2018 Annual Report

at 31 December 2018

CAREL INDUSTRIES S.p.A.
2018 Annual Report

at 31 December 2018

Contents

Corporate bodies

Board of directors	*Chairperson*	*Luigi Rossi Luciani*
	Executive deputy chairperson	*Luigi Nalini*
	Chief executive officer	*Francesco Nalini*
	Director	*Carlotta Rossi Luciani*
	Director	*Cinzia Donalisio*
	Director	*Marina Manna*
	Director	*Giovanni Costa*
Board of statutory auditors	*Chairperson*	*Saverio Bozzolan*
	Standing statutory auditor	*Claudia Civolani*
	Standing statutory auditor	*Paolo Ferrin*
	Alternate statutory auditor	*Fabio Gallo*
	Alternate statutory auditor	*Giovanni Fonte*
Independent auditors		*Deloitte & Touche S.p.A.*
Audit and risk committee	*Chairperson*	*Marina Manna*
	Member	*Cinzia Donalisio*
	Member	*Giovanni Costa*
Remuneration committee	*Chairperson*	*Cinzia Donalisio*
	Member	*Marina Manna*
	Member	*Giovanni Costa*
Supervisory body pursuant to Legislative decree no. 231/2001	*Chairperson*	*Fabio Pinelli*
	Member	*Alessandro Grassetto*
	Member	*Andrea Baggio*

Separate Financial Statements and Notes thereto

at 31 December 2018

Statement of Financial Position

(in Euros)

	Note	31.12.2018	31.12.2017
Property, plant and equipment	1	8.564.370	7.551.197
Intangible assets	2	9.388.650	8.818.112
Equity investments	3	118.704.276	26.058.137
Other non-current assets	4	2.580.287	162.071
Deferred tax assets	5	1.021.419	870.153
Non-current assets		**140.259.002**	**43.459.670**
Trade receivables	6	37.585.416	41.163.031
Inventories	7	22.169.746	17.246.525
Current tax assets	8	4.952.774	386.648
Other assets	9	2.390.495	3.472.057
Current financial assets	10	7.484.227	51.710.408
Cash and cash equivalents	11	24.006.224	18.681.301
Total current assets		**98.588.882**	**132.659.970**
Attività detenute per la vendita		-	-
TOTAL ASSETS		**238.847.884**	**176.119.640**
Equity	12	69.600.773	75.599.221
Patrimonio netto - terzi		-	-
Equity		**69.600.773**	**75.599.221**
Non-current financial liabilities	13	68.347.236	20.969.022
Provisions for risks	14	1.129.019	1.453.867
Defined benefit plans	15	4.979.488	5.054.955
Deferred tax liabilities	16	445.543	783.277
Non-current liabilities		**74.901.286**	**28.261.121**
Current financial liabilities	13	47.190.995	29.615.924
Trade payables	17	34.877.504	32.359.095
Current tax liabilities	18	288.649	1.174.657
Provisions for risks	14	1.649.254	-
Other current liabilities	19	10.339.423	9.109.622
Current liabilities		**94.345.825**	**72.259.298**
Passività detenute per la vendita		-	-
TOTAL LIABILITIES AND EQUITY		**238.847.884**	**176.119.640**

Statement of Profit or Loss

(in Euros)

	Note	2018	2017
Revenue	20	180.276.448	166.164.434
Other revenue	21	3.971.337	3.140.212
Costs of raw materials, consumables and goods and change in inventories	22	-92.915.245	-83.527.039
Services	23	-31.563.708	-23.519.797
Capitalised development expenditure	24	2.171.373	1.601.526
Personnel expense	25	-37.903.856	-34.925.765
Other net income (expense)	26	-1.321.058	-38.627
Amortisation, depreciation and impairment losses	27	-5.783.792	-5.771.963
OPERATING PROFIT		**16.931.499**	**23.122.981**
Net financial income (expense)	28	10.008.508	12.374.088
Net exchange rate gains / losses	29	-149.279	-95.903
Impairment of financial assets	30	-	-360.614
PROFIT BEFORE TAX		**26.790.728**	**35.040.552**
Income taxes	31	-2.803.670	-7.426.446
PROFIT FOR THE YEAR		**23.987.058**	**27.614.106**

Statement of Comprehensive Income

(in Euros)

	Note	2018	2017
PROFIT FOR THE YEAR		**23.987.058**	**27.614.106**
Items that may be subsequently reclassified to profit or loss:			
Variation in hedging reserve	12	-165.210	11.617
Variation in hedging reserve - tax effect	12	39.650	-2.788
Total items that may be subsequently reclassified to profit or loss		**-125.560**	**8.829**
Other items that may not be subsequently reclassified to profit or loss:			
IAS 19 - Actuarial gains /(losses) from discounting of post-employment benefits	12	110.970	-19.270
IAS 19 - Actuarial gains /(losses) from discounting of post-employment benefits - tax effect	12	-30.961	5.377
IAS 19 - Actuarial losses from discounting of post-term of office benefits for directors	12	-23.873	-32.073
IAS 19 - Actuarial gains /(losses) from discounting of post-term of office benefits for directors - tax effect	12	6.661	8.948
Total other items that may not be subsequently reclassified to profit or loss		**62.797**	**-37.018**
COMPREHENSIVE INCOME		**23.924.295**	**27.585.917**

Statement of Cash flows

(in Euros)

	2018	2017
	2018	2017
Profit for the year	23.987.058	27.614.106
Amortisation, depreciation and impairment losses	5.783.792	6.132.577
Accruals to provisions	875.436	669.750
Net financial income	(10.037.224)	(12.408.198)
Income taxes	3.686.272	7.426.446
Gains on the sale of non-current assets	2.542	1.853
	24.297.876	**29.436.534**
Change in trade receivables and other current assets	2.436.725	(2.719.120)
Change in inventories	(4.597.350)	(2.942.765)
Change in trade payables and other current liabilities	3.696.246	7.559.863
Change in non-current liabilities	(134.641)	(466.118)
Cash flows from operations	**25.698.856**	**30.868.394**
Net interest paid	(292.075)	(175.443)
Income taxes paid	(7.103.553)	(7.621.928)
Net cash flows generated by operating activities	**18.303.228**	**23.071.023**
Investments in property, plant and equipment	(3.731.488)	(3.397.108)
Investments in intangible assets	(3.662.692)	(2.960.555)
Investments in financial assets	(3.244.019)	(1.916.139)
Repayment of current financial assets	47.469.446	365.065
Disinvestments of property, plant and equipment and intangible assets	24.135	18.547
Investments in investees	(92.646.139)	(8.670.595)
Cash flows used in investing activities	**(55.790.757)**	**(16.560.785)**
Dividend distributions	(30.000.000)	(15.000.000)
Dividends collected	9.915.452	11.871.349
Interest collected	459.063	3.450
Increase in financial liabilities	91.565.303	38.935.893
Decrease in financial liabilities	(26.709.072)	(30.246.557)
Investments in non-current financial assets	(2.418.294)	-
Cash flows from financing activities	**42.812.452**	**5.564.135**
Change in cash and cash equivalents	**5.324.923**	**12.074.373**
Cash and cash equivalents - opening balance	**18.681.301**	**6.606.928**
Cash and cash equivalents - closing balance	**24.006.224**	**18.681.301**

Statement of Changes in Equity

(in Euros)

	Share capital	Legal reserve	Hedging reserve	Actuarial reserve
2016	**10.000.000**	**2.000.000**	**23.929**	**(385)**
Allocation of prior year profit				
- Dividend distributions				
- Other allocations				
Profit for the year				
Other comprehensive income			8.829	(37.018)
2017	**10.000.000**	**2.000.000**	**32.758**	**(37.403)**
Allocation of prior year profit				
- Dividend distributions				
- Other allocations				
Incentive plans				
Profit for the period				
Other comprehensive income			(125.560)	62.797
2018	**10.000.000**	**2.000.000**	**(92.802)**	**25.394**

Income-related reserves and other reserves	Equity-related reserves	IFRS reserve	Stock grant reserve	Retained earnings (losses carried forward)	Profit (loss) for the year	Total
11.333.880	**10.397.335**	**2.145.495**	**-**	**517.139**	**26.595.911**	**63.013.304**
						-
					(15.000.000)	(15.000.000)
11.636.901				(40.990)	(11.595.911)	-
					27.614.106	27.614.106
						(28.189)
22.970.781	**10.397.335**	**2.145.495**	**-**	**476.149**	**27.614.106**	**75.599.221**
						-
(30.000.000)						(30.000.000)
27.614.106					(27.614.106)	-
			77.257			77.257
					23.987.058	23.987.058
						(62.763)
20.584.887	**10.397.335**	**2.145.495**	**77.257**	**476.149**	**23.987.058**	**69.600.773**

Notes to the separate financial statements as at and for the year ended 31 december 2018

CONTENT AND FORMAT OF THE SEPARATE FINANCIAL STATEMENTS

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

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

On 28 November 2016, the company 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.

Il bilancio separato al 31 dicembre 2018 è stato approvato dal Consiglio di Amministrazione di CAREL INDUSTRIES S.p.A. in data 07 marzo 2019.

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

STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The separate financial statements at 31 December 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 separate financial statements include the statement of financial position, statement of profit or loss, statement of comprehensive income, statement of changes in equity, statement of cash flows and these notes. They were prepared using the historical cost principle and assuming the company will continue as a going concern. The company assumed that it could adopt the going concern assumption pursuant to IAS 1.25/26 given its strong market position, very satisfactory profits and solid financial structure.

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

FINANCIAL STATEMENTS SCHEDULES

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

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

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

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

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

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

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

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

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

BUSINESS COMBINATIONS

Business combinations are treated using the acquisition method. The consideration is recognised at fair value, calculated as the sum of the acquisition-date fair values of the assets transferred and liabilities 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 separate 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 company's functional currency, i.e., the currency of the primary economic environment in which it mainly operates. Amounts are rounded to the nearest unit.

The separate financial statements at 31 December 2018 reflect the company's financial position, in accordance with the International Financial Reporting Standards.

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

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

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

Following its decision to adopt the IFRS starting from the separate financial statements at 31 December 2017, the company referred to the standards applicable from 1 January 2017 to prepare its separate financial statements at 31 December 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 company 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 company applied the standard starting from 1 January 2018 using with the modified retrospective transition method. It analysed the existing contracts using the criteria and logical 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 financial liability recognised as a financial liability measured at fair value through 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 in other comprehensive income and no longer in profit or loss. In the case of a non-substantial modification of a financial liability, 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 forward-looking information. 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, 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 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 economic 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 company applied the standard starting from 1 January 2018 using 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 company. The carrying amount of the policies at 31 December 2017 approximated their fair value recognised as per IAS 39. During 2018, these policies were terminated, with repayment of the principal 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 company measured its trade receivables, the most material financial assets in the 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 forward-looking information. Such measurement approach did not lead to significant differences compared to the previous model applied by the company, 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 company does not factor trade receivables.
- hedge accounting: with the exception of two IRS hedging fluctuations in interest rates, which is considered immaterial to the separate financial statements, the company 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, 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 a 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 separate 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 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 separate financial statements.

- On 8 December 2016, the IASB published the amendments 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 company's separate 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 how an entity shall determine the date of a transactions and, therefore, 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 separate financial statements.

STANDARDS, AMENDMENTS AND INTERPRETATIONS ENDORSED BY THE EU BUT NOT YET MANDATORY AND NOT ADOPTED EARLY BY THE COMPANY AT 31 DECEMBER 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 company 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 company 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 IFRS 16.C7-C13. Specifically, with regard to the leases formerly classified as operating leases, the company will recognise:

  a. a financial liability equal to the present 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-of-asset 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 transition date:

ASSET (in thousands of Euros)	**Impacts at the transition date 01.01.2019**
Assets	
Land and buildings	3.203
Other items of property, plant and equipment	655
Total	**3.858**
EQUITY AND LIABILITIES	
Non-current liabilities	
Non-current lease liabilities	**2.457**
Current liabilities	
Current lease liabilities	**1.401**
Total	**3.858**

In adopting IFRS 16, the company 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 company 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 company 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 hindsight to determine the lease term, with particular reference to the exercise of options to extend or terminate the lease early.

Reconciliation with lease commitments.

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, information about which is provided in note 32 hereto, and the expected impact of the adoption of IFRS 16 at 1 January 2019:

(in thousands of Euros)	**Impacts at the transition date 01.01.2019**
Operating lease commitments	**3.858**
Low value lease payments (exemption)	129
Commitments for payments not covered by the standard	282
Discounting effect	73
Future commitments 31.12.2018	**4.342**

- 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 Payments 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 separate financial statements.
- On 7 June 2017, the IASB published "Uncertainty over income tax treatments (IFRIC 23)". 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 company's separate financial statements.

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

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

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

  The directors do not expect its adoption will significantly affect the company's separate 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 that these amendments will significantly affect the company's separate 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.

  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 separate financial statements.
- On 7 February 2018, the IASB published "Plan Amendment, Curtailment or Settlement (Amendment to IAS 19)". The document clarifies how a company accounts for a plan event (i.e. a curtailment or settlement) to defined benefit plans. This requires a company to update its assumptions and remeasure its net defined benefit liability or asset. The amendments clarify that after a plan event, a company would use these updated assumptions to measure current service cost and net interest for the remainder of the reporting period after the plan event.

The directors do not expect that these amendments will significantly affect the company's separate financial statements.

- 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 substantive 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 separate 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 flank the definitions of omitted or misstated 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 the amendment will significantly affect the company's separate financial statements.
- On 11 September 2014, the IASB published amendments to IFRS 10 and IAS 28 Sales or contribution of assets between an investor and its associates or joint venture. The amendments were published to resolve the current conflict between IAS 28 and IFRS 10 about the measurement of gains or losses on the sale or contribution of a non-monetary asset to a joint venture or an associate in exchange for a share of its capital.
  The IASB has currently deferred application of these amendments.

ACCOUNTING POLICIES

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

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

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

Income taxes. They reflect a realistic estimate of the group's tax burden, calculated in accordance with the current regulations; current tax liabilities are recognised in the statement of financial position net of any payments on account.
Deferred tax assets and liabilities arise on temporary differences between the carrying amount of an asset or liability pursuant to the IFRS and its tax base, calculated using the tax rates reasonably expected to be enacted in future years. Deferred tax assets are only recognised when their recovery is probable while deferred tax liabilities are always recognised as required by IAS 12 Income taxes. The company does not

apply any netting of current and deferred taxes. Deferred tax liabilities on untaxed reserves are accounted for in the year in which the liability to pay the dividend is recognised.
Income taxes relative to prior years include prior year tax income and expense.

Translation criteria. Foreign currency receivables and payables are translated into Euros using the transaction-date exchange rate. Any gains or losses when the foreign currency receivable is collected or the payable settled are recognised in profit or loss.
Revenue, income, costs and expenses related to foreign currency transactions are recognised at the spot rate ruling on the transaction date. At the closing date, foreign currency assets and liabilities, 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.

Property, plant and equipment. They are recognised at historical cost, including ancillary costs necessary to ready the asset for the use for which it has been purchased.
Maintenance and repair costs that do not extend the asset's life and/or enhance its value are expensed when incurred; otherwise, they are capitalised.
Property, plant and equipment are stated net of accumulated depreciation and impairment losses calculated using the methods described later in this section. The depreciable amount of an asset is allocated on a systematic basis over its useful life, which is reviewed once a year. Any necessary changes are applied prospectively.
The depreciation rates of the main categories of property, plant and equipment are as follows:

Category of assets	Rate %
Buildings:	
- Light constructions	10,00%
- Industrial buildings	3,00%
Plant and machinery:	
- Generic plant	10,00%
- Automatic operating machinery	10.00%-15.50%
Industrial and commercial equipment	25,00%
Other items of property, plant and equipment:	
- Office furniture and equipment	12.00%-20.00%
- Hardware	20,00%
- Cars	25,00%
- Telecommunication systems	20,00%
- Other items of property, plant and equipment	20,00%

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 company, 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.

