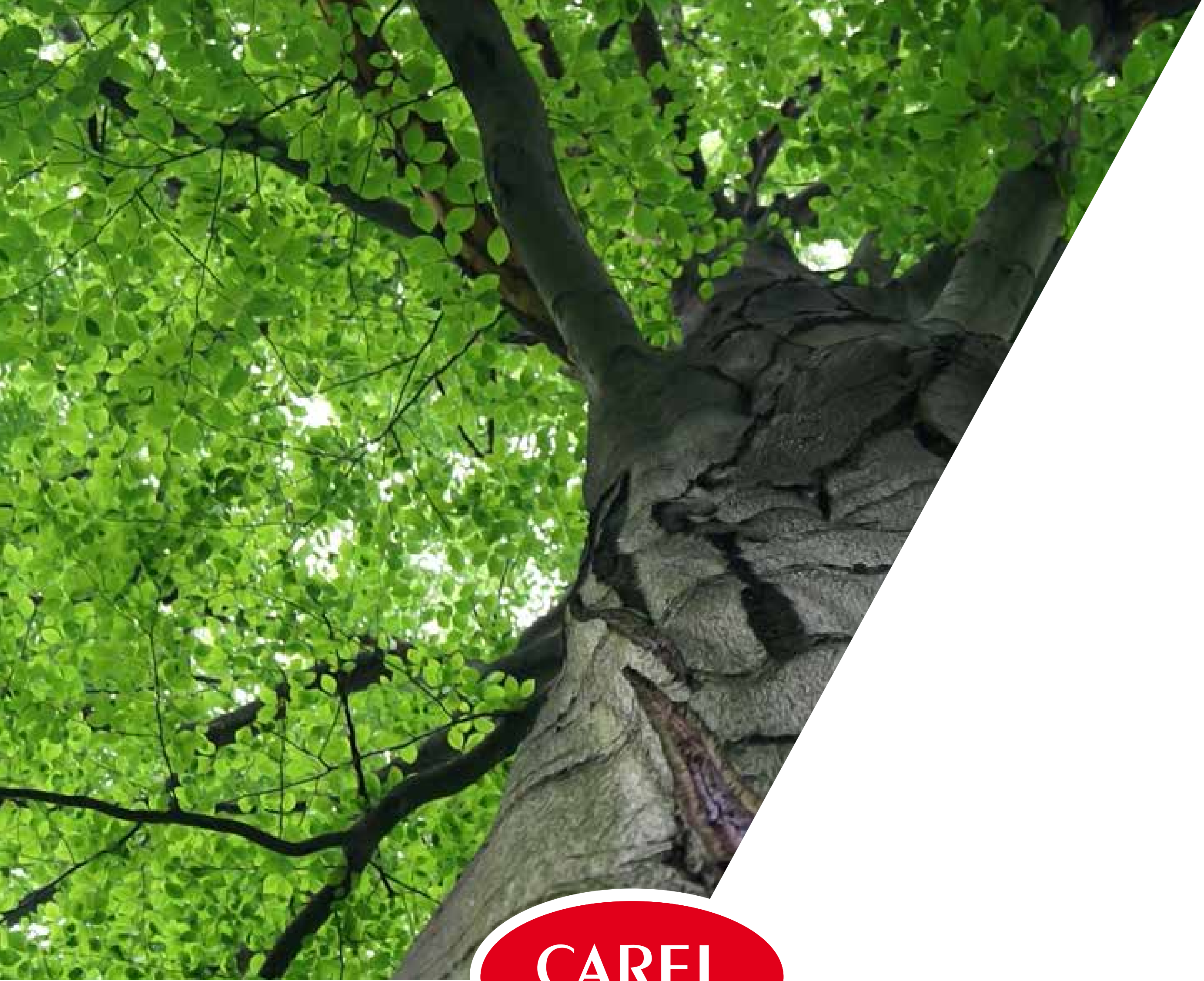
Half year Financial Report

For the period ended June 30th, 2018



We lead the evolution of control technology and humidification for air conditioning and refrigeration.

Our products support customers with the most efficient energy savings solutions.

Data-driven services through our IoT platform grant personalised value

Contents

Translation from the Italian original which remains the definitive version

Half year Financial Report

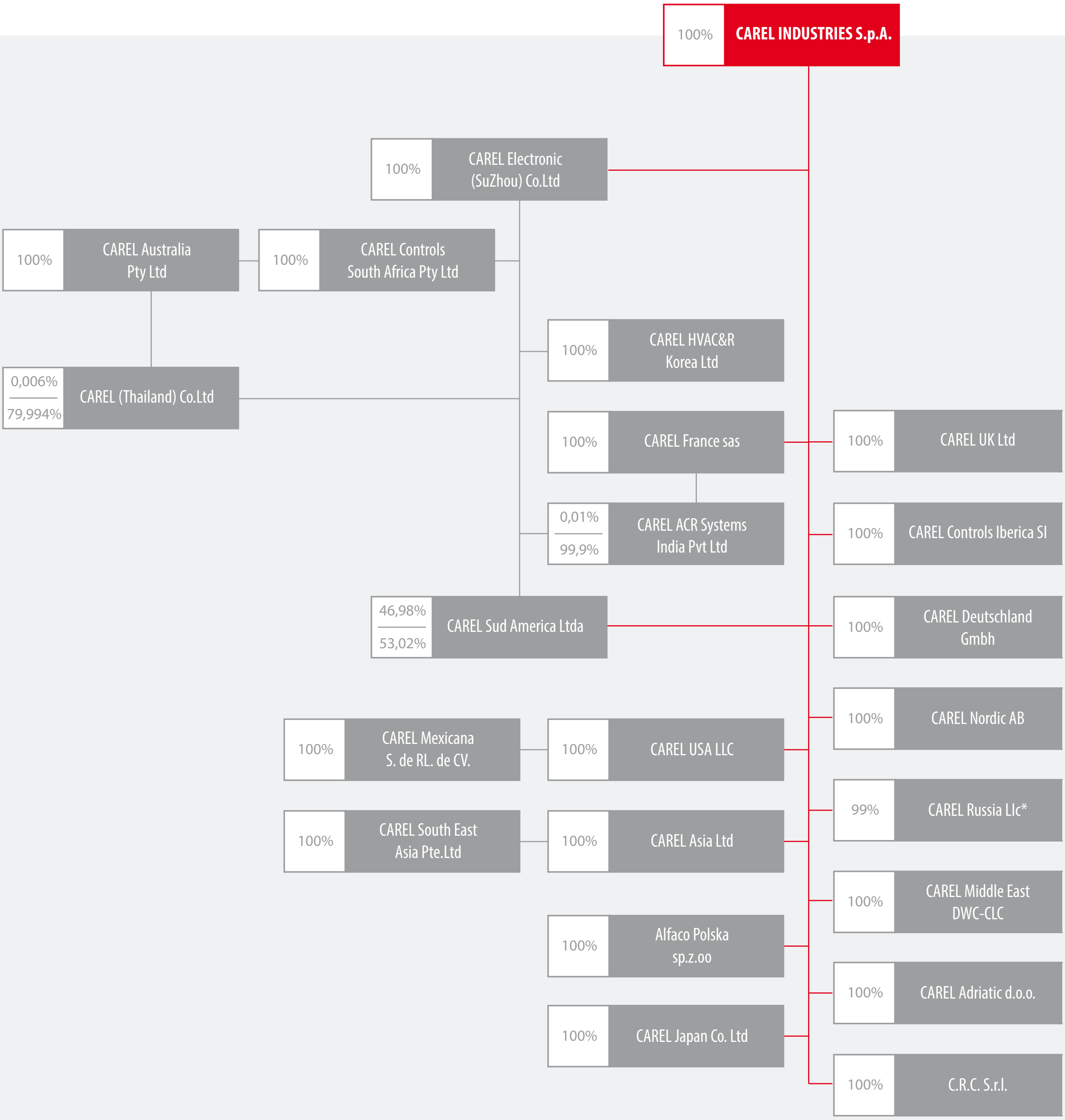
For the period ended June 30th, 2018

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	*Corrado Sciolla*
Board of statutory auditors	*Chairperson*	*Saverio Bozzolan*
	Standing statutory auditor	*Claudia Civolani*
	Standing statutory auditor	*Paolo Ferrin*
	Alternate statutory auditor	*Giovanni Fonte*
	Alternate statutory auditor	*Fabio Gallio*
Independent auditors		*Deloitte & Touche SpA*
Audit and risk committee	*Chairperson*	*Marina Manna*
	Member	*Cinzia Donalisio*
	Member	*Corrado Sciolla*
Remuneration committee	*Chairperson*	*Cinzia Donalisio*
	Member	*Marina Manna*
	Member	*Corrado Sciolla*
Supervisory body as per Legislative decree no. 231/2001	*Chairperson*	*Ilaria Agostinelli*
	Member	*Andrea Baggio*
	Member	*Giovanni Fonte*

Group structure

The following graph shows the group's structure at 30 June 2018:



**=1% held by Carel France sas*

Directors' report

For the period ended June 30th, 2018

Group performance

STATEMENT OF PROFIT OR LOSS

Statement of profit or loss (€'000)

The statement of profit or loss for the first half of 2018 compared with the corresponding period of the previous year is as follows:

	First half 2018	%	First half 2017	%	Variation
Revenue	138,793	100.0%	127,267	100.0%	9.1%
Other revenue	766	0.6%	637	0.5%	20.3%
Costs of raw materials, consumables and goods and changes in inventories	(55,759)	(40.2%)	(51,473)	(40.4%)	8.3%
Services	(25,488)	(18.4%)	(18,155)	(14.3%)	40.4%
Capitalised development expenditure	1,066	0.8%	662	0.5%	60.9%
Personnel expense	(34,710)	(25.0%)	(31,797)	(25.0%)	9.2%
Other expense, net	(504)	(0.4%)	(765)	(0.6%)	(34.1%)
Amortisation, depreciation and impairment losses	(4,175)	(3.0%)	(3,902)	(3.1%)	7.0%
OPERATING PROFIT	**19,990**	**14.4%**	**22,475**	**17.7%**	**(11.1%)**
Net financial income	66	0.0%	227	0.2%	(71.0%)
Net exchange rate losses	(418)	(0.3%)	(185)	(0.1%)	125.9%
Share of profit (loss) of equity-accounted investees	15	0.0%	(117)	(0.1%)	(112.8%)
PROFIT BEFORE TAX	**19,653**	**14.2%**	**22,400**	**17.6%**	**(12.3%)**
Income taxes	(4,030)	(2.9%)	(5,484)	(4.3%)	(26.5%)
PROFIT FOR THE PERIOD	**15,623**	**11.3%**	**16,915**	**13.3%**	**(7.6%)**
Non-controlling interests	27	0.0%	26	0.0%	3.7%
PROFIT FOR THE PERIOD ATTRIBUTABLE TO THE OWNERS OF THE PARENT	**15,596**	**11.2%**	**16,889**	**13.3%**	**(7.7%)**

CONSOLIDATED REVENUE

Statement of profit or loss (€'000)

	First half 2018	First half 2017	Variation %	FX variation % *
Revenue	138,793	127,267	9.1%	12.1%

* The FX variation % is calculated as the percentage of change at constant exchange rates or at 30 June 2017.

The group's revenue for the first half of 2018 increased 9.1% on the corresponding period of 2017, reaching €138,793 thousand (first half 2017: €127,267 thousand). Calculated at constant exchange rates, the increase would have been 12.1%. Such effect mainly derives from the depreciation of the US dollar and the Brazilian real compared to the corresponding period of the previous year.

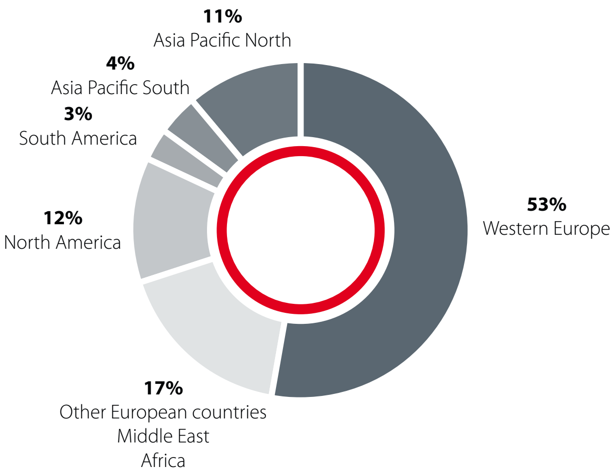
Like-for-like revenue increased 7.6% (10.7% at constant exchange rates) considering the fact that Alfaco Polska s.p.z.o.o. was consolidated on 1 June 2017 following the Carel Industries Group's acquisition of control of the company. Furthermore, the group stopped supplying products to Arianna S.p.A. (a related party) as of 2018.

