CAREL

ANNUAL **REPORT** 2020

E-MARKET
SDIR
CERTIFIED

Directors' report

at 31 December 2020

Contents

Letter to the shareholders

Dear shareholders,

2020 was a challenging year that rocked the economic and social stability of many areas around the world due to the spread of Covid-19. Though Carel was hit hard by the pandemic, also due to the temporary closure of vital production sites in China and Italy, its reaction was prompt and effective. This was seen in the performance of the year which I am proud to present: consolidated revenue increased by 1.3% at current exchange rates (+2.8% at constant exchange rates), which is even more satisfactory considering that profitability, i.e., gross operating profit as a percentage of revenue (gross operating profit margin), grew on 2019 despite the fact that the operating leverage had not reached its full effect. This growth and profitability were then reflected in the substantial cash inflows that enabled the group to substantially cut its net debt by approximately 20% from roughly €62 million to less than €50 million.

The group's resilience and ability to quickly adapt to unforeseen and complex situations were proven in 2020. This capacity is founded on a series of strategic choices adopted over the years, with the prime example being production "mirroring", i.e., duplicating processes at several production sites so that a significant percentage of the group's product portfolio can be simultaneously assembled at a minimum of two sites. This enabled the group to swiftly switch production of certain items from one site to another during the various lockdowns imposed on different continents.
Another group strategy is diversifying its applications, sectors and geographical regions. As these follow different cycles and trends, they can naturally limit overall volatility. Finally, the group's operating cost containment plan enabled further efficiency in 2020 and will continue to reap benefits in the years to come.

However, Carel took it one step further. It did not settle for mere damage control during the pandemic, but instead sought to better understand the permanent changes that such a widespread event caused and will cause in the future. A growing attention to air quality, more prevalent usage of remote working and thus a huge demand for connectivity and a drive for eco-friendly behaviours and habits are orientations that will have a huge impact on trends in the group's sectors. This is why the group continued its ongoing investment in research, development and innovation in 2020 (roughly €17.5 million or 5.3% of revenue), so that it can continue to play a leading role in its market niches at a global level.

Finally, Carel's focus on sustainability, seen in the energy efficiency of its products and its push for transition to less environmentally harmful refrigerants, was further boosted by the formation of the "ESG team". This interdepartmental team was set up to raise awareness and respect of sustainability within the group.

All of the above is thanks to the group's long-term strategic vision supported by a solid human base. Often difficult to identify or define, this human factor is what the group considers its top asset. Passion, enthusiasm, optimism and focus on results. These are the characteristics that drive the men and women who have made and will continue to make Carel a success.

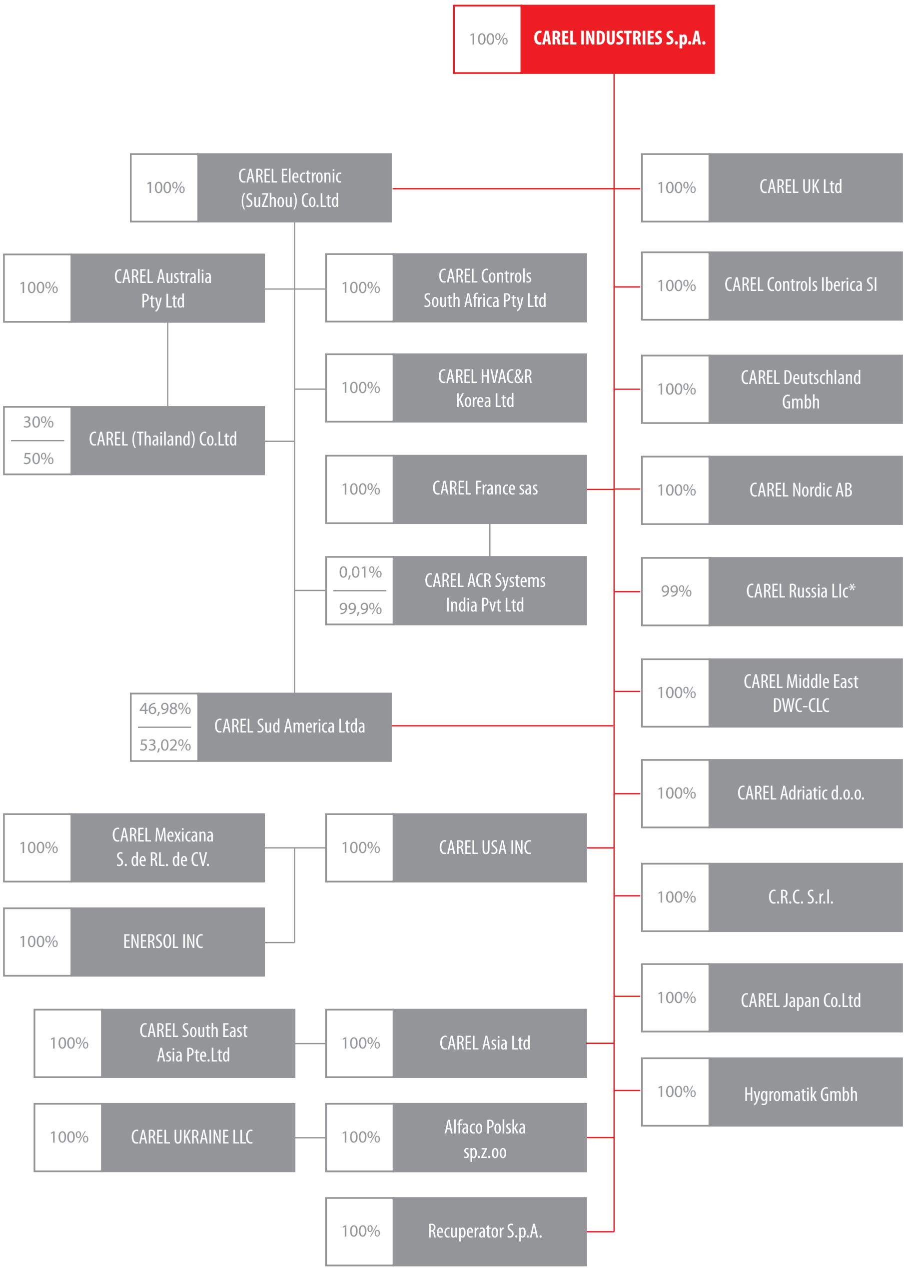
Chairperson

Luigi Rossi Luciani

"...the results are based on three strategic pillars: organic growth, external expantion and a strong focus on connectivity and innovation..."

CAREL Industries Group structure

The following graph shows the group's structure at 31 December 2020:



*= 1% held by CAREL FRANCE SAS

Corporate bodies

Board of directors	*Chairperson*	*Luigi Rossi Luciani*
	Executive deputy chairperson	*Luigi Nalini*
	Chief executive officer	*Francesco Nalini*
	Executive director	*Carlotta Rossi Luciani*
	Independent director	*Cinzia Donalisio*
	Independent director	*Marina Manna*
	Independent director	*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 as per Leg. dec. no. 231/2001	*Chairperson*	*Fabio Pinelli*
	Member	*Arianna Giglio*
	Member	*Alessandro Grassetto*


REFRIGERATION
applications


Industrial applications
HVAC


RESIDENTIAL APPLICATIONS
Heating, Ventilation and Air Conditioning

Operations and markets

The group is active in the design, manufacturing and global distribution of technologically innovative components and solutions (hardware and software) to achieve energy-efficient control and regulation instruments for the air conditioning (Heating Ventilation Air Conditioning, "HVAC") and refrigeration markets (together "HVAC/R"). In this context, the group designs, manufactures and markets control and humidification solutions for the application segments:

Industrial

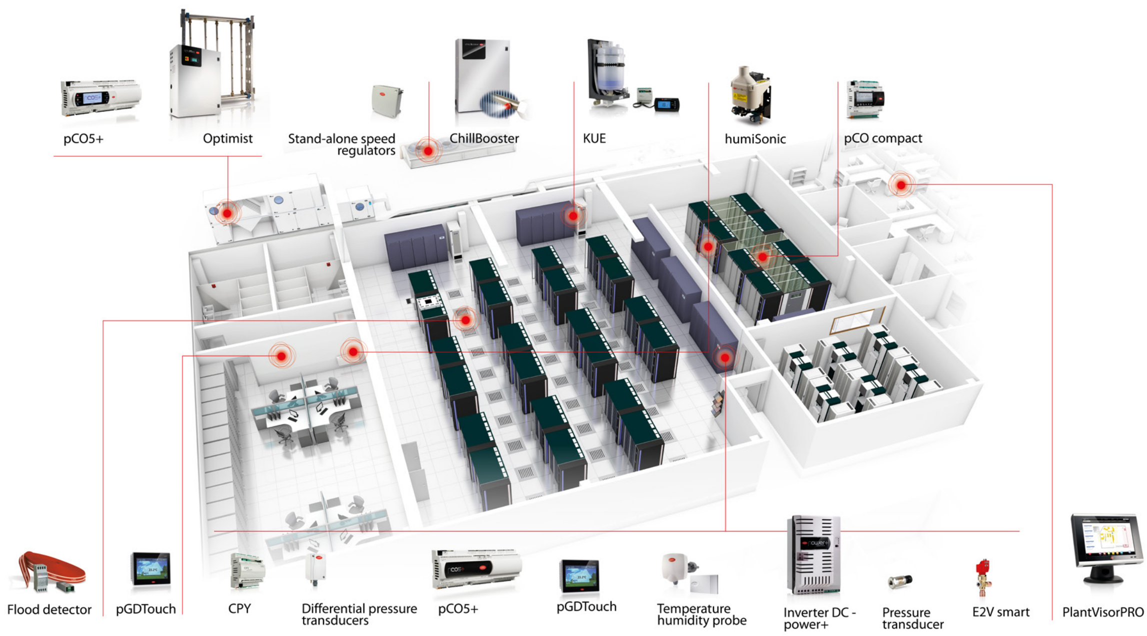
Commercial

Residential

With reference to the **HVAC sector**, the group offers solutions for integration into individual units, such as heat pumps, shelters, rooftops, computer room air conditioners (CRAC), chillers and air handling units. Its industrial applications for the air-conditioning sector are designed for data centres, the process industry, commercial applications mainly consisting of components for air-conditioning systems in commercial buildings, and residential applications principally comprising control solutions for heat pumps.

The following charts show the Carel systems:

- for applications in *Data Centre* air-conditioning systems:

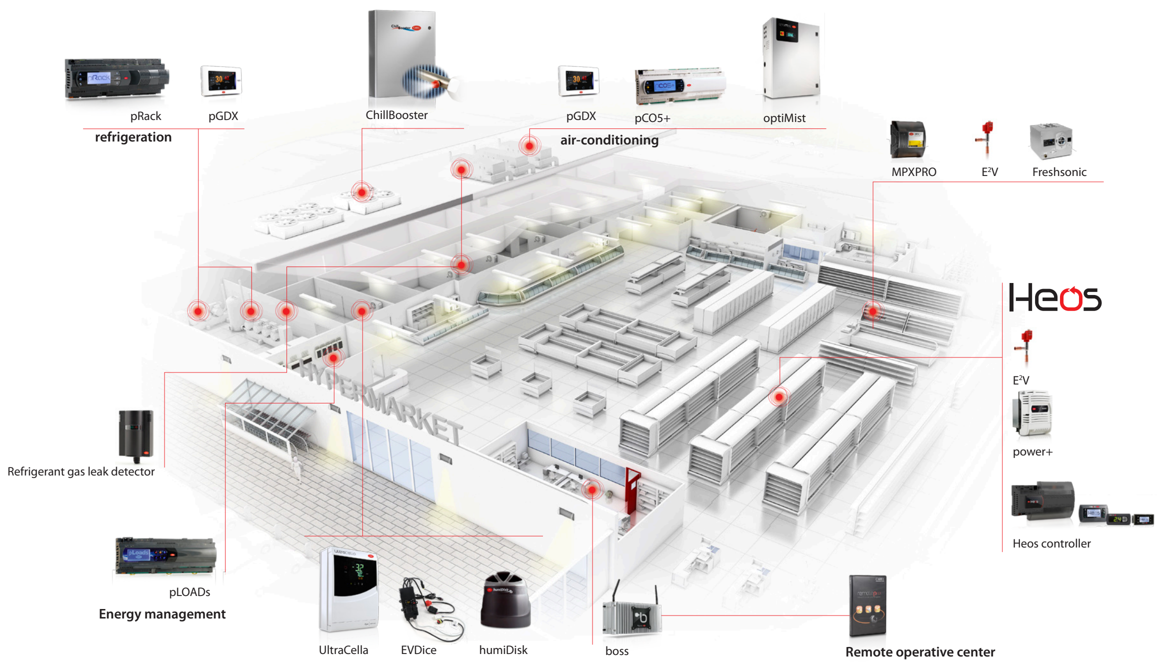


- for air treatment systems:

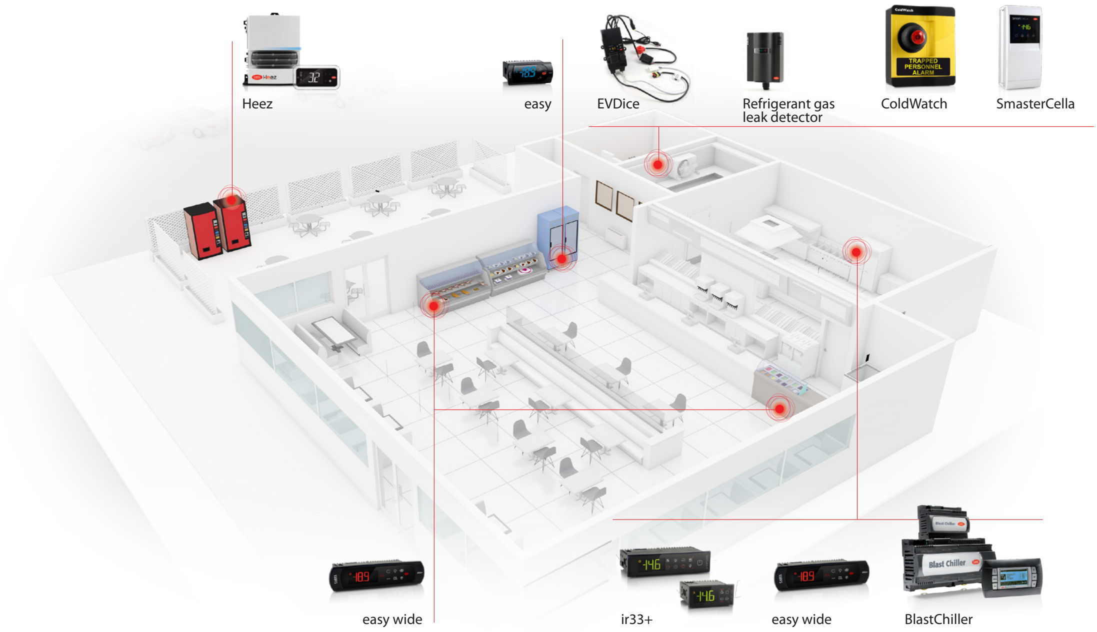
In the **refrigeration sector**, the group specialises in the design, manufacturing and distribution of control systems for the food retail and food service segments. Carel's offer is for:

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

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



Example application of CAREL's solutions for *commercial refrigeration in Food Service (Quick Service Restaurants)*

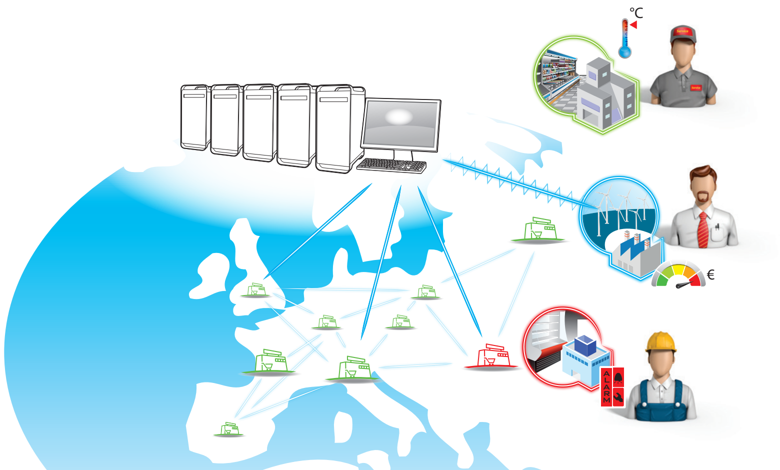


Example application of CAREL's solutions for *commercial refrigeration in Food Service (Beverage Coolers)*

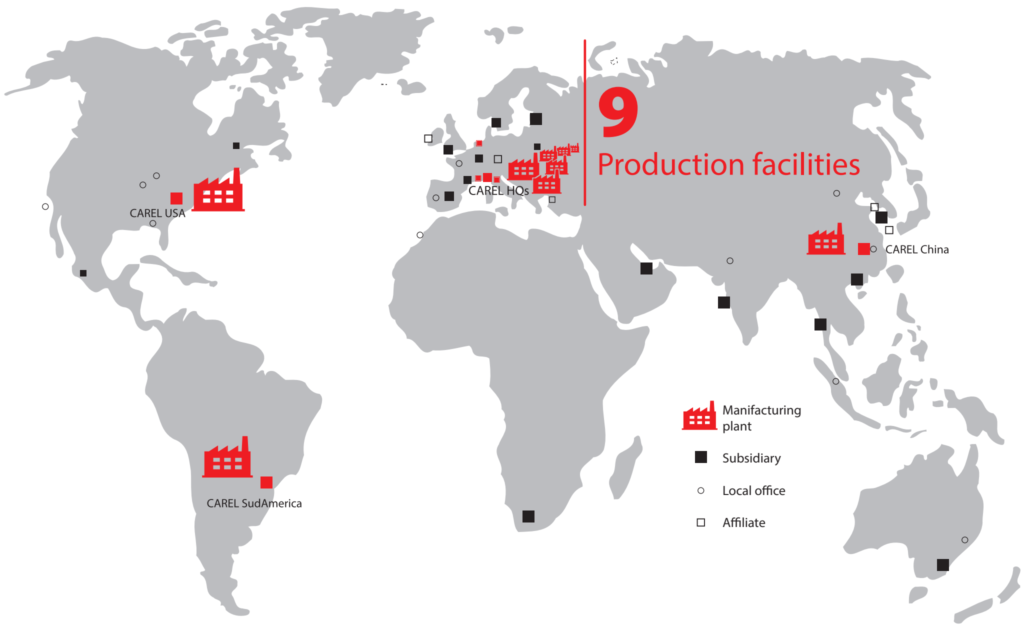
The group's portfolio is complemented by services linked to Carel's solutions, such as **commissioning** (contract work), remote management and monitoring of the group's HVAC/R systems and application components, which allows for "dialogue" between the group's service centres and end customers, subscriptions for services dedicated to the remote management and monitoring of plant and machinery through the processing of data collected using **Internet of Things** features.

