2019

CAREL

SEPARATE
FINANCIAL STATEMENTS

Share capital €10,000,000.00 - fully paid up
Padua company registration no. 04359090281 Padua Chamber of commerce registration no. 383236
Tax code and VAT no. 04359090281

Index

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	*Paolo Ferrin*
	Standing statutory auditor	*Claudia Civolani*
	Alternate statutory auditor	*Giovanni Fonte*
	Alternate statutory auditor	*Fabio Gallio*
Independent auditors		*Deloitte & Touche SpA*
Control and risks committee	*Chairperson*	*Marina Manna*
	Member	*Cinzia Donalisio*
	Member	*Giovanni Costa*
Remuneration committee	*Chairperson*	*Cinzia Donalisio*
	Member	*Marina Manna*
	Member	*Giovanni Costa*
Supervisory body pursuant to Legislative decree no. 231/2001	*Chairperson*	*Fabio Pinelli*
	Member	*Andrea Baggio*
	Member	*Alessandro Grassetto*


CAREL

Separate financial statements and notes thereto

at 31 december 2019

Statement of financial position

(in Euros)	NOTE	31.12.2019	31.12.2018
Property, plant and equipment	1	12,054,056	8,564,370
Intangible assets	2	11,574,187	9,388,650
Equity investments	3	120,767,229	118,704,276
Other non-current assets	4	11,973,821	2,580,287
Deferred tax assets	5	1,546,845	1,021,419
Non-current assets		**157,916,138**	**140,259,002**
Trade receivables	6	37,195,194	37,585,416
Inventories	7	18,527,217	22,169,746
Current tax assets	8	650,168	4,952,774
Other assets	9	3,693,654	2,390,495
Current financial assets	10	3,341,258	7,484,227
Cash and cash equivalents	11	25,585,386	24,006,224
Total current assets		**88,992,877**	**98,588,882**
TOTAL ASSETS		**246,909,015**	**238,847,884**
Equity	12	81,334,813	69,600,773
Total		**81,334,813**	**69,600,773**
Non-current financial liabilities	13	75,620,774	68,347,236
Provisions for risks	14	1,168,540	1,129,019
Defined benefit plans	15	5,255,600	4,979,488
Deferred tax liabilities	16	310,707	445,543
Non-current liabilities		**82,355,621**	**74,901,286**
Current financial liabilities	13	40,705,154	47,190,995
Trade payables	17	29,649,513	34,877,504
Current tax liabilities	18	201,393	288,649
Provisions for risks	14	2,098,105	1,649,254
Other current liabilities	19	10,564,416	10,339,423
Current liabilities		**83,218,581**	**94,345,825**
TOTAL LIABILITIES AND EQUITY		**246,909,015**	**238,847,884**

Statement of profit or loss

(in Euros)	NOTE	2019	2018
Revenue	20	176,045,594	180,276,448
Other revenue	21	4,490,304	3,971,337
Costs of raw materials, consumables and goods and change in inventories	22	(90,423,975)	(92,915,245)
Services	23	(25,791,844)	(31,563,708)
Capitalised development expenditure	24	2,489,141	2,171,373
Personnel expense	25	(39,368,440)	(37,903,856)
Other expense, net	26	(1,108,750)	(1,321,058)
Amortisation, depreciation and impairment losses	27	(7,374,442)	(5,783,792)
OPERATING PROFIT		**18,957,588**	**16,931,499**
Net financial income	28	9,010,722	10,008,508
Net exchange losses	29	(24,122)	(149,279)
Impairment of financial assets	30	237,313	-
PROFIT BEFORE TAX		**28,181,501**	**26,790,728**
Income taxes	31	(5,473,041)	(2,803,670)
PROFIT FOR THE YEAR		**22,708,460**	**23,987,058**

Statement of comprehensive income

(in Euros)	NOTE	2019	2018
PROFIT FOR THE YEAR		**22,708,460**	**23,987,058**
Other items that may not be subsequently reclassified to profit or loss:			
Variation in hedging reserve	12	(355,126)	(165,210)
Variation in hedging reserve - tax effect	12	85,230	39,650
Total items that may be subsequently reclassified to profit or loss		**(269,896)**	**(125,560)**
Other items that may not be subsequently reclassified to profit or loss:			
IAS 19 - Actuarial gains /(losses) from discounting of post-employment benefits	12	(275,572)	110,970
IAS 19 - Actuarial gains /(losses) from discounting of post-employment benefits - tax effect	12	76,884	(30,961)
IAS 19 - Actuarial gains /(losses) from discounting of post-term of office benefits for directors	12	(65,330)	(23,873)
IAS 19 - Actuarial gains /(losses) from discounting of post-term of office benefits for directors - tax effect	12	18,227	6,661
Total other items that may not be subsequently reclassified to profit or loss		**(245,791)**	**62,797**
COMPREHENSIVE INCOME		**22,192,773**	**23,924,295**

Statement of cash flows

(in Euros)	2019	2018
Profit for the year	22,708,460	23,987,058
Amortisation, depreciation and impairment losses	7,137,129	5,783,792
Accruals to provisions	1,150,946	875,436
Net financial income	(9,057,299)	(10,037,224)
Income taxes	5,750,387	3,686,272
Gains (losses) on the sale of non-current assets	(8,426)	2,542
	27,681,197	**24,297,876**
Change in trade receivables and other current assets	(930,542)	2,436,725
Change in inventories	3,292,401	(4,597,350)
Change in trade payables and other current liabilities	(5,917,453)	3,696,246
Change in non-current liabilities	(260,347)	(134,641)
Cash flows from operating activities	**23,865,256**	**25,698,856**
Net interest paid	(995,576)	(292,075)
Income taxes paid	(12,088,666)	(7,103,553)
Net cash flows from operating activities	**10,781,014**	**18,303,228**
Investments in property, plant and equipment	(3,722,890)	(3,731,488)
Investments in intangible assets	(5,319,786)	(3,662,692)
Investments in financial assets	(1,125,796)	(3,244,019)
Repayment of current financial assets	5,875,069	47,469,446
Disinvestments of property, plant and equipment and intangible assets	38,532	24,135
Investments in investees	(1,825,640)	(92,646,139)
Cash flows used in investing activities	**(6,080,511)**	**(55,790,757)**
Repurchase of treasury shares	(807,278)	-
Dividend distributions	(9,991,667)	(30,000,000)
Dividends collected	10,075,319	9,915,452
Interest collected	69,258	459,063
Increase in financial liabilities	50,447,806	94,565,303
Decrease in financial liabilities	(52,660,263)	(29,709,072)
Decrease in lease liabilities	(1,381,963)	-
Investments in non-current financial assets	(681,290)	(2,418,294)
Repayment of non-current financial assets	1,808,737	-
Cash flows from (used in) financing activities	**(3,121,341)**	**42,812,452**
Change in cash and cash equivalents	**1,579,162**	**5,324,923**
Cash and cash equivalents - opening balance	**24,006,224**	**18,681,301**
Cash and cash equivalents - closing balance	**25,585,386**	**24,006,224**

Statement of changes in equity

(in Euros)	Share capital	Legal reserve	Hedging reserve	Actuarial reserve	Income-related reserves and other reserves
Balance at 31 December 2017	**10,000,000**	**2,000,000**	**32,758**	**(37,403)**	**22,970,781**
Allocation of prior year profit					
- dividend distributions					(30,000,000)
- other allocations					27,614,106
Incentive plans					
Profit for the year					
Other comprehensive expense			(125,560)	62,797	
Balance at 31 December 2018	**10,000,000**	**2,000,000**	**(92,802)**	**25,394**	**20,584,887**
Allocation of prior year profit					
- dividend distributions					
- other allocations					13,995,391
Incentive plans					
Repurchase of treasury shares					
Profit for the year					
Other comprehensive expense			(269,896)	(245,791)	
Balance at 31 December 2019	**10,000,000**	**2,000,000**	**(362,698)**	**(220,397)**	**34,580,278**

Equity-related reserves	IFRS reserve	Treasury shares	Stock grant reserve	Retained earnings	Profit for the year	Total
10,397,335	**2,145,495**	**-**	**-**	**476,149**	**27,614,106**	**75,599,221**
						(30,000,000)
					(27,614,106)	-
			77,257			77,257
					23,987,058	23,987,058
						(62,763)
10,397,335	**2,145,495**	**-**	**77,257**	**476,149**	**23,987,058**	**69,600,773**
					(9,991,667)	(9,991,667)
					(13,995,391)	-
			340,212			340,212
		(807,278)				(807,278)
					22,708,460	22,708,460
						(515,687)
10,397,335	**2,145,495**	**(807,278)**	**417,469**	**476,149**	**22,708,460**	**81,334,813**

CAREL

Notes to the Separate Financial Statements at 31 december 2019

Content and format of the Separate Financial Statements

CAREL INDUSTRIES S.p.A. (the "company"), is an Italian company limited by shares, with registered office in Via Dell'Industria 11, Brugine (PD). It is registered with the Padua company registrar.
CAREL INDUSTRIES S.p.A. provides control instruments to the air-conditioning and commercial and industrial refrigeration markets and also produces air humidification systems.
These separate financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and cover the 12-month period from 1 January to 31 December 2019.
The company has prepared its separate and consolidated financial statements in accordance with the IFRS endorsed by the European Union on 1 January 2015 (the transition date).
The parent's board of directors approved the separate financial statements at 31 December 2019 on 5 March 2020.
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 2019 were prepared in accordance with the IFRS issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission with the procedure set out in article 6 of Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002.
The IFRS include all the standards as well as the interpretations of the International Financial Reporting Standards Interpretations Committee (IFRS IC), previously called the Standing Interpretations Committee (SIC), endorsed by the European Union at the reporting date and included in the related EU regulations published at that date. The separate financial statements include the statement of financial position, statement of profit or loss, statement of comprehensive income, statement of changes in equity, statement of cash flows and these notes. They were prepared using the historical cost principle and assuming the company will continue as a going concern. The company assumed that it could adopt the going concern assumption pursuant to IAS 1.25/26 given its strong market position, very satisfactory profits and solid financial structure.
The separate financial statements were prepared in Euros, which is the company's functional and presentation currency as per IAS 21, unless indicated otherwise.
The company availed itself of the option allowed by article 40.2-bis of Legislative decree no. 127 of 9 April 1991, as amended by Legislative decree no. 32 of 2 February 2007, which provides for the preparation of a single directors' report for the separate and consolidated financial statements of CAREL INDUSTRIES S.p.A.

Financial statements schedules

Statement of financial position. Assets and liabilities are presented as current or non-current as required by paragraph 60 and following paragraphs of IAS 1.
An asset or liability is classified as current when it meets one of the following criteria:

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

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

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

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

Statement of cash flows. The company prepares this statement using the indirect method. Cash and cash equivalents included herein comprise the statement of financial position balances at the reporting date. Interest income and expense, 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 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 interest in the acquiree at the acquisition date is the pre-combination carrying amount of the acquiree's net assets.

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

Accounting policies

The separate financial statements at 31 December 2019 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 2019 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 2019, in accordance with the provisions of IFRS 1.

Standards, amendments and interpretations applicable to annual periods beginning on or after 1 january 2019

The company applied the following standards, amendments and interpretations for the first time starting from 1 January 2019:

- 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 a right-of-use asset, including assets under operating lease, under assets, and a lease liability. The standard does not provide for significant changes for lessors.

The company chose to apply the standard retrospectively, recognising the cumulative effect of the application of the standard on opening 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 recognised:

a. a financial liability equal to the present value of future payments at the transition date, discounted using the incremental borrowing rate applicable at the transition date for each contract;
b. a right-of-use asset equal to the amount of the financial liability at the transition 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 impacts of the adoption of IFRS 16 at the transition date and at 31 December 2019:

(in Euros)	31.12.2019	01.01.2019
Non-current assets		
Land and buildings	2,067,347	3,202,741
Other items of property, plant and equipment	573,289	655,202
Total	**2,640,636**	**3,857,943**
Financial liabilities		
Non-current financial liabilities	1,382,711	2,015,972
Current financial liabilities	1,272,420	1,841,971
Total	**2,655,131**	**3,857,943**

The effect on the 2019 statement of profit or loss is as follows:

(in Euros)	2019
Lease payments	1,420,193
Depreciation	(1,396,459)
Interest expense	(40,349)
Total	**(16,615)**

The weighted average incremental borrowing rate applied to the financial liabilities recognised at 1 January 2019 is 1.39%.

The company decided to not present its right-of-use assets and lease liabilities separately in the statement of financial position.

In adopting IFRS 16, the company used the exemption provided for by IFRS 16.5(a) in relation to short-term leases, mainly related to vehicles and industrial and commercial equipment.

Similarly, the company used the exemption provided for by IFRS 16.5(b) for leases for which the underlying asset is of a low value (i.e., it is 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 did not require the recognition of a financial liability and the related right-of-use asset, but the lease payments are recognised in profit or loss on a straight-line basis over the lease term under service costs.

Furthermore, with reference to the transition rules, the company 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.

The lease liability comprises:

- the fixed and in-substance fixed lease payment

component, net of any incentives received;
- the variable lease payments based on an index or a rate, which are initially measured using the index or rate at the lease commencement date.

After initial recognition, the lease liability is increased by accrued interest (calculated using the effective interest method) and is reduced by the lease payments made.

The company remeasures a lease liability (and adjusts the relevant right-of-use asset accordingly) if:
- the lease term or the assessment of whether the company will exercise the option changes; in this case, the lease liability is remeasured based on the present value of the new lease payments using the revised discount rate;
- the amount of the lease payments changes following changes in the underlying index or rate; in this case, the lease liability is remeasured based on the present value of the lease payment using the original discount rate (unless the lease payments change due to changes in interest rates, in which case the revised discount rate should be used);
- the lease terms are changed and the change does not require the recognition of a separate lease; in this case, the lease liability is remeasured based on the present value of the new lease payments using the revised discount rate.

