale refers to a research and development project accepted by the Ministry of Economic Development ("MISE") which falls within the scope of the Horizon 2020 EU framework programme.

Intragroup loans and borrowings relate to a 6-month loan obtained from Carel Australia Pty Ltd for an original amount of AUD1,250 thousand, which is tacitly renewed unless terminated by one of the parties.

The effective designated derivative hedges recognised under non-current and current financial liabilities include the fair value of IRSs signed to hedge the interest rate risk of the loans. Specifically:

(in Euros)

LENDER	**Instrument**	**Notional amount**	**Maturity**	**Negative fair value**
BNL (BNP Paribas) loan	Interest rate swap	30,000,000	21.11.2022	40,625
BNL (BNP Paribas) loan	Interest rate swap	20,000,000	30.04.2023	67,220
UNICREDIT loan	Interest rate swap	20,000,000	30.04.2023	41,181
Total				**149,026**

At 31 December 2021, the company has no forwards or currency options agreed to hedge commercial transactions.

The cash pooling arrangement includes the debit balances of the cash pooling account related to the cash pooling arrangements regarding the following group companies:

(in Euros)	31.12.2021	31.12.2020
Carel U.K. Ltd	680,473	1,298,799
Carel France s.a.s.	2,823,758	371,262
Carel Deutschland GmbH	2,518,941	2,118,983
Carel Controls Iberica Sl	1,203,133	1,596,962
Carel Adriatic Doo	2,334,058	6,246,323
HygroMatik GmbH	5,949,037	-
Recuperator S.p.A.	33,598	-
Total	**15,542,998**	**11,632,329**

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

(in Euros)	31.12.2021	Net cash flows	Change in fair value	Reclassification	31.12.2020
Bank loans and borrowings at amortised cost	67,920,086	5,693,786	-	(24,682,427)	86,908,727
Other non-current financial liabilities	1,440,014	1,440,014			-
Other non-current loans and borrowings at amortised cost	681,246	-	-	(191,170)	872,416
Effective designated derivative hedges	108,401	(292,789)	(41,744)	(135,400)	578,334
Non-current financial liabilities	**70,149,747**	**6,841,011**	**(41,744)**	**(25,008,997)**	**88,359,477**

(in Euros)	31.12.2021	Net cash flows	Change in fair value	Reclassification	31.12.2020
Bank loans and borrowings at amortised cost	60,196,202	(6,949,095)	-	24,682,427	42,462,870
Other loans and borrowings at amortised cost	191,170	(314,654)	-	191,171	314,653
Intragroup loans and borrowing at amortised cost	800,512	800,512	-	-	-
Effective designated derivative hedges	40,625	(97,109)	(410)	135,400	2,744
Cash pooling arrangement	15,542,998	3,910,669	-	-	11,632,329
Other financial liabilities at amortised cost	18,733	18,733	-	-	-
Current financial liabilities	**76,790,240**	**(2,630,944)**	**(410)**	**25,008,998**	**54,412,596**

(in Euros)	31.12.2021	Increases	Restatement of financial liabilities	Repayments	Interest	Termination of contracts	31.12.2020
Lease liabilities	13,418,965	223,636	(257,499)	(1,615,411)	85,554	(4,202)	14,986,887

NON-CURRENT AND CURRENT PROVISIONS FOR RISKS (NOTE 14)

Changes to the non-current and current provisions for risks can be broken down as follows:

		VARIATION					
(in Euros)	31.12.2021	Actuarial gains	Accruals	Reversals	Utilisations	Reclassifications	31.12.2020
Provision for agents' termination benefits	815,368	(14,623)	36,581	-	-	-	793,410
Provision for product warranties	294,733	-	105,671		(33,538)	-	222,600
Provision for commercial complaints	-	-	-	(26,500)	-	-	26,500
Total - non-current	**1,110,101**	**(14,623)**	**142,252**	**(26,500)**	**(33,538)**	**-**	**1,042,510**
Provision for legal and tax risks	-	-	-	(35,000)	(90,000)	-	125,000
Provision for commercial complaints	1,907,436	-	557,165	-	(628,622)	-	1,978,893
Total - current	**1,907,436**	**-**	**557,165**	**(35,000)**	**(718,622)**	**-**	**2,103,893**
Total provisions for risks	**3,017,537**	**(14,623)**	**699,417**	**(61,500)**	**(752,160)**	**-**	**3,146,403**

The provision for agents' termination benefits, accrued for the potential risks of the termination of agency contracts, considers the estimated liabilities related to contacts in place at year end.

The provision for agents' termination benefits is calculated by an independent actuary using the closed group approach in accordance with IAS 37. The assessments were carried out by quantifying future payments through the projection of agency commissions accrued at the assessment date up to the estimated moment (uncertain) in which the contractual relationship will be terminated.

The demographic assumptions were based on the Mortality table RG48 published by the General Accounting Office, the INPS tables split by age and gender for disabilities and the requirements are set out by ENASARCO (the Italian social security foundation for business agents and representatives) for the pensionable age.

With regard to the possible termination of agency agreements by the company or for other causes, the company estimated annual termination rates of 2.50% for voluntary resignations and 2.00% for company reasons based on internal date data.

The financial assumptions, on the other hand, essentially relate to the discount rate, which, at 31 December 2021, was deemed to be in line with the Iboxx AA Corporate index with the same term as the closed group subject to assessment, equal to 0.44%.

The provision for product warranties is related to the non-current portion of the liabilities, reasonably estimated based on the guarantees contractually granted to customers and past experience, connected to costs for spare parts and labour that the company may incur in future years for assistance to be provided for products, the sales revenue of which has already been recognised in profit or loss for the year or in previous years.

The provision for commercial complaints refers to the prudent accrual for costs incurred for commercial complaints from customers related to products sold.

The provision increased due to the estimated larger costs that the company might occur on claims with customers.

The use during the year relates to specific customer complaints.

DEFINED BENEFIT PLANS (NOTE 15)

This caption consists of the company's liability for post-employment benefits and post-term of office benefits for directors. These benefits qualify as defined benefit plans pursuant to IAS 19 and the related liabilities are calculated by an independent actuary applying the closed group approach in accordance with the accrued benefits methodology using the projected unit credit method envisaged in IAS 19.

As described in the Accounting policies, the actuarial gains or losses are recognised in a specific equity reserve through other comprehensive income.