A breakdown of revenue by geographical segment is as follows:

	First half 2018	First half 2017	Variation %	FX variation %
Western Europe	72,997	64,821	12.6%	12.9%
Other European countries, Middle East and Africa	23,806	18,271	30.3%	30.7%
North America	17,194	18,600	-7.6%	3.3%
South America	3,712	4,169	-11.0%	0.8%
Asia Pacific South	5,789	6,434	-10.0%	-2.9%
Asia Pacific North	15,295	14,973	2.1%	6.8%
Total	**138,793**	**127,267**	**9.1%**	**12.1%**

Geographical segments mainly represent the geographical area where revenue are realized considering also the strategic responsibilities the Group assigns to its sales organization.

In the first half of 2018, revenue was driven by sales in Western Europe and Other European countries, Middle East and Africa. European regulations on energy efficiency and natural refrigerants allowed the group to maximise cross and up-selling sales, especially with regard to high-efficiency products. The good economic performance of Middle Eastern countries led to growing sales volumes compared to the corresponding period of the previous year.



The positive trend in these two segments was also bolstered by effective sales actions targeting large retailing chains, increasing sales in the refrigeration segment.

On a like-for-like basis, thus excluding Alfaco, growth in the Other European countries, Middle East and Africa would have been 14.1% (+14.6% at constant exchange rates).

Revenue in North and South America was chiefly influenced by exchange rate trends, especially with regard to the US dollar and the Brazilian real. Indeed, calculated at constant exchange rates, revenue would have remained in line with the corresponding period of the previous year (+3.3% and +0.8%, respectively).

Calculated at constant exchange rates, revenue in Asia rose 6.8% in the Asia Pacific North region, only partially offset by a fall in volumes in the Asia Pacific South region which, at constant exchange rates, decreased 2.9%.

A breakdown of revenue by market is as follows:

	First half 2018	First half 2017	Variation %	FX variation %
HVAC revenue	85,375	79,488	7.4%	10.6%
REF revenue	49,859	43,110	15.7%	18.7%
Non-core revenue	3,560	4,670	-23.8%	-22.6%
Total	**138,793**	**127,267**	**9.1%**	**12.1%**

Revenue by market shows the strengthening of the group's leadership in the HVAC sector, meaning the air conditioning market, where it outperformed the market's growth in all reference geographical segments, with the sole exception of Asia Pacific North where sales on the HVAC market remained in line with the corresponding period of the previous year (at constant exchange rates).

Revenue generated on the REF market, meaning the market of industrial and commercial refrigeration, was very positive, especially in Western Europe, Asia Pacific North and Other European countries, Middle East and Africa, which more than offset the slight decrease in revenue in Asia Pacific South and North and South America.

Non-core revenue, mainly comprised of revenue of the subsidiary C.r.C. S.r.l. whose products are not sold on the HVAC and REF reference markets, amounted to €3,560 thousand in the first half of 2018 (first half 2017: €4,670 thousand). The decrease is mainly due to the group no longer supplying products to Arianna S.p.A..

MAIN FINANCIAL INDICATORS

(€'000)

The main financial indicators for the first half of 2018 compared with the corresponding period of the previous year are set out below:

	First half 2018	First half 2017	Variation %
EBITDA (1)	24,165	26,377	-8.4%
EBITDA % (2)	**17.4%**	**20.7%**	**-16.0%**
ADJUSTED EBITDA (3)	29,185	26,377	10.6%
ADJUSTED EBITDA % (4)	**21.0%**	**20.7%**	**1.5%**
FX ADJUSTED EBITDA (5)	29,991	26,377	13.7%
FX ADJUSTED EBITDA % (6)	**21.0%**	**20.7%**	**1.3%**
Profit	15,623	16,915	-7.6%
Adjusted profit (7)	**19,333**	**16,915**	**14.3%**
FX adjusted profit (8)	19,955	16,915	18.0%
Cash conversion rate (9)	**80.8%**	**n/a**	**n/a**

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

(3) Adjusted EBITDA is not identified as an accounting measure under the IFRS, but is commonly used by both management and investors to evaluate the operating performance of the company and group. Adjusted EBITDA is EBITDA plus costs taken from the consolidated financial statements prepared in accordance with the IFRS integrated by the notes thereto.
(4) The adjusted EBITDA % is the ratio of adjusted EBITDA to revenue.
(5) FX adjusted EBITDA is EBITDA calculated using the exchange rates of the corresponding period of the previous year plus costs taken from the consolidated financial statements prepared in accordance with the IFRS integrated by the notes thereto.
(6) The FX adjusted EBITDA % is the ratio of FX adjusted EBITDA to revenue.
(7) Adjusted profit is the sum of profit for the period and adjusted costs used in calculating adjusted EBITDA, net of the tax effects of the latter.
(8) FX adjusted profit is the sum of profit for the period calculated using the exchange rates of the corresponding period of the previous year and adjusted costs used in calculating adjusted EBITDA, net of the tax effects of the latter.
(9) The cash conversion rate is calculated as the ratio of (i) adjusted EBITDA Rolling (adjusted EBITDA of last 12 months) net of changes in net working capital (calculated as a difference between the periods, therefore 30 June 2018 and 30 June 2017) and investments in property, plant and equipment and intangible assets rolling (investments of last 12 months) and (ii) adjusted EBITDA Rolling.

The group's EBITDA % for the first half of 2018 was 17.4%, down 8.4% on the corresponding period of the previous year (20.7%). Such decrease is fully attributable to the costs incurred in the first half of 2018 for the parent's listing on the STAR segment of Borsa Italiana S.p.A.. Net of such costs, adjusted EBITDA would come to €29,185 thousand, up 10.6% on the corresponding period of the previous year and equal to 21.0% as a percentage of revenue.

FX adjusted EBITDA (i.e., at constant exchange rates) would come to €29,991 thousand or 21.0% as a percentage of revenue (again at constant exchange rates).

The cost for listing the parent on the STAR segment of Borsa Italiana S.p.A., mainly incurred by the parent, amounted to €5,020 thousand, broken down as follows:

Adjusted costs	First half 2018
Consultancies	4,461
Wages and salaries	412
Business trips and travel	56
Marketing and advertising	50
Other services	42
Total adjusted costs	**5,020**

The adjusted profit would come to €19,333 thousand compared to €16,915 thousand in the corresponding period of the previous year, increasing 14.3% (+18.0% at constant exchange rates).

The cash conversion rate is 80.8%.

MAIN STATEMENT OF FINANCIAL POSITION INDICATORS

(€'000)

The main statement of financial position indicators at 30 June 2018 compared with those at 31 December 2017 are set out below:

	30.06.2018	31.12.2017	Variation %
Non-current assets (10)	40,646	37,411	8.6%
Working capital (11)	53,471	46,353	15.4%
Net invested capital (12)	88,507	78,077	13.4%
Net financial position	**(15,230)**	**(40,239)**	**-62.2%**

(10) Net non-current assets is the sum of property, plant and equipment, intangible assets, equity-accounted investments and other non-current assets.
(11) Net working capital is the sum of trade receivables, inventories, tax assets, other assets, deferred tax assets, trade payables, tax liabilities, other current liabilities, deferred tax liabilities and provisions for risks.
(12) Net invested capital is the sum of (i) net non-current assets, (ii) net working capital and (iii) defined benefit plans.

Non-current assets increased €3,235 thousand compared to 31 December 2017, mainly due to the significant investments made by the group which amounted to €7,245 thousand at 30 June 2018, only partially offset by amortisation and depreciation amounting to €4,080 thousand. The breakdown of investments by geographical segment is as follows:

Investments	30.06.2018
Western Europe	3,184
Other European countries, Middle East and Africa	1,109
North America	1,445
South America	6
Asia Pacific South	204
Asia Pacific North	1,297
Total investments	**7,245**

The main investments were concentrated in Western Europe, and especially at the parent, to support the expansion of production lines and research and development activities. Significant investments to expand and upgrade production lines were made at Croatian and American production sites. Land was bought in China on which a new production site will be built over the next twelve months to ensure the group's production needs to support sales in both the Asia Pacific area and worldwide.

Working capital increased on 31 December 2017 due to the combined effect of higher trade and other receivables in addition to inventories which mainly increased due to procurement policies aimed at tackling the shortages in components. Such increase was only partially offset by a rise in trade payables and tax liabilities.

The net financial position amounted to €15,230 thousand, compared to €40,239 thousand at 31 December 2017, as shown below:

	30.06.2018	31.12.2017
Non-current financial liabilities	31,616	21,671
Current financial liabilities	57,247	29,066
Cash and cash equivalents	(93,071)	(43,900)
Current financial assets	(11,022)	(47,076)
Net financial position	**(15,230)**	**(40,239)**

The decrease in the net financial position is chiefly due to the recognition of a liability for dividends yet to be distributed amounting to €20,000 thousand and the payment of dividends at the end of May 2018 for €10,000 thousand as per the parent shareholders' meeting of 29 March 2018 approving a dividend distribution totalling €30,000 thousand. The parent's cash and cash equivalents came to €66,544 thousand at 30 June 2018.

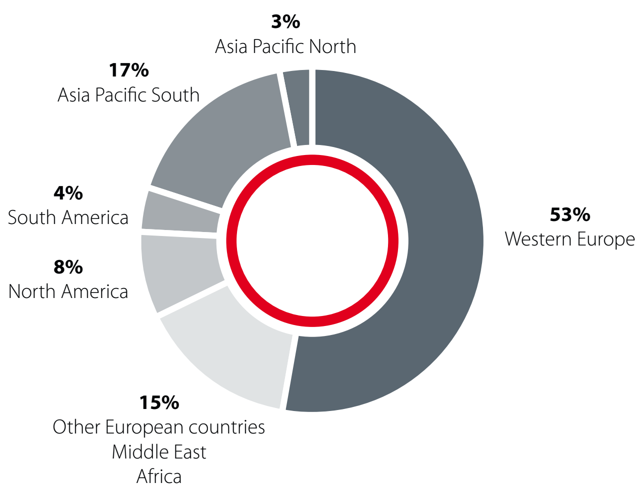
Reference should be made to the consolidated statement of cash flows for greater information on changes in such caption.

HUMAN RESOURCES

The workforce increased by 12 employees at 30 June 2018 and is broken down by geographical segment as follows:

	30.06.2018	31.12.2017	Variation
Western Europe	732	718	14
Other European countries, Middle East and Africa	199	186	13
North America	112	110	2
South America	51	45	6
Asia Pacific South	43	45	(2)
Asia Pacific North	239	260	(21)
Total workforce	**1,376**	**1,364**	**12**

The growth in the workforce was mainly concentrated in Western Europe, particularly at the parent and Other European countries, following investments made in the production lines and to support the staff at the Croatian branch. Such increases were only partially offset by the decrease in employees, mainly blue collars, at the Chinese branch.



Significant events of the period

LISTING ON THE STOCK EXCHANGE

On 11 June 2018, Carel Industries S.p.A. was admitted to list its ordinary shares on the STAR segment of the stock exchange organised and managed by Borsa Italiana S.p.A.. The transaction entailed assigning 35,000,000 ordinary shares, which subsequently increased to 40,250,000 on 25 June 2018 following the exercise of the "greenshoe" option. Therefore, the placement with institutional investors involved 40.25% of the share capital and 25.20% of shares with voting rights.

ACQUISITION OF CAREL JAPAN CO LTD

The parent acquired an additional 51% of Carel Japan Co Ltd, previously held at 49%, on 27 June 2018. Following such transaction, the company is wholly owned by Carel Industries S.p.A.. Carel Japan Co Ltd, with registered office in Fukuoka, was set up in 2013 and distributes Carel products on the local HVAC/R market. Reference should be made to note 3 of the notes to the condensed interim consolidated financial statements for further information.

TAX AUDITS

On 21 June 2018, the Venice regional office of the Italian tax authorities concluded its audit on 2013, 2014, 2015 and 2016, issuing a preliminary assessment report. The findings refer to transfer pricing and the deductions made for 2015 and 2016 to take account of patent box tax relief.

With regard to the transfer pricing issue, the tax authorities solely challenged the parent's transactions with the Chinese company Carel Suzhou related to raw materials, semi-finished products and finished goods. Specifically, according to the tax audit findings, such transactions were allegedly not carried out at market prices as the Chinese company sold the items at a higher profit margin than that found by the inspectors in their benchmark study. The net cost plus profitability indicator calculated by the inspectors was lower and contradicted that calculated by the parent, but was also lower than that calculated by the same inspectors for 2011 and 2012 for the same transaction, for which a dispute is pending before the Venice Provincial Commission (the first hearing is scheduled for October 2018). Reference should be made to notes of the condensed interim consolidated financial statements for further information.

According to the preliminary assessment report, the finding related to 2013, 2014, 2015 and 2016 would lead to a €3,398 increase in the parent's tax base, for higher IRES and IRAP (€1,066 thousand) in addition to fines and interest.

In light of the above and considering that the dispute is at its initial stage and the variability about possible actions to be taken make it impossible to reasonably quantify the contingent liability, the directors, supported by the opinions of their tax consultants and in compliance with IAS 37, decided not to make any accrual to the provision for risks.