A right-of-use asset is equal to the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred. It is recognised net of amortisation/depreciation and any impairment losses.

The identification of the lease term is crucial as the form, legislation and commercial practices of property leases vary significantly from one jurisdiction to another. Based on past experience, the company has defined an accounting policy that includes, in addition to the non-cancellable period, the first contractual renewal period, if renewal depends exclusively on the company. In the case of property leases with renewals dependent on both parties, the company assessed the specific facts and circumstances, as well as the penalties, considered in a broad sense, resulting from a potential termination of the lease.

In December 2019, the IFRIC published its final agenda decision about lease term and useful life of leasehold improvements (discussed during the meeting held in November 2019). At the date of preparation of these separate financial statements, the company was assessing the possible impact of the interpretation on its estimated lease terms. Based on the above decision, the company's right-of-use assets may increase, with a balancing entry under lease liabilities. The company expects to complete the assessment within the first half of 2020.

- On 12 December 2017, the 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 adoption of this amendment did not affect the separate financial statements.

- On 7 February 2018, the IASB published Plan amendment, curtailment or settlement (Amendments to IAS 19). The document clarifies how an entity shall account for a defined benefit plan amendment (i.e., a curtailment or settlement). This requires an entity to update its assumptions and remeasure its net defined benefit liability or asset.

The adoption of this amendment did not 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 in the tax recognition, in accordance with IAS 1.

The adoption of this interpretation on 1 January 2019 did not significantly affect the company's 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 2019

- 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 amendments were endorsed on 29 November 2019 and apply to all transactions after 1 January 2020. The directors do not expect the amendment will significantly affect the company's separate financial statements.
- On 29 March 2018, the IASB published an amendment to the References to the conceptual framework in IFRS standards, which applies to annual periods beginning on or after 1 January 2020 but earlier application is allowed.
- On 26 September 2019, the IASB published Amendments to IFRS 9, IAS 39 and IFRS 7: Interest rate benchmark reform. They amend IFRS 9 Financial instruments and IAS 39 Financial instruments: recognition and measurement in addition to IFRS 7 Financial instruments: disclosures. Specifically, they amend certain requirements for hedge accounting, providing temporary departures thereto, in order to mitigate the impact of the uncertainty arising from the IBOR reform (which is still in progress) on future cash flows in the period preceding its completion. Moreover, the amendments require entities to provide additional disclosures about their hedging relationships that are directly affected by the uncertainties stemming from the reform, to which the departures apply.

The amendments become effective on 1 January 2020, but earlier application is allowed.

The directors do not expect the amendments will significantly affect 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 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. The directors do not expect the amendments will significantly affect the company's separate financial statements.
- On 18 May 2017, the IASB published IFRS 17 Insurance contracts, which will supersede IFRS 4 Insurance contracts. The objective of the new standard is to ensure that an entity provides relevant information that faithfully represents its rights and obligations arising from its insurance contracts. The directors do not expect its adoption 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 associate or joint venture. The amendments were published to resolve the current conflict between IAS 28 and IFRS 10. Under IAS 28, 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 are limited to the share of the joint venture or associate held by the other investors that are not involved in the transaction. The IASB has currently deferred application of these amendments.
- On 30 January 2014, the IASB published IFRS 14 Regulatory deferral accounts that allows first-time adopters to continue to recognise amounts relating to rate regulation activities under the previous reporting standards. Since the company is not a first-time adopter, the standard is not applicable to it.

ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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%
- Right-of-use assets	Contract term

Land has an indefinite useful life and therefore is not depreciated.
Assets held under lease are recognised as assets at the present value of the minimum lease payments.
The liability to the lessor is shown under financial liabilities.
The leased assets are depreciated over the lease term.
Lease payments for short-term leases or leases of low-value assets are recognised in profit or loss over the lease term.
When the asset is sold or there are no future economic benefits expected from its use, it is derecognised and the gain or loss (calculated as the difference between the asset's sales price and carrying amount) is recognised in profit or loss in the year of derecognition.
Leasehold improvements that are not economically separable from the assets in use are depreciated over the useful life of the costs incurred, from the moment they are incurred or when the asset become available for use.

Intangible assets. These are identifiable, non-monetary assets without physical substance that are controlled by the entity and from which future economic benefits are expected to flow to the entity. They are initially recognised at cost when this can be reliably determined using the same methods applied to property, plant and equipment. These assets are subsequently presented net of accumulated amortisation and any impairment losses. Their useful life is reviewed regularly and any changes are applied prospectively. Costs incurred to internally generate an intangible asset are capitalised in line with the provisions of IAS 38.
Their estimated average useful life is between three and ten years.
Gains or losses on the sale of an intangible asset are calculated as the difference between the asset's sales price and its carrying amount. They are recognised in profit or loss at the sales date.

Goodwill. This is the excess 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 is 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 for managing the financial asset and the asset's contractual cash flow characteristics.

Specifically:

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

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

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

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

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

Work in progress is measured at average cost considering

the stage of completion of the related contracts.
Obsolete and/or slow moving items are written down to reflect their estimated possible use or realisation through an allowance.
The write-down is reversed in subsequent years if the reasons therefor no longer exist.

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

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

Employee benefits. This caption includes the Italian post-employment benefits ("TFR") and other employee benefits covered by IAS 19 Employee benefits. As a defined benefit plan, independent actuaries calculate the TFR at the end of each reporting period. The liability recognised in the statement of financial position is the present value of the defined benefit obligation at the end of the reporting period. These benefits are calculated using the projected unit credit method. Law no. 296/06 changed the Italian post-employment benefits scheme and benefits accrued after 1 January 2007 are now classified as defined contribution plans (using the terminology provided in IAS 19), regardless of whether the employee decides to have them transferred to INPS' (the Italian social security institution) treasury fund or an external pension plan. Benefits vested up until 31 December 2006 continue to be recognised as part of a defined benefit plan and are subject to actuarial valuation, excluding the future salary increase component. The company does not have plan assets. It recognises actuarial gains and losses in the period in which they arise. Pursuant to IAS 19 (revised), they have been recognised directly in other comprehensive income starting from 2015.

Provisions for risks. As required by IAS 37 Provisions, contingent liabilities and contingent assets, the company recognises a provision when 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 company's exposure to changes in fair value of a recognised asset or liability that could affect profit or loss, the gain or loss from remeasuring the hedging instrument at fair value is recognised in profit or loss as is the gain or loss on the hedged item.
Cash flow hedge - if a derivative is designated as a hedge of the exposure to variability in cash flows of a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income; the cumulative gain or loss is reclassified to profit or loss in the same period during which the hedged forecast cash flows affect profit or loss; the gain or loss on the hedge or the ineffective portion of the gain or loss on the hedging instrument is recognised in profit or loss.
When the conditions for application of hedge accounting are no longer met, the company reclassifies the fair value gains or losses on the derivative directly to profit or loss.

Use of estimates. Preparation of the separate financial statements requires management to apply accounting policies and methods that, in certain circumstances, are based on 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.
Finally, the estimates made did not take into account the uncertainties caused by the spread of the Coronavirus, which is described in detail in the section "Events after the reporting date" of this report. In fact, these instability factors were considered as non-adjusting events in accordance with IAS 10.21. At the date of preparation of this report, the directors do not have sufficient information to estimate the possible effect of this phenomenon on the measurement of financial statements captions.
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:

- **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.
- **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. Possible changes in the reference scenarios or market trends could significant modify the criteria used as a basis for the estimates.
- **leases:** the recognition of right-of-use assets and the related lease liabilities requires significant management estimates, especially in determining the lease term and the incremental borrowing rate. In determining the lease term, in addition to the contractual deadlines, the company considers any renewal options that it reasonably expects to exercise. The incremental borrowing rate is calculated by considering the type

of leased asset, the jurisdictions in which it is acquired and the currency in which the lease is denominated. Possible changes in the reference scenarios or market trends may request to modify the abovementioned assumptions.

Impairment test. If exogenous or endogenous elements are identified that could lead to a loss of value, the company performs the impairment test to verify the value of the property, plant and equipment, intangible assets and equity investments. 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.

Finally, the estimates made did not take into account the uncertainties caused by the spread of the Coronavirus, which is described in detail in the section "Events after the reporting date" of this report. In fact, these instability factors were considered as non-adjusting events in accordance with IAS 10.21.

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

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

CREDIT RISK

The company operates on various national markets with a high number of medium and large-sized customers, mostly regional or local distributors. Therefore, it is exposed to credit risk in conjunction with its customers' ability to 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 uncollectible receivables after deducting the part of the receivables secured with bank collateral. The company analyses all the collateral given to check collectability.
Impairment losses are recognised considering past due receivables from customers with financial difficulties and receivables for which legal action has commenced.
The following table provides a breakdown of trade receivables and related loss allowance by ageing bracket:

(in Euros)	31.12.2019		31.12.2018	
	Trade receivables	**Allowance**	**Trade receivables**	**Allowance**
Not yet due	36,012,869	(109,260)	35,364,159	(575,522)
Past due < 6 months	928,554	(4,296)	2,429,629	(44,761)
Past due > 6 months and < 12 months	345,118	(10,611)	377,016	(34,901)
Past due > 12 months	378,898	(346,078)	203,591	(133,795)
Total	**37,665,439**	**(470,245)**	**38,374,395**	**(788,979)**

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. The use of liquidity is governed by the financial policy.

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

(in Euros)

31.12.2019	TOTAL	Total cash flows	Within one year	From one to five years	After five years
- Bank loans and borrowings at amortised cost	72,538,335	73,319,759	27,716,278	45,603,481	
- Lease liabilities	1,382,711	1,403,682	669,612	709,591	24,479
- Effective designated derivative hedges	512,658	512,658	-	512,658	-
- Other loans and borrowings at amortised cost	1,187,070	1,213,302	323,131	791,263	98,908
Non-current financial liabilities	**75,620,774**	**76,449,401**	**28,709,021**	**47,616,993**	**123,387**
- Current portion of bank loans at amortised cost	34,312,949	34,854,755	34,854,755	-	-
- Lease liabilities	1,272,420	1,293,886	1,293,886		
- Other loans and borrowings at amortised cost	438,148	449,383	449,383	-	-
- Derivatives held for trading at fair value through profit or loss	14,366	14,366	14,366	-	-
- Financial liabilities with group companies	4,667,271	4,667,271	4,667,271	-	-
Current financial liabilities	**40,705,154**	**41,279,661**	**41,279,661**	**-**	**-**

(in Euros)

31.12.2018	TOTAL	Total cash flows	Within one year	From one to five years	After five years
- Bank loans and borrowings at amortised cost	66,700,924	67,740,173		67,740,173	-
- Effective designated derivative hedges	170,079	170,079	-	170,079	-
- Other loans and borrowings at amortised cost	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 portion of bank loans at amortised cost	43,268,246	43,857,921	43,857,921	-	-
- Other loans and borrowings at amortised cost	414,410	427,035	427,035	-	-
- Derivatives held for trading at fair value through profit or loss	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**	**-**	**-**

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

(in Euros)

31.12.2019	IFRS 9 category	Carrying amount	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
Other financial assets	Loans and receivables	11,132,531			11,132,531
Financial assets with the group	Loans and receivables	841,290			841,290
Other non-current financial assets		**11,973,821**			
Derivatives	Financial instruments held for trading	9,644		9,644	
Financial assets with the group	Loans and receivables	3,331,614			3,331,614
Other current financial assets		**3,341,258**			
Trade receivables	**Loans and receivables**	**37,195,194**			37,195,194
Total financial assets		**52,510,273**			
including:	**Financial instruments held for trading**	**9,644**	**-**	**9,644**	**-**
	Loans and receivables	**52,500,629**	**-**	**-**	**52,500,629**
Bank loans and borrowings	Financial liabilities at amortised cost	(72,538,335)		(72,538,335)	
Effective derivatives	Derivatives	(512,658)		(512,658)	
Other loans and borrowings	Financial liabilities at amortised cost	(2,569,781)		(2,569,781)	
Non-current financial liabilities		**(75,620,774)**			
Current bank loans	Financial liabilities at amortised cost	(34,312,949)		(34,312,949)	
Other loans and borrowings	Financial liabilities at amortised cost	(1,710,568)		(1,710,568)	
Derivatives	Financial instruments held for trading	(14,366)		(14,366)	
Financial liabilities with group companies	Financial liabilities at amortised cost	(4,667,271)			(4,667,271)
Current financial liabilities		**(40,705,154)**			
Trade payables	**Financial liabilities at amortised cost**	**(29,649,513)**			(29,649,513)
Total financial liabilities		**(145,975,441)**			
including:	**Financial liabilities at amortised cost**	**(145,448,417)**	**-**	**(111,131,633)**	**(34,316,784)**
	Financial instruments held for trading	**(14,366)**	**-**	**(14,366)**	**-**
	Derivatives	**(512,658)**	**-**	**(512,658)**	**-**

(in Euros)

31.12.2018	IFRS 9 category	Carrying amount	Fair Value Level 1	Level 2	Level 3
Other financial 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**	**(34,877,504)**			(34,877,504)
Total financial liabilities		**(150,415,735)**			
including:	**Financial liabilities at amortised cost**	**(150,233,734)**	**-**	**(111,859,813)**	**(38,373,921)**
	Financial instruments held for trading	**(11,922)**	**-**	**(11,922)**	**-**
	Derivatives	**(170,079)**	**-**	**(170,079)**	**-**