Defined benefit plans and changes therein may be analysed as follows:

(in Euros)	31.12.2021	Variation	31.12.2020
Post-employment benefits	4,180,800	(253,695)	4,434,495
Post-term of office benefits for directors	788,569	82,290	706,279
Total	**4,969,369**	**(171,405)**	**5,140,774**

Post-employment benefits at year end were as follows:

(in Euros)	31.12.2021	31.12.2020
Opening balance	**4,434,495**	**4,626,593**
Accruals	1,923,281	1,746,099
Transfers to pension funds	(1,895,794)	(1,736,070)
Interest cost	24,023	33,731
Employee benefits paid	(352,835)	(301,985)
Substitute tax	(27,487)	(10,029)
Actuarial losses	75,117	76,156
Closing balance	**4,180,800**	**4,434,495**

Law no. 296/06 changed the Italian post-employment benefits scheme and they are now classified as defined contribution plans regardless of whether the employee decides to have them transferred to the INPS treasury fund or a supplementary pension plan. Benefits vested up until 31 December 2006 continue to be recognised as part of a defined benefit plan and are subject to actuarial valuation, excluding the future salary increase component.

The post-term of office benefits for directors at year end was as follows:

(in Euros)	31.12.2021	31.12.2020
Opening balance	**706,279**	**629,007**
Accruals	90,060	95,931
Interest cost	4,088	4,897
Benefits paid to directors	(23,625)	-
Actuarial (gains) losses	11,767	(23,556)
Closing balance	**788,569**	**706,279**

For both liabilities the company 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.

DEFERRED TAX LIABILITIES (NOTE 16)

Deferred tax liabilities at 31 December 2021 were generated by the temporary differences between the carrying amount of assets and liabilities and their tax base calculated with reference to the tax rates that are expected to be enacted in the years in which the differences will reverse.

The deferred tax liabilities recognised in the separate financial statements refer to the following temporary differences:

	31.12.2021		31.12.2020	
(in Euros)	Tax base	Deferred taxes	Tax base	Deferred taxes
Unrealised exchange differences	226,964	54,471	297,820	71,477
Fair value changes on derivatives	81,766	19,624	4,970	1,193
Diff. in amort/dep. calculated under IFRS/ OIC FTA	121,839	33,993	188,696	52,646
Diff. in amort/dep. calculated under IFRS/ OIC 2015	185,666	51,800	187,914	52,428
Diff. in amort/dep. calculated under IFRS/ OIC 2016	31,389	8,757	140,197	39,115
Discounting of agents' termination benefits	104,241	29,082	89,618	25,002
Total	**751,865**	**197,727**	**909,215**	**241,861**

The changes in deferred tax liabilities were as follows:

(in Euros)	31.12.2021	Recognised in profit or loss	Recognised in other comprehensive income	31.12.2020
Unrealised exchange differences	54,471	(17,006)	-	71,477
Fair value changes on derivatives	19,624	-	18,431	1,193
Diff. in amort/dep. calculated under IFRS/ OIC FTA	33,993	(18,653)	-	52,646
Diff. in amort/dep. calculated under IFRS/ OIC 2015	51,800	(628)	-	52,428
Diff. in amort/dep. calculated under IFRS/ OIC 2016	8,757	(30,358)	-	39,115
Discounting of agents' termination benefits	29,082	4,080	-	25,002
Total	**197,727**	**(62,565)**	**18,431**	**241,861**

OTHER NON-CURRENT LIABILITIES (NOTE 17)

These amount to €8,057 thousand and can be broken down as follows:

(in Euros)	31.12.2021	Variation	31.12.2020
Third party options	7,924,065	7,924,065	-
Other non-current liabilities	133,121	133,121	-
Total	**8,057,186**	**8,057,186**	**-**

Third party options relate to the fair value of the call option on the non-controlling interests in CFM. Reference should be made to note [3] Equity investments for more details.

The derivative is remeasured at each reporting date and any resulting fair value gains or losses are recognised in profit or loss. The derivative was discounted using a rate of 1.54%, held to approximate the company's cost of debt.

Its initial carrying amount of €7,985 thousand decreased by a fair value gain of €61 thousand, which was recognised as other financial income.

Other non-current liabilities relate to the cash award liability to the beneficiaries of the 2021-2025 cash-settled performance plan. For more information, reference should be made to the section on "Cash-settled and equity-settled payment arrangements" of note [33].

TRADE PAYABLES (NOTE 18)

These amount to €52,401 thousand (€37,635 thousand at 31 December 2020) and can be broken down as follows:

(in Euros)	31.12.2021	Variation	31.12.2020
Payments on account to customers	1,223,774	503,758	720,016
Third parties	30,676,461	6,774,383	23,902,078
Subsidiaries	19,935,611	7,074,991	12,860,620
Associates	454	(55,039)	55,493
Subsidiaries of parents	111,995	28,130	83,865
Related parties	452,548	439,644	12,904
Total	**52,400,843**	**14,765,867**	**37,634,976**

Payments on account received from customers relate to supply contracts that entail the future provision of services.

Trade payables relate to transactions with suppliers to purchase raw materials, consumables, processing and services. These activities are part of the normal procurement management. The change recognised during the year is related to the normal commercial dynamics combined with business growth.

Trade payables in foreign currency were retranslated using the closing rate, adjusting the originally-recognised amount.

Trade payables refer to the following geographical segments:

(in Euros)	31.12.2021	31.12.2020
Europe, Middle East and Africa	39,586,558	31,514,447
APAC	12,045,837	5,832,372
North America	473,078	234,750
South America	295,370	53,407
Total	**52,400,843**	**37,634,976**

A breakdown of trade payables to group companies is as follows:

(in Euros)	31.12.2021	31.12.2020
C.R.C. Srl	7,946	43,361
Recuperator S.p.A..	3,203	2,013
Carel U.K. Ltd	172,186	45,000
Carel France Sas	5,108	29,422
Carel Asia Ltd	15,255	13,946
Carel Sud America Instrumentacao Eletronica Ltda	217,986	45,482
Carel Usa Llc	75,761	15,027
Carel Australia Pty Ltd	27,823	5,120
Carel Deutschland GmbH	37,115	13,940
Carel Electronic (Suzhou) Co Ltd	11,615,171	5,455,811
Carel Controls Iberica Sl	-	2,068
Carel ACR Systems India (Pvt) Ltd	109,023	92,003
Carel Controls South Africa (Pty) Ltd	964	966
Carel Rus Llc	353,077	336,210
Carel Korea Ltd	9,712	10,311
Carel Nordic AB	397,481	334,660
Carel Japan Co. Ltd	3,545	3,038
Carel Mexicana S.De.RL	4,128	3,810
Carel Middle East DWC Llc	192,086	120,044
Alfaco Polska Sp.z.o.o	-	7,571
Carel Adriatic Doo	6,554,419	6,280,817
HygroMatik GmbH.	11,651	-
CFM Sogutma ve Otomasyon A.S.	121,971	-
Subsidiaries	**19,935,611**	**12,860,620**
Arion S.r.l.	454	55,493
Associates	**454**	**55,493**
Eurotest Laboratori S.r.l.	96,447	73,023
Nastrificio Victor S.p.A.	9,480	9,221
Panther S.r.l	6,068	1,621
Subsidiaries of parents	**111,995**	**83,865**
RN Real Estate S.r.l.	442,088	-
Altre correlate minori	10,460	12,904
Related parties	**452,548**	**12,904**

CURRENT TAX LIABILITIES (NOTE 19)

These amount to €51 thousand and can be broken down as follows:

(in Euros)	31.12.2021	Variation	31.12.2020
Tax liabilities pertaining to previous years	50,982	(67,976)	118,958
Total	**50,982**	**(67,976)**	**118,958**

Tax liabilities pertaining to previous years relate to the payment plan, defined after the agreement of the mutually-agreed assessment settlement procedure for 2013 by the company and the Venice regional tax office following the preliminary assessment report issued in June 2018 upon conclusion of the audit into 2013, 2014, 2015 and 2016.