The second finding refers to the incorrect determination of 2015 and 2016 deductions of captions corresponding to the non-taxable portion of income pursuant to article 1.37-45 of Law no. 190 of 23 December 2014. This law introduced an optional subsidised patent box regime. Based on this regime, the parent can untax the portion of income for 2015 to 2020 deriving from the use of intellectual property, patents, trademarks, know-how and software.

Based on the legislation, the parent applied for a ruling to obtain the tax relief with regard to the "direct" use of intellectual properties such as know-how and software. The ruling must be authorised by the Venice regional tax office; as of the date of these condensed interim consolidated financial statements, the parent has not yet received formal approval. Under the legislation, companies may also benefit from the tax relief via suitable deductions in the tax returns starting from 2015, including in the case of "indirect" use of intellectual properties or where the latter are licensed. The finding relates to this second case and, according to the inspectors, the parent overstated the income from this "indirect" use subject to the tax relief by €54 thousand and €66 thousand for 2015 and 2016, respectively. This would lead to higher IRES and IRAP of €17 thousand and €21 thousand, respectively, in addition to fines and interest. The directors, supported by their consultants, had made an appropriate accrual to the provision for risks in the consolidated financial statements at 31 December 2017.

ALLOCATION OF THE ACQUISITION PRICE OF THE INVESTMENT IN ALFACO POLSKA S.P.Z.O.O.

During the second quarter of 2018, the group completed the allocation of the acquisition price of the investment in Alfaco Polska s.p.z.o.o. acquired on 1 June 2017. At the consolidation of the investment at 30 June 2017 and 31 December 2017, the difference between the price paid and the group's share of the investee's equity was allocated to the Alfaco trademark for €537 thousand and the residual amount of €1,198 thousand was allocated to goodwill. Following an appraisal prepared by an independent third party, part of the difference initially allocated to goodwill was allocated to "customer lists" (€1,079 thousand, or €874 thousand net of deferred tax) recognised under "Other intangible assets". The residual difference amounting to €324 thousand was maintained under goodwill. Reference should be made to note 2 on Intangible assets for further information.

The consolidated statement of financial position, the consolidated statement of profit or loss, the consolidated statement of cash flows, the consolidated statement of changes in equity and the notes thereto approved by the board of directors on 28 February 2018 have been restated in accordance with IFRS 3 - Business combinations. The restated captions are summarised as follows:

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(€'000)

	Restated 31.12.2017	31.12.2017	Variation
Intangible assets	13,031	12,952	79
Non-current assets	**13,031**	**12,952**	**79**
Equity attributable to the owners of the parent	118,068	118,170	-102
Total equity	**118,068**	**118,170**	**-102**
Deferred tax liabilities	1,662	1,481	181
Non-current liabilities	**1,662**	**1,481**	**181**

OTHER SIGNIFICANT EVENTS RELATED TO FINANCING ACTIVITIES

Nel corso del primo semestre 2018 la gestione finanziaria del Gruppo è stata caratterizzata dai seguenti principali eventi:

The group's main financing activities in the first half of 2018 were as follows:

- a €20,000 thousand medium/long-term loan was granted to the parent at a fixed interest rate of 0.45% and expiring in 2023;
- a €10,000 thousand short-term loan was granted to the parent at a fixed interest rate of 0.30%;
- the Private Value and CaVita Valore policies were paid out for €15,000 thousand and €20,000 thousand, respectively, in addition to accrued interest of €245 thousand;
- the first tranche of dividends resolved by the shareholders on 29 March 2018 were distributed at the end of May 2018 for a total of €10,000 thousand.

Condensed Consolidated Interim Financial Statements as at and Notes thereto

For the six months ended 30 June 2018

Condensed Consolidated Interim Statement of financial position

(€'000)

	Note	30.06.2018	Restated 31.12.2017
Property, plant and equipment	1	25,626	22,405
Intangible assets	2	12,976	13,031
Equity-accounted investments	3	370	327
Other non-current assets	4	1,674	1,648
Deferred tax assets	5	4,654	4,141
Non-current assets		**45,300**	**41,552**
Trade receivables	6	64,104	54,643
Inventories	7	45,846	37,773
Current tax assets	8	911	846
Other current assets	9	6,728	4,555
Current financial assets	10	11,022	47,076
Cash and cash equivalents	11	93,071	43,900
Current assets		**221,684**	**188,793**
TOTAL ASSETS		**266,984**	**230,345**
Equity attributable to the owners of the parent	12	103,427	118,068
Equity attributable to non-controlling interests	13	310	248
Total equity		**103,737**	**118,316**
Non-current financial liabilities	14	31,616	21,671
Provisions for risks	15	1,564	1,650
Defined benefit plans	16	5,610	5,687
Deferred tax liabilities	17	1,961	1,662
Non-current liabilities		**40,750**	**30,671**
Current financial liabilities	14	57,247	29,066
Trade payables	18	42,533	35,018
Current tax liabilities	19	5,235	2,279
Other current liabilities	20	17,481	14,995
Current liabilities		**122,496**	**81,359**
TOTAL LIABILITIES AND EQUITY		**266,984**	**230,345**

Condensed Consolidated Interim Statement of profit or loss

(€'000)

	Note	First half 2018	First half 2017
Revenue	21	138,793	127,267
Other revenue	22	766	637
Costs of raw materials, consumables and goods and changes in inventories	23	(55,759)	(51,473)
Services	24	(25,488)	(18,155)
Capitalised development expenditure	25	1,066	662
Personnel expense	26	(34,710)	(31,797)
Other expense, net	27	(504)	(765)
Amortisation, depreciation and impairment losses	28	(4,175)	(3,902)
OPERATING PROFIT		**19,990**	**22,475**
Net financial income	29	66	227
Net exchange rate losses	30	(418)	(185)
Share of profit (loss) of equity-accounted investees	31	15	(117)
PROFIT BEFORE TAX		**19,653**	**22,400**
Income taxes	32	(4,030)	(5,484)
PROFIT FOR THE PERIOD		**15,623**	**16,915**
Non-controlling interests		27	26
PROFIT FOR THE PERIOD ATTRIBUTABLE TO THE OWNERS OF THE PARENT		**15,596**	**16,889**

Condensed Consolidated Interim Statement of comprehensive income

(€'000)

		First half 2018	First half 2017
Profit for the period		**15,623**	**16,915**
Items that may be subsequently reclassified to profit or loss:			
- Fair value gains (losses) on hedging derivatives net of the tax effect		(9)	19
- Exchange differences		(286)	(3,147)
Items that may not be subsequently reclassified to profit or loss:			
- Actuarial gains on employee benefits net of the tax effect		63	-
Comprehensive income		**15,391**	**13,787**
attributable to:			
- Owners of the parent		15,360	13,804
- Non-controlling interests		31	(17)

Earnings per share

Earnings per share (in Euros)	12	0.16	0.17

Condensed Consolidated Interim Statement of cash flows

(€'000)

	First half 2018	First half 2017
Profit for the period	15,623	16,915
Adjustments for:		
Amortisation, depreciation and impairment losses	4,175	3,894
Accruals to/utilisations of provisions	970	319
Non-monetary net financial income	(59)	(72)
Income taxes	5	-
	20,714	**21,056**
Changes in working capital:		
Change in trade receivables and other current assets	(11,961)	(8,906)
Change in inventories	(9,103)	(2,729)
Change in trade payables and other current liabilities	13,043	989
Change in non-current assets	(771)	218
Change in non-current liabilities	265	(475)
Cash flows generated from operations	**12,187**	**10,154**
Net interest paid	(254)	(243)
Net cash flows generated by operating activities	**11,933**	**9,911**
Investments in property, plant and equipment	(5,723)	(2,660)
Investments in intangible assets	(1,522)	(972)
Disinvestments of financial assets	36,223	-
Disinvestments of property, plant and equipment and intangible assets	86	96
Interest collected	245	-
Investments in equity-accounted investees	(40)	(0)
Business combinations net of cash acquired	-	(2,910)
Cash flows generated by (used in) investing activities	**29,269**	**(6,447)**
Acquisitions of non-controlling interests	0	(400)
Capital increases	31	-
Dividend distributions	(10,000)	-
Increase in financial liabilities	33,166	18,514
Decrease in financial liabilities	(15,177)	(20,272)
Cash flows generated by (used in) financing activities	**8,020**	**(2,158)**
Change in cash and cash equivalents	**49,223**	**1,306**
Cash and cash equivalents - opening balance	**43,900**	**28,845**
Exchange differences	(52)	(1,331)
Cash and cash equivalents - closing balance	**93,071**	**28,820**

Condensed Consolidated Interim Statement of changes in equity

(€'000)

	Share capital	Legal reserve	Translation reserve	Hedging reserve
Balance at 1.01.2017	**10,000**	**2,000**	**8,019**	**24**
Owner transactions				
- Allocation of profit for the period	-	-	-	-
- Dividend distributions	-	-	-	-
- Change in consolidation scope	-	-	-	-
Total owner transactions	**10,000**	**2,000**	**8,019**	**24**
- Profit for the period	-	-	-	-
- Other comprehensive income (expense)	-	-	(3,104)	19
Total other comprehensive income (expense)	**-**	**-**	**(3,104)**	**19**
Balance at 30.06.2017	**10,000**	**2,000**	**4,915**	**43**
Balance at 1.01.2018	**10,000**	**2,000**	**3,430**	**33**
Owner transactions				
- Allocation of profit for the period	-	-	-	-
- Capital increases	-	-	-	-
- Dividend distributions	-	-	-	-
- Change in consolidation scope	-	-	-	-
Total owner transactions	**10,000**	**2,000**	**3,430**	**33**
- Profit for the period	-	-		
- Other comprehensive expense	-	-	(290)	(9)
Total other comprehensive expense	**-**	**-**	**(290)**	**(9)**
Balance at 30.06.2018	**10,000**	**2,000**	**3,140**	**24**

Other reserves	Retained earnings	Profit for the period	Equity	Equity att. to non-controlling interests	Total equity
23,594	**37,643**	**25,114**	**106,393**	**841**	**107,235**
					-
26,637	(1,523)	(25,114)	-	-	-
(15,000)	-	-	(15,000)		(15,000)
-	150	-	150	(550)	(400)
35,231	**36,270**	**-**	**91,544**	**291**	**91,835**
		16,889	16,889	26	16,915
			(3,085)	(43)	(3,128)
-	**-**	**16,889**	**13,804**	**(17)**	**13,787**
35,231	**36,270**	**16,889**	**105,347**	**275**	**105,622**
35,195	**36,192**	**31,218**	**118,068**	**248**	**118,316**
27,612	3,606	(31,218)	-	-	-
			-	31	31
(30,000)	-	-	(30,000)		(30,000)
			-	**-**	**-**
32,807	**39,798**	**-**	**88,068**	**279**	**88,348**
		15,596	15,596	27	15,623
63	-	-	(236)	4	(232)
63	**-**	**15,596**	**15,360**	**31**	**15,391**
32,870	**39,798**	**15,596**	**103,427**	**310**	**103,737**

Notes to the Condensed Consolidated Interim Financial Statements

Content and format of the condensed interim consolidated financial statements

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

The group provides control instruments to the air-conditioning (HVAC), commercial and industrial refrigeration (REF) markets and also produces air humidification systems. It has five production entities and 18 commercial entities which serve all the main markets.

The IFRS condensed interim consolidated financial statements at 30 June 2018 refer to the period from 1 January 2018 to 30 June 2018.

The Carel Group adopted the IFRS endorsed by the European Union for the first time on 1 January 2015.

The parent's board of directors approved the condensed interim consolidated financial statements at 30 June 2018 on 7 September 2018.

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

Statement of compliance and basis of preparation

The condensed interim consolidated financial statements at 30 June 2018 have been prepared in compliance with IAS 34 - Interim financial reporting issued by the International Accounting Standard Board (IASB). Pursuant to IAS 34, these notes have been prepared in a condensed format and do not include all the disclosures required for annual financial statements. They solely provide information about those captions that, due to their size, content or changes therein during the period, are key to an understanding of the group's financial position, performance and cash flows. Therefore, these condensed interim consolidated financial statements shall be read in conjunction with the consolidated financial statements as at and for the year ended 31 December 2017.

Since such reporting date, as set out in the directors' report, during the second quarter of 2018, the group completed the allocation of the acquisition price of the investment in Alfaco Polska s.p.z.o.o. acquired on 1 June 2017. At the consolidation of the investment at 30 June 2017 and 31 December 2017, the difference between the price paid and the group's share of the investee's equity was allocated to the Alfaco trademark for €537 thousand and the residual amount of €1,198 thousand was allocated to goodwill. Following an appraisal prepared by an independent third party, part of the difference initially allocated to goodwill was allocated to "customer lists" (€1,079 thousand, or €874 thousand net of deferred tax) recognised under "Other intangible assets". The residual difference amounting to €324 thousand was maintained under goodwill. Reference should be made to note 2 on Intangible assets for further information.

