2018 Annual Report

31 December 2018

CAREL INDUSTRIES Group
2018 Annual Report

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Letter to the shareholders
31 December 2018

Dear shareholders,

2018 was a momentous year for the group: 45 years after its establishment, on 11 June, CAREL was listed on the STAR segment of the stock market of Borsa Italiana, with demand reaching over four times the amount of shares offered, despite the unfavourable market.

The success of the listing is partly thanks to its expectations about the group's growth, which these financial statements fully satisfied. In 2018, in fact, revenue increased by approximately 9.7%, in line with the particularly positive trend seen in recent years. This performance accompanies the excellent profitability which, net of a series of non-recurring items, including, in particular, the one-off costs for the listing on the stock market, amounted to 19.7% (adjusted EBITDA margin). Excluding the above-mentioned non-recurring elements, the profit would have increased by approximately 19% compared to the previous year.

These results are underpinned by three strategic pillars: organic growth, external expansion and close attention to connectivity and innovation.

Specifically, the excellent performance recognised in both the HVAC and the refrigeration segments on a like-for-like basis highlighted the group's ability, primarily, to leverage on upselling and cross-selling, proposing cutting-edge solutions that anticipate customers' needs. This is compounded by the sales force skills that have allowed the group to achieve positive results across all the geographical segments applying


CAREL

consistent exchange rates. In order to support these excellent results, at the beginning of 2018, the group launched a two-year plan to expand its global production capacity, due to conclude at the end of 2019.
In terms of the second pillar, external expansion, I would like to highlight how CAREL's commitment resulted in two major transactions in November: the first being the acquisition of 100% of Recuperator S.p.A., a leader in the design and production of air-to-air heat exchangers with registered office in Rescaldina (Milan); the second being the acquisition of 100% of Hygromatik GmbH, a German leader in the humidification sector. These are the largest transactions the group has ever carried out and represent a concrete challenge for the group in terms of integration, a challenge that we are approaching with great commitment and enthusiasm.
With regard to the IoT (Internet of Things), we are extremely focused on the opportunities related to connectivity and data analytics which, combined with the group's substantial thermodynamic, mechanical and hardware know-how, may result in significant energy savings and therefore, cost savings for the end customer.
The energy savings and, more generally, environmental sustainability have represented and continue to represent the guiding light for CAREL. Between 2015 and 2018, every year we have invested approximately 6% of revenue in research and development, in order to improve the performance of the solutions offered, to reduce energy consumption and to increase the productivity of our customers.

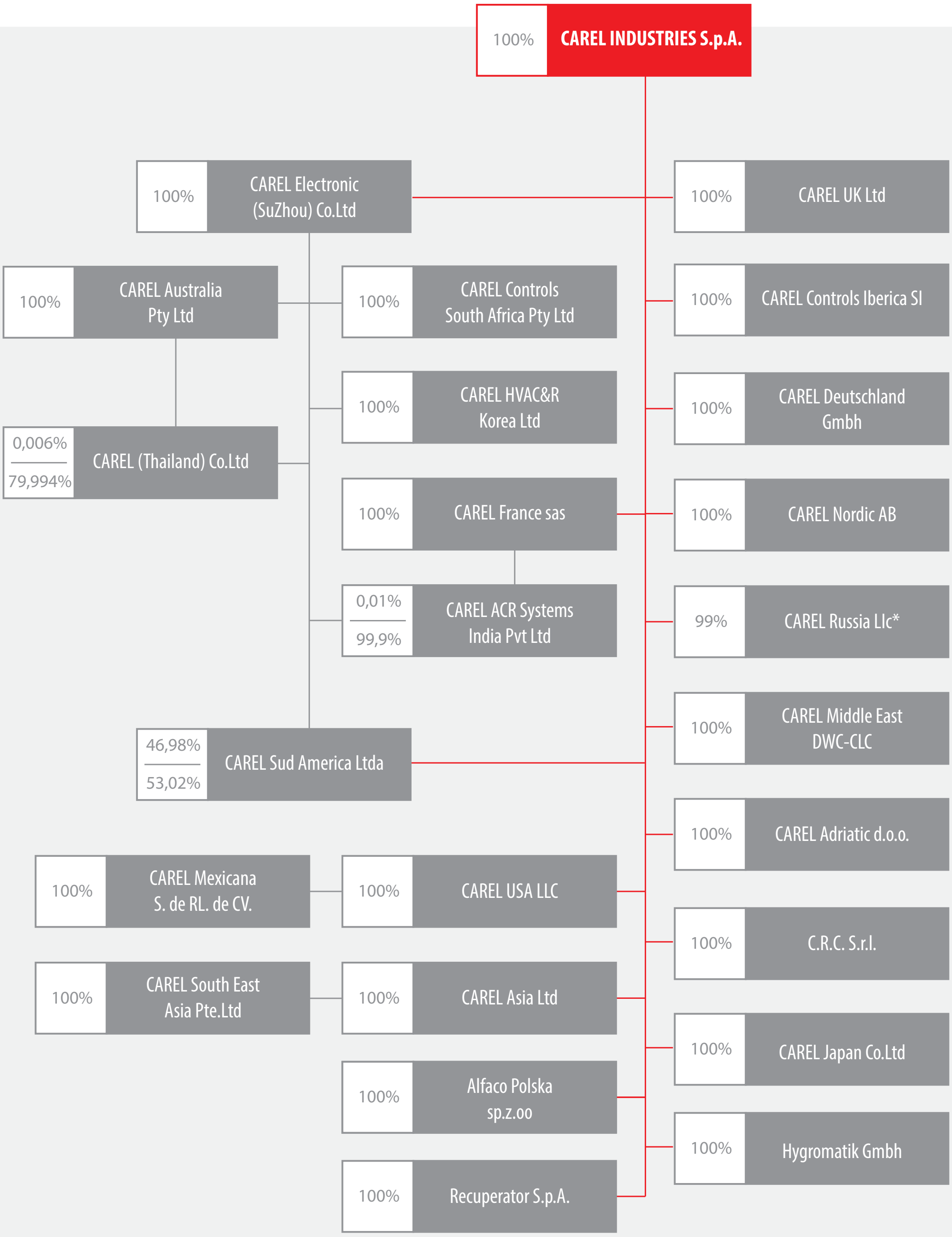
Our history of innovation, energy savings and attention to the customer's needs will form the foundations upon which we will build our future with the same enthusiasm and confidence that have always set us apart.

Chairperson

Luigi Rossi Luciani

CAREL INDUSTRIES Group structure

The following graph shows the group's structure at 31 December 2018:



*=1% held by Carel France sas

Group 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	*Giovanni Costa*
Board of statutory auditors	*Chairperson*	*Saverio Bozzolan*
	Standing statutory auditor	*Paolo Ferrin*
	Standing statutory auditor	*Claudia Civolani*
	Alternate statutory auditor	*Giovanni Fonte*
	Alternate statutory auditor	*Fabio Gallio*
Independent auditors		*Deloitte & Touche S.p.A.*
Control and risks committee	*Chairperson*	*Marina Manna*
	Member	*Cinzia Donalisio*
	Member	*Giovanni Costa*
Remuneration committee	*Chairperson*	*Cinzia Donalisio*
	Member	*Marina Manna*
	Member	*Giovanni Costa*
Supervisory body as per Leg. dec. no. 231/2001	*Chairperson*	*Fabio Pinelli*
	Member	*Andrea Baggio*
	Member	*Alessandro Grassetto*

Applicazioni nel campo del condizionamento dei Data Center

Applicazioni per centrali trattamento aria

Applicazioni nel settore umidificazione

Applicazioni nel settore residenziale

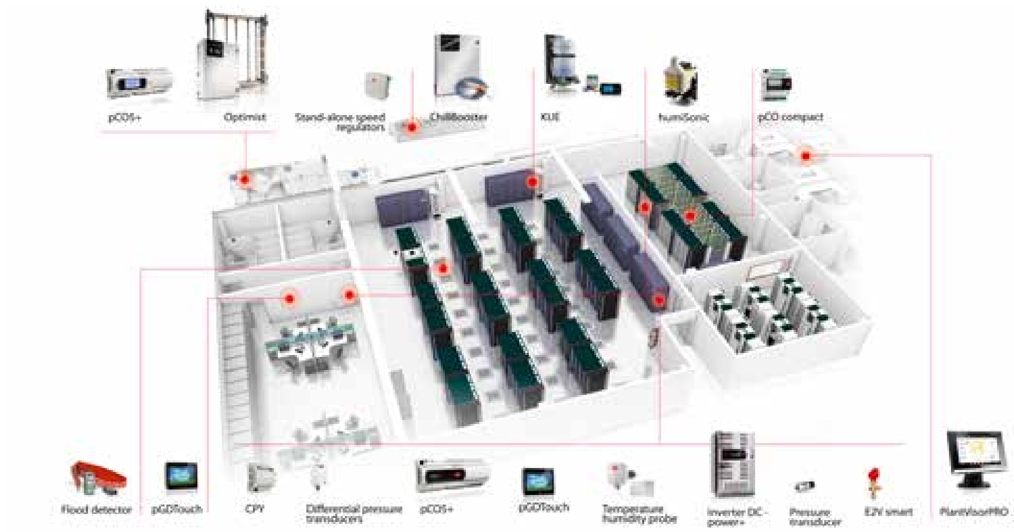
Applicazioni nel settore della refrigerazione

Operations and markets

The group provides control and IoT solutions for the commercial, industrial and residential air-conditioning and refrigeration (HVAC/R) markets.

Its industrial applications for the air-conditioning sector are designed for data centres, the process industry, commercial applications mainly consisting of components for air-conditioning systems in commercial buildings, and residential applications principally comprising control solutions for heat pumps.
The following charts show the CAREL systems:

- for applications in data centre air-conditioning systems;



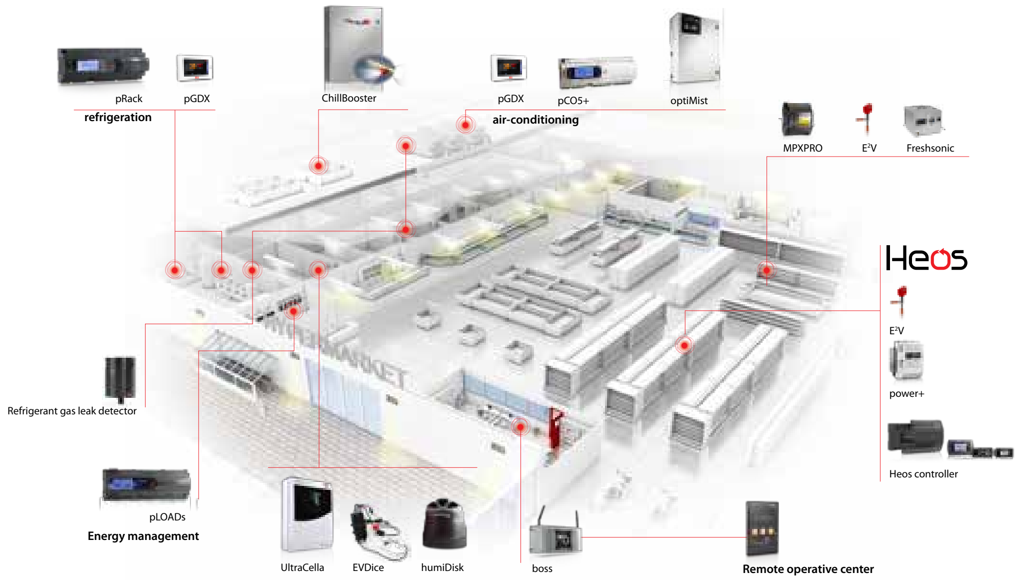
- for air treatment systems:

In the refrigeration sector, the group specialises in the planning, production and distribution of the control systems in the food retail and food service segments.

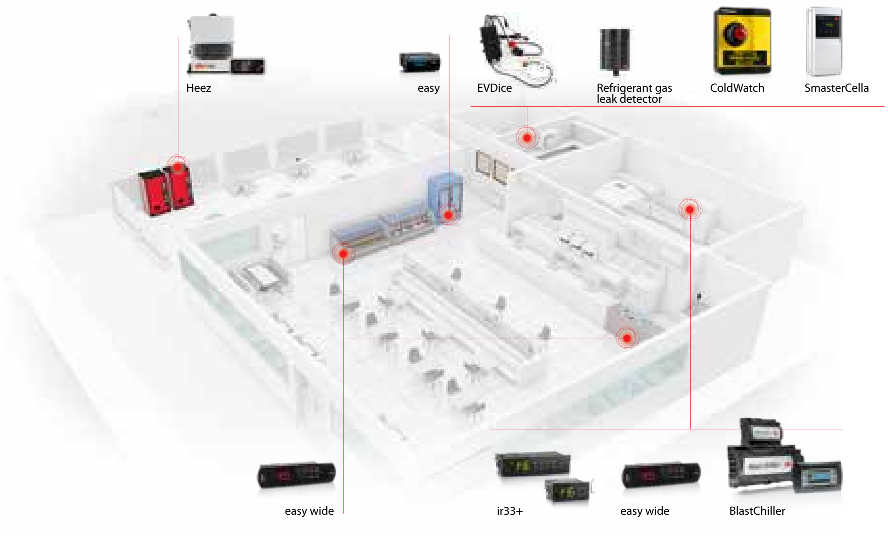
CAREL's offer is for:

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

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



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

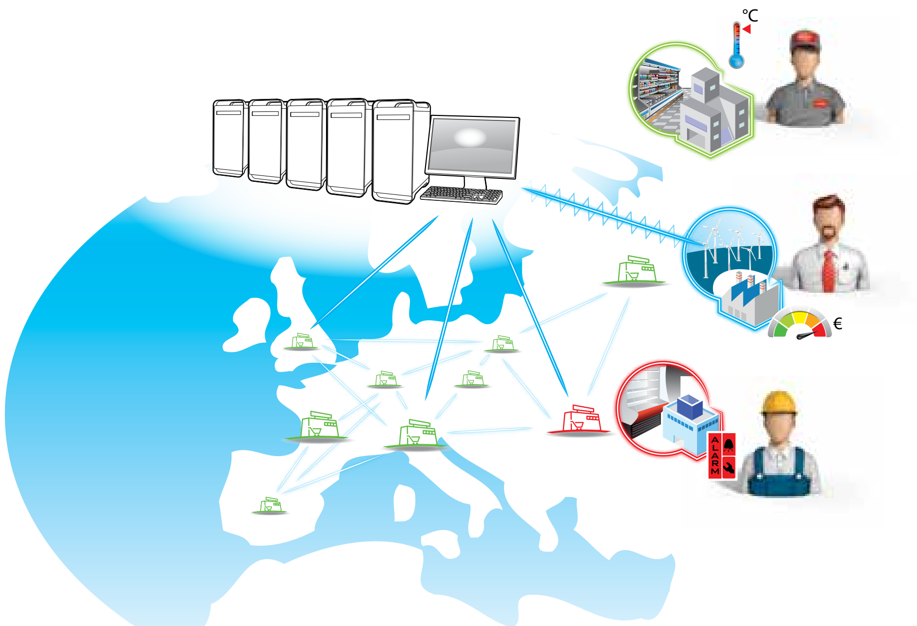


Example application of CAREL's solutions for commercial refrigeration in food service (beverage coolers)

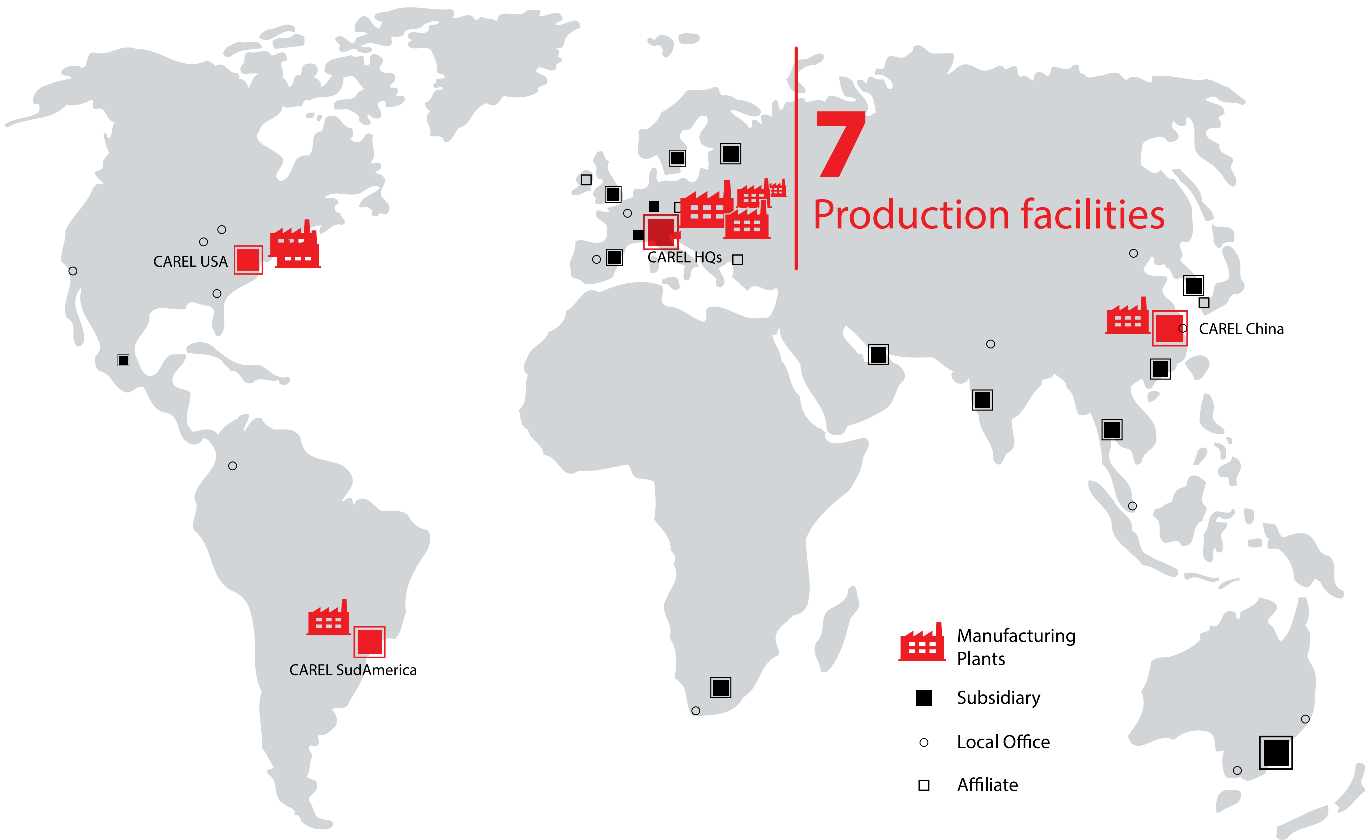
The **IoT solution** has been developed to integrate the specific solutions of the HVAC/R markets via cloud and on-site solutions.

There is a strong interest in remote connectivity and data analytics proposals, which allow sector operators to reduce operating costs for the management of plant and refrigerator units in Italy. This interest is not tied to the specific applications but it is widespread and growing, as predicted by all the main analysts, in terms of the number of connected devices and the consequent volumes of data collected.

Example IoT solutions for the HVAC and refrigeration markets



The group operates through 25 subsidiaries, of which seven production sites in Italy, Croatia, Germany, China, the US and Brazil.



Overview of the global market

Over the last few years, the **global air-conditioning market** has grown between 3% and 5%, driven by the performance of the residential business sector, where Carel is not very active, while Carel's involvement in the industrial and commercial sectors consists of the supply of low volume niche applications characterised by high efficiency technology.

Generally speaking, the air-conditioning sector is strongly driven by increasingly energy-efficient and low-environmental impact innovative technologies.

The Paris Agreement has provided a significant impetus to the move away from HFC refrigeration gases towards systems based on natural refrigerants which generate fewer greenhouse gas emissions.

The refrigeration market, in which the group mainly operates in the commercial segment, grew again in 2018, with an increase in food retail sales outlets (+3.4%) and food service sales outlets (+1.8%), in line with the trend seen in recent years (food retail five-year Compound Annual Growth Rate (CAGR) 4.2% and food service five-year CAGR 1.7%).

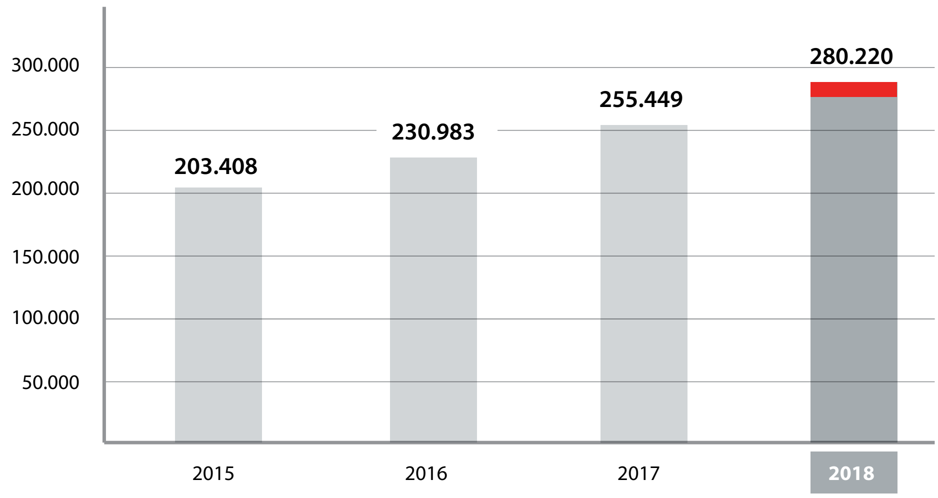
The market has also seen a decisive move towards medium to small size products, which are recording larger increases in turnover, driven by the changed purchasing habits of consumers.

Consideration of just the growth rate does not show the trend in the adoption of electronic solutions, as regulations encouraging greater energy efficiency (e.g., ecodesign) or the use of natural refrigerants (e.g., F-gas) facilitate the replacement of the more simple or electromechanical control solutions with more innovative ones.

Business overview

2018 was a positive year for the CAREL Group with a **9.7% rise in turnover**, while the increase would have been 11.4% using the 2017 constant exchange rates.

The following table and chart show the growth in revenue between 2015 and 2018, showing a CAGR of 11.2%:



2018 growth includes the two companies acquired in November and December, Recuperator S.p.A. and Hygromatik GmbH, which contributed €1.1 million and €1.0 million, respectively, to sales revenue.

Net of such transactions, growth would have been 8.7% at current exchange rates and 10.6% at constant exchange rates.

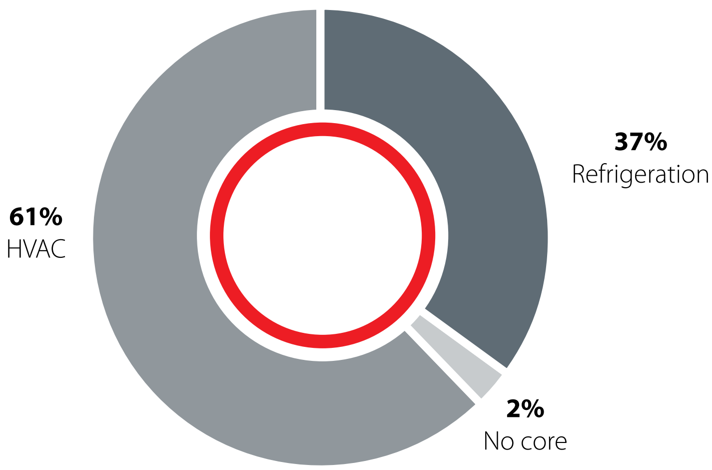
2018 growth was triggered, first of all, by the increase in the refrigeration sector's turnover of approximately 15.5% compared to 2017. The air-conditioning sector also grew, seeing an increase of 7.0% net of additional revenue generated by Hygromatik and Recuperator. If the latter are included, this growth was 8.3%. Therefore, overall, the core business (refrigeration and HVAC) grew by 10.9% and 10.0% with and without the two acquisitions, respectively.

The non-core business's contribution to turnover (2%), decreased in line with the group's strategy, by 25.9%.

A breakdown of turnover for the year by business segment is as follows:

Di seguito la rappresentazione del mix del fatturato per area di business al 31 dicembre 2018:

	2017	2018	Variation	Variation %	FX variation %
HVAC	158,481	171,684	13,202	8.3%	9.9%
REF	88,538	102,289	13,752	15.5%	17.6%
Total Core	**247,019**	**273,973**	**26,954**	**10.9%**	**12.7%**
NON-CORE	8,430	6,247	(2,183)	-25.9%	-25.4%
Total Revenue	**255,449**	**280,220**	**24,771**	**9.7%**	**11.4%**



In **geographical terms**, the most growth was seen in Western Europe (+13.9%) and Eastern Europe (+15.2%). In Western Europe it was driven by the refrigeration market and while in Eastern Europe it was driven by the HVAC market. In both markets, strong growth derived from highly efficient and natural refrigeration solutions. Sales in **North America** grew by 2.5% at current exchange rates and 7.2% at constant exchange rates, driven by the growing demand on the local market for connected HVAC units.

In **South America**, revenue decreased by 9.5% at current exchange rates, while at constant exchange rates it increased by 1.8%. For both the HVAC and refrigeration sectors, this result is due to the local socio-economic situations, specifically in Brazil, attached to political and economic uncertainties in the second half of 2018 and in Argentina, caused by the severe economic crisis.

Lastly, revenue increased in both North and South Asia. In particular, in **North Asia**, revenue increased by 3.0% at current exchange rates and 5.8% at constant exchange rates. Specifically, the refrigeration segment saw a significant increase in the customer base and its share of the food retail and food service segments, the latter is also influenced by the business export.

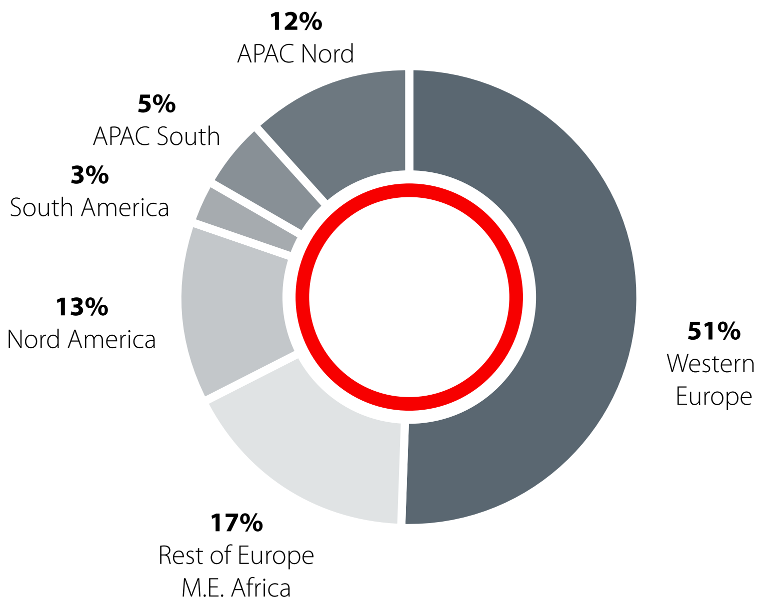
In **South Asia**, however, growth was +0.3% at current exchange rates and 5.2% at constant exchange rates, confirming the positive trigger of the geographical expansion strategies.

A breakdown of revenue by geographical segments is provided below:

	2017	2018	Variation %	FX variation %
Western Europe	125,677	143,108	13.9%	14.0%
Other European countries, Middle East and Africa	41,265	47,528	15.2%	15.6%
North America	34,655	35,512	2.5%	7.2%
South America	8,260	7,479	-9.5%	1.8%
Asia Pacific South	12,895	12,930	0.3%	5.2%
Asia Pacific North	32,697	33,663	3.0%	5.8%
Total	**255,449**	**280,220**	**9.7%**	**11.4%**

Revenue in Western Europe, net of acquisitions during the year, would amount to €141.0 million.

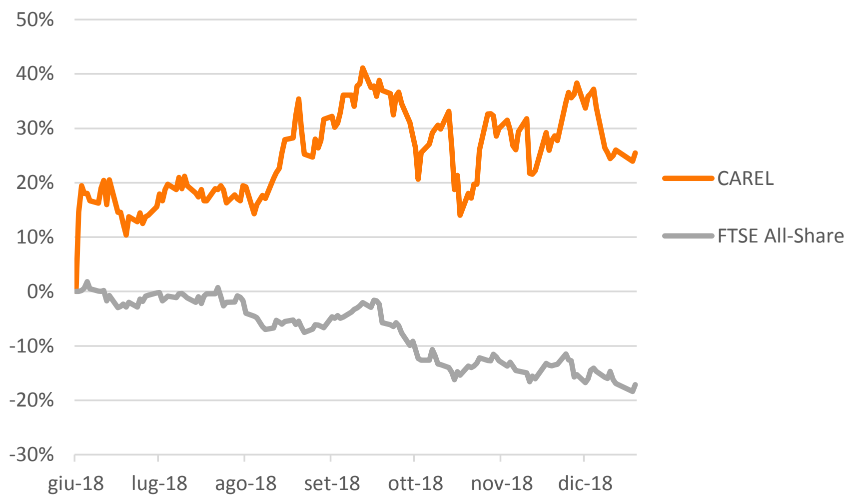
The following chart shows the distribution of revenue by geographic segment:



Listing on the stock market

CAREL INDUSTRIES S.p.A.'s ordinary shares were listed on the STAR segment of the stock market organised and managed by Borsa Italiana S.p.A. on 11 June 2018. The transaction did not entail the issue of new shares, but involved 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.

After the first day of the listing on 11 June 2018, when shares were worth €7.20 each, the value of CAREL's shares increased significantly, reaching €9.04 per share by 28 December 2018, the last trading day of the year. The average price was €9.00 per share, hitting a maximum of €10.16 on 21 September 2018 and a minimum equal to the original €7.20.



Mergers & Acquisitions

Acquisition of Recuperator S.p.A.

On 23 November 2018, the parent acquired 100% of Recuperator S.p.A., an Italian company with registered office in Rescaldina (MI) active in the design, production and marketing of air-to-air heat exchangers. This transaction has allowed the group to expand the offer of its product portfolio in the HVAC market, consolidating its role as a supplier of complete solutions to manufacturers of air handling units.

In 2017, the Recuperator S.p.A. generated revenue of approximately €16.4 million and a gross operating profit of approximately €1.7 million; its net financial position was €6.9 million. For more information about the assets acquired and liabilities assumed, reference should be made to note 2 to the consolidated financial statements. The transaction became effective on 23 November 2017 and the amount paid for its entire share capital amounted to €25.6 million, of which €18.5 million to cover the shares and €7.1 million for the liquidity recognised at the acquisition date.

At the acquisition date, Recuperator S.p.A. had 64 employees.

Acquisition of Hygromatik Gmbh

On 30 November 2018, the parent acquired 100% of Hygromatik Gmbh, a German company belonging to the Sprirax Sarco Engineering PLC Group, with registered office in Henstedt-Ulburg (Hamburg), which is active in the design, production and marketing of humidifiers and related accessories in the industrial, commercial and wellness field.

The transaction is part of the CAREL INDUSTRIES Group strategy to consolidate its presence in the German-speaking markets and in Northern Europe, thanks to the strong market penetration of the newly-acquired company, leveraging the strength of the brand and the industrial excellency.

In 2017, the newly-acquired company generated revenue of approximately €15.0 million and a gross operating profit of approximately €4.7 million. For more information about the assets acquired and liabilities assumed, reference should be made to note 2 to the consolidated financial statements. The transaction became effective on 30 November 2017 and the amount paid for 100% of shares amounted to €56.1 million.

At the acquisition date, Hygromatik Gmbh had 57 employees.

Allocation of the acquisition price

Both acquisitions resulted in the allocation to the assets acquired and liabilities assumed of the higher price paid compared to the relative net equity (Purchase price allocation), in accordance with IFRS 3 Business combinations. Based on the appraisal prepared by an independent third party, part of the difference was allocated as follows:

	Recuperator S.p.A.	Hygromatik Gmbh
Property, plant and equipment	1,667	501
Intangible assets	8,962	23,791
Deferred tax liabilities	(2,965)	(7,288)
Total allocation	**7,664**	**17,004**

The main intangible assets that have increased are customer lists, trademarks and technology.
The residual difference of €6,326 thousand for Recuperator S.p.A. and €38,499 thousand for Hygromatik Gmbh, respectively, has been allocated to Goodwill. Reference should be made to note 2 to the consolidated financial statements for more information about allocations to property, plant and equipment.

Other significant events

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 Tokyo, was set up in 2013 and distributes Carel products on the local HVAC/R market. Reference should be made to note 2 to the consolidated financial statements for further information.

Tax audits

A dispute is ongoing between the parent and the Venice provincial tax office following the notice of assessment regarding transfer pricing issued for 2011 and 2012. The findings regarded solely transactions between the Chinese company, Carel Suzhou and the parent. The date of the first hearing of the dispute is pending, however, due to the effect of the recent changes introduced by Legislative decree no. 119/2018, the parent would have the possibility to proceed with an agreement of the pending dispute that will allow for its settlement through the payment of assessed taxes reduced by 90%, without sanctions and interest. The provision for tax risks related to the dispute has been adjusted accordingly in the consolidated financial statements as at and for the year ended 31 December 2018

With regard to transfer pricing and the above transactions between the Chinese company, Carel Suzhou and the parent, in June 2018, the Venice regional tax office issued a preliminary assessment report for 2013, 2014, 2015 and 2016. Following the discussions relating to the preliminary assessment report, on 5 December 2018, the company and the tax office agreed on profitability parameters to determine the market price of the disputed transactions, agreeing on the use of the profitability indicator used for 2013. This resulted in reviewing the tax recovery highlighted in the preliminary assessment report and the consequent write-off of the findings for 2014 and 2016 and the redefinition of the disputed amounts for 2013 and 2015. The parent signed an accession agreement for 2013 and the consequent payment plan for the €310 thousand owed, to be paid in quarterly instalments starting from December 2018.

With regard to 2015, the company intends to agree to the new amount of €171 thousand plus interest in 2019 and a suitable provision for tax risks has been accrued.

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 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**

Statement of profit or loss

(€'000)

	Restated 31.12.2017	31.12.2017	Variation
Amortisation, depreciation and impairment losses	-3,902	-3,776	-126
OPERATING PROFIT	**22,475**	**22,600**	**-126**
PROFIT BEFORE TAX	**22,475**	**22,600**	**-126**
Income taxes	-5,484	-5,508	24
PROFIT FOR THE YEAR	**16,915**	**17,017**	**-102**

Other significant events related to financing activities

The group's main financing activities in 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 €30,000 thousand medium/long-term loan was granted to the parent at a fixed interest rate of 0.88% and expiring in 2021;
- a €30,000 thousand medium/long-term loan was granted to the parent at a variable six-month Euribor plus a spread of 0.78%, expiring in 2022; at the same time, an interest rate swap (IRS) was agreed, with identical conditions to hedge interest rate risk;
- a €10,000 thousand short-term loan was granted to the parent at a fixed interest rate of 0.30%;
- the Private Value, CaVita Valore and Capitalvita policies were paid out for €15,000 thousand, €20,000 thousand and €10,000 thousand respectively, in addition to accrued interest of €433 thousand;
- the dividends resolved by the shareholders on 29 March 2018 were distributed for a total of €30,000 thousand.