OTHER CURRENT LIABILITIES (NOTE 20)

These amount to €14,423 thousand and can be broken down as follows:

(in Euros)	31.12.2021	Variation	31.12.2020
Other tax liabilities	1,632,367	150,020	1,482,347
Social security contributions	3,702,266	2,480	3,699,786
Other liabilities	8,148,605	830,029	7,318,576
Accrued expenses and deferred income	939,933	588,644	351,289
Total	**14,423,171**	**1,571,173**	**12,851,998**

Other tax liabilities can be broken down as follows

(in Euros)	31.12.2021	Variation	31.12.2020
Withholdings to be paid	1,551,638	69,291	1,482,347
Foreign VAT	16,264	16,264	-
Substitute tax on post-employment benefits	64,465	64,465	-
Total	**1,632,367**	**150,020**	**1,482,347**

Social security contributions can be broken down as follows:

(in Euros)	31.12.2021	Variation	31.12.2020
INPS	1,375,677	(89,371)	1,465,048
Social security contributions on deferred remuneration	1,939,330	261,271	1,678,059
ENASARCO	13,291	108	13,183
Others	91,706	(23,201)	114,907
Pension funds	282,262	(146,327)	428,589
Total	**3,702,266**	**2,480**	**3,699,786**

Other liabilities can be broken down as follows:

(in Euros)	31.12.2021	Variation	31.12.2020
Wages and salaries	8.075.241	819.923	7.255.318
Directors' fees	49.601	(7.509)	57.110
Other sundry amounts	23.763	17.615	6.148
Total	**8.148.605**	**830.029**	**7.318.576**

Wages and salaries include €6,621 thousand related to bonuses and unused holidays at 31 December 2021. The remaining amount refers to December pay.

Accrued expenses and deferred income refer to income or charges collected/paid before or after the year to which they pertain. They are recognised regardless of the payment or collection date when the related income and charges are common to two or more years and can be allocated over time.

Other deferred income refers to the accrued portion of tax assets that will be taken to profit or loss as follows:

(in Euros)

Year:	Amount
2022	247,930
2023	211,317
2024	145,980
2025	55,593
2026	55,593
2027	55,593
2028	55,593
2029	46,845
2030	38,318
Total	**912,762**

NOTES TO THE STATEMENT OF PROFIT OR LOSS

REVENUE (NOTE 21)

A breakdown of the caption is as follows:

(in Euros)	2021	Variation	2020
Revenue from sales and services	215,424,960	35,057,601	180,367,359
Total	**215,424,960**	**35,057,601**	**180,367,359**

Revenue from sales and services, shown net of discounts and allowances, essentially relates to the sales of products to third parties and group companies and administration-commercial-financial coordination services provided to group companies. Specifically:

(in Euros)	2021	Variation	2020
Third parties	118,185,602	19,748,408	98,437,194
Intragroup	97,239,358	15,309,193	81,930,165
Total	**215,424,960**	**35,057,601**	**180,367,359**

Reference should be made to the disclosures on related party transactions provided in note [33] for a breakdown of revenue from subsidiaries.

In line with the rise in sales to third parties, intragroup sales were pushed up by the internal demand of the countries in which the group companies operate as distributors.

Revenue from sales of goods and services to third parties amounts to €118,186 thousand, up on €98,437 thousand in 2020. A breakdown of revenue by business segment is as follows:

(in Euros)	2021	2020
HVAC revenue	75,889,227	62,383,707
REF revenue	40,482,412	34,606,204
Non-core revenue	1,813,963	1,447,283
Total	**118,185,602**	**98,437,194**

Revenue from sales and services may be broken down by geographical segment as follows:

(in Euros)	2021	"Breakdown %"	2020	"Breakdown %"
Europe, Middle East and Africa	184,843,569	85.80%	153,506,140	85.11%
APAC	16,951,305	7.87%	15,689,687	8.70%
Nord America	9,858,393	4.58%	8,297,769	4.60%
Sud America	3,771,693	1.75%	2,873,763	1.59%
Totale	**215,424,960**	**100.00%**	**180,367,359**	**100.00%**

An analysis of the revenue trend analysis is provided in the directors' report.

OTHER REVENUE (NOTE 22)

A breakdown of the caption is as follows:

(in Euros)	2021	Variation	2020
Grants related to income	1,413,676	536,987	876,689
Licence fees	4,026,106	1,912,078	2,114,028
Sundry cost recoveries	1,840,908	436,412	1,404,496
Compensation	8,097	(11,257)	19,354
Company canteen cost recovery	90,205	26,753	63,452
Other revenue and income	69,071	(120,721)	189,792
Total	**7,448,063**	**2,780,252**	**4,667,811**

Grants related to income relate to the tax assets accrued during the year ("Industry 4.0 – Law no. 160/2019"; "Maxi-depreciation – Law no. 178/2020"; "Ecobonus – Law no. 296/2006"; and "Tax credit for research and development activities – Law no. 178/2020") and taken to profit or loss based on the relevant expense caption.

Licence fees relate to royalties only received from group companies.

Sundry cost recoveries mainly relate to the reimbursement of transport costs by third parties and group companies.

COSTS OF RAW MATERIALS, CONSUMABLES AND GOODS AND CHANGE IN INVENTORIES (NOTE 23)

A breakdown of the caption is as follows:

(in Euros)	2021	Variation	2020
Purchases of raw materials, supplies and goods	(119,526,712)	(26,223,014)	(93,303,698)
Purchases of consumables	(1,639,170)	(242,468)	(1,396,702)
Change in raw materials and goods	5,574,043	4,577,890	996,153
Change in finished goods and semi-finished products	779,611	1,492,517	(712,906)
Total	**(114,812,228)**	**(20,395,075)**	**(94,417,153)**

Costs of raw materials, consumables and goods refer to goods purchased for the company's normal production activities and can be broken down as follows:

(in Euros)	2021	Variation	2020
Purchases of raw materials and semi-finished goods	(60,712,524)	(14,084,919)	(46,627,605)
Purchases of goods held for resale	(56,281,775)	(11,644,274)	(44,637,501)
Purchases of other materials	(2,760,446)	(616,963)	(2,143,483)
Total	**(119,754,745)**	**(26,346,156)**	**(93,408,589)**
Returns, markdowns, bonuses and discounts	228,033	123,142	104,891
Total purchases of raw materials, consumables, supplies and goods	**(119,526,712)**	**(26,223,014)**	**(93,303,698)**

The intragroup purchases of raw materials, consumables, supplies and goods amount to €47,967 thousand in 2021 (€38,114 thousand in 2020).