The statement of financial position, the statement of profit or loss, the statement of cash flows, the statement of changes in equity and the notes thereto approved by the board of directors on 28 February 2018 have been restated in accordance with IFRS 3 - Business combinations. The restated captions are summarised as follows:

STATEMENT OF FINANCIAL POSITION

(€'000)

	Restated 31.12.2017	31.12.2017	Variation
Intangible assets	13,031	12,952	79
Non-current assets	**13,031**	**12,952**	**79**
Equity attributable to the owners of the parent	118,068	118,170	-102
Total equity	**118,068**	**118,170**	**-102**
Deferred tax liabilities	1,662	1,481	181
Non-current liabilities	**1,662**	**1,481**	**181**

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

The condensed interim consolidated financial statements were prepared in thousands of Euro, which is the group's functional and presentation currency. There may be rounding differences when items are added together as the individual items are calculated in Euros.

Preparation of condensed interim consolidated financial statements under the IFRS requires management to make estimates and assumptions that affect the amounts presented therein and in the notes. Actual results may differ from these estimates. Reference should be made to the consolidated financial statements at 31 December 2017 for details of the main captions that require the use of estimates and assumptions.

Consolidation scope

The condensed interim consolidated financial statements include the financial statements at 30 June 2018 of the parent, Carel Industries S.p.A., and its Italian and foreign subsidiaries.

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

Note [33] "Other information" lists the entities included in the consolidation scope at 30 June 2018.

There were no changes in the consolidation scope with respect to 31 December 2017.

Basis of consolidation

The condensed interim consolidated financial statements at 30 June 2018 include the financial statements of Carel Industries S.p.A. and the Italian and foreign entities over which it has direct or indirect control. Specifically, the consolidation scope includes:

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

The parent adopted the following consolidation criteria:

- assets, liabilities, revenue and expenses of the consolidated entities are consolidated using the line-by-line approach where the carrying amount of the parent's investments therein is eliminated against its share of the investee's equity. Any differences are treated in accordance with IFRS 10 - Consolidated financial statements and IFRS 3 - Business combinations. The portions attributable to non-controlling interests are recognised at the fair value of the assets acquired and liabilities assumed without recognising goodwill;
- the group entities are excluded from the consolidation scope when control thereover ceases to exist and any effects of exclusion are recognised as owner transactions in equity;
- intragroup receivables and payables, revenue and expenses and all significant transactions are eliminated, including intragroup dividends. Unrealised profits and gains and losses on intragroup transactions are also eliminated;

- equity attributable to non-controlling interests is presented separately under equity; their share of the profit or loss for the period is recognised in the statement of profit or loss;
- the financial statements of the consolidated foreign entities using a functional currency other than the Euro are translated into Euros using the average annual exchange rate for the statement of profit or loss captions and the closing rate for the statement of financial position captions. Any differences between these exchange rates or due to changes in the exchange rates at the start and end of the period are recognised under equity.

Accounting policies

In preparing these condensed interim consolidated financial statements, the group applied the same accounting policies as those adopted in drafting the consolidated financial statements at 31 December 2017, to which reference should be made, with the exception of that set out in the following paragraph with regard to standards, amendments and interpretations applicable to annual periods beginning on or after 1 January 2018.

STANDARDS, AMENDMENTS AND INTERPRETATIONS ENDORSED BY THE EUROPEAN UNION APPLICABLE TO ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2018

- **IFRS 15 - Revenue from contracts with customers (published on 28 May 2014 and supplemented by additional clarifications published on 12 April 2016).** The standard provides for a new revenue recognition model to be applied to all contracts agreed with customers except for those within the scope of the other standards such as leases, insurance contracts and financial instruments. The steps for the recognition of revenue under the new model are:
  - Identify the contract(s) with a customer;
  - Identify the performance obligations in the contract;
  - Determine the transaction price;
  - Allocate the transaction price to the performance obligations in the contract;
  - Recognise revenue when (or as) the entity satisfies a performance obligation

  The EU endorsed the amendments to the standard Clarifications to IFRS 15 - Revenue from contracts with customers on 6 November 2017. The group applied the standard starting from 1 January 2018 in accordance with the modified retrospective transition method. It analysed the contracts in place with its customers using the steps listed above and, on the basis of the checks carried out, did not identify any elements that would require a different treatment of such contracts under the new standards.

- **IFRS 9 - Financial instruments (published on 24 July 2014).** This document includes the results of the IASB's project to replace IAS 39:
  - it introduces new criteria for the classification and measurement of financial assets and liabilities (together with the measurement of non-substantial modifications of financial liabilities);
  - with respect to impairment, it requires that estimated credit losses be measured using the expected credit loss model rather than the incurred losses model provided for by IAS 39, using supportable information that is available without undue cost or effort about past events, current conditions and forecasts of future economic conditions;
  - it introduces a new hedge accounting model (increase in the type of transactions eligible for hedge accounting, modification of the accounting treatment of forwards and options when they are included in a hedge accounting relationship, modifications to the effectiveness test).

  The group applied the standard starting from 1 January 2018 using with the modified retrospective transition method. With regard to the effects of the application of IFRS 9, the main items affected are summarised below:
  - insurance policies: at the signing date and at 30 June 2018, they are held to collect the contractual cash flows (IFRS 9.4.1.2), but they do not meet the definition of paragraph 4.1.3, as the contractual interest is calculated considering the return on a complex portfolio. Therefore, these policies were classified as financial assets through profit or loss. The directors determined that the fair value of the policies is known at the reporting date as the insurance policies can be paid out in just a few days at an amount known to the group. The carrying amount of the policies at the reporting date approximates their fair value recognised as per IAS 39. Based on the above, the classification and measurement criteria introduced by IFRS 9 did not have any effects on opening equity at 1 January 2018 or the profit for the period;
  - impairment of financial assets: the group measured its trade receivables, the most material financial assets in the consolidated financial statements, in accordance with the simplified approach provided for by IFRS 9 for receivables that do not contain a significant financing component. Specifically, it recognised a loss allowance based on the relevant lifetime expected credit losses. Recognised as of the recognition date of the receivables, such loss allowance was determined using supportable information that is available without undue cost or effort about past events, current conditions and forecasts of future economic conditions. Such measurement approach did not lead to significant differences compared to the previous model applied by the group, which provided for calculating an allowance based on a specific analysis of the incurred losses on existing receivables, increased by an additional allowance determined on the basis of historical experience. Furthermore, the group does not factor trade receivables;
  - hedge accounting: with the exception of an IRS hedging fluctuations in interest rates, which is considered immaterial to the consolidated financial statements, the group does not apply hedge accounting.

STANDARDS, AMENDMENTS AND INTERPRETATIONS ENDORSED BY THE EUROPEAN UNION BUT NOT YET MANDATORY AND NOT ADOPTED EARLY BY THE GROUP AT 30 JUNE 2018

- IFRS 16 - Leases (published on 13 January 2016) replaces IAS 17 - Leases and IFRIC 4 - Determining whether an arrangement contains a lease, SIC-15 - Operating leases - incentives and SIC-27 - Evaluating the substance of transactions involving the legal form of a lease.

  This standard provides a new definition of a lease and introduces a criterion based on control (right of use) of an asset to differentiate leases from service contracts based on the identification of the asset, right of substitution, the right to obtain substantially all the benefits from the use of the asset and the right to identify the asset's use.

  IFRS 16 introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The standard does not provide for significant changes for lessors.

  IFRS 16 applies to annual periods beginning on or after 1 January 2019 but earlier application is allowed solely for entities that have already applied IFRS 15 - Revenue from contracts with customers. The directors expect that application of IFRS 16 will have a significant impact on the net financial position, the presentation of the statement of profit or loss and the disclosures in the consolidated financial statements. Therefore, the group commenced a project to firstly identify the leases falling under the scope of IFRS 16 and to subsequently assess their treatment in line with the new standard. It is also introducing an accounting system to manage the leases.

  The directors are still assessing the alternatives offered by the standard in relation to exceptions, simplifications and transition approach. To date, they have not yet defined the approach that will be adopted from those allowed by the new standard.
- Amendments to IFRS 4 "Applying IFRS 9, Financial instruments with IFRS 4, Insurance contracts" (published on 12 September 2016). The directors do not deem these amendments applicable to the group given its business operations.
- IFRIC 22 - Foreign currency transactions and advance consideration (published on 8 December 2016). The interpretation is effective for annual periods beginning on or after 1 January 2018. The directors do not recorded significant effects on the consolidated financial statements.

STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET ENDORSED BY THE EUROPEAN UNION

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 18 May 2017, the IASB published IFRS 17 - Insurance contracts, which will supersede IFRS 4 - Insurance contracts.

- The standard applies to annual periods beginning on or after 1 January 2021 but earlier application is allowed for those entities that apply IFRS 9 - Financial instruments and IFRS 15 - Revenue from contracts with customers. The directors do not expect its adoption will significantly affect the consolidated financial statements.
- Amendment to IFRS 2 - Classification and measurement of share-based payment transactions (published on 20 June 2016). The amendments are effective for annual periods beginning on or after 1 January 2018. The directors do not expect its adoption will significantly affect the consolidated financial statements.
- Annual Improvements to IFRSs: 2014-2016 Cycle, published on 8 December 2016 (including IFRS 1 - First-time adoption of International Financial Reporting Standards - Deletion of short-term exemption for first-time adoptors, IAS 28 Investments in associates and joint ventures – Measuring investees at fair value through profit or loss: an investment-by-investment choice or a consistent policy choice, IFRS 12 - Disclosure of interests in other entities – Clarification of the scope of the standard) which partly supplement the existing standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2018. The directors do not expect their adoption will significantly affect the consolidated financial statements.
- Amendments to IAS 40 - Transfers of investment property (published on 8 December 2018). The amendments are effective for annual periods beginning on or after 1 January 2018. The directors do not expect its adoption will significantly affect the consolidated financial statements.
- On 7 June 2017, the IASB published IFRIC 23 – Uncertainty over income tax treatments. The new interpretation is effective for annual periods beginning on or after 1 January 2019.
- Amendments to IFRS 9 - Prepayment features with negative compensation (published on 12 October 2017). The amendments are effective for annual periods beginning on or after 1 January 2018.
- Amendments to IAS 28 - Long-term interests in associates and joint ventures (published on 12 October 2017). The amendments are effective for periods beginning on or after 1 January 2019.
- Annual Improvements to IFRSs 2015-2017 Cycle, published on 12 December 2017 (including – IFRS 3 Business Combinations and IFRS 11 - Joint Arrangements - Remeasurement of previously held interest in a joint operation, IAS 12 - Income taxes – Income tax consequences of payments on financial instruments classified as equity, IAS 23 - Borrowing costs - Disclosure of interests in other entities – Borrowing costs eligible for capitalisation) that include the amendments to some standards as part of the annual improvement process. The amendments are effective for periods beginning on or after 1 January 2019.
- Amendments to IFRS 10 and IAS 28 - Sales or contribution of assets between an investor and its associate or joint venture (published on 11 September 2014). The amendments were published to resolve the current conflict between IAS 28 and IFRS 10 about the measurement of gains or losses on the sale or contribution of a non-monetary asset to a joint venture or an associate in exchange for a share of its capital. The IASB has currently deferred application of these amendments.

Translation of foreign currency financial statements and transactions

The main exchange rates (against €1) used to translate the foreign currency financial statements at 30 June 2018, 31 December 2017 and 30 June 2017 are set out below:

Currency	Average rate		Closing rate	
	First half 2018	First half 2017	30.06.2018	2017
US dollar	1.210	1.083	1.166	1.199
Australian dollar	1.569	1.436	1.579	1.535
Hong Kong dollar	9.486	8.416	9.147	9.372
Brazilian real	4.142	3.439	4.488	3.973
Pound sterling	0.880	0.860	0.886	0.887
South African rand	14.891	14.310	16.048	14.805
Indian rupee	79.490	71.124	79.813	76.606
Chinese renminbi (yuan)	7.709	7.442	7.717	7.804
South Korean won	1,302.380	1,235.585	1,296.720	1,279.610
Russian ruble	71.960	62.806	73.158	69.392
Swedish krona	10.151	9.595	10.453	9.844
Japanese yen	131.606	121.659	129.040	135.010
Mexican peso	23.085	21.028	22.882	23.661
UAE dirham	4.445	3.974	4.281	4.404
Croatian kuna	7.418	7.449	7.386	7.440
Thai baht	38.419	37.569	38.565	39.121
Polish zloty	4.221	4.268	4.373	4.177

Use of estimates. Preparation of the condensed interim consolidated financial statements requires management to apply accounting policies and methods that, in certain circumstances, are based on difficult and subjective judgements, past experience or assumptions that are considered reliable and realistic at that time depending on the related circumstances. Application of these estimates and assumptions affects the amounts recognised in the statement of financial position, the statement or profit or loss and the statement of cash flows as well as the disclosures. The end results of the measurements for which the estimates and assumptions were used may differ from those presented in the condensed interim consolidated financial statements due to the uncertainty underlying the assumptions and the conditions on which the estimates were based.