MARKET RISK

Currency risk

As the company sells its products in various countries around the world, it is exposed to the risk deriving from changes in foreign exchange rates. This risk mainly arises on purchases and sales in currencies like the US dollar, the Polish zloty and the Japanese yen.
The company agrees currency hedges to set the exchange rate in line with forecast sales and purchases volumes to protect itself against currency fluctuations with respect to its foreign currency transactions. The hedges are based on the company's net exposure using currency forwards and/or plain vanilla options in line with 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 company's results and, hence, indirectly the cost of and return on financing and investing activities.
The company regularly checks its exposure to interest rate fluctuations and manages such risks through the use of derivatives, in accordance with its risk management policies. With regard to such policies, the use of derivatives is reserved exclusively for the management of interest rate fluctuations connected to cash flows and they are not agreed or held for trading purposes.
It solely uses interest rate swaps (IRS), caps and collars to do so.
The company 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 company protects itself from the business risks deriving from its normal involvement in markets with these characteristics by focusing on technological innovation and geographical diversification and expansion leading to the company gaining international status as it is active on all the continents either directly or through exclusive third party franchisees.
The 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 company 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 company'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 2018 related to the statement of financial position and for 2018 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	218,541	7,095	12,821,845	24,611,110	7,246,034	270,437	45,175,062
Accumulated depreciation and impair, losses	(881)	(4,099)	(10,300,437)	(20,576,192)	(5,729,083)	-	(36,610,692)
Balance at 31 December 2018	**217,660**	**2,996**	**2,521,408**	**4,034,918**	**1,516,951**	**270,437**	**8,564,370**
Changes in 2019							
Right-of-use assets at 1 January 2019	3,202,741	-	-	-	655,202	-	3,857,943
Investments	114,683	-	304,611	2,443,506	406,471	421,814	3,691,085
Investments in right-of-use assets	-	-	-	-	163,642	-	163,642
Restatement of right-of-use assets	15,836	-	-	-	-		15,836
Internal cost capitalisation				31,479		-	31,479
Reclassifications	-	-	-	217,981	-	(217,981)	-
Termination right-of-use - cost	(118,680)	-	-	-	(11,621)	-	(130,301)
Disinvestments - cost	-	-	(883,276)	(279,874)	(213,086)	(14,220)	(1,390,456)
Disinvestments - accumulated depreciation	-	-	875,656	272,112	212,908		1,360,676
Depreciation	(7,810)	(709)	(477,596)	(1,852,097)	(483,857)	-	(2,822,069)
Depreciation of right-of-use assets	(1,150,904)	-	-	-	(245,555)	-	(1,396,459)
Impairment losses	-	-	-	(21,665)		-	(21,665)
Termination right-of-use - accumulated depreciation	118,354				11,621		129,975
Total changes	**2,174,220**	**(709)**	**(180,605)**	**811,442**	**495,725**	**189,613**	**3,489,686**
Balance at 31 December 2019	**2,391,880**	**2,287**	**2,340,803**	**4,846,360**	**2,012,676**	**460,050**	**12,054,056**
including:							
Historical cost	3,433,121	7,095	12,243,180	27,024,202	8,246,642	460,050	51,414,290
Accumulated depreciation and impairment losses	(1,041,241)	(4,808)	(9,902,377)	(22,177,842)	(6,233,966)	-	(39,360,234)

As described in the Accounting policies section, property, plant and equipment rose also as a consequence of the recognition of the right-of-use assets in accordance with the applicable standard. At 1 January 2019, the right-of-use assets related to new vehicles amounted to €3,873 thousand, decreasing by €164 thousand during the year.
Investments in Buildings rose following the recognition of the right-of-use assets, including the 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 €2,341 thousand. Among the increases of the year in generic plant, €19 thousand relates to work to ensure the compliance of the fire prevention system and €18 thousand to the implementation of the new electrical system in the warehouse. The increases of the year in specific plant include the purchase of warehouse aisle lighting (€38 thousand) and of high-tech welding machines (€132 thousand).
Divestments of specific plant include the scrapping of specific obsolete and discontinued plant for €870 thousand (screen printing machines, roller conveyors, welding machines, laser welding cells and valve functional tests).
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 pressure sensor assembly line for €295 thousand, a circuit test for €154 thousand, moulds for €513 thousand, laser marking and heat transfer systems for €236 thousand and an automatic elastometer assembly system for €59 thousand.
Equipment includes divestments for €280 thousand, mainly scrapping of obsolete and disused goods (circuit tests, moulds, cutting/sewing machines and warehouse shelving).
Increases in Other items of property, plant and equipment mainly include, in addition to the recognition of right-of-use assets relating to leased vehicles, furniture and fittings for €45 thousand, office and electronic machines for €293 thousand, internal means of transport for €12 thousand and telephone systems for €56 thousand.
The decrease is mostly due to the replacement of electronic office equipment (mainly as part of the upgrading of the company's information systems), owned cars and telephone systems.
Assets under construction include payments on account and ongoing investments in machinery constructed internally, not yet completed at 31 December 2019.
Depreciation amounts to €4,219 thousand and was calculated based on all depreciable assets at 31 December 2019, 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 2019. 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	18,786,691	12,558,107	358,592	3,324,252	80,216	35,107,858
Accumulated amortisation and impair. losses	(15,504,758)	(10,089,886)	-	(92,887)	(31,677)	(25,719,208)
Balance at 31 December 2018	**3,281,933**	**2,468,221**	**358,592**	**3,231,365**	**48,539**	**9,388,650**
Changes in 2019						
Investments	-	2,274,550	-	2,099,047	-	4,373,597
Internal cost capitalisation	946,189					946,189
Reclassifications	2,624,508	-	-	(2,624,508)	-	-
Amortisation	(1,643,112)	(1,478,622)	-		(12,515)	(3,134,249)
Total changes	**1,927,585**	**795,928**	**-**	**(525,461)**	**(12,515)**	**2,185,537**
Balance at 31 December 2019	**5,209,518**	**3,264,149**	**358,592**	**2,705,904**	**36,024**	**11,574,187**
including:			-	-	-	
Historical cost	22,357,388	14,832,657	358,592	2,798,791	80,216	40,427,644
Accumulated amortisation and impair, losses	(17,147,870)	(11,568,508)	-	(92,887)	(44,192)	(28,853,457)

Development expenditure: in 2019, the company capitalised development expenditure related to projects developed internally for a total of €3,571 thousand, of which €946 thousand related to 2019 and €2,625 thousand related to projects that were ongoing at 31 December 2018 and completed in 2019.

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. Specifically, €882 thousand relates to new implementations and evolutions of the Oracle management system, €179 thousand to improvements and evolutions of the price list portal, €141 thousand to the purchase of cyber security and IT system defence software, €139 thousand to the purchase of improvements and evolutions of the HFM (Hyperion Finance Management) system and €107 thousand for software to integrate production machinery.

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

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

- €2,503 thousand related to capitalised expenditure for the development of innovative products still in progress at the reporting date;
- €203 thousand related to payments on account to suppliers for the implementation and launch of new management software, including €165 thousand for sales forecasting and long-term production planning software.

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

EQUITY INVESTMENTS (note 3)

This caption may be broken down as follows:

(in Euros)	Investments in subsidiaries	Other equity investments (associates and others)	Total
Balance at 31 December 2018	**118,564,231**	**140,045**	**118,704,276**
Changes in 2019			
Initial cost:			
Increases	1,804,565	21,075	1,825,640
Impairment gains	459,326	-	459,326
Impairment losses	(222,013)	-	(222,013)
Total changes	**2,041,878**	**21,075**	**2,062,953**
Balance at 31 December 2019	**120,606,109**	**161,120**	**120,767,229**

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

(in Euros)	2019
Investments in subsidiaries	
CAREL Usa Llc	1,804,565
Investments in associates	
Smact Società Consortile per azioni	21,075
Total increases	**1,825,640**

In August 2019, the company subscribed and paid up CAREL Usa Llc's capital increase of USD2,000 thousand (€1,805 thousand). The aim of this transaction was to strengthen the investee's financial position and to provide it with the funds necessary to acquire 100% of Enersol Inc., an established Canadian distributor of CAREL products based in Quebec. The transaction, which was completed on 16 September 2019 and was worth CAD1,909 thousand (USD1,444 thousand), is part of the strategy to expand its direct sales network, aimed at strengthening its relationship with end customers in order to consolidate the group's market leadership.

Using the comparison between the carrying amount of the equity investments and the company's share of each investee's equity, the company's directors decided to reverse the impairment loss previously recognised on the investments' carrying amount since they deemed that it would continue to recognise positive results:

(in Euros)	2019
Investments in subsidiaries	
CAREL Asia Ltd	438,451
CAREL Controls Iberica SL	20,875
Total increases	**459,326**

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.

(in Euros)	2019
Investments in subsidiaries	
CAREL Middle East DWC Llc	(222,013)
Total decreases	**(222,013)**

At 31 December 2019, the company has 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)	31.12.2019 Historical cost	31.12.2019 Loss allowance	31.12.2019 Carrying amount	31.12.2018 Historical cost	31.12.2018 Loss allowance	31.12.2018 Carrying amount
Subsidiaries:						
Recuperator S.p.A.	25,743,625	-	25,743,625	25,743,625	-	25,743,625
CAREL Deutschland GmbH	138,049	-	138,049	138,049	-	138,049
CAREL Adriatic d.o.o.	7,370,289	-	7,370,289	7,370,289	-	7,370,289
C.R.C S.r.l.	1,600,000	-	1,600,000	1,600,000	-	1,600,000
HygroMatik GmbH	57,216,335	-	57,216,335	57,216,335	-	57,216,335
CAREL France Sas	91,469	-	91,469	91,469	-	91,469
CAREL South America Ltda	5,396,848	(1,983,740)	3,413,108	5,396,848	(1,983,740)	3,413,108
CAREL U.K. Ltd	1,624,603	-	1,624,603	1,624,603	-	1,624,603
CAREL Asia Ltd	1,761,498	(496,951)	1,264,547	1,761,498	(935,402)	826,096
CAREL Electronic (Suzhou) Co. Ltd	9,276,379	-	9,276,379	9,276,379	-	9,276,379
CAREL Controls Iberica SL	4,330,149	(1,479,125)	2,851,024	4,330,149	(1,500,000)	2,830,149
CAREL RUS Llc	160,936		160,936	160,936		160,936
CAREL Usa Llc	5,466,439		5,466,439	3,661,874		3,661,874
CAREL Nordic AB	60,798		60,798	60,798		60,798
CAREL Middle East	1,060,614	(982,627)	77,987	1,060,614	(760,614)	300,000
Alfaco Polska Sp.z.o.o.	3,820,413	-	3,820,413	3,820,413	-	3,820,413
CAREL Japan Co. Ltd	475,003	(44,895)	430,108	475,003	(44,895)	430,108
Total	**125,593,447**	**(4,987,338)**	**120,606,109**	**123,788,882**	**(5,224,651)**	**118,564,231**
Associates:						
Arion S.r.l	140,000		140,000	140,000		140,000
Total	**140,000**	**-**	**140,000**	**140,000**	**-**	**140,000**
Other companies:						
CONAI	45	-	45	45	-	45
Smact Società Consortile per azioni	21,075	-	21,075			-
Total	**21,120**	**-**	**21,120**	**45**	**-**	**45**
Total equity investments	**125,754,567**	**(4,987,338)**	**120,767,229**	**123,928,927**	**(5,224,651)**	**118,704,276**

The following table provides the information about equity investments at 31 December 2019 in accordance with article 2427 of the Italian Civil Code:

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

(*) amounts at 31.12.2018

Equity (Euros)	Profit (loss) for the year (Euros)	Investment percentage		Carrying amount (Euros)	E difference % and carrying amount (Euro)
		Direct	Indirect		
799,279	584,126	100.00%		138,049	661,230
14,840,694	4,276,597	100.00%		7,370,289	7,470,405
3,448,082	277,785	100.00%		1,600,000	1,848,082
1,598,444	288,379	100.00%		91,469	1,506,975
6,286,582	639,737	53.02%	46,98%	3,413,108	(79,962)
2,511,248	1,096,413	100.00%		1,624,603	886,645
1,264,547	182,947	100.00%		1,264,547	-
49,653,765	6,354,520	100.00%		9,276,379	40,377,386
2,851,024	574,596	100.00%		2,851,024	-
597,984	306,092	99.00%	1,00%	160,936	431,068
18,292,953	2,093,438	100.00%		5,466,439	12,826,514
602,911	107,327	100.00%		60,798	542,113
77,987	(221,166)	100.00%		77,987	-
5,895,440	2,031,509	100.00%		3,820,413	2,075,027
7,331,380	804,544	100.00%		25,743,625	(18,412,245)
4,318,429	3,539,284	100.00%		57,216,335	(52,897,906)
233,016	(15,501)	100.00%		430,108	(197,092)
				120,606,109	**(2,961,760)**
277,705	66,149	40.00%		140,000	(28,918)
				140,000	**(28,918)**
				45	-
				21,075	-
				21,120	**-**
				120,767,229	**(2,990,678)**

As required by IAS 36, the directors assessed at 31 December 2019 whether there were any possible internal or external events (trigger events) affecting the investees that indicated the need to perform an impairment test. On the basis of the analyses carried out and the forward-looking plans, it was deemed that there were no such elements requiring the performance of these tests. The estimates made did not take into account the uncertainties caused by the events described in detail in the section "Events after the reporting date" of this report. In fact, these instability factors were considered as non-adjusting events in accordance with IAS 10.21. During 2020, the directors will monitor developments in the scenario described, which at the date of preparation of this report presents uncertainties and instability factors.

OTHER NON-CURRENT ASSETS (note 4)

These amount to €11,973 thousand and can be analysed as follows:

		Change during the year		
(in Euros)	**31.12.2019**	**New loans / increases**	**Repayments / decreases**	**31.12.2018**
Subsidiaries	681,290	681,290	(2,418,294)	2,418,294
Associates	160,000			160,000
Substitute tax	11,132,116	11,132,116		
Others	415	-	(1,578)	1,993
Total	**11,973,821**	**11,813,406**	**(2,419,872)**	**2,580,287**

Amounts due from subsidiaries of €681 thousand refer to the amounts due after one year of an original interest-bearing loan of USD1,500 thousand expiring in January 2022 granted to the investee CAREL USA Inc. The recognised amount refers to the Euro/USD spot exchange rate at 31 December 2019.