The **IoT** solution has been developed to integrate the specific solutions of the HVAC/R markets via cloud and on-site solutions. The portfolio includes benchmarking, statistics, alarms and standard reporting, whereby users can optimise their daily activities and achieve their goals more effectively in terms of services, energy, quality and marketing. The development of this business is crucial for Carel, including for its future.

Example IoT *solutions for the HVAC and Refrigeration markets*



The group operates through 27 subsidiaries, of which nine production sites in Italy, Croatia, Germany, China, the US and Brazil.



Overview of the global market

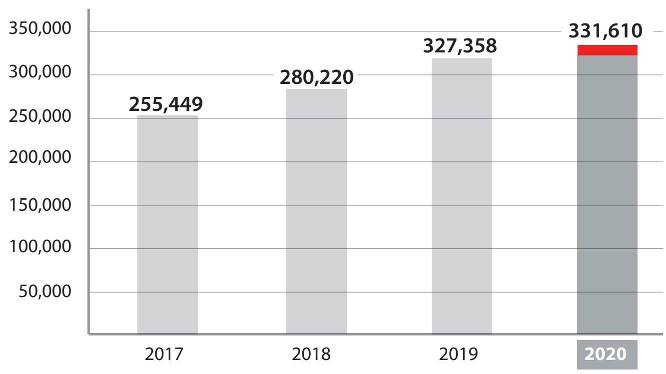
The commercial **refrigeration market** experienced a downturn in 2020 as a direct and tangible consequence of the Covid-19 pandemic and the restrictive measures adopted to curb the spread of the virus. The market contraction was mainly seen in the food service segment linked to the *business models* of the hospitality industry. The segment's end operators suffered huge slumps which naturally swept through the entire refrigerator unit OEM and dealer network.

The *food retail* segment was certainly less impacted by the pandemic, with the sales of large retail chains rising sharply during the first waves of lockdowns in 2020. Restrictions of movement and the switch in spending habits *from food away from home to food at home* led to a surge in retail and e-commerce sales. However, the supply chain comprised mainly of OEMs, contractors and system integrators saw investments plummet due to uncertainty and caution in the segment. Indeed, efforts and investments were more focused on improving safety and the buying experience during the pandemic. In terms of store format, buyers - and, as a consequence, sector operators - once again showed a preference for small/medium stores and local shops.

The spread of the pandemic also impacted the **HVAC market**, though with varying effects depending on the specific market segment. The *commercial* segment saw a considerable slowdown in the *comfort*, *hospitality* and wellness market, offset by investments in healthcare and a new awareness of the importance of indoor air quality, an area in which HVAC systems play a prominent role. With regard to the *industrial* segment, the considerable acceleration of pre-existing macrotrends on the market (e.g., remote working, usage of video-conferences, development of cloud services such as streaming, etc.) boosted the vitality of the *data centre* sector. Finally, the *residential* segment continued to enjoy a development trend thanks to the implementation and spread of more environmentally sustainable technologies.

Business overview

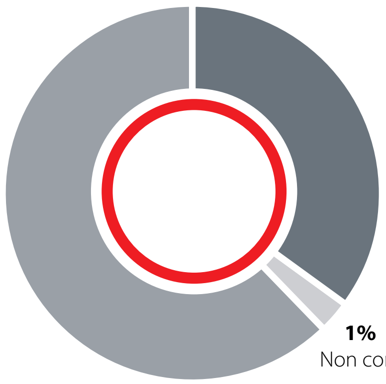
2020 was a positive year for the Carel Group with a **1.3% rise in turnover**, while the increase would have been 2.8% using constant exchange rates.



REVENUE BY BUSINESS SEGMENT

The breakdown of revenue by business segment shows an increase in the HVAC segment (1.0% at current exchange rates and 2.1% at constant exchange rates). The refrigeration segment's revenue increased by 2.6% and 5.0% at current and constant exchange rates, respectively, in 2020. Overall, the core business's revenue (HVAC/R) rose by 1.5% (3.1% at constant exchange rates).

As explained above, the impact of the pandemic was felt mainly in the second quarter, especially April and May when the various lockdowns held back the group's production activities and its ability to serve end customers due to logistical issues. These negative effects were offset by a very positive performance in June which contained the downturn in revenue for the first half of the year (-0.1% in refrigeration and -5% in HVAC). The group's production and logistics restructuring had a positive impact in July, September and October, with revenue outperforming previous periods in both markets, thanks also to the concentration of sales activities in the market niches less touched by the pandemic.



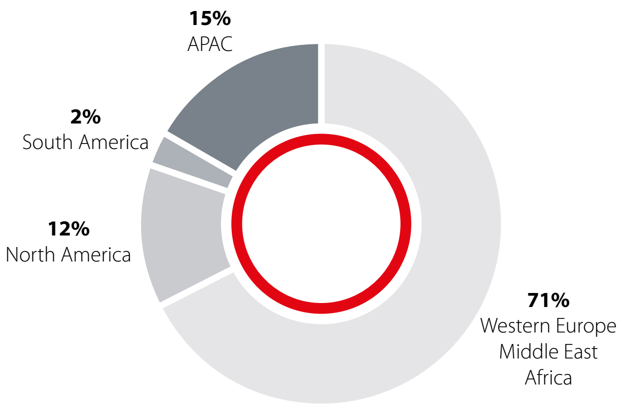
Revenue by business segment is broken down in the following table (thousands of Euros):

	2020	2019	Variation %	FX variation %
HVAC revenue	217,498	215,366	1.0%	2.1%
REF revenue	110,337	107,578	2.6%	5.0%
Total core revenue	**327,836**	**322,943**	**1.5%**	**3.1%**
Non-core revenue	3,775	4,415	(14.5%)	(14.5%)
Total revenue	**331,610**	**327,358**	**1.3%**	**2.8%**

REVENUE BY GEOGRAPHICAL SEGMENT

In geographical terms, the most growth was seen in the EMEA area (+4.3% or +5.0% at constant exchange rates), driven, in particular, by the increase in revenue in Eastern European countries, even reaching *double-digit* growth in certain markets.

Specifically, the refrigeration market performed particularly well despite adverse sector conditions by consolidating new opportunities and implementing sales projects for high-efficiency solutions. The HVAC market benefited from the contribution of the healthcare and indoor air quality segments and continued to see a positive trend in the residential segment. These instances of outperforming the market offset the particularly negative situations in certain countries where the pandemic had a very strong effect or where there is pronounced caution in making investments.



Revenue in North America dropped 9.4% (-7.7% at constant exchange rates), mainly due to the huge impact the pandemic had on the *food service* segment.

In South America, revenue increased by 10.1% at constant exchange rates in both business segments, especially in Brazil. On the other hand, the rest of the continent remained stagnant, most of all Argentina. The steep depreciation of the Brazilian Real had strong repercussions for the group's performance at current exchange rates, however, with the overall decrease in revenue reaching 12.8%.

Lastly, revenue in Asia decreased by 1.0% at current exchange rates but increased by 1.0% at constant exchange rates. Specifically, the refrigeration segment saw a significant upturn despite the slump suffered early in the year due to Covid-19. Indeed, the group clinched important orders once the economy was back up and running, especially in the second half of the year in the *food retail*, *food service* and HVAC segments and most of all in data centres.

A breakdown of revenue by geographical segments is provided below (thousands of Euros):

	2020	2019	Variation %	FX variation %
Europe, Middle East and Africa	236,267	226,470	4.3%	5.0%
APAC	49,714	50,205	(1.0%)	1.0%
North America	38,456	42,461	(9.4%)	(7.7%)
South America	7,173	8,222	(12.8%)	10.1%
Total	**331,610**	**327,358**	**1.3%**	**2.8%**

Listing on the stock market

Carel Industries S.p.A.'s ordinary shares were listed on the STAR segment of the stock market organised and managed by Borsa Italiana S.p.A. on 11 June 2018.
During 2020, the share price jumped by 38.4%, levelling off at €19.18 per share on the last trading day of the year. Considering the initial offering price of €7.20 per share, it rocketed by 166.4%. The average daily volume traded during 2020 was approximately 63,000 shares, while the maximum price reached in the same period was €20.50 per share.

Carel Industries share at 31 December 2020:

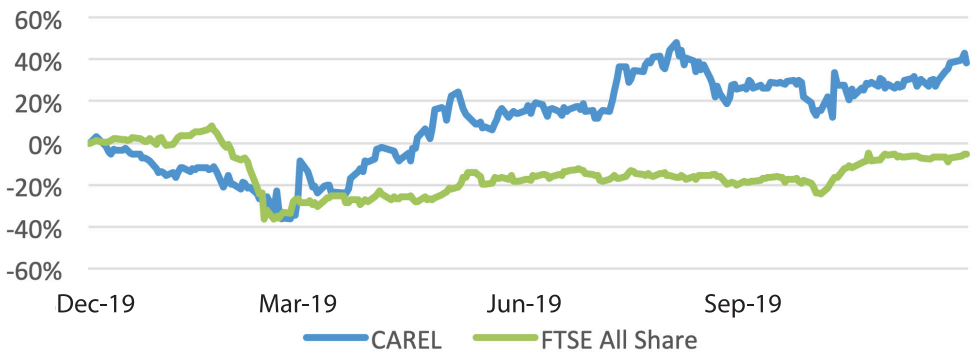
Stock exchange:	Borsa Italiana STAR segment
Isin code:	IT005331019
Ticker:	CRL
Indexes:	FTSE All-share Capped, FTSE Italia All-Share, FTSE Italia Mid Cap, FTSE Italia Star, FTSE Italia Industria, FTSE Italia Edilizia e Materiali
Share capital:	100,000,000.00
Nominal amount:	Not assigned
Earnings per share:	0.35
Dividend per share:	0.12

Major shareholders at 31 December 2020

Shareholders of Carel Industries S.p.A.	No. of shares	% of share capital	Voting rights	% of voting rights
Luigi Rossi Luciani S.a.p.a.	36,167,433	36.167%	72,334,866	44.066%
Luigi Nalini S.a.p.a.	23,582,567	23.583%	47,165,134	28.733%
Capital Research & Management Company	8,130,873	8.131%	8,130,873	4.953%%
7 Industries B.V.	4,932,595	4.933%	9,332,595	5.685%
Other *	27,186,532	27.187%	27,186,532	16.562%
Total	**100,000,000**	**100.00%**	**164,150,000**	**100.00%**

* including 168,209 treasury shares

Share performance in 2020:



Other significant events

Effects of the COVID-19 pandemic on the Carel Industries Group

As reported in the interim financial report at 30 June, 2020 was characterised by the global spread of the coronavirus Covid-19. The pandemic and, specifically, the lockdown policies imposed by various governments have had far reaching repercussions in many sectors of the global economy, including those in which the group is active. Nevertheless, thanks to the diversification of its products and its presence on a number of niche markets, the group managed to recoup the 3.6% decrease in revenue incurred in the first half of the year by focusing on commercial actions in the segments least affected by the fallout of the pandemic. As also reported above, overall, revenue fell by 1.3% (2.8% at constant exchange rates) compared to the previous year.

The spread of the virus had a different impact, in terms of timing and significance, on the group's various production sites and companies, most of all affecting operations in the first half of the year; specifically:

- in February, the production site in China had to shut down for about one week; moreover, following the restrictions imposed by the Chinese authorities, which drastically limited freedom of movement, full production efficiency was only restored towards the end of March. In April and May, while the pandemic worsened in other continents, particularly in Europe, the site returned to full production capacity, internally saturating production lines to keep up with the demand for products, including outside Asia. Lastly, new production lines were set up and production continued as usual for the entire second half of the year;
- the Italian production sites in Brugine (PD) and Rescaldina (MI) had to reduce production in April following the lockdown imposed by the Italian government. The Brugine production site was closed for approximately two weeks. From May, the production capacity at the Brugine (PD) site was saturated. The Rescaldina (MI) site was able to maintain a production capacity of approximately 30% during lockdown thanks to the products classified as essential by the existing legislation. From May, this site also restored operations, with a production capacity in line with that originally planned;
- the Brazilian production site did not experience significant shut-downs, although its production capacity is limited due to the ongoing diffusion of the

pandemic throughout the whole of South America and the restrictions introduced at the site to curb the spread of the virus;
- the American and German production sites continued to operate regularly during the year;
- to offset these production slowdowns and to meet the rise in demand especially in the second half of the year, the Croatian site increased its production capacity by changing from two to three shifts, in compliance with the social distancing regulations imposed by the local government.

With regard to the group's commercial companies, the spread of the pandemic has required extensive use of remote working to allow operations, particularly commercial ones, to continue.
The main impacts of Covid-19 on group processes are shown below

Supply chain and logistics
In the first quarter, certain supplies of raw materials, mainly from China, were delayed due to the extended lockdown in the country. Consequently, the group had to speed up the process which had been under way for a few years, for so-called "double sources", i.e., the approval of a second supplier in addition to the first. Such process mitigates the risk of serious *disruptions* to procurement processes by creating a regional system also for the *supply chain*. In fact, at the moment, regional acquisitions make up over 75% of the main production sites' acquisitions.
In tandem with this process, the group is implementing so-called production "mirroring", i.e., duplicating processes and technologies at several production sites in order to guarantee business continuity for the greatest number of products.
From a logistical point of view, the strict restrictions on the movement of people and goods in China required greater use of air rather than sea transport in order to cut delivery times for both intragroup products and products for end customers. This led to higher transport costs, negatively affecting the first six months of the year, compared to the same period of the previous year.

Health and safety
As occupational health and safety is a fundamental value for the group, during the Covid-19 emergency, close attention was paid to the management of all work processes at different production sites in order to effectively mitigate the risk of contagion.
To this end, following an organisational, structural and behavioural risk analysis, a series of measures were introduced, anticipating the indications included in the national protocols. At a structural level, for example, wearing protective face masks in work areas, introducing social distancing by rearranging some work stations, using hand sanitisers, sanitising work areas at the end of a shift, sanitising different areas with an atomiser, limiting access and check everyone's temperature using a thermoscanner and limiting numbers in communal areas became mandatory. Lastly, although the work environment has continuous air intake, additional air circulation was facilitated in all work areas. At an organisational level, remote working was widely used in March, involving 90% of the group's Italian white collars, in-person meetings were limited and all national and international transfers were blocked. Thanks to a communication plan launched at the beginning of the emergency, the foreign commercial companies and production sites were guided by "Golden Rules" to prevent contagion in compliance with the local legislation.
For the purpose of behavioural improvement, in addition to the protocols, a series of documents and information pamphlets summarising the general and specific risk mitigation measures were produced and circulated, including with the group's main partners (suppliers and customers). Lastly, the Golden Rules were summarised in a short video which was shown to all group personnel from around the world in order to guarantee their quick and effective communication.

Financial effects, use of support measures

While reference should be made to the following paragraphs for a detailed description of the effects of the pandemic on the group's financial performance of the year, it is noted that, in 2020, the group made use of instruments provided by local governments to mitigate the effects of a global economic downturn. Such measures mainly comprised non-repayable grants received by the various companies, in accordance with local legislation. However, the impact of such grants on the group's financial figures was not material either individually or collectively. Group companies were fully eligible to receive this support.

The US group company received USD1.7 million in May as part of the Paycheck Protection Program enacted by the US government. Provided that the company meets certain conditions, that amount can be considered forgivable. The conditions are that the grant is used to pay remuneration, interest on loans, leases and utilities; furthermore, the workforce must remain employed and remuneration must stay the same for a defined period of time.

The request for repayment exemption was filed in January 2021 and was approved by the granting body and the relevant authorities (SBA – US Small Business Administration) on 26 January 2021.

As the request for repayment exemption was filed and the relevant checks by the granting body were completed - leading to the loan being formally forgiven - in 2021, the directors considered them non-adjusting events as per IAS 10. Accordingly, the accounting effects will be recognised in 2021.