The increase in costs for raw materials, consumables, supplies and goods is proportionate to the sales trend and the rise in the price of raw materials used in the various production cycles due to inflation and shortages, which had an adverse affect especially in the second half of the year.

The change in raw materials and goods refers to the acquisition of goods that will mostly be transformed rather than used, net of write-downs made to reflect obsolescence and the reduced usability of the products.

The change in finished goods and semi-finished products can be broken down as follows:

(in Euros)	2021	Variation	2020
Work in progress	(83,854)	(275,680)	191,826
Semi-finished goods	3,317	(367,580)	370,897
Finished goods	860,148	2,135,777	(1,275,629)
Total	**779,611**	**1,492,517**	**(712,906)**

SERVICES (NOTE 24)

A breakdown of the caption is as follows:

(in Euros)	2021	Variation	2020
Services	(29,205,079)	(3,633,838)	(25,571,241)
Use of third party assets	(924,995)	(214,896)	(710,099)
Total	**(30,130,074)**	**(3,848,734)**	**(26,281,340)**

A breakdown of services is as follows:

(in Euros)	2021	Variation	2020
Agency contracts	(5,020,382)	(345,440)	(4,674,942)
Transport	(4,864,205)	(465,564)	(4,398,641)
Consultancies	(4,231,399)	(1,428,740)	(2,802,659)
Maintenance and repairs	(4,072,132)	(980,628)	(3,091,504)
Outsourcing	(3,878,921)	524,894	(4,403,815)
Fees to directors, statutory auditors and independent auditors	(1,586,121)	(126,746)	(1,459,375)
Personnel expense and temporary staff	(1,194,886)	(412,170)	(782,716)
Other services	(1,060,023)	(232,020)	(828,003)
Certifications	(1,051,003)	(232,529)	(818,474)
Utilities	(756,983)	(97,086)	(659,897)
Insurance	(715,107)	(61,567)	(653,540)
Telephone and connections	(273,563)	15,185	(288,748)
Marketing and advertising	(268,547)	244,926	(513,473)
Business trips and travel	(231,807)	(36,353)	(195,454)
Total	**(29,205,079)**	**(3,633,838)**	**(25,571,241)**

Almost all service costs increased over the previous year. The main increases related to consultancies for mergers and acquisitions, maintenance and repairs for the use of software licences and temporary work. However, the latter increase translated into a reduction of outsourcing costs.

Intragroup services totalled €5,800 thousand (€5,092 thousand in 2020), including agency and sales assistance services of €4,203 thousand, transport and shipping services of €425 thousand and administrative services of €373 thousand.

Finally, during the year, the company incurred costs for non-recurring services of €1,358 thousand related to assistance with mergers and acquisitions.

A breakdown of costs for the use of third party assets is as follows:

(in Euros)	2021	Variation	2020
Car lease payments	(259.994)	7.855	(267.849)
Royalties on patents and trademarks	(276.275)	(143.084)	(133.191)
Other payments for the use of third party assets	(388.726)	(79.667)	(309.059)
Total	**(924.995)**	**(214.896)**	**(710.099)**

Car lease payments mainly include the related ancillary costs.

Other payments for the use of third party assets mostly relate to the lease of internal means of transport and electronic office equipment which are exempted from the application of IFRS 16 as they are short-term or low value leases.

Building leases relate entirely to group companies.

CAPITALISED DEVELOPMENT EXPENDITURE (NOTE 25)

This caption refers to expenditure for the year related to development projects capitalised under intangible assets and amortised over five years for projects completed by the reporting date or recognised as assets under development if not yet completed. The remainder relates to equipment and machinery constructed internally and recognised under property, plant and equipment.

A breakdown of the caption is as follows:

(in Euros)	2021	Variation	2020
Development expenditure	837,231	(995,171)	1,832,402
Self-constructed industrial and commercial equipment	49,760	25,603	24,157
Total	**886,991**	**(969,568)**	**1,856,559**

PERSONNEL EXPENSE (NOTE 26)

A breakdown of personnel expense is as follows:

(valori in Euro)	2021	Variation	2020
Wages and salaries	(35,013,050)	(3,508,685)	(31,504,365)
Social security contributions	(9,543,288)	(621,251)	(8,922,037)
Defined benefit plans	(1,943,936)	(197,837)	(1,746,099)
Total	**(46,500,274)**	**(4,327,773)**	**(42,172,501)**

Wages and salaries include the entire personnel expense for employees, including merit increases, equity-settled and cash-settled payment arrangements, promotions, unused holidays and accruals based on laws and national labour agreements. €2,353 thousand relates to temporary staff (€1,475 thousand in 2020).

Social security contributions refer to social insurance and supplementary contributions, net of exemptions, and accident insurance. The increase is directly related to changes in wages and salaries.

Defined benefit plans relate to the service cost accrued under IAS 19.

The workforce at 31 December 2021 and changes therein during the year were as follows:

Position	31.12.2020	Hires	Departures	Promotions	31.12.2021	2021 average	2020 average
Managers	27	-	(2)	2	27	25	27
Junior managers	59	-	(1)	1	59	60	55
White collars	370	48	(35)	(3)	380	381	376
Blue collars	226	8	(3)	-	231	212	227
Total	**682**	**56**	**(41)**	**-**	**697**	**678**	**685**

OTHER EXPENSE, NET (NOTE 27)

A breakdown of the caption is as follows:

(in Euros)	2021	Variation	2020
Gains on the sale of non-current assets	72.401	69.048	3.353
Contingent assets	527.659	(850.511)	1.378.170
Other income	**600.060**	**(781.463)**	**1.381.523**
Losses on the sale of non-current assets	(1.483)	365	(1.848)
Contingent liabilities	(127.691)	131.271	(258.962)
Other taxes and duties	(117.688)	(14.607)	(103.081)
Impairment losses on loans and receivables	(290.946)	(208.782)	(82.164)
Accrual to the provisions for risks	(662.837)	627.150	(1.289.987)
Membership fees	(158.769)	11.052	(169.821)
Indemnities and compensation	(154)	5.200	(5.354)
Other costs	(4.704)	4.254	(8.958)
Other expense	**(1.364.272)**	**555.903**	**(1.920.175)**
Other expense, net	**(764.212)**	**(225.560)**	**(538.652)**

Prior year income relates to the non-existent expense and the recognition of income pertaining to previous years, €460 thousand of which is taxable and €68 thousand is not taxable.