During the year, HygroMatik GmbH prepaid some loan instalments. Therefore, the repayment plan was redefined and the remaining portions of the loan were reclassified as current.

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..

The substitute tax reflects the directors' decision, supported by their consultants, to pay the substitute tax in order to obtain acceptance from the tax authorities of the higher values recorded at the time of the acquisition against consideration of 100% of Recuperator S.p.A. (Italy) and Hygromatik Gmbh (Germany), which took place in December 2018.

According to a provision of Italy's tax legislation (article 15.10-bis of Law decree no. 185/2008), companies that have acquired controlling interests in resident or non-resident companies are allowed to recognise for tax purposes the portion of the higher value of the equity investment attributable to goodwill and other intangible assets of the investee, as per the consolidated financial statements of the parent and within the limits imposed by tax regulations, by paying a substitute tax of 16%. When this option is exercised, the higher amount of goodwill, trademarks and other intangible assets, including those with an indefinite useful life, may be amortised up to one-fifth, regardless of their recognition in profit or loss, starting from the second tax year following that in which the substitute tax was paid.

Amounts due from others refer to term deposits for utilities.

DEFERRED TAX ASSETS (note 5)

Deferred tax assets at 31 December 2019 were generated by the temporary differences between the carrying amounts of assets and liabilities and their tax bases calculated with reference to the tax rates expected to be enacted in the years in which the differences will reverse. The company considered it appropriate to recognise the deferred tax assets arising on the temporary differences indicated below in the separate financial statements, as it is reasonably certain that they will be offset against taxable profits in the years in which the deductible temporary differences will reverse.

(in Euros)	31.12.2019 Tax base	31.12.2019 Deferred tax assets	31.12.2018 Tax base	31.12.2018 Deferred tax assets
Allowance for inventory write-down	1,353,569	324,857	1,003,441	240,826
Provision for product warranties	214,635	59,883	224,427	62,615
Provision for complaints	2,297,804	641,087	1,462,441	408,020
Provision for agents' termination indemnity and bonuses	74,026	17,766	74,026	17,766
Unrealised exchange differences	78,635	18,872	-	-
Deductible cash fees	108,817	26,116	18,589	4,461
Amortisation of goodwill - transfer	81,667	22,786	81,667	22,786
Substitute tax on goodwill (16%)	81,667	13,067	81,667	13,067
Amortisation of goodwill - merger	238,643	66,581	238,643	66,581
Substitute tax on goodwill (12%)	238,643	28,637	238,643	28,637
Amortisation of goodwill - acquisition of business unit	3,940	1,100	3,940	1,100
Discounting - Post-employment benefits and post-term of office benefits	562,776	157,013	302,316	84,345
Difference between amort./depr. and fiscally-driven amort./depr.	175,842	49,061	123,460	34,446
Fair value of derivatives	500,081	120,019	153,205	36,769
Total	**6,010,745**	**1,546,845**	**4,006,465**	**1,021,419**

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

(in Euros)	31.12.2019	Recognised in profit or loss	Recognised in other comprehensive income	31.12.2018
Allowance for inventory write-down	324,857	84,031	-	240,826
Provision for product warranties	59,883	(2,732)	-	62,615
Provision for complaints	641,087	233,067	-	408,020
Provision for agents' termination indemnity and bonuses	17,766	-	-	17,766

(in Euros)	31.12.2019	Recognised in profit or loss	Recognised in other comprehensive income	31.12.2018
Unrealised exchange differences	18,872	18,872	-	-
Deductible cash fees	26,116	21,655	-	4,461
Amortisation of goodwill - transfer	22,786	-	-	22,786
Substitute tax on goodwill (16%)	13,067	-	-	13,067
Amortisation of goodwill - merger	66,581	-	-	66,581
Substitute tax on goodwill (12%)	28,637	-	-	28,637
Amortisation of goodwill - acquisition of business unit	1,100	-	-	1,100
Discounting - Post-employment benefits and post-term of office benefits	157,013	(22,443)	95,111	84,345
Difference between amor./depr. and fiscally-driven amort./depr.	49,061	14,615	-	34,446
Fair value of derivatives	120,019	-	83,250	36,769
Total	**1,546,845**	**347,065**	**178,361**	**1,021,419**

TRADE RECEIVABLES (note 6)

These amount to €37,195 thousand (€37,585 thousand at 31 December 2018) and can be broken down as follows:

(in Euros)	31.12.2019	Change during the year	31.12.2018
Third parties	22,932,432	(1,429,362)	24,361,794
Parents	-	(327,808)	327,808
Subsidiaries	14,713,470	1,045,354	13,668,116
Subsidiaries of parents	16,487	2,860	13,627
Related parties	3,050	-	3,050
Total trade receivables	37,665,439	(708,956)	38,374,395
Loss allowance	(470,245)	318,734	(788,979)
Total	**37,195,194**	**(390,222)**	**37,585,416**

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

Trade receivables, net of the loss allowance, refer to the following geographical segments:

(in Euros)	31.12.2019	31.12.2018
Europe, Middle East and Africa	30,091,587	30,106,144
APAC	4,303,822	5,268,129
North America	2,500,307	2,343,042
South America	769,723	657,080
Total	**37,665,439**	**38,374,395**

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

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

The 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:

		Change during the year			
(in Euros)	31.12.2019	Accruals	Utilisations	Reversals	31.12.2018
Loss allowance	470,245	-	(27,932)	(290,802)	788,979
Total	**470,245**	**-**	**(27,932)**	**(290,802)**	**788,979**

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

(in Euros)	31.12.2019	31.12.2018
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.	152,756	190,380
Recuperator S.p.A..	36,716	-
CAREL U.K. Ltd	1,249,590	1,007,495

(in Euros)	31.12.2019	31.12.2018
CAREL France s.a.s.	1,345,547	1,098,895
CAREL Asia Ltd	1,203,439	1,919,120
CAREL Sud America Instrumentacao Eletronica Ltda	567,038	431,952
CAREL Usa Llc	2,442,734	2,228,875
CAREL Australia Pty. Ltd	19,485	-
CAREL Deutschland GmbH	2,338,715	271,491
CAREL Electronic (Suzhou) Co Ltd	1,864,539	2,235,393
CAREL Controls Iberica S.L.	841,450	1,033,698
CAREL ACR Systems India (Pvt) Ltd	474,389	367,739
CAREL Controls South Africa (Pty) Ltd	5,250	-
CAREL Korea Ltd	123,945	72,389
CAREL Nordic AB	487	80
CAREL Japan Co. Ltd	10,819	6,427
CAREL Mexicana S.De.RL	57,573	114,167
CAREL Middle East DWC Llc	37,005	32,500
Alfaco Polska Sp.z.o.o	1,179,254	2,091,368
CAREL Adriatic D.o.o.	762,739	566,147
Subsidiaries	**14,713,470**	**13,668,116**
Eurotest Laboratori S.r.l.	10,662	10,577
Arianna S.p.A.	5,825	3,050
Subsidiaries of parents	**16,487**	**13,627**
RN Real Estate S.r.l	3,050	3,050
Related parties	**3,050**	**3,050**

INVENTORIES (note 7)

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

(in Euros)	31.12.2019	Change during the year	31.12.2018
Raw materials and consumables	11,192,374	(1,502,635)	12,695,009
Allowance for inventory write-down	(893,722)	(309,247)	(584,475)

(in Euros)	31.12.2019	Change during the year	31.12.2018
Total raw materials, consumable and supplies	10,298,652	(1,811,882)	12,110,534
Work in progress and semi-finished goods	1,398,067	(452,357)	1,850,424
Allowance for inventory write-down	(72,569)	(18,515)	(54,054)
Total work in progress and semi-finished goods	1,325,498	(470,872)	1,796,370
Finished goods	7,264,890	(1,362,414)	8,627,304
Allowance for inventory write-down	(387,278)	(22,366)	(364,912)
Total finished goods	6,877,612	(1,384,780)	8,262,392
Payments on account	25,455	25,005	450
Inventories	**18,527,217**	**(3,642,529)**	**22,169,746**

Inventories, gross of the allowance for inventory write-down, decreased by a total of €3,317 thousand, thanks to the company's continuous effort to reduce its level of inventories and the resolution of the component shortage issues that affected the first few months of the year.
The company recognised an allowance for inventory write-down to cover the difference between the cost and estimated realisable value of obsolete raw materials and finished goods. The accrual to the statement of profit or loss was recognised in the caption Costs of raw materials, consumables and goods and changes in inventories".
Inventories were not pledged or subject to property rights restrictions.

CURRENT TAX ASSETS (note 8)

These amounted to €650 thousand and can be broken down as follows:

(in Euros)	31.12.2019	Change during the year	31.12.2018
IRES tax asset	497,206	(3,784,727)	4,281,933
IRAP tax asset	152,962	(517,879)	670,841
Total	**650,168**	**(4,302,606)**	**4,952,774**

Current tax assets are as follows:

- IRES tax asset of €159 thousand resulting from the calculation of the taxes for 2019;
- 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;
- IRES tax asset of €104 thousand resulting from the calculation of the taxes for 2019;
- 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 €3,694 thousand (€2,390 thousand at 31 December 2018) and can be broken down as follows:

(in Euros)	31.12.2019	Change during the year	31.12.2018
Other tax assets	1,535,538	297,434	1,238,104
Other assets	2,158,116	1,005,725	1,152,391
Total	**3,693,654**	**1,303,159**	**2,390,495**

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

(in Euros)	31.12.2019	Change during the year	31.12.2018
VAT assets	592,550	272,504	320,046
Tax assets	942,988	24,930	918,058
Total	**1,535,538**	**297,434**	**1,238,104**

VAT assets relate to the VAT tax asset at the reporting date. Tax assets refer to the tax credit for research and development of €856 thousand accrued in 2019.

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

(in Euros)	31.12.2019	Change during the year	31.12.2018
Advances to suppliers	214,855	106.164	108,691
Other assets	751,485	747,545	3,940
Other accrued income	5	5	-
Prepaid insurance premiums	-	(230,754)	230,754
Prepayments related to more than one year	58,277	(16,383)	74,660
Other prepayments	1,133,494	399,148	734,346
Total	**2,158,116**	**1,005,725**	**1,152,391**

Advances to suppliers refer to payments on account for services.

Other assets include €750 thousand for insurance compensation for the costs incurred and to be incurred for commercial claims from customers related to products sold and concerning the reconditioning of certain units which, for reasons related to the technical characteristics of the electrical network in which they are installed, have lost functionality. In this respect, the product recall section of the product liability policy expressly states that the company shall indemnify the insured party for the recall costs when the recall is indispensable as a result of possible

damage resulting from the failure to operate. The amount recognised in accordance with IAS 37 corresponds to the maximum amount that can be indemnified under the policy.
Prepayments and accrued income refer to income or charges collected/paid before or after the year to which they pertain. They are recognised regardless of the payment or collection date when the related income and charges are common to two or more years and can be allocated over time.
Other prepayments include €694 thousand pertaining to the subsequent year for software maintenance instalments and €277 thousand pertaining to the subsequent year for fairs and exhibitions.

CURRENT FINANCIAL ASSETS (note 10)
These amount to €3,341 thousand (€7,484 thousand at 31 December 2018) and are as follows:

(in Euros)	31.12.2019	Change during the year	31.12.2018
Subsidiaries	1,564,876	372,174	1,192,702
Cash pooling arrangement	1,766,738	(4,511,890)	6,278,628
Derivatives	9,644	(3,253)	12,897
Total	**3,341,258**	**(4,142,969)**	**7,484,227**

Amounts due from subsidiaries due within one year may be analysed as follows:

- €609 thousand related to HygroMatik GmbH for an original interest-bearing loan of €3,608 thousand expiring on 30 November 2021 granted in December 2018;
- €502 thousand related to C.R.C S.r.l. for an original interest-bearing loan of €1,000 thousand expiring on 13 March 2020 granted in March 2019;
- €454 thousand related to CAREL USA Inc for an original interest-bearing loan of USD1,500 thousand expiring in January 2022 granted in January 2019. The recognised amount refers to the Euro/USD spot exchange rate at 31 December 2019.

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)	31.12.2019	31.12.2018
CAREL Adriatic Doo	-	4,227,311
Alfaco Polska Sp.z.o.o.	1,596,262	2,051,317
CAREL France s.a.s.	170,476	
Total	**1,766,738**	**6,278.628**

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

	31.12.2019				31.12.2018			
(in Euros)	Fair value **	Nominal amount **	Currency forwards purchases*	Currency fowards sales*	Fair value **	Nominal amount **	Currency forwards purchases*	Currency forwards sales*
USD forwards	9,644	1,078,053	-	1,200,000	9,447	1,480,871	-	1,690,000
YEN forwards	-	-	-	-	3,450	137,424	17,693,630	-
Total	**9,644**				**12,897**			

* In foreign currency
** In Euros

Fair value is calculated as follows:

- for currency derivatives as the mark to market value at 31 December 2019, 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 2019 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 €25,585.