Other significant events related to financing activities

The group's main financing activities in 2020 were as follows:

Signing of new medium-term loans

The parent completed the following transactions during the year:

- in March, it took out an 18-month unsecured loan for €10,000 thousand with BNL (BNP Paribas);
- in March, it took out a 48-month unsecured loan for €10,000 thousand with Intesa San Paolo S.p.A.;
- in April, it took out a 48-month unsecured loan for €10,000 thousand with Crédit Agricole FriulAdria S.p.A.;
- in April, it prepaid a Mediobanca – Banca di Credito Finanziario S.p.A. loan. Taken out in December 2018 for €30,000 thousand for a duration of 36 months, the parent repaid the residual amount of €18,000 thousand plus interest accrued to date. It simultaneously took out a new unsecured loan with the same bank for €25,000 thousand at a floating rate and a duration of 36 months. To hedge the interest rate risk, the parent entered into an IRS with the same duration.

All loans bear a fixed rate of less than 1%.

For more details on the contractual terms, reference should be made to note 14 to the consolidated financial statements.

Dividend distributions

In June, the parent distributed dividends of €11,980 thousand, in accordance with the shareholders' resolution of 20 April 2020.

Repurchase of treasury shares

In April and May 2020, in accordance with the shareholders' resolution of 20 April 2020, the parent repurchased 84,874 treasury shares for €958 thousand, which reduced its

equity. In total the parent holds 168,209 shares at the reporting date.
The shareholders approved the repurchase in order to (a) comply with obligations arising from share-based incentive plans for the employees and directors of the parent and its subsidiaries; (b) carry out transactions to support market liquidity to thereby facilitate regular trading and avoid price fluctuations that are not in line with market trends; and (c) undertake sale, exchange, trade-in, contribution transactions or other acts of disposal of treasury shares to acquire equity stakes and/or real estate and/or enter into agreements (including commercial ones) with strategic partners and/or implement industrial projects or extraordinary finance transactions that fall within the development goals of the parent and of the Carel Group. The board of directors set the maximum number of repurchasable treasury shares at 5 million, equal to 5% of the parent's share capital.

RESTATEMENT OF FINANCIAL ASSETS AND LIABILITIES AS PER IFRS 16

In compliance with the IFRIC agenda decision of November 2019 on the provisions of IFRS 16, in addition to the ESMA recommendations, in December, the parent deemed it necessary to restate financial assets and liabilities linked to certain leases, specifically those for buildings where the parent carries out its production activities. In restating the lease term of such contracts, the parent not only assessed the *contractual expiry date but also the enforceable* period, i.e., the period in which the lessee and the lessor each had the right to terminate the lease without any penalty or significant costs.

Based on the estimates made and the data available to date, the directors deemed it reasonable to presume that the lease will be renewed. Accordingly, the leases for the Brugine production site were renewed to 2033 (the first and main lease was due to expire in 2021). The leases for the Croatian production site and that of the subsidiary Recuperator, expiring respectively in 2030 and 2032, were not modified due to the considerable term remaining. This modification led to an increase in right-of-use assets and lease liabilities for a total of €12,812 thousand. There was no effect on profit or loss for the year.

Overview of the group's performance

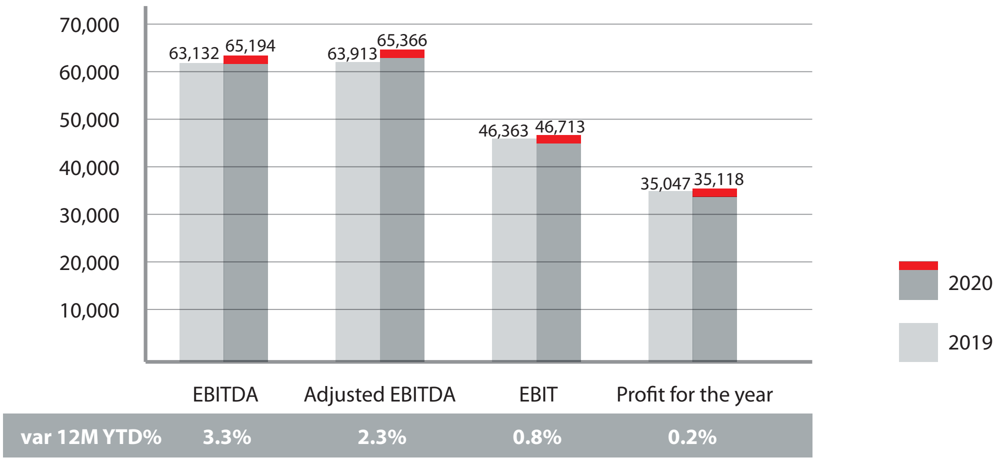
The main performance figures for 2020 compared to the previous year are as follows:

	2020	2019	Delta	Delta %
EBITDA[1]	65,194	63,132	2,062	3.3%
Adjusted EBITDA	65,366	63,913	1,453	2.3%
EBIT	46,713	46,363	350	0.8%
Profit for the year	35,118	35,047	71	0.2%

In 2020, EBITDA amounts to €65.2 million, equal to 19.7%[2] of revenue, showing an increase of €2.1 million, or 19.3%, from €63.1 million in the previous year. This improvement is chiefly due to the rise in revenue compared to 2019, especially in the EMEA area, and the cost containment measures applied by management. These effects offset the higher logistics costs and production efforts to promptly meet the demand for Carel products.

Net of non-recurring items, which amounted to approximately €0.2 million in 2020 and referred to costs incurred for preliminary scouting activities, the adjusted EBITDA would have amounted to €65.4 million, or 19.7% of revenue, compared to 19.5% in the previous year when non-recurring items amounted to €0.8 million.

The FX adjusted EBITDA (i.e., at constant exchange rates) amounts to €67.8 million.



The profit for the year came to €35.1 million, in line with the previous year following higher amortisation and

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

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

depreciation (€1.7 million) and net exchange losses (roughly €0.8 million). As a percentage of revenue, profit amounts to 10.6%, substantially in line with 2019.

The main financial position indicators at 31 December 2020 and 2019 are as follows:

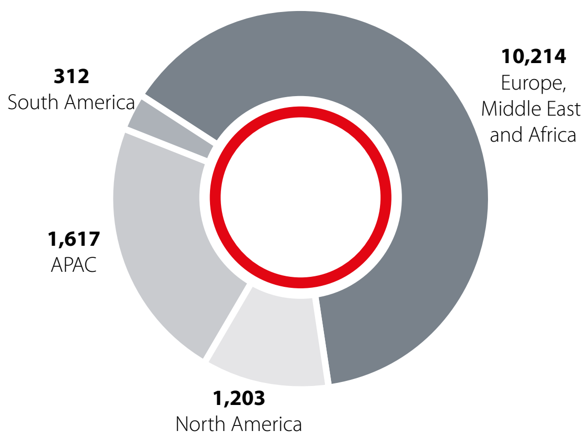
	31.12.2020	31.12.2019	Delta	Delta %
Non-current assets	176,413	167,957	8,456	5.0%
Working capital	41,007	45,232	(4,225)	(9.3%)
Defined benefit plans	(8,189)	(7,844)	(345)	4.4%
Net invested capital	**209,231**	**205,345**	**3,886**	**1.9%**
Equity	159,621	143,220	16,401	11.5%
Net financial debt	49,610	62,124	(12,514)	(20.1%)
Total	**209,231**	**205,345**	**3,866**	**1.9%**

Non-current assets amount to €176.4 million, up by €8.5 million from €168.0 million at the previous year end, mainly due to the impact of restating leases in accordance with IFRS 16.

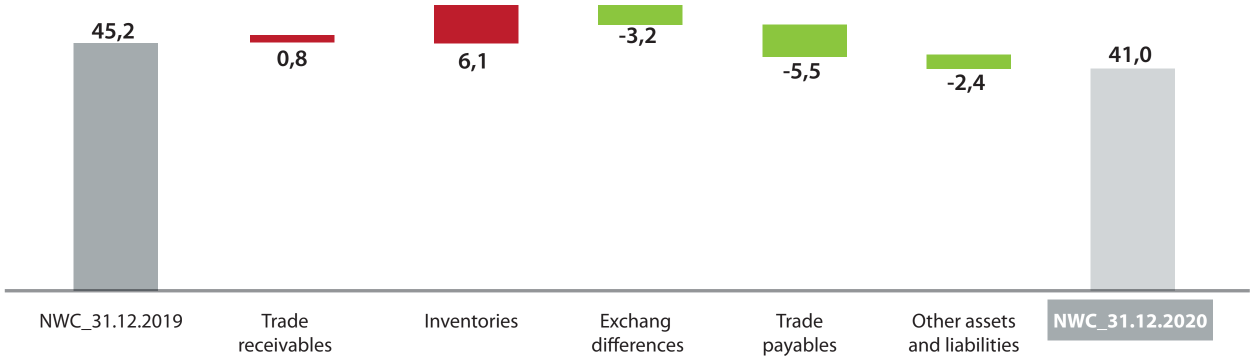
Net of right-of-use assets, the group's investments amount to €13.3 million, compared to €23.6 million at the end of the previous year. Investments made in 2019 included the construction and expansion of Chinese and US production sites, as detailed in the notes to the 2019 consolidated financial statements.

The main investments were, in particular, for plant and machinery for a total of €5.5 million at the parent and the Chinese and Croatia production sites. Their breakdown by geographical segment is set out in the graph on the right. The investments in intangible assets, mostly made by the parent, amounted to €4.2 million and related to licences and research projects.

Amortisation and depreciation, including the effects of the application of IFRS 16, totalled €18.5 million in 2020 compared to €16.8 million in 2019.



Net working capital of €41.0 million fell by €4.2 million to €45.2 million at 31 December 2019. This improvement is principally affected by the increase in trade payables, mainly due to investments concentrated in the final months of the year, other current liabilities and tax liabilities which more than offset the rise in inventories. Trade receivables remained more or less unchanged.



The group's net financial debt amounts to €49.6 million compared to €62.1 million at 31 December 2019, showing an improvement of €12.5 million. Excluding the effects of application of IFRS 16, the net financial debt would have improved by €25.4 million. The reduction is mainly due to the group's cash inflows. Moreover, the parent paid dividends of roughly €12 million in 2020. Lease liabilities increased mainly as a result of restating certain leases as described above. Reference should be made to the statement of cash flows for more information on the cash flows for the year.

A breakdown of net financial debt is as follows:

	31.12.2020	31.12.2019
Non-current financial liabilities	89,059	74,700
Current financial liabilities	45,492	35,031
Cash and cash equivalents	(105,586)	(62,798)
Current financial assets	(7,540)	(56)
Net bank loans and borrowings	**21,425**	**46,876**
Non-current lease liabilities	24,597	11,787
Current lease liabilities	3,588	3,461
Net financial debt	**49,610**	**62,124**

At 31 December 2020, the group's current financial assets included short-term investments of approximately €7.5 million.

At 31 December 2020, over 70% of cash and cash equivalents were held by Italian group companies and approximately 8% by the Chinese subsidiary. The remaining amount was split between the other group companies. Management designed processes which ensure that the cash and cash equivalents held by subsidiaries is promptly available to the group.

Cash flow forecasts prepared by management indicate that the resources available and expected cash flows will be sufficient for the group's normal operations and to repay amounts due at their due dates.

Given the above, the directors believe that the group is not exposed to a higher liquidity risk than usual due to Covid-19.

The main financial indicators for the two years are set out below:

Indici	2020	2019
ROS (3)	14.1%	14.2%
ROI (4)	22.3%	22.6%
ROE (5)	22.0%	24.5%
ROA (6)	11.3%	13.2%
Inventory turnover (14)	2.8	2.7
Average DSO (15)	64.0	66.1
Average DPO (16)	79.8	77.9
Group tax rate (18)	21.1%	22.0%
R&D - investments (7)	17,499	18,060
R&D as % of revenue (8)	5.3%	5.5%
Capex as % of revenue (9)	4.0%	7.2%
Cash conversion (17)	79.3%	71.2%

(3) The "*Return on Sales*" (ROS) is the ratio of operating profit (loss) to revenue.
(4) The "*Return on Investment*" (ROI) is the ratio of operating profit (loss) to net invested capital.
(5) The "*Return on Equity*" (ROE) is the ratio of the profit (loss) for the year to equity.
(6) The "*Return on Assets*" (ROA) is the ratio of the operating profit (loss) to total assets.
(7) The "*R&D Investments*" are the sum of Opex R&D and Capex R&D.
(8) The R&D investments as a percentage of revenue is the ratio of R&D investments to revenue.
(9) The "*Capex*" as a percentage of revenue is the ratio of cash flows from investing activities to revenue.
(10) The group calculates net financial debt using the method set out in paragraph 127 of the CESR recommendation 05/054b, which implemented Commission Regulation (EC) 809/2004 (see chapter X, paragraph 10.1).
(11) Net non-current assets is the sum of property, plant and equipment, intangible assets, equity-accounted investments and other non-current assets.
(12) Net working capital is the sum of trade receivables, inventories, tax assets, other assets, deferred tax assets, trade payables, tax liabilities, other current liabilities, deferred tax liabilities and provisions for risks.
(13) Net invested capital is the sum of (i) net non-current assets, (ii) net working capital and (iii) defined benefit plans.
(14) Inventory turnover is calculated as the ratio of (i) purchases of raw materials, consumables, goods and changes in inventories to (ii) average inventories at the end of the previous and current years. This ratio is multiplied by 365.
(15) Average DSO is the ratio of (i) the average of trade receivables at the end of the previous and current years to (ii) revenue. This ratio is multiplied by 365.
(16) Average DPO is the ratio of (i) the average of trade payables at the end of the previous and current years to (ii) the sum of purchases of raw materials, consumables and goods and changes in inventories and cost of services. This ratio is multiplied by 365.
(17) The cash conversion rate is calculated as the ratio of (i) operating cash flows net of cash flows from investing activities to (ii) EBITDA.
(18) The group tax rate is the ratio of income taxes to the profit before tax.
(19) The Capex as a percentage of revenue includes the increases relating to leases recognised after 1 January 2019.

Key cash flows are as follows:

Cash flows from operations (indirect method)	31.12.2020	31.12.2019
Profit for the year	35,118	35,047
Profit for the year net of amortisation, depreciation and impairment losses, provisions, net financial (income) expense, income taxes and (gains)/losses on the sale of non-current assets	**62,349**	**64,532**
Cash flows before changes in net working capital	3,908	4,015
Interest and income taxes paid	(9,153)	(18,982)
Net cash flows from operating activities	**57,103**	**49,565**
Cash flows used in investing activities	(13,036)	(22,347)
Increase (decrease) in share capital	(925)	(807)
Sales (acquisitions) of equity investments	-	-
Dividends to owners of the parent and non-controlling investors	(12,030)	(10,066)
Cash flows from (used in) financing activities	13,549	(9,249)
Change in cash and cash equivalents	**44,662**	**7,096**
Opening cash and cash equivalents	60,925	55,702
Closing cash and cash equivalents	105,586	62,798

Cash flows generated by operating activities amount to €57.1 million in 2020, which is a significant improvement on 2019 (€49.6 million).

In 2020, the group generated cash of €44.7 million after distributing dividends of €12 million and investing €13.0 million. Financing activities generated cash flows of €13.5 million.

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

The parent, Carel Industries S.p.A., has its offices at the main production site in Brugine (Padua).
The parent manufactures and markets products which it distributes to the end customers in the markets it manages directly (mostly Italy) and its foreign subsidiaries in the markets they manage.
The parent provides centralised treasury services to the group and the European entities have a *cash pooling* system in which it acts as pooler. At year end, it had financial liabilities of €11.6 million related to the cash pooling account.
The parent's net financial debt amounts to €79.5 million (31 December 2019: €87.4 million).
It also distributed dividends of €12.0 thousand to its shareholders during the year.

Carel Industries S.p.A.	2020	2019	delta %
Revenue from third parties	98,437	97,766	0.7%
Intragroup revenue	81,930	78,280	4.7%
Other revenue	4,668	4,490	4.0%
Operating costs	(161,553)	(154,204)	4.8%
EBITDA	**23,482**	**26,332**	**(10.8%)**
Amortisation, depreciation and impairment losses	(8,245)	(7,374)	11.8%
Operating profit	**15,237**	**18,958**	**(19.6%)**
Net financial income	10,188	9,224	10.5%
Profit before tax	**25,426**	**28,182**	**(9.8%)**
Income taxes	(4,530)	(5,473)	(17.1%)
Profit for the year	**20,896**	**22,708**	**(8.0%)**

The parent performed well in 2020; revenue from third parties amounts to €98.4 million up by 0.7% on the previous year. Intragroup revenue increased by 4.7%.
Other revenue mainly consists of royalties from group companies for *know-how* licences and tax assets for R&D activities as provided for by national laws.

Operating costs include the capitalisation of development expenditure of €1.9 million (compared to €2.5 million in 2019). The increase in operating costs is mainly due to higher costs to purchase raw materials and semi-finished products (approximately €4 million), personnel expense (approximately €2.8 million) and transport costs.

The number of employees increased from 680 to 682 at the reporting date.

Financial income includes dividends of €14.9 million (2019: €10.1 million) received from foreign companies, mainly the Chinese, Polish and UK subsidiaries.