Overview of the group's performance

The main performance figures for 2018 compared to the previous year are as follows:

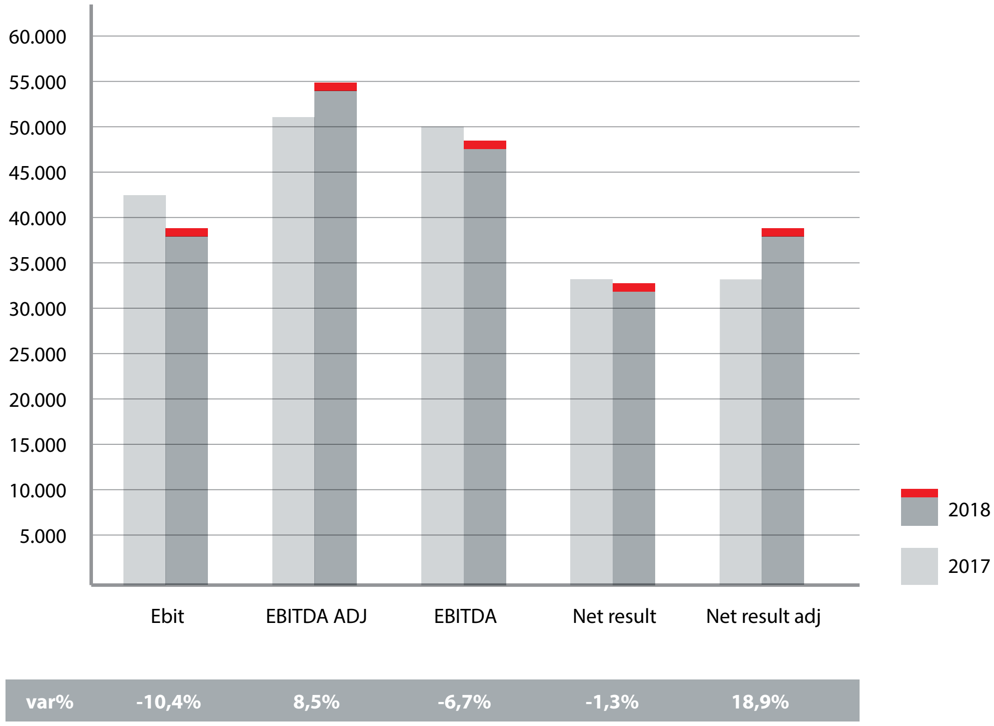
	2017	2018	Variation	Variation %
EBIT	42,261	37,867	(4,393)	-10.4%
EBITDA ADJ	50.858	55,209	4,351	8.5%
EBITDA (1)	50,337	46,986	(3,351)	-6.7%
Net profit	31,164	30,752	(412)	-1.3%
Adjusted profit	31,539	37,515	5,969	18.9%

In 2018, EBITDA amounts to €46.9 million, amounting to 16.8%(2) of revenue, showing a decrease in absolute terms of €3.4 million down from €50.3 million in the previous year (19.7%). This decrease is mainly due to:

- costs incurred in the first half of the year for listing on the STAR segment of the Italian stock market;
- costs incurred in relation to acquisitions and accruals for non-recurring charges;
- higher costs due to the above-mentioned listing.

Net of the non-recurring effects mentioned in the two above points, as the higher costs are not normalised, adjusted EBITDA would amount to €55.2 million, equal to 19.7% of sales revenue in line with the previous year (19.9%).

FX adjusted EBITDA (i.e., at constant exchange rates) would come to €56.4 million or 19.8% as a percentage of revenue (again at constant exchange rates).
Profit amounts to €30.8 million, substantially in line with the profit for the previous year, mainly due to the significant decrease in the tax burden thanks to the benefits of the application of the "patent box" regulation of the parent and the decrease in the tax rate of the US group company.



(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) and amortisation, depreciation and impairment losses. It uses EBITDA to assess its operating performance.

(2) The EBITDA margin is the ratio of EBITDA to revenue.

The adjusted costs related to the above-mentioned non-recurring events, used to define the adjusted EBITDA and adjusted profit are broken down as follows:

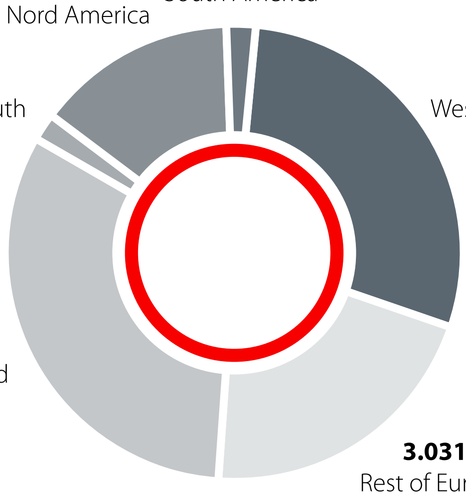
Adjusted costs	**31.12.2018**
Consultancies	6,134
Wages and salaries	412
Business trips and travel	58
Marketing and advertising	53
Other services	378
Accruals to provisions	1,177
Sundry cost recoveries	11
Total adjusted costs	**8,223**

The main financial position indicators at 31 December 2018, compared to 31 December 2017 are as follows

	2017	2018	Variation	Variation %
Non-current assets [11]	37,411	131,364	93,953	> 100%
Working capital [12]	46,353	53,383	7,030	15.2%
Defined benefit plans	(5,687)	(7,333)	(1,646)	-28.9%
Net invested capital [13]	**78,077**	**177,414**	**99,337**	**> 100%**
Equity	118,316	118,288	(28)	0.0%
Net financial position (debt) [10]	(40,239)	59,125	99,365	> 100%%
Total	**78,077**	**177,414**	**99,337**	**> 100%**

Non-current assets amount to €131.3 million, up by €94 million from €37.4 million in the previous year, mainly due to the allocation of the acquisition price (Purchase price allocation) of Recuperator S.p.A. and Hygromatic Gmbh which resulted in the recognition of intangible assets of €32.8 million, property, plant and equipment of €2.2 million and goodwill of €44.8 million.

The group's investments, net of the allocations deriving from the business combinations, amount to €18.4 million compared to €10.0 million in the previous year. The investments, for a total of €14.5 million, were in particular, for buildings, plant and machinery and the breakdown by geographical segment is as follows:



Most investments made by the Chinese group company were for the construction of a new site which is expected to be completed in the first half of 2019.

In Croatia and America, investments were made in plant and machinery aimed at boosting production capacity at the Croatian site and introducing new production lines at the American site. In Italy, investments were mainly for plant and machinery for the creation of a new valves production line and for the renewal and upgrading of the SMD line.

Depreciation amounts to €8.8 million, compared to €8.1 million in 2017, with an increase of 9.2%.

Net working capital amounts to €53.4 million, showing an increase of €7.0 million on the previous year. This increase was mainly influenced by the amount of the two acquired companies (€5.6 million) and the increase in inventories, only partly compensated by the recognition of deferred tax liabilities on the allocations to non-current assets (€10.2 million).

The group's net financial debt amounts to €59.1 million compared to a net financial position of €40.2 million at 31 December 2017. This decrease is mainly due to the medium-term borrowings taken out by the company for the acquisitions. Furthermore, during 2018, dividends of €30 million were paid.

A breakdown of net financial position (debt) is as follows:

	31.12.2017	31.12.2018
Non-current financial liabilities	21,671	68,866
Current financial liabilities	29,066	45,651
Cash and cash equivalents	(43,900)	(55,319)
Current financial assets	(47,076)	(72)
Net financial (position) debt	**(40,239)**	**59,125**

The main financial indicators compared to the previous year end are as follows:

Indicators	2017	2018
ROS (3)	16.5%	13.5%
ROI (4)	54.1%	21.3%
ROE (5)	26.3%	26.0%
ROA (6)	18.4%	11.9%
Inventory rotation (14)	3.0	2.5
Average DSO (15)	79.0	74.6
Average DPO (16)	79.8	84.1
Group tax rate (18)	-25.6%	-17.8%
R&D - Investments (7)	14,494	16,035
R&D % of revenue (8)	5.7%	5.7%
Capex as % of revenue (9)	3.9%	6.6%
Cash conversion rate (17)	79.5%	49.7%

(3) The Return on Sales (ROS) is the ratio of EBIT to revenue.
(4) The Return on Investment (ROI) is the ratio of EBIT to net invested capital.
(5) The Return on Equity (ROE) is the ratio of the profit for the year to equity.
(6) The "Return on Assets" (ROA) is defined as the ratio of the operating profit to total assets.
(7) The "R&D Investments" are the sum of Opex R&D and Capex R&D.
(8) The R&D investments as a percentage of revenue is the ratio of R&D investments to revenue.
(9) The Capex as a percentage of revenue is the ratio of cash flows from investing activities to revenue.
(10) The group calculates net financial debt using the method set out in paragraph 127 of the CESR recommendation 05/054b, which implemented Commission Regulation (EC) 809/2004.
(11) Net non-current assets is the sum of property, plant and equipment, intangible assets, equity-accounted investments and other non-current assets.
(12) 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.
(13) Net invested capital is the sum of (i) net non-current assets, (ii) net working capital and (iii) defined benefit plans.
(14) Inventory turnover is calculated as the ratio of (i) purchases of raw materials, consumables, goods and changes in inventories to (ii) average inventories at the end of the previous and current years. This ratio is multiplied by 365.

(15) Average DSO is the ratio of (i) the average trade receivables at the end of the previous and current years to (ii) revenue. This ratio is multiplied by 365.
(16) Average DPO is the ratio of (i) the average trade payables at the end of the previous and current years to (ii) the sum of purchases of raw materials, consumables and goods and changes in inventories and cost of services. This ratio is multiplied by 365.
(17) The Cash conversion rate is calculated as the ratio of (i) operating cash flows net of cash flows from investing activities to (ii) EBITDA.
(18) The group tax rate is the ratio of income taxes to the profit before tax.

Key cash flows are as follows:

Cash flows from operations (indirect method)

	2017	2018
Profit for the year	31,164	30,752
Profit for the year net of amortisation, depreciation and impairment losses, provisions, net financial income (expense), income taxes and gains (losses) on the sale of non-current assets	**50,323**	**48,436**
Cash flows before changes in net working capital	(330)	(9,329)
Interest and income taxes paid	(12,288)	(11,636)
Cash flows used in investing activities	(12,897)	(48,956)
Share capital increases	-	31
Sales (acquisitions) of equity investments	(404)	-
Dividends to owners of the parent and non-controlling interests	(15,051)	(30,000)
Cash flows from financing activities	7,349	63,220
Change in cash and cash equivalents	**16,702**	**11,766**
Opening cash and cash equivalents	27,197	43,552
Closing cash and cash equivalents	43,900	55,319

In 2018, the group generated cash of €11.8 million after distributing dividends of €30 million and investing €49 million net of the termination of insurance policies for a total of €47 million. Cash flows from financing activities amount to €63 million.

Cash flows generated by operating activities amount to €48.3 million in 2018, which is a slight drop on 2017.

Overview of the parent's performance: CAREL INDUSTRIES S.p.A.

The parent, CAREL INDUSTRIES S.p.A., has its offices at the main production site in Brugine (Padua).
The parent produces and markets products which it distributes to the end customers in the markets it manages directly (Italy) and its foreign subsidiaries in the markets they manage.

In 2018, the main events affecting the parent were:

- the placement with institutional investors of 40.25% of its shares on the STAR segment of the stock market managed by Borsa Italiana S.p.A. on 11 June 2018 (25.20% of share capital with voting rights);
- the acquisition of the other 51% of Carel Japan Ltd., which was completed on 27 June 2018.
- On 23 November and 30 November, the acquisitions of Recuperator S.p.A. and Hygromatik Gmbh were finalised, as described in the Mergers & Acquisitions paragraph, to which reference should be made for more details.

The parent also continued to invest in its international development and made capital injections to boost the commercial operations of Carel Middle East (capital increase of €300 thousand), Carel Asia (capital increase of HKD8,000 thousand) and the production entities Carel Adriatic, Carel Shzhou and Carel US (HRK22,500 thousand, €2,500 thousand and USD3,000 thousand, respectively). The latter injections of capital were to assist the local entities to develop their activities so as to increase sales in Europe and Asia, respectively.
The parent provides centralised treasury services to the group and the European entities have a cash pooling system in which the parent acts as pooler. At year end, it had, respectively, financial assets and financial liabilities of €6.28 million and €3.58 million related to the cash pooling account.
The group's net financial debt amounts to €84 million (31 December 2017: net financial position of €19.8 million).

The parent distributed dividends of €30,000 thousand to its shareholders during the year.

The parent's key figures are summarised below:

	2017	2018	variation %
Revenue from third parties	90,177	95,824	6.3%
Intragroup revenue	75,988	84,452	11.1%
Other revenue	3,140	3,971	26.5%
Operating costs	(140,410)	(161,532)	15.0%
EBITDA	28,895	22,715	-21.4%
Amortisation, depreciation and impairment losses	(5,772)	(5,784)	0.2%
EBIT	23,123	16,931	-26.8%
Net financial income	11,918	9,859	-17.3%
Profit before tax	35,041	26,791	-23.5%
Income taxes	(7,426)	(2,804)	-62.2%
Profit for the year	27,614	23,987	-13.1%

The parent performed well in 2018; revenue amounts to €180.3 million up by 8.5% on the previous year. The increase in revenue is due to the rise in third party sales (+6.3%) and sales to other group entities (+11.1%). Other revenue mainly consists of royalties from group entities for know how licences and tax assets for R&D activities as provided for by national laws.

Operating costs include the capitalisation of development expenditure of €2.1 million (compared to €1.6 million in 2017). The increase in operating costs is mainly due to the higher costs related to the listing process and the "higher" costs related thereto. The number of employees increased from 612 to 660 (including 233 blue collars and 409 white collars and 18 managers).

Financial income includes dividends of €9.9 million (2017: €11.9 million) received from foreign entities, mainly the Chinese subsidiary and the newly-acquired Recuperator S.p.A..

Taxes decreased significantly in absolute terms and as a percentage of profit before tax (21.2% in 2017 to 10.5% in 2018) mainly due to the tax benefit for 2015, 2016 and 2017 for the so-called "patent box" which resulted in a gain of approximately 2.1 million.

The reclassified statement of financial position as at 31 December 2018 compared with the previous year-end is as follows:

	31.12.2017	31.12.2018	variation %
Non-current assets	43,460	139,238	>100%
Working capital	17,388	19,391	11.5%
Defined benefit plans	(5,055)	(4,979)	-1.5%
Net invested capital	**55,792**	**153,649**	**>100%**
Equity	75,599	69,601	-7.9%
Net financial (position) debt	(19,807)	84,048	<100%
Total coverage	**55,792**	**153,649**	**>100%**

The increase in net non-current assets is mainly due to the acquisition cost, including ancillary costs of the investments in Recuperator S.p.A. and Hygromatik Gmbh of €25,744 thousand and €57,216 thousand, respectively.

It is also due to the capital increases of Carel Adriatic, Carel Suzhou, Carel US, Carel Asia and Carel Middle East amounting to €9,256 thousand.

Working capital has increased principally due to the increase in inventories, only partly compensated by a reduction in trade receivables and an increase in trade payables.

Lastly, the financial debt at 31 December 2018 of €84.0 million, comprising cash and cash equivalents of €24.0 million and loan assets of €7.5 million offset by financial liabilities of €115.5 million, including current financial liabilities of €47.2 million.

The reconciliation of the parent's equity and the consolidated equity at 31 December 2018 is provided below:

	Equity	Profit for the period
	31 december 2018	**2018**
CAREL INDUSTRIES S.p.A.	**69,601**	**23,987**
Profit and equity of consolidated entities	112,878	19,579
Derecognition of the carrying amount of investments in consolidated entities	(127,919)	(1,231)
Derecognition of intragroup dividends	-	(9,915)
Derecognition of internal profits on inventories	(6,761)	(1,417)
Allocation of company acquisition price	70,276	(326)
Other adjustments	(82)	1
CAREL INDUSTRIES Group	**117,992**	**30,678**

Occupational health and safety

There were no fatal accidents during the year, continuing the trend of previous years. The following events led to the temporary invalidity of the workers involved:

- four injuries leading to time off work of less than three days (two in 2017),
- 12 injuries leading to time off work of more than three days (15 in 2017),

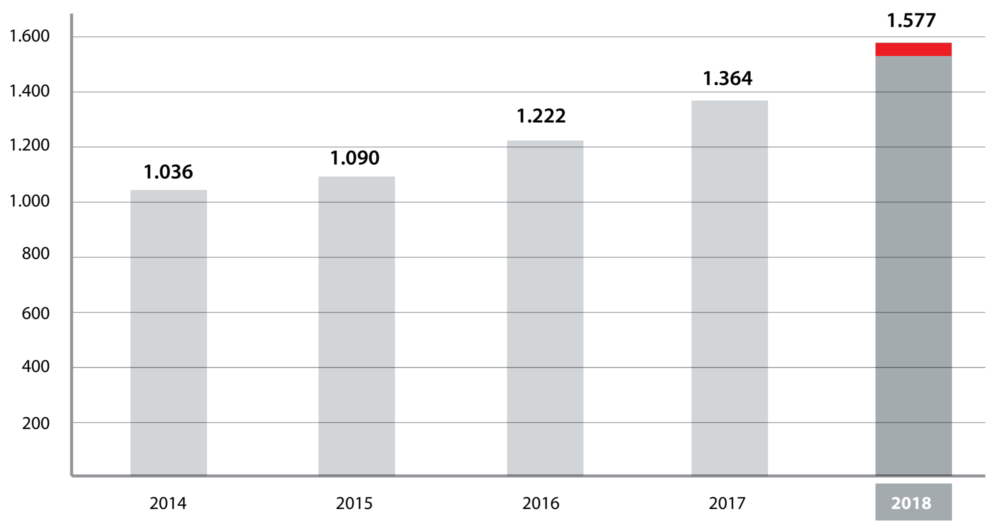
for a total of 16 injuries, including eight during the worker's travel to and from work and eight in the workplace.

The group did not receive any complaints nor was it ordered to appear in court for alleged violations of occupational health and safety regulations or environmental crimes. However, it should be noted that, in 2018, the parent received an inspection notice for ascertainment of the infringement of protection of health and safety in the workplace regulations. The notice alleges the reintroduction of welding fumes into the work environment after collection and filtering, affecting some stations used for manual occasional tin soldering. The parent promptly took steps to resolve the issue and installed centralised aspiration systems as required

by Spisal (the prevention and occupational hygiene and safety service). At the date of this report, the body has not yet performed its inspection to check that compliance of the work carried out by the parent.
Carel also continued to be committed to reducing the negative impact of its operations on the environment, including by continuously researching solutions to regulate and check equipment and systems that use low environmental impact refrigerants and solutions that provide customers with maximum possible energy efficiency.
With regard to the environment, in 2018, following its listing, the group adopted a reporting system to comply with the requirements of Legislative decree no. 254/96 about non-financial information.
Pursuant to article 5.3.b of Legislative decree no. 254/2016, the parent has also prepared a consolidated non-financial statement.
This statement can be found in the section "Investor Relations/Sustainability report" of the parent's website.

HR and organisation

La crescita del Gruppo, anche sul fronte del numero dei dipendenti complessivi, prosegue seguendo il medesimo trend sviluppato nel corso degli ultimi 5 anni:

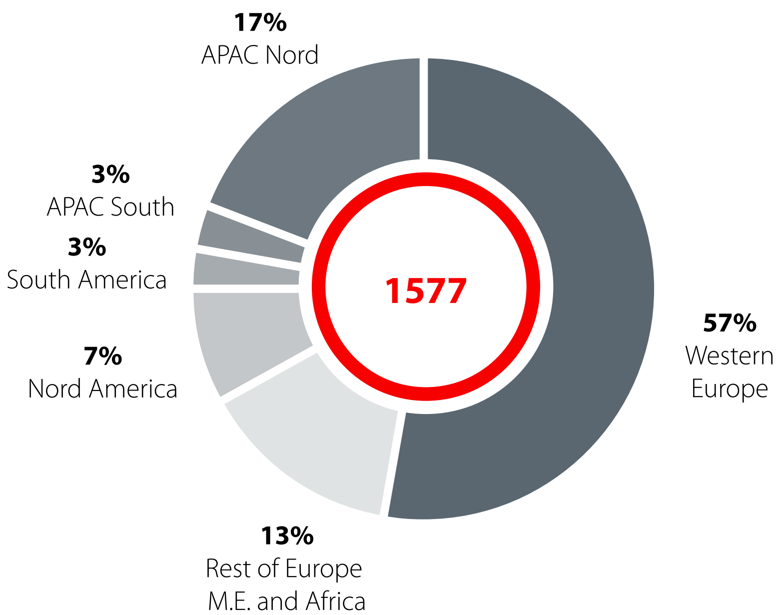


The workforce has increased by 213 resources compared to 31 December 2017:

	2017	2018	Variation	Variation %
Western Europe	718	893	175	24.4%
Other European countries, Middle East and Africa	186	214	28	15.1%
North America	110	112	2	1.8%
South America	45	47	2	4.4%
Asia Pacific North	260	263	3	1.2%
Asia Pacific South	45	48	3	6.7%
Total	**1,364**	**1,577**	**213**	**15.6%**

This growth in the workforce is mostly in Western Europe, also following the recent acquisitions of Recuperator S.p.A. (in Italy) and Hygromatik Gmbh (in Germany), which contribute a total of 121 resources.
The upgrading of Carel Adriatic's production site in Croatia also continued in 2018, with an increase in its workforce from 108 resources in 2017 to 133 resources in 2018 (mostly blue collars).

At year end, a breakdown of the group's employees by geographical segment is as follows:



Development and selection

During the year and in line with the budget approved at the end of 2017, the group continued to enhance its organisational structure, primarily to support business growth at a commercial, technical and production level.

Overall, the group hired 327 resources in 2018, while 239 left. The Italian head office hired 80 employees during the year while 35 (all white collars) left the parent, some of whom had reached retirement age. The exit trend in Italy and, more generally, in the foreign production sites, confirms the fierce competition for highly-qualified personnel on the global labour market.

As CAREL understands the importance of cultivating the best talents, every year, it promotes job rotations and overseas secondments within the group entities, with the aim of promoting the development of an international approach and skills in different group areas, via the International Mobility initiatives. In 2018, ten employees were sent abroad on secondment to both commercial and production companies, holding various positions. On the other hand, foreign employees (both white and blue collar) came to Italy for frequent and sometimes lengthy secondments to participate in technical/application and production training courses.

In the last few months of 2018, the process to select eight participants for the "Join The Future" programme starting in February 2019 began. "Join The Future", first launched in 2008 and now on its fourth edition, is CAREL's graduate programme which involves recruiting young people with great potential, who have recently graduated in scientific subjects and their introduction - using a fast-track approach through interdisciplinary projects - into different group segments, combined with both internal and external training courses, including a final two-month international experience with a group company.

Furthermore, in 2018, the group adopted a remuneration policy which aims, on the one had, to align the interests of the owners and management, by pegging the remuneration of the key personnel and the group's performance and, on the other hand, intends to attract, motivate and retain the key resources and best talents with a competitive salary.

2018 training courses

During the year and in line with previous years, the extensive training programmes continued, involving employees from all group entities and countries in which they operate.

A total of roughly **31,825** (14,394 in Italy) hours of training were provided, including **23,552** (11,706 in Italy) to white collars and about **8,273** (2,688 in Italy) to direct and indirect production personnel. As is its consolidated practice and to meet its ongoing objective of maintaining high expertise levels at all employee levels, the group's main training courses were of a technical/application, management and professional refresher nature.

Specifically, at group level, approximately 22% of total hours of training focused on communication and managerial subjects (communication, public speaking, leadership, coaching) for resources across the different group entities; 9% of subjects relating to safety and HSE (Health, Safety and Environment) and 2% on quality and privacy. Approximately 12% of the hours were dedicated to induction activities for new hires, with training sessions focused on interdisciplinary topics (of a technical nature, but also commercial and organisational) and 11% related to the HVAC/R applications. With reference to the purely technical/specialist topics, the hours of training focused on design (electronic, mechanical and IT) amounted to approximately 11% of the total, 15% on operations, 4% on foreign languages, while 2% on accounting and finance, 6% on marketing and approximately 5% on spreading the Lean philosophy and HR.

In general, employees from all departments have been involved in the training sessions; of the 31,825 thousand hours provided, 34% involved Operations resources, 31% selling and marketing, 17% R&D and 19% of staff. External lecturers/trainers and/or specialist consulting companies gave about 50% of the courses.

The group continued its employee development policy commenced in previous years with training paths designed to encourage mostly office and production staff to acquire additional skills and gain multi-disciplinary know-how. It never neglected its aim of also arming new managers with adequate training to fill important positions at international level (including at senior level) in the future.

Industrial relations

2018 was a substantially positive year for industrial relations, with no particularly critical matters for the Group in Italy or abroad.

The first half of the year was characterised, in particular, by the constructive discussion about the introduction of a third night-shift at the parent's head quarter's finished goods warehouse. This increase aimed to satisfy the need for better management of the transfer and storage of materials, without affecting the quality of the service provided, which could have a negative impact for our customers.

More generally, the group and the trade unions wanted to put the speed with which the group is able to respond to certain contingent market situations (work peaks, backlog management, etc.,) at the centre of the discussion, by adopting working hours arrangements, which make it possible to quickly increase internal production capacity and the logistical management of deliveries.

From September 2018, meetings for the renewal of the second level internal additional agreement (expiring 31 December 2018) began through the presentation of the trade union programme and the launch of a constructive discussion about performance bonuses and welfare policies offered to employees. At the date of presentation of this report, no agreement has been signed, but this should take place in the first quarter of 2019.

The unionisation level (number of members compared to total employees) is slightly lower than in 2017 at around 13.5% confirming the group's substantially positive industrial relations and the absence of conflicts or significant pending disputes.

In 2018, there were a total of five strikes, with average participation of 8.5% (22.6% if considering only blue collar workers). As in 2017, these strikes were not due to the internal matters and/or situations, but rather they were tied to protests against and awareness building about occupational health and safety (also in light of some serious workplace accidents reported in the Veneto in 2018).

2018 R&D activities

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

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

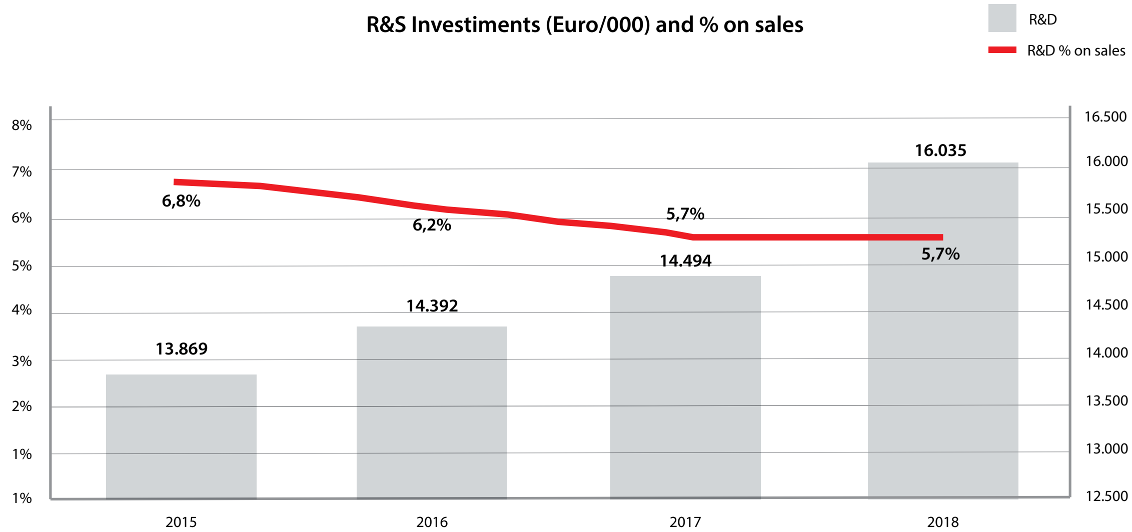
The Knowledge Centre has continued to provide training, providing 15 sessions about refrigeration and air-conditioning to more than 241 technical and commercial employees, who received extensive training about the related applications.

The IoT division was set up and reports to general management to strengthen group investments in solutions that aid value creation using data collected from the system, in order to continue providing chargeable services to customers, promoting non-traditional solutions, such as improving the efficiency of the system, predictive maintenance and remote management.

Currently the R&D unit has two IoT divisions, the Knowledge Centre and the R&D unit comprised of the centres for electronics, mechanics and software tools skills.

In 2018, the R&D unit had an average of 193 employees (including 140 at the parent) who are very qualified and have a high educational level (roughly two thirds are university graduates).

Costs (personnel expense, opex and capex) of the R&D activities equalled 5.7% of turnover and amounted to €16.0 million, up 0.7% on the previous year, confirming the group's ongoing commitment to innovation. Variations in R&D investments over the last few years are shown in the following graph (in thousands of Euros and as a percentage of turnover):



As the Italian financial reporting standards were met for some of the projects developed or underway, the group capitalised the related expenditure of roughly €2.2 million under intangible assets.

The group created two new positions to develop its organisation and management team during the year:

- system manager to assist the development of products and managerial skills
- a competence manager to assist development of specific technical skills.

The group confirmed its modular approach to product development in the various areas (electronic, mechanical and software) to encourage as far as possible the re-use and re-usability of the modules and thus reduce development times, achieve greater reliability and reduce product costs. It focused especially on honing development skills at the other global production sites through its global competence centres to improve their ability to meet group design requirements. It maintained its development processes, methods and standards and circulated them throughout the group to be used as a basis for all design activities and guarantee identical quality levels at each facility. A production part approval process (PPAP) has been consolidated for suppliers of materials, in particular to specification, in order to improve the quality in terms of both the design and the reliability of the production flows. This will improve the reliability of the supply flows, with the resulting improvements in logistics and quality. Furthermore, R&D activities also grow through long-standing partnerships with Padua university (in areas ranging from analogue and digital electronics, power electronics to the theory of systems and controls, thermodynamic applications, technical physics and mechanical production processes), CNR (National Research Institute) and the most important sector associations, such as EPEE (European Partnership for Energy and the Environment), AICARR (Italian association of Air conditioning, Heating and Refrigeration), ASHRAE (American Society of Heating and Air-Conditioning Engineers), AHRI (Air-Conditioning, Heating and Refrigeration Institute) and Ehpa (European Heat Pump Association).

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

- acquisition of new base technologies and processes;
- development of new products/product platforms;
- operating improvement of platform products;
- development of new vertical solutions using available products

The three guiding principles led to:

- energy efficiency
- natural refrigerants
- monitoring, data analysis and streamlining of systems

Activities for product development focused mainly on the implementation of high-efficiency solutions for the HVAC/R market, from apps for supermarket refrigeration units (MPXone) to apps for air conditioning (uChiller), both derived from the recent ACU platform at the base of the HEEZ system developed in 2017. Both of the apps use a Bluetooth connection system to connect to hand-held devices, Applica and Controlla, which allows for complete, user-friendly control of the device and the respective unit

Applicazioni per il condizionamento (µChiller)

Applicazioni per il condizionamento (MPXone)

The refrigeration product range has developed and improved the solutions for bottle coolers using the inverter technology and the natural refrigerant propane **HEEZ** (voted product of the year by Environmental Leaders). This solution's characteristics include high energy efficiency, low consumption and environmental sustainability using a natural refrigerant.

Also in the refrigeration range, the versions of PJEZ have been reviewed, integrating Bluetooth to be able to connect to the Applica App, and reviewing the high/low voltage protection versions. The study for the redesign of the refrigeration platforms which will take place in the next few years has already been started.

The programming suite for the programmable range was extended to improve connectivity, with the introduction of the OPC-UA standard which allows for interoperability at both an industrial level and in terms of building automation. New connectivity possibilities have been introduced for hand-held devices for the commissioning and configuration of machinery to make these activities simpler.

With regard to connectivity and Edge devices, the pCOWEB interface has been updated to comply with the safety standards required for the most up-to-date IT infrastructures, while new wifi and bluetooth gateways have been introduced for interoperability with the Applica system interface for hand-help devices, in addition to the creation of wireless infrastructures to simplify supervisory systems for refrigeration and air conditioning. The range of Edge supervisory devices has been enhanced with the miniBOSS product, aimed at controlling small plant.

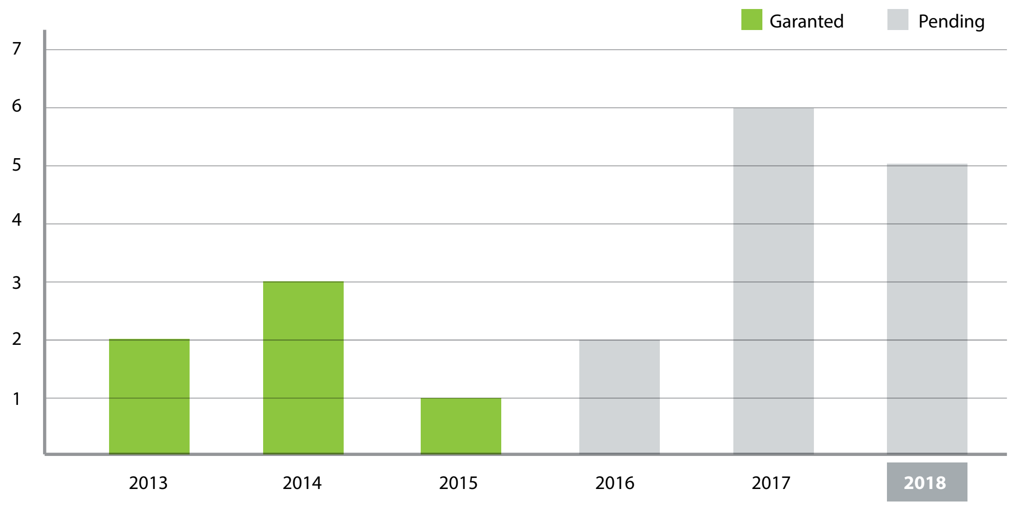
In terms of IoT, in addition to the consolidation of the Armilla system used to monitor bottle coolers, the apps for hand-help devices, the centralised control systems tEra and remotePRo for both refrigeration (retail chain) and air-conditioning (data centres) have also been upgraded, supporting the development of services for controlling plant, maintenance, energy saving, identifying the most critical devices and their efficiency. The range of inverters for BLDC variable rotation compressors was extended and renewed in part to extend the PEC (protective electronic device) solutions which simplify the end application. Similarly, the electronic expansion valves were updated to improve their quality and productivity and reduce costs.
It should be remembered that the development of customised inverters for the Coal to Electricity programme in China is an example of the migration from coal to electrical energy in emerging countries aimed at containing environmental emissions.

With regard to electronic expansion valves, the mid-sized E4V valves have been redesigned, the E5V valves have been upgraded for CO2 applications and the enhancement of the E2V versions has continued for E2V ammonia applications.