Prior year expense relates to the non-existent income and the recognition of expense pertaining to previous years.

The accruals to the provisions for risks relate to the prudent accrual for costs to be incurred for complaints from customers about products sold for €557 thousand.

AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES (NOTE 28)

A breakdown of the caption is as follows:

(in Euros)	2021	Variation	2020
Amortisation	(3.890.235)	(116.869)	(3.773.366)
Depreciation	(4.634.921)	(163.634)	(4.471.287)
Total	**(8.525.156)**	**(280.503)**	**(8.244.653)**

Depreciation includes €1,435 thousand (2020: €1,427 thousand) related to the right-of-use assets recognised under property, plant and equipment following the adoption of IFRS 16.

Reference should be made to that set out in the Accounting policies for information about amortisation, depreciation and impairment losses.

NET FINANCIAL INCOME (NOTE 29)

A breakdown of the caption is as follows:

(in Euros)	2021	Variation	2020
Income from investments in subsidiaries	9,139,818	(5,804,468)	14,944,286
Interest on loans granted to subsidiaries	100,006	84,417	15,589
Other financial income	91,679	5,316	86,363
Financial income	**9,331,503**	**(5,714,735)**	**15,046,238**
Interest and other financial expense to subsidiaries	(113,959)	(67,540)	(46,419)
Interest and other financial expense to others	(1,418,579)	(319,292)	(1,099,287)
Financial expense	**(1,532,538)**	**(386,832)**	**(1,145,706)**
Net financial expense	**7,798,965**	**(6,101,567)**	**13,900,532**

Income from investments in subsidiaries refers to dividends resolved and received during the year amounting to:

- €2,486 thousand from Carel Electronic (Suzhou) Co Ltd;
- €2,002 thousand from Carel Adriatic d.o.o.;
- €1,666 thousand from Carel USA Llc;
- €1,000 thousand from Carel Deutschland GmbH;
- €995 thousand from Alfaco Polska Sp.z.o.o.;
- €500 thousand from Carel Controls Iberica SL;
- €491 thousand from Carel Rus LLC.

Interest on loans granted to subsidiaries relates to interest accrued on the loan granted to Recuperator S.p.A. Reference should be made to note [4] Other non-current assets for more details on the loan.

Other financial income can be broken down as follows:

(in Euros)	2021	Variation	2020
"Interest income from securities classified as current assets which are not equity investments"	17,788	(26,026)	43,814
Interest income from cash pooling with subsidiaries	12	(11,892)	11,904
Bank interest income	5,344	2,410	2,934
Gains on derivatives	68,372	40,661	27,711
Other interest income	163	163	-
Total	**91,679**	**5,316**	**86,363**

- Interest income from securities classified as current assets which are not equity investments refers to interest accrued on temporary deposits of liquidity at banks.
- Interest income from cash pooling relates to the interest accrued on the credit balance of the cash pooling account in place with group companies.
- Gains on derivatives relate to:
  - the fair value gain of €61 thousand accrued on the liability for the call option for the non-controlling interest in CFM from its initial recognition to the reporting date. Reference should be made to note [3]

Equity investment for more details.

- the ineffective portion of the fair value gain (€7 thousand) on the IRS signed to hedge the interest rate risk of a loan, calculated as the difference between the fair value changes of the derivative and those of a hypothetical derivative.

Interest and other financial expense to subsidiaries mainly refer to interest accrued on the cash pooling account overrun in place with group companies.

Interest and other financial expense to others are as follows:

(in Euros)	2021	Variation	2020
Interest and other financial expense on current bank loans and borrowings	(47)	573	(620)
Interest and other financial expense on non-current bank loans and borrowings	(851,735)	66,103	(917,838)
Losses on forwards	(10,500)	8,600	(19,100)
Lease interest expense	(219,108)	(184,569)	(34,539)
Losses on derivatives	(44,079)	(44,079)	-
Discounting expense on liabilities	(28,112)	10,517	(38,629)
Bank charges and fees	(264,271)	(176,157)	(88,114)
Other interest expense	(727)	(280)	(447)
Total financial expense	**(1,418,579)**	**(319,292)**	**(1,099,287)**

NET EXCHANGE GAINS(NOTE 30)

A breakdown of exchange gains and losses is as follows:

(in Euros)	2021	Variation	2020
Realised exchange gains	1,482,570	338,976	1,143,594
Unrealised exchange gains	314,498	8,054	306,444
Exchange gains	**1,797,068**	**347,030**	**1,450,038**
Realised exchange losses	(1,044,279)	114,117	(1,158,396)
Unrealised exchange losses	(605,472)	114,232	(719,704)
Exchange losses	**(1,649,751)**	**228,349**	**(1,878,100)**
Net exchange gains (losses)	**147,317**	**575,379**	**(428,062)**
Net realised exchange gains (losses)	*438,291*	*453,093*	*(14,802)*
Net unrealised exchange gains (losses)	*(290,974)*	*122,286*	*(413,260)*

Exchange gains and losses are part of the company's normal performance.

Unrealised exchange gains and losses mainly relate to the US dollar, the Japanese yen and the Polish zloty.

Net unrealised exchange losses totalled €291 thousand (net unrealised exchange losses of €413 thousand in 2020).

Since the company reported net unrealised exchange losses in 2021, it was not required to recognise an undistributable equity reserve as per article 2426.8-bis of the Italian Civil Code.

NET IMPAIRMENT GAINS ON FINANCIAL ASSETS (NOTE 31)

Net impairment gains of €957 thousand relate to:

- the €285 thousand impairment gain on the investment in Carel Asia Ltd. An impairment loss was recognised in previous years as a result of the losses made by the investee. Under the new business plan, the investee increased its profitability, as confirmed by the profits of the past three years and, consequently, its equity. Therefore, the company recognised an impairment gain equal to the difference between the carrying amount of the investment, net of impairment losses, and its share of the investee's equity;
- the €586 thousand impairment gain on the investment in Carel Controls Iberica SL. An impairment loss had been recognised since the carrying amount was deemed not to be recoverable given the investee's performance and expected profitability. The profits achieved in the past few years have enabled the investee to pay dividends to the company and to increase its equity. Consequently, the company recognised an impairment gain equal to the difference between the carrying amount of the investment, net of impairment losses, and its share of the investee's equity;
- the €43 thousand impairment gain on the investment in the subsidiary Carel Middle East DWC Llc. An impairment loss had been recognised since the carrying amount was deemed not to be recoverable given the investee's performance and expected profitability. In 2021, the investee reported a profit for the year. Consequently, the company recognised an impairment gain equal to the difference between the carrying amount of the investment, net of impairment losses, and its share of the investee's equity;
- the €42 thousand impairment gain on the investment in the associate Arion S.r.l.. An impairment loss had been recognised since the carrying amount was deemed not to be recoverable given the investee's performance and expected profitability. In its most recently approved financial statements, the investee reported a profit for the year. Consequently, the company recognised an impairment gain equal to the difference between the carrying amount of the investment, net of impairment losses, and its share of the investee's equity.