Taxes decreased in absolute terms and as a percentage of profit before tax (to 17.8% in 2020 from 19.7% in 2019). This was mainly due to higher dividends received during the year (€14.9 million in 2020 compared to €10.0 million in 2019), the benefits deriving from the application of hyper and super-amortisation and the lower IRAP rate applied, 3.9% compared to 5.5% in 2019, as the parent no longer falls under the scope of Legislative decree no. 142 of 29 November 2018 at the reporting date.

The reclassified statement of financial position as at 31 December 2020 compared with the previous year end is as follows:

Carel Industries S.p.A.	31.12.2020	31.12.2019	delta %
Non-current assets	164,431	156,369	5.2%
Working capital	10,157	17,621	(42.4%)
Defined benefit plans	(5,141)	(5,256)	(2.2%)
Net invested capital	**169,447**	**168,734**	**0.4%**
Equity	89,916	81,335	10.5%
Net financial debt	79,531	87,399	(9.0%)
Total coverage	**169,447**	**168,734**	**0.4%**

The increase in non-current assets is mainly due to:

- investments in property, plant and equipment and intangible assets of €3.7 million and €4.2 million, respectively;
- the restatement of right-of-use assets of €12.8 million.

Working capital decreased, principally due to the increase in trade payables from €29.6 million to €37.6 million, mainly as a result of investments in and purchases of materials concentrated in the final months of the year, and the rise in other current liabilities.

Lastly, the net financial debt amounts to €79.5 million at 31 December 2020, comprising cash and cash equivalents of €70.5 million (31 December 2019: €25.6 million) and loan assets of €7.5 million, offset by financial liabilities of €157.7 million, including lease liabilities of €15.0 million.

The reconciliation of the parent's and group's equities at 31 December 2020 is provided below:

	12_2020		12_2019	
	Equity	**Profit for the year**	**Equity**	**Profit for the year**
CAREL Industries S.p.A.	**89,916**	**20,896**	**81,335**	**22,708**
Profit and equity of consolidated entities	136,748	29,665	128,840	23,674
Derecognition of the carrying amount of investments in consolidated entities	(128,402)	3,242	(131,429)	(325)
Derecognition of intragroup dividends	-	(15,145)	-	(10,666)
Derecognition of intragroup profits on inventories	(6,694)	(1,461)	(5,234)	1,528
Purchase price allocation	67,656	(2,089)	69,275	(1,981)
Other adjustments	93	4	80	80
Carel Industries Group	**159,317**	**35,112**	**142,868**	**35,019**

Occupational health and safety

There were no fatal injuries or cases of occupational diseases during the year, continuing the trend of previous years.

During 2020, at group level, 4 (four) incidents occurred in the workplace and 2 (two) during the commute to and from work, which resulted in more than three lost work days for the workers involved.

Compared to 2019, when there was a total of 13 injuries in the workplace and 14 during the commute to and from work, 2020 saw an over 70% fall in injuries despite the total number of hours worked being higher of 13% compared to the previous year.

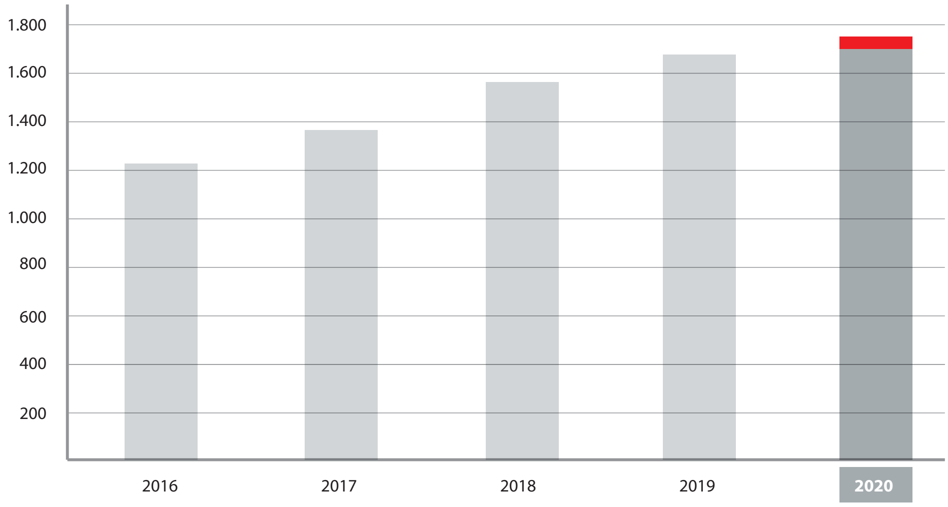
The group did not receive any complaints nor was it ordered to appear in court for alleged violations of occupational health and safety regulations or environmental crimes in 2020.

During 2020, Carel Industries S.p.A. confirmed its ISO 45001:2018 health and safety certification and ISO 14001:2015 environmental certification.

Partly to respond to the specific situation resulting from the Covid-19 pandemic, the group implemented a number of structural, organisational and behavioural measures at its various sites to improve the level of occupational health and safety. A detailed description is provided in its consolidated non-financial statement (NFS) prepared pursuant to Legislative decree no. 254/16, to which reference should be made.

HR and organisation

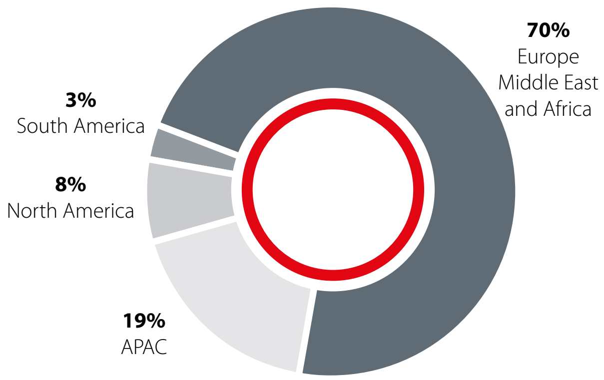
The group's growth, also in terms of the total number of employees, continued in 2020, especially in Europe, the Middle East, Africa and North America.



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

	2020	2019	Delta
Europe, Middle East and Africa	1,214	1,165	49
APAC	339	345	(6)
North America	146	133	13
South America	46	46	-
Total	**1,745**	**1,689**	**56**

The breakdown by geographical segment is shown in the graph on the right. Blue and white collars account for 35.7% and 64.3%, respectively.



Development and selection

Despite the effects of the Covid-19 pandemic on business and operations, the group continued to enhance its organisational structure in 2020, with an increased growth of the workforce involved in operating processes, especially to support the group's production capacity.
Overall, the group hired 210 resources, while 154 left. The Italian head office hired 32 employees during the year while 30 left the parent, some of whom had reached retirement age. So the high rate of turnover seen in recent years continued, especially at the group's production sites, in a global labour market marked by fierce competition especially for highly-qualified personnel. This trend was amplified even further by Covid-19, especially in the US and Brazil where the effects of the pandemic were particularly significant.

Prompted by the restrictions put in place to prevent the spread of the virus, the group encouraged and facilitated *remote working* for the employees of both Italian and foreign group companies. Remote working was the main method used by most of the white collar employees, ensuring they could continue to work effectively with maximum safety and supplied with the necessary IT equipment.

Specifically at the parent, almost all employees (approximately 90%) who were not involved in production or logistics activities worked remotely during the production shutdown period starting from late March 2020. This was initially full time (five out of five days). After the factories were reopened, *remote working* was then alternated with scheduled in-person days based on safety protocols agreed with the trade unions. Similar policies were then put in place at the group's other offices, where the production shift schedules were also revised, where necessary, to ensure social distancing.

Against this backdrop, the group developed projects to maintain engagement and the feeling of belonging, to support employee well-being and thus mitigate the risk of losing employees and their precious technical and managerial skills. The group also boosted internal communication, specifically by making greater use of social media and tools such as videos and webinars to keep personnel up to date about the group's performance.
The group has always made a particular effort to offer solutions (e.g., flexible working hours, part-time hours for working mothers returning from maternity leave, support for children's education via contributions to crèche costs, study grants, etc.) aimed at simultaneously ensuring professional development and the possibility to achieve a better work-life balance. In line with this objective, the parent launched a new Welfare platform at the start of 2020. Available to all employees, the platform optimises and customises each employee's choices regarding the services available under contractual and company agreements as *flexible benefits*, allowing full discretion and decision-making autonomy. In addition to purchasing goods, employees can also use services related to the individual, family management and recreation, sports and well-being, as well as accessing training sessions and/or events.

Finally, in 2020, due to the worsening of the national public health emergency caused by the pandemic, the parent decided to introduce financial and health assistance for all employees at Italian offices by signing an insurance policy covering Covid-19.

2020 training courses

Training of one of the key tools for developing the group's business strategy. It is fundamental given the rapidly developing markets and technologies of the HVAC/R segment.

Therefore, in order to ensure the utmost professionalism within all company areas, the group has always implemented top-class employee training and development programmes. In 2020, a total of 28,823 hours of training were provided at the various offices.

The decrease on the 2019 total (48,728 hours) is a natural consequence of the restrictions imposed by the public health emergency which inevitably hindered the possibility to provide face-to-face training. However, the group's ongoing investment in training programmes meant it reached a total of 15,588 hours of training provided to white collars and 13,235 hours to production personnel.

Due to Covid-19 and the resulting social distancing and lockdown measures, the group had to quickly adapt to new training methods in order to ensure ongoing growth and development of employees. It swiftly transformed courses traditionally provided in classrooms into a distance learning format. These included *induction* courses for new hires, training courses on technical/application skills and marketing and sales training.

In addition, the group launched the Carel Lean Academy programme in 2020 to continue its lean philosophy project rolled out in 2007 and to provide employees with tools to tackle and adapt to this new situation full of instability and uncertainty. The purpose of the academy is to promote lean principles and the *lean philosophy*, always considered a strategic asset for business growth at group level. The first courses began in late 2020 via e-learning. Training on lean issues accounted for roughly 5% of total courses provided during the year.

The group's main training courses were of a technical/application, management and professional refresher nature, in addition to covering HSE (health, safety and environment) issues - even more critical this year - which accounted for 13.8% of total training hours.

Approximately 34% of the total training hours related to operations (production, logistics, procurement and industrialisation) while 15% focused on soft skills, specifically communication and management subjects, for resources across the different group areas. Finally, 11.4% of the hours were dedicated to developing skills and know-how on topics related to HVAC/R applications.

LEAN ACADEMY

Industrial relations

Due to the rapid developments in the crisis caused by the Covid-19 pandemic, there were frequent interactions between the trade unions and the HR departments of the group's Italian and foreign companies in 2020.

Specifically, in the first half of the year, the extreme uncertainties triggered by the impact of the spread of the virus on the group's business, along with the restrictions on the availability of the workforce and the need to apply strict safety protocols to mitigate the risk of infection, led to heated discussions and intense debates. It was only after weeks and months that these talks resulted in a shared vision of the prevention measures to be adopted without significant impacting the workers' ability to carry out their ordinary work activities.

Specifically, the parent set up a *Covid-19 committee* at its headquarters, which is also its main production site. The committee comprises the HR manager, HSE manager, trade union representatives, safety representatives and the company doctor. Its tasks are to regularly (at least once a month) update the employee healthcare protocol adopted by the parent, assess the best policies for employee access to offices (via a balanced mix of in-person and remote working) and provide policies and guidelines to be used as standards at group sites and offices abroad in compliance with local regulations and the ruling legislation of each country.

The finest results of this close collaboration between the parent and the trade unions were seen in the second half of the year. Also considering the dramatic upswing in economic activities, the employees' willingness to ensure that the greater production capacity needed to uphold the business was available enabled the group to bounce back from the first half of the year, leading to a growth in volumes that could never have been imagined just a few months earlier.

That being said and considering the anomaly that was 2020, not counting the trade union disputes at the start of the pandemic (with the stoppage of overtime and some unjustified absences especially in March), there were a total of six days of strike. Four of these were directly linked to the pandemic and two to actions implemented by the trade unions at national level for the renewal of the national collective labour contract for the metalworking industry. The average participation rate was 14.4%; with peaks of 40.5% for the blue collar workforce.

Lastly, the unionisation level (number of members compared to total employees) is slightly higher than the previous year at around 14.8% (compared to 14.3% in 2019). While increasing, this ratio confirms the parent's substantially positive industrial relations situation and the absence of conflicts or significant pending disputes. The most represented unions are FIOM Cgil (95.0% of members) and FIM Cisl (5.0% of members).

The unionisation level at group level also remained very low, proving that "direct" industrial relations, i.e., without the arbitration of an internal or external trade union representative, are often preferred, especially at local level. So, the atmosphere at the group remained largely harmonious via constructive and transparent collaboration styles. In this regard, there were only five individual cases in 2020 that lead to trade union disputes. These occurred at Carel USA (two at the Canadian subsidiary ENERSOL) and Carel South America. These disputes basically regard violations of the Code of Ethics (inappropriate behaviours and relations between co-workers and/or regarding a superior). Two of them were already resolved in 2020, while the remaining three are close to resolution.

2020 R&D activities

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

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

In this context, the R&D centre implemented a **conflict minerals (3TGs)** policy, identifying the macro-categories of items that may contain the 3TGs, in order to make the investigation easier. The group commenced evaluating active raw material suppliers of the four production sites that use the 3TGs (for example, tin alloys for welding, electronic microchips, tantalum capacitors or LCD displays).

In 2020, the group procured 98% of its 3TG components from conflict-free sources and 94% of component manufacturers that source conflict-free 3TGs declare that they are committed to monitoring their upstream supply chain.

With respect to user health protection, the group has always paid particular attention to compliance with the applicable European legislation. More specifically, Carel applies the **REACH** (Registration, Evaluation, Authorisation and Restriction of Chemicals) and **RoHS** (Restriction of Hazardous Substances Directive) **European directives** by actively involving its entire value chain and, through its internal chemicals compliance team, it continuously vouches the REACH compliance statements of the various manufacturers.

In addition, thanks to a specific project, the parent can state its compliance with the EU RoHS Directive of 21 July 2011 and the Commission Delegated Directive (EU) 2015/863 of 31 March 2015 restricting the use of certain hazardous substances in the production of electrical and electronic equipment.

In 2020, Carel addressed the compliance of its products with the US regulation, applied in California, **Proposition 65** (officially called the Safe Drinking Water and Toxic Enforcement Act of 1986, decreed in paragraphs 25249.5-14 of the California Health & Safety Code) which regulates the use of toxic or cancer-causing substances.

Carel Industries engaged a third-party expert in chemical compliance to assess the risk to human health of certain substances contained in the products (articles or components of articles). The products that Carel Industries supplies to customers do not contain chemical substances listed in Proposition 65 at a concentration liable to cause exposure levels exceeding the "safe harbor levels".

Currently the R&D unit comprises the IoT division, the Knowledge Centre and the centres for electronics, mechanics and software tools competence centres.
At the end of 2018, thanks to the acquisition of HygroMatik GmbH and Recuperator S.p.A., the group's mechanics competence centre started to work in the passive heat recovery and isothermal and adiabatic humidification sectors.

In 2020, the R&D unit had an average of 224 employees (including 152 at the parent, 12 in the US, 51 in China, four at HygroMatik GmbH and five at Recuperator S.p.A.) who are very qualified and have a high educational level (roughly two thirds are university graduates).
Costs (personnel expense, opex and capex) of the R&D activities equalled 5.3% of turnover and amounted to €17.4 million, down slightly (3%) on the previous year.

As the IFRS requirements were met for some of the projects developed or underway, the group capitalised the related expenditure of roughly €2.2 million under intangible assets (31 December 2019: €3.0 million).

In 2020, in addition to those already created in 2018, the group introduced additional positions to improve its organisational and management structure. It completed the systems manager structure, specifically in the mechanics (to help full integration with Recuperator) and humidification areas. It also created a technical integration development manager role in order to fully integrate with HydroMatik with regard to both market offer and development processes and organisational approaches. With respect to Recuperator, integration focused on encouraging sharing of the group's development process, the use of lean tools (visible planning, barashi, issue board and A3-T), the harmonisation of product certification processes and design, simulation and verification tools and methods. With respect to HygroMatik, the group mostly focused on the integration of product portfolios, in order to expand its offer in Germany, Switzerland and Austria.

The group confirmed its modular approach to product development in the various areas (electronic, mechanical and software) to encourage as far as possible the re-use and re-usability of the modules and thus reduce development times, achieve greater reliability and reduce product costs.

It focused especially on honing development skills at the other global production sites through its global competence centres to improve their ability to meet group design requirements. It maintained its development processes, methods and standards and circulated them throughout the group to be used as a basis for all design activities and guarantee identical quality levels at each site. A production part approval process (PPAP) has been put in place for suppliers of materials, in particular of customised materials, in order to improve the quality in terms of both the design and the reliability of the production flows. This will improve the reliability of the supply flows, with the resulting improvements in logistics and quality. Similarly, the group reinforced its production part approval process regarding customers, exploiting the market's move to using flammable refrigerants, investigating FEMEA techniques on the production process, in addition to formalising the process flow and process control plan.