In terms of isothermal humidifiers, the range of gas-fired steam humidifiers (GaSteam) has been extended to improve the production of steam, also considering versions that are suitable for outdoor installation, mainly requested in North America. The Steam Blower options for resistive steam humidifiers have been reviewed and updated with new technologies. The ranges of resistive steam humidifiers (RH) have been updated for the new graphic interfaces and integrated into the tEra system, to allow for the possibility of new services related to remote monitoring.

For the HMI, the pGN terminals have been upgraded, in order to reduce costs and contain obsolescence. After the presentation in 2017 of pGDX 4.3", the range of Human Machine Interface graphics resulted in a similar redesign for 7" solutions.
Five new patents were added to the group's portfolio, bringing the total to 29 patents (approved - filed)

Patrimonio brevetti negli ultimi anni (Patent Pending Garanted at 2018/12/31)



Outlook

Provided that there are no significant changes to the economy or the sector, the group expects to maintain the development trend seen in recent years in 2019, consolidating growth and financial stability. The significant two-year investment plan launched in 2018 and dedicated to expanding the group's production capacity, will contribute to this growth, while the group's financial stability will be based on the excellent cash generation that characterised 2018.

Consolidated financial statements and notes thereto

31 December 2018

Statement of financial position

(€'000)

	Note	31.12.2018	Restated 31.12.2017
Property, plant and equipment	1	37,560	22,405
Intangible assets	2	91,126	13,031
Equity-accounted investments	3	335	327
Other non-current assets	4	2,343	1,648
Deferred tax assets	5	4,128	4,141
Non-current assets		**135,491**	**41,552**
Trade receivables	6	59,951	54,643
Inventories	7	54,285	37,773
Current tax assets	8	6,055	846
Other current assets	9	6,001	4,555
Current financial assets	10	72	47,076
Cash and cash equivalents	11	55,319	43,900
Current assets		**181,683**	**188,793**
TOTAL ASSETS		**317,174**	**230,345**
Equity attributable to the owners of the parent	12	117,992	118,068
Equity attributable to non-controlling interests	13	296	248
Total equity		**118,288**	**118,316**
Non-current financial liabilities	14	68,866	21,671
Provisions for risks	15	1,332	1,650
Defined benefit plans	16	7,333	5,687
Deferred tax liabilities	17	11,820	1,662
Non-current liabilities		**89,351**	**30,671**
Current financial liabilities	14	45,651	29,066
Trade payables	18	41,289	35,018
Current tax liabilities	19	1,539	2,279
Provisions for risks	15	1,649	-
Other current liabilities	20	19,407	14,995
Current liabilities		**109,535**	**81,359**
TOTAL LIABILITIES AND EQUITY		**317,174**	**230,345**

Statement of profit or loss

(€'000)

	Note	31.12.2018	Restated 31.12.2017
Revenue	21	280,220	255,449
Other revenue	22	3,147	2,131
Costs of raw materials, consumables and goods and changes in inventories	23	(115,383)	(104,933)
Services	24	(50,286)	(39,085)
Capitalised development expenditure	25	2,453	1,602
Personnel expense	26	(70,751)	(63,927)
Other expense, net	27	(2,415)	(899)
Amortisation, depreciation and impairment losses	28	(9,119)	(8,076)
OPERATING PROFIT		**37,867**	**42,261**
Net financial income (expense)	29	(136)	451
Net exchange rate losses	30	(352)	(814)
Share of profit (loss) of equity-accounted investees	31	15	(20)
PROFIT BEFORE TAX		**37,394**	**41,878**
Income taxes	32	(6,643)	(10,714)
PROFIT FOR THE YEAR		**30,752**	**31,164**
Non-controlling interests		74	47
PROFIT FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF THE PARENT		**30,678**	**31,117**

Statement of comprehensive income

(€'000)

	2018	2017
Profit for the year	**30,752**	**31,164**
Items that may be subsequently reclassified to profit or loss:		
- Fair value gains (losses) on hedging derivatives net of the tax effect	(126)	9
- Exchange differences	(754)	(4,600)
Items that may not be subsequently reclassified to profit or loss:		
- Actuarial gains (losses) on employee benefits net of the tax effect	66	(36)
Comprehensive income	**29,938**	**26,537**
attributable to:		
- Owners of the parent	29,847	26,501
- Non-controlling interests	90	36

Earnings per share

Earnings per share (in Euros)	12	0.31	0.31

Statement of cash flows

(€'000)

	31.12.2018	Restated 31.12.2017
Profit for the year	30,752	31,164
Adjustments for:		
Amortisation, depreciation and impairment losses	9,212	7,950
Accruals to/utilisations of provisions	1,518	776
Non-monetary net financial (income) expense	312	(316)
Income taxes	6,643	10,738
	48,436	**50,323**
Changes in working capital:		
Change in trade receivables and other current assets	(1,491)	(484)
Change in inventories	(13,123)	(5,089)
Change in trade payables and other current liabilities	6,442	5,199
Change in non-current assets	(684)	295
Change in non-current liabilities	(473)	(250)
Cash flows from operations	**39,107**	**49,993**
Net interest paid	(553)	(370)
Income taxes paid	(11,083)	(11,918)
Net cash flows from operations	**27,471**	**37,705**
Investments in property, plant and equipment	(14,516)	(7,083)
Investments in intangible assets	(3,922)	(3,015)
Disinvestments of financial assets	47,030	-
Disinvestments of property, plant and equipment and intangible assets	342	112
Interest collected	433	-
Investments in equity-accounted investees	-	-
Business combinations net of cash acquired	(78,322)	(2,910)
Cash flows used in investing activities	**(48,956)**	**(12,897)**
Acquisitions of non-controlling interests	-	(404)
Capital increases	31	-
Dividend distributions	(30,000)	(15,000)
Increase in financial liabilities	94,557	39,051
Decrease in financial liabilities	(31,337)	(31,702)
Cash flows generated by (used in) financing activities	**33,251**	**(8,106)**
Change in cash and cash equivalents	**11,766**	**16,702**
Cash and cash equivalents - opening balance	**43,900**	**28,845**
Exchange rate losses	(348)	(1,648)
Cash and cash equivalents - closing balance	**55,319**	**43,900**

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 year	-	-	-	-
Dividend distributions	-	-	-	-
Change in consolidation scope	**-**	**-**	**-**	**-**
Total owner transactions	**10,000**	**2,000**	**8,019**	**24**
Profit for the year	-	-	-	-
Comprehensive income (expense)	-	-	(4,589)	9
Total comprehensive income	**-**	**-**	**(4,589)**	**9**
Balance at 31.12.2017	**10,000**	**2,000**	**3,430**	**33**
Balance at 1.01.2018	**10,000**	**2,000**	**3,430**	**33**
Owner transactions				
Allocation of profit (loss) for the year	-	-		-
Capital increases	-	-		-
Defined benefit plans	-	-		-
Dividend distributions	**-**	**-**		**-**
Change in consolidation scope	-	-		-
Total owner transactions	10,000	2,000	3,430	33
Profit for the year	**-**	**-**		**-**
Other comprehensive income (expense)	**-**	**-**	**(770)**	**(126)**
Total comprehensive income	-	-	(770)	(126)
Balance at 31.12.2018	**10,000**	**2,000**	**2,660**	**(93)**

Other reserves	Retained earnings	Profit for the year	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)	(51)	(15,051)
-	**174**	**-**	**174**	(578)	(404)
35,231	**36,294**	**-**	**91,568**	**212**	**91,780**
-	-	31,117	31,117	47	31,164
(36)	-	-	(4,616)	(11)	(4,627)
(36)	**-**	**31,117**	**26,501**	**36**	**26,537**
35,195	**36,294**	**31,117**	**118,068**	**248**	**118,316**
35,195	**36,294**	**31,117**	**118,068**	**248**	**118,316**
27,612	3,505	(31,117)	-	-	-
	-	-	-	31	31
77	-	-	77		77
(30,000)	**-**	**-**	**(30,000)**	**(74)**	**(30,074)**
	-	-	-	-	-
32,884	39,798	-	88,145	205	88,350
	-	**30,678**	**30,678**	**74**	**30,752**
66	-	-	(830)	16	(814)
66	-	30,678	29,847	90	29,939
32,950	**39,798**	**30,678**	**117,992**	**296**	**118,288**

Notes to the consolidated financial statements

Content and format of the consolidated financial statements

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

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

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

The parent's board of directors approved the consolidated financial statements at 31 December 2018 on 7 March 2019.

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

Statement of compliance and basis of preparation

The CAREL INDUSTRIES Group's consolidated financial statements at 31 December 2018 were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission with the procedure set out in article 6 of Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002.

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

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

The consolidated financial statements were prepared in thousands of Euro, which is the group's functional and presentation currency as per IAS 21 The Effects of Changes in Foreign Exchange Rates. There may be rounding differences when items are added together as the individual items are calculated in Euros.

Compared to the consolidated financial statements as at and for the year ended 31 December 2017, approved on 29 March 2018, in the first half 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 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
Passività non correnti	**1.662**	**1.481**	**181**

Statement of profit or loss (€'000)

	Restated 31.12.2017	31.12.2017	Variation
Amortisation, depreciation and impairment losses	-3,902	-3,776	-126
OPERATING PROFIT	**22,475**	**22,600**	**-126**
PROFIT BEFORE TAX	**22,475**	**22,600**	**-126**
Income taxes	-5,484	-5,508	24
PROFIT FOR THE YEAR	**16,915**	**17,017**	**-102**

Financial statements schedules

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

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

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

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

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

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

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

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

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

Consolidation scope

The consolidated financial statements include the financial statements at 31 December 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 31 December 2018.

Basis of consolidation

The consolidated financial statements 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 year are recognised under equity.

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

Business combinations

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

The assets acquired and the liabilities assumed are recognised at their acquisition-date fair value, except for the following items which are measured in line with the relevant IFRS:
- deferred tax assets and liabilities;
- employee benefits;
- liabilities or equity instruments related to share-based payment awards of the acquiree or share-based payment awards of the acquirer issued to replace the acquiree's awards;
- -assets held for sale and disposal groups.

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

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

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

Accounting policies

The consolidated financial statements at 31 December 2018 were prepared in accordance with the IFRS issued by the IASB, endorsed by the European Commission and applicable at the reporting date. They are presented in Euros, which is the group's functional currency, i.e., the currency of the primary economic environment in which it mainly operates. Amounts are rounded to the nearest thousand.

The consolidated financial statements present the financial position and performance of the parent and its subsidiaries. The financial statements used for consolidation purposes are those prepared by the subsidiaries pursuant to the IFRS at 31 December 2018.

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

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

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

Following its decision to adopt the IFRS starting from the consolidated financial statements at 31 December 2017, the group referred to the standards applicable from 1 January 2017 to prepare its consolidated financial statements at 31 December 2018, in accordance with the provisions of IFRS 1.

STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLICABLE TO ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2018

The group applied the following standards, amendments and interpretations for the first time starting from 1 January 2018:

- On 28 May 2014, the IASB published IFRS 15 *Revenue from contracts with customers* together with additional clarifications published on 12 April 2016) which has superseded IAS 18 Revenue and IAS 11 Construction contracts and IFRIC 13 Customer loyalty programmes, IFRIC 15 Agreements for the construction of real estate, IFRIC 18 - Transfers of assets from customers and SIC 31 Revenue - Barter transactions involving advertising services. 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 group applied the standard starting from 1 January 2018 using with the modified retrospective transition method. It analysed the existing contracts 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 standard.

  The characteristics of the contracts in place with customers, therefore, did not require changes to be made to the financial statements schedules, nor did the adoption of the new standard have a numerical impact. Therefore, assets from contracts with customers, incremental costs for the acquisition of contracts and the right to returns or liability for future reimbursements have not been recognised.

- On 24 July 2014, IASB published the final version of IFRS 9 -*Financial Instruments: recognition and measurement*. This document includes the results of the IASB's project to replace IAS 39. The new standard applies to annual periods beginning on or after 1 January 2018.

  The standard introduces new criteria for the classification and measurement of financial assets and liabilities. Specifically, for financial assets, the new standard uses a single approach based on the management of financial instruments and characteristics of the contractual cash flows of the financial assets themselves in order to determine the measurement criteria, replacing the provisions of IAS 39. However, for financial liabilities, the main amendment concerns the accounting treatment of changes in the fair value of a loan recognised as a financial liability measured at fair value in profit or loss, in the case in which these changes are due to the credit rating of the issuer of the loan. In accordance with the new standard, these changes should be recognised under Other comprehensive income not in profit or loss. It is no longer permitted to spread the effects of the renegotiation throughout the residual term of the payable modifying the effective interest rate at that date, but the relative effect must be recognised in profit or loss.

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. The standard requires that the impairment model is applied to all financial instruments, i.e. financial assets measured at amortised cost, those measured at fair value through other comprehensive income, receivables from lease assets and trade receivables.

Lastly, the standard introduces a new hedge accounting model, with the aim of adjusting the requirements of IAS 39, which are sometimes considered too strict and not suitable for reflecting the risk management policies of the companies. The main changes relate to:

- the increase in the type of transactions eligible for hedge accounting, including the risks of non-financial assets/liabilities eligible for hedge accounting;
- the modification of the accounting treatment of forwards and options when they are included in a hedge accounting relationship, to reduce volatility in profit or loss;
- modifications to the effectiveness test replacing the current methods based on the range of 80-125%, with the relationship between the hedged caption and the hedging instrument. Furthermore, the assessment of the retrospective effectiveness of the hedging relationship will not longer be requested.

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 they were held to collect the contractual cash flows (IFRS 9.4.1.2), but they did 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 was 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 of 31 December 2017 approximated their fair value recognised as per IAS 39. During 2018, these policies were terminated, with a repayment of investment capital increased by accrued interest, as described in note 10. 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 year;
- 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 experience. Furthermore, the group does not factor trade receivables;
– hedge accounting: with the exception of two IRS hedging fluctuations in interest rates, which are considered immaterial to the consolidated financial statements, the group does not apply hedge accounting.

Based on the above, therefore, there was no need to change the financial statements schedules, nor did the adoption of the new standard have a numerical impact.

- On 20 June 2016, the IASB published the amendment to IFRS 2 Classification and measurement of share-based payment transactions (published on 20 June 2016), which provides clarifications about the accounting of the effects of vesting conditions on the measurement of a cash-settled share-based payment, the classification of share-based payment transaction with net settlement features and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The adoption of this amendment did not affect the consolidated financial statements, as it did not have defined benefit plans at 31 December 2018 that fell under the standard's scope.
- On 8 December 2016, the IASB published the "Annual Improvements to IFRSs: 2014-2016 Cycle", which partly amends the existing standard as part of the annual improvement process. The scope of the main changes regards:
  – IFRS 1 First-Time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters. The amendment has been applied since 1 January 2018 and regards the deletion of short-term exemptions provided for by paragraphs E3-E7 of Appendix E of IFRS 1 as the benefit of such exemptions as they have now served their intended purpose.
  – 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. The amendment clarifies that the election for a venture capital organisation or a similar entity (such as a mutual fund) to measure investments in associates and joint ventures at fair value through profit or loss (rather than through the application of the equity method) is exercised on an investment-by-investment basis upon initial recognition. The amendment has been applied since 1 January 2018.
  – IFRS 12 Disclosure of Interests in Other Entities – Clarification of the scope of the Standard. The amendment clarifies the scope of IFRS 12, specifying that the disclosure requirements, except for those set out in paragraphs B10-B16, apply to all the entity's interests classified as held for sale or as held for distribution to shareholders or as discontinued operations in accordance with IFRS 5. This amendment has been applied since 1 January 2018.

The adoption of these amendments did not affect the group's consolidated financial statements.

- On 8 December 2016, IASB published the amendment to IAS 40 "Transfers of Investment Property". These amendments clarify the requirements necessary to transfer a property to or from investment property. Specifically, an entity shall reclassify a property to or from investment property only when there is evidence of a change in use. This change must be connected to a specific event that has already taken place and must not, therefore, be limited to a change in the management's intentions. These amendments have been applied since 1 January 2018. The adoption of these amendments did not affect the group's consolidated financial statements.
- On 8 December 2016, the IASB published IFRIC 22 Foreign Currency Transactions and Advance Consideration. The interpretation provides guidelines for foreign currency transactions when an entity recognises a non-monetary asset of a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income. This document clarifies which spot exchange rate to use in transactions that involve advance considerations paid or received in foreign currency.

The interpretation clarifies that the date of transaction is the first of:

a. the date on which the payment or receipt in advance is recognised in the entity's financial statements; and

b. the date on which the asset, expense or income (or part thereof) is recognised in the financial statements (with subsequent transfer of the payment or receipt in advance).

If there are multiple payments or receipts in advance, a date of transaction is established for each one. IFRIC 22 has been applied since 1 January 2018. The adoption of this interpretation did not affect the consolidated financial statements of the group.

STANDARDS, AMENDMENTS AND INTERPRETATIONS ENDORSED BY THE EU BUT NOT YET MANDATORY AND NOT ADOPTED EARLY BY THE GROUP AT 31 DECEMBER 2018

- On 13 January 2016, the IASB published IFRS 16 - Leases which 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, lastly, the right to identify the asset's use.

The standard establishes a single model for the recognition and measurement of leases by the lessee. It provides for the recognition of the leased asset, including assets under operating lease, under assets, and a lease liability. 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.

The group completed the preliminary assessment of the potential impacts of the application of the new standard at the transaction date (1 January 2019). This process involved different phases, including the complete mapping of contracts potentially suitable to contain a lease and the analysis thereof for the purposes of understanding the main clauses relevant for the purposes of IFRS 16.

The group chose to apply the standard retrospectively, recognising the cumulative effect of the application of the standard on equity at 1 January 2019, in accordance with paragraphs IFRS 16.C7-C13. Specifically, with regard to the leases formerly classified as operating leases, the group will recognise:

a. a financial liability equal to the current value of future payments at the transaction date, discounted using the incremental borrowing rate applicable at the transaction date for each contract;
b. a right to use equal to the amount of financial liabilities at the transaction date, net of any prepayments and accrued income/accrued expenses and deferred income related to the lease and recognised in the statement of financial position at the reporting date.

The following table details the estimated impacts of the adoption of IFRS 16 at the transaction date:

Assets	**Impacts at the transaction date 01.01.2019**
Land and buildings	14,472
Plant and machinery	-
Industrial and commercial equipment	380
Other items of property, plant and equipment	1,387
Total	**16,239**

Liabilities	**Impacts at the transaction date 01.01.2019**
Non-current financial liabilities	(12,451)
Current financial liabilities	(3,788)
Total	**(16,239)**

n adopting IFRS 16, the group intends to use the exemption provided by IFRS 16.5(a) in relation to short-term leases for categories of assets related to buildings and vehicles.

Similarly, the group intends to use the exemption provided by IFRS 16.5(b) with regard to leases for which the underlying asset is of a low value (that is that they are worth less than €5 thousand when new). The leases to which the exemption has been applied mainly fall within the following categories:

- computers, telephones and tablets;
- printers;
- other electronic devices;
- furniture and furnishings.

For such leases, the introduction of IFRS 16 does not require the recognition of a financial liability and the related right of asset use, but the lease payments will be recognised in profit or loss on a straight-line basis over the lease term.

The group does not intend to use the following practical expedients provided by IFRS 16:

- separation of non-lease components;
- portfolio approach.

Furthermore, with reference to the transition rules, the group elected to use the following practical expedients available in the case of the selection of the modified retrospective transition method:

- classification of leases for which the term ends within 12 months of the date of initial recognition as short-term leases. For such leases, the lease payments will be recognised in profit or loss on a straight-line basis;
- exclusion of initial direct costs from the measurement of the right-of-use of the asset at 1 January 2019;
- use of the information available at the transaction date to calculate the lease term, with particular reference to the extension and early payment options.

In order to provide a better understanding of the impacts of the first-time application of the standard, the following table provides a reconciliation of the future commitments related to the leases at 31 December 2018 and the expected impact of the adoption of IFRS 16 at 1 January 2019:

Reconciliation commitments	
Commitments covered by IFRS 16	**16,239**
Low value lease payments (exemption)	296
Commitments for payments not covered by the standard	1,270
Discount effect	1,829
Future commitments 31.12.2018	**19,634**

- On 12 October 2017, the IASB published an amendment to IFRS 9 Prepayment Features with Negative Compensation. The amendment specifies that the instruments with a prepayment option may pass the Solely Payment of Principal and Interest ("SPPI") test even when the reasonable additional compensation for early termination of the contract is negative compensation for the lender. The amendment applies to annual periods beginning on or after 1 January 2019 but earlier application is allowed. The directors do not expect its adoption will significantly affect the consolidated financial statements.
- On 7 June 2017, the IASB published "Uncertainty over income tax treatments (IFRIC 23)". The new interpretation is effective for annual periods beginning on or after 1 January 2019. The interpretation tackles the subject of uncertainties surrounding tax treatment to be adopted for income taxes. Specifically, the interpretation requires entities to analyse the uncertain tax treatments (individually or collectively, depending on their characteristics) assuming that the tax authorities will examine the tax position and will have full knowledge of all the relevant information. If the entity believes that it is not probable that the tax treatment will be accepted, the entity must reflect the effect of the uncertainty in the calculation of its current and deferred income taxes. Furthermore, the document does not contain any new disclosure obligation, but highlights that the entity shall establish whether it is necessary to provide information about management's considerations related to the uncertainty inherent to the tax recognition, in accordance with IAS 1.
- IFRIC 23 applies to annual periods beginning on or after 1 January 2019 but earlier application is allowed. The directors are assessing the impact of the adoption of this interpretation on the group's consolidated financial statements.

STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET ENDORSED BY THE EU

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

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

The directors do not expect its adoption will significantly affect the group's consolidated financial statements.

- On 12 October 2017, the IASB published "Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)". This document clarifies the need to apply IFRS 9, including the requirements related to impairment, to the other long-term interests in associates and joint ventures for which the equity method does not apply. The amendment applies to annual periods beginning on or after 1 January 2019 but earlier application is allowed.

The directors do not expect these amendments to significantly affect the group's consolidated financial statements.

- On 12 December 2017, IASB published the "Annual Improvements to IFRSs: 2015-2017 Cycle" that include the amendments to some standards as part of the annual improvement process. The main changes regard:
  - IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: the amendments clarify that when an entity obtains control of a business that is a joint operation, it shall remeasure the previously held interests in that business. This process is not, however, required when an entity obtains joint control of a business that is a joint operation.
  - IAS 12 Income Taxes: the amendments clarify that all the income tax consequences of dividends (including payments on financial instruments classified under equity) shall be recognised consistently with the transaction that generated such distributable profits (profit or loss, OCI or equity).
  - IAS 23 Borrowing costs: the amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that the entity borrows generally when calculating the capitalisation rate on general borrowings.
- On 7 February 2018, the IASB published "Plant Amendment, Curtailment or Settlement (Amendments to IAS 19)".
- On 22 October 2018, the IASB published "Definition of a Business (Amendments to IFRS 3)". The document provides clarification regarding the definition of a business for the purposes of the correct application of IFRS 3. Specifically, the amendment clarifies that while a business usually produces output, the presence of output is not strictly necessary to identify a business in the presence of an integrated collection of assets/ processes and goods. However, to be considered a business, an acquired set of activities/processes and assets must include at least one input and one substitute process, which, together, contribute significantly to the ability to create outputs. To this end, IASB replaced the term "ability to create outputs" with "ability to contribute to the creation of output" to clarify that a business can exist without the presence of all the input and processes necessary to create an output.

  Considering that this amendment will be applied to new acquisitions which will be completed after 1 January 2020, any effects will be recognised in the consolidated financial statements subsequent to that date.
- On 31 October 2018, the IASB published the "Definition of Material (Amendments to IAS 1 and IAS 8)". The document amended the definition of "material" contained in IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors. This amendment aims to make the definition of "material" more specific and introduced the concept of "obscured information" to the definitions of omitted or misstated erroneous information already present in the two standards subject to the amendment. The amendment clarifies that information is "obscured" if it has been described in such a way that it has the same effect as if it had been omitted or misstated.

  The directors do not expect these amendments to significantly affect the consolidated financial statements.

- On 11 September 2014, the IASB published amendments to IFRS 10 and IAS 28 - Investments in Associates and Joint Ventures. The amendments were published to resolve the current conflict between IAS 28 and IFRS 10. The IASB has currently deferred application of these amendments.

Accounting policies

Revenue and costs. Revenue is measured based on the fee contractually-agreed with the customer and does not include amounts collected on behalf of third parties. The group recognises revenue when control of the goods or services is transferred to the customer. Revenue is recognised to the extent it is probable the group will receive the economic benefits and it can be measured reliably. Most contracts with customers provide for commercial discounts and discounts based on volumes, which modify the revenue itself. In defining the amount of the variable consideration that may be included in the transaction price, the group calculates the amount of variable considerations that cannot yet be considered realised at each reporting date.
Revenue from the sale of HVAC products and services refer to sales of products for air control and humidification in the industrial, residential and commercial segment (heat ventilation and air conditioning), while refrigeration revenue refers to sales to the food retail and food service segment. The sales in both markets can be divided into the following three macro channels: OEM (Original Equipment Manufacturers), Dealers and Projects. Non-core revenue is earned on products that do not make up the group's core business. The warranties related to these categories of products are warranties for general repair and in most cases, the group does not provide such warranties. The group recognises warranties in compliance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.
There are no significant services provided for a lengthy period of time.
Advertising and research costs are expensed in full as required by IAS 38 Intangible assets. Revenue from services is recognised when the services are rendered.

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

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

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

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

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

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

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

Currency	**Average rate**		**Closing rate**	
	2018	**2017**	**2018**	**2017**
US dollar	1.181	1.130	1.145	1.199
Australian dollar	1.580	1.473	1.622	1.535
Hong Kong dollar	9.256	8.805	8.968	9.372
Brazilian real	4.309	3.605	4.444	3.973
Pound sterling	0.885	0.87667	0.895	0.887
South African rand	15.619	15.049	16.459	14.805
Indian rupee	80.733	73.532	79.730	76.606
Chinese renminbi (yuan)	7.808	7.629	7.875	7.804
South Korean won	1,299.070	1,276.740	1,277.930	1,279.610
Russian ruble	74.042	65.938	79.715	69.392
Swedish krona	10.258	9.635	10.255	9.844
Japanese yen	130.396	126.711	125.850	135.010
Mexican peso	22.705	21.329	22.492	23.661
UAE dirham	4.337	4.148	4.205	4.404
Croatian kuna	7.418	7.4637	7.413	7.440
Thai baht	38.164	38.296	37.052	39.121
Polish zloty	4.262	4,257	4.301	4.177

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

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

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

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

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

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

Assets held under finance lease, when all the risks and rewards of ownership have been substantially transferred to the group, are recognised at their fair value or, if lower, the present value of the minimum lease payments.

The liability to the lessor is shown under financial liabilities. The leased assets are depreciated using the above rates.

Leases where the lessor maintains substantially all the risks and rewards of ownership are classified as operating leases. The related costs are expensed over the lease term.

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

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. Goodwill is not amortised but is tested annually for impairment.

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

These assets are subsequently presented net of accumulated amortisation and any impairment losses.

Their useful life is reviewed regularly and any changes are applied prospectively. Costs incurred to internally generate an intangible asset are capitalised in line with the provisions of IAS 38.
Their estimated average useful life is between three and fifteen years.
Gains or losses on the sale of an intangible asset are calculated as the difference between the asset's sales price and its carrying amount. They are recognised in profit or loss at the sales date.

Impairment losses on non-financial assets. Assets with an indefinite useful life are not amortised but are tested for impairment once a year to check whether their carrying amount has undergone impairment. The board of directors adopted a policy that defines the criteria for the impairment test, the controls to be carried out to guarantee the reliability of the process and the procedure to approve the test, in line with Consob recommendation no. 0003907 of 15 January 2015.
Amortisable assets are tested for impairment whenever events or circumstances suggest that their carrying amount cannot be recovered (trigger events). In both cases, the impairment loss is the amount by which the asset's carrying amount exceeds its recoverable amount, which is the higher of the asset's fair value less costs to sell and its value in use. If it is not possible to determine an asset's value in use, the recoverable value of the cash-generating unit (CGU) to which the asset belongs is calculated. Assets are grouped into the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The group calculates the present value of the estimated future cash flows of the CGU using a discount rate that reflects the time value of money and the risks specific to the asset.
If an impairment loss on an asset other than goodwill subsequently decreases or no longer exists, the carrying amount of the asset or the CGU is increased to the new estimate of its recoverable amount which will not, in any case, exceed the carrying amount the asset would have had if no impairment loss had been recognised.
Reversals of impairment losses are recognised immediately in profit or loss using the model provided for in IAS 16 Property, plant and equipment.

Equity investments. Investments in associates and joint ventures are measured using the equity method, while other investments are measured at fair value through other comprehensive income. If fair value cannot be reliably determined, the investments are measured at cost adjusted for impairment losses, which are recognised in profit or loss.
If the reasons for the impairment loss no longer exist, the equity investments recognised at cost are revalued with reversal of the impairment loss through profit or loss.

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

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

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

All financial assets within the scope of IFRS 9 are recognised at amortised cost or fair value depending on the business model within which the financial asset is held and the characteristics related to the contractual cash flows of the financial asset.

Specifically:

- debt instruments held as part of the business model framework for the possession of financial assets aimed at collecting contractual cash flows and which have cash flows consisting solely of principal payments and interest to be repaid are subsequently recognised at amortised cost;
- debt instruments held as part of the business model framework for collecting contractual cash flows and selling financial assets and that are solely payments of principal and interest on the principal amount outstanding are subsequently measured at fair value through other comprehensive income (FVTOCI);
- all other debt instruments and investments in equity instruments are subsequently measured at fair value through profit or loss (FVTPL).

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

Debt instruments subsequently measured at amortised cost or FVTOCI are subject to impairment.

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

Inventories. Inventories are measured at the lower of purchase and/or production cost, calculated using the weighted average cost method, and net realisable value. Purchase cost comprises all ancillary costs.

Production cost includes the directly related costs and a portion of the indirect costs that are reasonably attributable to the products.
Work in progress is measured at average cost considering the stage of completion of the related contracts.
Obsolete and/or slow moving items are written down to reflect their estimated possible use or realisation through an allowance.
The write-down is reversed in subsequent years if the reasons therefor no longer exist.

Trade receivables. They are initially recognised at fair value, which is the same as their nominal amount, and subsequently measured at amortised cost and impaired, if appropriate. Their carrying amount is adjusted to their estimated realisable amount through the loss allowance.
Foreign currency trade receivables are translated into Euros using the transaction-date exchange rate and subsequently retranslated using the closing rate. The exchange rate gain or loss is recognised in profit or loss.

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

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

Provisions for risks. As required by IAS 37 Provisions, contingent liabilities and contingent assets, the group recognises a provision when it has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Changes in estimates from one period to another are recognised in profit or loss.
Where the effect of the time value of money is material and the amount of the obligation can be estimated reliably, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. Any subsequent changes arising from the passage of time are recognised as financial income or expense in the statement of profit or loss.
No provision is made for possible but not probable risks but the group provides adequate disclosure thereon in the notes.

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

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

Derivative financial instruments. The group solely uses derivatives to hedge currency risk on foreign currency commercial transactions and interest risk on its medium to long-term debt.
Initial recognition and subsequent measurement is at the derivatives' fair value, applying the following accounting treatment:
Fair value hedge - if a derivative is designated as a hedge of the group's exposure to changes in fair value of a recognised asset or liability that could affect profit or loss, the gain or loss from remeasuring the hedging instrument at fair value is recognised in profit or loss as is the gain or loss on the hedged item.
Cash flow hedge - if a derivative is designated as a hedge of the exposure to variability in cash flows of a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income; the cumulative gain or loss is reclassified to profit or loss in the same period during which the hedged forecast cash flows affect profit or loss; the gain or loss on the hedge or the ineffective portion of the gain or loss on the hedging instrument is recognised in profit or loss.
When the conditions for application of hedge accounting are no longer met, the group reclassifies the fair value gains or losses on the derivative directly to profit or loss.

Use of estimates. Preparation of the consolidated financial statements requires management to apply accounting policies and methods that, in certain circumstances, are based on difficult and subjective judgements, past experience or assumptions that are considered reliable and realistic at that time depending on the related circumstances. Application of these estimates and assumptions affects the amounts recognised in the statement of financial position, the statement 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 financial statements due to the uncertainty underlying the assumptions and the conditions on which the estimates were based. The captions that require the greater reliance on the use of estimates and for which a change in the conditions underlying the assumptions may affect the consolidated financial statements are:

- *impairment testing of goodwill:* this test allows the determination of the fair value allocated to the cash-generating units, calculated using the value in use. The allocation of goodwill to the cash-generating units and calculation of its value requires the use of estimates that depend on factors that may vary over time. Based on management's analyses, these variations may be significant in percentage terms but not as an amount given the carrying amount of goodwill;
- *loss allowance:* this allowance comprises management's best estimates about expected credit losses on receivables from end customers. Management estimates the allowance on the basis of the expected credit losses, considering past experience for similar receivables, the performance of past due receivables, assessments of the credit quality and forecasts of economic and market conditions. Management's estimates, which are based on past experience and the market, may be affected by changes in the competitive scenario or the market in which the group operates although management deems that significant different scenarios to that used to make the estimates are unlikely.
- *allowance for inventory write-down:* slow-moving raw materials and finished goods are tested for obsolescence regularly using historical data and the possibility of their sale at below-market prices. If this test shows the need to write-down inventory items, the group sets up an allowance; like for the loss allowance, this allowance is calculated considering past experience and the market. However, management does not believe that changes in the reference scenarios or market trends could significant modify the criteria used as a basis for the estimates;
- *Business combinations:* the identification and measurement of the fair value of assets acquired and liabilities assumed, as well as the subsequent recognition of goodwill, which requires a complex procedure that requires the application of different valuation techniques, which use historical data, forecast figures based on estimates or market observation, such as customer loyalty rates, royalties for the use of comparable assets, the discount rate, the residual useful life of the acquired assets, etc.. To this end, the directors used availed themselves of the work performed by an independent third party. A change in the estimates applied in the allocation process of the price paid could result in discrepancies with regard to the amounts recognised in the financial statements at 31 December 2018 concerning the group's acquisitions.

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

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

Loss allowance. This allowance comprises management's estimates about credit losses on receivables from end customers and the sales network. Management estimates the allowance on the basis of the expected losses, considering past experience for similar receivables, current and historical past due amounts, losses and collections, the careful monitoring of credit quality and projections about the economy and market conditions. An extension and worsening in the current economic and financial crisis could trigger an additional deterioration of the financial conditions of the group's debtors compared to the deterioration already considered when calculating the allowances recognised in the consolidated financial statements.

Allowance for inventory write-down. This allowance reflects management's estimates about expected write-downs based on past experience and the market's historical and forecast performance. A worsening in the economic and financial conditions could trigger an additional deterioration in the market conditions compared to the deterioration already considered when calculating the allowances recognised in the consolidated financial statements.

Fair value. IFRS 13 is the only reference source for fair value measurement and the related disclosures when this measurement is required or permitted by another standard. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This standard replaces and extends the disclosure required about fair value measurement in other standards, including IFRS 7 - Financial instruments: disclosures.
IFRS 13 establishes a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value in hierarchical order as follows:

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

The method used to estimate fair value is as follows:

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

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

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

- the fair value of interest rate swaps (IRS) is calculated using the present value of the future cash flows;
- the fair value of forwards to hedge foreign currency risk is calculated using the present value of the difference between the contractual forward exchange rate and the spot exchange rate at the reporting date;
- the fair value of the options to hedge foreign currency risk is calculated using mathematical models that consider the contractual forward exchange rate, the spot exchange rate at the reporting date and the cost incurred to sign such option.