(in Euros)	31.12.2019	Change during the year	31.12.2018
Bank deposits	25,576,266	1,578,594	23,997,672
Cash and cash equivalents	9,120	568	8,552
Total	**25,585,386**	**1,579,162**	**24,006,224**

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)	31.12.2019	Change during the year	31.12.2018
Share capital	10,000,000	-	10,000,000
Share premium reserve	867,350	-	867,350
Revaluation reserves	3,424,658	-	3,424,658
Legal reserve	2,000,000	-	2,000,000
Treasury shares	(807,278)	(807,278)	-

(in Euros)	31.12.2019	Change during the year	31.12.2018
Hedging reserve	(362,698)	(269,896)	(92,802)
Other reserves			
- Extraordinary reserve	34,552,922	13,968,035	20,584,887
- Transfer premium reserve	6,105,327	-	6,105,327
- Reserve for unrealised exchange gains	27,356	27,356	-
- IFRS FTA reserve	2,145,495	-	2,145,495
- Stock grant reserve	417,469	340,212	77,257
- Actuarial reserve	(220,397)	(245,791)	25,394
Retained earnings	476,149	-	476,149
Profit for the year	22,708,460	(1,278,598)	23,987,058
Equity	**81,334,813**	**11,734,040**	**69,600,773**

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

		Change during the year					
(in Euros)	Balance at 31.12.2019	Total changes	Allocation of prior year profit (loss)	Reclassification	Dividends	Profit for the year	31.12.2018
Share capital	10,000,000	-					10,000,000
Share premium reserve	867,350	-					867,350
Revaluation reserves	3,424,658	-					3,424,658
Legal reserve	2,000,000	-					2,000,000
Treasury shares	(807,278)	(807,278)				(807,278)	-
Hedging reserve	(362,698)	(269,896)	-			(269,896)	(92,802)
Other reserves							
- Extraordinary reserve	34,552,922	13,968,035	13,968,035	-	-		20,584,887
- Transfer premium reserve	6,105,327	-					6,105,327
- Reserve for unrealised exchange gains	27,356	27,356	27,356	-			-
- IFRS FTA reserve	2,145,495	-					2,145,495
- Stock grant reserve	417,469	340,212				340,212	77,257

(in Euros)	Balance at 31.12.2019	Change during the year: Total changes	Allocation of prior year profit (loss)	Reclassification	Dividends	Profit for the year	31.12.2018
- Actuarial reserve	(220,397)	(245,791)				(245,791)	25,394
Retained earnings	476,149	-	-				476,149
Profit for the year	22,708,460	(1,278,598)	(13,995,391)		(9,991,667)	22,708,460	23,987,058
Equity	**81,334,813**	**11,734,040**	**-**		**(9,991,667)**	**21,725,707**	**69,600,773**

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 Share premium reserve includes the carrying amount resulting from the company's merger of the industrial and commercial business units of the former Samos S.r.l. in 2013.
The Revaluation reserve includes the revaluation, net of taxes, of property, plant and equipment acquired in 2009 following the transfer of the production business unit from the former parent.
The Legal reserve reached the limit set by article 2430 of the Italian Civil Code.
Treasury shares relate to 83,335 treasury shares repurchased during the year within the limits and for the purposes resolved by the shareholders' meeting of September 2018.
The hedging reserve includes the fair value gains or losses, net of the deferred tax effects on the effective portion of four interest rate hedging derivatives entered into to hedge the interest rate risk of floating-rate non-current loans entered into in 2016, 2018 and 2019. The changes are shown in the following table:

(in Euros)	
31.12.2018	**(92,802)**
Change during the year	
Fair value increases	-
Fair value decreases	(355,126)
Release to profit or loss	-
Adjustment of assets/liabilities	-
Deferred tax effect	85,230
Total changes	**(269,896)**
31.12.2019	**(362,698)**

The increase in the Extraordinary reserve is due to the resolution passed by the shareholders in their meeting of 15 March 2019 which approved the separate financial statements at 31 December 2018.
The Transfer premium reserve includes the residual balance of the reserve set up in May 2009 following the

transfer of the operating business unit from the former parent.

Reserve for unrealised exchange gains: in their meeting of 15 March 2019 called to approve the separate financial statements at 31 December 2018, the shareholders acknowledged that the 2018 unrealised exchange differences were positive. Therefore, pursuant to article 2426.8 bis of the Italian Civil Code, the balance must be accrued in an equity reserve distributable upon realisation.

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

The Stock grant reserve includes the fair value at 31 December 2019 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.

In the same meeting on 7 September 2018, in order to service the incentive plan, the shareholders authorised the repurchase of treasury shares, up to 5,000,000 or 5% of the company's share capital. At the reporting date, the company had 83,335 treasury shares totalling €807 thousand.

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 reflect the 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

(in Euros)					Use in the past three years	
	Amount	**Possible use**	**Available portion**	**Distributable portion**	**To cover losses**	**Distribution of reserves**
Share capital	10,000,000					
Equity-related reserves:						
Share premium reserve	867,350	A, B, C	867,350	867,350		
Revaluation reserves	3,424,658	A, B, C	3,424,658	3,424,658		
Transfer premium reserve	6,105,327	A, B, C	6,105,327	6,105,327		
Reserve for treasury shares	(807,278)		(807,278)			
Income-related reserves:						
Legal reserve	2,000,000	B	2,000,000			
Extraordinary reserve	34,552,922	A, B, C	33,745,644	26,033,668		35,000,000
Reserve for unrealised exchange gains	27,356	A, B	27,356			
IFRS FTA reserve	2,145,495	B	2,145,495			
Actuarial reserve	(220,397)		(220,397)			
Hedging reserve	(362,698)		(362,698)			
Stock grant reserve	417,469	B	417,469			

(in Euros)	Amount	Possible use	Available portion	Distributable portion	Use in the past three years: To cover losses	Use in the past three years: Distribution of reserves
Retained earnings	476,149	B	476,149			
Total (net of profit for 2019)	**58,626,353**		**47,819,075**	**36,431,003**	**-**	**35,000,000**
Profit for 2019	22,708,460					
Total equity	**81,334,813**					

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 2019, development expenditure not yet amortised amounted to €7,711,976.

The following table provides an indication of the tax regime for the share capital and reserves at 31 December 2019 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
Treasury shares	(807,278)				(807,278)
Hedging reserve	(362,698)				(362,698)
Other reserves					-
- Extraordinary reserve			34,552,922		34,552,922
- Reserve for unrealised exchange gains			27,356		27,356
- Transfer premium reserve				6,105,327	6,105,327
- IFRS FTA reserve	2,145,495				2,145,495
- Stock grant reserve	417,469				417,469

(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
- Actuarial reserve	(220,397)				(220,397)
Retained earnings	476,149				476,149
Total	**3,648,740**	**-**	**34,580,278**	**20,397,335**	**58,626,353**

Earnings per share

Earnings per share were calculated by dividing the profit attributable to the owners of the parent by the weighted average number of outstanding ordinary shares. At 31 December 2019, following the above-mentioned repurchase of treasury shares, the weighted average of outstanding ordinary shares was 99,928,615.

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

(in Euros)	31.12.2019	31.12.2018
Earnings per share	22,708,460	23,987,058
Average number of ordinary shares	99,928,615	100,000,000
Basic earnings per share	**0,2272**	**0,2399**

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

CAREL

NON-CURRENT AND CURRENT FINANCIAL LIABILITIES (note 13)

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

(in Euros)	31.12.2019	Change during the year	31.12.2018
Bank loans and borrowings at amortised cost	72,538,335	5,837,411	66,700,924
Non-current lease liabilities	1,382,711	1,382,711	-
Other loans and borrowings at amortised cost	1,187,070	(289,163)	1,476,233
Effective designated derivative hedges	512,658	342,579	170,079
Non-current financial liabilities	**75,620,774**	**7,273,538**	**68,347,236**

Current loans and borrowings can be broken down as follows:

(in Euros)	31.12.2019	Change during the year	31.12.2018
Current portion of bank loans at amortised cost	34,312,949	(8,955,297)	43,268,246
Current lease liabilities	1,272,420	1,272,420	-
Other loans and borrowings at amortised cost	438,148	23,738	414,410
Derivatives held for trading at fair value through profit or loss	14,366	2,444	11,922
Cash pooling arrangement	4,667,271	1,170,854	3,496,417
Current financial liabilities	**40,705,154**	**(6,485,841)**	**47,190,995**

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

31.12.2019

(in Euros)	Currency	Original amount	Maturity	Rate	Terms	Outstanding liabilities in Euros	Within one year	After one year
BNL (BNP Paribas) loan no. 6129125	EUR	15,000,000	03/2020	Fisso	0.37%	2,510,938	2,510,938	-
Medio Credito Italiano (Intesa San Paolo) loan	EUR	15,000,000	06/2021	Variabile	Euribor 3 M + 0.55%	5,001,554	3,333,333	1,668,221
Mediobanca – Banca di Credito Finanziario S.p.A. loan	EUR	30,000,000	11/2021	Fisso	0.88%	17,989,024	12,000,000	5,989,024
BNL (BNP Paribas) loan no. 6139218	EUR	30,000,000	11/2022	Fisso	Euribor 6 M + 0.78%	25,675,778	8,571,429	17,104,349

(in Euros)	Currency	Original amount	Maturity	Rate	Terms	Outstanding liabilities in Euros	Within one year	After one year
Unicredit S.p.A. loan	EUR	20,000,000	04/2023	Fisso	0.45%	15,555,555	4,444,444	11,111,111
Unicredit S.p.A. loan	EUR	20,000,000	04/2023	Variabile	Euribor 3 M + 0.92%	20,000,000	3,333,333	16,666,667
BNL (BNP Paribas) loan no. 6141372	EUR	20,000,000	04/2023	Variabile	Euribor 3 M + 0.98%	19,998,963	-	19,998,963
Total						**106,731,812**	**34,193,477**	**72,538,335**

During the year the company:

- in April, took out an unsecured loan of €20,000 thousand from Unicredit S.p.A. at a variable rate (three-month Euribor plus a spread of 0.92%) and a duration of 48 months. To hedge the interest rate risk, the company entered into an IRS with a duration of 48 months;
- in April, took out an unsecured loan of €20,000 thousand from BNL (BNP Paribas) at a variable rate (three-month Euribor plus a spread of 0.98%) 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 following loans require compliance with covenants:

- Mediobanca (loan 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 based on the figures recognised in the consolidated financial statements:
- Net financial position / gross operating profit < 3.50x;
- Net financial expense / gross operating profit > 5.00x
  – BNN – BNP Paribas (loan no. 6141372 of €20,000 thousand): the loan requires that the following covenants be respected at 31 December of each year starting from 31 December 2019 based on the figures recognised in the consolidated financial statements:
- Net financial position / gross operating profit < 3.50x.

At 31 December 2019, such covenants have been respected.

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

31.12.2019

(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%	375,009	250,006	125,003
Medio Credito Centrale- Horizon 2020 programme	EUR	1,340,866	06/2026	Fixed	0.80%	1,250,209	188,142	1,062,067
Total						**1,625,218**	**438,148**	**1,187,070**

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

The company obtained from the Ministry of Economic Development ("MISE") funding for a research and

development project which falls within the scope of the Horizon 2020 EU framework programme. The project has 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%).
After the final report submitted to the MISE followed by the report of the Ministerial Commission in charge of the final assessment of the completion of the subsidised project, the bank appointed by the MISE disbursed the balance of the subsidised loan amounting to €149 thousand.
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:

(in Euros)

Lender	Instrument	Notional amount	Floating interest rate	Fixed interest rate	Maturity	Fair value loss
Medio Credito Italiano	Interest rate swap	15,000,000	"3m Euribor > -0.55% -0.55% > 3m Euribor"	-0,10%	30,06,2021	12,578
Finanziamento BNL (BNP Paribas)	Interest rate swap	30,000,000	"6m Euribor > -0.78% -0.78% > 6m Euribor"	-0,11%	21,11,2022	179,925
Finanziamento BNL (BNP Paribas)	Interest rate swap	20,000,000	"3m Euribor > -0.98% -0.98% > 3m Euribor"	-0,02%	30,04,2023	192,430
Fianziamento UNICREDIT	Interest rate swap	20,000,000	"3m Euribor > -0.92% -0.92% > 3m Euribor"	-0,04%	30,04,2023	127,725
Total						**512,658**

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.

	31.12.2019				31.12.2018			
(in Euros)	Fair value **	Nominal amount **	Currency forwards purchases*	Currency forwards sales*	Fair value **	Nominal amount **	Currency forwards purchases*	Currency forwards sales*
YEN forwards	463	36,806	4,430,950	-	-	-	-	-
Zloty forwards	13,903	1,600,776	-	6,920,604	11,922	2,112,809	-	9,180,724
Total	**14,366**				**11,922**			

*In foreign currency
** In Euros

Fair value is calculated as follows:

- interest rate derivatives, as the present value at 31 December 2019 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 2019, 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 2019 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)	31.12.2019	31.12.2018
CAREL U.K. Ltd	1,271,363	244,526
CAREL France s.a.s.	-	973,011
CAREL Deutschland GmbH	1,956,251	1,713,887
CAREL Controls Iberica Sl	700,158	564,993
CAREL Adriatic Doo	739,499	-
Total	**4,667,271**	**3,496,417**

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)	31.12.2019	Net cash flows	Change in fair value	Reclassification	IFRS 16 FTA	31.12.2018
Bank loans and borrowings at amortised cost	72.538,335	36,691,220	-	(30,853,809)	-	66,700,924
Lease liabilities	1,382,711	107,435	-	(747,948)	2,023,224	-
Other loans and borrowings at amortised cost	1,187,070	126,565	-	(415,728)	-	1,476,233
Effective designated derivative hedges	512,658	(175,207)	517,786	-	-	170,079
Non-current financial liabilities	**75,620,774**	**36,750,013**	**517,786**	**(32,017,485)**	**2,023,224**	**68,347,236**

Current financial liabilities

(in Euros)	31.12.2019	Net cash flows	Change in fair value	Reclassification	IFRS 16 FTA	31.12.2018
Bank loans and borrowings at amortised cost	34,312,949	(39,809,106)	-	30,853,809	-	43,268,246
Current lease liabilities	1,272,420	(1,317,499)	-	747,948	1,841,971	-
Other loans and borrowings at amortised cost	438,148	(391,990)	-	415,728	-	414,410
Derivatives held for trading at fair value through profit or loss	14,366	(11,922)	14,366	-	-	11,922

(in Euros)	31.12.2019	Net cash flows	Change in fair value	Reclassification	IFRS 16 FTA	31.12.2018
Cash pooling arrangement	4,667,271	1,170,854	-	-	-	3,496,417
Current financial liabilities	**40,705,154**	**(40,359,663)**	**14,366**	**32,017,485**	**1,841,971**	**47,190,995**

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)	31.12.2019	Actuarial benefits	Accruals	Reversals	Utilisations	Reclassifications	31.12.2018
Provision for agents' termination benefits	754,204	40,224	29,686	-	(2,098)	-	686,392
Provision for product warranties	214,636	-	9,438		(19,229)	-	224,427
Provision for commercial complaints	199,700	-	24,000		(42,500)	-	218,200
Total - non-current	**1,168,540**	**40,224**	**63,124**	**-**	**(63,827)**	**-**	**1,129,019**
Provision for legal and tax risks	-	-	-	(347)	(404,665)	-	405,012
Provision for commercial complaints	2,098,105	-	1,363,654	-	(509,791)	-	1,244,242
Total - current	**2,098,105**	**-**	**1,363,654**	**(347)**	**(914,456)**	**-**	**1,649,254**
Total provisions for risks	**3,266,645**	**40,224**	**1,426,778**	**(347)**	**(978,283)**	**-**	**2,778,273**

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

The provision for agents' termination benefits is calculated by an independent actuary using the closed group approach in accordance with IAS 37. The assessments were carried out by quantifying future payments through the projection of agency commissions accrued at the assessment date up to the estimated moment (uncertain) in which the contractual relationship will be 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 2019, was in line with the Iboxx AA Corporate index equal to 0.37%, with the same duration as the closed group subject to assessment.