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

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

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

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

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

Goodwill. This is the excess of the aggregate of the consideration transferred for a business combination, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the assets acquired and liabilities assumed. Goodwill is not amortised but is tested annually for impairment. For the purposes of impairment testing, goodwill is allocated to each of the company's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

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

Impairment losses on non-financial assets. Assets with an indefinite useful life are not amortised but are tested for impairment once a year to check whether their carrying amount has been impaired.

The board of directors adopted a policy that defines the criteria for the impairment test, the controls to be carried out to guarantee the reliability of the process and the procedure to approve the test, in line with Consob recommendation no. 0003907 of 15 January 2015.

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

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

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

Equity investments. Equity investments in subsidiaries and associates are recognised as financial assets based on the acquisition cost criterion, including ancillary costs and are adjusted for impairment in accordance with IAS 36.

The carrying amount is adjusted for impairment, the effect of which is recognised in profit or loss as an impairment loss (when the carrying amount of the investment is greater than the interest in equity) which are recognised in the provision for risks and charges. If these losses no longer exist or they decrease, the carrying amount is increased in line with the new recoverable amount, which must not exceed the original cost. The reversal of impairment is recognised in profit or loss.

Equity investments in other companies are recognised at acquisition or subscription cost, net of any impairment losses, the effect of which is recognised in 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 company assesses whether a contract includes embedded derivatives. The embedded derivatives are separated from the host contract if this is not measured at fair value when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract.

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

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

All financial assets within the scope of IFRS 9 are recognised at amortised cost or fair value depending on the business model 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.

The company has zero-balance cash pooling contracts with certain European group companies. These instruments are intended to ensure optimal management of cash flows, allowing for the centralised

management of the group's financial needs by transferring to a pooler, namely Carel Industries S.p.A., the credit and debit balances of current accounts of the individual group companies. The main aim is to use the cash surplus of one or more group companies to eliminate or reduce the debt exposure of the other companies. Following the transfer of the balances to the pool account, the individual companies must recognise a liability in the case of a negative balance and an asset in the case of a positive balance. Subsequently, the pooler recognises the individual transactions, sending a statement to the group companies on a regular basis. At the agreed expiry, the pooler manages the payment of the assets/liabilities.
The companies that take part in the cash pooling scheme are: CAREL INDUSTRIES S.p.A. (pooler) and the subsidiaries Carel U.K. Ltd, Carel France s.a.s., Carel Deutschland GmbH, Carel Control Iberica Sl; Carel Adriatic D.o.o. and Alfaco Polska Sp.z.o.o..

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

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

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

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

Derivative financial instruments. The company solely uses derivatives to hedge currency risk on foreign currency commercial transactions and interest risk on its medium to long-term debt.
Initial recognition and subsequent measurement is at the derivatives' fair value, applying the following accounting 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 separate 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 separate financial statements are:

- **Impairment testing of goodwill:** this test provides for the calculation 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 company 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 company sets up an allowance; like for the loss allowance, this allowance is calculated considering past experience and the market. However, it is not believed that changes in the reference scenarios or market trends could significantly modify the criteria used as a basis for the estimates.

Impairment testing of goodwill. At least once a year, the company 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 company's debtors compared to the deterioration already considered when calculating the allowances recognised in the separate 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 separate 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).

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.

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

RISKS AND FINANCIAL INSTRUMENTS

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

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

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

This section presents the supplementary disclosures required by IFRS 7.

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

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

These risks include:

a. credit risk;

b. liquidity risk;

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

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

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

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

CREDIT RISK

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

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

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

The loss allowance is equal to the nominal amount of the uncollectable 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 provides a breakdown of trade receivables and related loss allowance by ageing bracket:

(in Euros)	31.12.2018		31.12.2017	
	Trade rec.	**Provision**	**Trade rec.**	**Provision**
Not yet due	35.364.159	(575.522)	38.029.730	(649.603)
Past due < 6 months	2.429.629	(44.761)	2.959.743	(44.906)
Past due > 6 months and < 12 months	377.016	(34.901)	751.808	(11.407)
Past due > 12 months	203.591	(133.795)	229.660	(101.994)
Total	**38.374.395**	**(788.979)**	**41.970.941**	**(807.910)**

LIQUIDITY RISK

The company'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 company 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 company 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 company'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 company's financial liabilities by maturity:

31.12.2018 (in Euros)	TOTAL	Total cash flows	Within one year	From one to five years	After five years
- Bank loans and borrowings	66.700.924	67.740.173		67.740.173	-
- Effective designated derivative hedges	170.079	170.079	-	170.079	-
- Other loans and borrowings	1.476.233	1.509.309		1.247.980	261.329
Non-current financial liabilities	**68.347.236**	**69.419.561**	**-**	**69.158.232**	**261.329**
- Current bank loans	43.268.246	43.857.921	43.857.921	-	-
- Other loans and borrowings	414.410	427.035	427.035	-	-
- Derivatives	11.922	11.922	11.922	-	-
- Financial liabilities with group companies	3.496.417	3.496.417	3.496.417	-	-
Current financial liabilities	**47.190.995**	**47.793.295**	**47.793.295**	**-**	**-**

31.12.2017 (in Euros)	TOTAL	Total cash flows	Within one year	From one to five years	After five years
- Bank loans and borrowings	19.172.070	19.311.222	-	19.311.222	-
- Effective designated derivative hedges	6.559	6.559	-	6.559	-
- Other loans and borrowings	1.790.393	1.832.712	-	1.271.305	561.407
Non-current financial liabilities	**20.969.022**	**21.150.493**	**-**	**20.589.086**	**561.407**
- Current bank loans	26.024.257	26.121.701	26.121.701	-	-
- Other loans and borrowings	325.245	339.228	339.228	-	-
- Derivatives	78.388	78.388	78.388	-	-
- Financial liabilities with group companies	3.188.034	3.188.034	3.188.034	-	-
Current financial liabilities	**29.615.924**	**29.727.351**	**29.727.351**	**-**	**-**

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

31.12.2018 (in Euros)	**IFRS 9 category**	**Carrying amount**	**Fair value**		
			Level 1	**Level 2**	**Level 3**
Other loan assets	Loans and receivables	1.993			1.993
Financial assets with the group	Loans and receivables	2.578.294			2.578.294
Other non-current financial assets		**2.580.287**			
Securities	Available-for-sale financial assets	-		-	
Derivatives	Financial instruments held for trading	12.897		12.897	
Financial assets with the group	Loans and receivables	7.471.330			7.471.330
Other current financial assets		**7.484.227**			
Trade receivables	Loans and receivables	**37.585.416**			37.585.416
Total financial assets		**47.649.930**			
including:	**Available-for-sale financial assets**	**-**	**-**	**-**	**-**
	Financial instruments held for trading	**12.897**	**-**	**12.897**	**-**
	Loans and receivables	**47.637.033**	**-**	**-**	**47.637.033**
Bank loans and borrowings	Financial liabilities at amortised cost	(66.700.924)		(66.700.924)	
Effective derivatives	Derivatives	(170.079)		(170.079)	
Other loans and borrowings	Financial liabilities at amortised cost	(1.476.233)		(1.476.233)	
Non-current financial liabilities		**(68.347.236)**			
Current bank loans	Financial liabilities at amortised cost	(43.268.246)		(43.268.246)	
Other loans and borrowings	Financial liabilities at amortised cost	(414.410)		(414.410)	
Derivatives	Financial instruments held for trading	(11.922)		(11.922)	
Financial liabilities with group companies	Financial liabilities at amortised cost	(3.496.417)			(3.496.417)
Current financial liabilities		**(47.190.995)**			
Trade payables	Financial liabilities at amortised cost	**(32.359.095)**			(32.359.095)
Total financial liabilities		**(147.897.326)**			
including:	**Financial liabilities at amortised cost**	**(147.715.325)**	**-**	**(111.859.813)**	**(35.855.512)**
	Financial instruments held for trading	**(11.922)**	**-**	**(11.922)**	**-**
	Derivatives	**(170.079)**	**-**	**(170.079)**	**-**

31.12.2017 (in Euros)	**IAS 39 categories**	**Carrying amount**	**Fair value**		
			Level 1	**Level 2**	**Level 3**
Other loan assets	Loans and receivables	2.071			2.071
Financial assets with the group	Loans and receivables	160.000			160.000
Other non-current financial assets		**162.071**			
Securities	Available-for-sale financial assets	47.062.788		47.062.788	
Derivatives	Financial instruments held for trading	13.651		13.651	
Financial assets with the group	Loans and receivables	4.633.969			4.633.969
Total		**51.710.408**			
Total	Loans and receivables	**41.163.031**			41.163.031
Total financial assets		**93.035.510**			
including:	**Available-for-sale financial assets**	**47.062.788**	**-**	**47.062.788**	**-**
	Financial instruments held for trading	**13.651**	**-**	**13.651**	**-**
	Loans and receivables	**45.959.071**	**-**	**-**	**45.959.071**
Bank loans and borrowings	Financial liabilities at amortised cost	(19.172.070)		(19.172.070)	
Effective derivatives	Derivatives	(6.559)		(6.559)	
Other loans and borrowings	Financial liabilities at amortised cost	(1.790.393)		(1.790.393)	
Non-current financial liabilities		**(20.969.022)**			
Current bank loans	Financial liabilities at amortised cost	(26.024.258)		(26.024.258)	
Other loans and borrowings	Financial liabilities at amortised cost	(325.245)		(325.245)	
Derivatives	Financial instruments held for trading	(78.388)		(78.388)	
Financial liabilities with group companies	Financial liabilities at amortised cost	(3.188.033)			(3.188.033)
Current financial liabilities		**(29.615.924)**			
Trade payables	Financial liabilities at amortised cost	**(32.359.095)**			(32.359.095)
Total financial liabilities		**(82.944.041)**			
including:	**Financial liabilities at amortised cost**	**(82.859.094)**	**-**	**(47.311.966)**	**(35.547.128)**
	Financial instruments held for trading	**(78.388)**	**-**	**(78.388)**	**-**
	Derivatives	**(6.559)**	**-**	**(6.559)**	**-**

MARKET RISK

Currency risk

As the company sells its products in various countries around the world, it is exposed to the risk deriving from changes in foreign exchange rates. This risk mainly arises on sales in currencies like the US dollar, the Polish zloty, the South African rand and the Japanese yen.
The company agrees currency hedges to set the exchange rate in line with forecast sales and purchases volumes to protect itself against currency fluctuations with respect to its foreign currency transactions. The hedges are based on the company's net exposure using currency forwards and/or plain vanilla options in line with its financial policy. The hedged risk is part of the global risk and the hedges are not speculative.

Interest rate risk

This is the risk that the fair value and/or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
The company is exposed to interest rate risk due to its need to finance its operating activities, both production and financial (the purchase of assets), and to invest its available liquidity. Changes in market interest rates may negatively or positively affect the group's results and, hence, indirectly the cost of and return on financing and investing activities.
The company regularly checks its exposure to interest rate fluctuations and manages such risks through the use of derivatives, in accordance with its risk management policies. With regard to such policies, the use of derivatives is reserved exclusively for the management of interest rate fluctuations connected to cash flows and they are not agreed or held for trading purposes.
It solely uses interest rate swaps (IRS), caps and collars to do so.
The company 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 fixed interest rates applied to its financing.
Its counterparties are major banks.
Derivatives are measured at fair value.

Other market and/or price risks

The company is subjected to increasing competitive pressure due to the entry of new players into the OEM market (large international groups) and the development of new organised markets which constantly push prices down, especially in the electronics sector.
Demand for the group's products is also affected by fluctuations affecting the distribution channels of products and applications which, as noted, are mostly the OEM operating indirectly in the construction sector and operators linked to the food distribution sector (for the refrigeration business).

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

The 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

The changes shown below are calculated using the balances at 31 December 2017 related to the statement of financial position and for 2017 with regard to the statement of profit or loss. As already mentioned, amounts are in Euros.

PROPERTY, PLANT AND EQUIPMENT (note 1)

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

(in Euros)	Buildings	Light constructions	Plant and machinery	Industrial and commercial equipment	Other items of property, plant and equipment	Assets under construction and payments on account	Total
Historical cost	15.568	7.095	11.922.974	22.683.102	6.756.821	409.950	41.795.510
Accumulated depreciation and impairment losses	(191)	(3.390)	(9.773.943)	(19.116.102)	(5.350.687)	-	(34.244.313)
Balance at 31 December 2017	**15.377**	**3.705**	**2.149.031**	**3.567.000**	**1.406.134**	**409.950**	**7.551.197**
Changes in 2018							
Investments	202.973	-	818.397	1.854.991	460.908	270.437	3.607.706
Reclassifications			80.474	191.125	134.197	(405.796)	-
Internal cost capitalisation				123.782			123.782
Disinvestments				(241.890)	(105.892)	(4.154)	(351.936)
Disinvestments (accumulated depreciation)				223.243	102.016		325.259
Depreciation	(690)	(709)	(526.494)	(1.683.333)	(480.412)	-	(2.691.638)
Total changes	**202.283**	**(709)**	**372.377**	**467.918**	**110.817**	**(139.513)**	**1.013.173**
Balance at 31 December 2018	**217.660**	**2.996**	**2.521.408**	**4.034.918**	**1.516.951**	**270.437**	**8.564.370**
including:							
Historical cost	218.541	7.095	12.821.845	24.611.110	7.246.034	270.437	45.175.062
Accumulated depreciation and impairment losses	(881)	(4.099)	(10.300.437)	(20.576.192)	(5.729.083)	-	(36.610.692)
	217.660	2.996	2.521.408	4.034.918	1.516.951	270.437	8.564.370

Buildings refer to leasehold improvements that are not economically separable from the assets in use.

Plant and machinery include generic and specific plant related to production lines for a total of €2,521 thousand. Among the increases during the year, €340 thousand relates to the purchase of two Pick&Place machines for the automated assembly of printed circuits, €122 thousand for the purchase of a cell for the resining of components, €210 thousand for a welding system to be installed in the valve production line and €75 thousand to purchase a screen printing machine, in addition to the normal renovation of plant and infrastructures.

With regard to investments, €666 thousand relates to the construction of a new interconnected network architecture for the management of events that benefit from the tax relief for Industry 4.0.
The increase in Industrial and commercial equipment mainly relates to moulds, testing machines and other production equipment. It also relates to the acquisition of a robotised component assembly island for €240 thousand, €220 thousand for helium-tightness testing bench with leak test station, €196 thousand for plastic moulds, €101 thousand for warehouse shelving, €50 thousand for the laser marking system for the valve production line, €37 thousand for heat pumps and fans for the valve production line, €47 thousand for a power source, €40 thousand for an inverter and €15 thousand for an oscilloscope as well as the normal renovation of production equipment.

With regard to investments, €515 thousand relates to the construction of a new interconnected network architecture for the management of events that benefit from the tax relief for Industry 4.0.
Other items of property, plant and equipment mainly include furniture and furnishings of €41 thousand, office ad electronic machines of €454 thousand, cars and internal transport for €67 thousand and telephone systems for €11 thousand. The increases and decreases are mainly due to the replacement of electronic office equipment (mainly for the renovation of company information systems), cars and telephone systems.
Assets under construction include payments on account and ongoing investments in machinery constructed internally, not yet completed at 31 December 2018.