Risks and financial instruments

Risks and financial instruments

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

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

The principles in this standard complement the principles for recognising, measuring and presenting financial assets and financial liabilities in IAS 32 - Financial instruments: presentation and IAS 39 - Financial instruments: recognition and measurement.

This section presents the supplementary disclosures required by IFRS 7.

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

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

These risks include:

a) credit risk;

b) liquidity risk;

c) market risk (currency risk, interest rate risk and other price risk).

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

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

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

Credit risk

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

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

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

The loss allowance is equal to the nominal amount of the uncollectible receivables after deducting the part of the receivables secured with bank collateral. The group analyses all the collateral given to check collectability. Impairment losses are recognised considering past due receivables from customers with financial difficulties and receivables for which legal action has commenced.

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

	31.12.2018	
	Trade receivables	**Loss allowance**
Not yet due	50,083	(642)
Past due < 6 months	10,164	(127)
Past due > 6 months	287	(34)
Past due > 12 months	715	(495)
Total	**61,249**	**(1,298)**

Liquidity risk

The group's debt mainly bears floating interest rates. Given its ample liquidity, it has an immaterial liquidity risk with respect to its short-term deadlines and, therefore, this risk principally refers to its medium to long-term financing. When deemed significant, the group agrees hedging instruments to neutralise fluctuations in interest rates and agree a set future expense to cover up to 100% of its future cash outflows.

The group mainly deals with well-known and reputable customers. Its policy is to constantly monitor those customers that request payment extensions.

It is exposed to capital risk with respect to its current financial assets given the risk instruments in which it invests. However, in line with the group's policy, any excess liquidity is deposited with leading banks that mostly offer low risk instruments of investment grade issuers.

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

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**	**-**	**-**

31.12.2018	TOTAL	Total cash flows	Within one year	From one to five years	After five years
Bank loans and borrowings at amortised cost	66,922	67,960	-	67,960	-
Effective designated derivative hedges	170	170	-	170	
Other loans and borrowings at amortised cost	1,774	1,807	-	1,324	483
Non-current financial liabilities	**68,866**	**69,936**	**-**	**69,453**	**483**
Bank loans at amortised cost	43,771	44,467	44,467	-	-
Bank borrowings at amortised cost	872	872	872	-	-
Other loans and borrowings at amortised cost	994	997	997	-	-
Derivatives held for trading at fair value through profit or loss	14	14	14	-	-
Current financial liabilities	**45,651**	**46,350**	**46,350**	**-**	**-**

Market risk

Currency risk

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

In addition, the parent has investments in subsidiaries denominated in foreign currency. Changes in equity due to fluctuations in exchange rates are recognised in the translation reserve. The group does not currently hedge against the risk arising on the translation of equity.

The following table shows the group's exposure arising from foreign currency assets and liabilities, highlighting the most significant for each year:

	31.12.2017					
	EURO	USD	PLN	CNY	Other currencies	Total
Total assets	170,742	13,163	577	41,281	4,424	**230,187**
Total liabilities	89,513	4,804	1,309	9,037	7,365	**112,029**

	31.12.2018					
	EURO	USD	PLN	CNY	Other currencies	Total
Total assets	247,423	21,465	672	38,473	9,141	**317,174**
Total liabilities	173,874	6,246	1,459	8,027	9,280	**198,886**

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

	31.12.2018			31.12.2017		
Net revenue	**Average annual rate**	**Rate +10%**	**RATE +10%**	**Average annual rate**	**Rate +10%**	**RATE +10%**
US dollar	39,694	36,085	44,104	36,303	33,003	40,336
Pound sterling	8,394	7,631	9,327	6,823	6,203	7,582
Chinese renminbi	26,860	24,418	29,844	26,627	24,207	29,586
AUD - Australian dollar	7,480	6,800	8,311	7,353	6,684	8,170
ZAR - South African rand	4,237	3,852	4,708	3,952	3,593	4,391
BRL - Brazilian real	4,575	4,159	5,083	5,115	4,650	5,683
PLN - Polish Zloty	14,098	12,816	15,665	7,727	7,025	8,586
Other currencies	7,569	n.a	n.a	6,963	n.a	n.a
Euro	167,314	167,314	167,314	154,586	154,586	154,586

Profit before tax	31.12.2018 Average annual rate	Rate +10%	RATE +10%	31.12.2017 Average annual rate	Rate +10%	RATE +10%
US dollar	10,375	9,431	11,527	10,249	9,317	11,387
Pound sterling	5,680	5,164	6,311	4,591	4,173	5,101
Chinese renminbi	(12,335)	(11,213)	(13,705)	(10,580)	(9,619)	(11,756)
AUD - Australian dollar	5,467	4,970	6,074	5,239	4,763	5,821
ZAR - South African rand	3,003	2,730	3,337	2,771	2,519	3,079
BRL - Brazilian real	2,009	1,826	2,232	2,463	2,239	2,737
PLN - Polish Zloty	7,945	7,222	8,827	4,145	3,768	4,605
Other currencies	(6,373)	n.a	n.a	(4,307)	n.a	n.a
Euro	21,624	21,624	21,624	27,308	27,308	27,308

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

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

Interest rate risk

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

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

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

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

The group agrees derivatives to hedge part of its financing (cash flow hedges) to set the interest to be paid thereon and obtain an optimum blend of floating and interest rates applied to its financing.

Its counterparties are major banks.

Derivatives are measured at fair value.

Other market and/or price risks

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

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

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

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

The group has the necessary certifications (CE and UL) to operate on various markets. To date, no legislative or regulatory changes are expected in the countries that it serves which could significantly affect the group's activities. The group sees the current focus on the environment and energy savings in nearly all the countries around the world as an opportunity to be grasped, including in terms of its R&D strategy.

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

Notes to the statement of financial position

[1] PROPERTY, PLANT AND EQUIPMENT

At 31 December 2018, property, plant and equipment amounted to €37,560 thousand compared to €22,405 thousand at 31 December 2017. The following table provides a breakdown of the caption and the changes of the year.

	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 2016	**5,303**	**6,222**	**6,052**	**2,810**	**100**	**20,487**
- Historical cost	8,101	18,310	26,368	10,637	100	63,516
- Accumulated depreciation	(2,798)	(12,089)	(20,317)	(7,826)	-	(43,029)
Changes in 2017						
- Investments	186	1,900	2,932	1,444	621	7,083
- Business combinations (historical cost)	33	19	85	637	-	774
- Sales (historical cost)	(106)	(127)	(91)	(261)	-	(586)
- Exchange differences on historical cost	(541)	(181)	(470)	(264)	(29)	(1,484)
- Exchange differences on accumulated depreciation	274	172	203	230	-	878
- Depreciation	(305)	(1,053)	(2,414)	(965)	-	(4,737)
- Business combinations (accumulated depreciation)	(17)	(18)	(63)	(375)	-	(472)
- Sales (accumulated depreciation)	87	122	26	225	-	461
Total changes	(390)	835	208	671	592	1,917
Balance at 31 December 2017	**4,914**	**7,057**	**6,260**	**3,482**	**692**	**22,405**
including:						
- Historical cost	7,672	19,921	28,825	12,193	692	69,303
- Accumulated depreciation	(2,759)	(12,864)	(22,565)	(8,711)	-	(46,900)

	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)	-	(46,900)
Changes in 2018						
- Investments	1,665	4,426	3,011	1,474	3,941	14,516
- Business combinations (historical cost)	2,729	6,792	4,365	1,666	224	15,776
- Reclassifications (historical cost)	200	489	112	242	(942)	102
- Impairment losses	-	-	(3)	-	-	(3)
- Sales (historical cost)	(41)	(105)	(866)	(1,123)	(4)	(2,139)
- Exchange differences on historical cost	48	(48)	(29)	(15)	(8)	(52)
- Exchange differences on accumulated depreciation	(26)	44	20	8	-	45
- Depreciation	(294)	(1,265)	(2,600)	(1,130)	-	(5,289)
- Business combinations (accumulated amortisation)	(1,391)	(3,185)	(3,669)	(1,332)	-	(9,577)
- Reclassifications (accumulated depreciation)	(24)	0-	32	(48)	-	(40)
- Sales (accumulated depreciation)	20	95	746	955	-	1,816
Total changes	2,885	7,243	1,119	697	3,212	15,156
Balance at 31 December 2018	**7,799**	**14,300**	**7,379**	**4,179**	**3,904**	**37,560**
including:						
- Historical cost	12,274	31,475	35,415	14,438	3,904	97,505
- Accumulated depreciation	(4,474)	(17,176)	(28,036)	(10,259)	-	(59,945)

“Land and buildings” and “Assets under construction” increased as a result of investments made for the construction of the new production site in China, which will be completed in the first half of 2019.

“Plant and machinery” include the specific assets of the production lines and infrastructures; the increase mainly related to investments in new plant at the Croatian, American and Italian sites.

“Industrial and commercial equipment” principally includes production equipment and moulds and the main investments were at the parent’s site, for the construction of a new production line and to strengthen production capacity.

Increases in “Other items of property, plant and equipment” are mainly due to improvements and investments made in Italy and around the world.

In 2018, business combinations refer to the acquisition of Recuperator S.p.A. and Hygromatik Gmbh; the assets acquired upon consolidation amount to a total of €4,029 thousand, net of accumulated amortisation.

A breakdown by category is provided below:

Assets	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
Recuperator S.p.A.		1,940	373	100	224	2,637
Hygromatik Gmbh	836		323	233	-	1,392
Total	**836**	**1,940**	**696**	**333**	**224**	**4,029**

Part of the acquisition price was allocated to non-current assets, specifically buildings and plant and machinery, as detailed below:

	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
Recuperator S.p.A.	-	1,667	-	-	-	1,667
Hygromatik Gmbh	501	-	-	-	-	501
Total	**501**	**1,667**	**-**	**-**	**-**	**2,168**

The revaluation was based on the fair value of the assets and buildings that contribute the most to the production process, considering the residual useful life thereof.

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

Property, plant and equipment	2018	2017
Western Europe	16,640	8,986
Other European countries, Middle East and Africa	7,038	4,989
North America	4,593	2,778
South America	628	827
Asia Pacific South	1,370	1,209
Asia Pacific North	7,291	3,616
Total	**37,560**	**22,405**

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

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

[2] INTANGIBLE ASSETS

At 31 December 2018, this caption amounted to €91,126 thousand compared to €13,031 thousand at the end of 2017. The following table presents changes in these assets:

	Development expenditure	Industrial patents and software licences	Goodwill	Other assets	Assets under development and payments on account	Total
Balance at 31 December 2016	**5,699**	**1,856**	**2,512**	**334**	**1,252**	**11,653**
- Historical cost	17,215	10,135	2,512	541	1,252	31,655
- Accumulated amortisation	(11,516)	(8,279)	-	(207)	-	(20,002)
Changes in 2017						
- Investments	601	1,323	-	-	1,011	2,936
- Business combinations (historical cost)	-	537	324	1,079	-	1,940
- Reclassifications	167	4	-		(171)	0
- Exchange differences on historical cost	-	(23)	(106)	(40)	-	(169)
- Exchange differences on accumulated amortisation	-	16	-	(4)	-	11
- Amortisation	(2,169)	(1,015)	-	(30)	-	(3,214)
- Business combinations (accumulated amortisation)	-	(1)	-	(126)	-	(127)
Total changes	(1,401)	842	218	879	840	1,378
Balance at 31 December 2017	**4,298**	**2,698**	**2,730**	**1,213**	**2,092**	**13,031**
including:						
- Historical cost	17,983	11,976	2,730	1,581	2,092	36,362
- Accumulated amortisation	(13,685)	(9,279)	-	(367)	-	(23,331)

VARIAZIONI DELL'ESERCIZIO	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	458	1,742	-	4	1,718	3,922
- Reclassifications	438	11	-	(126)	(321)	2
- Impairment losses	-	-	-	-	(93)	(93)
- Business combinations (historical cost)	-	8,797	44,916	24,466	125	78,305
- Sales (historical cost)		(8)	-	(2)	-	(10)
- Exchange differences on historical cost	-	(18)	(18)	(45)	(1)	(84)
- Exchange differences on accumulated amortisation	-	(4)	-	(2)	-	(6)
- Amortisation	(1,913)	(1,293)	-	(323)	-	(3,528)
- Business combinations (accumulated amortisation)	-	(432)	-	(4)	-	(437)

VARIAZIONI DELL'ESERCIZIO	Development expenditure	Trademarks, industrial patents and software licences	Goodwill	Other assets	Assets under development and payments on account	Total
- Reclassifications (accumulated amortisation)		30	-	-	-	30
- Sales (accumulated amortisation)	-	(7)	-	-	-	(7)
Total changes	(1,016)	8,819	44,898	23,967	1,427	78,095
Balance at 31 December 2018	**3,282**	**11,516**	**47,628**	**25,181**	**3,519**	**91,126**
including:						
- Historical cost	18,880	22,501	47,628	25,877	3,519	118,405
- Accumulated amortisation	(15,598)	(10,985)	-	(697)	-	(27,279)

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

Intangible assets	2018	2017
Western Europe	87,967	10,006
Other European countries, Middle East and Africa	539	659
North America	218	138
South America	-	2
Asia Pacific South	62	62
Asia Pacific North	2,340	2,163
Total	**91,126**	**13,031**

The main change during the year relates to Business combinations, which includes the value of the intangible assets of the acquired companies, Recuperator S.p.A. and Hygromatik Gmbh, for €55 thousand and €144 thousand, net of accumulated amortisation, as well as the value attributed to the intangible assets of the companies following PPA procedure. Based on the appraisal prepared by an independent third party, the allocations are as follows:

	Trademarks, industrial patents and software licences	Goodwill	Other assets	Total
Recuperator S.p.A.	-	6,326	8,962	15,288
Hygromatik Gmbh	8,311	38,499	15,480	62,290
Carel Japan Co Ltd	-	91	-	91
Total	**8,311**	**44,916**	**24,442**	**77,669**

With regard to the different types of business and, therefore, products of the acquired companies, the allocated values have been identified as follows:

Recuperator S.p.A.	Value	Useful life
Customer relations	1,068	15 years
Technology	7,894	12 years
Goodwill	6,326	Indefinite
Total	**15,288**	

Hygromatik Gmbh	Value	Useful life
Customer relations	15,480	15 years
Trademark	8,311	15 years
Goodwill	38,499	Indefinite
Total	**62,290**	

The valuation of customer relations was based on an Excess Earnings approach, which estimates the value of the intangible asset to be the present value of the operating income generated thereby, estimated using the Contributory Asset Charge (CAC) algorithm; the estimated revenue using the income method is calculated using the accurate projections provided for the 2018-2020 period for Recuperator S.p.A. and 2019-2022 for Hygromatik Gmbh to be applied to both revenue and operating profit associated with the so-called "recurring customers".

The operating income related to the recurring customers has been discounted using a rate of 8.6% (WACC + 0.5%) for Recuperator S.p.A. and 8.75% (WACC + 0.5%) for Hygromatik Gmbh. For both the valuations starting from 2019, a churn rate of 6.7% has been applied, or a useful life of 15 years, to revenue from recurring customers which is equal to 95% and 90% of total revenue for Recuperator S.p.A. and Hygromatik Gmbh, respectively, in line with the parameters identified using the historical analysis.

Recuperator's technology comprises process and product technology developed internally by the subsidiary and represents one of its main competitive drivers; the fair value of the technology is calculated using the relief from royalty criteria, which estimates the recoverable amount of an asset based on the expected income therefrom. This method assumes that the value of the asset matches the royalties that can be derived from the licence/sale to third parties of such intangible asset. The applicable royalty rate has been calculated based on the average royalty rates taken from the analysis of a sample of technology licensing agreements in the HVAC sector in which the subsidiary operates. The rate obtained is 5.7%.

The Hygromatik trademark is one of the main functional value drivers supporting the market penetration and commercial expansion strategy on the German market and in the adjacent regions. Like for the enhancement of Recuperator's technology, the value of the trademark has been calculated based on the relief from royalty criteria. The royalty rate has been calculated as the average royalty rates obtained from the analysis of a sample of trademark licensing agreements in the HVAC sector in which the subsidiary operates. The rate obtained is 5.5%.

Lastly, it should be noted that:

- The balance of development expenditure shows the expenditure related to projects developed almost entirely 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. This expenditure is capitalised when all the requirements of IAS 38.57 are met. Investments made in 2017 and 2018 related to the projects developed and available for use in those years. Assets under development and payments on account include costs incurred for projects that had not been completed at the reporting date. The reclassifications refer to completed projects, for which amortisation has commenced. Impairment losses are recognised as Amortisation, depreciation and impairment losses in the statement of profit or loss.
- Trademarks, industrial patents and software licences include software for management programs and network applications.
- Goodwill is the 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.

At 31 December 2018, Goodwill amounts to €47,628 thousand, compared to €2,730 thousand at 31 December 2017. The increase is mainly due to goodwill recognised following the consolidation of Recuperator S.p.A. and Hygromatik Gmbh, as described earlier.

Furthermore, the caption includes amounts related to Carel Thailand and Alfaco Polska, in addition to amounts that are not material individually or collectively, shown in the caption Other goodwill.

Goodwill	31.12.2017	Increase	Change in translation reserve	31.12.2016
Carel Thailand Co Ltd	2,058	-	(113)	2,171
Alfaco Polska s.p.z.o.o.	324	324	-	-
Other goodwill	348	-	7	341
Total	**2,730**	**324**	**(106)**	**2,512**

Goodwill	31.12.2018	Increase	Change in translation reserve	31.12.2017
Hygromatik Gmbh	38,499	38,499	-	-
Recuperator S.p.A.	6,326	6,326	-	-
Carel Thailand CO Ltd	2,040	-	(18)	2,058
Alfaco Polska s.p.z.o.o.	324	-	-	324
Other goodwill	439	91	-	348
Total	**47,628**	**44,916**	**(18)**	**2,730**

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

Acquisition of Recuperator S.p.A.

On 23 November 2018, the CAREL INDUSTRIES Group acquired 100% of Recuperator S.p.A. for €25,587 thousand. Since then, the group has had control over this investee and has included it in the consolidation scope. The effects of the assets acquired and liabilities assumed are as follows:

Recuperator S.p.A.	23.11.2018	Allocation	Total
Non-current assets	3,002	10,629	13,631
Current assets	6,815	-	6,815
Cash and cash equivalents	6,924	-	6,924
Total assets	**16,741**	**10,629**	**27,370**
Non-current liabilities	(1,465)	(2,965)	(4,430)
Current liabilities	(3,679)	-	(3,679)
Total liabilities and equity	**(5,144)**	**(2,965)**	**(8,109)**

The table includes the higher value of the assets and the related tax liabilities, resulting from the PPA procedure, as detailed in Note 1 and in the first part of this note. The difference of €6,326 thousand between the price paid, the assets acquired and the liabilities assumed has been attributed to goodwill.

The net working capital of the acquiree comprises the following:

Recuperator S.p.A.	23.11.2018
Trade receivables	4,209
Inventories	1,444
Other current assets	1,162
Trade payables	(2,823)
Other current liabilities	(875)
Net working capital	**3,131**

Acquisition of Hygromatik Gmbh

On 30 November 2018, the CAREL INDUSTRIES Group acquired 100% of Hygromatik Gmbh for €56,142 thousand. Since then, the group has had control over this investee and has included it in the consolidation scope. The assets and liabilities assumed are as follows:

Hygromatik Gmbh	30.11.2018	Allocation	Total
Non-current assets	1,715	24,292	26,007
Current assets	3,511	-	3,511
Cash and cash equivalents	516	-	516
Total assets	**5,742**	**24,292**	**30,034**
Non-current liabilities	(320)	(7,288)	(7,608)
Current liabilities	(848)	-	(848)
Current financial liabilities	(3,935)	-	(3,935)
Total liabilities and equity	**(5,103)**	**(7,288)**	**(12,391)**

The table includes the higher value of the assets and the related tax liabilities, resulting from the PPA procedure, as detailed in Note 1 and in the first part of this note. The difference of €38,499 thousand between the price paid, the assets acquired and the liabilities assumed has been attributed to goodwill.
The net working capital of the acquiree comprises the following:

Hygromatik Gmbh	30.11.2018
Deferred tax assets	41
Trade receivables	1,239
Inventories	1,971
Other current assets	147
Provisions for risks	(50)
Trade payables	(454)
Other current liabilities	(564)
Net working capital	**2,330**

Acquisition of Carel Japan

On 27 June, CAREL INDUSTRIES acquired 51% of Carel Japan for €40 thousand, obtaining control thereof. Considering the immateriality of the values related to this transaction, it is not necessary to provide the information reported for the acquisitions presented above. This business combination generated goodwill of €91 thousand.

Impairment test

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

Goodwill is recognised on the acquisitions shown in the previous table considered as the CGUs for impairment testing purposes. Therefore, it only tested those CGUs to which goodwill had been allocated as impairment factors were identified for the other CGUs. The test methods and results for the following CGUs are shown below:

- CGU Recuperator - allocated goodwill of €6,326 thousand;
- CGU Hygromatik - allocated goodwill of €38,499 thousand;
- CGU Thailand - allocated goodwill of €2,040 thousand;
- CGU Alfaco - allocated a trademark of €537 thousand and goodwill of €324 thousand.

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

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

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

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

CGU	Plan horizon	Growth rate g	WACC
Recuperator S.p.A.	2019-2021	1.96%	8.1% - 10.1%
Hygromatik Gmbh	2019-2022	2.00%	8.3%
Thailand	2019-2021	1.00%	8.4%
Alfaco	2019-2022	1.00%	7.9%

As Recuperator S.p.A. and Hygromatik Gmbh were acquired towards the end of the year, the long-term plans used as a basis for the test are the same as those used for business combinations.

The value in use, calculated using the discounted cash flows, supported maintaining the value of goodwill recognised. Although management believes that the assumptions used are reasonable and represent most probable scenarios based on the available information, the result of the test could differ should the above assumptions significantly change. The factors that could cause impairment are:

- a significant worsening in the actual performances compared to those forecast;
- a deterioration in the economic and financial context and markets in which the group operates.

Management performed a sensitivity analysis, changing the g rate parameters and the business risk (WACC), to back up its assessments and to calculate the results that could arise in the case of a change in the assumptions. It found that the recoverable amount of the CGUs should not decrease to below their carrying amount. Therefore, there was no indication of impairment of the goodwill or the trademark at 31 December 2018.

[3] EQUITY-ACCOUNTED INVESTMENTS

At 31 December 2018, this caption amounted to €335 thousand compared to €327 thousand at 31 December 2017. It may be analysed as follows:

Investee	Registered office	Investment %	31.12.2017	Change in consolidation scope	Measurement at equity	31.12.2016
Alfaco Polska Sp.zoo	Wroclaw (PL)	40%	-	(1,479)	(22)	1,501
Carel Japan	Fukoka (JP)	49%	-	-	-	-
Arion S.r.l.	Brescia (IT)	40%	71	-	2	69
Free Polska s.p.z.o.o.	Krakow (PL)	23%	256	256	-	-
Total			**327**	**(1,223)**	**(20)**	**1,570**

Investee	Registered office	Investment %	31.12.2018	Change in translation reserve	Measurement at equity	31.12.2017
Arion S.r.l.	Brescia (IT)	40%	71	-	-	71
Free Polska s.p.z.o.o.	Krakow (PL)	23%	263	(6)	15	256
Total			**335**	**(6)**	**15**	**327**

[4] OTHER NON-CURRENT ASSETS

At 31 December 2018, other non-current assets amounted to €2,343 thousand compared to €1,648 thousand at 31 December 2017; it is broken down as follows:

	31.12.2018	31.12.2017
Receivables from related parties	160	160
Guarantee deposits	412	103
Loan assets from third parties	1,771	1,385
Other non-current assets	**2,343**	**1,648**

Loan assets from third parties mainly comprise a non-current VAT asset recognised at the South American group company, and other non-current receivables recognised following the consolidation of Recuperator S.p.A. and Hygromatik Gmbh.

Guarantee deposits increased following the above-mentioned acquisitions and mainly refer to interest-bearing deposits on leases.

In 2015, the parent also granted a long-term loan of €160 thousand, which matures on 31 December 2021, to the associate Arion S.r.l.. Although it does not bear interest, the group did not discount this loan as the effect of discounting would not be material.

[5] DEFERRED TAX ASSETS

At 31 December 2018, deferred tax assets amounted to €4,128 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.

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

Increases	2018 tax base	Deferred tax assets at 31 December 2018	2017 tax base	Deferred tax assets at 31 December 2017
Allowance for inventory write-down	1,855	448	1,945	486
Non-deductible accruals	2,340	615	1,420	363
Amortisation of goodwill	545	132	776	160
Consolidation adjustments to intragroup inventory transactions	8,575	1,812	7,414	2,069
Carryforward tax losses	2,260	405	2,144	354
Other	2,532	716	2,402	710
Total	**18,107**	**4,128**	**16,102**	**4,141**

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

	31.12.2017	Recognised in profit or loss	Change in consolidation scope	Recognised in other comprehensive income	31.12.2016
Deferred tax assets	4,141	1,194	41	14	2,892
Deferred tax liabilities	(1,662)	276	(381)	(3)	(1,554)
Total	**2,479**	**1,470**	**(159)**	**11**	**1,338**

	31.12.2018	Recognised in profit or loss	Change in consolidation scope	Recognised in other comprehensive income	31.12.2017
Deferred tax assets	4,128	(15)	-	1	4,141
Deferred tax liabilities	(11,820)	110	(10,253)	(14)	(1,662)
Total	**(7,692)**	**95**	**(10,253)**	**(13)**	**2,479**

The group recognised deferred tax liabilities on carryforward tax losses related to the Hong Kong group company of €354 thousand in 2017 and related to the South African group entity in 2018. The group believed that these losses can be recovered over time based on the cash flows that the group entity will generate in future years.

Deferred tax liabilities recognised in the Change in consolidation scope caption refer to deferred taxes on the allocations made upon consolidation of Recuperator S.p.A. and Hygromatik Gmbh.

Current Assets

[6] TRADE RECEIVABLES

At 31 December 2018, this caption amounts to €59,951 thousand compared to €54,643 thousand at 31 December 2017. It may be analysed as follows:

	31.12.2018	31.12.2017
Trade receivables	61,249	56,105
Loss allowance	(1,298)	(1,462)
Total	**59,951**	**54,643**

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

	31.12.2018	31.12.2017
Western Europe	36,139	33,188
Other European countries, Middle East and Africa	7,501	7,042
North America	5,070	4,115
South America	1,460	1,553
Asia Pacific South	2,560	2,407
Asia Pacific North	8,519	7,800
Total	**61,249**	**56,105**

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

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

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

	31.12.2017	Accruals	Reversals	Utilisations	Exchange differences	31.12.2016
Loss allowance	(1,462)	(285)	58	142	31	(1,408)

	31.12.2018	Accruals	Reversals	Utilisations	Exchange differences	Change in consolidation scope	31.12.2017
Loss allowance	(1,298)	(54)	72	177	4	(35)	(1,462)

[7] INVENTORIES

At 31 December 2018, this caption amounted to €54,285 thousand compared to €37,773 thousand at 31 December 2017. It may be analysed as follows:

	31.12.2018	31.12.2017
Raw materials	25,485	15,637
Allowance for inventory write-down	(591)	(854)
Semi-finished products and work in progress	3,243	2,710
Finished goods	27,210	21,175
Allowance for inventory write-down	(1,458)	(1,335)
Payments on account	396	439
Total	**54,285**	**37,773**

Inventories, gross of the allowance for inventory write-downs, increased by a total of €16,372 thousand, €3,392 thousand of which referring to the entities acquired in the last quarter of the year.

The increase in inventories is mainly due to the procurement policies considered necessary to cover the global shortage of electronic components. The group recognised an allowance for inventory write-down to cover the difference between the cost and estimated realisable value of obsolete raw materials and finished goods. The accrual 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 direct tax assets which mainly arose on advances paid that were higher than the actual tax liabilities. Compared to the previous year, these assets increased as a result of the tax benefit recognised by CAREL INDUSTRIES S.p.A. following the presentation of the supplementary tax returns for the 2015-2017 three-year period referring to the so-called patent box relief for a total of €2,128 thousand.

[9] OTHER CURRENT ASSETS

At 31 December 2018, this caption amounted to €6,001 thousand compared to €4,555 thousand at 31 December 2017. It may be analysed as follows:

	31.12.2018	31.12.2017
Payments on account to suppliers	292	179
Other tax assets	1,014	886
VAT assets	2,051	1,680
Prepayments and accrued income	2,164	1,264
Other	480	546
Other assets	**6,001**	**4,555**

Other tax credits mainly consist of the tax assets for research and development expenditure.
Prepayments and accrued income increased due to the acquisition of Recuperator S.p.A. and Hygromatik Gmbh in addition to the costs for software maintenance instalments incurred in advance by the parent, but pertaining to the subsequent year.

[10] CURRENT FINANCIAL ASSETS

At 31 December 2018, this caption amounted to €72 thousand compared to €47,076 thousand at 31 December 2017. It may be analysed as follows:

	31.12.2018	31.12.2017
Available-for-sale securities	-	47,063
Derivatives	40	14
Other loans	32	-
Total	**72**	**47,076**

During the year, the available-for-sale securities were all sold for the interest received for a total of €433 thousand and the income was recognised in Gains on financial assets.
The derivatives are forwards and currency options agreed to hedge commercial transactions but which do not qualify for hedge accounting. Fair value gains and losses are recognised in profit or loss. More information is available in the paragraph on financial instruments in note [33] Other information.

[11] CASH AND CASH EQUIVALENTS

At 31 December 2018, this caption amounted to €55,319 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.

	31.12.2018	31.12.2017
Current accounts and post office deposits	55,284	43,873
Cash	35	27
Total	**55,319**	**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 the reporting date, 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:

	31.12.2018	31.12.2017
Share capital	10,000	10,000
Legal reserve	2,000	2,000
Translation reserve	2,660	3,430
Hedging reserve	(93)	33
Other reserves	32,949	35,195
Retained earnings	39,798	36,294
Profit for the period	30,678	31,117
Total	**117,992**	**118,068**

The hedging reserve includes the fair value gains and losses on interest rate hedges (two IRSs) agreed in 2016 and 2018.

Other reserves includes a reserve related to the share-based Long-term incentive (LTI) plan of €77 thousand, as resolved by the shareholders on 7 September 2018. Note 33 provides more information about this plan.

On 7 September 2018, the shareholders authorised the board of directors to purchase treasury shares, up to a maximum of 5% of the parent's share capital, as part of the LTI plan.

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 year, 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 31 December 2018, the share capital was comprised of 100,000,000 ordinary shares without a nominal amount. The amount at 31 December 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:

	31.12.2018	31.12.2017
Number of shares (in thousands)	100,000	100,000
Profit for the year (in thousands of Euros)	30,678	31,117
Earnings per share (in Euros)	**0.31**	**0.31**

[13] EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

At 31 December 2018, this caption amounted to €296 thousand compared to €248 thousand at 31 December 2017 and comprised the non-controlling interest in Carel Thailand Co. Ltd (20%).

	31.12.2017	Profit for the year	Other comprehensive income	Dividends distributed	Change in consolidation scope	31.12.2016
Equity attributable to non-controlling interests	248	47	(11)	(51)	(578)	841

	31.12.2018	Profit for the year	Other comprehensive income	Dividends resolved	Share capital increases	31.12.2017
Equity attributable to non-controlling interests	296	74	17	(74)	31	248

In December, the Thai subsidiary resolved the distribution of dividends, therefore, the portion of these dividends attributable to non-controlling interests has been recognised in current financial liabilities.

[14] CURRENT AND NON-CURRENT FINANCIAL LIABILITIES

This caption may be analysed as follows:

	31.12.2018	31.12.2017
Bank loans and borrowings at amortised cost	66,922	19,545
Effective designated derivative hedges	170	7
Other loans and borrowings at amortised cost	1,774	2,120
Non-current financial liabilities	**68,866**	**21,671**

	31.12.2017	31.12.2016
Bank loans at amortised cost	43,771	28,411
Bank borrowings at amortised cost	872	64
Derivatives held for trading at fair value through profit or loss	14	78
Other loans and borrowings at amortised cost	994	512
Current financial liabilities	**45,651**	**29,066**

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

Bank loans 31.12.2017	Currency	Original amount	Maturity	Interest rate	Terms	Outstanding liability	Current	Non-current
Deutsche bank	EUR	400	2023	Fixed	2.68%	233	-	233
BNP Paribas	EUR	10,000	2019	Floating	6m Euribor + 0.52%	10,000	6,667	3,333
BNP Paribas	EUR	1,000	2018	Fixed	0.70%	1,000	1,000	-
BNP Paribas	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	EUR	15,000	2021	Floating	3m Euribor + 0.55%	11,669	3,336	8,333
Credem	EUR	1,000	2019	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 31.12.2018	Currency	Original amount	Maturity	Interest rate	Terms	Outstanding liability	Current	Non-current
Deutschbank	EUR	400	2023	Fixed	2.68%	192	40	152
BNP Paribas	EUR	10,000	2019	Floating	6m Euribor + 0.52%	3,333	3,333	-
BNP Paribas	EUR	15,000	2020	Fixed	0.37%	7,514	5,009	2,505
BNP Paribas	EUR	30,000	2022	Floating	6m Euribor + 0.78%	29,949	4,286	25,663
BNP Paribas	EUR	10,000	2019	Fixed	0.30%	10,000	10,000	-
MedioCredito Italiano	EUR	15,000	2021	Floating	3m Euribor + 0.55%	8,339	3,349	4,990
Mediobanca	EUR	30,000	2021	Fixed	0.88%	29,972	11,983	17,989
Unicredit	EUR	20,000	2023	Fixed	0.45%	20,000	4,444	15,556
Credem	EUR	1,000	2018	Fixed	0.45%	1,000	1,000	-
Pennsylvania Industrial Development Authority	USD	800	2019	Fixed	4.75%	115	59	56
BNP Paribas	USD	300	2019	Fixed	4.24%	256	256	-
Other loans						23	12	11
Total						**110,693**	**43,771**	**66,922**

The loan agreements do not include covenants, apart from the loan entered into with Mediobanca in December for a total of €30,000 thousand. The loan requires that the following financial covenants be respected on a six-monthly basis at 31 December and 30 June of each year starting from 31 December 2018 and based on the figures recognised in the consolidated financial statements:

1. Net financial position / EBITDA < 3.50x;
2. EBITDA / Net financial expense > 5.00x

At 31 December 2018, such covenants have been respected.

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. The effective designated derivative hedges include the fair value of two IRSs agreed to hedge interest rate risk on the Mediocredito Italiano and Banca Nazionale del Lavoro loans. More information is available in note [33] Other information.