Some assessments, particularly the more complex procedures such as determining any impairment losses on intangible assets, are only carried out fully during the preparation of the annual consolidated financial statements unless there are indicators of impairment requiring immediate impairment testing.

Notes to the Statement of Financial Position

[1] PROPERTY, PLANT AND EQUIPMENT

At 30 June 2018, property, plant and equipment amounted to €25,626 thousand compared to €22,405 thousand at 31 December 2017. The following table provides a breakdown of the caption and the changes of the period.

	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other items of property, plant and equipment	Assets under construction and payments on account	Total
Balance at 31 December 2017	**4,914**	**7,057**	**6,260**	**3,482**	**692**	**22,405**
- Historical cost	7,672	19,921	28,825	12,193	692	**69,303**
- Accumulated depreciation	(2,759)	(12,864)	(22,565)	(8,711)	0	**(46,900)**
Changes in 2018						
- Investments	1,204	2,053	1,529	637	300	**5,723**
- Reclassifications (historical cost)	65	259	(64)	231	(474)	**17**
- Sales (historical cost)	(19)		(72)	(307)		**(399)**
- Exchange differences on historical cost	64	5	64	(35)	-	**98**
- Exchange differences on accumulated depreciation	(32)	17	(35)	21	-	**(29)**
- Depreciation	(128)	(600)	(1,213)	(537)	-	**(2,480)**
- Reclassifications (accumulated depreciation)			31	(48)	-	**(17)**
- Sales (accumulated depreciation)	19	(3)	32	258	-	**306**
Total changes	**1,173**	**1,730**	**272**	**218**	**(173)**	**3,221**
Balance at 30 June 2018	**6,087**	**8,787**	**6,532**	**3,701**	**519**	**25,626**
including:						
- Historical cost	8,987	22,238	30,282	12,718	519	**74,744**
- Accumulated depreciation	(2,900)	(13,451)	(23,750)	(9,018)	-	**(49,119)**

Land and buildings increased €1,033 thousand due to the acquisition of the right to use a plot of land located in China on which the new production site will be built. The remaining investments mainly refer to the leasehold improvements on third party assets at American and Thai offices. Plant and machinery include the specific assets of the production lines and infrastructures. During the first half of 2018, the main investments were made at the US site to set up a new production line totalling €1,014 thousand, with the remaining amount related to the Italian and Croatian sites. Industrial and commercial equipment mainly include production equipment and moulds. Specifically, investments related to the Italian and Croatian production sites. The group's property, plant and equipment were not mortgaged or pledged during the period. They are suitably hedged for risks deriving from losses and/or damage thereto through insurance policies taken out with leading insurers.

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

[2] INTANGIBLE ASSETS

At 30 June 2018, this caption amounted to €12,976 thousand compared to €13,031 thousand at the end of 2017. The following table presents changes in these assets:

	Development expenditure	Trademarks, industrial patents and software licences	Goodwill	Other assets	Assets under development and payments on account	Total
Balance at 31 December 2017	**4,298**	**2,698**	**2,730**	**1,213**	**2,092**	**13,031**
- Historical cost	17,983	11,976	2,730	1,581	2,092	**36,362**
- Accumulated amortisation	(13,685)	(9,279)	-	(367)	-	**(23,331)**
Changes in 2018						
- Investments	111	507	-	-	904	**1,522**
- Reclassifications	100	41	-	-	(141)	**-**
- Sales (historical cost)	-	(1)	-	-	-	**(1)**
- Exchange differences on historical cost	-	2	23	6	-	**31**
- Exchange differences on accumulated amortisation	-	(4)	-	(1)	-	**(6)**
- Amortisation	(893)	(595)	-	(112)		**(1,600)**
Total changes	**(682)**	**(50)**	**23**	**(108)**	**762**	**(54)**
Balance at 30 June 2018	**3,616**	**2,648**	**2,753**	**1,105**	**2,854**	**12,976**
including:						
- Historical cost	18,195	12,525	2,753	1,586	2,854	**37,914**
- Accumulated amortisation	(14,578)	(9,878)	-	(481)	-	(24,937)

Specifically:

- the balance of development expenditure shows the expenditure related to projects developed internally by the parent that have been capitalised and refer to the production of new innovative products or substantial improvements to existing products incurred before the start of commercial production or use. Assets under development and payments on account mainly include costs incurred for projects that had not been completed at the reporting date;
- trademarks, industrial patents and software licences include software for management programs and network applications;
- goodwill is 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 over the net of the acquisition-date fair value of the assets acquired and liabilities assumed.

As mentioned in the "Significant events of the period" paragraph, goodwill at 31 December 2017 was restated following the allocation of the acquisition price of the investment in Alfaco Polska S.p.z.o.o.. Part of the goodwill recognised upon initial consolidation was allocated to customer lists for a total of €1,079 thousand (€874 thousand net of the tax effects). Such amount was recognised under other intangible assets. The useful life of such customer lists was set at five years; therefore, the amortisation thereof was calculated starting from 1 June 2017, the date Alfaco became part of the Carel Group. The basis used to determine the carrying amount of the customer lists was Alfaco's sales of Carel trademark products during 2015 to 2018. Such amount was discounted at 10.02%. Sales of non-Carel products were excluded from the analysis as they were already used in assessing the Alfaco trademark.

At 30 June 2018, goodwill amounted to €2,753 thousand compared to €2,730 thousand at 31 December 2017. The goodwill allocated to the Thai CGU and the Alfaco CGU is material and is shown separately in the next table, while the other goodwill balances allocated to the other CGUs are both individually and collectively immaterial.

Goodwill	30.06.2018	Change in translation reserve	31.12.2017
Carel Thailand CO Ltd	2,081	23	2,058
Alfaco Polska s.p.z.o.o.	324	-	324
Other goodwill	348	-	348
Total	**2,753**	**23**	**2,730**

During the first half of 2018, there were no significant events or indicators of impairment such to require impairment testing of goodwill.

The group has not recognised significant goodwill that can be deducted for tax purposes.

[3] EQUITY-ACCOUNTED INVESTMENTS

At 30 June 2018, this caption amounted to €370 thousand compared to €327 thousand at 31 December 2017. It may be analysed as follows:

Investee	Registered office	Investment %	30.06.2018	Increase	Change in translation reserve	Measurement at equity	31.12.2017
Carel Japan Co Ltd.	Fukuoka (JP)	100%	40	40	-	-	-
Arion S.r.l.	Brescia (IT)	40%	71	-	-	-	71
Free Polska s.p.z.o.o.	Krakow (PL)	23%	259	-	(12)	15	256
Total			**370**	**40**	**(12)**	**15**	**327**

The parent acquired the remaining investment (51%) in Carel Japan Co. Ltd on 27 June 2018 for €40 thousand. The acquisition contract also provided for the company's settlement of loans and borrowings to the previous majority investor. Such loans and borrowings, totalling €85 thousand, were paid via a long-term intragroup loan recognised by the parent under other non-current assets. Carel Japan Co. Ltd was not consolidated at 30 June 2018 as the necessary information was not available without undue cost or effort. The directors consider the potential effects deriving from the consolidation process to be immaterial to the group's statement of financial position at 30 June 2018 and its profit and cash flows for the six-month period then ended. The company will be consolidated at 31 December 2018.

[4] OTHER NON-CURRENT ASSETS

At 30 June 2018, other non-current assets amounted to €1,674 thousand compared to €1,648 thousand at 31 December 2017. They are mainly comprised of:

- a VAT asset of €1,144 thousand recognised by a foreign branch. During the second quarter of 2018, such asset was impaired by €96 thousand as the directors deemed that necessary requirements to deem such portion of the asset recoverable were not met;
- non-current loan assets totalling €255 thousand granted by the parent to Arion S.r.l. for €160 thousand and Carel Japan Co Ltd for €95 thousand;
- guarantee deposits totalling €168 thousand.

[5] DEFERRED TAX ASSETS

At 30 June 2018, deferred tax assets amounted to €4,654 thousand compared to €4,141 thousand at 31 December 2017. The group has recognised deferred tax assets and liabilities on temporary differences between the carrying amount of assets and liabilities and their tax base.

Current Assets

[6] TRADE RECEIVABLES

At 30 June 2018, this caption amounted to €64,104 thousand compared to €54,643 thousand at 31 December 2017. It may be analysed as follows:

	30.06.2018	31.12.2017
Trade receivables	65,620	56,105
Loss allowance	(1,516)	(1,462)
Total	**64,104**	**54,643**

The next table shows the gross trade receivables by geographical segment:

	30.06.2018	31.12.2017
Italy	24,933	23,182
Europe and Africa	21,713	17,393
Asia and Oceania	13,184	10,190
Americas	5,790	5,340
Total	**65,620**	**56,105**

The group does not usually charge default interest on past due receivables. A breakdown of the receivables that are not yet due and/or are past due with the relevant loss allowance is as follows:

	30.06.2018	
	Trade receivables	Loss allowance
Not yet due	56,443	(836)
Past due < 6 months	7,761	(213)
Past due > 6 months	765	(37)
Past due > 12 months	652	(430)
Total	**65,620**	**(1,516)**

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

The loss allowance comprises management's estimates about credit losses on receivables from end customers and the sales network. It recognises the resulting impairment losses in "Other expense, net". Changes in the allowance are shown in the following table:

	30.06.2018	Accruals	Reversals	Utilisations	Exchange differences	31.12.2017
Loss allowance	(1,516)	(130)		70	6	(1,462)

[7] INVENTORIES

At 30 June 2018, this caption amounted to €45,846 thousand compared to €37,773 thousand at 31 December 2017. It may be analysed as follows:

	30.06.2018	31.12.2017
Raw materials	20,157	15,637
Allowance for inventory write-down	(1,041)	(854)
Semi-finished products and work in progress	3,101	2,710
Finished goods	24,941	21,175
Allowance for inventory write-down	(2,072)	(1,335)
Payments on account	760	439
Total	**45,846**	**37,773**

The group recognised an allowance for obsolete or slow-moving items to cover the difference between the cost and estimated realisable value of obsolete raw materials and finished goods.

The accrual to the statement of profit or loss was recognised in the caption "Costs of raw materials, consumables and goods and changes in inventories".

[8] CURRENT TAX ASSETS

This caption includes current direct tax assets which amounted to €911 thousand at 30 June 2018 compared to €846 thousand at 31 December 2017. These tax assets mainly arose on advances paid that were higher than the actual tax liabilities.

[9] OTHER ASSETS

At 30 June 2018, this caption amounted to €6,728 thousand compared to €4,555 thousand at 31 December 2017. It may be analysed as follows:

	30.06.2018	31.12.2017
Payments on account to suppliers	576	179
Other tax assets	3,911	2,567
Prepayments and accrued income	1,364	1,264
Other	878	546
Other assets	**6,728**	**4,555**

Other tax assets mainly consist of the VAT asset of €2,746 thousand at period end (31 December 2017: €1,680 thousand) and tax assets for research and development expenditure. At 30 June 2018, the group recognised a VAT liability of €1,834 thousand under other tax liabilities (nil balance at 31 December 2017).

"Other" is mainly comprised of receivables from personnel and social security institutions.

[10] CURRENT FINANCIAL ASSETS

At 30 June 2018, this caption amounted to €11,022 thousand compared to €47,076 thousand at 31 December 2017. It may be analysed as follows:

	30.06.2018	31.12.2017
Available-for-sale securities	10,969	47,063
Derivatives	54	14
Total	**11,022**	**47,076**

The securities of €10,969 thousand held by the parent comprise life insurance policies agreed with Cardiff Vita S.p.A. (BNP Paribas Group) with a nominal amount of €10,000 thousand. During the first half of 2018, the policies with Friuladria (Credit Agricole Group) and Intesa San Paolo CA Vita were terminated for a nominal amount of €15 million and €20 million, respectively. At the date of termination of the policy, the parent collected the total amount recognised at 31 December 2017 in addition to interest accrued from 1 January 2018 amounting to €245 thousand. The carrying amounts at each reporting date included accrued interest income which is paid at the end of each calendar year as per the contractual terms.

Available-for-sale securities	Controparte	30.06.2018	31.12.2017	Scadenza	Rendimento
CapitalVita	Cardif Vita S.p.A. (BNL)	10,969	10,840	5 years	minimum guaranteed 1%
Private Value	FriulAdria	-	15,517	Open term	Floor 0.00%
CaVita Valore	Intesa San Paolo	-	20,706	Open term	Floor 0.00%

The group agreed the insurance policies as a form of investment of its temporary excess liquidity. They are not traded on an active market and are highly monetisable without any additional cost to the group. The policies' reimbursement value is guaranteed and equals the invested principal plus part of the accruing coupons. Therefore, the group is not exposed to risks deriving from the recoverability of its investment. The return on the policies is tied to the performance of the underlying assets under management, which in turn depends on many factors that the parent cannot control. The derivative assets are forwards and currency options agreed to hedge commercial transactions which do not qualify for hedge accounting. Fair value gains and losses are recognised in profit or loss. More information is available in note [33] Other information.