Depreciation amounted to €2,692 thousand and was calculated based on depreciable assets at 31 December 2018, applying the criteria and rates indicated in the section on Property, plant and equipment.
The company's property, plant and equipment were not mortgaged or pledged at 31 December 2018. They are suitably hedged for risks deriving from losses and/or damage thereto through insurance policies taken out with leading insurers.

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

INTANGIBLE ASSETS (note 2)

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

(in Euros)	Development expenditure	Software	Goodwill	Assets under development and payments on account	Other assets	Total
Historical cost	17.983.341	10.930.925	1.618.357	2.092.092	80.216	32.704.931
Accumulated amortisation and impairment losses	(13.685.120)	(8.922.771)	(1.259.765)	-	(19.163)	(23.886.819)
Balance at 31 December 2017	**4.298.221**	**2.008.154**	**358.592**	**2.092.092**	**61.053**	**8.818.112**
Changes in 2018						
Investments		1.586.379		1.618.045		3.204.424
Reclassifications	345.082	40.803		(385.885)		-
Internal cost capitalisation	458.268					458.268
Amortisation	(1.819.638)	(1.167.115)			(12.514)	(2.999.267)
Impairment losses				**(92.887)**		**(92.887)**
Total changes	**(1.016.288)**	**460.067**	**-**	**1.139.273**	**(12.514)**	**570.538**
Balance at 31 December 2018	3.281.933	2.468.221	358.592	3.231.365	48.539	9.388.650
including:			-	-	-	
Historical cost	18.786.691	12.558.107	1.618.357	3.324.252	80.216	36.367.623
Accumulated amortisation and impairment losses	(15.504.758)	(10.089.886)	(1.259.765)	(92.887)	(31.677)	(26.978.973)
	3.281.933	2.468.221	358.592	3.231.365	48.539	9.388.650

Development expenditure: in 2018, the company capitalised development expenditure related to projects developed internally for a total of €803 thousand, of which €458 thousand related to 2018 and €345 thousand related to projects that were ongoing at 31 December 2017 and completed in 2018.

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

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

Software refers to management programs and network applications. During the year, new management software was acquired to support the relevant functions.

With regard to investments, €24 thousand relates to the construction of a new interconnected network architecture for the management of events that benefit from the Industry 4.0 tax relief.

Goodwill refers to the goodwill arising on the merger of the fully-controlled subsidiary Carel Applico S.r.l. on 1 September 2015.

The increase in Assets under development and payments on account refers to the expenditure for the development of innovative products not completed at 31 December 2018.

Furthermore, following the regular update of the business plans for the development projects that are not yet complete, the company recognised impairment losses of €93 thousand on projects, which were no longer expected to be recovered in the future.

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

EQUITY INVESTMENTS (note 3)

This caption may be broken down as follows:

(in Euros)	Investments in subsidiaries	Other equity investments (associates and others)	Total
Balance at 31 December 2017	**25.918.092**	**140.045**	**26.058.137**
Changes in 2018			
Initial cost:			
Increases	92.646.139	-	92.646.139
Total changes	**92.646.139**	**-**	**92.646.139**
Balance at 31 December 2018	**118.564.231**	**140.045**	**118.704.276**

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

Investments in subsidiaries (in Euros)	2018
Recuperator S.p.A.	25.743.625
Carel Adriatic D.o.o.	3.048.213
HygroMatik GmbH	57.216.335
Carel Asia Ltd	826.096
Carel Electronic (Suzhou) Co. Ltd	2.500.000
Carel Usa Llc	2.581.761
Carel Middle East DWC Llc	300.000
Carel Japan Co. Ltd	430.108
Total increases	**92.646.139**

As part of the group's strategy which provides for external expansion, with the objective of strengthening its core business, the company acquired the following equity investments:

- on 23 November 2018, the company completed the acquisition of 100% of Recuperator S.p.A., an Italian company 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.
- The total price paid for the acquisition was €25,744 thousand (of which €157 thousand for ancillary costs connected to the acquisition) financed through own funds and bank loans;

- on 3 December 2018 the company completed the acquisition of 100% of Hygromatik Gmbh, the German company 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.

The total price paid for the acquisition was €57,216 thousand (of which €1,074 thousand for ancillary costs connected to the acquisition) financed through own funds and bank loans.
At the end of June 2018, the company acquired the remaining 51% of share capital of Carel Japan Co. Ltd (Japan), which is an active distributor on the Japanese market, for JPY 5,100 thousand (equal to €40 thousand), paid for using own funds.
Lastly, to improve its investees' financial structures, the company made the following capital increases in: (i) Carel Adriatic D.o.o for a total of €3,048 thousand, (ii) Carel Asia Ltd for €826 thousand, (iii) Carel Electronic (Suzhou) co. Ltd for €2,500 thousand, (iv) Carel USA Llc for a total of €2,582 thousand, (v) Carel Middle East DVC Llc for €300 thousand and (vi) Carel Japan Co. Ltd for €390 thousand.
Using the comparison between the carrying amount of the equity investments and the company's share of each investee, the directors of the companies for which the carrying amount had been previously impaired despite the positive difference, prudently decided not to recognise an impairment gain on the equity investment until positive results continue to be recognised.
On the other hand, for certain investees the difference was negative. The subsequent measurement of the individual positions with regard to the recoverability of the difference led the directors to believe that no impairment had taken place and, therefore, the difference was recoverable based on the outlook for the investees.
At 31 December 2018, the company had not accrued a provision for equity investment risks, recognised in the medium-long term provisions for the recapitalisation obligations of the investees.

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

(in Euros)	31.12.2018		
	Historical cost	**Loss allowance**	**Carrying amount**
Subsidiaries:			
Recuperator S.p.A.	25.743.625	-	25.743.625
Carel Deutschland GmbH	138.049	-	138.049
Carel Adriatic D.o.o.	7.370.289	-	7.370.289
C.R.C S.r.l.	1.600.000	-	1.600.000
HygroMatik Gmbh	57.216.335	-	57.216.335
Carel France Sas	91.469	-	91.469
Carel South America Ltda	5.396.848	(1.983.740)	3.413.108
Carel U.K. Ltd	1.624.603	-	1.624.603
Carel Asia Ltd	1.761.498	(935.402)	826.096
Carel Electronic (Suzhou) Co. Ltd	9.276.379	-	9.276.379
Carel Controls Iberica SL	4.330.149	(1.500.000)	2.830.149
Carel RUS Llc	160.936		160.936
Carel Usa Llc	3.661.874		3.661.874
Carel Nordic AB	60.798		60.798
Carel Middle East	1.060.614	(760.614)	300.000
Alfaco Polska Sp.z.o.o.	3.820.413	-	3.820.413
Carel Japan Co. Ltd	475.003	(44.895)	430.108
Total	123.788.882	(5.224.651)	118.564.231
Associates:			
Arion S.r.l	140.000		140.000
Total	140.000	-	140.000
Other companies:			
CONAI	45	-	45
Total	45	-	45
Total equity investments	**123.928.927**	**(5.224.651)**	**118.704.276**

(in Euros)	2017		
	Historical cost	Loss allowance	Carrying amount
Subsidiaries:			
Carel Deutschland GmbH	138.049	-	138.049
Carel Adriatic D.o.o.	4.322.076	-	4.322.076
C.R.C S.r.l.	1.600.000	-	1.600.000
Carel France Sas	91.469	-	91.469
Carel South America Ltda	5.396.848	(1.983.740)	3.413.108
Carel U.K. Ltd	1.624.603	-	1.624.603
Carel Asia Ltd	935.402	(935.402)	-
Carel Electronic (Suzhou) Co. Ltd	6.776.379	-	6.776.379
Carel Controls Iberica SL	4.330.149	(1.500.000)	2.830.149
Carel RUS Llc	160.936		160.936
Carel Usa Llc	1.080.112		1.080.112
Carel Nordic AB	60.798		60.798
Carel Middle East	760.614	(760.614)	-
Alfaco Polska Sp.z.o.o.	3.820.413	-	3.820.413
Total	31.097.848	(5.179.756)	25.918.092
Associates:			
Carel Japan Co. Ltd	44.895	(44.895)	-
Arion S.r.l	140.000		140.000
Total	184.895	(44.895)	140.000
Other companies:			
CONAI	45	-	45
Total	45	-	45
Total equity investments	**31.282.788**	**(5.224.651)**	**26.058.137**

The following table provides the information about equity investments at 31 December 2018 in accordance with article 2427 of the Italian Civil Code:

	Registered office	Currency	Share capital currency	Equity (Euros)
Subsidiaries:				
Carel Deutschland GmbH	Frankfurt	EUR	25.565	2.715.153
Carel Adriatic D.o.o.	Labin	HRK	54.600.000	10.614.981
C.R.C S.r.l.	Bologna	EUR	98.800	3.181.780
Carel France Sas	St. Priest, Rhone	EUR	100.000	2.310.065
Carel Sud America Instrumentacao Eletronica Ltda	San Paolo	BRL	31.149.059	5.752.928
Carel U.K. Ltd	London	GBP	350.000	2.151.042
Carel Asia Ltd	Honk Kong	HKD	15.900.000	1.054.546
Carel Electronic (Suzhou) Co. Ltd	Suzhou-RC	CNY	75.019.566	47.804.076
Carel Controls Iberica SL	Barcelona	EUR	3.005	2.776.428
Carel RUS Llc	St. Petersburg	RUB	6.600.000	608.863
Carel Usa Llc	Wilmington Delaware-USA	USD	3.000.000	14.154.323
Carel Nordic AB	Höganäs	SEK	550.000	577.823
Carel Middle East	Dubai-UAE	Dirham	4.333.877	292.754
Alfaco Polska Sp.z.o.o.	Wrocław	PLN	420.000	3.804.598
Recuperator S.p.A.	Rescaldina	EUR	500.000	6.583.903
HygroMatik GmbH	Henstedt-Ulzburg	EUR	639.115	779.146
Carel Japan Co. Ltd	Tokyo	JPY	60.000.000	240.805
Total				
Associates:				
Arion S.r.l (*)	Brescia	EUR	100.000	211.556
Total				
Other companies:				
CONAI		EUR		
Total				
Total equity investments				

(*) amounts at 31.12.2017

Profit (loss) for the year (Euros)	Owned portion		Carrying amount (Euros)	Difference between pro-quota equity and carrying amount (Euros)
	Direct	Indirect		
1.188.178	100,00%		138.049	2.577.104
2.424.914	100,00%		7.370.289	3.244.692
516.039	100,00%		1.600.000	1.581.780
527.568	100,00%		91.469	2.218.596
753.069	53,02%	46,98%	3.413.108	(362.906)
1.119.839	100,00%		1.624.603	526.439
330.553	100,00%		826.096	228.450
8.267.768	100,00%		9.276.379	38.527.697
769.126	100,00%		2.830.149	(53.721)
429.286	99,00%	1,00%	160.936	441.838
1.218.629	100,00%		3.661.874	10.492.449
150.609	100,00%		60.798	517.025
(27.713)	100,00%		300.000	(7.246)
813.142	100,00%		3.820.413	(15.815)
(12.944)	100,00%		25.743.625	(19.159.722)
140.031	100,00%		57.216.335	(56.437.189)
(100.131)	100,00%		430.108	(189.303)
			118.564.231	(15.869.832)
12.380	40,00%		140.000	(55.378)
			140.000	(55.378)
			45	-
			45	-
			118.704.276	**(15.925.210)**

With reference to the difference between the company's share if the investee's equity and the carrying amount of the equity investment in Recuperator S.p.A. and Hygromatik Gmbh, with the support of an independent expert, the company checked the higher price paid allocated to assets and liabilities in the consolidated financial statements against the related equity in accordance with IFRS 3 and IAS 36.
The directors tested goodwill for impairment, though it did not test amortisable assets for impairment as no trigger events or circumstances indicated that impairment had taken place.
Based on the analyses performed, there was no indication of impairment of the goodwill or the trademark at 31 December 2018 (for more information, reference should be made to note [2] Intangible assets of the consolidated financial statements) and therefore, the carrying amount of the above-mentioned equity investments remained the same.

OTHER NON-CURRENT ASSETS (note 4)

These amounted to €2,580 thousand and can be analysed as follows:

(in Euros)	31.12.2018	Change during the year		31.12.2017
		New / increases	Repayments / decreases	
Subsidiaries	2.418.294	2.418.294		-
Associates	160.000	-	-	160.000
Others	1.993	-	(78)	2.071
Total	**2.580.287**	**2.418.294**	**(78)**	**162.071**

Amounts due from subsidiaries of €2,418 thousand refer to the amounts due after one year for an original interest-bearing loan of €3,608 thousand expiring on 30 November 2021 granted to the investee Hygromatik Gmbh.
Amounts due from associates of €160 thousand relate entirely to a non-interest-bearing long-term loan (expiring on 31 December 2022) granted to the associate Arion S.r.l..
Amounts due from others refer to term deposits for utilities and leases.

DEFERRED TAX ASSETS (note 5)

Deferred tax assets at 31 December 2018 were generated by the temporary differences between the carrying amounts of assets and liabilities and their tax bases calculated with reference to the tax rates expected to be enacted in the years in which the differences will reverse.
The company considered it appropriate to recognise the deferred tax assets deriving from the temporary differences indicated below in the separate financial statements, as it is reasonably certain that they will be achieved through taxable profits in the years in which the deductible temporary differences will reverse.

(in Euros)	31.12.2018		31.12.2017	
	Tax base	Deferred tax assets	Tax base	Deferred tax assets
Allowance for inventory write-down	1.003.441	240.826	1.329.312	319.035
Provision for product warranties	224.427	62.615	236.888	66.092
Provision for complaints	1.462.441	408.020	417.685	116.534
Provision for agents' termination indemnity and bonuses	74.026	17.766	74.026	17.766
Unrealised exchange differences	-	-	194.254	46.621
Deductible cash fees	18.589	4.461	-	-
Amortisation of goodwill - transfer	81.667	22.786	122.500	34.178
Substitute tax on goodwill(16%)	81.667	13.067	122.500	19.601
Amortisation of goodwill - merger	238.643	66.581	262.542	73.249
Substitute tax on goodwill(12%)	238.643	28.637	262.563	31.514
Amortisation of goodwill - acquisition of business unit	3.940	1.100	6.228	1.738
Discounting - Post-employment benefits and post-term of office benefits for directors	302.316	84.345	440.420	122.876
Difference between amortisation/depreciation and fiscally-driven amortisation/depreciation	123.460	34.446	75.087	20.949
Fair value of derivatives	153.205	36.769	-	-
Total	**4.006.465**	**1.021.419**	**3.544.005**	**870.153**

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

(in Euros)	31.12.2018	Recognised in profit or loss	Recognised in other comprehen-sive income	31.12.2017
Allowance for inventory write-down	240.826	(78.209)	-	319.035
Provision for product warranties	62.615	(3.477)	-	66.092
Provision for complaints	408.020	291.486	-	116.534
Provision for agents' termination indemnity and bonuses	17.766	-	-	17.766
Unrealised exchange differences	-	(46.621)	-	46.621
Deductible cash fees	4.461	4.461	-	-
Amortisation of goodwill - transfer	22.786	(11.392)	-	34.178
Substitute tax on goodwill (16%)	13.067	(6.534)	-	19.601
Amortisation of goodwill - merger	66.581	(6.667)	-	73.248
Substitute tax on goodwill (12%)	28.637	(2.877)	-	31.514
Amortisation of goodwill - acquisition of business unit	1.100	(638)	-	1.738
Discounting - Post-employment benefits and post-term of office benefits for directors	84.345	(14.232)	(24.300)	122.877
Difference between amortisation/depreciation and fiscally-driven amortisation/depreciation	34.446	13.497	-	20.949
Fair value of derivatives	36.769	-	36.769	-
Total	**1.021.419**	**138.797**	**12.469**	**870.153**

TRADE RECEIVABLES (note 6)

These amounted to €37,585 thousand (€41,163 thousand in 2017) and are as follows:

(in Euros)	31.12.2018	Change 2018	31.12.2017
Third parties	24.361.794	(872.169)	25.233.963
Parents	327.808	327.808	-
Subsidiaries	13.668.116	(2.005.897)	15.674.013
Associates		(9.750)	9.750
Subsidiaries of parents	16.677	(951.282)	967.959
Related parties	-	(85.257)	85.257
Total trade receivables	38.374.395	(3.596.547)	41.970.942
Loss allowance	(788.979)	18.932	(807.911)
Total	**37.585.416**	**(3.577.615)**	**41.163.031**

Trade receivables in foreign currency were recognised at the year-end exchange rate, adjusting the relative equivalent amount.