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

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
Lease liabilities						383	109	274
Other loans						133	78	55
Total						**2,632**	**512**	**2,120**

31.12.2018	Currency	Original amount	Maturity	Interest rate	Terms	Outstanding liability	Current	Non-current
Simest Middle East	EUR	1,000	2021	Fixed	0.50%	625	250	375
MedioCredito Centrale Progetto Horizon 2020	EUR	1,241	2026	Fixed	0.80%	1,266	164	1,101
Lease liabilities						311	102	209
Other loans						567	478	89
Total						**2,769**	**994**	**1,774**

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

	31.12.2018	Net cash flows	Change in fair value gains or losses	Reclassification	Change in translation reserve	31.12.2017
Bank loans and borrowings	66,922	59,205	-	(11,831)	3	19,545
Effective designated derivative hedges	170	(7)	170		-	7
Other loans and borrowings	1,774	-	-	(350)	4	2,120
Non-current financial liabilities	**68,866**	**59,198**	**170**	**(12,181)**	**7**	**21,671**

	31.12.2018	Net cash flows	Change in fair value gains or losses	Reclassification	Change in consolidation scope	Change in translation reserve	31.12.2017
Bank loans	43,771	3,526	-	11,831		3	28,411
Bank borrowings	872	822	-	-		(14)	64
Derivatives	14	(78)	14	-		-	78
Other loans and borrowings	994	(168)	-	350	303	(3)	512
Current financial liabilities	**45,651**	**(25,899)**	**14**	**12,181**	**303**	**(14)**	**29,066**

[15] PROVISIONS FOR RISKS

At 31 December 2018, provisions for risks amounted to €2,981 thousand compared to €1,650 thousand at 31 December 2017 and they are broken down as follows:

	31.12.2018	31.12.2017
Provision for agents' termination benefits	698	680
Provision for legal and tax risks	39	200
Provision for commercial complaints	301	518
Provision for product warranties	274	237
Other provisions	19	15
Total - non current	**1,332**	**1,650**
Provision for legal and tax risks	405	-
Provision for commercial complaints	1,244	-
Total – current	**1,649**	**-**
Total	**2,981**	**1,650**

The following table shows changes in this caption:

	31.12.2017	Accruals	Utilisations	Reversals	Exchange differences	31.12.2016
Provision for agents' termination benefits	680	269	(323)	(68)	-	803
Provision for legal and tax risks	200	69	(166)	-	(10)	308
Provision for commercial complaints	518	21	(148)	-	(12)	657
Provision for product warranties	237	6	(6)	-	-	237
Other provisions	15		(31)	-	-	46
Total - non current	**1,650**	**365**	**(675)**	**(68)**	**(22)**	**2,051**

	31.12.2018	Accruals	Utilisations	Reversals	Reclassifi-cations	Change in consolidation scope	Exchange differences	31.12.2017
Provision for agents' termination benefits	698	16	-	-	-	2	-	680
Provision for legal and tax risks	39	31	(15)	(43)	(129)	-	(6)	200
Provision for commercial complaints	301		(154)	-	(67)	-	4	518
Provision for product warranties	274	14	(12)	-	-	36		237
Other provisions	19	4	-	-	-	-		15
Total – non current	**1,332**	**65**	**(181)**	**(43)**	**(196)**	**38**	**(2)**	**1,650**
Provision for legal and tax risks	405	276	-	-	129	-	-	-
Provision for commercial complaints	1,244	1,177	-	-	67	-	-	-
Total – current	**1,649**	**1,453**	**-**	**-**	**196**	**-**	**-**	**-**
Total	**2,981**	**1,518**	**(181)**	**(43)**	**-**	**38**	**(2)**	**1,650**

IThe provision for commercial complains increased during the year due to the prudent estimate of the cost of reconditioning certain units which, for reasons related to the technical characteristics of the electrical network in which they are installed, have lost functionality. These amounts were estimated by the directors based on the available information and past experience.

The accruals to the provision for tax risks are recognised by nature under Current taxes.

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 represents management's best estimate of the liabilities arising from legal and tax procedures related to ordinary operating activities, estimated with the support of legal consultants. More specifically, there is an ongoing dispute between the parent, CAREL INDUSTRIES S.p.A., and the Venice provincial tax office following the notice of assessment regarding transfer pricing issued for 2011 and 2012. The findings regarded solely transactions between the Chinese company, Carel Suzhou and the parent, for the supply of raw materials, semi-finished products and finished goods. The higher assessed taxes amount to €423 thousand (IRES and IRAP) plus interest and fines. During the year, the tax office and the parent engaged in negotiations to settle the dispute but were unable to come to an agreement. The date of the first hearing of the dispute is pending, however, due to the effect of the recent regulation covered by Legislative decree no. 119/2018, the company would have the possibility to proceed with a facilitated agreement) of the pending dispute that will allow for its settlement through the payment of assessed taxes reduced by 90%, without sanctions and interest. In the financial statements as at and for the year ended 31 December 2018, the provision for tax risks related to the dispute has been adjusted accordingly.

With regard to transfer pricing and the above transactions between the Chinese company, Carel Suzhou and the parent, in June 2018, the Venice regional tax office issued a preliminary assessment report for 2013, 2014, 2015 and 2016. Following the discussions relating to the preliminary assessment report, on 5 December 2018, the company and the tax office agreed on profitability parameters to determine the market price of the disputed transactions, agreeing on the use of the profitability indicator used for 2013. This resulted in reviewing the assessed taxes presented in the preliminary assessment report and the consequent write-off of the findings for 2014 and 2016 and the redefinition of the disputed amounts for 2013 and 2015. The parent signed an accession agreement for 2013 and the consequent payment plan for the €310 thousand owed, to be paid in quarterly instalments starting from December 2018.

With regard to 2015, the parent intends to agree to the new amount of €171 thousand plus interest in 2019 and a suitable provision for tax risks has been accrued.

[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 and the German subsidiary, Hygromatik. These benefits qualify as defined benefit plans pursuant to IAS 19 and the related liabilities are calculated by an independent actuary. Changes in the liability in both years are shown below:

	31.12.2018	31.12.2017
Opening balance	**5,687**	**5,693**
Interest cost	63	66
Change in consolidation scope	1,657	-
Other variations	26	58
Employee benefits paid	(105)	(342)
Exchange differences	16	(13)
Accruals	1,886	1,806
Transfer to pension plans	(1,783)	(1,628)
Actuarial gain (loss)	(114)	47
Closing balance	**7,333**	**5,687**

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

[17] DEFERRED TAX LIABILITIES

At 31 December 2018, this caption amounts to €11,820 thousand, compared to €1,662 thousand at 31 December 2017. Changes in deferred tax liabilities are available in note [5] Deferred tax assets. A breakdown of deferred tax liabilities is as follows:

	2018 tax base	2018 deferred tax liabilities	2017 tax base	2017 deferred tax liabilities
Discounting of non-current liabilities	153	43	156	43
Unrealised exchange differences	-	-	204	49
Differences on amortisation and depreciation and other differences in standards	7,271	1,446	6,331	1,389
Differences from consolidation adjustments	35,446	10,331	953	181
Total	**42,870**	**11,820**	**7,644**	**1,662**

[18] TRADE PAYABLES

Trade payables amount to €41,289 thousand, compared to €35,018 thousand at 31 December 2017. The caption increased mainly due to payables related to the entities that entered the consolidation scope for a total of €2,889 thousand, while the remaining amount is due to normal commercial activities related to business growth.

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 LIABILITIESI

At 31 December 2018, this caption amounted to €1,539 thousand compared to €2,279 thousand at the end of the previous year. It entirely consists of direct income tax liabilities

[20] OTHER CURRENT LIABILITIES

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

	31.12.2018	31.12.2017
Social security contributions	4,101	3,303
Tax withholdings	1,641	1,389
Other current tax liabilities	454	382
VAT liabilities	899	-
Wages and salaries, bonuses and holiday pay	11,387	9,445
Other	924	475
Total	**19,407**	**14,995**

Notes to the statement of profit or loss

[21] REVENUE

Revenue amounted to €280,220 thousand, compared to €255,449 thousand in 2017, with a year-on-year increase of 9.7%. It is shown net of discounts and allowances.

Revenue generated by services amounted to €2,423 thousand compared to €2,266 thousand in 2017. A breakdown of revenue by market is as follows:

	2018	2017	Variation %
HVAC revenue	171,684	158,481	8.3%
REF revenue	102,289	88,538	15.5%
Non-core revenue	6,247	8,430	(25.9%)
Total	**280,220**	**255,449**	**9.7%**

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:

	2018	2017	Variation %
Western Europe	143,108	125,677	13.9%
Other European countries, Middle East and Africa	47,528	41,265	15.2%
North America	35,512	34,655	2.5%
South America	7,479	8,260	(9.5%)
Asia Pacific South	12,930	12,895	0.3%
Asia Pacific North	33,663	32,697	3.0%
Total	**280,220**	**255,449**	**9.7%**

[22] OTHER REVENUE

Other revenue amounted to €3,147 thousand, an increase on the €2,131 thousand balance in 2017. The caption may be broken down as follows:

	2018	2017	Variation %
Grants received	1,141	774	47.5%
Cost recoveries	1,147	928	23.7%
Other revenue and income	859	429	> 100%
Total	**3,147**	**2,131**	**47.7%**

The grants related to income of €1,141 thousand (2017: €774 thousand) mainly relate to the tax credit for development activities carried out as provided for by Law no. 190 of 23 December 2014 (the 2015 Stability Law).

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 amounts to €115,383 thousand, compared to €104,993 thousand in 2017. A breakdown of the caption is as follows:

	2018	2017	Variation %
Costs of raw materials, consumables and goods and changes in inventories	(115,383)	(104,933)	10.0%
% of revenue	(41.2%)	(41.1%)	0.2%

[24] SERVICES

The group incurred costs of €50,286 thousand for services in 2018, up 28.7% on the previous year. This increase is mainly due to the cost of the group's listing on the STAR segment of the stock market and the higher costs incurred for said listing. Net of non-recurring costs, as a percentage of revenue, costs for services would amount to 15.6% compared to 15.3% in the previous year.

The caption may be broken down as follows:

	2018	2017	Variation %	of which non-recurring costs
Transport	(8,782)	(7,780)	12.9%	-
Consultancies	(12,773)	(6,054)	>100%	(6,134)
Business trips and travel	(4,591)	(4,315)	6.4%	(58)
Use of third party assets	(4,745)	(4,145)	14.5%	-
Maintenance and repairs	(3,205)	(2,863)	12.0%	-
Marketing and advertising	(2,390)	(2,563)	(6.8%)	(53)
Outsourcing	(1,697)	(1,522)	11.5%	-
Agency commissions	(1,214)	(1,178)	3.1%	-
Utilities	(1,268)	(1,153)	10.0%	-
Fees to directors, statutory auditors and independent auditors	(1,650)	(1,041)	58.5%	-
Insurance	(1,117)	(817)	36.8%	-
Telephone and connections	(861)	(791)	8.8%	-
Other services	(5,994)	(4,862)	23.3%	(389)
Total	**(50,286)**	**(39,085)**	**28.7%**	**(6,634)**

[25] CAPITALISED DEVELOPMENT EXPENDITURE

This caption amounted to €2,453 thousand, compared to €1,602 thousand in 2017 and is almost entirely related to development projects capitalised under intangible assets. Part of the capitalised costs refer to equipment and machinery constructed internally and recognised under property, plant and equipment. The caption may be analysed as follows:

	2018	2017	Variation %
Development expenditure	2,200	1,571	40.0%
Plant and machinery constructed on a time and materials basis	253	2	> 100%
Industrial and commercial equipment constructed on a time and materials basis	-	28	< 100%
Total	**2,453**	**1,602**	**53.2%**

The group incurred research and development expenditure of €16,035 thousand and €14,494 thousand in 2018 and 2017, respectively. Only the amounts described above were capitalised.

[26] PERSONNEL EXPENSE

This caption amounted to €70,751 thousand for 2018 compared to €63,927 thousand for the previous year. A breakdown of this caption and of the workforce by employee category is as follows:

	2018	2017	Variation %	of which, IPO costs
Wages and salaries, including bonuses and accruals	(55,165)	(50,424)	9.4%	(297)
Social security contributions	(12,674)	(10,799)	17.4%	(115)
Defined benefit plans	(1,884)	(1,806)	4.3%	-
Other costs	(1,028)	(898)	14.5%	-
Total	**(70,751)**	**(63,927)**	**10.7%**	**(412)**

	2018		2017	
	31.12	average	31.12	Average
Managers	40	38	35	34
White collars	987	924	861	819
Blue collars	550	509	468	440
Total	**1,577**	**1,471**	**1,364**	**1,293**

[27] OTHER EXPENSE, NET

This caption amounted to €2,415 thousand, compared to €899 thousand for the previous year. It may be broken down as follows:

	2018	2017	Variation %	of which non-recurring costs
Capital gains on disposal of assets	25	11	> 100%	-
Prior year income	402	809	(50.4%)	-
Release of provisions for risks	43	0	> 100%	-
Other income	470	821	(42.8%)	-
Capital losses on disposal of assets	(7)	(21)	(66.8%)	-
Prior year expense	(128)	(125)	1.8%	-
Other taxes and duties	(1,024)	(1,043)	(1.8%)	-
Accrual to the loss allowance	(54)	(285)	(81.0%)	-
Accrual to the provisions for risks	(1,186)	(51)	> 100%	(1,177)
Credit losses	(76)	(49)	55.2%	
Other costs	(410)	(146)	> 100%	
Other expense	**(2,884)**	**(1,720)**	**67.7%**	**(1,177)**
Other expense, net	**(2,415)**	**(899)**	**> 100%**	**(1,177)**

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

[28] AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES

This caption amounts to €8,817 thousand, up from €8,076 thousand in the previous year. This increase is due to the investments made during the year. Impairment losses mainly refer to the impairment loss on non-current assets of €205 thousand and development expenditure of €93 thousand. The caption may be broken down as follows:

	2018	2017	Variation %
Amortisation	(3,528)	(3,340)	5.6%
Depreciation	(5,289)	(4,737)	11.7%
Impairment losses	(302)	0	> 100%
Total	**(9,119)**	**(8,076)**	**12.9%**

[29] NET FINANCIAL EXPENSE

Net financial expense amounts to €136 thousand compared to net financial income of €451 thousand in the previous year. The caption may be broken down as follows:

	2018	2017	Variation %
Gains on financial assets	433	874	(50.4%)
Interest income	273	225	21.4%
Gains on derivatives	7	12	(39.2%)
Other financial income	119	265	(54.9%)
Financial income	**833**	**1,376**	**(39.5%)**
Bank interest expense	(275)	(228)	21.1%
Other interest expense	(24)	(142)	(83.0%)
Losses on derivatives	(179)	(206)	(12.8%)
Other financial expense	(490)	(350)	40.3%
Financial expense	**(969)**	**(925)**	**4.8%**
Net financial income (expense)	**(136)**	**451**	**>100%**

Gains on financial assets decreased mainly due to the termination of insurance policies during the year, as described in note [10].

[30] NET EXCHANGE RATE LOSSES

This caption showed net exchange rate losses of €352 thousand for 2018 compared to €814 thousand for 2017, as follows:

	2018	2017	Variation %
Exchange rate losses	(4,958)	(3,478)	42.5%
Exchange rate gains	4,606	2,664	72.9%
Net exchange rate losses	**(352)**	**(814)**	**(56.8%)**

The 2017 balance was heavily affected by negative cross rate trends, specifically, between the US dollar and Chinese renminbi.

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

This caption showed a net profit of €15 thousand, compared to a net loss of €20 thousand in 2017. It comprises the group's share of the profit or loss of equity-accounted investees.

[32] INCOME TAXES

This caption amounts to €6,643 thousand compared to €10,714 thousand in the previous year. The caption may be broken down as follows:

	2018	2017
Current taxes	(8,868)	(12,321)
Deferred tax income/expense	95	1,494
Taxes relative to prior years	2,130	112
Total	**(6,643)**	**(10,714)**

Taxes relative to prior years mainly refer to the tax benefit recognised by the parent for the years 2015-2017 for the so-called Patent box and the additional taxes related to prior years.

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

	2018	2017
Profit before tax	37,394	41,878
Income taxes calculated using the theoretical IRES rate	(8,975)	(10,057)
IRAP	(796)	(1,169)
Effect of the different rates applied by the group entities operating in other countries	1,388	1,090
Withholding tax on dividends	(358)	(937)
Taxes relative to prior years	2,130	112
Effect of the different rates applied by the group entities operating in other countries and other changes	(33)	246
Total	**(6,643)**	**(10,714)**

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

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

[33] OTHER INFORMATION

Segment reporting

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

Financial instruments

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

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:

	31.12.2017				31.12.2016			
	Purchases	**Sales**	**Positive fair value**	**Negative fair value**	**Purchases**	**Sales**	**Positive fair value**	**Negative fair value**
Forwards								
USD/EUR	-	1,865	10	(0)	37	-	-	(1)
JPY/EUR	17,694	-	3	-	67	-	-	(1)
AUD/EUR		-			-	740	6	(2)
ZAR/EUR		-			-	690	-	(74)
USD/CNY		2,000	10	-				
EUR/ZAR	-	14	0	(0)	-	-	-	-
ZAR/USD	-	7,500	4	-	-	-	-	-
PLN/EUR	-	9,181	-	(12)	-	-	-	-
THB/USD	-	4,000	-	(3)	-	-	-	-
Total forwards			**28**	**(14)**			**6**	**(78)**
Options								
USD/EUR				-	2,699	-	7	-
JPY/EUR				-	327	-	-	-
AUD/EUR				-	-	385	1	-
ZAR/EUR				-	-	194	-	-
USD/CNY		(9,000)	3					
EUR/CNY		(4,000)	3					
ZAR/USD	-	(12,000)	5	-	-	-	-	-
THB/USD	-	(26,000)	1	-	-	-	-	-
Total options			**12**	**-**			**8**	**-**
Total			**40**	**(14)**			**14**	**(78)**

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

	Notional amount	Floating interest rate	Fixed interest rate	Maturity	Fair value 31.12.2018	Fair value 31.12.2017
Interest rate swap	15,000	3m Euribor > -0.55% -0.55% > 3m Euribor	-0.10%	30/06/2021	(16)	(7)
Interest rate swap	30,000	Euribor 6m > -0.78% / -0.78% se Euribor 6m < -0.78%	-0.78%	19/11/2022	(153)	n.a.

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

Long-term share-based incentive plan (LTI)

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

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

In accordance with IFRS 2 - Share-based payments - the fair value of the distributions calculated at the allocation date applying the Black Scholes method is recognised in profit or loss as personnel/directors expense, on a systematic basis over the period between the vesting date and the maturity date with a balancing entry in equity. In 2018, the group recognised an expense of €77 thousand in profit or loss and the same amount was also recognised in equity. This amount represents the amount attributable to 2018 for the first cycle of the plan, the fair value of which amounts to €691 thousand.

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 for 31 December 2017 and by IFRS 9 for 31 December 2018 and their fair value.

31.12.2017	IAS 39 categories	Carrying amount	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
Securities	Available-for-sale financial assets	47,063		47,063	
Derivatives	Financial instruments held for trading	14		14	
Other current financial assets		47,076			143
Trade receivables	Loans and receivables	56,105			56,105
Total financial assets		**103,181**			
including:	Available-for-sale financial assets	47,063			
	Financial instruments held for trading	14			
	Loans and receivables	56,105			
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		**(21,658)**			
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		**(85,743)**			
including	Financial liabilities at amortised cost	(85,671)			
	Financial instruments held for trading	(78)			

31.12.2018	IFRS 9 category	Carrying amount	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
Derivatives	Financial instruments held for trading	40		40	
Other loan assets	Loans and receivables	32			32
Other current financial assets		72			
Trade receivable	Loans and receivables	59,951			59,951
Total financial assets		**60,023**			
including:					
	Financial instruments held for trading	40			
	Loans and receivables	59,983			
Bank loans and borrowings	Financial liabilities at amortised cost	66,922		66,922	
Other loans and borrowings	Financial liabilities at amortised cost	1,774		1,774	
Effective designated derivative hedges	Financial instruments held for trading	170		170	
Non-current financial liabilities		**68,866**			
Bank borrowings	Financial liabilities at amortised cost	872		872	
Bank loans	Financial liabilities at amortised cost	43,771		43,771	
Derivatives	Financial instruments held for trading	14		14	
Other loans and borrowings	Financial liabilities at amortised cost	994		994	
Current financial liabilities		**45,651**			
Trade payables	Financial liabilities at amortised cost	41,289			41,289
Total financial liabilities		**155,806**			
including	Financial liabilities at amortised cost	155,622			
	Financial instruments held for trading	184			

Off-statement of financial position commitments and guarantees

At the reporting date, the group has given guarantees of €4,782 thousand as follows:

- a guarantee of €256 thousand to a bank for the credit facility given to the group company Carel HVAC&R Korea Ltd;
- sureties of €4,526 thousand, including €135 thousand on behalf of subsidiaries.

The following table shows the group's off-statement of financial position commitments at the reporting date:

Minimum lease payments	due within one year	due within five years	after five years	Total
Buildings	3,357	7,456	6,321	17,134
Other	949	1,541	10	2,500
Total	**4,306**	**8,997**	**6,331**	**19,634**

Related party transactions

During 2017and 2018, the group carried out commercial transactions with related parties as follows:

31.12.2017	Trade receivables	Loan assets	Trade payables	Revenue	Costs	Financial income
Arion S.r.l.	-	160	(85)	-	(1,040)	-
Carel Japan Co Ltd	14	-	-	158	(2)	-
Free Polska s.p.z.o.o.	7	-	-	27	(1,041)	-
Total associates	**21**	**160**	**(85)**	**185**	**(2,083)**	**-**
RN Real Estate S.r.l.	3	-	(30)	25	(1,224)	-
Nastrificio Victor S.p.A.	-	-	(5)	-	(4)	-
Arianna S.p.A.	1,983	-	(1)	1,789	(35)	-
Eurotest laboratori S.r.l.	72	-	(86)	121	(277)	5
Carel Real Estate Adratic d.o.o.	-	-	-	2	(299)	-
Agriturismo Le Volpi	-	-	(18)	-	(22)	-
Eurotec Ltd	192	-	-	688	-	-
Panther S.r.l.	-	-	(3)	-	(7)	-
D Subsin Holding Co	-	-	-	-	(7)	-
Q Inter Supply	96	-	(3)	285	(44)	-
Vinh Nam Refrigeration Electric CO	-	-	-	3	-	-
Total other related parties	**2,346**	**-**	**(146)**	**2,913**	**(1,919)**	**5**

31.12.2018	Trade receivables	Loan assets	Trade payables	Financial liabilities	Revenue	Costs
Arion S.r.l.		160	(25)	-	-	(1,526)
Carel Japan Co Ltd*	19	95	(1)	-	107	(6)
Free Polska s.p.z.o.o.	2	-	(29)	-	6	(3,444)
Total associates	**21**	**255**	**(55)**	**-**	**113**	**(4,976)**
RN Real Estate S.r.l.	3	-	(10)	-	25	(1,226)
Nastrificio Victor S.p.A.	-	-	(7)	-	-	(42)
Arianna S.p.A.	123	-	-	-	40	(86)
Eurotest laboratori S.r.l.	11	-	(29)	-	39	(282)
Carel Real Estate Adratic d.o.o.	-	-	(56)	-	2	(299)
Agriturismo Le Volpi	-	-	(5)	-	-	(17)
Eurotec Ltd	120	-	(7)	-	703	(30)
Panther S.r.l.	-	-	(3)	-	-	(7)
Vinh Nam Refrigeration Electric CO	-	-	-	-	1	-
Luigi Nalini Sapa	129	-	-	-	120	-
Luigi Rossi Luciani Sapa	198	-	-	-	184	-
Komsan Sripavatakul	**-**	**-**		**(74)**	**-**	**-**
Total other related parties	**584**	**-**	**(117)**	**(74)**	**1,114**	**(1,989)**
Total related parties	**605**	**255**	**(172)**	**(74)**	**1,227**	**(6,965)**

* Transaction until 27 June 2018

Transactions with RN Real Estate S.r.l. relate to the lease of the industrial buildings where the parent carries out its business. Transactions with Eurotec comprise sales of products on an arms length basis. All the transactions are carried out on an arm's-length basis.

Elenco delle partecipazioni incluse nel bilancio consolidato e delle altre partecipazioni

Nella tabella che segue sono elencate le imprese partecipate direttamente e indirettamente dalla CapoGruppo CAREL INDUSTRIES S.p.A., a fianco delle quali sono indicate tutte le informazioni richieste dalla legge che disciplina la redazione dl bilancio consolidato.

	Registered office	Country	Currency	Share/quota capital at
				31/12/2017
Parent:				
CAREL INDUSTRIES S.p.A	Brugine (Padua)	Italy	EURO	10,000,000
Consolidated investees:				
C.R.C. S.r.l.	Bologna	Italy	Euro	98,800
Carel Deutschland GmbH	Frankfurt	Germany	Euro	25,565
Carel France Sas	St. Priest, Rhone	France	Euro	100,000
Carel U.K. Ltd	London	GB	Pound sterling	350,000
Carel Sud America Instrumentacao Eletronica Ltda	San Paolo	Brazil	Real	31,149,059
Carel Usa LCC	Wilmington Delaware	US	US dollar	
Carel Asia Ltd	Hong Kong	Honk Kong	Hong Kong dollar	7,900,000
Carel HVAC&R Korea Ltd	Seul	South Korea	South Korean won	550,500,000
Carel South East Asia Pte. Ltd.	Singapore	Singapore	Singapore dollar	100,000
Carel Australia PTY Ltd	Sydney	Australia	Australian dollar	100
Carel Electronic Suzhou Ltd	Suzhou	People's Republic of China	Rinminbi	55,288,816
Carel Controls Iberica Sl	Barcelona	Spain	EURO	3,005
Carel Controls South Africa (Pty) Ltd	Johannesburg	South Africa	Rand	4,000,000
Carel ACR System India (Pvt) Ltd	Mumbai	India	Rupee	1,665,340
Carel RUS Llc	St. Petersburg	Russia	Ruble	6,600,000
Carel Nordic AB	Hoganas	Sweden	Swedish krona	550,000
Carel Middle East	Dubai	Dubai	Dirham	3,000,000
Carel Mexicana, S. DE R.L. DE C.R.	Guerra, Tlalpan	Mexico	Peso	12,441,149
Carel Adriatic D.o.o.	Rijeka	Croatia	Kuna	32,100,000
Carel (Thailand) Co. Ltd.	Bangkok	Thailand	Baht	4,000,000

Share/quota capital at	Investment %	Investor	Consolidation method	Profit (loss) for the first half of 2018	Profit (loss) for the first half of 2017
31/12/2018	**31/12/2018**	**Azionista-Socio**		**EURO**	**EURO**
10,000,000				23,987,058	27,614,106
98,800	100%	CAREL INDUSTRIES S.p.A.	Line-by-line	516,039	431,713
25,565	100%	CAREL INDUSTRIES S.p.A.	Line-by-line	1,188,178	875,950
100,000	100%	CAREL INDUSTRIES S.p.A.	Line-by-line	527,568	587,425
350,000	100%	CAREL INDUSTRIES S.p.A.	Line-by-line	1,119,839	636,588
31,149,059	53.02%	CAREL INDUSTRIES S.p.A.	Line-by-line	769,126	687,334
	46.98%	Carel Electronic Suzhou Ltd			
3,000,000	100%	CAREL INDUSTRIES S.p.A.	Line-by-line	1,218,629	1,062,800
15,900,000	100%	CAREL INDUSTRIES S.p.A.	Line-by-line	330,553	346,785
550,500,000	100%	Carel Electronic Suzhou Ltd	Line-by-line	(95,629)	(79,444)
100,000	100%	Carel Asia Ltd	Line-by-line	41,117	n.d.
100	100%	Carel Electronic Suzhou Ltd	Line-by-line	412,640	347,330
75,019,566	100%	CAREL INDUSTRIES S.p.A.	Line-by-line	8,267,768	9,843,873
3,005	100%	CAREL INDUSTRIES S.p.A.	Line-by-line	714,010	611,533
4,000,000	100%	Carel Electronic Suzhou Ltd	Line-by-line	36,106	(161,527)
1,665,340	0.01%	Carel France Sas	Line-by-line	203,308	(210,575)
	99.99%	Carel Electronic Suzhou Ltd			
6,600,000	99%	CAREL INDUSTRIES S.p.A.	Line-by-line	429,286	360,998
	1%	Carel France Sas			
550,000	100%	CAREL INDUSTRIES S.p.A.	Line-by-line	150,609	36,844
4,333,877	100%	CAREL INDUSTRIES S.p.A.	Line-by-line	(27,713)	(373,435)
12,441,149	100%	Carel Usa LCC	Line-by-line	216,190	106,270
54,600,000	100%	CAREL INDUSTRIES S.p.A.	Line-by-line	2,424,914	1,508,270
10,000,000	79.994%	Carel Electronic Suzhou Ltd	Line-by-line	370,901	236,479
	0.006%	Carel Australia PTY Ltd			

	Registered office	Country	Currency	Share/quota capital at
Alfaco Polska Sp.z.o.o.	Wrocław	Poland	Zloty	420,000
Carel Japan	Tokyo	Japan	Yen	10,000,000
Recuperator S.p.A.	Rescaldina (MI)	Italy	Euro	n.d.
Hygromatik G.m.b.H.	Henstedt-Ulzburg	Germany	Euro	n.d.

Share/quota capital at	Investment %	Investor	Consolidation method	Profit (loss) for the first half of 2018	Profit (loss) for the first half of 2017
420,000	100%	CAREL INDUSTRIES S.p.A.	Line-by-line	813,142	460,656
60,000,000	100%	CAREL INDUSTRIES S.p.A.	Line-by-line	(100,131)	n.d.
500,000	100%	CAREL INDUSTRIES S.p.A.	Line-by-line	(12,944)	n.d.
639,115	100%	CAREL INDUSTRIES S.p.A.	Line-by-line	140,031	n.d.

Fees paid to directors, statutory auditors and key management personnel

The fees paid to directors and statutory auditors for the year ended 31 December 2018 are as follows:

Directors	2018	2017
Remuneration and fees (3)	906	586
Other non-monetary benefits	12	4
Other fees (1)	50	-
Fair value of share-based payments	34	-
Total fees paid to directors	**1002**	**590**

Statutory auditors	2018	2017
Fixed fees and fees for participation in committees	71	117
Total fees paid to directors	**71**	**117**

Key management personnel	2018	2017
Remuneration and fees	960	1,146
Other non-monetary benefits	24	27
Other fees (1)	138	13
Post-employment benefits or termination benefits (2)	18	4
Fair value of share-based payments	34	-
Total key management personnel	**1,174**	**1,190**

(1)The amount includes a one-off payment
(2) for cash flows
(3) the figure for 2017 refers solely to fees

EVENTS AFTER THE REPORTING DATE

No significant events have taken place since the reporting date.

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

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

Services	Independent auditor	Company	2018 fees
Audit	Deloitte & Touche S.p.A.	CAREL INDUSTRIES S.p.A.	151
	Deloitte & Touche S.p.A.	Subsidiaries	33
	Deloitte & Touche network	Subsidiaries	229
Attestation services	Deloitte & Touche S.p.A.	CAREL INDUSTRIES S.p.A.	417
Other services	Deloitte & Touche S.p.A.	CAREL INDUSTRIES S.p.A.	10
	Deloitte & Touche network	Subsidiaries	26
Total			**866**

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

A list of the subsidies, grants, paid positions and any type of economic benefits received from public administrations and subjects defined as such by Article 1.125 of Law no. 124 of 2017, that the parent received in 2018.

- Funding party: European Commission;
- Amount received: €46,378;
- Coordinator: UNINOVA – Instituto De Desenvolvimento De Novas Tecnologias (Portugal);
- Cause: Grant Agreement 636692 – H2020-F0F-2014-2015/H2020-FoF-2014 under Horizon 2020 Research and Innovation Framework Programme.
- Funding party: PROVINCE OF PADUA - labour sector - tax code 80006510285 - VAT no. 0070044028;
- Amount received: €9,600;
- Cause: grants from Regional fund for the employment of disabled people pursuant to article 14 of Law no. 68/99;
- During the year, the parent:
  - obtained tax relief (as provided for by Law no. 190/2014) of €15,286;
  - offset tax assets from investments in research and development (as provided for by Law decree no. 145/2015 and as subsequently amended) of €830,354.
- Furthermore, during the year, the parent benefited from the following subsidies/benefits:
  - with regard to personnel: advances related, inter alia, to social security contributions of INPS and INAIL (sick leave, maternity leave and parental leave pursuant to Law no. 104, nursing mothers' leave, blood donation, marriage leave, family allowances, injury);
  - with regard to tax: super-amortisation/hyper-amortisation/Patent Box;
  - other: tariff subsidies for energy intensive companies in accordance with the Ministerial decree of 5 April 2013 issued by the Italian Ministry of Economy and Finance.

Report on Corporate Governance and the Ownership Structure

Pursuant to article 123-bis of Legislative decree no. 58 of 24 February 1998

(Traditional management and control model)

This report was approved by the board of directors on 7 March 2019.

Contents

Relazione sul Governo Societario e gli Assetti Proprietari

Glossary

Borsa Italiana	Borsa Italiana S.p.A., with registered office in Piazza Affari 6, Milan.
Carel, issuer or parent	CAREL INDUSTRIES S.p.A., with registered office in Via Dell'Industria 11, Brugine (PD). VAT number, tax code and Padua company registration number 04359090281.
Code/Code of Conduct	The Code of Conduct for listed companies approved in March 2006 by the Corporate governance committee and promoted by Borsa Italiana, as modified and supplemented and as updated in July 2018.
Italian Civil Code	The Italian Civil Code
Consob	the Italian Commission for listed companies and the stock market with registered office in Via Martini 3, Rome.
Date of this report	7 March 2019, the day on which the issuer's board of director's approves the report.
Decree no. 231	Legislative decree no. 231 of 8 June 2001.
Year	Year ended 31 December 2018 to which the report refers.
Group or Carel Group	CAREL INDUSTRIES S.p.A. and its subsidiaries pursuant to article 2359 of the Italian Civil Code and article 93 of the Consolidated Finance Act (CFA).
Borsa Italiana regulation instructions	Instructions for the regulation of markets organised and managed by Borsa Italiana.
Stock market	Indicates the stock market organised and managed by Borsa Italiana.
Procedure	Explained in paragraph 12 hereof.
Borsa Italiana regulation	The regulation of markets organised and managed by Borsa Italiana.
Issuers' Regulation	The regulation issued by Consob with resolution no. 11971 of 14 May 1999, as subsequently amended and supplemented, related to issuers.
Related party regulation	The Regulation issued by Consob with resolution no. 17221 on 12 March 2010, as subsequently amended and supplemented, related to related party transactions.
Report	This corporate governance report prepared pursuant to article 123-bis of the CFA and 89-bis of the Issuers' Regulation (as described above).
By-laws	The by-laws of the issuer at the reporting date.
Consolidated Finance Act (CFA)	Legislative decree no. 58 of 24 February 1998, as subsequently amended and supplemented.

Foreword

In compliance with the legislative and regulatory requirements applicable to the boards of directors of listed companies, in order to guarantee that the disclosures are fair and transparent, this report aims to illustrate Carel's corporate governance system.

The report has been prepared using the format made available to issuers by Borsa Italiana in January 2019.

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

The issuer adheres to and complies with the Code of Conduct, adapting it to comply with its own characteristics.