Note [3] provides more details about the effects of equity-accounting.

INCOME TAXES (NOTE 32)

A breakdown of income taxes is as follows:

(in Euros)	2021	Variation	2020
Current taxes	(2,809,828)	2,209,144	(5,018,972)
Substitute tax	(1,962,649)	(1,962,649)	-
Change in deferred tax assets	102,786	(121,213)	223,999
Change in deferred tax liabilities	62,565	(1,991)	64,556
Prior year taxes	(5,782)	(206,589)	200,807
Total	**(4,612,908)**	**(83,298)**	**(4,529,610)**

With regard to deferred taxes, reference should be made to the Accounting policies and the information provided about deferred tax assets (note 5) and deferred tax liabilities (note 16).

A reconciliation of the theoretical and effective tax expense is provided below:

(in Euros)	2021	2020
Profit before tax	31,931,355	25,425,528
Theoretical IRES	**7,663,525**	**6,102,127**
Lower taxes:		
- ACE	(177,280)	-
- contingent assets	(16,272)	(168,455)
- personnel expense and supplementary pension funds	(74,778)	(46,100)
- dividends from equity investments and gains on the sale of investments	(2,095,879)	(3,407,297)
- maxi-depreciation and hyper-depreciation	(282,713)	(330,107)
- amortisation of goodwill	(2,957,526)	(4,066)
- impairment gain on equity investments	(229,681)	(115,190)
- patent box	-	(211,004)
- use of provisions for risks and charges	(180,518)	(59,071)
- tax asset on research and development	(338,994)	(208,531)
- other	(187,620)	(98,241)
Higher taxes:		
- undeductible amortisation/depreciation	89,516	127,024
- accruals to provisions	169,704	187,795
- contingent liabilities	7,214	2,380
- impairment loss on equity investments	-	903,440
- write-down of inventories	115,316	155,585
- other undeductible costs	84,396	65,939
- other	163,130	119,381
- unused tax withholdings	440,733	1,250,043
- substitute tax	1,962,649	-
Total income taxes (IRES)	**4,154,922**	**4,265,652**
IRAP	**617,555**	**753,320**
Prior year taxes	**5,782**	**(200,807)**
Deferred taxes	**(165,351)**	**(288,555)**
TOTAL INCOME TAXES	**4,612,908**	**4,529,610**

OTHER INFORMATION (NOTE 33)

Effects of the Covid-19 pandemic on the company and 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.

Finally, for an overview of the effects of the pandemic on the company's and group's markets, reference should be made to the directors' report.

Agreement on the calculation of the economic contribution for the direct use of intangible assets

The application for renewal of the scheme for 2020 and following four years presented in October 2019 and repeated when filing the 2020 tax return is still pending with the relevant regional tax office to date.

Equity-settled and cash-settled payment arrangements

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 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.

On 4 March 2021, the company's board of directors approved the assignment of treasury shares upon conclusion of the first rolling cycle (2018-2020). It has 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 company's board of directors also approved:

- the regulation for an equity-settled incentive plan involving the free assignment of the company'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 company'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 company'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 simpler for both the company and the beneficiaries, given that assigning the shares under the latter may pose complex operating issues, even through both plans have the same characteristics, the same terms and conditions and the same performance conditions. Again in November, the company delivered the award acceptance letter to the beneficiaries.

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 company 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 company 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.

Treasury shares

On 20 April 2021, the shareholders resolved, inter alia, to authorise the board of directors to dispose of treasury shares already repurchased in line with previous authorisations and to be repurchased for the purposes of:

- complying with obligations arising from equity-settled incentive plans for the company's directors and/or employees;
- carrying out transactions to support market liquidity;
- undertaking sale, exchange, trade-in, contribution transactions or other acts of disposal of treasury shares that fall within the company's development goals.

The repurchase of treasury shares can take place in one or more transactions of up to a maximum of 5,000,000 shares, equal to 5% of the company's share capital, within the limits of its distributable profits and the available reserves as shown in the most recently approved financial statements, over a period of 18 months from the date of the meeting.

In April 2021, the company assigned 67,688 treasury shares for a total of €657 thousand upon conclusion of the first vesting period (2018-2020) for rights assigned on 1 October 2018.

The company did not repurchase any treasury shares during the year.

At the reporting date, the company had repurchased 100,521 treasury shares, equal to 0.1005% of its share capital, for a total of €1,104 thousand.

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 company's internal reporting system, the business activities from 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 company has not identified individual operating segments but is an operating segment as a whole.

Fees paid to directors, statutory auditors and key management personnel

e fees paid, net of expenses, to directors, statutory auditors and key management personnel during the year were as follows:

(in Euros)	2021	2020
Directors		
- Remuneration and fees	1,445,000	1,256,378
- Other non-monetary benefits	23,039	16,198
- Fair value of share-based payments	174,934	307,989
Total directors	**1,642,973**	**1,580,565**
Statutory auditors		
- Fixed fees and fees for participation in committees	90,000	90,000
Total statutory auditors	**90,000**	**90,000**
Key management personnel		
- Remuneration and fees	1,337,809	1,170,643
- Other non-monetary benefits	21,263	21,538
- Fair value of share-based payments	181,530	318,357
- Post-term of office benefits or termination benefits (2)	-	26,069
Total key management personnel	**1,540,602**	**1,536,607**

(2) cash outflow

Information pursuant to article 149-duodecies of CONSOB ISSUERS' REGULATION

The following table highlights the fees pertaining to the year for audit and non-audit services provided by the independent auditors:

(in Euros)	2021	2020
Audit	238,310	204,750
Attestation services	44,000	41,000
Total	**282,310**	**245,750**

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 company received in 2021 is set out below, in addition to the portion pertaining to the year of the tax credit for research, development and innovation activities and the "Industry 4.0" tax credit:

- Law decree no. 73/2021, converted into Law no. 106/2021, regarding tax credits for 30% of the 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 €1,885;
- Law decree no. 50/2017, converted into Law no. 93/2017, regarding tax credits for advertising investments in daily newspapers and journals, including online, and television broadcasters amounting to €1,201 thousand.