Trade receivables, gross of the loss allowance, refer to the following geographic segments:

(in Euros)	31.12.2018	31.12.2017
Western Europe	23.251.083	26.301.718
Other European countries, Middle East and Africa	6.855.061	7.703.971
North America	2.343.042	2.724.848
South America	657.080	762.289
Asia Pacific South	1.966.920	1.404.723
Asia Pacific North	3.301.209	3.073.393
Total	**38.374.395**	**41.970.942**

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 credit losses, considering past experience for similar receivables, current and historical past due amounts, losses and collections, the careful monitoring of credit quality and projections about the economy and market conditions.

Changes in the allowance are shown in the following table:

(in Euros)	31.12.2018	Change during the year			31.12.2016
		Accant. menti	Utilizzi	Rilasci	
Loss allowance	788.979	-	(18.932)		807.911
Total	**788.979**	**-**	**(18.932)**		**807.911**

A breakdown of trade receivables due from group companies is as follows:

(in Euros)	31.12.2018	31.12.2017
Luigi Rossi Luciani S.a.p.A.	198.426	
Luigi Nalini S.a.p.A.	129.382	-
Parents	**327.808**	**-**
C.R.C. S.r.l.	190.380	293.449
Carel U.K. Ltd	1.007.495	1.609.986
Carel France s.a.s.	1.098.895	1.531.499
Carel Asia Ltd	1.919.120	358.655
Carel Sud America Instrumentacao Eletronica Ltda	431.952	439.012
Carel Usa Llc	2.228.875	2.610.824
Carel Australia Pty. Ltd		872.832
Carel Deutschland GmbH	271.491	1.020.783
Carel Electronic (Suzhou) Co Ltd	2.235.393	2.295.743
Carel Controls Iberica S.L.	1.033.698	1.108.927
Carel ACR Systems India (Pvt) Ltd	367.739	162.370
Carel Controls South Africa (Pty) Ltd		680.232
Carel Korea Ltd	72.389	133.951
Carel Nordic AB	80	10
Carel Japan Co. Ltd	6.427	-
Carel Mexicana S.De.RL	114.167	114.024
Carel Middle East DWC Llc	32.500	7.018
Alfaco Polska Sp.z.o.o	2.091.368	1.684.276
Carel (Thailand) CO Ltd		50.756
Carel Adriatic D.o.o.	566.147	699.666
Subsidiaries	**13.668.116**	**15.674.013**
Carel Japan Co. Ltd		9.750
Associates	**-**	**9.750**
RN Real Estate S.r.l	3.050	3.050
Eurotest Laboratori S.r.l.	10.577	71.762
Arianna S.p.A.	3.050	893.147
Subsidiaries of parents	**16.677**	**967.959**
Eurotec Limited		85.257
Related parties	**-**	**85.257**

INVENTORIES (note 7)

These amounted to €22,170 thousand. They are comprised as follows, net of the allowance for inventory write downs for slow moving or obsolete inventories:

(in Euros)	31.12.2018	Change during the year	31.12.2017
Raw materials and consumables	12.695.009	3.552.117	9.142.892
Allowance for inventory write-down	(584.475)	246.850	(831.325)
Total raw materials, consumable and supplies	12.110.534	3.798.967	8.311.567
Work in progress and semi-finished goods	1.850.424	416.825	1.433.599
Allowance for inventory write-down	(54.054)	151.425	(205.479)
Total work in progress and semi-finished goods	1.796.370	568.250	1.228.120
Finished goods	8.627.304	722.499	7.904.805
Allowance for inventory write-down	(364.912)	(72.404)	(292.508)
Total Finished goods	8.262.392	650.095	7.612.297
Payments on account	450	(94.091)	94.541
Inventories	**22.169.746**	**4.923.221**	**17.246.525**

Inventories were not pledged or subject to property rights restrictions.

CURRENT TAX ASSETS (note 8)

These amounted to €4,953 thousand and can be broken down as follows:

(in Euros)	31.12.2018	Change during the year	31.12.2017
IRES tax asset	4.281.933	3.943.866	338.067
IRAP tax asset	670.841	622.260	48.581
Total	**4.952.774**	**4.566.126**	**386.648**

In December 2018, the company signed an agreement with the tax office for the definition of a reduced tax regime for income derived from the direct use of intangible assets (patent box) covering 2015 and the following four years.

Current tax assets are as follows:

- IRES tax asset of €1,844 thousand following the filing of the supplementary tax returns for the 2015-2017 three-year period due to the patent box agreement entered into by the company and the tax office;
- IRES tax asset of €2,099 thousand resulting from the calculation of the taxes for 2018 due to advances paid that exceeded the actual tax liabilities;
- IRES tax asset of €338 thousand related to the IRES on personnel expense pertaining to 2012, claimed for reimbursement in 2015, unchanged compared to the previous year;
- IRAP tax asset of €284 thousand following the filing of the supplementary tax returns for the 2015-2017 three-year period due to the patent box agreement entered into by the company and the tax office.

- IRAP tax asset of €338 thousand resulting from the calculation of the taxes for 2018 due to advances paid that exceeded the actual tax liabilities.
- IRAP tax asset of €49 thousand related to the IRES on personnel expense pertaining to 2012, claimed for reimbursement in 2015, unchanged compared to the previous year;

OTHER ASSETS (note 9)

These amounted to €2,390 thousand (€3,472 thousand at 31 December 2017) and can be broken down as follows:

(in Euros)	31.12.2018	Change during the year	31.12.2017
Other tax assets	1.238.104	(1.458.144)	2.696.248
Other assets	1.152.391	376.582	775.809
Total	**2.390.495**	**(1.081.562)**	**3.472.057**

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

(in Euros)	31.12.2018	Change during the year	31.12.2017
VAT assets	320.046	(1.616.942)	1.936.988
Tax assets	918.058	159.032	759.026
Other tax assets	-	(234)	234
Total	**1.238.104**	**(1.458.144)**	**2.696.248**

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

With reference to the VAT tax asset at 31 December 2017, in April 2018, the company offset €700 thousand against other taxes and contributions and in September 2018 it received the tax credit of €1,000 thousand it had claimed for reimbursement.

Tax assets refer to the tax credit for research and development of €863 thousand, the tax credit for dividends from subsidiaries of €17 thousand and the withholdings paid abroad on revenue from royalties. These tax assets can be recovered through the tax return.

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

(in Euros)	31.12.2018	Change during the year	31.12.2017
Advances to suppliers	108.691	31.056	77.635
Other assets	3.940	(65.322)	69.262
Prepaid insurance premiums	230.754	191.620	39.134
Prepayments related to more than one year	74.660	40.019	34.641
Other prepayments	734.346	179.209	555.137
Total	**1.152.391**	**376.582**	**775.809**

Advances to suppliers refer to payments on account for services.

Prepayments and accrued income refer to income or charges collected/paid before or after the year to which they pertain. They are recognised regardless of the payment or collection date when the related income and charges are common to two or more years and can be allocated over time. Other prepayments also include €403 thousand pertaining to the subsequent year for software maintenance instalments.

CURRENT FINANCIAL ASSETS (note 10)

These amounted to €7,484 thousand (€51,710 thousand in 2017) and are as follows:

(in Euros)	31.12.2018	Change during the year	31.12.2017
Loans to subsidiaries	1.192.702	1.192.702	-
Other securities	-	(47.062.788)	47.062.788
Cash pooling arrangement	6.278.628	1.644.659	4.633.969
Derivatives	12.897	(754)	13.651
Total	**7.484.227**	**(44.226.181)**	**51.710.408**

Receivables from subsidiaries of €1,193 thousand refer to the amounts due whithin one year for an original interest-bearing loan of €3,608 thousand expiring on 30 November 2021 granted to the investee Hygromatik Gmbh.

During the year, the company received reimbursement of all the class 1 life insurance policies and, therefore, the balance of Other securities at 31 December 2018 was equal to zero. It should be noted that the insurance policies were agreed as a form of investment of its temporary excess liquidity. The policies' reimbursement value amounted to €47,496 thousand (€433 thousand of coupons that accrued in the year up to the date of reimbursement).

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

(in Euros)	31.12.2018	31.12.2017
Carel Adriatic Doo	4.227.311	4.633.969
Alfaco Polska Sp.z.o.o.	2.051.317	-
Total	**6.278.628**	**4.633.969**

During the year, the company set up a cash pooling arrangement with the investee Alfaco Polska Sp.z.o.o. in Polish zloty.

Derivatives include derivatives with a positive fair value at the reporting date. The following table reclassifies derivatives by type of financial instrument.

(in Euros)	2018				2017			
	Fair value **	Nominal amount **	Currency forwards purchases*	Currency forwards sales*	Fair value **	Nominal amount **	Currency purchases*	Currency sales*
USD forwards	9.447	1.480.871	-	1.690.000	-	-	-	-
YEN forwards	3.450	137.424	17.693.630	-		-	-	-
AUD forwards	-	-	-	-	5.979	557.412	-	848.836
USD options	-	-	-	-	7.094	2.699.309	3.000.000	-
YEN options	-	-	-	-	-	327.103	35.000.000	-
AUD options	-	-	-	-	578	384.615	-	600.000
RAND options	-	-	-	-	-	194.444	-	3.500.000
Total	**12.897**				**13.651**			

* In foreign currency
** In Euros

Fair value is calculated as follows:

- for currency derivatives as the mark to market value at 31 December 2018, calculated based on the exchange rate, the volatility rate and the interest rate on the financial markets at such date;
- forward currency purchases/sales at 31 December 2018 entail the revaluation of each transaction at market prices. This revaluation is calculated based on the exchange rate and the interest rates on the relative financial markets at such date.

CASH AND CASH EQUIVALENTS (note 11)

This caption comprises temporary liquidity in bank accounts and petty cash and amounted to €24,006.

(in Euros)	31.12.2018	Change during the year	31.12.2017
Bank deposits	23.997.672	5.321.810	18.675.862
Cash and cash equivalents	8.552	3.113	5.439
Total	**24.006.224**	**5.324.923**	**18.681.301**

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

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

EQUITY (note 12)

Equity is comprised as follows and underwent the following changes:

(in Euros)	31.12.2018	Change during the year	31.12.2017
Share capital	10.000.000	-	10.000.000
Share premium reserve	867.350	-	867.350
Revaluation reserves	3.424.658	-	3.424.658
Legal reserve	2.000.000	-	2.000.000
Hedging reserve	(92.802)	(125.560)	32.758
Other reserves			
- Extraordinary reserve	20.584.887	(2.316.843)	22.901.730
- Transfer premium reserve	6.105.327	-	6.105.327
- Reserve for unrealised exchange rate gains (losses)	-	(69.051)	69.051
- IFRS FTA reserve	2.145.495	-	2.145.495
- Stock grant reserve	77.257	77.257	-
- Actuarial reserve	25.394	62.797	(37.403)
Retained earnings (lossess)	476.149	-	476.149
Profit (loss) for the year	23.987.058	(3.627.048)	27.614.106
Total	**69.600.773**	**(5.998.448)**	**75.599.221**

The changes with respect to the previous year are detailed in the following tables.

(in Euros)	31.12.2018	Total changes	Change during the year				Saldi al 31.12.2017
			Allocation of prior year profit (loss)	Reclassification	Dividends	Profit (loss) for the year	
Share capital	10.000.000	-					10.000.000
Share premium reserve	867.350	-					867.350
Revaluation reserves	3.424.658	-					3.424.658
Legal reserve	2.000.000	-					2.000.000
Hedging reserve	(92.802)	(125.560)	-			(125.560)	32.758
Other reserves							
- Extraordinary reserve	20.584.887	(2.316.844)	27.614.105	69.051	(30.000.000)		22.901.731
- Transfer premium reserve	6.105.327	-					6.105.327
- Reserve for unrealised exchange rate gains (losses)	-	(69.051)	-	(69.051)			69.051
- IFRS FTA reserve	2.145.495	-					2.145.495
- Stock grant reserve	77.257	77.257				77.257	-
- Actuarial reserve	25.394	62.797				62.797	(37.403)
Retained earnings (losses)	476.149	-	-				476.149
Profit (loss) for the year	23.987.058	(3.627.047)	(27.614.105)		-	23.987.058	27.614.105
Total	**69.600.773**	**(5.998.448)**	**-**		**(30.000.000)**	**24.001.552**	**75.599.221**

Share capital: at the extraordinary meeting of 27 February 2018, in view of the proposed listing of the company's ordinary shares on the STAR segment of the stock market organised and managed by Borsa Italiana S.p.A., the shareholders resolved, inter alia, to split the existing ordinary shares into ten new shares for each existing share, in addition to the elimination of the shares' nominal amount.

On 31 December 2018, the fully paid-up and subscribed share capital consisted of 100,000,000 ordinary shares without a nominal amount for a total of €10,000,000.

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

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

The hedging reserve includes the fair value gains or losses, net of the deferred tax effects on the effective portion of two interest rate hedging derivatives entered into to hedge the interest rate risk of floating-rate non-current loans entered into in 2016 and 2018. The changes are shown in the following table:

(in Euros)	
31 December 2017	**32.758**
Change during the year	
Fair value increases	-
Fair value decreases	(165.210)
Release to profit or loss	-
Adjustment of assets/liabilities	-
Deferred tax effect	39.650
Total changes	**(125.560)**
31 December 2018	**(92.802)**

The Reserve for unrealised exchange rate gains: at the meeting of 28 March 2018, in which the shareholders approved the financial statements for the year ended 31 December 2017, there were unrealised exchange rate losses, as a result, the conditions that required the constitution of an undistributable equity reserve pursuant to article 2426.8-bis of the Italian Civil Code no longer applied. Therefore, the company reclassified the entire reserve in place at 31 December 2017 to a distributable reserve.

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

The Stock grant reserve includes the fair value of the incentive plan based on financial instruments for the free allocation of the company's ordinary shares approved by the shareholders on 7 September 2018.

For more information, reference should be made to the Share-based payment arrangements paragraph of note 32.

On 7 September 2018, the shareholders approved the repurchase of treasury shares, up to a maximum of 5,000,000 shares, equal to 5% of the company's share capital, used for the incentive plan. At the end of the year, the company had not repurchased any treasury shares.

The Actuarial reserve derives from the effects of the discounting of the post-employment benefits and post-term of office benefits for directors.