Furthermore, R&D activities are also developed through long-standing partnerships with the Padua University, Udine University and Milan Politecnico University (in areas ranging from analogue and digital electronics, evolved calculation design, power electronics to the theory of systems and controls, thermodynamic applications, technical physics and mechanical production processes), CNR (National Research Institute) and the most important sector associations, such as EPEE (European Partnership for Energy and the Environment), AICARR (Italian Association of Air conditioning, Heating and Refrigeration), ASHRAE (American Society of Heating and Air-Conditioning Engineers), AHRI (Air-Conditioning, Heating and Refrigeration Institute), EHPA (European Heat Pump Association), CRAA (Chinese Refrigeration and Air Conditioning Industry Association) and CAR (Chinese Association of Refrigeration).

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

- acquisition of new base technologies and processes;
- development of new products/product platforms;
- operating improvement of platform products, specifically focused on the market use of flammable refrigerants;
- development of new vertical solutions using available products.

The four guiding principles led to:

- energy efficiency
- natural refrigerants
- monitoring, data analysis and streamlining of systems
- revision and expansion of current product ranges.

Product development activities were hugely affected by the Covid-19 pandemic as could be expected given the scale of the event. Structured at company level, the group's approach allowed it to promptly react to the pandemic, making the workforce (via flexible working methods) and business safe. Much energy was redirected from ordinary development activities to business protection actions. Subsequently, due to the pandemic's impact on certain business segments, the group rearranged development priorities, focusing activities towards more attractive prospects.

In 2020, the group continued the development plan for the new **iJ** refrigeration range, officially presented at Euroshop 2020. With a renewed and futuristic look, the product covers the more profitable food service market segments: merchandiser, food storage and display, food process, scientific application and distribution. The product is programmable, highly customisable, with a wide variety of formats and functionalities, able to withstand hostile environments and may be connected through NFC, BlueTooth and WiFi.

Again in the refrigeration segment, the group introduced HEOS BOX system refrigeration modules using HFC/HFO refrigerants for food retail water loop systems. This solution is aimed at facilitating the HEOS water loop system's market penetration by directly supplying the finished refrigeration module with a data connection and REDoptimize data analysis system, as well as electronic systems for OEMs that prefer to develop the refrigeration units themselves. In addition, the group began developing HEOS BOX modules for natural CO2 refrigerant in 2020.

The HEOS system was completed with HEOSone for chest freezers and wall units as a solution for supermarkets and professional refrigeration seeking high energy efficiency solutions that use propane as a natural refrigerant.

The programming suite for the programmable range was extended to improve connectivity, with the introduction of the new commissioning and integration features.

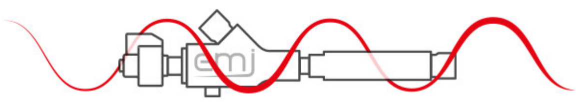
The group continued the market launch of the advanced CloudGate gateway for both WiFi and LTE connections to the tERA portal, in order to allow the collection of information from field controls. With an affordable cost, it allows an extremely wide variety of LTE connections for the most important 4G standards (CAT1, CATM1 and NB-IoT), as well as the traditional 2G.

The gateway also led to the development of an additional control system called BOSS micro (joining BOSS and BOSS mini) for small stores, to optimise data connection and alarm monitoring costs.

Finally, the gateway range was extended with CloudGate mini for point-to-point WiFi and 2G connections to tERA, RED optimize or third-party clouds.

In terms of IoT, the centralised control systems tEra and remotePRo for both refrigeration (retail chain) and air-conditioning (data centres) continue to be developed and upgraded, supporting the development of services for controlling plant, maintenance and energy saving, identifying the most critical devices and the measures to make them more efficient.

With regard to valves, the group optimised the production of the EmJ electronic modulating ejectors, that boost refrigeration and air-conditioning systems running on CO_2 natural gas even in warmer climates.

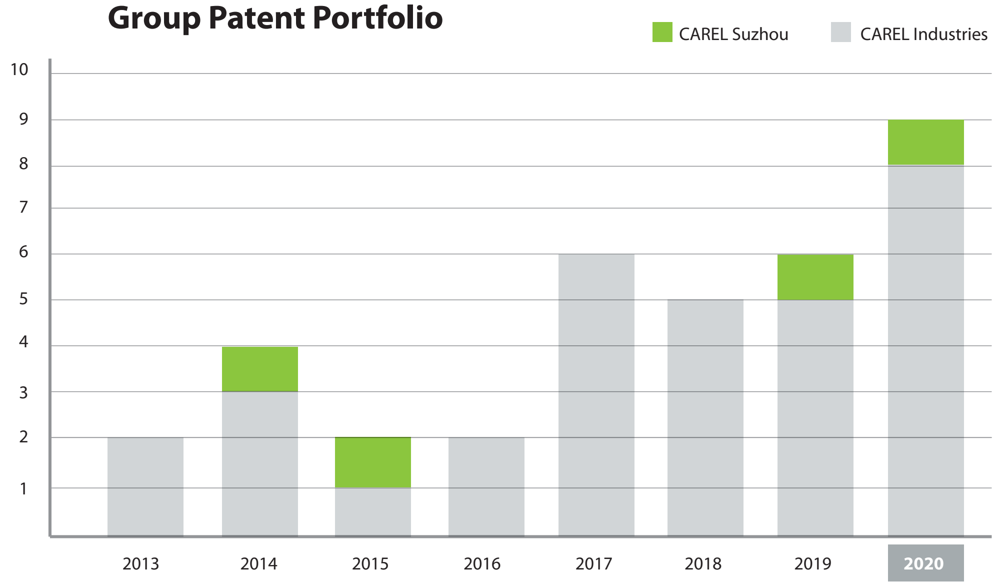


The group upgraded the Compact Steam humidifier designed for residential applications, by simplifying its installation and maintenance and introducing connectivity functions. It was launched on the US market with the support of local production. Again in the humidification area, the group integrated the Carel and HygroMatik products to make the best of the group's portfolio. In the adiabatic humidification area, due to the different priorities mentioned earlier, the Humifog product was only partially redesigned in order to increase its capacity, adapt it to the new efficiency standards, renew its user interface and usability of installation and maintenance and ensure connections to remote supervision systems.

pGDX 7" was partially redesigned in order to cut costs and downgrade performance for simple applications in emerging markets.

In 2020, the group also rolled out a project to upgrade the main product ranges to use A3 flammable refrigerants and A2L slightly flammable refrigerants in line with market trends in terms of using low GWP and natural refrigerants. Nine new patents were added to the group's portfolio, bringing the total to 45 invention patents (approved - filed) and 35 utility patents.

Group Patent Portfolio



Events after the reporting date

The first few months of 2021 were still impacted by the lasting pandemic in many of the group's markets. However, the measures put in place by the group ensured that ordinary production activities could continue at all sites.

Outlook

2020 was marked by the onset and spread of Covid-19 which led to the widespread shuttering of production activities and severe limitations to social contact in many areas of the globe, though with varying timeframes and intensity. This led to a universal slowdown in the global economy and considerable tensions in the supply chains of many sectors and markets.

Despite the distribution of vaccines by various pharmaceutical companies, the start of 2021 was again pervaded by significant uncertainties. Indeed, it is far from clear how quickly the global population will be immunised and thus definitively emerge from the pandemic. In addition, there is a considerable global shortage of electronic material due to the combination of a strong upswing in the economy in many macro-areas (and expected in others) and limited upstream production capacity.

Considering the above, it is not currently possible or prudent to make precise forecasts on how 2021 will close. However, Carel remains optimistic as the positive trends seen in the group's sectors in the second half of last year have accelerated in these first few months of 2021.


CAREL

Consolidated financial statements and notes thereto

at 31 December 2020

Statement of financial position

(€'000)	Note	31.12.2020	31.12. 2019
Property, plant and equipment	1	74,880	63,775
Intangible assets	2	89,498	90,534
Equity-accounted investments	3	724	536
Other non-current assets	4	11,311	13,111
Deferred tax assets	5	5,265	4,378
Non-current assets		**181,678**	**172,335**
Trade receivables	6	57,728	58,552
Inventories	7	52,012	48,265
Current tax assets	8	2,156	1,711
Other current assets	9	7,445	6,613
Current financial assets	10	7,540	56
Cash and cash equivalents	11	105,586	62,798
Current assets		**232,468**	**177,994**
TOTAL ASSETS		**414,145**	**350,330**

Equity attributable to the owners of the parent	12	159,317	142,868
Equity attributable to non-controlling interests	13	304	353
Total equity		**159,621**	**143,220**
Non-current financial liabilities	14	113,657	86,486
Provisions for risks	15	1,292	1,368
Defined benefit plans	16	8,189	7,844
Deferred tax liabilities	17	10,212	10,896
Non-current liabilities		**133,350**	**106,595**
Current financial liabilities	14	49,080	38,492
Trade payables	18	43,234	38,200
Current tax liabilities	19	2,991	1,113
Provisions for risks	15	2,104	2,418
Other current liabilities	20	23,766	20,292
Current liabilities		**121,175**	**100,515**
TOTAL LIABILITIES AND EQUITY		**414,145**	**350,330**

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CAREL

Statement of profit or loss

(€'000)	Note	2020	2019
Revenue	21	331,610	327,358
Other revenue	22	3,704	3,611
Costs of raw materials, consumables and goods and changes in inventories	23	(139,644)	(138,637)
Services	24	(42,536)	(47,503)
Capitalised development expenditure	25	2,227	2,970
Personnel expense	26	(88,620)	(83,412)
Other expense, net	27	(1,548)	(1,255)
Amortisation, depreciation and impairment losses	28	(18,482)	(16,769)
OPERATING PROFIT		**46,713**	**46,363**
Net financial expense	29	(1,489)	(1,431)
Net exchange losses	30	(921)	(152)
Share of profit (loss) of equity-accounted investees	31	208	177
PROFIT BEFORE TAX		**44,511**	**44,957**
Income taxes	32	(9,393)	(9,910)
PROFIT FOR THE YEAR		**35,118**	**35,047**
Non-controlling interests		5	28
PROFIT FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF THE PARENT		**35,112**	**35,019**

Statement of comprehensive income

((€'000)	Note	2020	2019
PROFIT FOR THE YEAR		**35,118**	**35,047**
Items that may be subsequently reclassified to profit or loss:			
- Fair value losses on hedging derivatives net of the tax effect		(73)	(270)
- Exchange differences		(6,279)	926
Items that may not be subsequently reclassified to profit or loss:			
- Actuarial losses on employee benefits net of the tax effect		(177)	(313)
Comprehensive income		**28,589**	**35,390**
attributable to:			
- Owners of the parent		**28,619**	**35,333**
- Non-controlling interests		**(31)**	**57**

Earnings per share			
Earnings per share (in Euros)	12	**0.35**	**0.35**

Statement of cash flows

((€'000)	2020	2019
Profit for the year	35,118	35,047
Adjustments for:		
Amortisation, depreciation and impairment losses	18,482	16,747
Accruals to/utilisations of provisions	(560)	2,426
Non-monetary net financial expense	1,187	1,341
Income taxes	8,122	9,821
(Gains)/losses on the sale of non-current assets	-	(850)
	62,349	**64,532**
Changes in working capital:		
Change in trade receivables and other current assets	692	3,104
Change in inventories	(4,348)	5,283
Change in trade payables and other current liabilities	5,887	(4,988)
Change in non-current assets	1,592	515
Change in non-current liabilities	84	101
Cash flows from operating activities	**66,256**	**68,547**
Net interest paid	(1,650)	(1,657)
Income taxes paid	(7,503)	(17,325)
Net cash flows from operating activities	**57,103**	**49,565**
Investments in property, plant and equipment	(8,260)	(17,736)
Investments in intangible assets	(5,086)	(5,823)
Investments in financial assets	-	25
Disinvestments of property, plant and equipment and intangible assets	148	2,198
Interest collected	178	316
Investments in equity-accounted investees	(15)	(25)
Business combinations net of cash acquired	-	(1,303)
Net cash flows used in investing activities	**(13,036)**	**(22,348)**
Disposals (acquisitions) of non-controlling interests	-	-
Capital increases	33	-
Repurchase of treasury shares	(958)	(807)
Dividend distributions	(11,980)	(9,992)
Dividends distributed to non-controlling interests	(50)	(74)
Investments in current financial assets	(7,500)	-
Increase in financial liabilities	69,797	48,185
Decrease in financial liabilities	(44,510)	(53,398)
Decrease in lease liabilities	(4,238)	(4,036)
Net cash flows from (used in) financing activities	**594**	**(20,121)**
Change in cash and cash equivalents	**44,662**	**7,096**
Cash and cash equivalents - opening balance	**62,798**	**55,319**
Exchange differences	(1,873)	383
Cash and cash equivalents - closing balance	**105,586**	**62,798**

Statement of changes in equity

	Share capital	Legal reserve	Translation reserve
Balance at 01.01.2019	**10,000**	**2,000**	**2,660**
Owner transactions			
Allocation of prior year profit	-	-	-
Defined benefit plans	-	-	-
Repurchase of treasury shares	-	-	-
Dividend distributions	-	-	-
Total owner transactions	**10,000**	**2,000**	**2,660**
Profit for the year	-	-	-
Other comprehensive income	-	-	897
Comprehensive income	**-**	**-**	**897**
Balance at 31.12.2019	**10,000**	**2,000**	**3,557**
Balance at 01.01.2020	**10,000**	**2,000**	**3,557**
Owner transactions			
Allocation of prior year profit	-	-	-
Capital increases	-	-	-
Defined benefit plans	-	-	-
Repurchase of treasury shares	-	-	-
Dividend distributions	-	-	-
Total owner transactions	**10,000**	**2,000**	**3,557**
Profit for the year	-	-	-
Other comprehensive expense	-	-	(6,243)
Comprehensive income	**-**	**-**	**(6,243)**
Balance at 31.12.2020	**10,000**	**2,000**	**(2,686)**

Hedging reserve	Other reserves	Retained earnings	Profit for the year	Equity	Equity att. to non-controlling interests	Total equity
(93)	**32.950**	**39.798**	**30.678**	**117.992**	**296**	**118.288**
						-
	23,990	6,689	(30,678)	-	-	-
	340	-	-	340		340
	(807)	-	-	(807)		(807)
	(9,992)	-	-	(9,992)		(9,992)
(93)	**46,480**	**46,487**	**0**	**107,532**	**296**	**107,828**
			35,019	35,019	28	35,047
(270)	(314)	-	-	314	29	343
(270)	**(314)**	**-**	**35,019**	**35,333**	**57**	**35,390**
(363)	**46,166**	**46,487**	**35,019**	**142,868**	**353**	**143,220**
(363)	**46,166**	**46,487**	**35,019**	**142,868**	**353**	**143,220**
-	22,711	12,308	(35,019)	-	-	-
-	-	-	-	-	33	33
-	767	-	-	767	-	767
-	(958)	-	-	(958)	-	(958)
-	(11,980)	-	-	(11,980)	(50)	(12,030)
(363)	**56,706**	**58,795**	**(0)**	**130,697**	**336**	**131,032**
-	-	-	35,112	35,112	5	35,118
(73)	(177)	-	-	(6,493)	(36)	(6,529)
(73)	**(177)**	**-**	**35,112**	**28,619**	**(31)**	**28,589**
(436)	**56,530**	**58,795**	**35,112**	**159,317**	**304**	**159,621**

Notes to the consolidated financial statements

Content and format of the consolidated financial statements

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

The group provides control instruments to the air-conditioning, commercial and industrial refrigeration markets and also produces air humidification systems. It has 27 commercial companies including nine production sites which serve all the main markets.

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

The parent's board of directors approved the consolidated financial statements at 31 December 2020 on 4 March 2021.

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

Statement of compliance and basis of preparation

The Carel Industries Group's consolidated financial statements at 31 December 2020 were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission with the procedure set out in article 6 of Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002.

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

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

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

Financial statements schedules

Statement of financial position. Assets and liabilities are presented as current or non-current as required by paragraph 60 and following paragraphs of IAS 1.
An asset or liability is classified as current when it meets one of the following criteria:
- the group expects to realise the asset or settle the liability, or intends to sell or consume it, in its normal operating cycle; or
- it holds the asset or liability primarily for the purpose of trading; or
- it expects to realise the asset or settle the liability within twelve months after the reporting period.

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

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

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

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

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

Consolidation scope

The consolidated financial statements include the separate financial statements and financial statements of the parent, Carel Industries S.p.A., and its Italian and foreign subsidiaries, respectively, at 31 December 2020.

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

Note [33] "*Other information*" lists the entities included in the consolidation scope at 31 December 2020.

Basis of consolidation

The consolidated financial statements include the separate financial statements and financial statements of Carel Industries S.p.A. and the Italian and foreign entities over which it has direct or indirect control, respectively. Specifically, the consolidation scope includes:

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

The parent adopted the following consolidation criteria:

- assets, liabilities, revenue and expenses of the consolidated entities are consolidated using the line-by-line approach where the carrying amount of the parent's investments therein is eliminated against its share of the investee's equity. Any differences are treated in accordance with IFRS 10 Consolidated financial statements and IFRS 3 Business combinations. The portions attributable to non-controlling interests are recognised at the fair value of the assets acquired and liabilities assumed without recognising goodwill;
- the group companies are excluded from the consolidation scope when control thereover ceases to exist and any effects of exclusion are recognised as owner transactions in equity;
- intragroup receivables and payables, revenue and expenses and all significant transactions are eliminated, including intragroup dividends. Unrealised profits and gains and losses on intragroup transactions are also eliminated;
- equity attributable to non-controlling interests is presented separately under equity; their share of the profit or loss for the year is recognised in the statement of profit or loss;
- the financial statements of the consolidated foreign entities using a functional currency other than the Euro are translated into Euros using the average annual exchange rate for the statement of profit or loss captions and the closing rate for the statement of financial position captions. Any differences between these exchange rates or due to changes in the exchange rates at the start and end of the year are recognised under equity.