Off-statement of financial position commitments and guarantees

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

In order to limit the administrative requirements for some investees, the company has acted as guarantor of the liabilities to third parties recognised in the financial statements of the subsidiaries Carel Deutschland GmbH and HygroMatik GmbH, as required by applicable local regulations.

Indirect investees

A breakdown of the indirect investees at 31 December 2021 is as follows:

(in Euros)	Registered office	Parent
Subsidiaries:		
Enginia Srl	Trezzo Sull'Adda-IT	Recuperator S.p.A.
Carel Australia Pty. Ltd	SYDNEY-AU	Carel Electronic (Suzhou) Co Ltd
Carel ACR Systems India (Pvt) Ltd	MUMBAI-IN	Carel Electronic (Suzhou) Co Ltd
		Carel France s.a.s.
Carel Controls South Africa (Pty) Ltd	JOHANNESBURG-ZA	Carel Electronic (Suzhou) Co Ltd
Carel HVAC&R Korea Ltd	SEOUL-KR	Carel Electronic (Suzhou) Co Ltd
Carel South East Asia Pte. Ltd.	SINGAPORE-SG	Carel Asia Ltd
Carel Mexicana S.De.RL	Guerra, Tlalpan-MX	Carel Usa Llc
Carel (Thailand) CO Ltd	BANGKOK-TH	Carel Electronic (Suzhou) Co Ltd
		Carel Australia Pty. Ltd
Carel Ukraine Llc	Kiev-UA	Alfaco Polska Sp.z.o.o.
Enersol Inc	Beloeil (Quebec)-CA	Carel Usa Llc

Related party transactions

In order to satisfy the disclosure requirement of article 2427.1.22-bis of the Italian Civil Code, we note the following:

a. intragroup and related party transactions performed during the year gave rise to commercial, financial and consulting relationships and were carried out on an arm's-length basis, in the economic interests of the individual companies involved;
b. the interest rates and conditions applied to intragroup financial transactions are in line with market conditions.

The table below provides assets, liabilities, revenue and costs related to transactions with related parties performed in 2021.

31.12.2021	Assets and liabilities			
(in Euros)	Loan assets	"Trade receivables/ Other assets"	Financial liabilities	"Trade payables/ Other liabilities"
Subsidiaries				
C.R.C S.r.l.	500,167	141,357	-	7,946
Recuperator S.p.A..	14,404,493	136,895	33,598	3,203
Enginia S.r.l.	-	68	-	-
Carel U.K. Ltd	-	1,273,582	680,473	172,186
Carel France s.a.s.	-	1,916,828	2,823,758	5,108
Carel Asia Ltd	-	1,470,682	-	15,255
Carel Sud America Instrumentacao Eletronica Ltda	-	848,184	-	217,986
Carel Usa Llc	-	2,896,974	-	75,761

	Currency	Share capital (foreign currency)	Equity (deficit) (Euros)	Profit (loss) for the year (Euros)	Indirect investment
	EUR	10,400	5,915,467	898,967	100.00%
	AUD	100	4,024,542	646,691	100.00%
	INR	1,665,340	1,086,383	250,282	99.99%
					0.01%
	ZAR	4,000,000	1,980,972	752,573	100.00%
	KRW	550,500,000	65,583	(259,795)	100.00%
	SGD	100,000	370,904	47,340	100.00%
	MXN	12,441,149	779,344	31,270	100.00%
	THB	16,000,000	1,695,361	200,803	79.994%
					0.006%
	UAH	700,000	(74,929)	84,397	100.000%
	CAD	100	400,311	267,595	100.000%

Revenue and costs								
Sale of products	Sale of services	Other revenue	Purchases of goods and materials	Services	Other purchases	Income from equity investments	Financial income	Financial expense
287,906	29,331	5,292	44,442	320	-	-	167	-
800	148,000	208,883	-	488	-	-	99,840	9,624
-	-	56	-	-	-	-	-	-
6,889,823	251,909	43,161	111,384	345,558	-	-	-	6,239
13,880,874	31,659	327,284	1,016	-	-	-	-	11,682
5,070,247	13,386	1,175	22,775	-	-	-	-	-
2,672,254	65,994	2,312	363,341	118,831	-	-	-	-
9,257,589	254,050	671,552	162,263	168,878	-	1,665,695	-	-

31.12.2021		Assets and liabilities		
(in Euros)	Loan assets	"Trade receivables/ Other assets"	Financial liabilities	"Trade payables/ Other liabilities"
Carel Australia Pty. Ltd	-	3,708	801,780	27,823
Carel Deutschland GmbH	-	1,172,199	2,518,941	37,115
Carel Electronic (Suzhou) Co Ltd	-	3,359,386	-	11,615,171
Carel Controls Iberica S.L.	-	1,861,308	1,203,133	-
Carel ACR Systems India (Pvt) Ltd	-	695,223	-	109,023
Carel Controls South Africa (Pty) Ltd	-	12,367	-	964
Carel Rus Llc	-	97,807	-	353,077
Carel Korea Ltd	-	83,000	-	9,712
Carel Nordic AB	-	2,500	-	397,481
Carel Japan Co. Ltd	-	37,375	-	3,545
Carel Mexicana S.De.RL	-	133,944	-	4,128
Carel Middle East DWC Llc	-	82,056	-	192,086
Alfaco Polska Sp.z.o.o.	612	1,344,648	-	-
Carel Adriatic d.o.o.	-	2,865,234	2,334,058	6,554,419
HygroMatik GmbH	-	3,352	5,949,037	11,651
CFM Sogutma Ve Otomasyon	-	839,885	-	121,971
Total subsidiaries	**14,905,272**	**21,278,562**	**16,344,778**	**19,935,611**
Associates				
Arion S.r.l.	160,000	-	-	454
Total associates	**160,000**	**-**	**-**	**454**
Subsidiaries of parents				
Eurotest Laboratori S.r.l.	-	5,807	-	96,447
Arianna S.p.A.	-	4,575	-	-
Nastrificio Victor S.p.A.	-	-	-	9,480
Panther S.r.l.	-	-	-	6,068
Total subsidiaries of parents	**-**	**10,382**	**-**	**111,995**
Related parties				
RN Real Estate S.r.l.	-	12,444	12,885,160	442,088
Other, minor	-	1,713	1,440,014	10,460
Total related parties	**-**	**14,157**	**14,325,174**	**452,548**
TOTAL	**15,065,272**	**21,303,101**	**30,669,952**	**20,500,608**