Retained earnings were created upon adoption of the IFRS and relate to 2015 and 2016.

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

Table pursuant to article 2427.7-bis of the Italian Civil Code (Use in the past three years)
(in Euros)

	Amount	Possible use	Available portion	Distributable portion	To cover losses	Distribution of reserves
Share capital	10.000.000					
Equity-related reserves:						
Share premium reserve	867.350	A, B, C	867.350	867.350		
Revaluation reserves	3.424.658	A, B, C	3.424.658	3.424.658		
Transfer premium reserve	6.105.327	A, B, C	6.105.327	6.105.327		
Income-related reserves:						
Legal reserve	2.000.000	B	2.000.000			
Extraordinary reserve	20.584.887	A, B, C	20.584.887	14.071.590		5.000.000
Reserve for unrealised exchange rate gains	-	A, B	-			
IFRS FTA reserve	2.145.495	B	2.145.495			
Actuarial reserve	25.394	B	25.394			
Hedging reserve	(92.802)		(92.802)			
Stock grant reserve	77.257	B	77.257			
Retained earnings	476.149	B	476.149			
Total (net of profit for 2018)	**45.613.715**		**35.613.715**	**24.468.925**	**-**	**5.000.000**
Profit for 2018	23.987.058					
Total equity	**69.600.773**					

Key:
A: share capital increases
B: to cover losses
C: dividends

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

At 31 December 2018, development expenditure not yet amortised amounted to €6,513,297.

The following table provides an indication of the tax regime for the share capital and reserves at 31 December 2018 in case of their repayment or distribution.

(in Euros)	Total amount of reserves and non-distributable earnings	Share capital and reserves that make up the company's income	Share capital and reserves that make up the shareholders' income	Share capital and reserves that do not make up income for the company or shareholders	Total
Share capital				10.000.000	10.000.000
Share premium reserve				867.350	867.350
Revaluation reserves				3.424.658	3.424.658
Legal reserve	2.000.000				2.000.000
Hedging reserve	(92.802)				(92.802)
Other reserves					-
- Extraordinary reserve			20.584.887		20.584.887
- Transfer premium reserve				6.105.327	6.105.327
- IFRS FTA reserve	2.145.495				2.145.495
- Stock grant reserve	77.257				77.257
- Actuarial reserve	25.394				25.394
Retained earnings	476.149				476.149
Total	**4.631.493**	**-**	**20.584.887**	**20.397.335**	**45.613.715**

Earnings per share were calculated by dividing the profit attributable to the shareholders by the weighted average number of outstanding ordinary shares. The company did not repurchase or issue ordinary shares during either year, nor were there potential ordinary shares that could be converted with dilutive effects. The amount at 31 December 2017 was recalculated on the basis of the above-mentioned share split as provided for by IAS 33.

The earnings per share are as follows:

(in Euros)	31.12.2018	31.12.2017
Number of shares	100.000.000	100.000.000
Profit for the year	23.987.058	27.614.106
Earnings per share	**0,2399**	**0,2761**

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

NON-CURRENT AND CURRENT FINANCIAL LIABILITIES (note 13)

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

(in Euros)	31.12.2018	Change during the year	31.12.2017
Bank loans and borrowings at amortised cost	66.700.924	47.528.854	19.172.070
Financial liabilities to others at amortised cost	1.476.233	(314.160)	1.790.393
Effective designated derivative hedges	170.079	163.520	6.559
Non-current financial liabilities	**68.347.236**	**47.378.214**	**20.969.022**

Current loans and borrowings can be broken down as follows:

(in Euros)	31.12.2018	Change during the year	31.12.2017
Bank loans and borrowings at amortised cost	43.268.246	17.243.988	26.024.258
Financial liabilities to others at amortised cost	414.410	89.165	325.245
Derivatives held for trading at fair value through profit or loss	11.922	(66.466)	78.388
Cash pooling arrangement	3.496.417	308.384	3.188.033
Current financial liabilities	**47.190.995**	**17.575.071**	**29.615.924**

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

31.12.2018 (in Euros)	Currency	Original amount	Maturity	Rate	Terms	Outstanding liabilities in Euros	Within one year	After one year
BNL (BNP Paribas) loan no. 280586	EUR	10.000.000	02/2019	Floating	6m Euribor + 0.52%	3.333.333	3.333.333	-
BNL (BNP Paribas) loan no. 1788284	EUR	10.000.000	06/2019	Fixed	0,30%	10.000.000	10.000.000	-
BNL (BNP Paribas) loan no. 6129125	EUR	15.000.000	03/2020	Fixed	0,37%	7.513.829	5.009.227	2.504.602
Medio Credito Italiano (Intesa San Paolo) loan	EUR	15.000.000	06/2021	Floating	3m Euribor + 0.55%	8.339.484	3.333.333	5.006.151
Mediobanca – Banca di Credito Finanziario S.p.A. loan	EUR	30.000.000	11/2021	Fixed	0,88%	29.971.652	12.000.000	17.971.652
BNL (BNP Paribas) loan no. 6139218	EUR	30.000.000	11/2022	Fixed	6m Euribor + 0.78%	29.948.677	4.285.714	25.662.963
Unicredit S.p.A. loan	EUR	20.000.000	04/2023	Fixed	0,45%	20.000.000	4.444.444	15.555.556
BNL current account	PLN	3.329.904	On demand	Floating	13,50%	774.295	774.295	-
Total						**109.881.270**	**43.180.346**	**66.700.924**

During the year the company:

- in April, took out an unsecured loan of €20,000 thousand with Unicredit S.p.A. at a fixed interest rate of 0.45% and a duration of 60 months;
- in June, took out an unsecured loan of €10,000 thousand with BNL (BNP Paribas) at a fixed interest rate of 0.30% and a duration of 12 months;
- in December, took out an unsecured loan of €30,000 thousand with Mediobanca – Banca di Credito Finanziario S.p.A. at a fixed interest rate of 0.88% and a duration of 36 months;
- in November, took out an unsecured loan of €30,000 thousand with BNL (BNP Paribas) at a variable rate (six-month Euribor plus a spread of 0.78%) and a duration of 48 months. To hedge the interest rate risk, the company entered into an IRS with a duration of 48 months.

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 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:

- Net financial position / EBITDA < 3.50x;
- Net financial expense / EBITDA > 5.00x

At 31 December 2018, such covenants have been respected.

With reference to Financial liabilities to others at amortised cost, their main are broken down by due date below:

31.12.2018 (in Euros)	**Currency**	**Original amount**	**Maturity**	**Rate**	**Terms**	**Outstanding liabilities in Euros**	**Current**	**Non-current**
Simest spa Prog. Middle East loans no. 5063	EUR	1.000.025	06/2021	Fixed	0,4994%	625.015	250.006	375.009
Medio Credito Centrale- Horizon 2020 programme	EUR	1.340.866	06/2026	Fixed	0,80%	1.265.628	164.404	1.101.224
Total						**1.890.643**	**414.410**	**1.476.233**

The loan granted by Simest S.p.A. (the Italian companies that supports overseas expansion) has been granted as part of the programme for commercial expansion in the UAE.

In October 2014, the Ministry of Economic Development accepted the application presented by the company for funding a research and development project. This project regards technology as part of the Horizon 2020 EU framework programme.

The project has a duration of 36 months and a total cost of up to €2,980 thousand, of which €1,490 thousand as a subsidised loan (repayable in 16 six-monthly instalments, due on 30 June and 31 December of each year at a fixed rate of 0.8%).

Following the second progress report regarding the period from 1 September 2016 to 6 January 2018, for a total of €1,340 thousand, in October 2018, the bank used by the Ministry of Economic Development issued a second loan tranche of €100 thousand.

At the date of this report, the Ministry of Economic Development has checked the final report presented and the balance to be received is being calculated to not exceed the limit of the subsidised loan.

The Effective designated derivative hedges included in non-current financial liabilities include the fair value of IRSs signed to hedge the interest rate risk of the loans. Specifically:

Lender

(in Euros)	Instrument	Notional amount	Floating interest rate	Fixed interest rate	Maturity	Fair value
Medio Credito Italiano	Interest rate swap	15.000.000	"3m Euribor of > - 0.55% -0.55% of ≤ 3m Euribor"	-0,10%	30.06.2021	16.874
BNL (BNP Paribas)	Interest rate swap	30.000.000	"6m Euribor of > - 0.78% -0.78% of ≤ 6m Euribor"	-0,11%	21.11.2022	153.205
Total						**170.079**

The Derivatives held for trading at fair value through profit or loss included in current financial liabilities are forwards and currency options agreed to hedge commercial transactions but which do not qualify for hedge accounting. The following table reclassifies the derivatives by type of financial instrument.

(in Euros)	2018				2017			
	Fair value **	Nominal amount **	Currency purchases*	Currency sales*	Fair value **	Nominal amount **	Currency purchases*	Currency sales*
USD forwards	-	-	-	-	723	37.023	43.643	-
YEN forwards	-	-	-	-	1.006	66.985	8.926.871	-
Zloty forwards	11.922	2.112.809	-	9.180.724	-	-	-	-
AUD forwards	-	-	-	-	2.375	182.959	-	286.032
Rand forwards	-	-	-	-	74.284	689.983	-	11.465.003
Total	**11.922**				**78.388**			

* In foreign currency
** In Euros

Fair value is calculated as follows:

- interest rate derivatives, as the present value at 31 December 2018 of the future cash flows of each derivative, calculated based on discount factors related to each cash flow and taken from the interest rate curve and the volatility curve on the financial markets at such date;
- for currency derivatives as the mark to market value at 31 December 2018, calculated based on the exchange rate, the volatility rate and the interest rate on the financial markets at such date;
- for currency forwards, as the mark to market value at 31 December 2018 calculated based on the exchange rate and the interest rates on the relative financial markets at such date.

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

(in Euros)	31.12.2018	31.12.2017
Carel U.K. Ltd	244.526	612.758
Carel France s.a.s.	973.011	904.800
Carel Deutschland GmbH	1.713.887	1.445.907
Carel Controls Iberica Sl	564.993	224.568
Total	**3.496.417**	**3.188.033**

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

Non-current financial liabilities

(in Euros)	31.12.2018	Net cash flows	Change in fair value	Reclassification	31.12.2017
Bank loans and borrowings at amortised cost	66.700.924	59.204.748	-	(11.675.894)	19.172.070
Financial liabilities to others at amortised cost	1.476.233	87.228	-	(401.388)	1.790.393
Effective designated derivative hedges	170.079	-	163.520	-	6.559
Non-current financial liabilities	**68.347.236**	**59.291.976**	**163.520**	**(12.077.282)**	**20.969.022**

Current financial liabilities

(in Euros)	31.12.2018	Net cash flows	Change in fair value	Reclassification	31.12.2017
Bank loans and borrowings at amortised cost	43.268.246	5.568.094	-	11.675.894	26.024.258
Financial liabilities to others at amortised cost	414.410	(312.223)	-	401.388	325.245
Derivatives held for trading at fair value through profit or loss	11.922	(78.388)	11.922	-	78.388
Cash pooling arrangement	3.496.417	308.384	-	-	3.188.033
Current financial liabilities	**47.190.995**	**5.485.867**	**11.922**	**12.077.282**	**29.615.924**

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

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

(in Euros)	31.12.2018	Change during the year					31.12.2017
		Actuarial benefits	Accruals	Reversals	Utilisations	Reclassifications	
Provision for agents' termination benefits	686.392	2.245	21.541	(8.150)			670.756
Provision for legal and tax risks	-		-			(128.537)	128.537
Provision for product warranties	224.427	-	-		(12.461)		236.888
Provision for complaints	218.200	-	-		(132.348)	(67.138)	417.686
Total - non-current	**1.129.019**	**2.245**	**21.541**	**(8.150)**	**(144.809)**	**(195.675)**	**1.453.867**
Provision for legal and tax risks	405.012		276.475			128.537	-
Provision for complaints	1.244.242		1.177.104			67.138	-
Total - current	**1.649.254**		**1.453.579**	**-**	**-**	**195.675**	**-**
Total provisions for risks	**2.778.273**	**2.245**	**1.475.120**	**(8.150)**	**(144.809)**	**-**	**1.453.867**

In the following is detailed the changes in the non-current and current provisions for risks.

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

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

With regard to the demographic assumptions, the Mortality table RG48 published by the General Accounting Office was taken into consideration, the INPS tables split by age and gender for disabilities, while for the pensionable age, the requirements are set out by ENASARCO.

With regard to the possible departure of the agents following the interruption of their relationship with the company or other causes, the estimated annual departure rate was used, based on company data of 2.50% for voluntary resignations and 2.00% for company reasons.

The financial assumptions, on the other hand, essentially relate to the discount rate, which at 31 December 2018, was in line with the Iboxx AA Corporate index equal to 1.13%, with the same duration as the closed group subject to assessment.

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:

- in 2014, the Venice regional tax office performed an audit of 2011 and 2012. In view of its findings, the company commenced proceedings, which are still pending, against the tax office with the relevant tax authorities. The provision accrued for the risk of losing the dispute at 31 December 2017 amounted to €83 thousand.

However, pursuant to Legislative decree no. 119/2018, the company could proceed with a mutually-agreed assessment settlement procedure on the pending dispute that would allow for its settlement through the payment of assessed taxes reduced by 90%, without sanctions and interest. With regard to this opportunity and considering the liabilities in the case the dispute is lost, the company reclassified the provision from non-current to current and added an additional €131 thousand.

- at the end of November 2017, the Venice regional tax office started an audit of 2013, 2014 and 2015, then extending it to 2016. It concluded the audit with the issue of a preliminary assessment report in June 2018 (at 31 December 2017, the directors supported by their consultants, prudently accrued €45 thousand to the provision for risks). Following the preliminary assessment report, the company commenced discussions with the relevant inspectors of the Venice tax office, reaching an agreement on profitability parameters to determine the market price of the disputed transactions, agreeing on the use of the profitability indicator calculated for 2013.

This resulted in reviewing the assessed taxes presented in the preliminary assessment report and the consequent cancellation of the findings for 2014 and 2016 and the redefinition of the disputed amounts for 2013 and 2015. In December 2018, the company signed a mutually-agreed assessment settlement procedure for 2013 and the consequent payment plan.

With regard to 2015, the company intends to agree to the new amount in 2019. Following this decision, the company reclassified the current provisions from non-current to current and added an additional €145 thousand.

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

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

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

The provision 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 use during the year relates to specific customer complaints.

DEFINED BENEFIT PLANS (note 15)

This caption consists of the company's liability for post-employment benefits and post-term of office benefits for directors. These benefits qualify as defined benefit plans pursuant to IAS 19 and the related liabilities are calculated by an independent actuary.

(in Euros)	31.12.2018	Change during the year	31.12.2017
Post-employment benefits	4.486.581	(149.652)	4.636.233
Post-term of office benefits for directors	492.907	74.185	418.722
Total	**4.979.488**	**(75.467)**	**5.054.955**

Post-employment benefits at year end were as follows:

(in Euros)	31.12.2018	31.12.2017
Opening balance	**4.636.233**	**4.852.309**
Accruals	1.032.337	1.142.352
Transfers to pension funds	(1.016.354)	(1.102.305)
Interest cost	62.680	61.766
Employee benefits paid	(101.362)	(274.648)
Substitute tax	(15.983)	(40.047)
Actuarial losses	(110.970)	(3.194)
Closing balance	**4.486.581**	**4.636.233**

Post employment benefits are calculated by an independent actuary in accordance with the projected unit credit method pursuant to IAS 19.