[11] CASH AND CASH EQUIVALENTS

At 30 June 2018, this caption amounted to €93,071 thousand compared to €43,900 thousand at 31 December 2017. Reference should be made to the statement of cash flows for details of changes in the group's cash and cash equivalents.

	30.06.2018	31.12.2017
Current accounts and post office deposits	93,038	43,873
Cash	33	27
Total	**93,071**	**43,900**

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

At 30 June 2018, the group's current account credit balances were not pledged in any way.

Equity and Non-Current Liabilities

[12] EQUITY ATTRIBUTABLE TO THE OWNERS OF THE PARENT

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

Equity may be analysed as follows:

	30.06.2018	31.12.2017
Share capital	10,000	10,000
Legal reserve	2,000	2,000
Translation reserve	3,140	3,430
Hedging reserve	24	33
Other reserves	32,870	35,195
Retained earnings	39,798	36,293
Profit for the period/year	15,596	31,117
Total	**103,427**	**118,068**

The hedging reserve includes the fair value gains and losses on interest rate hedges (one IRS) agreed in 2016.

The earnings per share were calculated by dividing the profit attributable to the owners of the parent by the weighted average number of outstanding ordinary shares. The group did not repurchase or issue ordinary shares during either period, nor were there potential ordinary shares that could be converted with dilutive effects.

A resolution to distribute a dividend of €30,000 thousand was made on 29 March 2018.

On 27 February 2018, each existing ordinary share was split into 10 ordinary shares. Therefore, at 30 June 2018, the share capital was comprised of 100,000,000 ordinary shares without a nominal amount. The amount at 30 June 2017 was recalculated on the basis of the above-mentioned share split as provided for by IAS 33 - Earnings per share.

The earnings per share are as follows:

	30.06.2018	30.06.2017
Number of shares (in thousands)	100,000	100,000
Profit for the period (in thousands of Euros)	15,596	16,889
Earnings per share (in Euros)	**0.16**	**0.17**

[13] EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

At 30 June 2018, this caption amounted to €310 thousand compared to €248 thousand at 31 December 2017 and comprised the non-controlling interest in Carel Thailand Co. Ltd (20%).

	30.06.2018	Profit for the period	Other comprehensive income	Dividends distributed	Share capital increases	31.12.2017
Equity attributable to non-controlling interests	310	27	4	-	31	248

The Thai company's share capital was increased by THB6,000 thousand during the reporting period. As the increase was proportionate to the existing investment, the percentage held at 30 June 2018 was unchanged with respect to 31 December 2017.

[14] CURRENT AND NON-CURRENT FINANCIAL LIABILITIES

This caption may be analysed as follows:

	30.06.2018	31.12.2017
Bank loans at amortised cost	36,531	28,411
Bank borrowings at amortised cost	47	64
Derivatives held for trading at fair value through profit or loss	128	78
Other loans and borrowings at amortised cost	20,540	512
Current financial liabilities	**57,247**	**29,066**

	30.06.2018	31.12.2017
Bank loans and borrowings at amortised cost	29,733	19,545
Effective designated derivative hedges	16	7
Other loans and borrowings at amortised cost	1,867	2,120
Non-current financial liabilities	**31,616**	**21,671**

Other loans and borrowings at amortised cost include:

- dividends payable to shareholders amounting to €20,000 thousand;
- a loan granted by Simest S.p.A. to support a sales expansion programme in the Middle East;
- financial liabilities related to a finance lease.

The caption is broken down as follows:

Other loans and borrowings 31.12.2017	Currency	Original amount	Maturity	Interest rate	Terms	Outstanding liability	Current	Non-current
Simest Middle East	EUR	1,000	2021	Fixed	0.50%	875	250	625
MedioCredito Centrale Progetto Horizon 2020	EUR	1,241	2026	Fixed	0.80%	1,241	75	1,166
Leases						383	109	274
Other loans						133	78	55
Total						**2,632**	**512**	**2,120**

Other loans and borrowings 30.06.2018	Currency	Original amount	Maturity	Interest rate	Terms	Outstanding liability	Current	Non-current
Simest Middle East	EUR	1,000	2021	Fixed	0.50%	750	250	500
MedioCredito Centrale Progetto Horizon 2020	EUR	1,241	2026	Fixed	0.80%	1,241	151	1,090
Dividends payable to shareholders	EUR					20,000	20,000	0
Leases						343	112	231
Other loans						73	27	46
Total						**22,407**	**20,540**	**1,867**

The following table shows the main characteristics of the bank loans by maturity at 30 June 2018 and 31 December 2017:

Bank loans 31.12.2017	Currency	Original amount	Maturity	Interest rate	Terms	Outstanding liability	Current	Non-current
Deutschbank	EUR	400	2023	Fixed	2.68%	233		233
BNP Paribas (6)	EUR	10,000	2019	Floating	6m Euribor + 0.52%	10,000	6,667	3,333
BNP Paribas (2)	EUR	1,000	2018	Fixed	0.70%	1,000	1,000	-
BNP Paribas (5)	EUR	15,000	2020	Fixed	0.37%	12,493	4,991	7,502
Crediveneto	EUR	5,000	2018	Fixed	0.25%	5,000	5,000	-
Friuladria	EUR	5,000	2018	Floating	3m Euribor + 0.20%	5,000	5,000	-
MedioCredito Italiano (Intesa Sanpaolo)	EUR	15,000	2021	Floating	3m Euribor + 0.55%	11,669	3,336	8,333
Credem	EUR	1,000	2018	Fixed	0.45%	1,000	1,000	-
Pennsylvania Industrial Development Authority	USD	800	2020	Fixed	4.75%	160	50	110
BNP Paribas (4)	EUR	3,000	2018	Fixed	0.70%	1,010	1,010	-
BKO BP	PLN	4,000	2018	Floating	1m Wibor + 1.50%	357	357	-
Other loans						34	-	34
Total						**47,956**	**28,411**	**19,545**

Bank loans 30.06.2018	Currency	Original amount	Maturity	Interest rate	Terms	Outstanding liability	Current	Non-current
Deutschbank	EUR	400	2023	Fixed	2.68%	212	40	172
BNP Paribas (6)	EUR	10,000	2019	Floating	6m Euribor + 0.52%	6,666	6,666	-
BNP Paribas (5)	EUR	15,000	2020	Fixed	0.37%	10,015	5,002	5,013
BNP Paribas	EUR	10,000	2019	Fixed	0.30%	10,000	10,000	-
Friuladria	EUR	5,000	2018	Floating	3m Euribor + 0.20%	5,000	5,000	-
MedioCredito Italiano (Intesa Sanpaolo)	EUR	15,000	2021	Floating	3m Euribor + 0.55%	10,000	3,333	6,667
Unicredit	EUR	3,000	2018	Fixed	0.02%	3,000	3,000	
Unicredit	EUR	20,000	2023	Fixed	0.45%	20,000	2,222	17,778
Credem	EUR	1,000	2018	Fixed	0.45%	1,000	1,000	-
Pennsylvania Industrial Development Authority	USD	800	2020	Fixed	4.75%	138	56	82
BKO BP	PLN	4,000	2018	Floating	1m Wibor + 1.50%	40	40	-
BNP Paribas	USD	200	2019	Fixed	4.24%	166	166	
Other loans						27	7	20
Total						**66,264**	**36,531**	**29,733**

The following tables detail the expected cash flows with regard to contractual due dates and interest to be paid by type of loan:

31.12.2017	TOTAL	Total cash flows	Within one year	From one to five years	After five years
Bank loans and borrowings at amortised cost	19,545	19,708	-	19,686	22
Effective designated derivative hedges	7	7	-	7	
Other loans and borrowings at amortised cost	2,120	2,166	-	1,605	561
Non-current financial liabilities	**21,671**	**21,881**	**-**	**21,298**	**584**
Bank loans at amortised cost	28,411	28,534	28,534	-	-
Bank borrowings at amortised cost	64	64	64	-	-
Other loans and borrowings at amortised cost	512	549	549	-	-
Derivatives held for trading at fair value through profit or loss	78	78	78	-	-
Current financial liabilities	**29,066**	**29,224**	**29,224**	**-**	**-**

30.06.2018	TOTAL	Total cash flows	Within one year	From one to five years	After five years
Bank loans and borrowings at amortised cost	29,733	29,856	-	29,844	12
Effective designated derivative hedges	16	16	-	16	
Other loans and borrowings at amortised cost	1,867	1,955	-	1,474	481
Non-current financial liabilities	**31,616**	**31,828**	**-**	**31,334**	**494**
Bank loans at amortised cost	36,531	36,634	36,634	-	-
Bank borrowings at amortised cost	47	48	48	-	-
Other loans and borrowings at amortised cost	20,540	20,583	20,583	-	-
Derivatives held for trading at fair value through profit or loss	128	128	128	-	-
Current financial liabilities	**57,247**	**57,393**	**57,393**	**-**	**-**

The financing agreements do not include covenants.

The derivatives included under current financial liabilities are forwards and currency options agreed to hedge commercial transactions but which do not qualify for hedge accounting. More information is available in the paragraph on financial instruments in note [33] Other information. The effective designated derivative hedges include the fair value of an IRS agreed to hedge interest rate risk on the Mediocredito Italiano loan.

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

	30.06.2018	Net cash flows	Fair value gains or losses	Reclassification	Other changes	Change in translation reserve	31.12.2017
Bank loans	36,531	529	-	7,591	-	-	28,411
Bank borrowings	47	(3)	-	-	-	(14)	64
Derivatives	128	(78)	128	-	-	-	78
Other loans and borrowings	20,540	(10,226)	-	257	30,000	(3)	512
Current financial liabilities	**57,247**	**(9,778)**	**128**	**7,848**	**30,000**	**(17)**	**29,066**

	30.06.2018	Net cash flows	Fair value gains or losses	Reclassification	Change in consolidation scope	Change in translation reserve	31.12.2017
Bank loans and borrowings	29,733	17,776	-	(7,591)	-	3	19,545
Effective designated derivative hedges	16	-	9		-	-	7
Other loans and borrowings	1,867	-	-	(257)	-	4	2,120
Non-current financial liabilities	**31,616**	**17,776**	**9**	**(7,848)**	**-**	**7**	**21,671**

Other changes in current financial liabilities refer to the recognition under liabilities of dividends resolved by the shareholders on 29 March 2018.

[15] PROVISIONS FOR RISKS

At 30 June 2018, provisions amounted to €1,564 thousand compared to €1,650 thousand at 31 December 2017, as follows:

	30.06.2018	31.12.2017
Provision for agents' termination benefits	693	680
Provision for legal and tax risks	158	200
Provision for commercial complaints	481	518
Provision for product warranties	229	237
Other provisions	2	15
Total	**1,564**	**1,650**

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

The provision for legal and tax risks amounted to €129 thousand and €200 thousand at 30 June 2018 and 31 December 2017, respectively, and included the accrual made by management for the contingent liability arising as a result of the tax audit performed by the Venice regional office of the Italian tax authorities on the parent in relation to the transfer prices applied with the Chinese branch for 2011 and 2012. The accruals made for 2011 and 2012 is deemed adequate by management, supported by their consultants, for the contingent liabilities.

At the end of November 2017, the Venice regional tax office started an audit into 2013, 2014 and 2015, which was subsequently extended to 2016 on 23 March 2017. This audit covered IRES, IRAP, VAT and substitute tax. The audit is focused on transfer pricing and is, therefore, a continuation of the previous audit into 2011 and 2012. The tax office issued a preliminary assessment report on 21 June 2018, according to which the findings would lead to a €3,398 increase in the parent's tax base for higher IRES and IRAP (€1,066 thousand) in addition to fines and interest.

As mentioned in the directors' report, considering that the dispute is at its initial stage and the variability about possible actions to be taken make it impossible to quantify the contingent liability, the directors, supported by the opinions of their tax consultants and in compliance with IAS 37, decided not to make any accrual to the provision for risks.

The provisions for product warranties and commercial complaints were set up to cover liabilities arising on product defects which entail the repair or replacement of the defective parts or payment of a cash compensation to the customer. Management estimated the provisions based on available information and past experience. It has not discounted them as it expects to use the provisions in 2019.

[16] DEFINED BENEFIT PLANS

This caption mainly consists of the group's liability for post-employment benefits and post-term of office benefits for directors recognised by the Italian group entities (€5,145 thousand and €5,254 thousand at 30 June 2018 and 31 December 2017, respectively). These benefits qualify as defined benefit plans pursuant to IAS 19 and the related liabilities are calculated by an independent actuary. The remainder of the caption comprises employee benefits recognised by the foreign group entities which are immaterial both individually and collectively.