Revenue and costs								
Sale of products	**Sale of services**	**Other revenue**	**Purchases of goods and materials**	**Services**	**Other purchases**	**Income from equity investments**	**Financial income**	**Financial expense**
-	7,077	-	2,475	7,294	4,810	-	-	13,188
20,753,325	73,961	383,961	51,516	26,894	-	1,000,000	-	17,574
6,582,274	544,265	1,558,077	16,616,281	391,071	-	2,485,554	-	-
9,544,200	48,015	161,330	83	-	-	500,000	-	7,913
824,694	6,066	-	-	241,334	-	-	-	-
99	11,000	60	-	-	-	-	-	-
404,778	163,127	1,860	910	1,451,190	-	491,500	-	-
541,410	14,105	-	5,404	-	-	-	-	-
8,633	10,098	1,799	-	1,436,168	-	-	-	-
160,271	230	-	1,297	-	-	-	-	-
342,767	-	50	-	-	-	-	-	-
1,050	164,122	126	-	713,761	-	-	-	-
8,987,020	36,867	1,466	112	-	-	994,629	12	-
6,797,705	577,380	1,882,850	28,696,459	424,174	19,503	2,002,440	-	31,903
662,044	16,152	47,997	4,110	1,029	-	-	-	15,837
1,058,011	3,214	970	18,778	96,960	-	-	-	-
94,727,774	**2,470,008**	**5,300,261**	**46,102,646**	**5,423,950**	**24,313**	**9,139,818**	**100,019**	**113,960**
270	-	611	2,080,680	7,200	-	-	-	-
270	**-**	**611**	**2,080,680**	**7,200**	**-**	**-**	**-**	**-**
308	31,000	2,152	-	327,907	742	-	-	-
-	5,000	-	-	-	-	-	-	-
-	-	-	70,788	-	-	-	-	-
-	-	-	7,786	-	-	-	-	-
308	**36,000**	**2,152**	**78,574**	**327,907**	**742**	**-**	**-**	**-**
-	5,000	148,664	-	-	-	-	-	192,952
-	-	1,713	3,278	41,067	-	-	-	-
-	**5,000**	**150,377**	**3,278**	**41,067**	**-**	**-**	**-**	**192,952**
94,728,352	**2,511,008**	**5,453,401**	**48,265,178**	**5,800,124**	**25,055**	**9,139,818**	**100,019**	**306,912**

Events after the reporting date

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

Management is carefully observing developments in the Russia-Ukraine conflict. The company 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 company'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 surrounding the conflict between Russia and Ukraine, which could have very worrying repercussions on the European and global economies.

The company is carefully observing developments in the Russia-Ukraine conflict. It works in Russia solely as a distributor and its volumes qualify as mid single digit considering its revenue as a whole.

- - -

Calling of the shareholders' meeting and proposed allocation of the profit for the year

Dear shareholders,

Carel Industries S.p.A.'s separate financial statements as at and for the year ended 31 December 2021 show a profit of €27,318,447.

It should be noted that:

- the legal reserve has reached the limit set by article 2430 of the Italian Civil Code.;
- unamortised development expenditure at 31 December 2021 amounts to €6,899,962 and, therefore, pursuant to article 2426.5 of the Italian Civil Code, until amortisation is complete, dividends may only be distributed if there are sufficient available reserves to cover the amount of unamortised costs.

We invite you to approve the separate financial statements:

- and to allocate the profit for the year as follows:
  - as dividends to shareholders equal to €0.15 per each share outstanding at the ex-dividend date, excluding treasury shares. Total dividends are estimated at €14,984,921.85, taking into account the shares outstanding at 3 March 2022 (99,899,479);
  - to pay dividends of €0.15 per share, before tax withholdings, with an ex-dividend date of 20 June 2022, with record date, pursuant to article 83-terdecies of the Consolidated Finance Act, of 21 June 2022 and payment date of 22 June 2022;
  - the remainder to the extraordinary reserve.

Francesco Nalini

CEO

Statement on the separate financial statements pursuant to article 154-bis of Legislative decree no. 58/1998 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 separate financial statements at 31 December 2021:

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

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

3.1. the separate financial statements at 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.

3.2. The directors' report contains a reliable analysis of the performance and results, 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 separate financial statements of Carel Industries 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

E-MARKET SDIR CERTIFIED

Annexes to the separate financial statements as at and for the year ended

at 31 December 2021

INDEPENDENT AUDITORS' REPORT

Deloitte.

Deloitte & Touche S.p.A.
Via N. Tommaseo, 78/C int. 3
35131 Padova
Italia

Tel: +39 049 7927911
Fax: +39 049 7927979
www.deloitte.it

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 FINANCIAL STATEMENTS

Opinion

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

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, and of its financial performance and its 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 Financial Statements* section of our report. We are independent of 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Deloitte.

Impairment of the equity investments Recuperator S.p.A. Hygromatik Gmbh e CFM Sogutma ve Otomasyon Anonim Sirketi (CFM)	
Description of the key audit matter	Carel Industries financial statements as at 31 December 2021, include in "Equity investments" the investments in Recuperator S.p.A., Hygromatik GmbH and CFM Sogutma ve Otomasyon Anonim Sirketi (CFM Sogutma) for an amount respectively of Euro 22 million, Euro 57,2 million and Euro 26,5 million. As required by IAS 36 "impairment of assets", the Directors identified potential loss indicator in consideration of the persistence of Covid 19 pandemic, which, as in the previous financial year, has been identified as "trigger event", and as a consequence they performed the impairment test as at 31 December 2021, in order to test the carrying values related to the equity investments. In the 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 subsidiaries 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 test may be different. We considered the significance of the amount of the equity investments in Recuperator S.p.A., Hygromatik GmbH and CFM Sogutma, the subjectivity of the estimates underlying the determination of cash flows for the subsidiaries 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 the Carel Industries financial statements. Note 3 of the 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.

Deloitte.

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 of the relevant controls designed and implemented by the Directors in relation 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 subsidiaries, 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 accuracy of the determination of the carrying value of the subsidiaries 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 to the requirements of IAS 36.

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

The Directors are responsible for the preparation of 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company'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 for the termination of the operations or have no realistic alternative to such choices.

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

Deloitte.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Company'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 conditions that may cast significant doubt on the Company'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 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 Company to cease to continue as a going concern.

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

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.

Deloitte.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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.

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 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 financial statements with the provisions of the Delegated Regulation.

In our opinion, the financial statements have been prepared in XHTML format 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 ownership structure of Carel Industries S.p.A. as at 31 December 2021, including their consistency with the related 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 ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98 with the financial statements of Carel Industries S.p.A. as at 31 December 2021 and on their compliance with the law, as well as to make a statement about any material misstatement.

Deloitte.

In our opinion, the above-mentioned report on operations and information contained in the report on corporate governance and ownership structure are consistent with the financial statements of Carel Industries S.p.A. 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.

DELOITTE & TOUCHE S.p.A.

Signed by
Cristiano Nacchi
Partner

Padua, Italy
29 March 2022

As disclosed by the Directors on page 87, the accompanying financial statements of Carel Industries S.p.A. 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.

E-MARKET SDIR CERTIFIED

Headquarters ITALY

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