The report is published in the section [Investor Relations / Shareholders' meetings / Shareholders' meeting 15 April 2019 of the website www.carel.com.

1. Issuer's profile

The corporate governance system of Carel, which adopts the traditional management and control model, is made up of the following bodies:

i. **Board of directors**, which oversees the company's running;

ii. **Board of statutory auditors**, whose tasks comprise monitoring (i) compliance with the law and by-laws and correct administration principles, (ii) the internal controls and administrative-accounting system, and the latter's reliability in properly presenting the parent's operations, (iii) the proper implementation of the corporate governance rules established by the Code of Conduct, (iv) the adequacy of the instructions given to the subsidiaries about the disclosure of sensitive information, and (v) the financial reporting process, the efficiency of internal controls, internal audit and risk management systems, the statutory audit of separate and consolidated financial statements and the independence of the independent auditors;

iii. **Shareholders' meeting**, responsible for resolving on issues assigned to them by law and the by-laws.

Within the board of directors there are two committees:

iv. the **Control, risks and sustainability committee**, which, following adequate investigations, is in charge of supporting the board of directors' assessments and decisions on the internal control and risk management system and, inter alia, its approval of the periodic financial reports. It has advisory powers related to transactions with related parties, in addition to advisory and investigatory powers with regard to the board of statutory auditors, concerning statutory audits, in compliance with the requirements of Legislative decree no 39 of 27 January 2010 and supporting the board of directors with investments.

On 28 February 2019, the board of directors made the Control and risks committee responsible for the sustainability duties and departments, setting up the Control, risks and sustainability committee.

v. **Remuneration committee**, which mainly provides advisory support and recommendations to the board of directors about remuneration and prepares the documentation to be provided to the board of directors for the adoption of the resolutions concerning remuneration. Each committee is made up of three independent directors and operates based on the internal regulation that establishes the operating rules.

The audit is assigned to an **independent auditor**, listed in the Register of Independent Auditors, selected by the shareholders, based on the Board of statutory auditors' proposal.
In addition to the above, in compliance with the requirements of the Code of Conduct and the ruling regulations, the issuer has, inter alia:

a. appointed three of the seven independent directors for the board of directors (application criterion 2.C.5 of the Code of Conduct);
b. defined the guidelines for the internal control and risk management system, appointing the subjects responsible for internal control (application criteria 7.C.1, 7.C.4 and 7.C.5 of the Code of Conduct);
c. adopted a procedure for the management of inside information and procedures for internal dealings;
d. adopted a procedure for related party transactions pursuant to article 4 of the Related party regulation;
e. appointed an Investor Relator, responsible for the management of relations with shareholders (application criterion 9.C.1 of the Code of Conduct)
f. adopted a regulation for the shareholders' meeting's functioning (application criterion 9.C.3 of the Code of Conduct);
g. adopted an organisational, management and control model pursuant to Legislative decree no. 231 (Article IA.2.10.1 of the Borsa Italiana regulation instructions).

The issue is eligible for classification as an SME pursuant to article 1.1.w-quater.1) of the CFA and article 2-ter of Consob Issuers' Regulation, as its turnover is below the threshold required by the applicable regulations.

2. Information about the Company's Ownership Structure (pursuant to article 123-bis of the CFA) at the date of the report

a. **Structure of the share capital (as per article 123-bis.1.a) of the CFA)**

At the date of this report, CAREL's subscribed and paid-up share capital amounts to €10,000,000.00 comprised of 100,000,000 ordinary shares with no nominal amount.

Shares are subject to dematerialisation pursuant to article 83-bis and following articles of the CFA. The shares can be transferred freely and have the same dividend and voting rights in accordance with the law and the by-laws, excluding article 13 of the by-laws.

At the date of this report, the parent has not issued other categories of shares nor financial instruments that can be converted into or exchanged for shares.

For more information about the structure of the share capital, reference should be made to table 1, attached hereto.

At their ordinary meeting on 7 September 2018, the shareholders approved a long-term share-based incentive plan for the free allocation of Carel's ordinary shares (the "shares"), named "2018-2022 share-based performance plan" (the "plan") reserved for certain beneficiaries, to be chosen, potentially more than once, from the executive directors, key management personnel, employees of the parent, or its subsidiaries, given the strategic importance of their roles.

More information about the plan is provided in the document prepared pursuant to article 114-bis of the CFA and article 84-bis of the Issuers' Regulation and made available to the public at the parent's registered office, at Borsa Italiana S.p.A., on the parent's website www.carel.com in the section IR/Shareholders' meetings, and in the Remuneration report, prepared in accordance with articles 123-ter of the CFA and 84-quater of the Issuers' Regulation, available on the parent's website, www.carel.com and via other methods provided by current regulations.

b. **Restrictions on transfers of shares (as per article 123-bis.1.b) of the CFA)**

At the date of this report there are no restrictions to the transfer of Carel's shares.

c. **Shareholders with significant interests in the share capital (as per article 123-bis.1.c) of the CFA)**

The issuer is eligible for classification as an SME pursuant to article 1.1.w-quater.1 of the CFA, introduced with Law decree no. 91 of 24 June 2014, converted with amendments by Law no. 116 of 11 August 2014 and replaced by article 1 of Legislative decree no. 25 of 15 February 2016.

Therefore, subject to article 120 of the CFA, the minimum threshold requiring disclosure is for parties who hold more than 5% of share capital, instead of 3%.

At the date of this report, based on the shareholders' register and considering the disclosures received pursuant to article 120 of the CFA and the other information available to the parent, shareholders who directly or indirectly hold at least 5% of share capital are shown in Table 1, attached hereto, specifically:

Luigi Rossi Luciani S.A.P.A., which directly holds 36.17% of the share capital, with voting rights of 45.28% due to the shareholder's inclusion in the loyalty shares register, pursuant to article 127-quinquies of the CFA and article 143-quater of the Issuers' Regulation;

Luigi Nalini S.A.P.A., which directly holds 23.58% of the share capital, with voting rights of 29.52% due to the shareholder's inclusion in the loyalty shares register, pursuant to article 127-quinquies of the CFA and article 143-quater of the Issuers' Regulation;

Capital Research and Management Company, which directly holds 8.02% of the ordinary share capital, with voting rights of 5.02%, as it is not included in the loyalty share register, of which 7.19% equal to 4.99% of the voting shares, belonging to SMALLCAP World Fund, Inc..

At the date of this report, the parent has not issued shares that convey special control rights, nor do the by-laws provide for special rights for shareholders or holders of special categories of shares.

In compliance with article 127-quinquies of the CFA, article 13 of the by-laws specifies that for each share held by the same subject for an uninterrupted period of no less than twenty-four months starting from the date of inclusion in the loyalty share register may be attributed two votes. The shareholder holding the loyalty shares may irrevocably renounce, all or part, of the increased votes.

The parent updates the register on a quarterly basis - 31 March, 30 June, 30 September and 31 December - or using another cycle provided for by the sector regulations, in any case before the record date.

The loyalty shares are also calculated to determine the quorum for the constitution of the shareholders' meeting and for resolutions which regard the share capital. The increase does not affect rights, other than voting rights, due pursuant to the possession of certain capital quotas.

For more information, reference should be made to the by-laws and the loyalty shares regulation available on www.carel.com, where the data identifying individual shareholders who requested increased loyalty shares, with indication of the relative investments, greater than the threshold indicated in article 120.2 of the CFA are also published, together with the record date.

d. **Shares that convey special rights (as per article 123-bis.1.d) of the CFA)**

At the date of this report, the parent has not issued shares that convey special control rights, nor do the by-laws provide for special rights for shareholders or holders of special categories of shares.

In compliance with article 127-quinquies of the CFA, article 13 of the by-laws specifies that for each share held by the same subject for an uninterrupted period of no less than twenty-four months starting from the date of inclusion in the loyalty share register may be attributed two votes. The shareholder holding the loyalty shares may irrevocably renounce, all or part, of the increased votes.

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For more information, reference should be made to the by-laws and the loyalty shares regulation available on www.carel.com, where the data identifying individual shareholders who requested increased loyalty shares, with indication of the relative investments, greater than the threshold indicated in article 120.2 of the CFA are also published, together with the record date.

e. **Employee stock ownership: mechanisms to exercise voting rights (as per article 123-bis.1.e) of the CFA)**

At the date of this report, there are no Employee stock ownership mechanisms to exercise voting rights.

f. **Voting right restrictions (as per article 123-bis.1.f) of the CFA)**

At the date of this report, there are no voting right restrictions related to the shares of the parent, nor financial rights related to shares.

g. **Shareholders' agreements (as per article 123-bis.1.g) of the CFA)**

At the date of this report, there are two shareholders' agreements.
On 10 June 2018, Luigi Rossi Luciani S.a.p.a. and Luigi Nalini S.a.p.a. entered into a shareholders' agreement to appoint the members of Carel's corporate bodies (the "agreement"). The agreement relates to 59,750,000 Carel shares, equal to 59.75% of its share capital, representing 119,500,000 voting rights (as a result of the loyalty shares belonging to Luigi Rossi Luciani S.a.p.a. and Luigi Nalini S.a.p.a. pursuant to the current by-laws) and making up approximately 74.80% of the parent's share capital with voting rights. The shareholders' agreement is a voting agreement for the appointment of the members of the corporate bodies pursuant to article 122.1 of the CFA.On 27 July 2015, Cecilia Rossi Luciani, Carlotta Rossi Luciani and Vittorio Rossi Luciani, who have bare ownership of 99.99% of Luigi Rossi Luciani S.a.p.a., with the voting rights shared equally between the parties, have stipulated a regulation to govern these shared rights (the "regulation" which contains, inter alia, shareholder voting agreements and sets limits pursuant to article 122.1.5.b) of the CFA. Luigi Rossi Luciani S.a.p.a., in turn, holds 45.28% of Carel's share capital with voting rights.
The full versions of the agreement and the regulation have been provided to Consob and were filed with the Padua company registrar on 14 June 2018, while the key information has been published on Carel's website, www.carel.com, in the section Corporate Governance/shareholders' agreements.

h. **Change of control clauses (as per article 123-bis.1.h) of the CFA) and provisions**

The parent has not stipulated significant agreements that become effective, are modified or are extinguished if controls over the parent or the subsidiaries changes. The by-laws do not provide for waivers of the passivity rule as per article 104.1/1-bis of the CFA and does not provide for the application of the neutralisation rules as per article 104-bis.2/3 of the CFA.

i. **Delegations to increase the share capital and authorisations to repurchase treasury shares (as per article 123-bis.1.m) of the CFA)**

There are no mandates to increase the share capital pursuant to article 2443 of the Italian Civil Code.
Pursuant to article 6 of the by-laws, the shareholders may give the board of directors the option to increase share capital and issue convertible bonds, up to a set limit and for a maximum of five years from the date of the resolution.
Pursuant to article 2441.4.2 of the Italian Civil Code, the parent may resolve to increase share capital without the option right, up to a limit of 10% of the pre-existing capital, as long as the issue price matches the market value of the shares and that this is confirmed in a specific report prepared by a statutory auditor or independent auditor.
At their ordinary meeting of 7 September 2018, the shareholders resolved to authorise the board of directors to repurchase, in one or more transactions, up to 5% of the issuer's share capital on the stock market over a period of 18 months from the date of the meeting, within the limit of the distributable profits and the available reserves as shown in the most recent approved financial statements at the date of each transaction. It is expected that during the period, the board of directors may proceed with its repurchases to the extent and within the time limits set by the relevant regulations, including European ones and the current market practice. The authorisation also includes the option to subsequently transfer (in whole or in part, including several times) treasury shares, even before reaching the maximum amount and to repurchase the latter, so that the treasury shares held by the parent and its subsidiaries, do not exceed the limit set by the authorisation.
At the date of this report, the parent does not hold treasury shares.
However, with the shareholders' resolution of 25 January 2019, Carel launched a programme to purchase treasury shares, up to a maximum of 100,000 Carel shares, equal to 0.1% of its share capital, which has been partially carried out, in accordance with the methods, terms and conditions of the "2018-2022 share-based performance plan", under the resolution approved by the shareholders on 7 September 2018.
Thanks to this programme, at the date of this report, the parent holds 34,835 treasury shares.

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

The issuer is not subject to management and coordination as defined by article 2497 and following articles of the Italian Civil Code. Based on the examination of the circumstances, the parent believes that there are no activities that typically represent management and coordination pursuant to article 2497 and following articles of the Italian Civil Code. Specifically, despite being controlled by other companies, the issuer does not believe that it is bound to adhere with the disclosure obligations under article 16.1.a) of the Consob Market Regulation, as none of its shareholders, including Luigi Rossi Luciani S.a.p.a., which holds 45.28% of the share capital with voting rights, performs management and coordination activities for the issuer, pursuant to article 2497 and following articles of the Italian Civil Code, as reported by the issuer on 9 November 2015 and reported to the relevant company registrar on 10 November 2015. The issuer, furthermore, is not subject to consolidation by Luigi Rossi Luciani S.a.p.a..

* * *

A breakdown of the companies belonging to the group, with indication of the investments in each at the date of this report is provided in the graph on page 10 hereof.

* * *

For the information required by article 123-bis.1.i) (compensation for the directors in the event of resignation or dismissal without just cause, or if the employment contract should terminate as the result of a takeover bid) and l) appointment and replacement of directors and amendments to the by-laws) of the CFA, reference should be made, respectively, to 1) the Remuneration report, prepared in accordance with article 123-ter of the CFA and article 84-quater of the Issuers' Regulation, available to the public on the parent's website (www.carel.com) and through the other methods set out by the current regulations and ii) to paragraph 4.1 of this report.

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

Following the directors' resolution of 29 March 2018, the parent adopted Borsa Italiana S.p.A.'s Code of Conduct (the "Code of Conduct"), updated in July 2018 (available on the Corporate Governance Committee's website http://www.borsaitaliana.it/comitato-corporate-governance/codice/codice.htm).

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Carel and its strategic subsidiaries are not required to comply with non-Italian laws that would affect the corporate governance structure.

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In view of the most recent legislative provisions and regulations, the provisions of the Code of Conduct and the national and international best-practices, the parent's governance tools are as follows:

- by-laws;
- shareholders' meetings regulations;
- organisational, management and control model pursuant to Legislative decree no. 231;
- Code of Ethics;
- regulations of the Control, risks and sustainability committee;
- regulations of the Remuneration committee;
- procedure for related party transactions pursuant to article 4 of the Related Party Regulation;
- procedure for the management of inside information and Register of parties with access to inside information;
- internal dealings procedure.

4. Board of Directors

4.1 Election and replacement (as per article 123-bis.1.l) of the CFA)

Pursuant to article 17 of the by-laws, the parent is managed by a board of directors with 5 (five) to thirteen (13) members, depending on the resolution of the shareholders' at their ordinary meeting or amended by a subsequent resolution.

The directors' term, resolved by the shareholders, must be no longer than three years and it ends on the date of the shareholders' meeting called for the approval of the financial statements related to the last year of their term.

On 29 March 2018, the shareholders resolved to appoint seven members, for a term of three years, until the approval of the financial statements as at and for the year ending 31 December 2020.

The board is appointed at the ordinary shareholders' meeting, using the lists presented by the shareholders, unless otherwise required by mandatory legislation or regulations.

The shareholders who individually or collectively hold a number of shares equal to at least the amount calculated by Consob for the purposes of the applicable legislation and regulations, may present a list for the appointment of the directors. In this regard, pursuant to the applicable provisions of the law, regulations and by-laws and Consob's management decision no. 13 of 24 January 2019, the lists of candidates can only be presented by shareholders who individually or collectively have a shareholding of at least 2.5% with voting rights in the ordinary shareholders' meeting.

The lists are filed at the registered office, in accordance with the methods set out by the current law, at least 25 days before the shareholders' meeting called to appoint the directors. The lists must be made available to the public at least 21 days before the shareholders' meeting, in accordance with the provisions of the current law.

The shareholders, including the shareholders that belong to the same group or who are party to a significant shareholders' agreement pursuant to article 122 of the CFA, may not file or vote for more than one list, either personally or through a representative or a trustee.

A candidate may only be placed on one list on penalty of losing the right to be elected.

Each list:

- shall include no more than 13 candidates, numbered consecutively;
- shall include and expressly state that at least one director fulfils the independence requirements provided by the by-laws (the "independence requirements"). If there are more than seven candidates, it must expressly have two directors who fulfil such requirements;
- if it includes three or more candidates, they must not all belong to the same gender, male or female; rather, it shall contain a number of candidates of the less-represented gender, in order to guarantee that at least a third of the total directors belong to the less-represented gender. Should this not be a whole number, it must be rounded up;

- the documentation required by the by-laws in addition to any other statement, disclosure and/or document required by the law or the applicable regulations shall be attached to the list.

a. In the presence of two or more lists, the voting procedures and formation of the board of directors are based on the following provisions:
- the candidates of the two lists that obtained the most votes are elected, using the following criteria: (i) a number of directors equal to the total number to be elected minus one are chosen in the order of their inclusion in the list that obtained the most votes (the "Majority list"); (ii) the one candidate who is first on the second list that obtained the most votes and that is not directly or indirectly connected to the shareholders that presented or voted for the Majority list (the "Minority list") is chosen as director;
- the lists that did not receive votes equal to at least half of the number of shares required for the presentation of the lists are not considered;
- if two lists receive the same amount of votes, the shareholders hold another vote looking exclusively at those lists, thus achieving a majority for one or the other;
- if, with the above-mentioned methods, the provisions related to the independence requirements are not respected, the process proceeds as follows: the candidate that does not fulfil the independence requirements established by the law for directors of listed companies, elected last on the Majority list, will be replaced by the first candidate who fulfils such requirements who was not elected according to the consecutive order in the same list. If such procedure does not result in the necessary number of directors fulfilling the independence requirements, the shareholders will resolve on the replacement by majority vote, after a presentation of the candidates who fulfil the requirements;
- if, with the above methods, the composition of the board of directors does not comply with legislation governing gender balance, the last candidates of the most represented gender elected from the Majority list, considering their consecutive order, are replaced by the first candidates of the least represented gender not elected from the same list. If this replacement is not possible, in order to guarantee the respect of the above-mentioned requirements, the missing directors will be elected by the shareholders with the ordinary methods and majorities, without applying the list voting mechanism.

b. If only one list is submitted, the shareholders vote on it and if it obtains the majority of votes, all the members of the board of directors are elected from that list, in compliance with the statutory and regulatory provisions in force from time to time, including on gender balance.

c. If no list is presented or only one list is presented and it does not obtain the relative majority of the related votes, the number of directors elected based on the lists presented is lower than the number to be elected, not all of the board of directors need to be replaced, it is not possible to appoint the board using the afore-mentioned methods, the members of the board of directors are appointed by the shareholders using the ordinary methods and majorities, without applying the list voting mechanism, provided that the minimum number of directors who fulfil the independence requirements is met and the requirements concerning gender balance are respected.

Should directors leave their position, the legal requirements are applied, without using lists, without prejudice to the above-mentioned minimum number of directors with the independence requirements and respecting the gender balance requirements.

The independent director who loses the independence requirement falls from office pursuant to article 147-ter.4 of the CFA, only if this results in the number of directors with the requirement being lower than the number required thereby.

The issuer is not subject to other requirements regarding the composition of the board of directors.

4.1.1 Succession plans

In accordance with article 5.C.2 of the Code of Conduct, considering the functioning, size and ownership of the parent and the group, in addition to the practice of appointing executive managers who have gained significant experience within the group, the board of directors has decided that it is not currently necessary for the parent to adopt a succession plan for executive directors.

Therefore, at the date of this report, Carel does not have a succession plan for its executive directors. In this regard it is noted that considering the particular ownership structure, the parent can get the board of directors to promptly take the necessary measures.

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

During their meeting of 29 March 2018, the shareholders appointed the current board of directors, for a three-year term of office, expiring when the shareholders' meeting is called to approve the financial statements at 31 December 2020. It comprised the following members: Luigi Rossi Luciani, Luigi Nalini, Francesco Nalini, Carlotta Rossi Luciani, Corrado Sciolla, Cinzia Donalisio and Marina Manna.

Considering that the board of directors in office at the date of this report was appointed on 29 March 2018 and the by-laws came into force on the date that Carel's ordinary shares were listed on the stock market, the voting requirements contained therein - which require that the appointment of a member from the list that came second in terms of votes after the Majority list and that is not directly or indirectly connected to the shareholders that presented or voted for the Majority list - will only be applied with the first renewal of the board of directors after the date Carel's shares were listed on the stock market (23 May 2018).

Based on the by-laws, the board of directors appointed Luigi Rossi Luciani as chairperson of the board of directors and Luigi Nalini and Francesco Nalini as executive deputy chairperson and chief executive officer, respectively. Carlotta Rossi Luciani is the executive director of the parent. Corrado Sciolla (resigned at the date of this report, as described below, and replaced by Giovanni Costa, co-opted on 25 January 2019), Cinzia Donalisio and Marina Manna are non-executive independent directors pursuant to article 148 of the CFA and article 3 of the Code of Conduct.

In compliance with Principle 2.P.3 of the Code of Conduct, the parent believes that appointing this many independent directors guarantees that their opinion has a greater impact on decisions.

The personal and professional background of directors is summarised below:

Luigi Rossi Luciani, after earning a diploma in accounting, he began his business career in 1966, founding Nastrificio Victor S.p.A. in Piove di Sacco (PD), where he currently serves as chairperson. Since the 1990s he has been involved in various business associations; in particular, from 2000 to 2005 he was chairperson of Confindustria (General Confederation of Italian Industry) for the Veneto region and a member of Confindustria's executive board. He is one of the issuer's founders and serves as chairperson of the board of directors.

Luigi Nalini obtained a degree in Mechanical Engineering from "La Sapienza" University of Rome in 1970. He began his career with the Hiross Group, initially as R&D manager and then technical director. From 1988 to 1997, as co-founding shareholder, he served as technical director and general manager of Uniflair S.p.A. He is one of the issuer's founders and was its chief executive officer from 1997 to 2018 to then took on the role of deputy chairperson, which is the position he held at year end.

Francesco Nalini, obtained a degree in engineering management from the University of Padua in 1997, worked at McKinsey from 2001 to 2002 and, from 2002 to 2005, was ICT manager at Errennegi S.r.l. Since 2017, he has been a member of the board of directors of Università degli Studi in Padua. He joined the issuer in 2005, where he served as director of operations before becoming general manager from 20015 to 2018.

Since March 2018, he has been the CEO of the issuer.

Carlotta Rossi Luciani holds a degree in Industrial Design from the Italian Design School of Padua, and a Master's Degree in Lean Management from the University Corporate Organisation Centre of Altavilla Vicentina (province of Vicenza). From 2009 to 2012, she was a graphic designer for a number of companies and joined Carel in 2013, specialising in the "lean" sector. Since January 2017 she has been lean development office manager for Carel Adriatic. Since March 2018, she has been a director of the issuer.

Cinzia Donalisio obtained a degree in Computer Science from the University of Pisa in 1984. She held a number of managerial positions, mostly in the financing and insurance sectors, in companies such as Olivetti S.p.A., Ericsson Telecomunicazioni S.p.A., SIA S.p.A. and Thesia S.p.A.. From 2011 to 2012, she was the head of the banking division of Wincor-Nixdorf S.p.A. Since 2013, she has been a founding shareholder and she is also a managing partner of Governance Advisory S.r.l., which provides support to companies in the development of corporate strategies and corporate governance policies. She does not hold other management or control positions in other companies or other bodies at the date of this report.

Marina Manna obtained a degree in Economics and Business with specialisation in legal subjects from the Ca' Foscari University of Venice in 1984. She is listed in the Register of Chartered Accountants and expert accountants of the Padua district and the Register of Independent auditors since 1989. Since then, she has been a chartered accountant and public accountant, working mainly on taxes focusing, in particular on, tax disputes, civil and criminal technical consultancies and bankruptcy proceedings. She is a professor at the Scuola di Alta formazione del Consiglio Nazionale dei Dottori Commercialisti ed Esperti Contabili (the Italian Accounting Profession). She has also taken on certain roles within the Consiglio dell'Ordine dei Dottori Commercialisti (the Order of Chartered Accountants) of Padua. She was also a member of the board of directors of Banco di Napoli S.p.A.. She is currently non-executive director and statutory auditor of a number of companies (including Carraro S.p.A., Nice Group S.p.A., BLM S.p.A and Pandolfo Alluminio S.p.A.).

Corrado Sciolla obtained a degree in Electrical Engineering from Turin's Politecnico University in 1988, he continued his studies, obtaining an MBA at INSEAD in Fontainebleau in 1992. From 2001 to 2003, he was the general director of Wind Telecomicazioni S.p.A. and in 2005 he joined BT where he was, inter alia, CEO of BT Italia and BT France, before being appointed chairperson of BT Continental Europe in 2013, a position which he held until 2017. Since 2016, he has been on the board of directors of Italiaonline S.p.A.. Since March 2018, he has been a non-executive independent director of the issuer.

After the date of this report, on 15 January 2019, Corrado Sciolla resigned from his role of lead independent director and from his position on the Remuneration committee and the Control and risks committee, due to his increasing professional commitments. On 25 January 2019, the board of directors co-opted Giovanni Costa, who will cover the role until the approval of the financial statements at 31 December 2020. Giovani Costa, therefore, became non-executive independent director and has also been appointed lead independent director and a member of the Remuneration committee and the Control and risks committee.

A summary of Giovanni Costa's personal and professional background is as follows:

Giovanni Costa is emeritus professor of Strategic Management and Corporate Structure at the University of Padua, where he taught between 1996 and 2017. He worked for many years as a management consultant, taking part in management development projects in national and international companies and public sector bodies; he also held governance positions at various companies and bodies.

For more information about the composition of the board of directors, reference should be made to Table 2, attached hereto.

This report also contains a list of all the positions the directors hold in other companies at the date of this report, in accordance with the criteria set out herein.

4.2.1 Diversity criteria and policies

Considering the structure and size of the company, also regarding the related ownership structure and the list voting mechanism required by the by-laws, which ensures that the procedure is transparent and that the composition of the board of directors is balanced, the board of directors on 7 March 2019, did not deem it necessary to adopt policies/practices for the management and control bodies to ensure an adequate level of diversity in relation to age, gender, education and professional career.

In compliance with application criterion 2.C.3 of the Code of Conduct, the members of the under-represented gender account for at least one-third of the board of directors.

4.2.2 Maximum number of positions held in other companies

On 7 March 2019, the board of directors resolved not to define general criteria regarding the maximum number of management and control positions that can be held at other companies considered compatible with the effective performance of the role of directors. The board trusts the individual directors with assessing the compatibility of the roles of director and statutory auditor held in other listed companies (including in foreign countries), in financial, banking, insurance or other large companies with effectively performing their duties as director of the parent, considering participation in committees, as indicated in application criterion 7.C.2019 of the Code of Conduct.

Considering the roles in other companies, the board of directors believes that the number and quality of the commitments does not interfere and is, therefore, compatible with the effective performance of the role of director.

4.2.3 Induction Programme

Carel's directors, specifically, its executive directors, have suitable knowledge of the sector in which the issuer and group operate.

With reference to the initiatives aimed at providing directors, particularly independent directors, with adequate knowledge of the sector in which the issuer operates, the chairperson of the board of directors organised board induction sessions, which aimed to provide information about the sector in which the parent operates, also in light of the dynamics of the group and the evolution of the ownership structure.

The sessions aimed to examine and provide in-depth knowledge of the group's different business segments through regular reports and presentations by those at the top, on topics such as research and development, marketing and sales, human resources and organisation, operations and administration, finance and control.

The sessions provided information about the business model and the group's products/markets and the group's competitive edge, the typical operations and R&D activities, HRM strategies and the functioning of the administration, finance and control department, with particular reference to the critical aspects and the risks related thereto.

During the year, there was also an induction session for the board of directors, at which some members of senior management were present, aimed at updating the participants about non-financial reporting (Legislative decree no. 254/2016) and Corporate Social Responsibility required by the relevant legislation and put in place by the parent.

During the year, the parent organised training for all directors, senior management and some employees aimed at providing in-depth information on the Market Abuse Regulation (Regulation (EU) no. 596/2014) regarding market abuse, management of inside information and transactions with related parties, in conjunction with the issuer's recent adoption of the related procedures.

In conjunction with the listening of the parent, initiatives have been carried out to gain a greater understanding of the main issues covered by the Code of Conduct, with specific focus on the best practices related to the internal control and risk management system.

Specifically, on 29 March 2018, the directors received a specific memo on the regulatory framework and codes of conduct for listed companies, also for the purposes and effects of the listing process.

Lastly, during the meetings, the CEO systematically provides extensive explanations about to the sector in which the group operates, its dynamics and their evolution, in addition to the regulatory framework and relevant code of conduct.

4.3 Functions of the board of directors (pursuant to article 123-bis.2.d) of the CFA)

The board of directors plays a central role in guiding and managing the issuer. Pursuant to article 20 of the current by-laws, the management of the parent is the exclusive responsibility of the board of directors, which has the widest powers to carry out all of the operations necessary to achieve the business object, excluding those which, pursuant to the law or the by-laws, must be carried out by the shareholders.

Pursuant to the by-laws, in accordance with article 2365.2 of the Italian Civil Code, the board of directors has the power to resolve on the following matters, without prejudice to the powers of the shareholders: (i) mergers and demergers pursuant to articles 2505 and 2505-bis of the Italian Civil Code; (ii) opening or closing of secondary offices; (iii) reducing the share capital should one or more shareholder(s) withdraw; (iv) amending the by-laws to make them compliant with legislation; (v) transferring the registered office within Italy.

During the year, from the date of its appointment on 29 March 2018, the issuer's board of directors met 11 times, recording the following participation for each director:

Luigi Rossi Luciani	11/11	100%
Luigi Nalini	10/11	90.9%
Francesco Nalini	11/11	100%
Carlotta Rossi Luciani	11/11	100%
Cinzia Donalisio	11/11	100%
Marina Manna	10/11	90.9%
Corrado Sciolla	11/11	100%

On average, meetings lasted three hours.

Nine meetings are planned for 2019, three of which have already been held at the date of this report.

In compliance with Application criterion 1.C.5 of the Code of Conduct, the chairperson of the board of directors will ensure that the information and documentation necessary to make decisions are provided to the members in a suitable and timely manner. During the year, the relevant documentation on the matters on the agenda was provided to directors and statutory auditors approximately three-four days prior to the meetings.

In the case of extensive or complex documentation, the information was provided through a summary paired with schedules and tables.

Pursuant to the by-laws, the board of directors is called by the chairperson whenever considered necessary or when two or more members have asked that a meeting be called. In case of the absence or unavailability of the chairperson, the board meeting is called by the deputy chairperson, if there is one, or if there is not, by the most-senior CEO.

Members of the board of auditors, jointly or severally, may also call the board of directors meetings, pursuant to article 151 of the CFA.

The board of directors may be called to a meeting via letter, telegram, fax or email, with proof of receipt, sent to the domicile of each director or standing statutory auditor with at least three days notice. In the case

of an emergency, the meeting may be called with just one day's notice. The board of directors' meetings and its resolutions are valid, even without formal notice, if all the directors and standing statutory auditors are present. In case of the absence or unavailability of the chairperson, the deputy chairperson, if there is one, chairs the meeting, if there is no deputy chairperson, or in case of their absence, the most-senior CEO present at the meetings or, if they are absent or unavailable, the most senior director acts as chair.
The board of directors' meetings may also be held via conference call or video conference, provided that:

i. the chairperson and the secretary are in the same place and will be responsible for drawing up and signing the minutes, the meeting is taken to have been held in that place;
ii. the chairperson can check the identity of the participants, the meeting's working and observe and proclaim the results of the vote
iii. the party taking the minutes is able to adequately understand the events of the meeting to be recorded;
iv. the members are able to participate in the discussion and the voting simultaneously about the topics on the agenda and that they are able to view, receive and submit documents.

The resolutions of the board of directors are taken in the presence of the majority of the directors in office through the majority's favourable vote. In case of a draw, the chairperson will have the casting vote.
The chairperson of the board of directors has always ensured that the time necessary for a constructive debate and to share ideas is dedicated to each of the topics on the agenda.
For this reason, external parties are often invited to take part in meetings, including the directors of the issuer and the heads of relevant departments, depending on the agenda, in order to guarantee the directors and statutory auditors have an in-depth view of the topics.
With regard to the parent's compliance with the Code of Conduct of listed companies (updated in July 2018), the following are reserved for the board of directors:

- the examination and approval of the strategic, industrial and financial plans of the issuer and its group and the periodic monitoring of their implementation;
- the definition of the corporate governance system of the issuer;
- the definition of the structure of the group of which the issuer is the parent.
- resolving on the most important transactions of the issuer and its subsidiaries when they are strategically and financially material for the group.

Furthermore, the board of directors did not believe it was necessary to establish general criteria for the identification of transactions when they are strategically and financial material for the parent and its subsidiaries, preferring to carry out such valuation on a case-by-case basis based on the information received from the executive directors.

During the year, the board of directors resolved on:

- with reference to application criterion 1.C.1.e) of the Code of Conduct, that it had evaluated the general performance, using the regularly provided exhaustive information provided by the relevant bodies during each board meeting and compared the actual results to those planned;

- with reference to application criterion 1.C.1.j) of the Code of Conduct, it adopted a procedure for the management of inside information and prepared an insider register.
- with reference to Principle 3.P.2. of the Code of Conduct, it evaluated the qualifications of the independent directors, namely, the directors Marina Manna, Cinzia Donalisio and Corrado Sciolla;
- with regard to application criterion 7.C.1.c) of the Code of Conduct, it approved the audit plan prepared by the internal audit manager for 2018, after consulting the Control and risks committee, the board of statutory auditors and the director responsible for the internal control and risk management system
- with reference to Principle 3.P.2. of the Code of Conduct, it evaluated the qualifications of the independent directors, namely, the directors Marina Manna, Cinzia Donalisio and Corrado Sciolla;
- with regard to the application criterion 7.C.1.c) of the Code of Conduct, it approved the audit plan prepared by the internal audit manager for 2018, after consulting the board of statutory auditors and the director responsible for the internal control and risk management system.

It should be noted that the shareholders did not authorise waiving the non-competition obligation of article 2390 of the Civil Code.

Furthermore, in 2019, the board of directors:

- with reference to application criterion 1.C.28.g) of the Code of Conduct, evaluated the board itself and its committees and their functioning, size and composition based on the results of the questionnaires anonymously completed by the directors, containing requests to (i) evaluate the compliance of the corporate governance system with the Code of Conduct and (ii) suggestions for the better application of the latter. The questionnaires, prepared with the supervision of an independent director, appointed specifically by the board of directors on 28 February 2019, were evaluated by the board on 7 March 2019.
- with reference to application criterion 7.C.1.a) of the Code of Conduct, on 7 March 2019, defined the guidelines for the internal control and risk management system, identifying the main risks pertaining to the parent and its subsidiaries and evaluated the adequacy and effectiveness of the internal control and management risk system pursuant to application criterion 7.C.1.b).
- in compliance with application criteria 1.C.1.c) of the Code of Conduct, evaluated the adequacy of the issuer's organisational, administrative and accounting systems and those of the subsidiaries, with particular reference to the internal control and risk management system.