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

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

Measurement of the post-employment benefits (€4,636 thousand at 31 December 2017 and €4,487 thousand at 31 December 2018) was based on the following actuarial assumptions:

(in Euros)	31.12.2018	31.12.2017
Annual discount rate	1,57%	1,30%
Annual rate of inflation	1,50%	1,50%
Annual growth rate of post-employment benefits	2,625%	2,625%
Mortality rate	Mortality table RG48 published by the General Accounting Office	
Disability rate	INPS tables split by age and gender	
Pensionable age	100% upon attainment of the AGO requirements	
Discount rate	1,50%	1,50%
Turnover rate	3,00%	3,00%

The following tables provide information about:

- the sensitivity analysis of the main measurement parameters:

(in Euros)	Turnover frequency		Rate of inflation		Discount rate	
	+1%	-1%	+0,25%	-0,25%	+0,25%	-0,25%
Employee benefits 31.12.2017	4.605.885	4.670.541	4.711.847	4.562.259	4.517.763	4.759.606
Employee benefits 31.12.2018	4.451.667	4.530.910	5.078.822	3.985.726	4.275.839	4.714.358

- contribution for the subsequent year and average duration of the obligation:

(in Euros)	31.12.2018	31.12.2017
future service costs (in Euros)	-	-
plan duration (in years)	10,44	11,00

- estimated future distributions:

(in Euros)	31.12.2018	31.12.2017
Year 1	252.944	248.701
Year 2	204.503	203.650
Year 3	337.388	198.909
Year 4	195.357	332.320
Year 5	264.247	189.559

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

(in Euros)	31.12.2018	31.12.2017
Opening balance	**418.722**	**354.383**
Accruals	78.364	49.668
Interest cost	5.227	4.499
Benefits paid to directors	(33.280)	(21.900)
Actuarial losses	23.874	32.072
Closing balance	**492.907**	**418.722**

The post-term of office benefits for directors are calculated by an independent actuary in accordance with the projected unit credit method pursuant to IAS 19.

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

Measurement of the directors' post-term of office benefits (€419 thousand at 31 December 2017 and €492 thousand at 31 December 2018) was based on the following actuarial assumptions:

(in Euros)	31.12.2018	31.12.2017
Annual discount rate	1,57%	1,30%
Salary revaluation rate	0,00%	0,00%
Mortality rate	Mortality table RG48 published by the General Accounting Office	
Disability rate	INPS tables split by age and gender	
Pensionable age	100% upon attainment of the AGO requirements	
Term of office revocation rate	0,00%	

The following tables provide information about:

- the sensitivity analysis of the main measurement parameters:

(in Euros)	31.12.2018	31.12.2017
Discount rate + 0.25%	486.232	412.732
Discount rate - 0.25%	499.949	424.964

- contribution for the subsequent year and average duration of the obligation:

(in Euros)	31.12.2018
service cost 2018-2019 (in Euros)	74.979
plan duration (in years)	16,80

- estimated future distributions:

(in Euros)	31.12.2018	31.12.2017
Year 1	3.436	2.544
Year 2	294.277	3.324
Year 3	218.149	279.992
Year 4	358	196.798
Year 5	459	248

DEFERRED TAX LIABILITIES (note 16)

Deferred tax liabilities at 31 December 2018 were generated by the temporary differences between the carrying amount of assets and liabilities and their tax base calculated with reference to the tax rates that are expected to be enacted in the years in which the differences will reverse.

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

(in Euros)	2018		2017	
	Tax base	Deferred taxes	Tax base	Deferred tax liabilities
Unrealised exchange differences	-	-	160.828	38.599
Fair value of derivatives	31.097	7.463	43.102	10.344
Change in amort/dep. calculated under IAS/OIC FTA	445.303	124.240	1.218.708	340.019
Change in amort/dep. calculated under IAS/OIC 2015	500.526	139.646	752.258	209.880
Change in amort/dep. calculated under IAS/OIC 2016	470.958	131.397	505.414	141.011
Discounting of agents' termination benefits	153.395	42.797	155.640	43.424
Total	**1.601.279**	**445.543**	**2.835.950**	**783.277**

The changes in deferred tax liabilities were as follows:

(in Euros)	31.12.2018	Recognised in profit or loss	Recognised in other comprehensive income	31.12.2017
Unrealised exchange differences	-	(38.599)	-	38.599
Fair value of derivatives	7.463	-	(2.881)	10.344
Change in amort/dep. calculated under IAS/OIC FTA	124.240	(215.779)	-	340.019
Change in amort/dep. calculated under IAS/OIC 2015	139.646	(70.234)	-	209.880
Change in amort/dep. calculated under IAS/OIC 2016	131.397	(9.614)	-	141.011
Discounting of agents' termination benefits	42.797	(627)	-	43.424
Total	**445.543**	**(334.853)**	**(2.881)**	**783.277**

TRADE PAYABLES (note 17)

These amounted to €34,878 thousand (€32,359 thousand in 2017) and are as follows:

(in Euros)	31.12.2018	Change during the year	31.12.2017
Payments on account to customers	360.784	(113.249)	474.033
Third parties	23.418.958	1.529.387	21.889.571
Subsidiaries	11.029.839	1.206.187	9.823.652
Associates	24.532	(60.101)	84.633
Subsidiaries of parents	36.809	(30.278)	67.087
Related parties	6.582	(13.537)	20.119
Total	**34.877.504**	**2.518.409**	**32.359.095**

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

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

Trade payables in foreign currency were recognised at the year-end exchange rate, adjusting the relative equivalent amount.

Trade payables refer to the following geographical segments:

(in Euros)	**31.12.2018**	**31.12.2017**
Western Europe	23.346.449	22.279.433
Other European countries, Middle East and Africa	6.695.907	4.745.328
North America	343.611	155.121
South America	47.976	55.640
Asia Pacific South	311.841	84.478
Asia Pacific North	4.131.720	5.039.095
Total	**34.877.504**	**32.359.095**

A breakdown of trade payables due from group companies is as follows:

(in Euros)	**31.12.2018**	**31.12.2017**
C.R.C. S.r.l.	4.023	36.479
Carel U.K. Ltd	42.451	1.270
Carel France Sas	28.682	1.660
Carel Asia Ltd	75.836	17.671
Carel Sud America Instrumentacao Eletronica Ltda	42.906	55.640
Carel Usa Llc	216.083	120.512
Carel Australia PTY Ltd	-	11.569
Carel Deutschland GmbH	11.110	155.234
Carel Electronic (Suzhou) Co Ltd	3.912.901	4.611.049
Carel Controls Iberica Sl	6.252	1.179
Carel ACR Systems India (Pvt) Ltd	141.958	108.024
Carel Controls South Africa (Pty) Ltd	376	10.165
Carel Rus Llc	317.243	301.580
Carel Korea Ltd	14.788	3.919
Carel Nordic AB	340.818	236.783
Carel Japan Co. Ltd	165	-
Carel Middle East DWC Llc	139.726	13.656
Alfaco Polska Sp.z.o.o	2.692	12.620
Carel (Thailand) CO Ltd	-	2.105
Carel Adriatic Doo	5.731.829	4.122.537
Subsidiaries	**11.029.839**	**9.823.652**
Carel Japan Co. Ltd	-	10
Arion S.r.l.	24.532	84.623

(in Euros)	31.12.2018	31.12.2017
Associates	**24.532**	**84.633**
RN Realt Estate S.r.l.	833	12.499
Eurotest Laboratori S.r.l.	29.124	48.788
Arianna S.p.A.	-	761
Nastrificio Victor S.p.A.	6.852	5.039
Subsidiaries of parents	**36.809**	**67.087**
Le Volpi Agriturismo	4.697	17.794
Panther S.r.l	1.885	2.325
Related parties	**6.582**	**20.119**

CURRENT TAX LIABILITIES (note 18)

These amounted to €289 thousand and can be broken down as follows:

(in Euros)	31.12.2018	Change during the year	31.12.2017
IRES tax liabilities	-	(917.543)	917.543
IRAP tax liabilities	-	(257.114)	257.114
Tax liabilities pertaining to previous years	288.649	288.649	-
Total	**288.649**	**(886.008)**	**1.174.657**

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

OTHER CURRENT LIABILITIES (note 19)

These amounted to €10,339 thousand and can be broken down as follows:

(in Euros)	31.12.2018	Change during the year	31.12.2017
Other tax liabilities	1.304.647	143.975	1.160.672
Social security contributions	3.083.283	368.118	2.715.165
Other liabilities	5.933.418	774.037	5.159.381
Accrued expenses and deferred income	18.075	(56.329)	74.404
Total	**10.339.423**	**1.229.801**	**9.109.622**

Other tax liabilities can be broken down as follows:

(in Euros)	31.12.2018	Change during the year	31.12.2017
Withholdings to be paid	1.302.453	157.590	1.144.863
Substitute taxes to be paid	2.194	(7.789)	9.983
Post-employment benefits substitute tax	-	(5.826)	5.826
Total	**1.304.647**	**143.975**	**1.160.672**

Social security contributions can be broken down as follows:

(in Euros)	31.12.2018	Change during the year	31.12.2017
INPS	1.962.889	258.319	1.704.570
Social security contributions on deferred remuneration	707.165	40.117	667.048
ENASARCO	12.984	1.572	11.412
Others	98.234	23.224	75.010
Pension funds	302.011	44.886	257.125
Total	**3.083.283**	**368.118**	**2.715.165**

Other liabilities can be broken down as follows:

(in Euros)	31.12.2018	Change during the year	31.12.2017
Wages and salaries	5.828.972	691.820	5.137.152
Directors	28.100	10.349	17.751
Contract workers/statutory auditors	35.340	35.340	-
Other sundry amounts	41.006	36.528	4.478
Total	**5.933.418**	**774.037**	**5.159.381**

Wages and salaries include €4,694 thousand related to bonuses and unused holidays at 31 December 2018.

Accrued expenses and deferred income refer to adjustments of costs to allow for the recognition of interest and other financial expense and other operating costs on an accruals basis.
Deferred income of €8 thousand for interest income on the discounting of receivables expiring before 2019 acquired in October 2016 from the related party Ariana S.p.A..

Notes to the Statement of Profit or Loss

REVENUE (note 20)

A breakdown of the caption for 2018 is as follows:

(in Euros)	31.12.2018	Change during the year	31.12.2017
Revenue for sales and services	180.276.448	14.112.014	166.164.434
Total	**180.276.448**	**14.112.014**	**166.164.434**

Revenue from sales and services essentially relates to the sales of products to third parties and group companies and the charges for administration-commercial-financial coordination services provided to group companies. Specifically:

(in Euros)	31.12.2018	Change during the year	31.12.2017
Revenue for sales and services to third parties	95.824.473	5.647.708	90.176.765
Revenue for sales and services to group companies	84.451.975	8.464.306	75.987.669
Total	**180.276.448**	**14.112.014**	**166.164.434**

Reference should be made to the disclosures on relationships with related parties provided in note 32 for a breakdown of the composition and nature of the revenue from subsidiaries.

Revenue generated by goods and services to third parties amounted to €95,824 thousand compared to €90,177 thousand in 2017. A breakdown of revenue by market is as follows:

(in Euros)	2018	2017
HVAC revenue	61.507.643	56.144.092
REF revenue	32.616.253	31.009.676
Non-core revenue	1.700.577	3.022.997
Total	**95.824.473**	**90.176.765**

A breakdown of revenue for sales and services by geographic segment is as follows:

(in Euros)	2018	%	2017	%
Western Europe	117.056.651	70,45%	105.125.935	63,27%
Other European countries, Middle East and Africa	35.642.195	21,45%	35.822.096	21,56%
North America	9.686.889	5,83%	9.610.193	5,78%
South America	2.958.119	1,78%	2.644.081	1,59%
Asia Pacific South	4.839.453	2,91%	3.858.274	2,32%
Asia Pacific North	10.093.141	6,07%	9.103.855	5,48%
Total	**180.276.448**	**108,49%**	**166.164.434**	**100,00%**

For information on the performance of revenue, reference should be made to the consolidated financial statements' directors' report.

OTHER REVENUE (note 21)

A breakdown of the caption at year end is as follows:

(in Euros)	31.12.2018	Variation	31.12.2017
Grants related to income	868.475	94.648	773.827
Licence fees	1.600.733	291.748	1.308.985
Sundry cost recoveries	1.220.150	277.037	943.113
Compensation	44.230	31.484	12.746
Company canteen cost recovery	115.216	17.739	97.477
Other revenue and income	122.533	118.469	4.064
Total	**3.971.337**	**831.125**	**3.140.212**

Grants related to income include €862 thousand of the tax credit for research and development activities in 2018, in accordance with Law no. 190 of 23 December 2014 (the 2015 Stability law) and €6 thousand related to the grant for a research project funded by the European Union as part of the Horizon 2020 programme.

Licence fees relate to royalties fully received by group companies.

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

COSTS OF RAW MATERIALS, CONSUMABLES AND GOODS AND CHANGES IN INVENTORIES (note 22)

A breakdown of the caption at year end is as follows:

(in Euros)	31.12.2018	Variation	31.12.2017
Purchases of raw materials, consumables and goods	(96.223.769)	(11.971.988)	(84.251.781)
Purchases of consumables	(1.708.788)	67.272	(1.776.060)
Change in raw materials and goods	3.798.967	2.972.278	826.689
Change in finished goods and semi-finished products	1.218.345	(455.768)	1.674.113
Total	**(92.915.245)**	**(9.388.206)**	**(83.527.039)**

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

(in Euros)	31.12.2018	Variation	31.12.2017
Purchases of raw materials and semi-finished goods	(48.768.615)	(4.733.468)	(44.035.147)
Purchases of goods held for resale	(44.884.712)	(7.160.034)	(37.724.678)
Purchases of other materials	(2.869.459)	(75.168)	(2.794.291)
Total	**(96.522.786)**	**(11.968.670)**	**(84.554.116)**
Returns, markdowns, bonuses and discounts	299.017	(3.318)	302.335
Total purchases of raw materials, consumables and goods	**(96.223.769)**	**(11.971.988)**	**(84.251.781)**

The costs of raw materials, consumables, supplies and goods related to the group companies in 2018 amounted to €38,129 thousand.

The change in costs for raw materials, consumables, supplies and goods is directly correlated with sales performance.

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

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

(in Euros)	**31.12.2018**	**Variation**	**31.12.2017**
Work in progress	(12.149)	(28.632)	16.483
Semi-finished goods	580.399	834.455	(254.056)
Finished goods	650.095	(1.261.591)	1.911.686
Total	**1.218.345**	**(455.768)**	**1.674.113**

SERVICES (Note 23)

A breakdown of the caption at year end is as follows:

(in Euros)	**31.12.2018**	**Variation**	**31.12.2017**
Services	(29.596.362)	(7.994.537)	(21.601.825)
Use of third party assets	(1.967.346)	(49.374)	(1.917.972)
Total service costs	**(31.563.708)**	**(8.043.911)**	**(23.519.797)**

A breakdown of services at year end is as follows:

(in Euros)	**31.12.2018**	**Variation**	**31.12.2017**
Transport	(3.935.106)	(587.247)	(3.347.859)
Consultancies	(7.463.325)	(5.508.970)	(1.954.355)
Business trips and travel	(1.066.953)	(72.160)	(994.793)
Maintenance and repairs	(2.362.541)	(355.062)	(2.007.479)
Marketing and advertising	(982.844)	95.921	(1.078.765)
Outsourcing	(4.056.119)	(208.573)	(3.847.546)
Agency commissions	(4.199.665)	(315.161)	(3.884.504)
Utilities	(722.741)	(47.100)	(675.641)
Fees to directors, statutory auditors and independent auditors	(1.088.079)	(415.506)	(672.573)
Insurance	(602.213)	(255.344)	(346.869)
Telephone and connections	(254.472)	(20.905)	(233.567)
Certifications	(786.859)	(41.887)	(744.972)
Personnel expense and temporary staff	(1.239.733)	(129.150)	(1.110.583)
Other services	(835.712)	(133.393)	(702.319)
Services	**(29.596.362)**	**(7.994.537)**	**(21.601.825)**

Services include the costs charged by group companies for a total of €4,435 thousand.