[17] DEFERRED TAX LIABILITIES

At 30 June 2018, this caption amounted to €1,961 thousand, compared to €1,662 thousand at 31 December 2017. There were no significant changes therein during the period.

[18] TRADE PAYABLES

At 31 June 2018, trade payables amounted to €42,533 thousand, compared to €35,018 thousand at 31 December 2017. They included payables for materials and services.
Trade payables arise as a result of the different payment terms negotiated with the group's suppliers, which differ from country to country.

[19] CURRENT TAX LIABILITIES

At 30 June 2018, this caption amounted to €5,235 thousand compared to €2,279 thousand at 31 December 2017. It entirely consists of direct income tax liabilities. The change during the period is mainly related to the calculation of current taxes for the period in accordance with IAS 34.

[20] OTHER CURRENT LIABILITIES

Other current liabilities are broken down in the following table.

	30.06.2018	**31.12.2017**
Social security contributions	3,167	3,303
Tax withholdings	1,415	1,389
Other current tax liabilities	2,206	382
Wages and salaries, bonuses and holiday pay	9,595	9,445
Other	1,099	475
Total	**17,481**	**14,995**

The caption mostly includes personnel-related liabilities (wages and salaries, tax withholdings and social security contributions) and tax liabilities, specifically VAT liabilities which showed the largest increase compared to 31 December 2017.
Wages and salaries, bonuses and holiday pay, as well as social security contributions, decreased due to the utilisation of provisions made at year end.

Notes to the statement of profit or loss

[21] REVENUE

Revenue amounted to €138,793 thousand for the first half of 2018, compared to €127,267 thousand for the corresponding period of 2017 (up 9.1%).

It is shown net of discounts and allowances.

Revenue generated by services amounted to €1,199 thousand compared to €931 thousand for the first half of 2017. A breakdown of revenue by market is as follows:

	First half 2018	First half 2017	Variation %
HVAC revenue	85,375	79,488	7.4%
REF revenue	49,859	43,110	15.7%
Non-core revenue	3,560	4,670	(23.8%)
Total	**138,793**	**127,267**	**9.1%**

There are no group entities that individually contribute more than 10% to the group's revenue.

A breakdown of revenue by geographical segment is as follows:

	First half 2018	First half 2017	Variation %
Western Europe	72,997	64,821	12.6%
Other European countries, Middle East and Africa	23,806	18,271	30.3%
North America	17,194	18,600	(7.6%)
South America	3,712	4,169	(11.0%)
Asia Pacific South	5,789	6,434	(10.0%)
Asia Pacific North	15,295	14,973	2.1%
Total	**138,793**	**127,267**	**9.1%**

Reference should be made to the directors' report for an analysis of trends in revenue.

[22] OTHER REVENUE

Other revenue amounted to €766 thousand, an increase on the €637 thousand balance for the corresponding period of 2017. The caption may be broken down as follows:

	First half 2018	First half 2017	Variation %
Grants received	6	0	>100%
Sundry cost recoveries	574	498	15.1%
Other revenue and income	187	139	34.6%
Total	**766**	**637**	**20.3%**

Sundry cost recoveries mostly refer to the recovery of transport and other costs.

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

[23] PURCHASES OF RAW MATERIALS, CONSUMABLES AND GOODS AND CHANGES IN INVENTORIES

This caption amounted to €55,759 thousand for the first half of 2018 compared to €51,473 thousand for the corresponding period of 2017. The increase is mostly due to the greater purchase volumes of raw materials, consumables and goods in line with the higher revenue. The following table shows a breakdown of the caption:

	First half 2018	First half 2017	Variation %
Costs of raw materials, consumables and goods and changes in inventories	(55,759)	(51,473)	8.3%
% of revenue	(40.2%)	(40.4%)	(0.7%)

[24] SERVICES

The group incurred costs of €25,488 thousand for services in the first half of 2018, up 40.4% on the corresponding period of the previous year. A breakdown of the caption is as follows:

	First half 2018	First half 2017	Variation %	of which, IPO costs
Transport	(4,207)	(3,605)	16.7%	-
Consultancies	(7,483)	(2,504)	>100%	(4,461)
Business trips and travel	(2,285)	(2,126)	7.5%	(56)
Use of third party assets	(2,257)	(2,021)	11.7%	-
Maintenance and repairs	(1,445)	(1,337)	8.1%	-
Marketing and advertising	(1,524)	(1,444)	5.6%	(50)
Outsourcing	(901)	(669)	34.5%	-
Agency commissions	(609)	(619)	(1.6%)	-
Utilities	(598)	(574)	4.3%	-
Fees to directors, statutory auditors and independent auditors	(696)	(494)	40.9%	-
Insurance	(459)	(393)	16.8%	-
Telephone and connections	(388)	(324)	19.8%	-
Other services	(2,636)	(2,046)	28.9%	(42)
Total	**(25,488)**	**(18,155)**	**40.4%**	**(4,608)**

Specifically, the main increase refers to consultancies due to the costs incurred for the project to list the parent on the STAR segment of the stock market of Borsa Italiana. Net of such costs, the increase would be 20.7%. Other consultancy costs chiefly refer to research and development expenditure, in addition to the digitalisation project underway at the Italian plant.

Transport costs increased due to the group's greater use of express couriers compared to the previous period. Other services mainly increased due to higher costs incurred for installations carried out at customers by third party suppliers.

[25] CAPITALISED DEVELOPMENT EXPENDITURE

This caption amounted to €1,066 thousand, compared to €662 thousand in the first half of 2017. It is entirely related to development projects capitalised under intangible assets. The group incurred research and development expenditure of €7,751 thousand and €6,778 thousand in the first half of 2018 and 2017, respectively (5.6% and 5.3%, respectively, as a percentage of revenue). Only the amounts described above were capitalised.

[26] PERSONNEL EXPENSE

This caption amounted to €34,710 thousand for the first half of 2018 compared to €31,797 thousand for the corresponding period of the previous year. A breakdown of this caption and of the workforce by employee category is as follows:

	First half 2018	First half 2017	Variation %	of which, IPO costs
Wages and salaries, including bonuses and accruals	(27,177)	(24,859)	9.3%	(297)
Social security contributions	(6,172)	(5,776)	6.9%	(115)
Defined benefit plans	(852)	(746)	14.3%	-
Other costs	(510)	(417)	22.2%	-
Total	**(34,710)**	**(31,797)**	**9.2%**	**(412)**

	First half 2018		First half 2017	
	period end	average	period end	average
Managers	32	34	39	36
White collars	884	873	821	799
Blue collars	460	464	463	438
Total	**1,376**	**1,370**	**1,323**	**1,273**

[27] OTHER EXPENSE, NET

This caption amounted to €504 thousand for the first half of 2018, compared to €765 thousand for the corresponding period of the previous year.

It may be broken down as follows:

	First half 2018	First half 2017	Variation %
Capital gains on disposal of assets	7	12	(36.9%)
Prior year income	296	287	3.3%
Release of provisions for risks	36	0	>100%
Other income	**339**	**298**	**13.9%**
Capital losses on sale of assets	(2)	(18)	(88.9%)
Prior year expense	(110)	(70)	58.4%
Other taxes and duties	(429)	(472)	(9.2%)
Accrual to the loss allowance	(130)	(280)	(53.4%)
Accrual to the provisions for risks	0	(39)	<100%
Credit losses	(16)	1	<100%
Other costs	(156)	(186)	(16.2%)
Other expense	**(843)**	**(1,063)**	**(20.7%)**
Other expense, net	**(504)**	**(765)**	**(34.1%)**

[28] AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES

This caption of €4,175 thousand for the first half of 2018 increased over the balance of €3,902 thousand for the corresponding period of 2017, due to the investments made during the periods. It may be broken down as follows:

	First half 2018	First half 2017	Variation %
Amortisation	(1,601)	(1,591)	0.6%
Depreciation	(2,479)	(2,303)	7.7%
Impairment losses	(96)	(9)	> 100%
Total	**(4,175)**	**(3,902)**	**7.0%**

Impairment losses increased due to the impairment loss on the VAT asset classified under non-current assets.

[29] NET FINANCIAL INCOME

Net financial income for the first half of 2018 came to €66 thousand, compared to €227 thousand for the corresponding period of 2017, as follows.

	First half 2018	First half 2017	Variation %
Gains on financial assets	374	443	(15.6%)
Interest income	110	121	(9.4%)
Gains on derivatives	32	59	(45.4%)
Other financial income	61	94	(35.2%)
Financial income	**576**	**717**	**(19.6%)**
Bank interest expense	(113)	(122)	(7.3%)
Other interest expense	(12)	(22)	(47.2%)
Losses on derivatives	(129)	(117)	10.2%

	First half 2018	First half 2017	Variation %
Other financial expense	(257)	(228)	12.6%
Financial expense	**(511)**	**(489)**	**4.3%**
Net financial income	**66**	**227**	**(71.0%)**

The decrease in income from financial assets mainly refers to the lower interest income on insurance policies following their partial termination as described in note [10].

[30] NET EXCHANGE RATE LOSSES

This caption showed net exchange rate losses of €418 thousand for the first half of 2018 compared to €185 thousand for the corresponding period of 2017, as follows:

	First half 2018	First half 2017	Variation %
Exchange rate losses	(3,118)	(1,316)	> 100%
Exchange rate gains	2,700	1,131	> 100%
Net exchange rate losses	**(418)**	**(185)**	**> 100%**

The balance for the first half of 2018 was heavily affected by negative exchange rate trends, specifically the depreciation of the US dollar and Chinese renminbi.

[31] SHARE OF PROFIT (LOSS) OF EQUITY-ACCOUNTED INVESTEES

This caption showed a net profit of €15 thousand for the first half of 2018, compared to a net loss of €117 thousand for the corresponding period of 2017. The investment held in Alfaco Polska s.p.z.o.o. was remeasured using the equity method during the period.

[32] INCOME TAXES

This caption amounted to €4,030 thousand for the first half of 2018, compared to €5,484 thousand for the corresponding period of 2017. Income taxes were calculated based on the average tax expense determined on the basis of the actual annual tax rate in accordance with the provisions of IAS 34.

Segment Reporting

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

[33] OTHER INFORMATION

Financial instruments

The group is active on international markets and, hence, is exposed to currency and interest rate risks. Specifically, the currencies generating these risks are the US dollar, the Japanese yen, the Australian dollar and the Chinese renminbi. The group has a hedging policy to mitigate the risks which involves the use of derivatives, options and forwards, mostly with maturities of less than one year. Transactions in place at the reporting date involving currency hedging transactions are as follows:

	30.06.2018				31.12.2017			
	Purchases (*)	Sales (*)	Positive fair value (**)	Negative fair value (**)	Purchases	Sales	Positive fair value	Negative fair value
Forwards								
USD/EUR	-	(126)	-	(3)	37	-	-	(1)
JPY/EUR	51,409	-	2	(3)	67	-	-	(1)
AUD/EUR	-	-	-	-	-	740	6	(2)
ZAR/EUR	-	-	-	-	-	690	-	(74)
EUR/ZAR	-	(27)	1	(0)	-	-	-	-
ZAR/USD	-	(4,200)	-	(16)	-	-	-	-
USD/ZAR	-	(44)	1	-	-	-	-	-
USD/CNY	-	(7,000)	-	(107)	-	-	-	-
THB/USD	-	(11,500)	10	-	-	-	-	-
Total forwards			**12**	**(128)**			**6**	**(78)**
Options								
USD/EUR	-	-	-	-	2,699	-	7	-
JPY/EUR	80,000	-	4	-	327	-	-	-
AUD/EUR	-	-	-	-	-	385	1	-
ZAR/EUR	-	-	-	-	-	194	-	-
ZAR/USD	-	(12,000)	17	-	-	-	-	-
CNY/EUR	44,400	-	1	-	-	-	-	-
EUR/USD	423	(424)	6	-	-	-	-	-
THB/USD	-	(26,000)	6	-	-	-	-	-
USD/CNY	13,000	-	8	-	-	-	-	-
Total options			**42**	**-**			**8**	**-**
Total			**54**	**(128)**			**14**	**(78)**

(*) Amount in thousands of local currency.
(**) Amount in thousands of Euros.

The next table provides information about the interest rate swaps agreed in 2016 to hedge against the related risk:

	Notional amount	Floating interest rate	Fixed interest rate	Maturity	Fair value 30.06.2018	Fair value 31.12.2017
Interest rate swap	15.000	Euribor 3m > -0.55% -0.55% > Euribor 3m	-0,10%	30/06/2021	(16)	(7)

Derivatives hedging foreign currency assets and liabilities are recognised at fair value with any gains or losses recognised in profit or loss. They are natural hedges of the related risks, which are recognised pursuant to IAS 39.