With reference to principle 3.P.2. of the Code of Conduct, on 28 February 2019, the board of directors verified the continued fulfilment of the independence requirements pursuant to article 147-ter.c of the CFA (which makes reference to article 148.3 of the CFA) and article 3 of the Code of Conduct of the directors Marina Manna, Cinzia Donalisio and Giovanni Costa, coopted on 25 January 2019.

4.4 Delegated bodies

The board comprises executive and non-executive directors.

Pursuant to the by-laws, the board of directors can appoint one or more chief executive officers from its members, assigning them with powers of management and representation, within the limits of the law and by-laws. Those powers of management and representation, limited to certain acts and categories of acts or functions, may also be delegated to other members of the board of directors.

With respect to the Code of Conduct, the following are considered executive directors:

- the CEO of the issuer (or a subsidiary having strategic relevance), including the relevant chairperson when these are granted individual management powers and when they play a specific role in the definition of the business strategies;
- the directors vested with management duties within the issuer (or in one of its subsidiaries of strategic importance), or in a parent when the position concerns also the issuer;

Pursuant to the by-laws, the board of directors may delegate some of its responsibilities to an executive committee, comprising a minimum of 3 (three) to a maximum of 5 (five) directors, determining the limits of the delegation, the number of members and the rules for its functioning.

At the date of this report, there is no executive committee.

4.4.1 Chief executive officers (CEO)

On 29 March 2018, the board of directors appointed the following as executive directors: Luigi Rossi Luciani as chairperson of the board of directors, Luigi Nalini as CEO and Franceso Nalini as joint-CEO.

On 11 May 2018, the board of directors partially modified this set up, confirming Luigi Rossi Luciani as chairperson and Francesco Nalini as CEO, appointing Luigi Nalini as executive deputy chairperson.

On 29 March 2018, the board of directors assigned the following management delegations to the CEO:

i. all the powers of ordinary administration not reserved by law of the by-laws exclusively to the board of directors/shareholders, exercisable separately with a single signature with a limit of €1,000,000.00 (one million) or its foreign currency equivalent, or up to a limit of €5,000,000.00 (five million) or its foreign currency equivalent, for the conclusion of the framework agreement for supplies and sales for each individual operation and

ii. all the powers of extraordinary management not reserved by law or the by-laws exclusively to the board of directors and/or the shareholders, exercisable separately with a single signature with a limit of €1,500,000.00 (one million five hundred thousand) or its foreign currency equivalent or up to a limit of €5,000,000.00 (five million) or its foreign currency equivalent to stipulate, modify and end loans and other financing contracts for each transaction, for a total of €15,000,000 (fifteen million) or its foreign currency equivalent, annually;

iii. with express power to subdelegate and/or grant proxies, to the extent of the powers received;

The CEO is the head of management.

4.4.2 Chairperson of the board of directors

On 11 May 2018, the board of directors assigned the following powers to the chairperson, with a single signature and the power to subdelegate:

i. to explore and evaluate the business combination strategies and opportunities (including, but not limited to, mergers, acquisitions and joint ventures) or commercial development;
ii. to maintain and establish relationships with lending banks and credit institutions to stipulate, modify and end loans and other financing up to a limit of €5,000,000 (or its foreign currency equivalent) for each transaction, for a total of €15,000,000 (or its foreign currency equivalent), annually;
iii. to maintain business relationships and manage the communications of the parent and the group; (iv) to engage management consultants for a fee of up to a limit of €500,000 (or its foreign currency equivalent).

The chairperson is the representative of the controlling shareholder of the issuer and is separate to the CEO, who is the head of management.

Assigning the delegations to the chairperson reflects the structure historically adopted by the parent for its management body and is balanced by the appointment of the lead independent director (Corrado Sciolla for the year and Giovanni Costa from 25 January 2019) in accordance with article 2.C.4 of the Code of Conduct. Furthermore, the chairperson does not act as a director for other companies not belonging to the same group, for a director is the CEO, in compliance with the application criterion 2.C.6 of the Code of Conduct.

4.4.3 Deputy chairperson of the board of directors

On 11 May 2018, the board of directors appointed Luigi Nalini executive deputy chairperson of the parent, assigning powers, exercisable with a single signature and with the power to subdelegate, to define, explore, evaluate and propose initiatives for the parent's and group's commercial strategy and the responsibility for the sector of new products and technologies, in addition to same powers assigned to the CEO, Francesco Nalini, which are exercisable with a single signature and with the power to subdelegate in the absence or unavailability of the CEO.

4.4.4 Reports to the board of directors

Pursuant to application criterion 1.C.1.e) of the Code of Conduct, at the first meeting after, the delegated bodies report on the work they have performed and the atypical, unusual and related party transactions and the most significant operating and financial transactions carried out by the parent or its subsidiaries.

Furthermore, pursuant to the by-laws, the directors report to the board of statutory auditors promptly, when the board is in session or with a specific report, at least once every three months, about the work they have performed and about the most significant operating and financial transactions carried out by the parent or its subsidiaries, specifically with reference to the transactions in which they have an interest directly or for third parties, or which are influenced by any party responsible for management and coordination.

4.5 Other executive directors

On 29 March 2018, the board of directors resolved to assign Carlotta Rossi Luciani the following operating delegations: to define (together with the head of the "Lean development office") policies and guidelines to support the implementation of improvements to processes and the organisation in the different group segments, through the spreading of a "lean" approach and methodology, initially focusing on the production site in Croatia and gradually extending to all the group sites; to propose and plan work sites and projects for continuous manufacturing improvements, in line with the goals set by the group's operations department; to promote training plans on the lean methodology defining the key matters and training courses for the different group segments; to provide methodological feedback to the different group segments involved: to periodically report the results achieved, the changes implemented and the different methods used to the board of directors.

4.6 Independent directors

On 29 March 2018, the board of directors verified, also based on the documentation provided by each director, that the independence requirements pursuant to article 147-ter.4 of the CFA (which makes reference to article 148.3 of the CFA) and the independence requirements pursuant to article 3 of the Code of Conduct were fulfilled by the non-executive directors, Cinzia Donalisio, Marina Manna and Corrado Sciolla.
On the same date, the board of directors evaluated the honourability and professionalism of the aforementioned directors.
Pursuant to application criterion 3.C.5 of the Code of Conduct, on 3 April 2018, the board of statutory auditors verified the correct application of the criteria and procedures adopted by the board to evaluate the independence of its members.
On 25 January 2019, the board of directors verified the honourability, professionalism and independence requirements of Giovanni Costa, co-opted on 25 January 2019, who remain in office until the approval of the financial statements at 31 December 2020 following the resignation of Corrado Sciolla.
On 28 February 2019, the board of directors verified compliance with the independence requirements pursuant to article 147-ter.4 of the CFA (which makes reference to article 148.3 of the CFA) and the independence requirements of article 3 of the Code of Conduct by the non-executive directors Cinzia Donalisio, Marina Manna and Giovanni Costa.
On the same date, the board of statutory auditors verified the correct application of the criteria and procedures adopted by the board to evaluate the independence of its members.
At the date of this report, the independent directors has met once, on 25 January 2019.

At this meeting, they evaluated the working of the board of directors and the internal committees of the board of directors. The system of delegations assigned to the directors and the information flows from the executive directors to the independent directors.

4.7 Lead independent director

In compliance with the recommendations of the application criteria 2.C.4 and 2.C.5 of the Code of Conduct, on 29 March 2018, the board of directors appointed the independent director, Corrado Sciolla, Lead independent director, with effect from the first day of the listing, to provide a point of reference and to coordinate the requests and contributions of the non-executive directors and, specifically, the independent directors.

Following Corrado Sciolla's resignation from his position as director on 15 January 2019, Carel's board of directors met on 25 January 2019 and resolved to co-opt Giovanni Costa, in compliance with the current provisions of the law and by-laws. The latter assumed, inter alia, the role of Lead independent director of the parent.

5. Processing of Inside Information

5.1 Procedure for the management of inside information and the keeping of an insider register

On 29 March 2018, the issuer's board of directors adopted a procedure for the management of inside information and the keeping of an insider dealing register for the people that, for work or professional reasons, or for the purposes of the functions performed, have access on a regular or occasional basis, to such information. This came into force on the date that CAREL's shares were listed on the stock market. The procedure for the management of inside information and the keeping of an insider dealing register requires

i. the management and processing of the inside information as defined by the procedure;
ii. the operating procedures to be used for communications both within and outside the group, of such information; and
iii. the operating procedures to be observed in order to keep an insider dealing register.

The procedure for the management of inside information and the keeping of an Insider dealing register defines, inter alia,

i. the identification of the parties that must respect the requirements provided therein;
ii. the skills and responsibilities of the board of directors and the other parties identified by the procedure;
iii. the identification and management of the inside information;
iv. the activation of the procedure of delaying the communication of inside information to the public and checking that these conditions for such delay continue to be respected; and
v. the methods for spreading and communicating the inside information to the market.

With reference to the insider dealing register, the procedure for the management of inside information and the keeping of an insider dealing register requires:

i. the identification of the parties responsible for keeping the aforementioned register;
ii. the criteria for the identification of the people to be included in the insider dealing register;
iii. how the register is kept and how it works;
iv. the content and the registration report; and
v. the update of the insider dealing register.

For more information, reference should be made to the procedure for the management of inside information and the keeping of the insider register available on the website www.carel.com, in the section Corporate Governance/Procedures and regulations.

5.2 Procedure on internal dealing

On 29 March 2018, the issuer's board of directors adopted a procedure for the management of internal dealings pursuant to article 19 of the Market Abuse Regulation as well as article 114.7 of the CFA and article 152-quinquies and following of the Issuers' Regulation. The procedure on internal dealing aims to define (i) rules for fulfilling the obligations to inform the parent, Consob and the market of any significant transactions carried out on financial instruments issued by the parent or other financial instruments related thereto, including via trustees, by members of the boards of directors and statutory auditors and the senior management with regular access to inside information, the "major shareholders" (as described herein) and the people closely linked to these, and (ii) the related limitations.

The procedure on internal dealing sets out, inter alia, the disclosure obligations to the public and the limitations of the acquisitions, sales, subscriptions and exchanges performed by, or on behalf of:

i. members of the boards of directors and statutory auditors;
ii. senior management who, despite not being members of such bodies, have regular access to inside information directly or indirectly concerning the issuer and have the power to make management decisions that may affect the future evolution and the prospectives of the parent;
iii. any party with an investment, calculated pursuant to article 118 of the Issuers' Regulation, of at least 10% of the parent's share capital, with voting rights and any other party that controls the parent; in addition to
iv. the people closely linked to the aforementioned parties.

Pursuant to the procedure on internal dealing, the following are not subject to disclosure: (a) any transaction of under €20,000 (twenty thousand Euros) by the end of the year; (b) transactions performed between relevant parties and parties closely linked to them; (c) transactions performed by the issuer and its subsidiaries. For more information, reference should be made to the Procedure on internal dealing available on the website www.carel.com, in the section Corporate Governance/Procedures and regulations.

6. Internal Committees of the Board of Directors

On 29 March 2018, in order to guarantee the effective performance of their functions in line with article 18 of the by-laws, the board of directors has appointed a Control and risks committee, with effect from the first day of listing. The Control and risks committee also performs the functions of the committee for related party transactions and the remuneration committee, establishing their operating rules.

On 28 February 2019, the board of directors assigned the Control and risks committee the duties and functions regarding sustainability, creating the Control, risks and sustainability committee.

7. Nomination Committee

Given the parent's structure and size, as well as its ownership structure and list voting system provided for by the by-laws, which ensures that the procedure is transparent and that the composition of the board of directors is balanced, also with reference to the presence of an adequate number of independent directors, on 7 March 2019, the board of directors did not deem it necessary to set up an nomination committee. The related functions, as indicated in the Code of Conduct, are therefore, performed by the board of directors.

8. Remuneration Committee

8.1 Composition and duties of the remuneration committee (pursuant to article 123-bis.2.d) CFA)

Apart from the information reported below, the information regarding this section can be found in the Remuneration report, published pursuant to article 123-ter of the CFA.

Pursuant to principle 6.P.3. of the Code of Conduct, on 29 March 2018, the board of directors set up the remuneration committee, in effect from the first day of listing, comprising three directors - Cinzia Donalisio, as chairperson, Corrado Sciolla and Marina Manna - all non-executive independent directors, also approving the related regulation. On the same date, the board of directors verified that the members of the committee have knowledge and experience of financial matters and remuneration policies. Following the resignation of Corrado Sciolla, Giovanni Costa, co-opted on 25 January 2019, assumed the role, inter alia as member of the remuneration committee.

The remuneration committee is called and coordinated by the chairperson, Cinzia Donalisio. The minutes of the meetings are regularly kept.

During the year, the remuneration committee met five times, with participation of all of the independent directors and the board of statutory auditors. Upon invitation from the chairperson, the head of human resources has always participated in the committee's work.

On average the meetings of the remuneration committees lasted two hours.

The remuneration committee has planned nine meetings for 2019, two of which have already been held at the date of this report.

During the meetings, the content of the remuneration policy approved by the board of directors on 1 August 2018, specifically, the incentive plan, named "2018-2022 share-based performance plan" approved by the shareholders on 7 September 2018 was extensively discussed. The remuneration committee also launched a process to evaluate and review the fixed and variable remuneration criteria for the executive directors and key management personnel.

In accordance with application criterion 6.C.6 of the Code of Conduct and in accordance with the regulations of the remuneration committee, directors shall refrain from attending a committee meetings in which a proposal about their fees is being discussed.

8.2 Functions of the remuneration committee

The committee has advisory, propositional and supervisory functions to guarantee the definition and application of remuneration policies aimed, on the one hand, at attracting, motivating and retaining resources with the required professional qualities to successfully pursue the group's objectives and, on the other, capable of aligning the interests of management with those of the shareholders.

Specifically, the remuneration committee:

- supports the assessments and decisions of the board of directors on the remuneration policy for directors and key management personnel by providing a preliminary analysis;
- submits non-binding opinions and proposals to the board of directors regarding the determination of the remuneration payable to those holding the offices of chairperson of the board of directors, executive deputy chairperson CEO and executive director and the members whose remuneration and incentives are decided by the board of directors, also expressing an opinion on the setting of performance objectives related to the variable remuneration component;
- periodically assesses, including with the support of the control and/or corporate functions, the adequacy, overall consistency and actual application of the remuneration policy in place for directors, key management personnel and the remaining personnel whose remuneration systems and incentives are decided by the board of directors, in compliance with the provisions of the incentive plans adopted by the parent;
- monitors the application of the decisions adopted by the board of directors, verifying, in particular, the actual achievement of performance objectives and making general recommendations on the matter to the board of directors;
- expresses non-binding opinions and proposals on any stock option and share plans and other share-based incentive systems also suggesting the objectives associated with the provision of such benefits and the criteria for assessing the achievement of said objectives;

In carrying out its functions, the committee has the right to access the necessary information and contact the relevant departments
to ensure the performance of its duties, as well as to rely on external consultants, according to the terms established and within the budget approved by the board of directors for the year, €35,000.

9. Remuneration of Directors

For information related to the remuneration of directors, reference should be made to the remuneration report, prepared pursuant to article 123-ter of the CFA and 84-quater of the Issuers' Regulation, available on the website (www.carel.com) and via other methods provided by current regulations.

9.1 Compensation in the event of resignation or dismissal, or if the employment contract should terminate as the result of a takeover bid (pursuant to article 123-bis.1.i), CFA)

At the date of this report, no agreements have been entered into between the parent and the directors that provide for compensation in the event of resignation or dismissal without just cause, or if the employment contract should terminate as the result of a takeover bid.

With reference to 2018, no employment relationships with executive directors or managing directors were terminated/dissolved.

On 25 January 2019, the board of directors appointed Giandomenico Lombello, formerly group sales and marketing director, as the new managing director, replacing Francesco Nalini, who will continue to maintain his role as CAREL's CEO with the same responsibilities attributed to him on 29 March 2018.

For more information, reference should be made to the remuneration report, prepared in accordance with articles 123-ter of the CFA and 84-quater of the Issuers' Regulation, available on the parent's website (www.carel.com) and via other methods provided by current regulations.

10. Control, Risks and Sustainability Committee

10.1 Composition and duties of the Control and risks committee (pursuant to article 123-bis.2.d) of the CFA)

Pursuant to principle 7.P.4. of the Code of Conduct, on 29 March 2018, the board of directors appointed the Control and risks committee, in effect from the first day of listing, comprising three directors - Cinzia Donalisio, as chairperson, Corrado Sciolla and Marina Manna - all non-executive independent directors, also approving the related regulation.

At the same date, the board of directors verified that the members of the committee have sufficient knowledge and experience of accounting and financial matters or risk management.

Following the resignation of Corrado Sciolla, Giovanni Costa, co-opted on 25 January 2019, assumed the role, inter alia, as member of the Control and risks committee.

The Control, risks and sustainability committee supports the assessments and decisions of the board of directors relating to the internal control and risk management system, as well as those relating to the approval of periodic financial reports, pursuant to article 7 of the Code of Conduct.

The Control, risks and sustainability committee meetings are called and coordinated by the chairperson, Marina Manna. The minutes of the meetings are regularly kept.

During the year, the Control and risks committee met seven times, with participation of all of the independent directors, the internal audit manager and the board of statutory auditors, in the role of the internal control and audit committee, in accordance with Legislative decree no. 39 of 27 January 2010.

Upon invitation from the chairperson and depending on the agenda, non-members also participated in some meetings of the committee.

On average, the meetings of the Control and risks committee lasted two hours.

For 2019, the Control, risks and sustainability committee has planned nine meetings, three of which have already been held at the date of this report.

On 28 February 2019, the board of directors assigned the Control and risks committee the duties and functions regarding sustainability, creating the Control, risk and sustainability committee.

10.2 Functions assigned to the Control, risks and sustainability committee

Specifically, the Control, risks and sustainability committee, inter alia:

- works with the manager in charge of financial reporting and after having consulted the independent auditors and the board of statutory auditors, evaluates the proper application of the accounting policies, including with respect to the consolidated financial statements;
- expresses opinions on specific aspects regarding the identification of the principal business risks;
- examines the periodic reports concerning the assessment of the internal control and risk management system and those of special relevance prepared by the internal audit function and by the other functions that have been assigned specific regulatory compliance responsibilities;
- monitors the autonomy, adequacy, effectiveness and efficiency of the internal audit function and of the other functions which have been assigned specific regulatory compliance responsibilities;
- asks the internal audit function to carry out audits on specific operating areas, concurrently notifying the chairperson of the board of statutory auditors;
- reports to the board of directors during the meetings of the board of directors convened to approve the draft financial statements and the interim financial statements;
- supports the board of directors in determining the strategies, guidelines and adequacy of the internal control and risk management system, with respect to the parent's characteristics and risk profile, as well as its effectiveness, with specific focus on all instrumental and necessary activities so that the board of directors can correctly and effectively determine the parent's risk governance policies.
- supports the board of directors, through adequate investigation activities, in assessments and decisions concerning the management of risks arising from adverse events the board of directors has become aware of.

Furthermore, pursuant to the specific regulations and in compliance with article 7 of the Code of Conduct, the Control, risks and sustainability committee also:

- assists the board of directors in approving, at least annually, the work plan prepared by the internal audit manager and by the other functions that have been assigned specific regulatory compliance responsibilities;
- supports the board of directors in drafting the corporate governance report in relation to the issues under its own remit, including, but not limited to, the main characteristics of the internal control and risk management system, the methods of coordination between the parties involved and the committee's assessment of the overall adequacy of the system;
- after consulting with the board of statutory auditors, it supports the board of directors in assessing the results presented by the independent auditors in the letter of suggestions (if any) to management and in the report (if any) on the fundamental issues found during the statutory audit; and
- expresses its opinion to the board of directors on the appointment and dismissal of the internal audit manager and on consistency of the internal audit manager's remuneration with company policies.

In carrying out its functions the committee has the right to access the necessary information and contact the relevant functions to ensure the performance of its duties, as well as to rely on external consultants, according to the terms established and within the budget approved by the board of directors for the year, €35,000.

Furthermore, the board of directors has set up the Control, risks and sustainability committee, which comprises independent non-executive directors, the related parties committee and has assigned the committee the role and duties which, pursuant to the regulations containing provisions relating to transactions with related parties, adopted by Consob with Resolution no. 17221 of 12 March 2010, later amended and supplemented (the "RPT regulation"), apply to the committees composed entirely or mostly of independent directors.

On 28 February 2019, the board of directors approved the changes to the regulation of the Control and risks committee related to the inclusion of duties and functions regarding sustainability, in turn, creating the control, risks and sustainability committee, called to:

- assist the board of directors and with investigative with research and advisory investigation support and recommendations for its assessments and decisions related to sustainability;
- define and propose guidelines about sustainability and oversee the compliance with any conduct standards introduced by the parent and its subsidiaries;
- express assessments and formulate opinions to the board of directors on compliance with the sustainability policies, aimed at ensuring the creation of value over time for the shareholders and for all the stakeholders over the medium-long term with respect to sustainable development;
- express assessments and formulate opinions to the board of directors on the sustainability guidelines, objectives and consequent processes and the annual sustainability report presented to the board of directors;
- assist the board of directors in assessing and approving the non-financial disclosures pursuant to Legislative

decree no. 254/2016;

- in assisting the board of directors, it ensures that the regulatory and legal developments related to sustainability are properly acknowledged, interpreted and evaluated in terms of their potential impact on the business, assigning competent group departments specific duties and responsibilities for their implementation

Lastly, on 28 February 2019, the board of directors approved the changes to the regulation of the Control and risks committee related to the inclusion of duties and functions regarding sustainability, in turn, creating the control, risks and sustainability committee, called to:

- assist the board of directors with investigative research and advisory support and recommendations for its assessments and decisions related to sustainability;
- define and propose guidelines about sustainability and oversee the compliance with any conduct standards introduced by the parent and its subsidiaries;
- express assessments and formulate opinions to the board of directors on compliance with the sustainability policies, aimed at ensuring the creation of value over time for the shareholders and for all the stakeholders over the medium-long term with respect to sustainable development;
- express assessments and formulate opinions to the board of directors on the sustainability guidelines, objectives and consequent processes and the annual sustainability report presented to the board of directors;
- assist the board of directors in assessing and approving the non-financial disclosures pursuant to Legislative decree no. 254/2016;
- in assisting the board of directors, it ensures that the regulatory and legal developments related to sustainability are properly acknowledged, interpreted and evaluated in terms of their potential impact on the business, assigning competent group departments specific duties and responsibilities for their implementation.

11. Internal Control and Risk Management System

Internal control and risk management system aimed at helping to run the business in compliance with the board of directors' objectives, through the identification, management and monitoring of the main risks faced by the parent.

The internal control and risk management system allows for the identification, measurement, management and monitoring of the main risks, as well as the soundness, accuracy, reliability and timeliness of the financial disclosures.

The internal control and risk management system allows for the mapping, monitoring and management of risks which may compromise the effectiveness and efficiency of the group processes; the reliability of the information provided to the corporate bodies and the market; the safeguarding of the group's assets; the respect of external legislation, the by-laws and the internal procedures. Specifically, these are related to the sector and market context and the stakeholders' perception of the group's management.

The group is inspired by national and international best practices, such as Borsa Italiana's Code of Conduct for Listed Companies.

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

- board of directors;
- Control and risks committee (which on 28 February 2019 assumed the duties and functions of the Control, risks and sustainability committee);
- remuneration committee;
- director responsible for the internal control and risk management system;
- board of statutory auditors;
- supervisory body;
- internal audit function;
- manager in charge as per article 154-bis of the CFA

The board of directors is responsible for the adoption of a suitable control and risk management system. With the assistance of the control, risks and sustainability committee, it carries out the duties assigned by the Code of Conduct. It shall:

a. define the guidelines of the internal control and risk management system, so that the main risks concerning the issuer and its subsidiaries are correctly identified, including the risks regarding medium-long-term sustainability, as well as adequately measured, managed and monitored, determining, moreover, the criteria for determining whether such risks are compatible with the strategic targets identified;

b. evaluate, at least on an annual basis and except for unexpected events, that may require extraordinary in-depth analysis aimed at verifying the effectiveness of the controls in relation to particular situations, the adequacy of the internal control and risk management system with respect to the group and the risk profile and its effectiveness;

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c. approve, at least on an annual basis, the audit plan prepared by the internal audit manager after consulting the board of statutory auditors and the director responsible for the internal control and risk management system.
d. describe, in the report on corporate governance, the essential elements of the internal control and risk management system, expressing its evaluation on the overall adequacy thereof.

With reference to application criterion 7.C.1.a) of the Code of Conduct, on 7 March 2019, it defined the guidelines for the internal control and risk management system and in compliance with application criterion 7.C.1.b) it evaluated the system's adequacy and effectiveness.

11.1 Director responsible for the internal control and risk management system

In addition to the Control and risks committee, to support the issuer's internal control and risk management system, on 29 March 2018, the board of directors appointed Francesco Nalini as the director responsible for the internal control and risk management system, who performs the duties listed in application criterion 7.C.4 of the Code of Conduct. In this regard, the issuer believes that appointing the CEO, Francesco Nalini, to such role is in line with the Code of Conduct, which highlights the positive aspects related to such choice, also in terms of the specific knowledge of the appointed party.

Francesco Nalini has identified the main business risks (strategic, operational, financial and compliance), considering the characteristics of the activities performed by the parent and its subsidiaries and reports on them regularly to the board of directors. He has implemented the guidelines defined by the board of directors, ensuring the design, set up and management of the internal control system, constantly checking the adequacy, effectiveness and efficiency thereof. He adapted the system to changes in the operating conditions and the legislative and regulatory panorama.

The director responsible for the internal control and risk management system has the power to ask the internal audit function to carry out audits on specific operating areas and to check that the internal rules and procedures are complied with as part of normal business activities, communicating the resulting findings to the chairperson of the board of directors, the chairperson of the Control, risks and sustainability committee and the chairperson of the board of statutory auditors. He promptly referred the critical issues that emerged during the performance of his activities or which he was notified about, to the Control and risks committee, so that the committee could take the necessary action.

11.2 Internal audit manager

To support the issuer's internal control and risk management system, in compliance with application criterion 7.C.1 of the Code of Conduct, on 18 June 2018, upon the recommendation of the director responsible for the internal control and risk management system and after consulting the Control and risks committee and the board of statutory auditors, the board of directors of the parent appointed Andrea Baggio, employed by the issuer, as the internal audit manager, stating, in compliance with application criterion 7.C.5.b) of the Code of Conduct, that the latter is not responsible for any operating area and it reports directly to the board of directors.

On 7 September 2018, upon the recommendation of the director responsible for the internal control and risk management system, the board of directors and subject to the approval of the Control and risks committee and the board of statutory auditors, in line with the group policies, the board of directors stipulated the remuneration of the internal audit manager, assigning the latter full autonomy with regard to the expenses and resources necessary to perform his responsibilities, to the extent of the general internal audit annual budget, except for any supplements and/or amendments, where necessary.

On 7 September 2018, with approval from the Control and risks committee and after consulting from the board of statutory auditors and the director responsible for the internal control and risk management system, the board of directors approved the audit plan prepared by the internal audit manager over the period between the appointment date and the end of the year.

The approved audit plan regarded the audit activities in support of the board of directors, the operations of the supervisory body and coordination with the Control and risks committee and the board of statutory auditors.

The testing activities refer to the issuer. The 2019 audit plan foresees them being extended to the foreign subsidiaries.

For the performance of the activities, the internal audit manager sought the support of external consultants, with the adequate professionalism, independence and organisational requirements, from a company which provides audit and accounting services.

Upon completion of the internal audit, the existing procedures are updated and refined, in order to strengthen and improve the most significant aspects of the internal control system.

The calendar of activities set out the review procedures of the internal audit function during the period September-December 2018, which was performed and the preparation of the 2019, 2020 and 2021 audit plan, which was approved by the board of directors on 12 November 2018.

The internal audit manager:

- on an ongoing basis and also whenever specific requirements arise and in compliance with international standards, the internal control manager verifies the functioning and suitability of the internal control and risk management system, through the audit plan approved by the board of directors using a risk-based approach;

- had access to all the information useful to perform the engagement:
- prepared periodic reports containing adequate information about his activities, the methods used to mange risks and the respect of the plans to contain the latter, in addition to an evaluation of the suitability of the internal control and risk management system and submitted these to the chairpersons of the board of statutory auditors, the Control and risks committee and the board of directors, as well as the director responsible for the internal control and risk management system;
- promptly prepared reports on particularly important events and submitted these to the chairpersons of the board of statutory auditors, the Control and risks committee and the board of directors, as well as the director responsible for the internal control and risk management system;
- verified the reliability of the information systems, including accounting systems as part of the audit plan.

11.3 Organisational model (pursuant to Legislative decree no. 231/2001)

Following the board of directors' resolution of 30 March 2017, the issuer adopted an organisational, management and control model pursuant to Legislative decree no. 231/01 (the "model"), which is the Italian legislative tool for entities' administration liability and a Code of Ethics, designed to direct its activities and those of all the parties that work for and on behalf of the Group in line with the principles of correctness, loyalty and honesty.

The model is designed using an analysis of the areas where crimes could be committed. Specifically, with the assistance of a consulting company, Carel mapped its risks and assessed its internal processes. After this risk self -assessment, which included interviews with its key officer, of the risks to which the parent is exposed (specifically corruption), the parent revised and updated the Model in 2018 to reflect the new legislative requirements. Specifically, with the board of directors' resolution of 12 November 2018, the model: was supplemented to include the implementation of measures to protect whistleblowers in line with Law no. 179/2017; recognised (i) the predicate crimes of false corporate communications of listed companies (article 2622 of the Italian Civil Code), obstructing the exercise of duties of public supervisory authorities (art. 2638 of the Italian Civil Code) and (ii) reformulated the crime of corruption between private parties pursuant to article 2635 of the Italian Civil Code and (iii) introduced the instigation of corruption between private parties, pursuant to article 2635-bis of the Italian Civil Code. The parent also introduced the special sections related to predicate crimes and administrative offences of the abuse of inside information and market manipulation as covered by the CFA (market abuse), and the crimes of racism and xenophobia, added to the list of predicate crimes of Legislative decree no. 231/2001, pursuant to law no, 167 of 20 November 2017.

The parent has general and specific controls and measures to mitigate the risk of unlawful behaviour and ensure compliance with these principles.

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

At the date of this report, the supervisory body comprises Fabio Pinelli (external member - chairperson), Andrea Baggio (internal member) and Alessandro Grassetto (external member).

The general part of the 231 model and the Code of Ethics is published on www.carel.com, in the section 'about us/our values'.

On 28 February 2019, the board of directors approved the group's anti-corruption procedure for the prevention of risks of illegal practices and to combat corruption, both in the public and private sectors. The procedure is based on the principles and rules of conduct contained in the parent's Code of Ethics and it aims to achieve the objectives of the 231 model to prevent and combat corruption and describes the policies and standards concerning anti-corruption, respecting the requirements of Legislative decree no. 254/2016.

11.4 Independent auditors

The statutory audit of the issuer's financial statements is assigned to Deloitte & Touche S.p.A. ("Deloitte" or the "Independent Auditors"), with registered office in Via Tortona 25, Milan, listed in the Register of Independent Auditors pursuant to article 6 and following articles of Legislative decree no. 39/2010, as amended by Legislative decree no. 135 of 17 July 2016.

At their ordinary meeting on 13 April 2018, the issuer's shareholders assigned the independent auditors an engagement, effective from the first day of the listing, for the: (i) statutory audit of the financial statements (including checking that the issuer's accounting records are kept properly and that the accounting entries accurately reflect its operations) pursuant to articles 13 and 17 of Legislative decree no. 39/2010 for the years ending 31 December 2018-2026, in relation to the separate financial statements of the parent and the consolidated financial statements of the group and for the other related activities; and (ii) the review of the condensed interim consolidated financial statements of the group for the six-month periods ended 30 June 2019-2027.

Following the introduction of the mandatory preparation of a Consolidated Non-financial Statement pursuant to Legislative decree no. 254/2016, on 12 November 2018, the issuer's board of directors also engaged Deloitte & Touche S.p.A. to review such statement for 2018 and 2019, in accordance with the above-mentioned decree.

11.5 Manager in charge of financial reporting

On 29 March 2018, the board of directors appointed Giuseppe Viscovich the chief financial officer (CFO) of the group, in charge of financial reporting, effective from the first day of the listing. The board of directors considered Giuseppe Viscovich to be suitable for such position, also with respect to the professionalism and honourability requirements of article 25 of the by-laws, pursuant to which, the manager must have qualified experience of at least three years in administration and control or performance of management or advisory functions, within listed companies and/or related groups of companies, entities and companies of a significant size and relevance, also in relation to drafting and checking accounting and corporate documents.

The manager in charge as per article 154-bis of the CFA shall:

a. prepare written statements accompanying the documents and communications of the issuer which are disseminated in the market and regard financial information including interim reports;

b. put appropriate administrative and accounting procedures in place for preparing the annual report and, where provided for, the consolidated financial statements and every other disclosure of a financial nature; and

c. prepare a special report on the annual, condensed interim financial statements and, where applicable, the consolidated financial statements, which shall confirm (i) the adequacy and effective application of administrative and accounting procedures to prepare the financial statements; (ii) that the documents were prepared in compliance with applicable international accounting standards recognised by the European Community pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and Council of 19 July 2002; (iii) the correspondence between the reports and related bookkeeping and accounting records; (iv) the suitability of the reports to present a true and fair view of the financial position of the issuer and the group of companies included in the consolidation scope; (v) for the separate and consolidated financial statements, that the directors' report contains a reliable analysis of the performance and results, the position of the issuer and group companies included in the consolidation scope, and a description of the main risks and uncertainties to which they are exposed; and (vi) for the condensed interim financial statements, that the interim directors' report contains a reliable analysis of the information pursuant to article 154-ter.4 of the CFA.

On 28 February 2019, the board of directors verified (i) that the manager in charge of financial reporting possessed the relevant powers and means to perform the tasks assigned to him pursuant to article 154-bis of the CFA (ii) compliance with the administrative and accounting procedures.

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

The parties involved in the internal control and risk management system operate via methods shared within the group, aimed at maximising the effectiveness of the internal control and risk management system and reducing the duplication of activities. Normally, the board of statutory auditors and the internal audit manager take part in the Control, risks and sustainability committee's meetings, in addition to the legal affairs manager and the manager in charge of financial reporting, when the subject concerns them. The chairperson of the Control, risks and sustainability committee ensures the continuity and completeness of the information flows to the board of directors about the subjects pertaining to the committee.

12. Interests of Directors and Related Party Transactions

In order to align the corporate governance system of the entities with the legislation and regulations applicable to listed companies and considering Consob communication no. DEM / 10078683 of 24 September 2010, on 29 March 2018, the board of directors resolved to adopt the procedure for related party transactions (the "RPT procedure") pursuant to article 4 of the of the RPT regulation, with prior approval from the Control and risks committee, acting as the committee for transactions with related parties, which was therefore subject to final approval from the board of directors on 18 June 2018.

The procedure applies to the instruction and approval of the related party transactions considered transactions of greater importance, based on the RPT regulation and those considered transactions of lesser importance, i.e. those which, individually considered, have a total value of more than €200,000.00 or €100,000.00 respectively, depending on whether the counterparty is a legal person or a natural person.