Lastly, during the year, the company incurred non-recurring service costs for a total of €5,403 thousand, specifically:

- costs related to the company's listing on the STAR segment of the stock market organised and managed by Borsa Italiana S.p.A. in June 2018, for a total of €4,933 thousand (of which €4,680 thousand for consultancies);
- costs related to new equity investments for a total of €470 thousand (of which €223 thousand for consultancies).

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

(in Euros)	2018	Variation	2017
Building lease payments	(1.149.885)	(7.836)	(1.142.049)
Lease payments and car hire	(478.103)	(39.050)	(439.053)
Royalties on patents and trademarks	(96.432)	17.098	(113.530)
Other payments for the use of third party assets	(242.926)	(19.586)	(223.340)
Use of third party assets	**(1.967.346)**	**(49.374)**	**(1.917.972)**

It should be noted that building lease payments relate entirely to group companies.

CAPITALISED DEVELOPMENT EXPENDITURE (note 24)

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

A breakdown of the caption at year end is as follows:

(in Euros)	2018	Variation	2017
Development expenditure	2.076.313	505.170	1.571.143
Plant and machinery constructed on a time and materials basis	-	(2.499)	2.499
Industrial and commercial equipment constructed on a time and materials basis	95.060	67.176	27.884
Total	**2.171.373**	**569.847**	**1.601.526**

PERSONNEL EXPENSE (note 25)

A breakdown of personnel expense at year end is as follows:

(in Euros)	2018	Variation	2017
Wages and salaries	(28.318.805)	(1.834.357)	(26.484.448)
Social security contributions	(8.016.741)	(1.130.877)	(6.885.864)
Defined benefit plans	(1.568.310)	(12.857)	(1.555.453)
Personnel expense	**(37.903.856)**	**(2.978.091)**	**(34.925.765)**

Wages and salaries include the entire personnel expense for employees, including merit increases, category transfers, unused holidays and accruals based on laws and national labour agreements. €1,945 thousand related to temporary staff (€2,028 thousand in 2017).

Social security contributions refer to national insurance and supplementary contributions, net of taxation and accident insurance. The change is directly correlated with the changes in wages and salaries.

Defined benefit plans relate to the provision accrued pursuant to IAS 19.

The workforce at 31 December 2018 and changes therein during the year were as follows:

	31.12.2017	Hires	Departures	Promotions	31.12.2018	2018 average	2017 average
Managers	18	1	(2)	1	18	18	18
Junior managers	51	2	(4)	4	53	53	49
White collars	338	52	(29)	(5)	356	346	330
Blue collars	205	28	-	-	233	219	205
Total	**612**	**83**	**(35)**	**-**	**660**	**635**	**602**

Lastly, during the year, the company paid its employees bonuses of €412 thousand related to the company's listing on STAR segment of the stock exchange managed by Borsa Italiana S.p.A. in June 2018.

OTHER NET INCOME / (EXPENSE) (note 26)

A breakdown of the caption for the year is as follows:

(in Euros)	2018	Variation	2017
Capital gains on disposal of assets	4.656	(490)	5.146
Prior year income	284.122	(259.778)	543.900
Other income	**288.778**	**(260.268)**	**549.046**
Capital losses on sale of assets	(7.199)	(200)	(6.999)
Prior year expense	(145.675)	(25.242)	(120.433)
Other taxes and duties	(91.327)	11.742	(103.069)
Accrual to the loss allowance	-	210.481	(210.481)
Accrual to the provisions for risks	(1.177.104)	(1.171.425)	(5.679)
Membership fees	(126.469)	(11.930)	(114.539)
Indemnities and compensation	(52.072)	(52.072)	-
Other costs	(9.990)	16.483	(26.473)
Other expense	**(1.609.836)**	**(1.022.163)**	**(587.673)**
Other expense, net	**(1.321.058)**	**(1.282.431)**	**(38.627)**

Prior year income relates to the non-existent expense and the recognition of income pertaining to previous years, €136 thousand of which is subject to taxation and €148 thousand of which is not taxable.

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

Provisions for risks relates to the prudent accrual for costs to be incurred for product complaints from customers. Reference should be made to the provision for complaints in note 14 hereto for more details.

AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES (note 27)

A breakdown of the caption at year end is as follows:

(in Euros)	2018	Variation	2017
Amortisation	(2.999.268)	159.990	(3.159.258)
Depreciation	(2.691.637)	(78.932)	(2.612.705)
Impairment losses	(92.887)	(92.887)	-
Amortisation, depreciation and impairment losses	**(5.783.792)**	**(11.829)**	**(5.771.963)**

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

NET FINANCIAL INCOME / (EXPENSE) (note 28)

A breakdown of the caption at year end is as follows:

(in Euros)	2018	Variation	2017
Income from investments in subsidiaries	9.915.452	(1.955.897)	11.871.349
Financial income on assets with subsidiaries	16.825	16.825	-
Other financial income	621.896	(455.271)	1.077.167
Financial income	**10.554.173**	**(2.394.343)**	**12.948.516**
Interest and other financial expense related to subsidiaries	(37.338)	(14.852)	(22.486)
Interest and other financial expense to others	(508.327)	43.615	(551.942)
Financial expense	**(545.665)**	**28.763**	**(574.428)**
Net financial income (expense)	**10.008.508**	**(2.365.580)**	**12.374.088**

Income from investments in subsidiaries refers to dividends entirely resolved and received during the year amounting to €839 thousand from Carel U.K. Ltd, €500 thousand from Carel France sas, €3,081 thousand from Carel Electronic (Suzhou) Co Ltd, €495 thousand from Carel Rus LLC and €5,000 thousand from the newly acquired Recuperator S.p.A..

Other financial income can be broken down as follows:

(in Euros)	2018	Variation	2017
Interest income from securities classified as current assets which are not equity investments	433.436	(441.016)	874.452
Interest income from cash pooling with subsidiaries	127.664	51.509	76.155
Interest income from cash pooling with associates	-	(5.087)	5.087
Bank interest income	2.528	1.626	902
Gains on derivatives	1.690	(10.533)	12.223
Other interest income	56.578	(51.770)	108.348
Total financial expense	**621.896**	**(455.271)**	**1.077.167**

- Interest income from securities classified as current assets which are not equity investments include interest accrued in 2018 up to the date of the reimbursement of the class 1 life insurance policies with Cardiff Vita S.p.A. (BNP Paribas Group) and Credit Agricole Vita S.p.A. (Credit Agricole Group).
- Interest income from cash pooling relates to the monetary interest accrued on the assets in the cash pooling account in place with group companies.
- Gains on derivatives relate to the fair value gains on currency derivatives that do not qualify for hedge accounting.
- Other interest income mainly relates to the interest accrued on the payment extensions granted to customers.

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

Interest and other financial expense due to others are as follows:

(in Euros)	2018	Variation	2017
Interest and other financial expense on current bank loans and borrowings	(2.241)	(1.907)	(334)
Interest and other financial expense on non-current bank loans and borrowings	(259.215)	(61.416)	(197.799)
Losses on forwards	(23.412)	48.412	(71.824)
Losses on derivatives	-	133.686	(133.686)
Financial expense on discounting of liabilities	(67.907)	3.134	(71.041)
Bank charges and fees	(92.022)	(14.849)	(77.173)
Other interest expense	(63.530)	(63.445)	(85)
Total financial expense	**(508.327)**	**43.615**	**(551.942)**

- Interest and other financial expense on non-current liabilities were €25 thousand greater than the liabilities' related amortised cost.
- Financial expense on discounting of liabilities mainly relates to the interest accrued on post-employment benefits in accordance with IAS 19.

NET EXCHANGE RATE GAINS / (LOSSES) (note 39)

A breakdown of exchange rate gains and losses at year end is as follows:

(in Euros)	2018	Variation	2017
Realised exchange rate gains	1.129.171	(55.536)	1.184.707
Unrealised exchange rate gains	96.924	(63.904)	160.828
Exchange rate gains	**1.226.095**	**(119.440)**	**1.345.535**
Realised exchange rate losses	(1.305.806)	(58.622)	(1.247.184)
Unrealised exchange rate losses	(69.568)	124.686	(194.254)
Exchange rate losses	**(1.375.374)**	**66.064**	**(1.441.438)**
Exchange rate gains / (losses)	**(149.279)**	**(53.376)**	**(95.903)**
Realised exchange rate gains / (losses)	*(176.635)*	*(114.158)*	*(62.477)*
Unrealised exchange rate gains / (losses)	*27.356*	*60.782*	*(33.426)*

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

Unrealised exchange rate gains and losses refer to the differences recognised in the adjustment of monetary captions mainly related to the performance of the US dollar, yen, Polish zloty and Australian dollar.

The unrealised component shows gains of €27 thousand, namely greater unrealised exchange rate gains than losses (in 2017, the unrealised component was a net loss of €33 thousand).

Therefore, as part of the allocation of the profit for 2018, the company shall accrue the net unrealised exchange rate gain in a specific undistributable reserve pursuant to article 2426.8-bis of the Italian Civil Code.

IMPAIRMENT OF FINANCIAL ASSETS (note 30)

At 31 December 2018, the company did not impair any equity investments.

Note 3 provides more details about the effects of the measurement at equity of the investments.

INCOME TAXES (note 31)

A breakdown of income taxes is as follows:

(in Euros)	2018	Variation	2017
Current taxes	(4.881.038)	3.031.141	(7.912.179)
Deferred tax assets	138.797	103.395	35.402
Deferred tax liabilities	334.853	(119.306)	454.159
Prior year taxes	1.603.718	1.607.546	(3.828)
Total	**(2.803.670)**	**4.622.776**	**(7.426.446)**

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

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

(in Euros)	2018	2017
Profit before tax	26.790.728	35.040.552
Theoretical IRES	**6.429.775**	**8.409.732**
Lower taxes:		
- other prior-year income	(36.715)	(35.734)
- personnel expense and supplementary pension funds	(14.902)	(14.548)
- dividends from equity investments and gains on the sale of investments	(2.260.723)	(2.706.667)
- maxi-amortisation and hyper-amortisation	(205.847)	(82.788)
- amortisation of goodwill	(19.934)	(19.934)
- patent box	(475.444)	-
- other	(430.060)	(469.732)
Higher taxes:		
- undeductible amortisation	272.629	396.173
- accruals to provisions	282.505	1.363
- prior year expense	2.002	1.089
- impairment of equity investments	-	86.547
- write-down of inventory	17.377	87.147
- other undeductible costs	88.609	86.456
- other	69.705	101.014
- unused tax withholdings	365.495	937.106
Total income taxes (IRES)	**4.084.472**	**6.777.224**
IRAP	**796.566**	**1.134.955**
Prior year taxes	**(1.603.718)**	**3.828**
Deferred tax assets/liabilities	**(473.650)**	**(489.561)**
TOTAL INCOME TAXES	**2.803.670**	**7.426.446**

Specifically, tax liabilities pertaining to previous years at 31 December 2018 are as follows:

(in Euros)	2018
Lower IRES and IRAP for supplementary patent box relief for 2015-2017	(2.128.268)
Higher IRES and IRAP for mutually-agreed assessment settlement procedure for 2013	268.075
Adjustment of tax provision for disputes for 2011-2012	131.174
Adjustment of tax provision for disputes for 2015	125.301
Prior year taxes	**(1.603.718)**

OTHER INFORMATION (note 32)

Listing on the stock exchange

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

Tax audits

A dispute is ongoing between the company and the Venice provincial tax office following the assessment notice regarding transfer pricing issued for 2011 and 2012. The findings regarded solely transactions between the Chinese company, Carel Electronic (Suzhou) Co Ltd and the company 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 company 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 not yet known, however, due to the effect of the recent regulation covered by Legislative decree no. 119/2018, the company could 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. The provision for tax risks related to the dispute has been adjusted accordingly in the 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 Electronic (Suzhou) Co Ltd and the company, in June 2018, the Venice regional tax office issued a preliminary assessment report for 2013, 2014, 2015 and 2016. Following the discussions related 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 cancellation of the findings for 2014 and 2016 and the redefinition of the disputed amounts for 2013 and 2015. The company signed a mutually-agreed assessment settlement procedure for

2013 and defined the 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.

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

In December 2015, the company filed for the reduced tax regime for income derived from the use of intangible assets with the relevant regional tax office.

Following the investigation activities and the full examination of the findings and the documentation produced, in December 2018, the company signed an agreement for the definition of a reduced tax regime for income derived from the direct use of intangible assets (patent box) with reference to 2015 and the following four years.

As a result, the company filed the IRES and IRAP supplementary tax returns for the 2015-2017 three-year period, recognising a greater amount of €2,128 thousand as Tax assets.

Share-based payment arrangements

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 company 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:

- The group's cumulative adjusted EBITDA for 2018-2020 with a relative weight of 60%;
- Cash conversion (average amount of the vesting periods):

$$\frac{\text{EBITDA Adj} \mp \text{Net Working Capital-CAPEX}}{\text{EBITDA Adj}} \text{ with a relative weight of 40\%}$$

The performance objectives are independent of one another and will be calculated separately for each vesting period.

The curves for the measurement of performance are the same for both the indicators, as described below:

Performance of the indicators (% of the performance objective for each vesting period)	Shares assigned for each performance objective (% of base number of shares for each vesting period)
<80%	0%
=80%	80%
>80% and ≤120%	80%-120% pro-quota
>120% (overperformance)	120%

A portion of the shares to be assigned will be subject to lock-up restrictions during the specific vesting periods depending on the type of beneficiary.

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.

On 7 September 2018, the shareholders approved the repurchase of treasury shares, up to a maximum of 5,000,000 shares, equal to 5% of the company's share capital, used for the incentive plan. At the end of the year, the company had not repurchased any treasury shares.

Repurchase of treasury shares

On 7 September 2018, the shareholders resolved, inter alia, to authorise the board of directors to repurchase and transfer treasury shares for the purposes of:

- adhering to the obligations of the share-based performance plans and those for the governing bodies and/or company employees;
- carrying out actions to support the market liquidity;
- carrying out sales, exchanges, transfers or other actions for treasury shares as part of the company's expansion objectives.

The repurchase of treasury shares can take place in one or more transactions of up to a maximum of 5,000,000 shares, equal to 5% of the company's share capital, within the limit of the distributable profits and the available reserves as shown in the most recent approved financial statements, over a period of 18 months from the date of the meeting. The repurchases will be carried out (i) at a price that does not depart, either upwards or downwards, by more than 20% from the reference price recorded by the shares during the stock market trading session on the day preceding each individual transaction and (ii) for a consideration that is no higher than the greater of the price of the latest independent transaction and of the highest current independent bid price available in the stock market in which the purchase is carried out.

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 company has not identified individual operating segments but is an operating segment as a whole.