Categories of financial instruments and fair value hierarchy

The next table shows the categorisation of financial assets and liabilities pursuant to IFRS 7, using the categories established by IAS 39, and their fair value:

			Fair value		
31.12.2017	**IAS 39 categories**	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**
Securities	Available-for-sale financial assets	47,063		47,063	
Derivatives	Financial instruments held for trading	14		14	
Other loan assets	Loans and receivables	0			0
Other current financial assets		**47,076**			
Trade receivables	Loans and receivables	**56,105**			**56,105**
Total financial assets		**147,082**			
including:	**Available-for-sale financial assets**	**47,063**			
	Financial instruments held for trading	**14**			
	Loans and receivables	**100,005**			
Bank loans and borrowings	Financial liabilities at amortised cost	(19,545)		(19,545)	
Other loans and borrowings	Financial liabilities at amortised cost	(2,120)		(2,120)	
Effective designated derivative hedges	Financial instruments held for trading	(7)		(7)	
Non-current financial liabilities		**(21,671)**			
Bank borrowings	Financial liabilities at amortised cost	(64)		(64)	
Bank loans	Financial liabilities at amortised cost	(28,411)		(28,411)	
Derivatives	Financial instruments held for trading	(78)		(78)	
Other loans and borrowings	Financial liabilities at amortised cost	(512)		(512)	
Current financial liabilities		**(29,066)**			
Trade payables	**Financial liabilities at amortised cost**	**(35,018)**			**(35,018)**
Total financial liabilities		**(85,749)**			
including	**Financial liabilities at amortised cost**	**(85,671)**			
	Financial instruments held for trading	**(78)**			

30.06.2018	IFRS 9 category	Carrying amount	Fair value		
			Level 1	Level 2	Level 3
Securities	Available-for-sale financial assets	10,969		10,969	
Derivatives	Financial instruments held for trading	54		54	
Other loan assets	Loans and receivables	0			0
Other current financial assets		**11,023**			
Trade receivables	Loans and receivables	**64,104**			**64,104**
Total financial assets		**168,198**			
including:	**Available-for-sale financial assets**	**10,969**			
	Financial instruments held for trading	**54**			
	Loans and receivables	**157,175**			
Bank loans and borrowings	Financial liabilities at amortised cost	29,733		29,733	
Other loans and borrowings	Financial liabilities at amortised cost	1,867		167	
Effective designated derivative hedges	Financial instruments held for trading	16		16	
Non-current financial liabilities		**31,616**			
Bank borrowings	Financial liabilities at amortised cost	47		47	
Bank loans	Financial liabilities at amortised cost	36,531		36,531	
Derivatives	Financial instruments held for trading	128		128	
Other loans and borrowings	Financial liabilities at amortised cost	20,540		20,540	
Current financial liabilities		**57,247**			
Trade payables	Financial liabilities at amortised cost	**42,533**			**42,533**
Total financial liabilities		**131,396**			
including	**Financial liabilities at amortised cost**	**131,252**			
	Financial instruments held for trading	**144**			

Related party transactions

During the period, the group carried out commercial transactions with related parties as follows:

	30.06.2018			31.12.2017		
	Trade receivables	Loan assets	Trade payables	Trade receivables	Loan assets	Trade payables
Arion S.r.l.	-	160	(122)	-	160	(85)
Carel Japan Co Ltd	19	95	(1)	14	-	-
Free Polska s.p.z.o.o.	-	-	(38)	7	-	-
Total associates	**19**	**255**	**(161)**	**21**	**160**	**(85)**
RN Real Estate S.r.l.	23	-	(9)	3	-	(30)
Nastrificio Victor S.p.A.	-	-	(10)	-	-	(5)
Arianna S.p.A.	603	-	(2)	1,983	-	(1)
Eurotest laboratori S.r.l.	89	-	(30)	72	-	(86)
Carel Real Estate Adratic d.o.o.	2	-	(31)	-	-	-
Agriturismo Le Volpi	-	-	-	-	-	(18)
Eurotec Ltd	214	-	(7)	192	-	-
Panther S.r.l.	-	-	(6)	-	-	(3)
Q Inter Supply	133	-	(4)	96	-	(3)
Vinh Nam Refrigeration Electric CO	1		-	-	-	-
Total other related parties	**1,065**	**-**	**(99)**	**2,346**	**-**	**(146)**

	First half 2018			First half 2017		
	Revenue	Costs	Financial income	Revenue	Costs	Financial income
Arion S.r.l.	-	(896)	-	-	(392)	-
Carel Japan Co Ltd	107	(6)	-	81	(2)	-
Free Polska s.p.z.o.o.	1	(100)	-	1	(627)	-
Total associates	**108**	**(1,002)**	**-**	**82**	**(1,021)**	**-**
RN Real Estate S.r.l.	23	(614)	-	23	(603)	-
Nastrificio Victor S.p.A.	-	(27)	-	-	(23)	-
Arianna S.p.A.	56	(7)	-	1,155	(5)	-
Eurotest laboratori S.r.l.	21	(137)	-	62	(126)	-
Carel Real Estate Adratic d.o.o.	2	(145)	-	2	(150)	-
Agriturismo Le Volpi	-	(2)	-	-	(2)	-
Eurotec Ltd	373	(16)	-	351	(14)	-
Panther S.r.l.	-	(4)	-	-	(3)	-
D Subsin Holding Co	-	(1)	-	-	(4)	-
Q Inter Supply	144	(24)	-	137	(35)	-
Vinh Nam Refrigeration Electric CO	1		-	3		-
Total other related parties	**620**	**(977)**	**-**	**1,733**	**(965)**	**-**

Transactions with RN Real Estate S.r.l. relate to the lease of the industrial buildings where the parent carries out its core business.

Transactions with Arianna S.p.A. relate to the sale of products manufactured by Carel Industries S.p.A..

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

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

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

	Registered office	**Country**	**Currency**
Parents:			
CAREL INDUSTRIES S.p.A	Brugine (Padova)	Italy	Euro
Partecipazioni consolidate:			
C.R.C. S.r.l.	Bologna	Italy	Euro
CAREL Deutschland Gmbh	Frankfurt	Germany	Euro
CAREL France SAS	St. Priest, Rhone	France	Euro
CAREL U.K. Ltd	London	GB	Pound Sterling
CAREL Sud America Instrumentacao Eletronica Ltda	San Paolo	Brazil	Reral
CAREL Usa LCC	Wilmington Delaware	USA	Us Dollar
CAREL Asia Ltd	Hong Kong	Hong Kong	Hong Kong Dollar
CAREL HVAC&R Korea Ltd	Seul	South Korea	South Korean Won
CAREL South East Asia Pte. Ltd.	Singapore	Singapore	Singapore dollar
CAREL Australia PTY Ltd	Sydney	Australia	Australian Dollar
CAREL Electronic Suzhou Ltd	Suzhou	People's Republic of China	Renminbi
CAREL Controls Iberica Sl	Barcellona	Spain	Euro
CAREL Controls South Africa (Pty) Ltd	Johannesburg	South Africa	Rand
CAREL ACR System India (Pvt) Ltd	Mumbai	India	Rupee
CAREL RUS Llc	St. Petersburg	Russia	Ruble
CAREL Nordic AB	Hoganas	Sweden	Swedish Krona
CAREL Middle East	Dubai	Dubai	Dirhan
CAREL Mexicana, S. DE R.L. DE C.V.	Guerra, Tlalpan	Mexico	Peso
CAREL Adriatic D.o.o.	Rijeka	Croatia	Kuna
CAREL (Thailand) Co. Ltd.	Bangkok	Thailand	Baht
Alfaco Polska Sp.z.o.o.	Wrocław	Poland	Zloty
CAREL Japan	Fukuoka	Japan	Yen

Share Capital/ quota at 31/12/2017	Share Capital/ quota at 30/06/2018	Investiment % 30/06/2018	Investiment % Share/quota holder	Consolidations method	Profit for the period (Euro) 30/06/2018	Profit for the period (Euro) 30/06/2017
10.000.000	10.000.000				7.507.380	14.917.805
98.800	98.800	100%	CAREL INDUSTRIES S.p.A.	line by line	264.809	236.343
25.565	25.565	100%	CAREL INDUSTRIES S.p.A.	line by line	635.248	389.951
100.000	100.000	100%	CAREL INDUSTRIES S.p.A.	line by line	465.943	316.232
350.000	350.000	100%	CAREL INDUSTRIES S.p.A.	line by line	632.797	432.613
31.149.059	31.149.059	53,02%	CAREL INDUSTRIES S.p.A.	line by line	387.809	122.766
		48,06%	CAREL Electronic Suzhou Ltd			
-	2.000.000	100%	CAREL INDUSTRIES S.p.A.	line by line	783.593	966.839
7.900.000	15.900.000	100%	CAREL INDUSTRIES S.p.A.	line by line	160.708	(42.007)
550.500.000	550.500.000	100%	CAREL Electronic Suzhou Ltd	line by line	(168.653)	(51.908)
100.000	100.000	100%	CAREL Asia Ltd	line by line	10.956	-
100	100	100%	CAREL Electronic Suzhou Ltd	line by line	152.097	127.041
55.288.816	55.288.816	100%	CAREL INDUSTRIES S.p.A.	line by line	3.924.823	4.959.586
3.005	3.005	100%	CAREL INDUSTRIES S.p.A.	line by line	441.938	262.652
4.000.000	4.000.000	100%	CAREL Electronic Suzhou Ltd	line by line	(59.334)	(124.475)
1.665.340	1.665.340	0,01%	CAREL France Sas	line by line	98.153	(123.558)
		99,99%	CAREL Electronic Suzhou Ltd			
6.600.000	6.600.000	99%	CAREL INDUSTRIES S.p.A.	line by line	199.709	116.727
		1%	CAREL France Sas			
550.000	550.000	100%	CAREL INDUSTRIES S.p.A.	line by line	64.446	45.776
3.000.000	4.333.877	100%	CAREL INDUSTRIES S.p.A.	line by line	40.604	(214.208)
12.284.652	12.284.652	100%	CAREL Usa LCC	line by line	74.423	31.677
32.100.000	43.350.000	100%	CAREL INDUSTRIES S.p.A.	line by line	1.138.258	1.200.756
4.000.000	10.000.000	79.994%	CAREL Electronic Suzhou Ltd	line by line	137.251	132.359
		0,006%	CAREL Australia PTY Ltd			
420.000	420.000	100%	CAREL INDUSTRIES S.p.A.	line by line	363.517	138.081
10.000.000	10.000.000	100%	CAREL INDUSTRIES S.p.A.	line by line	ND	ND

Events after the reporting date

LONG TERM INCENTIVE PLAN

On 1 August 2018, the parent's board of directors approved a long-term incentive plan for the executive directors and some managers of the group. The shareholders approved the plan on 7 September 2018. Even though the plan is based on some financial parameters calculated on 2018-2022 results, it does not meet the conditions of IFRS 2 - Share-based payment in order to consider the plan effective as of 30 June 2018. Therefore, no effect has been recognised in the statement of profit or loss, statement of financial position or statement of cash flows included in these condensed interim consolidated financial statements.

Statement on the condensed consolidated interim financial statements pursuant to article 154 bis of Legislative decree no. 58/98

CAREL

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(Translation from the Italian original which remains the definitive version)

Statement on the condensed interim consolidated financial statements pursuant to article 81-ter of Legislative decree no. 11971 of 14 May 1999 as subsequently amended and supplemented

The undersigned Francesco Nalini, as chief executive officer, and Giuseppe Viscovich, 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 condensed interim consolidated financial statements at 30 June 2018:

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

Moreover, they state that:

1. the condensed interim consolidated financial statements as at and for the six months ended 30 June 2018:

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

   b) are consistent with the accounting ledgers and records;

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

2. The directors' report includes a reliable analysis of the key events of the period and their impact on the condensed interim consolidated financial statements, as well as a description of the main risks and uncertainties for the second half of the year and information about significant related party transactions.

Brugine 7 September 2018

(signed on the original)

Manager in charge of financial reporting

(signed on the original)

Legal representative (*or:* chairperson or chief executive officer) including on behalf of the board of directors

Report of the auditors

Deloitte.

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REPORT ON REVIEW OF THE HALF-YEARLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying half-yearly condensed consolidated financial statements of Carel Industries S.p.A. and subsidiaries (the "Carel Group"), which comprise the statement of financial position as of June 30, 2018, the statement of profit or loss, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the six month period then ended, and a summary of significant accounting policies and other explanatory notes. The Directors are responsible for the preparation of the half-yearly condensed consolidated financial statements in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on the half-yearly condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with the criteria recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("Consob") for the review of the half-yearly financial statements under Resolution n° 10867 of July 31, 1997. A review of half-yearly condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying half-yearly condensed consolidated financial statements of the Carel Group as at June 30, 2018 are not prepared, in all material respects, in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union.

Other Matter

Data for the period ended June 30, 2017 presented for comparative purposes have not been audited or reviewed.

DELOITTE & TOUCHE S.p.A.

Signed by
Cristiano Nacchi
Partner

Padova, Italy
September 11, 2018

This report has been translated into the English language solely for the convenience of international readers

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