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 consolidated financial statements at 31 December 2020 were prepared in accordance with the IFRS issued by the IASB, endorsed by the European Commission and applicable at the reporting date. They are presented in Euros, which is the group's functional currency, i.e., the currency of the primary economic environment in which it mainly operates. Amounts are rounded to the nearest thousand.

The consolidated financial statements present the financial position and performance of the parent and its subsidiaries. The financial statements used for consolidation purposes are those prepared by the subsidiaries pursuant to the IFRS at 31 December 2020.

The consolidated financial statements include the statement of profit or loss, statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and these notes, which are an integral part thereof.
They were prepared using the historical cost criterion, except for derivative financial instruments hedging currency and interest rate 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 consolidated financial statements under the IFRS requires management to make estimates and assumptions that affect the amounts in the financial statements and the notes. Actual results may differ from these estimates. Reference should be made to the "Use of estimates" section for details of the captions more likely to be affected by estimates.

Following its decision to adopt the IFRS starting from the consolidated financial statements at 31 December 2017, the group referred to the standards applicable from 1 January 2017 to prepare its consolidated financial statements at 31 December 2020, in accordance with the provisions of IFRS 1.

Standards, amendments and interpretations applicable to annual periods beginning on or after 1 january 2020

The group applied the following standards, amendments and interpretations for the first time starting from 1 January 2020:

- 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 adoption of this amendment did not affect the group's consolidated 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. The conceptual framework sets out the fundamental concepts for financial reporting that guide the Board in developing IFRS standards. It helps to ensure that the standards are conceptually consistent and that similar transactions are treated the same way, so as to provide useful information for investors, lenders and other creditors. The conceptual framework also assists companies in developing accounting

policies when no IFRS standard applies to a particular transaction, and more broadly, helps stakeholders to understand and interpret the standards. The adoption of this amendment did not affect the group's consolidated financial statements;

- 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 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 adoption of these amendments did not affect the group's consolidated financial statements;
- On 22 October 2018, the IASB published Definition of a business (Amendments to IFRS 3). The document provides clarification regarding the definition of a business for the purposes of the correct application of IFRS 3. Specifically, the amendment clarifies that while a business usually produces output, the presence of output is not strictly necessary to identify a business in the presence of an integrated collection of assets/processes and goods. However, to be considered a business, an acquired set of activities/processes and assets must include at least one input and one substantive process, which, together, contribute significantly to the ability to create outputs. To this end, the IASB replaced the term "ability to create outputs" with "ability to contribute to the creation of outputs" to clarify that a business can exist without including all of the inputs and processes needed to create outputs. The amendment also introduced an optional test (the concentration test) to determine that an acquired set of activities and assets is not a business if the price paid substantially refers to a single asset or group of assets. The amendment applies to all business combinations and acquisitions subsequent to 1 January 2020 but earlier application is allowed. The adoption of this amendment did not affect the group's consolidated financial statements;
- On 28 May 2020, the IASB published Covid-19-Related Rent Concessions (Amendment to IFRS 16). The amendment allows lessees to recognise rent concessions granted as a result of Covid-19 without having to analyse the contracts to see if they meet the definition of lease modifications as per IFRS 16. Therefore, the lessees who apply this exemption can account for such rent concessions directly in profit or loss at the effective date of the concession. The adoption of this amendment did not affect the group's consolidated financial statements.

Standards, amendments and interpretations endorsed by the eu but not yet mandatory and not adopted early by the group at 31 december 2020

- In light of the reform of interbank interest rates such as IBOR, on 27 August 2020, the IASB published Interest Rate Benchmark Reform - Phase 2 which contains amendments to the following standards:
  – IFRS 9 Financial instruments;
  – IAS 39 Financial instruments: recognition and measurement;
  – IFRS 7 Financial instruments: disclosures; - IFRS 4 Insurance contracts; and
  – IFRS 16 Leases.

These amendments become effective on 1 January 2021. The directors do not expect these amendments to significantly affect the group's consolidated financial statements.

Standards, amendments and interpretations not yet endorsed by the eu

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

- On 23 January 2020, the IASB published Amendments to IAS 1 Presentation of financial statements: classification of liabilities as current or non-current. These amendments become effective on 1 January 2023 but earlier application is allowed. The directors do not expect these amendments to significantly affect the group's consolidated financial statements;
- On 14 May 2020, the IASB published the following amendments:
  - Amendments to IFRS 3 Business combinations: to update the reference to the conceptual framework in IFRS 3 without changing the requirements of the standard;
  - Amendments to IAS 16 Property, plant and equipment: to prohibit deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while testing the asset. Instead, the sales proceeds and relevant costs shall be recognised in profit or loss;
  - Amendments to IAS 37 Provisions, contingent liabilities and contingent assets: to clarify the costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. Accordingly, the costs of fulfilling a contract shall include both incremental costs (e.g., materials directly used in production) and all other costs that relate directly to fulfilling contracts (e.g., the portion of personnel expense and the depreciation charge for an item of property, plant and equipment used in fulfilling the contract);
  - Annual improvements 2018-2020: amendments were made to IFRS 1 First-time adoption of International Financial Reporting Standards, IFRS 9 Financial instruments, IAS 41 Agriculture and Illustrative examples of IFRS 16 Leases.

These amendments become effective on 1 January 2022. The directors do not expect these amendments to significantly affect the group's consolidated financial statements.

Accounting policies

Revenue and costs

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

Revenue from the sale of HVAC products and services refer to sales of products for air control and humidification in the industrial, residential and commercial segment (*heat ventilation and air conditioning*), while refrigeration revenue refers to sales to the food retail and *food service* segment. The sales in both markets can be divided into the following three macro channels: OEM (*Original Equipment*

Manufacturers), *Dealers* and *Projects*. Non-core revenue is earned on products that do not make up the group's core business.

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

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

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

Interest

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

Dividends

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

Income taxes

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

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

Translation criteria

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

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

The main exchange rates (against the Euro) used to translate the financial statements of foreign currency operations at 31 December 2020 and 2019 (comparative figures) are set out below:

Currencies	**Average rate**		**Closing rate**	
	2019	**2020**	**31.12. 2019**	**31.12. 2020**
US dollar	1.120	1.142	1.123	1.227
Canadian dollar	1.486	1.530	1.460	1.563
Australian dollar	1.611	1.655	1.600	1.590
Hong Kong dollar	8.772	8.859	8.747	9.514
Brazilian real	4.413	5.894	4.516	6.374
Pound sterling	0.878	0.890	0.851	0.899
South African rand	16.176	18.766	15.777	18.022
Indian rupee	78.836	84.639	80.187	89.661
Chinese renminbi (yuan)	7.736	7.875	7.821	8.023
South Korean won	1,305.320	1,345.580	1,296.280	1,336.000
Russian ruble	72.455	82.725	69.956	91.467
Swedish krona	10.589	10.485	10.447	10.034
Japanese yen	122.006	121.846	121.940	126.490
Mexican peso	21.557	24.519	21.220	24.416
UAE dirham	4.111	4.195	4.126	4.507
Croatian kuna	7.418	7.538	7.440	7.552
Thai baht	34.757	35.708	33.415	36.727
Polish zloty	4.298	4.443	4.257	4.560
Singapore dollar	1.527	1.574	1.511	1.622
Ukrainian hryvnia	28.922	30.851	26.720	34.769

Property, plant and equipment

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

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

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

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

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

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

Assets held under finance lease are recognised as right-of-use assets at the present value of the minimum lease payments. The liability to the lessor is shown under financial liabilities. The 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.

In compliance with the IFRIC agenda decision of November 2019 on the provisions of IFRS 16, in addition to the ESMA recommendations, the directors deemed it necessary to restate financial assets and liabilities linked to certain leases, specifically those for buildings where the parent carries out its production activities. In restating the lease term of such contracts, the parent not only assessed the contractual expiry date but also the enforceable period, i.e., the period in which the lessee and the lessor each had the right to terminate the lease without any penalty or significant costs.

Based on the estimates made and the data available to date, the directors deemed it reasonable to presume that the lease will be renewed. Accordingly, the *leases* for the Brugine production site were renewed to 2033 (the first and main lease was due to expire in 2021). The leases for the Croatian production site and that of the subsidiary Recuperator, expiring respectively in 2030 and 2032, were not modified due to the considerable term remaining. This modification led to an increase in right-of-use assets and lease liabilities for a total of €12,812 thousand. There was no effect on profit or loss for the year.

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

Goodwill

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 *fair value* of the assets acquired and liabilities assumed. Goodwill is not amortised but is tested annually for impairment or whenever events take place that suggest it may be impaired.

Other intangible assets

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

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

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

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

Impairment losses on non-financial assets

Assets with an indefinite useful life are not amortised but are tested for impairment at least once a year to check whether their carrying amount has undergone impairment. The board of directors adopted a policy that defines the criteria for the *impairment test*, the controls to be carried out to guarantee the reliability of the process and the procedure to approve the test, in line with Consob recommendation no. 0003907 of 15 January 2015.

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

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

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

Equity investments

Investments in associates and *joint ventures* are measured using the equity method, while other investments are measured at *fair value* through other comprehensive income. If fair value cannot be reliably determined, the investments are measured at cost adjusted for *impairment* losses, which are recognised in profit or loss.

If the reasons for the impairment loss no longer exist, the equity investments recognised at cost are revalued with reversal of the impairment loss through profit or loss.

Financial assets

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

The group classifies its financial assets after initial recognition and, when appropriate and permitted, reviews this classification at the reporting date.
It recognises all purchases and sales of financial assets at the transaction date, i.e., the date on which the group assumes the commitment to buy the asset.

All financial assets within the scope of IFRS 9 are recognised at amortised cost or fair value depending on the business model for managing the financial asset and the asset's contractual cash flow characteristics.
Specifically:
- debt instruments held as part of a business model whose objective is to hold financial assets in order to collect contractual cash flows and the related cash flows are solely payments of principal and interest on the principal amount outstanding and 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.

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.

Provisions for risks

As required by IAS 37 Provisions, contingent liabilities and contingent assets, the group recognises a provision when it has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Changes in estimates from one period to another are recognised in profit or loss.

Where the effect of the time value of money is material and the 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 group provides adequate disclosure thereon in the notes.

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

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

Derivative financial instruments
The group solely uses derivatives to hedge currency risk on foreign currency commercial transactions and interest risk on its medium to long-term debt.

Initial recognition and subsequent measurement is at the derivatives' fair value, applying the following accounting treatments:

- *Fair value hedge* - if a derivative is designated as a hedge of the group's exposure to changes in fair value of a recognised asset or liability that could affect profit or loss, the gain or loss from remeasuring the hedging instrument at fair value is recognised in profit or loss as is the gain or loss on the hedged item.
- *Cash flow hedge* - if a derivative is designated as a hedge of the exposure to variability in cash flows of a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income; the cumulative gain or loss is reclassified to profit or loss in the same period during which the hedged forecast cash flows affect profit or loss; the gain or loss on the hedge or the ineffective portion of the gain or loss on the hedging instrument is recognised in profit or loss.

When the conditions for application of hedge *accounting* are no longer met, the group reclassifies the fair value gains or losses on the derivative directly to profit or loss.

Use of estimates
Preparation of the consolidated financial statements requires management to apply accounting policies and methods that, in certain circumstances, are based on difficult and subjective judgements, past experience or assumptions that are considered reliable and realistic at that time depending on the related circumstances.

Application of these estimates and assumptions affects the amounts recognised in the statement of financial position, the statement or profit or loss and the statement of cash flows as well as the disclosures. Actual results may differ from those presented in the consolidated financial statements due to the uncertainty underlying the assumptions and the conditions on which the estimates were based. As detailed later on, the estimates took into consideration the uncertainties generated by the ongoing Covid-19 pandemic, also beyond the reporting date.

The captions that require the greater use of estimates and for which a change in the conditions underlying the assumptions may affect the consolidated 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 group operates, especially in an economic situation still impacted by the ongoing Covid-19 pandemic, although the group did not detect a worsening in credit positions at the reporting date;
- allowance for inventory write-down: slow-moving raw materials and finished goods are tested for obsolescence regularly using historical data and the possibility of their sale at below-market prices. If this test shows the need to write-down inventory items, the group sets up an allowance; like for the loss allowance, this allowance is calculated considering past experience and the market, potentially worsened by the uncertainties generated by the pandemic. Any changes in the reference scenarios or market trends could significantly 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 group 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. Any changes in the reference scenarios or market trends could require a review of the above components. The continuation of the pandemic could impact the estimates related to leases, changing the directors' decisions on determining the lease term in addition to affecting the *incremental borrowing* rate.

Impairment testing of goodwill

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

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

The *impairment* test took into consideration the effects of the Covid-19 pandemic, especially with regard to forecast cash flows which were estimated using the information available to the directors regarding market conditions and the prospects of recovery from the crisis.

Fair value

IFRS 13 is the only reference source for fair value measurement and the related disclosures when this measurement is required or permitted by another standard. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This standard replaces and extends the disclosure required about fair value measurement in other standards, including IFRS 7 Financial instruments: disclosures.

IFRS 13 establishes a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure *fair value* in hierarchical order as follows:

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

The method used to estimate fair value is as follows:

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

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

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

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

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.

This section presents the supplementary disclosures required by IFRS 7.

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

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

Tali rischi sono così riassumibili:

a. credit risk;
b. liquidity risk;
c. market risk (currency risk, interest rate risk and other price risks).

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

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

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

Credit risk

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

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

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

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

The directors did not detect a deterioration in credit quality or collection times due to the spread of Covid-19, as can be seen in the breakdown below. Furthermore, the group did not modify payment terms applied to customers or its credit risk management policies, while it prudently reinforced monitoring of credit positions with customers.

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

	31.12.2020		31.12.2019	
	Trade receivables	**Loss allowance**	**Trade receivables**	**Loss allowance**
Not yet due	53,284	(278)	50,423	(246)
Past due < 6 months	4,608	(40)	8,153	(65)
Past due > 6 months	225	(74)	376	(102)
Past due > 12 months	632	(630)	725	(712)
Total	**58,750**	**(1,022)**	**59,677**	**(1,125)**

The group has not recorded significant changes in credit management and related risks caused by the Covid-19 pandemic.

Liquidity risk

The group has a high level of liquidity and limited net financial debt. During the year, despite the complicated situation arisen in 2020 caused by the spread of Covid-19, the group had easy access to additional funding, without additional costs, even during the lockdown period. Regardless of the considerable contraction in the second quarter of the year, the group was profitable and able to generate significant liquidity. Therefore, it is not believed that liquidity risk was increased by the pandemic.

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

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

31.12.2020	**TOTAL**	**Total cash flows**	**Within one year**	**From one to five years**	**After five years**
Bank loans and borrowings at amortised cost	86,975	87,681	-	87,681	-
Lease liabilities	24,597	26,155	-	11,420	14,735
Effective designated derivative hedges	578	578	-	578	
Other loans and borrowings at amortised cost	1,506	1,534	-	1,436	99
Non-current financial liabilities	**113,657**	**115,948**	**-**	**101,114**	**14,834**

31.12.2020	TOTAL	Total cash flows	Within one year	From one to five years	After five years
Current portion of bank loans at amortised cost	44,767	45,302	45,302	-	-
Lease liabilities	3,588	3,606	3,606		
Bank borrowings at amortised cost	148	148	148	-	-
Other loans and borrowings at amortised cost	523	538	538	-	-
Derivatives held for trading at fair value through profit or loss	55	55	55	-	-
Current financial liabilities	**49,080**	**49,649**	**49,649**	**-**	**-**

Market risk

Currency risk

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

In addition, the parent has investments in subsidiaries denominated in foreign currency. Changes in equity due to fluctuations in exchange rates are recognised in the translation reserve. The group does not currently hedge against the risk arising on the translation of equity. The following table shows the group's exposure arising from foreign currency assets and liabilities, highlighting the most significant for each year:

31.12.2020	EUR	USD	PLN	CNY	Other currencies	Total
Total assets	314,661	48,930	12,812	28,637	9,105	**414,145**
Total liabilities	217,648	21,143	2,980	7,128	5,626	**254,525**

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

Net revenue	31.12.2020			31.12.2019		
	Average annual rate	Rate +10%	Rate -10%	Average annual rate	Rate +10%	Rate -10%
USD	41,129	37,390	45,699	44,880	40,800	49,867
GBP	6,686	6,078	7,429	7,399	6,727	8,221
CNY	30,004	27,276	33,338	27,829	25,299	30,921
AUD	5,302	4,820	5,891	8,102	7,366	9,002
ZAR	3,429	3,117	3,810	4,183	3,803	4,648
BRL	5,568	5,062	6,187	5,552	5,047	6,169
PLN	22,751	20,683	25,279	18,757	17,052	20,841
Other currencies	6,531	n.a	n.a	7,464	n.a	n.a
EURO	210,210	210,210	210,210	203,192	203,192	203,192

Profit before tax	31.12.2020 Average annual rate	Rate +10%	Rate -10%	31.12.2019 Average annual rate	Rate +10%	Rate -10%
USD	26,124	23,749	29,026	13,541	12,310	15,045
GBP	4,896	4,450	5,439	4,723	4,293	5,247
CNY	(9,855)	(8,959)	(10,950)	(7,878)	(7,162)	(8,753)
AUD	3,447	3,133	3,830	5,988	5,444	6,654
ZAR	2,498	2,271	2,776	3,057	2,779	3,397
BRL	3,794	3,449	4,216	3,016	2,742	3,351
PLN	7,349	6,681	8,165	10,847	9,861	12,053
Other currencies	(12,218)	n.a	n.a	(9,039)	n.a	n.a
EURO	18,477	18,477	18,477	20,702	20,702	20,702

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

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

Exchange rates were more volatile in 2020, mainly due to the uncertainties caused by the Covid-19 pandemic. As a result, there was an increase in financial statements captions linked to the translation of amounts into Euro, specifically from the Brazilian real, US dollar and Chinese renminbi. Management constantly monitors exchange rates and the exposure of current assets and liabilities in foreign currencies so that it can put suitable hedges in place to mitigate the risk.