Fees paid to directors, statutory auditors and key management personnel

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

(in Euros)	2018	2017
Directors		
- Remuneration and fees (3)	900.342	411.316
- Other non-monetary benefits	11.838	3.791
- Other fees (1)	50.000	
- Fair value of share-based payments	33.811	-
Total fees paid to directors	**995.991**	**415.107**
Statutory auditors		
- Fixed fees and fees for participation in committees	72.629	22.934
Total fees paid to statutory auditors	**72.629**	**22.934**
Key management personnel		
- Remuneration and fees	932.106	1.161.744
- Other non-monetary benefits	24.110	27.362
- Other fees (1)	138.000	13.000
- Fair value of share-based payments	34.207	-
- Compensation in the event of dismissal or resignation (2)	17.675	3.900
Total fees paid to key management personel	**1.146.098**	**1.206.006**

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

Information pursuant to article 149-duodecies of Consob Issuers' Regulation

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

(in Euros)	2018	2017
Audit	151.480	98.197
Attestation services	416.602	1.500
Other Services	10.196	27.968
Total	**578.278**	**127.665**

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 is set out below.

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 company:

- 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 company 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 the Economy and Finance.

Off-statement of financial position commitments and guarantees

At 31 December 2018, the company had

- granted guarantees for a total of €4,782 thousand, specifically:
  - 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.
- commitments for future payments, specifically:

Indirect subsidiaries

A breakdown of the indirect subsidiaries at 31 December 2018 is as follows:

(in Euros)	Registered office	Parent	Currency	Share capital (foreign currency)	Equity (Euros)	Profit (loss) for the year (Euros)	Indirect investment
Subsidiaries:							
Carel Australia Pty. Ltd	SYDNEY-AU	Carel Electronic (Suzhou) Co Ltd	AUD	100	2.834.257	412.640	100,00%
Carel ACR Systems India (Pvt) Ltd	MUMBAI-IN	Carel Electronic (Suzhou) Co Ltd	INR	1.665.340	752.147	203.308	99,99%
		Carel France s.a.s.					0,01%
Carel Controls South Africa (Pty) Ltd	JOHANNESBURG-ZA	Carel Electronic (Suzhou) Co Ltd	ZAR	4.000.000	1.092.565	36.106	100,00%
Carel HVAC&R Korea Ltd	SEOUL-KR	Carel Electronic (Suzhou) Co Ltd	KRW	550.500.000	242.515	(95.629)	100,00%
Carel South East Asia Pte. Ltd.	SINGAPORE-SG	Carel Asia Ltd	SGD	100.000	183.598	41.117	100,00%
Carel Mexicana S.De.RL	Guerra, Tlalpan-MX	Carel Usa Llc	MXN	12.441.149	887.829	216.190	100,00%
Carel (Thailand) CO Ltd	BANGKOK-TH	Carel Electronic (Suzhou) Co Ltd	THB	10.000.000	1.777.793	370.901	79,994%
		Carel Australia Pty. Ltd					0,006%

Related party transactions

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

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

The table below provides assets, liabilities, revenue and costs related to transactions with related parties performed in 2018.

	Assets and liabilities				
	Loan assets	Trade receivables	Financial liabilities	Trade payables	Sale of products
Parents					
Luigi Rossi Luciani S.a.p.A.		198.426			
Luigi Nalini S.a.p.A.		129.382			
Total parents	**-**	**327.808**	**-**	**-**	**-**
Subsidiaries					
C.R.C S.r.l.		190.380		4.023	1.456.436
Recuperator S.p.A..					
Carel U.K. Ltd		1.007.495	244.526	42.451	9.351.696
Carel France s.a.s.		1.098.895	973.011	28.682	11.137.961
Carel Asia Ltd		1.919.120		75.836	4.346.188
Carel Sud America Instrumentacao Eletronica Ltda		431.952		42.906	1.712.328
Carel Usa Llc		2.228.875		216.083	8.501.658
Carel Australia Pty. Ltd					238.651
Carel Deutschland GmbH		271.491	1.713.887	11.110	20.911.319
Carel Electronic (Suzhou) Co Ltd		2.235.393		3.912.901	5.765.704
Carel Controls Iberica S.L.		1.033.698	564.993	6.252	8.305.649
Carel ACR Systems India (Pvt) Ltd		367.739		141.958	681.482
Carel Controls South Africa (Pty) Ltd				376	240.748
Carel Rus Llc				317.243	
Carel Korea Ltd		72.389		14.788	639.322
Carel Nordic AB		80		340.818	8.040
Carel Japan Co. Ltd		6.427		165	138.316
Carel Mexicana S.De.RL		114.167			835.092
Carel Middle East DWC Llc		32.500		139.726	5.034
Alfaco Polska Sp.z.o.o.	2.051.317	2.091.368		2.692	5.460.664
Carel (Thailand) CO Ltd					10.699
Carel Adriatic D.o.o.	4.227.311	566.147		5.731.829	3.067.236
HygroMatik GmbH	3.610.996				
Total subsidiaries	**9.889.624**	**13.668.116**	**3.496.417**	**11.029.839**	**82.814.223**
Associates					
Arion S.r.l.	160.000			24.532	84
Total associates	**160.000**	**-**	**-**	**24.532**	**84**
Subsidiaries of parents					
RN Real Estate S.r.l.		3.050		833	
Eurotest Laboratori S.r.l.		10.577		29.124	25
Arianna S.p.A.		3.050			(8.428)
Nastrificio Victor S.p.A.				6.852	
Total subsidiaries of parents	**-**	**16.677**	**-**	**36.809**	**(8.403)**
Related parties					
Carel Real Estate Adriatic doo					
Le Volpi Agriturismo				4.697	
Panther S.r.l.				1.885	
Eurotec Ltd					27.999
Total related parties	**-**	**-**	**-**	**6.582**	**27.999**
TOTAL	**10.049.624**	**14.012.601**	**3.496.417**	**11.097.762**	**82.833.903**

Revenue and costs							
Sale of services	Other revenue	Purchases of goods and materials	Services	Other purchases	Income from equity investments	Financial income	Financial expense
	184.475						
	120.285						
-	**304.760**	**-**	**-**	**-**	**-**	**-**	**-**
97.200	328	10.345	14.187				
					5.000.000		
31.402	149.498	475	82.680		839.337		3.899
37.181	136.852	170	2.898	25.000	500.000		8.231
987	4.448	80.267	52.880				
46.909	287	324.849					
350.084	248.767	201.254	378.332	1.035		10.747	
		271		13.292			
59.210	338.301	27.702					21.389
569.878	1.291.636	15.340.204	396.643	117	3.081.114		
36.020	11.570	73.503	5.628				3.818
	1.981	188	316.924				
1.836		6.661	394				
			1.107.272		495.000		
49.522		1.684		14.023			
20	1.717		1.100.120				
		6.269	109			2.271	
268	27	1.927					
32.659	115	2.488	498.841	3.400		500	
	1.057		13.116			7.865	
296							
260.000	219.889	22.078.232	27.237			119.800	
						3.307	
1.573.472	**2.406.473**	**38.156.489**	**3.997.261**	**56.867**	**9.915.451**	**144.490**	**37.337**
		1.512.302	14.110				
-	**-**	**1.512.302**	**14.110**	**-**	**-**	**-**	**-**
5.000	20.357			1.130.774			
34.600	3.689		251.958	26.900			
5.000	4.908	6.861		75.000			
		42.180					-
44.600	**28.954**	**49.041**	**251.958**	**1.232.674**	**-**	**-**	**-**
	1.890						
		4.021	11.710	600			
		6.353					
		894					
-	**1.890**	**11.268**	**11.710**	**600**	**-**	**-**	**-**
1.618.072	**2.742.077**	**39.729.100**	**4.275.039**	**1.290.141**	**9.915.451**	**144.490**	**37.337**

Events after the reporting date

Following the shareholders' resolution of 7 September 2018 which approved the repurchase of treasury shares, up to a maximum of 5,000,000 shares, equal to 5% of the company's share capital, used for the performance plan described in note 32, the company repurchased 34,835 treasury shares for a total of €338,294 thousand between the end of the year and the preparation of the financial statements.

No other significant events have taken place since the reporting date.

- - -

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

Dear shareholders,

Carel Industries S.p.A.'s separate financial statements as at and for the year ended 31 December 2018 show a profit of €23,987,058.

It should be noted that:

- the legal reserve reached the limit set out by article 2430 of the Italian Civil Code;
- the unrealised exchange rate gains at year end exceeded the losses by €27,356 thousand and therefore, the company shall accrue a specific undistributable reserve of the same amount pursuant to article 2426.8-bis of the Italian Civil Code;
- unamortised development expenditure at 31 December 2018 amounted to €6,513,297 and therefore, pursuant to article 2426.5 of the Italian Civil Code, until the amortisation is complete, dividends may only be distributed if there are sufficient available reserves to cover the amount of unamortised costs.

We invite you to approve the financial statements and to allocate the profit for the year as follows:

- €27,356 to the undistributable reserve for unrealised exchange rate gains;
- as dividends to shareholders for 2018 equal to €0.1 per share, before tax withholdings, with an ex-dividend date of 24 June 2019, with record date, pursuant to article 83-ter of the CFA, on 25 June 2019 and payment date of 26 June 2019;
- the remainder to the extraordinary reserve.

CEO

Francesco Nalini

Statement on the separate financial statements pursuant to article 154-bis of Legislative decree no. 58/1998 and article 81-ter of Consob regulation no. 11971 of 14 May 1999 as subsequently amended and supplemented.

1. The undersigned Francesco Nalini, as chief executive officer, and Giuseppe Viscovich, as manager in charge of financial reporting of CAREL Industries S.p.A., also considering the provisions of article 154-bis paragraphs 3 and 4 of Legislative decree no. 58 of 24 February 1998, state that the administrative and accounting policies adopted for the preparation of the separate financial statements at 31 December 2018:
   - are adequate in relation to the company's characteristics and
   - the administrative and accounting procedures to prepare the separate financial statement have been effectively applied during the year.
2. There is nothing to report.
3. Moreover, they state that, the separate 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 of 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.

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 2018

CEO	Manager in charge of financial reporting
Francesco Nalini	**Giuseppe Viscovich**

Annexes to the Separate Financial Statements as at and for the year ended

CAREL

Deloitte.

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**INDEPENDENT AUDITOR'S REPORT
ON THE CONSOLIDATED NON-FINANCIAL STATEMENT PURSUANT TO ARTICLE 3, PARAGRAPH 10 OF LEGISLATIVE DECREE No. 254 OF DECEMBER 30, 2016 AND ART. 5 OF CONSOB REGULATION N. 20267/2018**

**To the Board of Directors of
Carel Industries S.p.A.**

Pursuant to article 3, paragraph 10, of the Legislative Decree no. 254 of December 30, 2016 (hereinafter "Decree") and to article 5 of the CONSOB Regulation n. 20267/2018, we have carried out a limited assurance engagement on the Consolidated Non-Financial Statement of Carel Industries S.p.A. and its subsidiaries (hereinafter "Carel Group" or "Group") as of December 31, 2018 prepared on the basis of art. 4 of the Decree, and approved by the Board of Directors on March 7, 2019 (hereinafter "NFS").

Responsibility of the Directors and the Board of Statutory Auditors for the NFS

The Directors are responsible for the preparation of the NFS in accordance with articles 3 and 4 of the Decree and the "Global Reporting Initiative Sustainability Reporting Standards" established in 2016 by GRI - Global Reporting Initiative ("GRI Standards"), which they have identified as reporting framework.

The Directors are also responsible, within the terms established by law, for such internal control as they determine is necessary to enable the preparation of NFS that is free from material misstatement, whether due to fraud or error.

The Directors are moreover responsible for defining the contents of the NFS, within the topics specified in article 3, paragraph 1, of the Decree, taking into account the activities and characteristics of the Group, and to the extent necessary in order to ensure the understanding of the Group's activities, its trends, performance and the related impacts.

Finally, the Directors are responsible for defining the business management model and the organisation of the Group's activities as well as, with reference to the topics detected and reported in the NFS, for the policies pursued by the Group and for identifying and managing the risks generated or undertaken by the Group.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the compliance with the provisions set out in the Decree.

Auditor's Independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Our auditing firm applies International Standard on Quality Control 1 (ISQC Italia 1) and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Deloitte.

Auditor's responsibility

Our responsibility is to express our conclusion based on the procedures performed about the compliance of the NFS with the Decree and the GRI Standards. We conducted our work in accordance with the criteria established in the "*International Standard on Assurance Engagements ISAE 3000 (Revised) – Assurance Engagements Other than Audits or Reviews of Historical Financial Information*" (hereinafter "ISAE 3000 Revised"), issued by the *International Auditing and Assurance Standards Board* (IAASB) for limited assurance engagements. The standard requires that we plan and perform the engagement to obtain limited assurance whether the NFS is free from material misstatement. Therefore, the procedures performed in a limited assurance engagement are less than those performed in a reasonable assurance engagement in accordance with ISAE 3000 Revised, and, therefore, do not enable us to obtain assurance that we would become aware of all significant matters and events that might be identified in a reasonable assurance engagement.

The procedures performed on NFS are based on our professional judgement and included inquiries, primarily with company personnel responsible for the preparation of information included in the NFS, analysis of documents, recalculations and other procedures aimed to obtain evidence as appropriate.

Specifically we carried out the following procedures:

1. analysis of relevant topics with reference to the Group's activities and characteristics disclosed in the NFS, in order to assess the reasonableness of the selection process in place in light of the provisions of art. 3 of the Decree and taking into account the adopted reporting standard;

2. analysis and assessment of the identification criteria of the consolidation area, in order to assess its compliance with the Decree;

3. comparison between the financial data and information included in the NFS with those included in the consolidated financial statements of the Carel Group;

4. understanding of the following matters:

    - business management model of the Group's activities, with reference to the management of the topics specified by article 3 of the Decree;
    - policies adopted by the entity in connection with the topics specified by article 3 of the Decree, achieved results and related fundamental performance indicators;
    - main risks, generated and/or undertaken, in connection with the topics specified by article 3 of the Decree.

    Moreover, with reference to these matters, we carried out a comparison with the information contained in the NFS and the verifications described in the subsequent point [5], letter a);

5. understanding of the processes underlying the origination, recording and management of qualitative and quantitative material information included in the NFS.

    In particular, we carried out interviews and discussions with the management of Carel Industries S.p.A. and with the employees of Carel Adriatic d.o.o., Carel Eletronic (Suzhou) Co.,Ltd, Carel USA LLC, and we carried out limited documentary verifications, in order to gather information about the processes and procedures which support the collection, aggregation, elaboration and transmittal of non-financial data and information to the department responsible for the preparation of the NFS.

Deloitte.

In addition, for material information, taking into consideration the Group's activities and characteristics:

- at the parent company and subsidiaries level:

  a) with regards to qualitative information included in the NFS, and specifically with reference to the business management model, policies applied and main risks, we carried out interviews and gathered supporting documentation in order to verify its consistency with the available evidence;
  b) with regards to quantitative information, we carried out both analytical procedures and limited verifications in order to ensure, on a sample basis, the correct aggregation of data.

- for the subsidiaries, Carel Industries S.p.A. and Carel Adriatic d.o.o., which we selected based on their activities, their contribution to the performance indicators at the consolidated level and their location, we carried out site visits, during which we have met their management and have gathered supporting documentation with reference to the correct application of procedures and calculation methods used for the indicators.

Conclusion

Based on the work performed, nothing has come to our attention that causes us to believe that the NFS of the Carel Group as of December 31, 2018 is not prepared, in all material aspects, in accordance with article 3 and 4 of the Decree and the *GRI Standards*.

DELOITTE & TOUCHE S.p.A.

Signed by
Cristiano Nacchi
Partner

Padua, 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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