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 related to products sold.
The provision increased due to the estimated larger cost for reconditioning certain products which, for reasons related to the technical characteristics of the electrical network in which they are installed, have lost functionality. The accrual is shown in the statement of profit or loss, net of the insurance compensation expected on the basis of the company's insurance policy. The compensation, equal to €750 thousand was recognised under Other assets in accordance with IAS 37.
The use during the year relates to specific customer complaints.
At 31 December 2018, the Provision for legal and tax risks represented 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 for 2011, 2012 (during this period, a dispute was pending with the relevant tax authorities) and 2015. During the year, the company availed itself of the possibility to settle the tax disputes for 2011 and 2012 using the benefits provided for by Law decree no. 119/2018 and to agree to the higher amount set by the tax office for 2015, paying a final total amount of €405 thousand.

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 using the closed group approach in accordance with the accrued benefits methodology using the projected unit credit method envisaged in IAS 19.
As described in the Accounting policies, the actuarial gains or losses are recognised in a specific equity reserve with immediate recognition in other comprehensive income.
Defined benefit plans and changes therein may be analysed as follows:

(in Euros)	31.12.2019	Change during the year	31.12.2018
Post-employment benefits	4,626,593	140,012	4,486,581
Post-term of office benefits for directors	629,007	136,100	492,907
Total	**5,255,600**	**276,112**	**4,979,488**

Post-employment benefits at year end were as follows:

(in Euros)	31.12.2019	31.12.2018
Opening balance	**4,486,581**	**4,636,233**
Accruals	1,693,590	1,568,310
Transfers to pension funds	(1,680,963)	(1,552,327)
Interest cost	52,913	62,680
Employee benefits paid	(188,473)	(101,362)
Substitute tax	(12,627)	(15,983)
Actuarial (gains) losses	275,572	(110,970)
Closing balance	**4,626,593**	**4,486,581**

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

(in Euros)	31.12.2019	31.12.2018
Opening balance	**492,907**	**418,722**
Accruals	74,979	78,364
Interest cost	3,838	5,227
Benefits paid to directors	(8,047)	(33,280)
Actuarial losses	65,330	23,874
Closing balance	**629,007**	**492,907**

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

DEFERRED TAX LIABILITIES (note 16)

Deferred tax liabilities at 31 December 2019 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:

	31.12.2019		31.12.2018	
(in Euros)	Tax base	Deferred tax liabilities	Tax base	Deferred tax liabilities
Unrealised exchange differences	105,694	25,367	-	-
Fair value of derivatives	22,847	5,483	31,097	7,463
Diff. in amort/dep. calculated under IFRS/OIC FTA	265,684	74,126	445,303	124,240
Diff. In amort/dep. calculated under IFRS/OIC 2015	410,514	114,533	500,526	139,646
Diff. in amort/dep. calculated under IFRS/OIC 2016	213,706	59,624	470,958	131,397
Discounting of agents' termination benefits	113,170	31,574	153,395	42,797
Total	**1,131,615**	**310,707**	**1,601,279**	**445,543**

The changes in deferred tax liabilities were as follows:

(in Euros)	31.12.2019	Recognised in profit or loss	Recognised in other comprehensive income	31.12.2018
Unrealised exchange differences	25,367	25,367	-	-
Fair value of derivatives	5,483	-	(1,980)	7,463
Diff. in amort/dep. calculated under IFRS/OIC FTA	74,126	(50,114)	-	124,240
Diff. in amort/dep. calculated under IFRS/OIC 2015	114,533	(25,113)	-	139,646
Dif. in amort/dep. calculated under IFRS/OIC 2016	59,624	(71,773)	-	131,397
Discounting of agents' termination benefits	31,574	(11,223)	-	42,797
Total	**310,707**	**(132,856)**	**(1,980)**	**445,543**

TRADE PAYABLES (note 17)

These amount to €29,650 thousand (€34,878 thousand at 31 December 2018) and can be broken down as follows:

(in Euros)	31.12.2019	Change duing the year	31.12.2018
Payments on account from customers	310,382	(50,402)	360,784
Third parties	20,325,517	(3,093,441)	23,418,958
Subsidiaries	8,804,648	(2,225,190)	11,029,838
Associates	-	(24,532)	24,532
Subsidiaries of parents	97,354	59,492	37,862
Related parties	111,612	106,082	5,530
Total	**29,649,513**	**(5,227,991)**	**34,877,504**

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

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

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

Trade payables refer to the following geographical segments:

(in Euros)	31.12.2019	31.12.2018
Europe, Middle East and Africa	26,030,776	30,042,356
APAC	3,252,485	4,443,561
North America	328,262	343,611
South America	37,990	47,976
Total	**29,649,513**	**34,877,504**

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

(in Euros)	31.12.2019	31.12.2018
C.R.C. Srl	51,057	4,023
CAREL U.K. Ltd	54,071	42,451
CAREL France Sas	73,787	28,682
CAREL Asia Ltd	18,829	75,836
CAREL Sud America Instrumentacao Eletronica Ltda	33,439	42,906
CAREL Usa Llc	114,957	216,083
CAREL Australia Pty Ltd	90,932	-
CAREL Deutschland GmbH	14,078	11,110
CAREL Electronic (Suzhou) Co Ltd	2,675,206	3,912,900
CAREL Controls Iberica Sl	1,648	6,252
CAREL ACR Systems India (Pvt) Ltd	122,551	141,958
CAREL Controls South Africa (Pty) Ltd	1,104	376
CAREL Rus Llc	362,010	317,243
CAREL Korea Ltd	69,941	14,788
CAREL Nordic AB	251,230	340,818
CAREL Japan Co. Ltd	2,797	165
CAREL Mexicana S.De.RL	4,161	-
CAREL Middle East DWC Llc	143,383	139,726
Alfaco Polska Sp.z.o.o	11,246	2,692
CAREL Adriatic Doo	4,708,221	5,731,829
Subsidiaries	**8,804,648**	**11,029,838**
Arion S.r.l.		24,532
Associates	**-**	**24,532**
Eurotest Laboratori S.r.l.	82,938	29,124

(in Euros)	31.12.2019	31.12.2018
Nastrificio Victor S.p.A.	12,798	6,853
Panther S.r.l	1,618	1,885
Subsidiaries of parents	**97,354**	**37,862**
RN Real Estate S.r.l.	95,107	833
Other, minor	16,505	4,697
Related parties	**111,612**	**5,530**

CURRENT TAX LIABILITIES (note 18)

These amounted to €201 thousand and can be broken down as follows:

(in Euros)	31.12.2019	Change during the year	31.12.2018
Tax liabilities pertaining to previous years	201,393	(87,256)	288,649
Total	**201,393**	**(87,256)**	**288,649**

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 €10,560 thousand and can be broken down as follows:

(in Euros)	31.12.2019	Change during the year	31.12.2018
Other tax liabilities	1,466,994	162,347	1,304,647
Social security contributions	3,122,925	39,642	3,083,283
Other liabilities	5,876,048	(57,370)	5,933,418
Accrued expenses and deferred income	98,449	80,374	18,075
Total	**10,564,416**	**224,993**	**10,339,423**

Other tax liabilities can be broken down as follows:

(in Euros)	31.12.2019	Change during the year	31.12.2018
Withholdings to be paid	1,466,994	164,541	1,302,453
Substitute taxes to be paid	-	(2,194)	2,194

(in Euros)	31.12.2019	Change during the year	31.12.2018
Total	**1,466,994**	**162,347**	**1,304,647**

Social security contributions can be broken down as follows:

(in Euros)	31.12.2019	Change during the year	31.12.2018
INPS	2,044,148	81,259	1,962,889
Social security contributions on deferred remuneration	697,875	(9,290)	707,165
ENASARCO	12,153	(831)	12,984
Others	114,668	16,434	98,234
Pension funds	254,081	(47,930)	302,011
Total	**3,122,925**	**39,642**	**3,083,283**

Other liabilities can be broken down as follows:

(in Euros)	31.12.2019	Change during the year	31.12.2018
Wages and salaries	5,784,649	(44,323)	5,828,972
Directors	61,129	33,029	28,100
Contract workers/statutory auditors	-	(35,340)	35,340
Other sundry amounts	30,270	(10,736)	41,006
Total	**5,876,048**	**(57,370)**	**5,933,418**

Wages and salaries include €4,495 thousand related to bonuses and unused holidays at 31 December 2019.

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.

Notes to the statement of profit or loss

REVENUE (note 20)

A breakdown of the caption for 2019 is as follows:

(in Euros)	2019	Variation	2018
Revenue for sales and services	176,045,594	(4,230,854)	180,276,448
Total	**176,045,594**	**(4,230,854)**	**180,276,448**

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

(in Euros)	2019	Variation	2018
Revenue for sales and services to third parties	97,765,324	1,940,851	95,824,473
Revenue for sales and services to group companies	78,280,270	(6,171,705)	84,451,975
Total	**176,045,594**	**(4,230,854)**	**180,276,448**

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

Revenue generated by goods and services amounted to €97,765 thousand, up on €95,824 thousand in 2018. A breakdown of revenue by market is as follows:

(in Euros)	31.12.2019	31.12.2018
HVAC revenue	61,710,331	61,507,643
REF revenue	34,454,812	32,616,253
Non-core revenue	1,600,181	1,700,577
Total	**97,765,324**	**95,824,473**

A breakdown of Revenue for sales and services by geographical segment is as follows:

(in Euros)	2019	Breakdown %	2018	Breakdown %
Europe, Middle East and Africa	149,271,178	84.79%	152,698,846	84.71%
APAC	13,934,843	7.91%	14,932,594	8.28%
North America	9,957,352	5.66%	9,686,889	5.37%
South America	2,882,221	1.64%	2,958,119	1.64%
Total	**176,045,594**	**100.00%**	**180,276,448**	**100.00%**

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

OTHER REVENUE (note 21)

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

(in Euros)	2019	Variation	2018
Grants related to income	855,730	(12,745)	868,475
Licence fees	2,012,545	411,812	1,600,733
Sundry cost recoveries	1,211,760	(8,390)	1,220,150
Compensation	11,032	(33,198)	44,230
Company canteen cost recovery	125,085	9,869	115,216
Other revenue and income	274,152	151,619	122,533
Total	**4,490,304**	**518,967**	**3,971,337**

Grants related to income relate to the tax asset for research and development activities carried out in 2019 as provided for by Law no. 190 of 23 December 2014 (the 2015 Stability Law).