Interest rate risk

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

The group is exposed to interest rate risk due to its need to finance its operating activities, both production and financial (the purchase of assets), and to invest its available liquidity. Changes in market interest rates may negatively or positively affect the group's results and, hence, indirectly the cost of and return on financing and investing activities. The group regularly checks its exposure to interest rate fluctuations and manages such risks through the use of derivatives, in accordance with its financial policies. With regard to such policies, the use of derivatives is reserved exclusively for the management of interest rate fluctuations connected to cash flows and they are not agreed or held for trading purposes.

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

The group's debt mainly bears floating interest rates. When deemed significant, the group agrees hedging instruments to neutralise fluctuations in interest rates and agrees a set future expense to cover up to 100% of its future cash outflows. Given its ample liquidity, it has an immaterial liquidity risk with respect to its short-term deadlines and, therefore, this risk principally refers to its medium to long-term financing. In 2020, notwithstanding the difficult market conditions caused by Covid-19, the group had significant access to credit at reduced interest rates. Therefore, it is not believed that interest rate risk increased during the year.

The derivatives used to hedge such risk are generally cash flow hedges in order to set the interest to be paid on financing and obtain an optimum blend of floating and fixed interest rates applied to its financing.

The counterparties are major banks. Derivatives are measured at fair value.

Other market and/or price risks

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

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

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

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

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

In 2020, demand for group products did not significantly slow down due to the Covid-19 pandemic. The dynamics of the different markets, in terms of both their geographical size and product families, included in legislative measures, were closely monitored, both in order to adjust commercial, procurement and production policies and to identify opportunities to develop new products.

Climate change and possible impact on the Carel Industries Group

The increasing attention paid to environmental issues and climate change by the main global institutions, as well as the growing awareness among the world's population of the climate impacts that industries have both at production level and in terms of consumption of their products, have led the directors to assess the possible effects that these changes could have on the management of the group's business.

Dedicated resources at Carel Industries S.p.A., HygroMatik and Carel Electronic (Suzhou) Co. Ltd. manage environmental issues as these sites have the international ISO 14001:2015 certification and, accordingly, draw up specific environmental policies to accompany the policy defined at group level.

The directors do not currently believe that there are specific risks that the climate change could impact the group's assets that should be considered, for example, as part of the forward-looking information underlying impairment testing, since there are no production and commercial sites in high-risk areas.

Notes to the statement of financial position

[1] PROPERTY, PLANT AND EQUIPMENT

At 31 December 2020, property, plant and equipment amount to €74,880 thousand compared to €63,775 thousand at 31 December 2019.

The following table provides a breakdown of the caption and the changes of the year.

	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other items of property, plant and equipment	Assets under construction and payments on account	Total
Balance at 31 December 2018	**7,799**	**14,300**	**7,379**	**4,178**	**3,904**	**37,560**
- Historical cost	12,274	31,475	35,415	14,438	3,904	97,505
- Accumulated depreciation	(4,474)	(17,176)	(28,036)	(10,260)	-	(59,946)
Changes in 2019						
- Right-of-use assets at 1 January 2019	14,137	0	388	1,300	-	15,824
- Investments	438	2,668	4,460	1,814	8,355	17,735
- Investments in right-of-use assets	2,307	-	110	594	-	3,011
- Business combinations (historical cost)	-	-	-	34	-	34
- Reclassifications (historical cost)	12,401	914	250	(168)	(11,459)	1,938
- Sales (historical cost)	(1,826)	(1,360)	(615)	(846)	(14)	(4,662)
- Exchange differences on historical cost	12	5	24	84	52	177
- Exchange differences on accumulated depreciation	(46)	(1)	(47)	(50)	-	(144)
- Exchange differences on right-of-use assets	5			3	-	8
- Depreciation	(512)	(2,152)	(2,996)	(1,452)	-	(7,112)
- Depreciation of right-of-use assets	(3,066)		(165)	(601)	-	(3,831)
- Reclassifications (accumulated depreciation)	(385)	(101)	3	109	-	(374)
- Restatement of right-of-use assets	204	-	-	1	-	205
- Sales (accumulated depreciation)	985	1,062	578	779	-	3,404
Total changes	**24,654**	**1,034**	**1,991**	**1,602**	**(3,066)**	**26,214**
Balance at 31 December 2019	**32,453**	**15,334**	**9,370**	**5,780**	**838**	**63,775**
including:						
- Historical cost	39,747	33,702	40,032	17,253	838	131,572
- Accumulated depreciation	(7,294)	(18,368)	(30,662)	(11,473)	-	(67,798)

	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other items of property, plant and equipment	Assets under construction and payments on account	Total
Balance at 31 December 2019	**32,453**	**15,334**	**9,370**	**5,780**	**838**	**63,775**
- Historical cost	39,747	33,702	40,032	17,253	838	131,572
- Accumulated depreciation	(7,294)	(18,368)	(30,662)	(11,473)	-	(67,798)
Changes in 2020						
- Investments	579	3,118	2,374	1,127	1,062	8,260
- Investments in right-of-use assets	3,436	-	-	987	-	4,423
- Reclassifications (historical cost)	33	(163)	443	36	(845)	(496)
- Impairment losses	-	(150)	(16)	-	-	(166)
- Sales (historical cost)	-	(40)	(69)	(708)	(3)	(821)
- Sales - Right-of-use assets historical cost	(588)	-	-	(161)	-	(749)
- Exchange differences on historical cost	(679)	(697)	(260)	(397)	(67)	(2,099)
- Exchange differences on accumulated depreciation	122	268	156	250	-	796
- Exchange differences on right-of-use assets	(324)	-	-	(19)	-	(343)
- Depreciation	(716)	(2,302)	(3,300)	(1,414)	-	(7,733)
- Depreciation of right-of-use assets	(3,230)	-	(165)	(695)	-	(4,090)
- Reclassifications (accumulated depreciation)	(20)	(7)	2	-	-	(24)
- Restatement of right-of-use assets	12,812	-	-	-	-	12,812
- Sales (accumulated depreciation)	-	23	36	650	-	709
- Sales - Right-of-use assets (accumulated depreciation)	563	-	-	64	-	627
Total changes	**11,988**	**51**	**(798)**	**(281)**	**146**	**11,106**
Balance at 31 December 2020	**44,441**	**15,385**	**8,572**	**5,499**	**984**	**74,880**
including:						
- Historical cost	42,204	35,770	42,504	18,118	984	139,580
- Accumulated depreciation	2,237	(20,385)	(33,932)	(12,619)	0	(64,700)

Land and buildings" increased as a result of investments in right-of-use assets after new leases were signed. Moreover, as mentioned in the directors' report, the directors deemed it necessary to restate financial assets and liabilities linked to certain leases, specifically those for buildings where the parent carries out its production activities. In restating the *lease term* of such contracts, the parent not only assessed the contractual expiry date but also the *enforceable period*, i.e., the period for which the lessee and the lessor each had the right to terminate the lease without any penalty or significant costs. Based on the estimates made and the data available to date, the directors deemed it reasonable to renew the lease contract beyond the current term. Accordingly, the leases for the Brugine production site were renewed to 2033 (the first and main lease was due to expire in 2021). This modification led to an increase in the caption for a total of €12,812 thousand classified as "Restatement of right-of-use assets".

"Plant and machinery" include the specific assets of the production lines and infrastructures; the increase mainly related to investments at the Croatian site to increase the production capacity on the *inverter* line and to improve the *business continuity* on programmable products. Investments were made at the US site in order to boost local production and make the region more independent. Investments continued in the SMT lines at the Chinese site. Further investments were made by Recuperator to increase the production capacity for high efficiency plates. "*Industrial and commercial equipment*" principally include production equipment and the main investments were at the parent's site and the Chinese site.

Increases in "*Other items of property, plant and equipment*" are mainly due to improvements and investments made in Italy.

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

	2020	2019
Europe, Middle East and Africa	50,380	38,124
APAC	16,280	16,716
North America	7,451	7,986
South America	770	949
Total	**74,880**	**63,775**

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

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

[2] INTANGIBLE ASSETS

At 31 December 2020, this caption amounts to €89,498 thousand compared to €90,534 thousand at the end of 2019. The following table presents changes in these assets:

	Development expenditure	Trademarks, industrial patents and software licences	Goodwill	Other assets	Assets under development and payments on account	Total
Balance at 31 December 2018	**3,282**	**11,516**	**47,628**	**25,181**	**3,519**	**91,126**
- Historical cost	18,880	22,501	47,628	25,877	3,519	118,405
- Accumulated amortisation	(15,598)	(10,985)	-	(697)	-	(27,279)
Changes in 2019						
- Investments	946	2,327	-	-	2,550	5,823
- Reclassifications	2,625	(897)	-	-	(3,294)	(1,566)
- Business combinations (historical cost)	-	16	980	-	-	996
- Sales (historical cost)	-	(159)	-	-	-	(159)
- Exchange differences on historical cost	-	31	14	11	(3)	52
- Exchange differences on accumulated amortisation	-	21	-	(3)	-	18
- Amortisation	(1,643)	(2,169)	-	(1,992)	-	(5,804)
- Business combinations (accumulated amortisation)	-	(8)	-	-	-	(8)
- Reclassifications (accumulated amortisation)	-	1	-	-	-	1
- Sales (accumulated amortisation)	-	56	-	-	-	56
Total changes	**1,928**	**(782)**	**994**	**(1,984)**	**(747)**	**(592)**
Balance at 31 December 2019	**5,210**	**10,734**	**48,622**	**23,196**	**2,772**	**90,534**
including:						
- Historical cost	22,451	23,818	48,622	25,888	2,772	123,550
- Accumulated amortisation	(17,241)	(13,084)	-	(2,691)	-	(33,016)

	Development expenditure	Trademarks, industrial patents and software licences	Goodwill	Other assets	Assets under development and payments on account	Total
Balance at 31 December 2019	**5,210**	**10,734**	**48,622**	**23,196**	**2,772**	**90,534**
- Historical cost	22,451	23,818	48,622	25,888	2,772	123,550
- Accumulated amortisation	(17,241)	(13,084)	-	(2,691)	-	(33,016)
Changes in 2020						
- Investments	210	2,198	469	-	2,208	5,086
- Reclassifications	1,330	165	-	(2)	(992)	501
- Sales (historical cost)	-	-	-	-	(37)	(37)
- Exchange differences on historical cost	(9)	(46)	(52)	(25)	(12)	(142)
- Exchange differences on accumulated amortisation	1	20	-	8	-	29
- Amortisation	(1,795)	(2,708)	-	(1,990)	-	(6,493)
- Reclassifications (accumulated amortisation)	-	20	-		-	20
Total changes	**(262)**	**(350)**	**418**	**(2,008)**	**1,167**	**(1,036)**
Balance at 31 December 2020	**4,948**	**10,384**	**49,040**	**21,188**	**3,939**	**89,498**
including:						
- Historical cost	23,983	26,135	49,040	25,861	3,939	128,958
- Accumulated amortisation	(19,035)	(15,751)	-	(4,673)	-	(39,460)

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

	2020	**2019**
Europe, Middle East and Africa	86,025	87,671
APAC	1,896	1,686
North America	1,574	1,173
South America	3	4
Total	**89,498**	**90,534**

With reference to intangible assets:

- the balance of development expenditure shows the expenditure related to projects developed almost entirely by the parent and partially by the Chinese subsidiary that have been capitalised and refer to the production of new innovative products or substantial

improvements to existing products incurred before the start of commercial production or use. This expenditure is capitalised when all the requirements of IAS 38.57 are met. Investments made in 2019 and 2020 related to the projects developed and available for use in those years. Assets under development and payments on account include costs incurred for projects that had not been completed at the reporting date. The reclassifications refer to completed projects, for which amortisation has commenced. Impairment losses are recognised as Amortisation, depreciation and impairment losses in the statement of profit or loss;
- *trademarks*, industrial patents and software licences include software for management programs and network applications;
- *goodwill* is the excess of the aggregate of the consideration transferred for a business combination, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date *fair value* of the assets acquired and liabilities assumed.

At 31 December 2020, goodwill amounts to €49,040 thousand, compared to €48,622 thousand at 31 December 2019. The increase is due to completion of the *purchase price allocation* procedure in relation to the consolidation of Enersol Inc which led to the identification of a variable price component.

Furthermore, the caption includes amounts that are not material individually or collectively, shown in the caption Other goodwill.

	31.12.2020	Increase	Change in translation reserve	31.12.2019
HygroMatik GmbH	38,499	-	-	38,499
Recuperator S.p.A.	6,326	-	-	6,326
Carel Thailand CO Ltd	2,004	-	(50)	2,054
Enersol Inc.	1,449	469	-	980
Other goodwill	763	-	-	763
Total	**49,040**	**469**	**(50)**	**48,622**

***Impairment* test**

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

Goodwill is recognised on the acquisitions shown in the previous table considered as the CGUs for impairment testing purposes. Therefore, the group only tested those CGUs to which goodwill had been allocated as *impairment* factors were not identified for the other CGUs. The principal test methods and results for the following main CGUs are shown below:
- Recuperator CGU - allocated goodwill of €6,326 thousand;
- HygroMatik CGU - allocated goodwill of €38,499 thousand.
- Enersol CGU - allocated goodwill of €1,449 thousand;
- Thailand CGU - allocated goodwill of €2,054 thousand.

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

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

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

The plan used for testing the Recuperator CGU for impairment covers the 2021-2024 period and was approved by the subsidiary's board of directors on 17 February 2021, while that used for testing the HygroMatik CGU for impairment covers the 2021-2024 period and was approved by the subsidiary's board of directors on 11 February 2021. Both plans were modified with respect to the impairment test of 31 December 2019 also to reflect the effects of Covid-19 on the business of the two CGUs, in addition to how and when the CGUs can return to pre-Covid-19 volumes.

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

CGU	Periodo di piano	Tasso g	WACC
Recuperator	2021-2024	1.96%	8.08%
HygroMatik	2021-2024	2.00%	7.89%
Enersol	2021-2023	1.50%	8.14%
Thailand	2021-2023	1.00%	8.40%

As per the guidelines set by the regulators, the financial parameters were not modified to consider Covid-19 as the uncertainties related to the continuation of the pandemic are already reflected in the cash flow forecasts.

The value in use, calculated using the discounted cash flows, confirmed the carrying amount of goodwill. Specifically, the test shows respective coverage of €1.6 million and €3.1 million for the Recuperator and HygroMatik CGUs which were allocated the highest goodwill.

Although the directors believe that the assumptions used are reasonable and represent the most probable scenarios based on the available information, the result of the test could differ should the above assumptions significantly change. Specifically, the growth estimates could change considerably due to the continuation of the pandemic or in the event of an upsurge of the pandemic in certain geographical segments.

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

- the gross operating profit estimated over the explicit period of the plans, assuming that the possible deterioration of the macroeconomic scenario will affect that period;

- certain variables, such as government bond yield and market risk premium, used to determine the WACC discount rate.

These stress tests reveal that:

- for the Recuperator CGU, the test is passed even if the WACC increases by 0.60% or the gross operating profit decreases by 35%;
- for the HygroMatik CGU, the test is passed even if the WACC increases by 0.32% or the gross operating profit decreases by 25%.

Therefore, there was no indication of impairment of goodwill at 31 December 2020.

[3] EQUITY-ACCOUNTED INVESTMENTS

At 31 December 2020, this caption amounts to €724 thousand compared to €536 thousand at 31 December 2019. It may be analysed as follows:

	Registered office	Investment %	31.12.2020	Increase	Change in translation reserve	Equity-accounting	31.12.2019
Arion S.r.l.	Brescia (IT)	40%	29	-	-	(42)	71
Free Polska s.p.z.o.o.	Krakow (PL)	23%	659	-	(35)	250	444
Others			36	15	-	-	21
Total			**724**	**15**	**(35)**	**208**	**536**

[4] OTHER NON-CURRENT ASSETS

At 31 December 2020, other non-current assets amount to €11,311 thousand compared to €13,111 thousand at 31 December 2019; they are broken down as follows:

	31.12.2020	31.12.2019
Related parties	160	160
Guarantee deposits	419	407
Third parties	1,008	1,412
Other assets	9,725	11,132
Other non-current assets	**11,311**	**13,111**

"Third parties" mainly comprise a non-current VAT asset recognised by the South American group company.