According to the RPT regulation, transactions of greater importance are those for which at least one out of the 11 materiality indices indicated in annex 3 to the RPT regulation is higher than the 5% threshold and a specific finance function of the issuer is responsible for ensuring the application of the procedure to specific transactions, including if a transactions is classified as a transaction of greater importance or a transaction of lesser importance.

The board of directors has, therefore, tasked a finance function to identify and develop operating solutions for the prompt identification of related parties and the effective monitoring of the transactions performed thereby.

The procedure for the management of related party transactions is available in full on the website, www.carel.com, in the section Corporate Governance/Procedures and regulations.

Except for that set out by the applicable regulations, the directors have no specific obligations regarding if they are stakeholders have a direct or indirect interest in a specific transaction. Before applying each resolution, the board of directors asks members with a direct or indirect interest in the transaction to refrain from voting.

13. Election of Statutory Auditors

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

The members of the board of statutory auditors must fulfil the honourability, professionalism and independence requirements and the requirement relating to the limit on the cumulative number of positions held as provided by applicable laws and regulations in force from time to time. For the purposes of article 1.2.b)/c) of Ministerial decree no. 162 of 30 March 2000, matters pertaining to commercial law, company law, tax law, business administration, corporate finance, other disciplines with a comparable or similar purpose in addition to matters and sectors related to the scope of the group's activity are considered strictly pertinent to the sphere of the group's business. Statutory auditors remain in office for three years and can be re-elected; their term of office ends on the date of the shareholders' meeting called for the approval of the financial statements for the third year of their term of office.

Pursuant to article 23 of the by-laws, the statutory auditors are appointed by the shareholders on the basis of lists submitted by shareholders.

The shareholders who individually or collectively hold a number of shares equal to at least the amount calculated by Consob pursuant to the applicable legislation and regulations, for the aforementioned purposes of the presentation of the lists for the appointment of the board of directors may present a list for the appointment of the statutory auditors. In this regard, pursuant to the applicable provisions of the law, regulations and by-laws and the Consob's management decision no. 13 of 24 January 2019, the lists of candidates for the nomination can only be presented by shareholders who individually or collectively have a shareholding of at least 2.5% with voting rights in the ordinary shareholders' meeting.

Lists are filed at the registered office, according to the methods prescribed by the regulations in force, at least 25 (twenty-five) days before the date set for the meeting called to resolve on the appointment of directors. Lists must be made available to the public by the group at least 21 (twenty-one) days before the date set for the aforementioned shareholders' meeting, in accordance with the procedures prescribed by the regulations in force.

In the event that only one list has been submitted on the date of expiry of the deadline for submitting lists, further lists may be submitted, up to the third day following that date, by shareholders who, at the time of submitting the list, are holders, individually or collectively, of a number of shares at least equal to half of the minimum stake required by this article, as shown above.

Each list:

- must bear the names of one or more candidates for the office of standing auditor and one or more candidates for the office of alternate auditor, marked in each section ("standing auditors" section, "alternate auditors" section) in consecutive order, in a number not higher than the number of the members to be elected;
- if containing a total number of candidates equal to or greater than three, must provide a list of candidates in both sections to ensure that the composition of the board of statutory auditors, both in terms of standing

and alternate members, complies with the statutory and regulatory provisions on gender balance from time to time in force, it being understood that if the application of the gender balance criterion does not result in a whole number, this must be rounded up to the higher unit;

- the documentation required by the by-laws in addition to any other statement, disclosure and/or document required by the law or the applicable regulations shall be attached to the list.

The shareholders, including the shareholders who belong to the same group or who are party to a shareholders' agreement pursuant to article 122 of the CFA, may not file or vote for more than one list, either individually or jointly.

A candidate may only be placed on one list on penalty of losing the right to be elected.

a. In the presence of two or more lists, voting proceeds and the board of statutory auditors is formed based on the following provisions:
   - the candidates on the two lists obtaining the highest number of votes are elected, with the following criteria: (i) from the list that obtained the highest number of votes ("Majority list for the board of statutory auditors"), two standing auditors and one alternate auditor are drawn according to the consecutive order in which they appear on the list; (ii) from the second list that has obtained the highest number of votes and that is not connected even indirectly with shareholders who submitted - or with those who voted for - the Majority List for the board of statutory auditors pursuant to applicable provisions, the third standing auditor ("minority auditor"), who is the chairperson of the board of statutory auditors, and the second alternate auditor ("minority alternate auditor") are drawn, according to the sequential order in which they appear in the list;
   - if both lists receive the same amount of votes, the shareholders hold another vote looking exclusively at those lists, thus achieving a majority for one or the other.
   - if, in the manner indicated above, the statutory and regulatory provisions on gender balance from time to time in force are not complied with, including rounding up to the higher unit in the event that the application of the gender balance criterion does not result in a whole number, the candidate for the office of standing or alternate auditor of the most represented gender elected as the last in sequential order from the majority List for the board of statutory auditors is excluded and shall be replaced by the next candidate for the office of standing or alternate auditor, taken from the same list, belonging to the other gender.

b. If only one list is submitted, the shareholders' meeting votes on it and if the list obtains the majority of votes, three standing auditors and two alternate auditors appearing on the list as candidates to these offices are elected, in compliance with statutory and regulatory provisions in force from time to time, including on gender balance, with rounding up to the higher unit in the event that the application of the gender balance criterion does not result in a whole number.

c. In the absence of lists, or if it is not possible for any reason to appoint the board of statutory auditors in the manner provided for in this article, the three standing auditors and the two alternate auditors are appointed by the shareholders' meeting with the ordinary majorities required by law; in compliance with the statutory and regulatory provisions in force from time to time, including on gender balance, with rounding up to the higher unit in the event that the application of the gender balance criterion does not result in a whole number.
In the event of termination of the position of a standing auditor for any reason, without prejudice to compliance with the statutory and regulatory provisions on gender balance from time to time in force, the procedure is as follows: (i) if a standing auditor taken from the Majority list for the board of statutory auditors ceases to hold office, they are replaced by the alternate auditor taken from the Majority list for the board of statutory Auditors, (ii) if the minority auditor (who is also the chairperson of the board of statutory auditors), ceases to hold office, they are replaced by the minority alternate auditor, who assumes the position. If for any reason it is not possible to proceed in the manner indicated above, the shareholders' meeting must be convened, so that it can integrate the board of statutory auditors with the ordinary procedures and majorities, without applying the list voting mechanism and without prejudice to compliance with statutory and regulatory provisions on gender balance from time to time in force.
In compliance with principle 8.P.1 of the Code of Conduct, the statutory auditors act autonomously and independently of the shareholders who elected them.

14. Compositionand Activitiesof the Board of Statutory Auditors

14.1 Composition and activities of the board of statutory auditors (as per article 123-bis.2.d)/d-bis) of the CFA)

The board of statutory auditors in office at the end of the year was appointed on 29 March 2018 at the ordinary shareholders' meeting for a three-year term of office, expiring when the shareholders' meeting is called to approve the financial statements at 31 December 2020. It has the following members: Saverio Bozzolan, as chairperson of the board of statutory auditors, Paolo Ferrin and Claudia Civolani, as standing auditors and Giovanni Fonte and Fabio Gallio, as alternate auditors.
Considering that the board of statutory auditors in office at the date of this report was appointed on 29 March 2018 and the by-laws came into force on the date that Carel's ordinary shares were listed on the stock market, the voting requirements contained therein - which require that the standing auditor who is also chairperson of the board of statutory auditors, and an alternate auditor taken from the list that came second in terms of votes after the Majority list and that is not directly or indirectly connected to the shareholders that presented or voted for the Majority list - will only be applied after the first renewal of the board of

statutory auditors after the date Carel's shares are listed on the stock market (23 May 2018).
The professional background of the members of the new board of statutory auditors is summarised below:

Saverio Bozzolan, obtained a degree in Statistics and Economics from the Università degli Studi in Padua in 1991 and a PhD in Business management from Ca' Foscari University in Venice. He is a Professor of Business management at LUISS University, Rome and he previously worked as a Professor at the University of Padua. He is mainly responsible for corporate governance, analysing and evaluating risks, internal controls/compliance and financial reporting, areas in which he has gained experience through research, having published books and articles in national and international periodicals, and through work. He holds positions in supervisory bodies of listed and unlisted companies. At the date of this report, he is chairperson of the board of statutory auditors of the issuer.

Paolo Ferrin, obtained a degree in Economics and Business from Ca' Foscari University in Venice in 1981, he is listed in the Register of Chartered Accountants. Since 1983, he has held the positions of statutory auditor and director in various industrial and commercial companies, specifically in North East Italy. He is a tax, business and financial consultant and advisor for industrial entities and in 2017 he was chairperson of the board of statutory auditors of the issuer. At the date of this report, he is alternate auditor of the issuer.

Claudia Civolani, obtained a degree in Economics and Business from Ca'Foscari University in Venice in 1993. She is listed in the Register of Chartered Accountants. She is an associate of Studio Ferrin and a tax, business and financial advisor. She holds different positions in the supervisory bodies of companies. At the date of this report, she is a standing auditor for the issuer.

Giovanni Fonte obtained a degree in Economics and Business from Università degli Studi in Verona in 1999, he is listed in the Register of Chartered Accountants. He formerly worked for PWC and subsequently for Studio Pirola Pennuto Zei & Associati, then for 11 years at the NCTM Law firm. He was also a partner at Roedl & Partner Italy. He holds different positions in the supervisory bodies of entities in the industrial sector and in 2017 he was standing auditor for the issuer. At the date of this report, he is alternate auditor for the issuer.

Fabio Gallio obtained a degree in Business management from Ca' Foscari University in Venice in 1995 and in Law from Università degli Studi in Parma in 1997. Between 1998 and 2004, he worked in Padua at Ernst&Young and Deloitte & Touche. Since 2005, he has been an associate at Studio Terrin, with registered offices in Padua and Milan. He was standing auditor of the issuer for the 2014-2016 three-year period. Since 2017, he has been alternate auditor of the issuer.

The board of statutory auditors was appointed without the application of the aforementioned list voting system, which will be implemented upon renewal.

During the year, the board of statutory auditors met 16 times, with the following participation for each standing auditor. The meetings lasted for an average of three hours.

Saverio Bozzolan	16/16	100%
Paolo Ferrin	16/16	100%
Claudia Civolani	13/16 (*)	81.25%

(*) absent for justified grounds.

13 meetings are planned for 2019, five of which have already been held at the date of this report.
The board of statutory auditors meets on the request of any of the auditors. It is validly constituted with the presence of the majority of the statutory auditors and resolves with the favourable vote of the absolute majority of those present.
During the year, no statutory auditor resigned from their position and there had been no changes to the composition of the board of statutory auditors in the period from year end to the date of this report.
For more information about the composition of the board of statutory auditors, reference should be made to Table 3, attached hereto.
In performing their work, the statutory auditors may collectively or individually ask the directors for news and clarifications regarding the information provided to them and more generally on the performance of the issuer or other specific matters, in addition to performing inspections and controls at any moment. The board of statutory auditors and the independent auditors and the Control, risks and sustainability committee exchange data and information necessary to perform their respective duties.

14.2 Diversity criteria and policies

Considering the structure and size of the group, also regarding the related ownership structure and the voting mechanism required by the by-laws, which ensures that the procedure is transparent and that the composition of the board of directors is balanced, the board of directors did not deem it necessary to adopt policies/practices for itself to ensure an adequate level of diversity in relation to age, gender, education and professional career.
Members of the under-represented gender account for at least one-third of the board of statutory Auditors.
On 3 April 2018, the board of statutory auditors positively evaluated the independence of its members since their election and on 1 March 2019, the board of statutory auditors performed its annual test of their independence throughout the year, as required by application criterion 8.C.1 of the Code of Conduct and based on the information provided by the parties and the information available to the group, there are no situations that could compromise their independence or their independent judgement. In performing this evaluation, the board of statutory auditors applied all the criteria provided by the Code of Conduct with reference to the independence of the directors. The board of statutory auditors provided the outcome of the checks to the board of directors.

The statutory auditors have no specific obligations if they have a direct interest or indirect interest on behalf of third parties in a specific transaction. Before applying each resolution, the board of directors asks members with a direct or indirect interest in the transaction to refrain from voting.
Furthermore, the board of statutory auditors has verified the independence of the independent auditors, in compliance with the relevant legislation and regulations and the nature and the types of non-audit services provided to the parent and its subsidiaries, by the independent auditors and its network entities. The board of statutory auditors provided the outcome of these checks to the board of directors.
Between the end of the year and the date of this report, the board of statutory auditors has carried out its self assessment in accordance with the Code of Conduct for boards of statutory auditors of listed companies (regulation Q.1.1) and has reported the outcome of these activities to the board of directors.
With reference to the initiatives aimed at providing statutory auditors with adequate knowledge of the sector in which the issuer operates, the chairperson of the board of directors organised board induction sessions, which aimed to provide an adequate understanding of the sector in which the parent operates, also in light of the dynamics of the group and the evolution of the shareholding structure.
The sessions aimed to examine and provide in-depth knowledge of the group's business segments through regular reports and presentations by those managers who report directly to the CEO on topics such as research and development, marketing and sales, human resources and organisation, operations and administration, finance and control. The sessions provided information about the business model and the group's products/markets and the group's competitive edge, the typical operations and R&D activities, HRM strategies and the functioning of the administration, finance and control department, with particular reference to the critical aspects and the risks related thereto.
The remuneration of the board of statutory auditors is commensurate with the commitment required, the relevance of the role performed, the size of the parent and the sector it operates in.
The board of statutory auditors systematically communicated with both the Internal audit function and the Control and risks committee. This entailed sharing the respective action plans and, where possible, the management thereof. As part of the sharing of activities, with respect to the prerogatives of each body, the board of statutory auditors availed itself of the support of the internal audit function to carry out certain checks, just as the internal audit function's plan considered that of the board of statutory auditors.
Coordinating with the Control, risks and sustainability committee and the exchange of information involved the participation of the members of the board of statutory auditors at the Control, risks and sustainability committees' meetings and the sharing of certain points of common interest on the agenda.

15. Relations with Shareholders

In accordance with the recommendations covered by application criterion 9.C.1 of the Code of Conduct, on 29 March 2018, the board of directors created the Investor relations function and appointed, as of the date of the listing, Francesco Nalini as Investor Relations Manager, responsible for the management of relationships with shareholders, the latter was then replaced by Giampiero Grosso on 27 August 2018.
For more information, reference should be made to the section Investor Relations/Corporate Governance on the website www.carel.com.

16. Shareholders' Meetings

The ordinary or extraordinary shareholders' meeting is held in one session, pursuant to Article 2369.1 of the Italian Civil Code. The board of directors may, if it deems it opportune and provided it is expressly stated in the notice of call, provide that the (ordinary and/or extraordinary) shareholder's meeting will be/is held in more than one session, applying in this case the majorities required by law to the shareholders' meetings held in more than one session for companies with shares traded on regulated markets.
The board of directors is entitled to convene the meeting, without prejudice to the power of the board of statutory auditors or at least two members of the latter Board to convene a meeting, pursuant to Article 151 of the Consolidated Law on Finance and other applicable laws and regulations.
Pursuant to article 10 of the by-laws, the entitlement to participate in the shareholders' meeting is attested by a notice to the parent, made by the intermediary authorised to keep the accounts in accordance with the law, based on evidence of its accounting entries relating to the end of accounting on the seventh market trading day prior to the date set for the shareholders' meeting in one session, and received by the parent by the deadlines established by law.
Those who are entitled to participate in the shareholders' meeting may be represented by means of a proxy pursuant to the law. The electronic notice of the proxy can be served, using the methods stated in the notice of call, by means of an email addressed to the certified email address provided in the notice itself or through the use of a specific section of the parent's web-site.
For each meeting, the parent may designate a person - specified in the notice of call - to whom the shareholders may grant a proxy with voting instructions on all or some of the proposals on the agenda, by the deadlines and according the procedures envisaged by law.
The shareholders' meeting may be held with attendees being in multiple near or remote locations that are linked by a video/audio conferencing system, provided that the plenary method and the principles of good faith and equal treatment of all shareholders are applied.
At the ordinary and extraordinary meetings, the shareholders resolve on all matters reserved to it by the law or by-laws with the majorities pursuant to the law.

Each share gives the right to one vote in the ordinary and extraordinary sessions of the shareholders' meetings, except as provided for by article 13 (loyalty shares).
The shareholders' meeting is chaired by the chairperson of the board of directors. In case of absence or impediment, the meeting is chaired by a deputy chairperson if appointed or, in case of their absence or unavailability, by another person appointed by the shareholders' meeting.
The function, powers and duties of the chairperson are established by law.
Pursuant to article 16 of the by-laws, the chairperson is assisted by a secretary appointed by the meeting, on their proposal, to whom the function of drafting the minutes of the meeting is assigned.

In extraordinary meetings, and when the chairperson deems it appropriate, the role of secretary is entrusted to a notary, pursuant to the law, as designated by the chairperson.
The minutes of the meeting are drawn up in compliance with article 2375 of the Italian Civil Code and other applicable laws and regulations.
The shareholders' meetings are held in accordance with the law and the by-laws, in addition to the regulations to govern shareholders' meetings, approved by the shareholders on 29 March 2018, with effect from the listing on the stock market. The regulation is available on the website www.carel.com in the section Corporate Governance/Procedures and regulations.
In accordance with the regulations, those who intend to take the floor must ask the chairperson or secretary, indicating the subject to which the intervention refers. The request can be presented so long as the chairperson has not declared the discussion closed on the subject to which the request refers.
The participants can ask to take the floor for a second time during the same discussion, for no longer than five minutes, only for the purposes of a rebuttal or explanations of the vote.
During the year, the shareholders met three times, once after the listing on the stock market.
All directors took part in such meeting.
During the year, as a result of the listing of Carel's ordinary shares on the stock market, there were significant changes to the market capitalisation of its shares and the composition of the ownership structure.

17. Other corporate governance practices

Apart from those already indicated in this report, at the date of this report, no other corporate governance practices have been adopted.

18. Changes after the annual reporting date

Apart from those already illustrated in this report, between the end of the year and the date of this report, there were no changes to the issuer's corporate governance structure.

CAREL

19. Letter of the Chairperson of the Corporate Governance Committee dated 21 december 2018

The content to the letter of the chairperson of the Corporate Governance committee of Borsa Italiana dated 21 December 2018 was brought to the attention of the board of directors and its committees on 28 February 2019.

The board of directors expressed the following considerations:

- with reference to the suitability of the information provided prior to the board of directors' meeting, as reported in subparagraph 4.3 of this report, in compliance with application criterion 1.C.5 of the Code of Conduct, the chairperson of the board of directors will ensure that the information and documentation necessary to make decisions are provided to the members in a suitable and timely manner. Specifically, during the year, the relevant documentation was provided to directors and statutory auditors three-four days prior to the meetings;
- with reference to the application of the independence criteria defined by the Code of Conduct, the board of directors verified, also based on the documentation provided by each director, the independence of its non-executive directors on 29 March 2018 and subsequently on 28 February 2019, in compliance with the recommendations of the Code of Conduct. Specifically, it should be noted that none of the independent directors meet the criteria provided by application criterion 3.C.1 of the Code of Conduct. In compliance with these recommendations, on 3 April 2018, 25 January 2019 (in a limited manner for the director co-opted on such date) and 1 March 2019, the board of statutory auditors verified the correct application of the criteria and procedures adopted by the board to evaluate the independence of its members;
- with reference to the methods of the so-called board review, as indicated in sub-paragraph 4.3 of this report, on 7 March 2019, the board of directors completed the self-assessment of the board and its committees by distributing a questionnaire to each director to (i) assess the conformity of the corporate governance system with the Code of Conduct and (ii) suggestions for better application of the latter. The questionnaire, which was prepared with the supervision of an independent director tasked specifically by the board of directors, was completed anonymously and subject to the examination of the board itself. The board of statutory auditors has also carried out its self assessment in accordance with the Code of conduct for the board of statutory auditors of listed companies (regulation Q.1.1) and has reported the outcome of these activities to the board of directors.
- with reference to the suitability of the remuneration policies, given the group's medium-long term business sustainability objectives, on 1 August 2018, the parent adopted a remuneration and incentive plan for the group's senior management, comprising short and medium-long term fixed and a variable components, the latter being subject to achieving the group's specific performance objectives. This policy is in line with the recommendations of the Code of Conduct and the regulatory provisions for entities listed on the STAR segment of the stock market, organised and managed by Borsa Italiana. Specifically, the long-term variable component comprises two incentive plans, one of which is share-based and the other

is cash-settled, which are subject, inter alia, to: (i) the efficiency of cost generation and (ii) the flexibility in the management thereof to allow for them to be adapted to the future needs of the group. With particular reference to sustainability, it is noted that the regulations of the inventive plans allow the board of directors to identify non-financial performance objectives. For more information about the remuneration policies adopted by the parent, reference should be made to the remuneration report, prepared pursuant to article 123-ter of the CFA and 84-quater of the Issuers' Regulation, available to the public on the website of the parent (www.carel.com) and via other methods provided by current regulations.

***

Brugine, 7 March 2019

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

Table

31 december 2018

Information about the Parent's Ownership Structure

Structure of the Share Capital

	No. of shares	% of share capital	Listed (indicate markets) / unlisted	Rights and obligations
Ordinary shares (including loyalty shares)	100,000,000 (59,750,000)	100% (59.75%)	Listed (Stock market - Borsa Italiana - STAR segment)	Shares are subject to dematerialisation pursuant to article 83-bis and following articles of the CFA. The shares can be transferred freely and have the same dividend and voting rights in accordance with the law and the by-laws, excluding article 13 of the by-laws.
Loyalty shares	-	-	-	-
Shares with limited voting rights	-	-	-	-
Shares without voting rights	-	-	-	-
Other	-	-	-	-

Other financial instruments (with the right to sign new shares)

	Listed (indicate markets) / unlisted	No. in circulation	Category of shares for conversion/year	No. of shares for conversion/year
Convertible bonds	-	-	-	-
Warrants	-	-	-	-

Shareholders with significant interests in the Share Capital

Shareholder	Direct shareholder	% interest in the ordinary share capital	% of voting shares
Carlotta Rossi Luciani (as representative of the rights shared with Cecilia and Vittorio Rossi Luciani)	Luigi Rossi Luciani S.A.P.A	36.17%	45.28
Valerio Nalini (as representative of the rights shared with Francesco and Chiara Nalini)	Luigi Nalini S.A.P.A.	23.58	29.52
Capital Research and Management Company*	Capital Research and Management Company*	8.02	5.02

Composition of the Board of Directors and its Committees

Board of directors							
Office held	**Member**	**Year of birth**	**Date of first appointment ***	**In office since**	**In office up to**	**List ****	**Executive**
Chairperson	Luigi Rossi Luciani	1945	23/01/2009	29/03/2018	Approval of financial statements dated 31/12/2020	n.a.	YES
Deputy chairperson	Luigi Nalini	1942	23/01/2009	29/03/2018	Approval of financial statements dated 31/12/2020	n.a.	YES
CEO • ◊	Francesco Nalini	1973	23/01/2009	29/03/2018	Approval of financial statements dated 31/12/2020	n.a.	YES
Director	Carlotta Rossi Luciani	1982	29/03/2018	29/03/2018	Approval of financial statements dated 31/12/2020	n.a.	YES
Director	Cinzia Donalisio	1960	29/03/2018	29/03/2018	Approval of financial statements dated 31/12/2020	n.a.	NO
Director	Marina Manna	1960	29/03/2018	29/03/2018	Approval of financial statements dated 31/12/2020	n.a.	NO
Director ■	Corrado Sciolla	1963	29/03/2018	29/03/2018	Approval of financial statements dated 31/12/2020	n.a.	NO

Amministratori cessati durante l'esercizio di riferimento

Board of directors							
Office held	**Member**	**Year of birth**	**Date of first appointment ***	**In office since**	**In office up to**	**List ****	**Executive**
Director	-	-	-	-	-	-	-

Number of meetings held during the year: 2018 (from the date of appointment)

Board of directors: 11

Control and risks committee: 7

Remuneration committee: 5

Quorum needed to file lists of candidates by non-controlling investors for the election of one or more members (as per article 147-ter of the CFA): 2.5%

Board of directors					Control and risks committee		Remuneration committee		Nomination committee	
Non-executive	Independent as per Code	Independent as per CFA	No. of other offices held	(*)	(*)	(**)	(*)	(**)	(*)	(**)
NO	NO	NO	17	11/11	-	-	-	-	-	-
NO	NO	NO	5	10/11	-	-	-	-	-	-
NO	NO	NO	6	11/11	-	-	-	-	-	-
NO	NO	NO	1	11/11	-	-	-	-	-	-
YES	YES	YES	0	11/11	5/5	M	7/7	P	-	-
YES	YES	YES	15	10/11	5/5	P	7/7	M	-	-
YES	YES	YES	2	11/11	5/5	M	7/7	M	-	-

Board of directors					Control and risks committee		Remuneration committee		Nomination committee	
Non-executive	Independent as per Code	Independent as per CFA	No. of other offices held	(*)	(*)	(**)	(*)	(**)	(*)	(**)
-	-	-	-	-	-	-	-	-	-	-

Note

The following symbols must be shown in the "Office held" column with the following meaning:
● Director responsible for the Internal Control and Risk Management System.
◊ This is the main person responsible for the issuer's management (Chief Executive Officer - CEO).
■ Lead Independent Director (LID).
* Date of first appointment is the date on which the director was appointed for the very first time to the issuer's board of directors
** The board of directors was appointed without using a voting list.
*** Number of positions held as director or statutory auditors in other listed companies, including on foreign stock markets, financial companies, banks, insurance companies or companies of a significant size. Positions are detailed in the Report on the Corporate Governance.
(*) Directors' respective attendance at meetings of the board of directors and committees (indicate number of meetings attended compared to the total number of meetings that might have been attended; e.g. 6/8; 8/8 etc.).
(**). The position of the director within the committee: "C": chairperson; "M": member.
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Composition of the Board of Statutory Auditors

Board of statutory auditors									
Office held	Member	Year of birth	Date of first appointment *	In office since	In office up to	List **	Independent as per Code	Attendance at board of statutory auditors' meeting ***	No. other positions held ****
Chairperson	Saverio Bozzolan	1967	29/03/2018	29/03/2018	31/12/2020	n.a.	YES	16/16	7
Standing statutory auditor	Claudia Civolani	1966	29/03/2018	29/03/2018	31/12/2020	n.a.	YES	13/16	8
Standing statutory auditor	Paolo Ferrin	1955	08/05/2017	29/03/2018	31/12/2020	n.a.	YES	16/16	17
Alternate statutory auditor	Fabio Gallio	1970	16/05/2011	29/03/2018	31/12/2020	n.a.	YES	-	47
Alternate statutory auditor	Giovanni Fonte	1973	16/05/2011	29/03/2018	31/12/2020	n.a.	YES	-	0

Statutory auditors who left during the year

Board of statutory auditors									
Office held	Member	Year of birth	Date of first appointment *	In office since	In office up to	List **	Independent as per Code	Attendance at board of statutory auditors' meeting ***	No. other positions held ****
n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Number of meetings held during the year: 8

Quorum needed to file lists of candidates by non-controlling investors for the election of one or more members (as per article 147-ter of the CFA): 2.5%

Note

* Date of first appointment is the date on which the statutory auditor was appointed for the very first time to the issuer's board of statutory auditors.
** The list from which the statutory auditor was elected ("M": Majority list; "m": Minority list).
*** Statutory auditors' attendance at meetings of the board of statutory auditors (number of meetings attended compared to the total number of meetings that might have been attended; e.g. 6/8; 8/8 etc.).
****Number of positions as director or statutory auditors relevant for the purposes of article 148-bis of the Consolidated Finance Act and related implementing provisions contained in Consob Issuers' Regulation. A complete list of positions held is published by Consob on its website pursuant to article 144-quinquiesdecies of Consob Issuers' Regulation.

List of offices held at the date of the report, by the current members of the board of directors

List of offices held by Luigi Rossi Luciani

Entity	Office held
CAREL INDUSTRIES S.p.A.	Chairperson of the board of directors
Luigi Rossi Luciani Sapa *	Chairperson of the board of directors and general partner
Nastrificio Victor S.p.A *	Chairperson of the board of directors
Eurotest laboratori S.r.l *	Chairperson of the board of directors
Panther S.r.l *	Chairperson of the board of directors
Ots S.r.l. *	Chairperson of the board of directors
RN Real Estate S.r.l *	Chairperson of the board of directors
New Frontier S.r.l. *	Director
Its Meccatronico di Vicenza *	Chairperson
Soc. Agricola Monte Fasolo S.r.l. *	Chairperson of the board of directors
Carel Controls Iberica sl	Chairperson of the board of directors
Carel Acr Systems India (Pvt) ltd.	Chairperson of the board of directors
Carel Controls South Africa (Pty) ltd.	Chairperson of the board of directors
Carel Real Estate Adriatic d.o.o.	Chairperson of the board of directors
Carel Middle East dwc	Chairperson of the board of directors
Garmont International S.r.l. *	Member of the board of directors
Iniziative Biometano S.r.l. *	Chairperson of the board of directors

List of offices held by Luigi Nalini

Entity	Office held
CAREL INDUSTRIES S.p.A.	Deputy chairperson of the board of directors
Luigi Nalini sapa *	Chairperson of the board of directors and general partner
Crc S.r.l.	Chairperson of the board of directors
Eurotest Laboratori S.r.l *	CEO
RN Real Estate S.r.l *	CEO
Associazione Amici Università di Padova *	Componente del Consiglio Direttivo

List of offices held by Luigi Nalini

Entity	Office held
CAREL INDUSTRIES S.p.A.	CEO
Università degli Studi, Padua *	Director
Agricola Biometano SpA *	Director
RN Real Estate S.r.l *	Director
RN Real Estate Adriatic doo *	Director
Associazione Amici University of Padua *	Member of the governing council

* The entity does not belong to the group headed by the issuer.

List of offices held by Carlotta Rossi Luciani

Entity	Office held
CAREL INDUSTRIES S.p.A.	Director

List of offices held by Marina Manna

Entity	Office held
Lanificio dell'Olivo S.p.A. *	Chairperson of the board of statutory auditors;
BLM S.p.A. *	Chairperson of the board of statutory auditors;
Celenit S.p.A. *	Standing statutory auditor
Superauto S.p.A. *	Standing statutory auditor
Clodia – Soc. Imm. S.p.A. *	Standing statutory auditor
Pagnan Finanziaria S.p.A. *	Standing statutory auditor
FPT Industrie S.p.A. *	Standing statutory auditor
Nice Group S.p.A. *	Standing statutory auditor
Fonderie Pandolfo S.p.A. *	Standing statutory auditor
Tiche S.p.A. *	Standing statutory auditor
Laboratorio Morseletto S.r.L. *	Standing statutory auditor
Veneto Logistica S.r.l. *	Sole auditor
Fond. Ist. Ricerca Pediatrica Città della Speranza *	Chairperson of the auditing body
Carraro S.p.A. *	Member of the board of directors
CAREL INDUSTRIES S.p.A.	Member of the board of directors
Cavour S.r.l. *	Sole director
B-AGE Nice S.p.A. *	Standing statutory auditor

List of offices held by Cinzia Donalisio

Entity	Office held
CAREL INDUSTRIES S.p.A.	Member of the board of directors

List of offices held by Corrado Sciolla (resigned on 25 January 2019)

Entity	Office held
Italianonline S.p.A. *	Independent director
Cedacri S.p.A. *	CEO

List of offices held by Giovanni Costa (in office since 25 January 2019)

Entity	Office held
CAREL INDUSTRIES S.p.A.	Member of the board of directors
Intesa Sanpaolo S.p.A. *	Member of the board of directors
Edizione srl - holding di *partecipazione di rilevanti dimensioni	Member of the board of directors

* The entity does not belong to the group headed by the issuer.

Statement on the consolidated financial statements pursuant to article 154-bis of Legislative decree no. 58/98 and article 81-ter of Consob regulation no. 11971 of 14 May 1999 as subsequently amended and supplemented

1. The undersigned Francesco Nalini, as chief executive officer, and 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 consolidated financial statements at 31 December 2018:
   - are adequate in relation to the group's characteristics and
   - the administrative and accounting procedures to prepare the consolidated financial statements have been effectively applied during the year.
2. There is nothing to report.
3. Moreover, they state that, the consolidated financial statements at 31 December 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;

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

Brugine, 7 March 2019

Chief executive officer	Manager in charge of financial reporting
Francesco Nalini	**Giuseppe Viscovich**

Report of the auditors

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

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

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Carel Industries S.p.A. and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

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

Key Audit Matters

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

Deloitte.

2

Accounting of the business combinations of Recuperator S.p.A. and Hygromatik Gmbh	
Description of the key audit matter	As disclosed in Note 2, during fiscal year 2018 the Group finalized the acquisition of the 100% shares of Recuperator S.p.A. and Hygromatik Gmbh. As explained in paragraph "Consolidation criteria", these operations were recognized in the consolidated financial statements, as required by the International Financial Reporting Standard IFRS 3 "Business Combinations", in accordance with the "purchase method" that provides the process of Purchase Price Allocation ("PPA") and entailed Management's evaluation of the assets transferred and the liabilities incurred, also through the support of professionals appointed for this purpose. The final allocation of the PPA values generated, among others, the recognition at the acquisition date of goodwill for Euro 44.7 million, intangible assets with a definite useful life for Euro 32.8 million, tangible assets for Euro 2.2 million and deferred tax liablilities for Euro 10.3 million. In consideration of the relevance of those operations for Carel Group's consolidated financial statements and of the complexity of the assumptions made by Management which, for their nature, imply significant judgments, we assessed that the accounting of the mentioned business combinations represents a key audit matter for the audit of Carel Group's consolidated financial statements.
Audit procedures	As part of our audit, among other things, we performed the following audit procedures, supported by the experts belonging to our network: • Analysis of the acquisition agreements in order to understand the main terms and conditions; • Understanding of the relevant controls put in place by Management on accounting of the business combinations; • Analysis of the criteria used by Management to account for the business combinations in compliance with IFRS 3, with particular reference to the criteria and the assumpions used to identify the assets transferred and the liabilities incurred, to estimate the related fair value and, when necessary, the useful life, and the methods used to determine the value of goodwill; • analysis of the reports and opinions prepared by the professionals appointed by the Company to support Management's evaluations. Finally, we have examined the adequacy of the disclosures provided by the Group on the business combinations and the compliance with the accounting standard IFRS 3.

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

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

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

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

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

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

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

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

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

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

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

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- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

The Directors of Carel Industries S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structure of Carel Group as at 31 December 2018, including their consistency with the related consolidated financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and the ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98, with the consolidated financial statements of Carel Group as at 31 December 2018 and on their compliance with the law, as well as to make a statement about any material misstatement.

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In our opinion, the above-mentioned report on operations and some specific information contained in the report on corporate governance and the ownership structure are consistent with the consolidated financial statements of Carel Group as at 31 December 2018 and are prepared in accordance with the law.

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

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

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

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

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

DELOITTE & TOUCHE S.p.A.

Signed by
Cristiano Nacchi
Partner

Padova, Italy
March 22, 2019

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

Headquarters ITALY

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