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)	2019	Variation	2018
Purchases of raw materials, consumables and goods	(85,099,049)	11,124,720	(96,223,769)
Purchases of consumables	(1,657,392)	51,396	(1,708,788)
Change in raw materials and goods	(1,811,882)	(5,610,849)	3,798,967
Change in finished goods and semi-finished products	(1,855,652)	(3,073,997)	1,218,345
Total	**(90,423,975)**	**2,491,270**	**(92,915,245)**

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)	2019	Variation	2018
Purchases of raw materials and semi-finished goods	(40,526,062)	8,242,553	(48,768,615)
Purchases of goods held for resale	(41,934,619)	2,950,093	(44,884,712)
Purchases of other materials	(2,821,259)	48,200	(2,869,459)
Total	**(85,281,940)**	**11,240,846**	**(96,522,786)**

(in Euros)	2019	Variation	2018
Returns, markdowns, bonuses and discounts	182,891	(116,126)	299,017
Total purchases of raw materials, consumables and goods	**(85,099,049)**	**11,124,720**	**(96,223.769)**

The costs of raw materials, consumables, supplies and goods related to the group companies in 2019 amount to €35,832 thousand (€39,500 thousand in 2018).
The change in costs for raw materials, consumables, supplies and goods is directly correlated with the company's 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)	2019	Variation	2018
Work in progress	6,339	18,488	(12,149)
Semi-finished goods	(477,211)	(1,057,610)	580,399
Finished goods	(1,384,780)	(2,034,875)	650,095
Total	**(1,855,652)**	**(3,073,997)**	**1,218,345**

SERVICES (note 23)

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

(in Euros)	2019	Variation	2018
Services	(25,047,967)	4,548,395	(29,596,362)
Use of third party assets	(743,877)	1,223,469	(1,967,346)
Total	**(25,791,844)**	**5,771,864**	**(31,563,708)**

A breakdown of Services is as follows:

(in Euros)	2019	Variation	2018
Transport	(3,480,933)	454,173	(3,935,106)
Consultancies	(3,600,551)	3,862,774	(7,463,325)
Business trips and travel	(1,101,129)	(34,176)	(1,066,953)
Maintenance and repairs	(2,542,803)	(180,262)	(2,362,541)
Marketing and advertising	(462,168)	520,676	(982,844)
Outsourcing	(3,925,668)	130,451	(4,056,119)
Agency contracts	(4,125,603)	74,062	(4,199,665)
Utilities	(800,697)	(77,956)	(722,741)
Fees to directors, statutory auditors and independent auditors	(1,598,019)	(509,940)	(1,088,079)
Insurance	(399,900)	202,313	(602,213)

(in Euros)	2019	Variation	2018
Telephone and connections	(333,799)	(79,327)	(254,472)
Certifications	(736,163)	50,696	(786,859)
Personnel expense and temporary staff	(1,143,229)	96,504	(1,239,733)
Other services	(797,305)	38,407	(835,712)
Services	**(25,047,967)**	**4,548,395**	**(29,596,362)**

Services include the costs charged by group companies for a total of €4,552 thousand (€4,435 thousand in 2018).
The main decrease relates to Consultancies which, in 2018, included non-recurring costs for (i) the company's listing on the STAR segment of the stock market organised and managed by Borsa Italiana S.p.A. (€4,680 thousand) and (ii) the acquisition of new equity investments (€223 thousand).
Finally, during the year, the company incurred costs for non-recurring services of €333 thousand related to the integration of the new companies acquired at the end of 2018.
A breakdown of costs for the Use of third party assets at year end is as follows:

(in Euros)	2019	Variation	2018
Building lease payments	-	1,149,885	(1,149,885)
Car lease payments	(250,539)	227,564	(478,103)
Royalties on patents and trademarks	(216,711)	(120,279)	(96,432)
Other payments for the use of third party assets	(276,627)	(33,701)	(242,926)
Use of third party assets	**(743,877)**	**1,223,469**	**(1,967,346)**

Building lease payments and Car lease payments decreased as a result of the adoption of IFRS 16 which led to the reclassification of costs for €1,420 thousand, of which €1,155 thousand related to building leases and €265 thousand to car leases.
Car lease payments mainly include the related ancillary costs.
Other payments for the use of third party assets mainly relate to the lease of internal means of transport and electronic office equipment which are exempted from the application of IFRS 16.
Building lease payments relate entirely to group companies.

CAPITALISED DEVELOPMENT EXPENDITURE (note 24)

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

(in Euros)	2019	Variation	2018
Development expenditure	2,457,663	381,350	2,076,313
Industrial and commercial equipment constructed on a time and materials basis	31,478	(63,582)	95,060
Total	**2,489,141**	**317,768**	**2,171,373**

PERSONNEL EXPENSE (note 25)

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

(in Euros)	2019	Variazione	2018
Wages and salaries	(29,259,953)	(941,148)	(28,318,805)
Social security contributions	(8,414,897)	(398,156)	(8,016,741)
Defined benefit plans	(1,693,590)	(125,280)	(1,568,310)
Personnel expense	**(39,368,440)**	**(1,464,584)**	**(37,903,856)**

Wages and salaries include the entire personnel expense for employees, including merit increases, share-based payment arrangements, promotions, unused holidays and accruals based on laws and national labour agreements. €1,207 thousand relates to temporary staff (€1,945 thousand in 2018).
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 2019 and changes therein during the year were as follows:

Categoria	31.12.2018	Hires	Departures	Promotions	31.12.2019	2019 average	2018 average
Managers	18	3	-	1	22	20	18
Junior managers	53	5	(3)	2	57	51	53
White collars	356	47	(29)	(1)	373	378	346
Blue collars	233	6	(9)	(2)	228	229	219
Total	**660**	**61**	**(41)**	**-**	**680**	**678**	**635**

OTHER EXPENSE, NET (note 26)

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

(in Euros)	2019	Variation	2018
Gains on the sale of non-current assets	9,339	4,683	4,656
Prior year income	455,392	171,270	284,122
Other income	**464,731**	**175,953**	**288,778**
Losses on the sale of non-current assets	(913)	6,286	(7,199)
Prior year expense	(291,176)	(145,501)	(145,675)
Other taxes and duties	(98,316)	(6,989)	(91,327)
Accrual to the provisions for risks	(647,092)	530,012	(1,177,104)
Membership fees	(484,183)	(357,714)	(126,469)
Indemnities and compensation	(37,058)	15,014	(52,072)
Other costs	(14,743)	(4,753)	(9,990)
Other expense	**(1,573,481)**	**36,355**	**(1,609,836)**
Other expense, net	**(1,108,750)**	**212,308**	**(1,321,058)**

Prior year income relates to the non-existent expense and the recognition of income pertaining to previous years, €453 thousand of which is subject to taxation, including €291 thousand related to the adjustment of the loss allowance and €2 thousand 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 relate 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.
Membership fees increased as a result of the costs incurred during the year for the company's listing on the STAR segment of the stock market organised and managed by Borsa Italiana S.p.A..

AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES (note 27)

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

(in Euros)	2019	Variation	2018
Amortisation	(3,134,249)	(134,981)	(2,999,268)
Depreciation	(4,218,528)	(1,526,891)	(2,691,637)
Impairment losses	(21,665)	71,222	(92,887)
Total	**(7,374,442)**	**(1,590,650)**	**(5,783,792)**

Depreciation includes €1,396 thousand related to the right-of-use assets recognised under property, plant and equipment following the adoption of IFRS 16.
Reference should be made to that set out in the

Accounting policies for information about amortisation, depreciation and impairment losses.

NET FINANCIAL INCOME (note 28)

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

(in Euros)	2019	Variation	2018
Income from investments in subsidiaries	10,075,319	159,867	9,915,452
Financial assets with subsidiaries	63,950	47,125	16,825
Other financial income	116,459	(505,437)	621,896
Financial income	**10,255,728**	**(298,445)**	**10,554,173**
Interest and other financial expense related to subsidiaries	(35,388)	1,950	(37,338)
Interest and other financial expense to others	(1,209,618)	(701,291)	(508,327)
Financial expense	**(1,245,006)**	**(699,341)**	**(545,665)**
Net financial income	**9,010,722**	**(997,786)**	**10,008.508**

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

- €4,800 thousand from CAREL Electronic (Suzhou) Co Ltd;
- €2,500 thousand from CAREL Deutschland GmbH;
- €1,000 thousand from CAREL France Sas;
- €879 thousand from CAREL U.K. Ltd;
- €500 thousand from CAREL Controls Iberica SL;
- €396 thousand from CAREL Rus LLC.

Other financial income can be broken down as follows:

(in Euros)	2019	Variation	2018
Interest income from securities classified as current assets which are not equity investments	-	(433,436)	433,436
Interest income from cash pooling with subsidiaries	90,529	(37,135)	127,664
Bank interest income	4,932	2,404	2,528
Gains on derivatives	12,547	10,857	1,690
Other interest income	8,451	(48,127)	56,578
Total financial expense	**116,459**	**(505,437)**	**621,896**

- Interest income from the cash pooling account relates to the interest accrued on the credit balance of the cash pooling account in place with group companies.
- Gains on derivatives relate to the fair value 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)	2019	Variation	2018
Interest and other financial expense on current bank loans and borrowings	(4,237)	(1,996)	(2,241)
Interest and other financial expense on non-current bank loans and borrowings	(959,225)	(700,010)	(259,215)
Losses on forwards	(45,640)	(22,228)	(23,412)
Lease interest expense	(40,349)	(40,349)	-
Financial expense on discounting of liabilities	(56,751)	11,156	(67,907)
Bank charges and fees	(102,336)	(10,314)	(92,022)
Other interest expense	(1,080)	62,450	(63,530)
Total financial expense	**(1,209,618)**	**(701,291)**	**(508,327)**

- Interest and other financial expense on non-current liabilities rose following the increase in the credit lines granted to the company at the end of 2018 and in 2019. This caption includes greater financial expense (€41 thousand) arising from application of the amortised cost method.
- Lease interest expense relates to the interest accrued on commitments to other financial backers following the adoption of IFRS 16.
- Financial expense on discounting of liabilities relates to the interest accrued on post-employment benefits and post-term of office benefits for directors in accordance with IAS 19.

NET EXCHANGE LOSSES (note 29)

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

(in Euros)	2019	Variation	2018
Realised exchange gains	480,527	(648,644)	1,129,171
Unrealised exchange gains	247,480	150,556	96,924
Exchange gains	**728,007**	**(498,088)**	**1,226,095**
Realised exchange losses	(621,906)	683,900	(1,305,806)
Unrealised exchange losses	(130,223)	(60,655)	(69,568)
Exchange losses	**(752,129)**	**623,245**	**(1,375,374)**
Net exchange losses	**(24,122)**	**125,157**	**(149,279)**
Realised exchange losses	(141,379)	35,256	(176,635)
Unrealised exchange gains	117,257	89,901	27,356

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

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

The unrealised component shows gains of €117 thousand, namely greater unrealised exchange gains than losses (in

2018, the unrealised component was a net gain of €27 thousand).
Therefore, as part of the allocation of the profit for 2019, the company shall accrue €90 thousand to a specific undistributable reserve pursuant to article 2426.8-bis of the Italian Civil Code which was set up for the allocation of the profit for 2018

NET IMPAIRMENT GAIN ON FINANCIAL ASSETS (note 30)

This caption, which shows an impairment gain of €237 thousand, relates to:

- the €438 thousand reversal of the impairment loss recognised in prior years on CAREL Asia Ltd. The impairment loss was recognised to reflect the losses recognised by the investee in the company's financial statements. Under the new business plan, the investee increased its profitability, as confirmed by the profits of the past three years and, consequently, its equity. Therefore, the prior impairment losses were reversed for an amount equal to the difference between the carrying amount of the investment, net of impairment losses and the relevant portion of equity;
- the €21 thousand reversal of the prior year impairment loss recognised on the investment in CAREL Controls Iberica SL. The impairment loss was recognised since the carrying amount was deemed not recoverable given the company's results and expected profitability. The profits achieved in the past few years enabled the investee to pay dividends to the company and to increase its equity. Consequently, the prior year impairment losses were reversed by an amount equal to the difference between the carrying amount of the investment, net of impairment losses, and the relevant portion of equity;
- the €222 thousand reversal of the impairment loss recognised on the subsidiary CAREL Middle East DWC. At 31 December 2019, the investee's carrying amount was deemed not recoverable given the company's results and expected profitability.

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)	2019	Variation	2018
Current taxes	(5,467,302)	(586,264)	(4,881,038)
Deferred tax assets	347,065	208,268	138,797
Deferred tax liabilities	132,856	(201,997)	334,853
Prior year taxes	(485,660)	(2,089,378)	1,603,718
Total	**(5,473,041)**	**(2,669,371)**	**(2,803,670)**

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)	2019	2018
Profit before tax	28,181,502	26,790,728
Theoretical IRES	**6,763,560**	**6,429,775**
Lower taxes:		
- other prior-year income	(1,097)	(36,715)
- personnel expense and supplementary pension funds	(42,380)	(14,902)
- dividends from equity investments and gains on the sale of investments	(2,327,173)	(2,260,723)
- maxi-amortisation and hyper-amortisation	(280,402)	(205,847)
- amortisation of goodwill	-	(19,934)
- reversal of impairment loss on equity investments	(110,238)	-
- patent box	(651,706)	(475,444)
- use of provisions for risks and charges	(137,165)	(2,991)
- tax asset on research and development	(205,375)	(207,024)
- other	(69,651)	(220,045)
Higher taxes:		
- undeductible amortisation	163,685	272,629
- accruals to provisions	155,302	282,505
- prior year expense	21,579	2,002
- impairment of equity investments	53,283	-
- write-down of inventory	84,031	17,377
- other undeductible costs	87,651	88,609

(in Euros)	2019	2018
- other	335,727	69,705
- unused tax withholdings	586,897	365,495
Total income taxes (IRES)	**4,426,528**	**4,084,472**
IRAP	**1,040,774**	**796,566**
Prior year taxes	**485,660**	**(1,603,718)**
Deferred tax assets/liabilities	**(479,921)**	**(473,650)**
TOTAL INCOME TAXES	**5,473,041**	**2,803,670**

Specifically, taxes pertaining to previous years at 31 December 2019 are as follows:

(in Euros)	2019
Lower IRES and IRAP for supplementary patent box relief for 2015-2017	68,810
Lower IRES and IRAP for supplementary patent box relief for 2018	425,363
Other prior year taxes	(8,513)
Prior year taxes	**485,660**

Other information (note 32)

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

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

Again in December 2018, the company filed for the patent box scheme in order to include its proprietary patents in the calculation of the reduced taxation for 2018 and 2019. The relevant documentation was supplemented in April 2019, confirming that these assets are complementary to the intangible assets for which the company signed the agreement. The application for integration is still pending with the relevant regional tax office.

Finally, in October 2019, the company filed for a renewal of the scheme for 2020 and following four years. The application for renewal is still pending with the relevant regional tax office.

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 performance objectives based on adjusted EBITDA and cash conversion ratios. The performance objectives are independent of one another and will be calculated separately for each vesting period.

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

In 2019, the company recognised an expense of €340 thousand in profit or loss and the same amount was also recognised as an increase in equity. This amount represents the amount attributable to 2019:

- for the first cycle of the plan, equal to €306 thousand, whose total fair value amounts to €691 thousand;
- for the second cycle of the plan, equal to €34 thousand, whose total fair value amounts to €855 thousand.

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:

- fulfilling the obligations of the share-based performance plans for the governing bodies and/or company employees;
- carrying out actions to support 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 limits of its distributable profits and the available reserves as shown in the most recently approved financial statements, over a period of 18 months from the date of the meeting.

At the reporting date, the company purchased 83,335 treasury shares for a total of €807 thousand.

Segment reporting

Under IFRS 8, an entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. Based on the company's internal reporting system, the business activities 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)	2019	2018
Directors		
- Remuneration and fees	1,091,553	900,342
- Other non-monetary benefits	16,709	11,838
- Other fees (1)	-	50,000
- Fair value of share-based payments	149,150	33,811
Total directors	**1,257,412**	**995,991**
Statutory auditors		
- Fixed fees and fees for participation in committees	90,000	72,629
Total statutory auditors	**90,000**	**72,629**
Key management personnel		
- Remuneration and fees	889,660	932,106
- Other non-monetary benefits	22,894	24,110
- Other fees (1)	-	138,000
- Fair value of share-based payments	150,688	34,207
- Post-employment benefits or termination benefits(2)	-	17,675
Total key management personnel	**1,063,242**	**1,146,098**

(1) The amount includes a one-off payment

(2) For cash flows

Information pursuant to article 149-DUODECIES OF CONSOB ISSUERS' REGULATION

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

(in Euros)	2019	2018
Audit	194,510	151,480
Attestation services	42,000	416,602
Other services	-	10,196
Total	**236,510**	**578,278**

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

During 2019, the company did not receive any subsidies, grants, paid positions or any type of economic benefits not of a general nature and that are not fees, remuneration or compensation from public administrations and subjects defined as such by article 35 of Law no. 34 of 30 September 2019, which superseded article 1.125 of Law no. 124/2017.

Off-statement of financial position commitments and guarantees

At the reporting date, the company has issued sureties of €3,290 thousand, including €134 thousand in favour of subsidiaries.

Starting from the financial statements at 31 December 2019, in order to limit the administrative requirements for some investees, the company has acted as guarantor of the liabilities to third parties recognised in the financial statements of the subsidiaries CAREL Deutschland GmbH and HygroMatik GmbH, as required by applicable local regulations.

Indirect subsidiaries

A breakdown of the indirect subsidiaries at 31 December 2019 is as follows:

(in Euros)	**Registered office**	**Parent**	**Currency**
Subsidiaries:			
CAREL Australia Pty. Ltd	SYDNEY-AU	CAREL Electronic (Suzhou) Co Ltd	AUD
CAREL ACR Systems India (Pvt) Ltd	MUMBAI-IN	CAREL Electronic (Suzhou) Co Ltd CAREL France s,a,s,	INR
CAREL Controls South Africa (Pty) Ltd	JOHANNESBURG-ZA	CAREL Electronic (Suzhou) Co Ltd	ZAR
CAREL HVAC&R Korea Ltd	SEOUL-KR	CAREL Electronic (Suzhou) Co Ltd	KRW
CAREL South East Asia Pte. Ltd.	SINGAPORE-SG	CAREL Asia Ltd	SGD
CAREL Mexicana S.De.RL	Guerra, Tlalpan-MX	CAREL Usa Llc	MXN
CAREL (Thailand) CO Ltd	BANGKOK-TH	CAREL Electronic (Suzhou) Co Ltd CAREL Australia Pty. Ltd	THB
CAREL Ukraine Llc	Kiev-UA	Alfaco Polska Sp.z.o.o.	UAH
Enersol Inc.	Beloeil (Quebec)-CA	CAREL Usa Llc	CAD

Related party transactions

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

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

b. the interest rates and conditions applied (income and expense) to the financial transactions between the companies are in line with market conditions.

Share capital (foreign currency)	Equity (Euros)	Profit (loss) for the year (Euros)	Indirect investment
100	2,834,902	271,438	100.00%
1,665,340	798,280	51,285	99.99%
			0.01%
4,000,000	1,300,208	156,457	100,00%
550,500,000	360,792	120,867	100.00%
100,000	249,700	59,631	100.00%
12,441,149	989,093	47,299	100.00%
10,000,000	1,774,666	138,956	79.994%
			0.006%
700,000	(72,398)	(90,855)	100.00%
100	363,017	36,055	100.00%

The table below provides assets, liabilities, revenue and costs related to transactions with related parties performed in 2019.

31.12.2019	**Assets and liabilities**			
(in Euros)	**Loan assets**	**Trade receivables/ Other financial assets**	**Financial liabilities**	**Trade payables/ Other financial liabilities**
Subsidiaries				
C.R.C S.r.l.	501,584	152,756	-	51,057
Recuperator S.p.A..	-	36,716	-	-
CAREL U.K. Ltd	-	1,249,590	1,271,363	54,071
CAREL France s.a.s.	170,476	1,345,547	-	73,787
CAREL Asia Ltd	-	1,203,439	-	18,829
CAREL Sud America Instrumentacao Eletronica Ltda	-	567,038	-	33,439
CAREL Usa Llc	1,135,026	2,442,734	-	114,957
CAREL Australia Pty. Ltd	-	19,485	-	90,933
CAREL Deutschland GmbH	-	2,338,715	1,956,251	14,078
CAREL Electronic (Suzhou) Co Ltd	-	1,864,538	-	2,675,206
CAREL Controls Iberica S.L.	-	841,450	700,158	1,648
CAREL ACR Systems India (Pvt) Ltd	-	474,389	-	122,551
CAREL Controls South Africa (Pty) Ltd	-	5,250	-	1,104
CAREL Rus Llc	-	-	-	362,010
CAREL Korea Ltd	-	123,945	-	69,941
CAREL Nordic AB	-	487	-	251,230
CAREL Japan Co. Ltd	-	10,819	-	2,797
CAREL Mexicana S.De.RL	-	57,573	-	4,161
CAREL Middle East DWC Llc	-	37,005	-	143,383
Alfaco Polska Sp.z.o.o.	1,596,263	1,179,254	-	11,246
CAREL Adriatic D.o.o.	-	762,739	739,499	4,708,221
HygroMatik GmbH	609,557	-	-	-
Total subsidiaries	**4,012,906**	**14,713,469**	**4,667,271**	**8,804,649**
Associates				
Arion S.r.l.	160,000	-	-	-
Total associates	**160,000**	**-**	**-**	**-**
Subsidiaries of parents				
Eurotest Laboratori S.r.l.	-	10,662	-	82,938
Arianna S.p.A.	-	5,825	-	-
Nastrificio Victor S.p.A.	-	-	-	12,798

Revenue and costs

Sale of products	Sale of services	Other revenue	Purchases of goods and materials	Services	Other purchases	Income from equity investments	Financial income	Financial expense
272,632	97,000	2,864	57,101	1,485	-	-	1,584	-
-	140,000	1,716	3,993			-	-	
8,499,459	37,024	145,355	-	211,374		879,559	-	4,481
11,129,183	30,000	151,486	-	-	73,255	1,000,000	49	4,789
5,008,476	17,773	7,374	37,627	40,980	-	-	-	-
1,499,659	76,899	252	171,433	158,672		-	-	
9,169,350	321,444	648,041	93,932	410,656	-	-	33,195	
-	-	-	9,930	-	235,266	-	-	
18,965,418	35,525	350,234	391,301	14,160	-	2,500,000	-	20,346
4,093,689	695,883	1,155,334	12,380,906	380,831	526	4,799,760	-	-
7,742,349	37,269	14,346	232	2,753	-	500,000	-	5,667
699,910	-	1,205	3,025	389,561	-	-	-	-
-	5,250	-	-	697	-	-	-	-
5,300	-	-	-	1,161,257	-	396,000	-	-
498,660	58,051	162	69,353	-	-	-	-	-
2,243	-	1,557	-	954,595	-	-	-	-
164,032	86	-	2,625	-	-	-	-	-
466,909	567	-	4,137	-	-	-	-	-
2,182	145,043	435	1,679	475,551	2,000	-	-	-
5,047,187	1,306	2,704	-	19,548	2,530	-	28,667	-
2,967,049	280,000	349,191	21,471,050	30,132	11,416	-	61,814	106
6,303	15,750	9,662	194,122	-	-	-	29,172	-
76,239,990	**1,994,870**	**2,841,918**	**34,892,446**	**4,252,252**	**324,993**	**10,075,319**	**154,481**	**35,389**
197	-	611	1,147,221	-	-	-	-	-
197	**-**	**611**	**1,147,221**	**-**	**-**	**-**	**-**	**-**
150	34,600	2,562	-	257,530	3,990	-	-	114
465	5,000	-	-	-	-	-	-	-
-	-	-	35,972	-	-	-	-	-

31.12.2019	Assets and liabilities			
(in Euros)	Loan assets	Trade receivables/ Other financial assets	Financial liabilities	Trade payables/ Other financial liabilities
Panther S.r.l.	-	-	-	1,618
Total subsidiaries of parents	**-**	**16,487**	**-**	**97,354**
Related parties				
RN Real Estate S.r.l.	-	3,050	2,070,181	95,107
Other, minor	-	-	-	16,506
Total related parties	**-**	**3,050**	**2,070,181**	**111,613**
TOTAL	**4,172,906**	**14,733,006**	**6,737,452**	**9,013,616**

Events after the reporting date

Since February 2020, the COVID -19 epidemiological emergency (corona virus) has spread throughout Italy. From the beginning of the year, the virus has affected some areas of China and the Chinese authorities imposed restrictions on the entire country which resulted in the Chinese plant being shut down for about one week. The group reacted promptly by transferring part of the production scheduled for the period to other sites. To date, the Chinese plant is rapidly resuming full operation.
In Italy, the spread of the virus has led to the shutdown of production at the Brugine production site (where the company operates) following the new restrictive measures imposed by the government from 26 March and currently up to 3 April. All the other production sites located in Croatia, North America, South America, China and Germany are operational. There are currently no significant disruptions to the transfer of goods between sites, commercial companies and end customers. As of the date of preparation of this report, the group is increasing production in Croatia and China to make up for the shutdown of the Brugine production site.
At the date of this document, the company has sufficient liquidity, in line with that at year end, to guarantee flexibility should the macroeconomic scenario deteriorate. Moreover, the group's geographical and sector diversification mitigates this risk.
However, the ongoing spread of the virus worldwide and the stringent measures taken by all governments to counter its further spreading are affecting the future macroeconomic growth prospects with probable repercussions on the domestic and international scenario. These instability factors were considered as non-adjusting events pursuant to IAS 10.21.
The directors are constantly monitoring these factors of uncertainty and, as a precautionary measure, have developed a risk mitigation plan that focuses on strategic procurement, an accurate assessment of expenses and investments and frequent monitoring of collection. However, at present, it is not possible to predict how this phenomenon will evolve and its consequences on the macroeconomic scenario, nor is it possible to determine its possible impacts that may require adjustments be made to the carrying amounts of the company's assets and liabilities.
In particular, these factors of uncertainty could mainly, but not exclusively, affect the financial statements captions subject to valuation, for a description of which reference should be made to the sections "Use of estimates" in the notes to the separate financial statements. Moreover, although the turbulence on the financial markets caused

Revenue and costs								
Sale of products	**Sale of services**	**Other revenue**	**Purchases of goods and materials**	**Services**	**Other purchases**	**Income from equity investments**	**Financial income**	**Financial expense**
-	-	-	5,274	-	-	-	-	-
615	**39,600**	**2,562**	**41,246**	**257,530**	**3,990**	**-**	**-**	**114**
-	5,000	9,348	-	-	1,680	-	-	10,894
-	-	1,606	3,177	42,287	10,211	-	-	-
-	**5,000**	**10,954**	**3,177**	**42,287**	**11,891**	**-**	**-**	**10,894**
76,240,802	**2,039,470**	**2,856,045**	**36,084,090**	**4,552,069**	**340,874**	**10,075,319**	**154,481**	**46,397**

by this emergency led to an abrupt and generalised fall in share prices, which triggered a significant reduction in the value of the company's shares compared to 31 December 2019, their value is nonetheless higher than both the values implicit in consolidated equity at 31 December 2019 and the listing prices, and largely supports the carrying amounts of the company's net assets.

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 2019 show a profit of €22,708,460.

It should be noted that:

- the legal reserve has reached the limit set out by article 2430 of the Italian Civil Code;
- the unrealised exchange gains at year end exceeded the losses by €117,257 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 2019 amounted to €7,711,976 and therefore, pursuant to article 2426 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 separate financial statements and to allocate the profit for the year as follows:
- €89,901 to the undistributable reserve for unrealised exchange gains;
- €11,989,999.80 as dividends to shareholders equal to €0.12 per share outstanding at the ex-dividend date, excluding treasury shares based on the shares outstanding at 5 March 2020 (99,916,665);
- to pay dividends of €0.12 per share, before tax withholdings, with an ex-dividend date of 24 June 2020, with record date, pursuant to article 83-ter of the CFA, on 25 June 2020 and payment date of 26 June 2020;
- 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.3/4 of Legislative decree no. 58 of 24 February 1998, state that the administrative and accounting policies adopted for the preparation of the separate financial statements at 31 December 2019:

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

2. There is nothing to report.
3. Moreover, they state that:
   3.1 the separate financial statements at 31 December 2019:
      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.

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

Brugine, 05 March 2020

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


CAREL

Annexes to the separate financial statements

at 31 december 2019

Independent auditors' report

Deloitte.

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

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Carel Industries S.p.A. (the Company), which comprise the statement of financial position as at 31 December 2019, and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

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

Key Audit Matters

There are no key audit matters to be reported.

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

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

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going

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concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or for the termination of the operations or have no realistic alternative to such choices.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;

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

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

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

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

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

The Directors of Carel Industries S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and ownership structure of Carel Industries S.p.A. as at 31 December 2019, including their consistency with the related financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98 with the financial statements of Carel Industries S.p.A. as at 31 December 2019 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations and information contained in the report on corporate governance and ownership structure are consistent with the financial statements of Carel Industries S.p.A. as at 31 December 2019 and are prepared in accordance with the law.

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

DELOITTE & TOUCHE S.p.A.

Signed by
Cristiano Nacchi
Partner

Padova, Italy
March 27, 2020

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

Headquarters ITALY

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