"Other assets" include the credit deriving from the parent's payment of the substitute tax on the higher values allocated and recognised in the consolidated financial statements at 31 December 2018, implicit in the equity investment amount, pursuant to article 15.10-bis of Decree law no. 185/2008. Starting from 2021, the parent will deduct, for both IRES and IRAP purposes, one fifth of the amortisation of the above-mentioned amounts per year. As a result, the portion of the credit recognised will be reclassified to profit or loss on a straight-line basis. Therefore, the amount related to 2021 was recognised under "Other current assets".

[5] DEFERRED TAX ASSETS

At 31 December 2020, deferred tax assets amount to €5,264 thousand compared to €4,378 thousand at 31 December 2019. The group has recognised deferred tax assets and liabilities on temporary differences between the carrying amount of assets and liabilities and their tax base.

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

	2020 tax base	Deferred tax assets at 31 December 2020	2019 tax base	Deferred tax assets at 31 December 2019
Allowance for inventory write-down	5,438	1,217	2,793	660
Non-deductible accruals	3,553	922	3,763	964
Amortisation of goodwill	839	188	645	132
Consolidation adjustments to intragroup inventory transactions	8,343	1,905	6,648	1,415
Carryforward tax losses	1,254	207	2,207	449
Other	3,131	825	2,757	758
Total	**22,557**	**5,264**	**18,812**	**4,378**

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

	31.12.2020	Recognised in profit or loss	Recognised in other comprehensive income	31.12.2019
Deferred tax assets	5,265	980	(94)	4,378
Deferred tax liabilities	(10,212)	592	92	(10,896)
Total	**(4,947)**	**1,572**	**(2)**	**(6,518)**

The Hong Kong group company recognised deferred tax assets of €207 thousand on carryforward tax losses. The group believed that these losses can be recovered over time based on the cash flows that the group company will generate in future years. The Japanese and South American companies did not recognise deferred tax assets on carryforward tax losses, which total €718 thousand.

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Current assets

[6] TRADE RECEIVABLES

At 31 December 2020, this caption amounts to €57,728 thousand compared to €58,552 thousand at 31 December 2019. It may be analysed as follows:

	31.12.2020	31.12.2019
Trade receivables	58,750	59,677
Loss allowance	(1,022)	(1,125)
Total	**57,728**	**58,552**

The next table breaks down gross trade receivables by geographical segment:

	31.12.2020	31.12.2019
Europe, Middle East and Africa	40,342	41,318
APAC	11,594	11,379
North America	4,883	5,308
South America	1,931	1,672
Total	**58,750**	**59,677**

The group does not usually charge default interest on past due receivables. Reference should be made to the section on risks and financial instruments for details of the receivables that are not yet due and/or are past due.
The group's receivables are not particularly concentrated. It does not have customers that individually account for more than 5% of the total receivables at each maturity date.
The loss allowance comprises management's estimates about credit losses on receivables from end customers and the sales network. Management estimates the allowance on the basis of the expected losses, considering past experience for similar receivables, current and historical past due amounts, losses and collections, the careful monitoring of credit quality and projections about the economy and market conditions. It recognises the resulting impairment losses in Other expense (net).

Changes in the allowance are shown in the following table:

	31.12.2019	Accruals	Utilisations	Exchange differences	31.12.2018
Loss allowance	(1,125)	(12)	187	(2)	(1,298)

	31.12.2020	Accruals	Utilisations	Exchange differences	31.12.2019
Loss allowance	(1,022)	(262)	327	38	(1,125)

[7] INVENTORIES

At 31 December 2020, this caption amounts to €52,012 thousand compared to €48,265 thousand at 31 December 2019. It may be analysed as follows:

	31.12.2020	31.12.2019
Raw materials	26,299	24,032
Allowance for inventory write-down	(2,067)	(1,592)
Semi-finished products and work in progress	4,153	2,802
Finished goods	26,893	24,840
Allowance for inventory write-down	(3,348)	(1,888)
Payments on account	82	71
Total	**52,012**	**48,265**

Inventories, gross of the allowance for inventory write-down, increased by a total of €5,682 thousand. The group recognised an allowance for inventory write-down (€5,415 thousand) to cover the difference between the cost and estimated realisable value of obsolete raw materials and finished goods. The accrual to the statement of profit or loss was recognised in the caption "Costs of raw materials, consumables and goods and changes in inventories"

[8] CURRENT TAX ASSETS

This caption amounts to €2,156 thousand, compared to €1,711 thousand at the previous year end. It includes direct tax assets offset, where possible, against the tax liabilities at the same date.

[9] OTHER CURRENT ASSETS

At 31 December 2020, this caption amounts to €7,445 thousand compared to €6,613 thousand at 31 December 2019. It may be analysed as follows:

	31.12.2020	31.12.2019
Payments on account to suppliers	384	498
Other tax assets	2,693	1,000
VAT assets	1,550	1,311
Prepayments and accrued income	1,868	2,220
Other	950	1,584
Total	**7,445**	**6,613**

Other tax assets mainly consist of the tax credit for research and development expenditure in addition to the current portion of the tax asset arising from aligning the higher values allocated upon consolidation as detailed in note 4.

[10] CURRENT FINANCIAL ASSETS

At 31 December 2020, this caption amounts to €7,540 thousand compared to €56 thousand at 31 December 2019. It may be analysed as follows:

	31.12.2020	31.12.2019
Derivatives	17	49
Other financial assets	7,523	7
Total	**7,540**	**56**

"Other financial assets" refer to temporary deposits of liquidity, including accrued interest income gross of tax withholdings. Such deposits were agreed as a form of investment of part of the parent's temporary excess liquidity. They do not have an active market and are highly liquid without any additional cost to the group.

The deposits' reimbursement value equals the invested principal plus part of the accruing interest. Due to the lack of an active market and a method to determine the reimbursement amount based on the contractual terms, the directors initially recognised the investments at the invested capital, increased by the accrued unpaid interest at the reporting date. Based on these reasons, management deems that the carrying amount of these investments equals their fair value.

The derivatives are forwards and currency options agreed to hedge commercial transactions but which do not qualify for hedge accounting. Fair value gains and losses are recognised in profit or loss. More information is available in the paragraph on financial instruments in note [33] "Other information".

[11] CASH AND CASH EQUIVALENTS

At 31 December 2020, this caption amounts to €105,586 thousand compared to €62,798 thousand at 31 December 2019. Reference should be made to the statement of cash flows for details of changes in the group's cash and cash equivalents.

	31.12.2020	31.12.2019
Current accounts and post office deposits	105,549	62,764
Cash	38	33
Total	**105,586**	**62,798**

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

At the reporting date, the group's current account credit balances were not pledged in any way.

Equity and liabilities

[12] EQUITY ATTRIBUTABLE TO THE OWNERS OF THE PARENT

The parent's fully paid-up and subscribed share capital consists of 100,000,000 ordinary shares.
Equity may be analysed as follows:

	31.12.2020	31.12.2019
Share capital	10,000	10,000
Legal reserve	2,000	2,000
Translation reserve	(2,685)	3,558
Hedging reserve	(436)	(363)
Other reserves	56,530	46,166
Retained earnings	58,795	46,487
Profit for the year	35,112	35,019
Total	**159,317**	**142,868**

The hedging reserve includes the *fair value* gains and losses on interest rate hedges.
The translation reserve decreased by €6,243 thousand, mainly due to the depreciation of the US dollar, Brazilian real and Chinese renminbi against the Euro.
Other reserves include a reserve related to the share-based *long-term incentive* (LTI) plan of €1,184 thousand, approved by the shareholders on 7 September 2018. Note 33 provides more information about this plan.

Following the shareholders' resolution of 15 April 2019, during the year, the board of directors repurchased treasury shares totalling €958 thousand to service the LTI plan. They are recognised as a reduction in other reserves.
The earnings per share are calculated by dividing the profit attributable to the owners of the parent by the weighted average number of outstanding ordinary shares. There are no potentially dilutive ordinary shares (e.g., stock options or convertible bonds).

The earnings per share are as follows:

	31.12.2020	31.12.2019
Number of shares (in thousands)	99,851	99,929
Profit for the year (in thousands of Euros)	35,112	35,019
Earnings per share (in Euros)	**0.35**	**0.35**

The shareholders resolved to distribute a dividend of €0.12 per share on 20 April 2020, which resulted in the distribution of €11,980 thousand in June 2020.

[13] EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

At 31 December 2020, this caption amounts to €304 thousand compared to €353 thousand at 31 December 2019 and comprises the non-controlling interest in Carel Thailand Co. Ltd (20%).

	31.12.2020	Profit for the year	Other comprehensive income	Dividends distributed	Capital increases	31.12.2019
Equity attributable to non-controlling interests	304	5	(37)	(50)	33	353

[14] CURRENT AND NON-CURRENT FINANCIAL LIABILITIES

These captions may be analysed as follows:

	31.12.2020	31.12.2019
Bank loans and borrowings at amortised cost	86,975	72,648
Lease liabilities	24,597	11,787
Effective designated derivative hedges	578	513
Other loans and borrowings at amortised cost	1,506	1,539
Non-current financial liabilities	**113,657**	**86,486**

	31.12.2020	31.12.2019
Current portion of bank loans at amortised cost	44,767	34,236
Lease liabilities	3,588	3,461
Bank borrowings at amortised cost	148	123
Derivatives held for trading at fair value through profit or loss	55	37
Other loans and borrowings at amortised cost	523	635
Current financial liabilities	**49,080**	**38,492**

The following tables show the main characteristics of the bank loans by maturity at 31 December 2020 and 2019:

31.12.2019	Currency	Original amount	Maturity	Interest rate	Outstanding liability	Current	Non-current
Deutschebank	EUR	400	2023	Fixed	152	42	110
MedioCredito Italiano	EUR	15,000	2021	Floating	5,002	3,333	1,667
BNP Paribas	EUR	15,000	2020	Fixed	2,511	2,512	-
Unicredit	EUR	20,000	2023	Fixed	15,556	4,444	11,111
Unicredit	EUR	20,000	2023	Floating	20,000	3,333	16,667
Mediobanca	EUR	30,000	2021	Fixed	17,989	12,000	5,989
BNP Paribas	EUR	30,000	2022	Floating	25,676	8,571	17,104
BNP Paribas	EUR	20,000	2023	Floating	20,000	-	20,000
Total					**106,884**	**34,236**	**72,648**

31.12.2020	Currency	Original amount	Maturity	Interest rate	Outstanding liability	Current	Non-current
Deutschebank	EUR	400	2023	Fixed	109	43	66
Bper Banca	EUR	1,000	2021	Fixed	1,000	1,000	-
MedioCredito Italiano	EUR	15,000	2021	Floating	1,666	1,666	-
Unicredit	EUR	20,000	2023	Fixed	11,111	4,444	6,667
Unicredit	EUR	20,000	2023	Floating	16,666	6,666	10,000
Intesa San Paolo	EUR	6,000	2021	Fixed	6,000	6,000	-
Mediobanca	EUR	25,000	2023	Floating	24,964	-	24,964
BNP Paribas	EUR	30,000	2023	Floating	21,372	8,572	12,800
BNP Paribas	EUR	20,000	2023	Floating	19,974	-	19,974
BNP Paribas	EUR	10,000	2021	Fixed	10,000	10,000	-
Intesa San Paolo	EUR	10,000	2024	Fixed	8,735	2,487	6,248
Credit Agricole	EUR	10,000	2024	Fixed	8,740	2,484	6,256
PNC Bank	USD	1,723	2020	Fixed	1,404	1,404	-
Total					**131,741**	**44,767**	**86,975**

All loans except for the Deutschebank loan bear a fixed interest rate of less than 1%.

The PNC Bank loan was taken out by the US company as part of the US government's Paycheck Protection Program to support companies during the Covid-19 pandemic.

The following loans require compliance with *covenants*:

- Mediobanca (loan of €25,000 thousand): Net financial debt to gross operating profit (loss) ratio < 3.50 and gross operating profit (loss) to net financial expense ratio > 5.00;
- BNP Paribas (loan of €20,000 thousand): Net financial debt to gross operating profit (loss) ratio < 3.5.

At 31 December 2020, such covenants have been respected.

The derivatives included under current financial liabilities are forwards and currency options agreed to hedge commercial transactions which do not qualify for hedge accounting. The effective designated derivative hedges include the fair value of five IRSs agreed to hedge interest rate risk on the Banca Nazionale del Lavoro, Unicredit and Mediobanca loans. More information is available in note [33] "Other information".

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

31.12.2019	Currency	Original amount	Maturity	Interest rate	Outstanding liability	Current	Non-current
Simest Middle East	EUR	1,000	2021	Fixed	375	250	125
MedioCredito Centrale Progetto Horizon 2020	EUR	1,241	2026	Fixed	1,250	188	1,062
Other loans					549	197	352
Total					**2,174**	**635**	**1,539**

31.12.2020	Currency	Original amount	Maturity	Interest rate	Outstanding liability	Current	Non-current
Simest Middle East	EUR	1,000	2021	Fixed	125	125	-
MedioCredito Centrale Progetto Horizon 2020	EUR	1,241	2026	Fixed	1,062	190	872
Other loans					843	209	634
Total					**2,030**	**523**	**1,506**

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

	31.12.2020	Net cash flows	Fair value gains or losses	Reclassification	Change in translation reserve	31.12.2019
Bank loans	44,767	(12,576)	-	23,106	-	34,236
Bank borrowings	148	24	-	-	-	123
Other loans and borrowings	523	(426)	-	315	-	635
Derivatives	55	(37)	55	-	-	37
Current financial liabilities	**45,492**	**(13,015)**	**55**	**23,421**	**-**	**35,031**

	31.12.2020	Net cash flows	Fair value gains or losses	Reclassification	Change in translation reserve	31.12.2019
Bank loans and borrowings at amortised cost	86,975	37,433	-	(23,106)	-	72,648
Effective designated derivative hedges	578	(232)	298	-	-	513
Other loans and borrowings at amortised cost	1,506	282	-	(315)	-	1,539
Non-current financial liabilities	**89,059**	**37,483**	**298**	**(23,421)**	**-**	**74,700**

	31.12.2020	Increases	Restatement of financial liabilities	Repayments	Interest	Termination of contracts	Change in translation reserve	31.12.2019
Lease liabilities	28,185	4,422	12,812	(4,238)	416	(131)	(344)	15,248

[15] PROVISIONS FOR RISKS

At 31 December 2020, provisions for risks amount to €3,396 thousand compared to €3,786 thousand at 31 December 2019 and they are broken down as follows:

	31.12.2020	31.12.2019
Provision for agents' termination benefits	808	767
Provision for legal and tax risks	35	28
Provision for commercial complaints	104	284
Provision for product warranties	337	280
Other provisions	8	9
Total - non-current	**1,292**	**1,368**
Provision for legal and tax risks	-	320
Provision for commercial complaints	2,104	2,098
Total - current	**2,104**	**2,418**
Total	**3,396**	**3,786**

The following table shows changes in this caption:

	31.12.2019	Accruals	Utilisations	Reversals	Reclassif.	Exchange differences	31.12.2018
Provision for agents' termination benefits	767	70	(2)	-	-	-	698
Provision for legal and tax risks	28	8	(18)	-	-	-	39
Provision for commercial complaints	284	24	(43)	-	-	2	301
Provision for product warranties	280	9	(4)	-	-	-	274
Other provisions	9		(11)	-	-	-	19
Total - non-current	**1,368**	**111**	**(78)**	**-**	**-**	**2**	**1,332**
Provision for legal and tax risks	320	320	(405)	-	-	-	405
Provision for commercial complaints	2,098	1,364	(510)	-	-	-	1,244
Total - current	**2,418**	**1,684**	**(915)**	**-**	**-**	**-**	**1,649**
Total	**3,786**	**1,795**	**(993)**	**-**	**-**	**2**	**2,981**

	31.12.2020	Accruals	Utilisations	Reversals	Reclassif.	Exchange differences	31.12.2019
Provision for agents' termination benefits	808	51	(11)	-	-	-	767
Provision for legal and tax risks	35	17	-	-	-	(9)	28
Provision for commercial complaints	104	-	(5)	(168)	-	(7)	284
Provision for product warranties	337	85	(77)	-	47	3	280
Other provisions	8	-	-	-	-	(1)	9
Total - non-current	**1,292**	**153**	**(93)**	**(168)**	**47**	**(14)**	**1,368**
Provision for legal and tax risks	-	-	-	(320)	-	-	320
Provision for commercial complaints	2,104	1,206	(165)	(1,305)	-	-	2,098
Total - current	**2,104**	**1,206**	**(165)**	**(1,355)**	**-**	**-**	**2,418**
Total	**3,396**	**1,359**	**(258)**	**(1,523)**	**47**	**(14)**	**3,786**

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

The provision for commercial complaints increased due to the estimated larger costs that the group might occur on claims with customers. With regard to the provision at 31 December 2019, 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 group revised the estimate of the costs to be incurred and, accordingly, released a portion of the provision.

The provision for legal and tax risks represents management's best estimate of the liabilities arising from legal and tax procedures related to ordinary operating activities, estimated with the support of legal consultants.

The provision for legal and tax risks, which at 31 December 2019 mainly referred to the risk that the Chinese authorities may challenge the tax deduction of certain intragroup service costs, was fully released following the positive outcome of the audit.

[16] DEFINED BENEFIT PLANS

This caption mainly consists of the group's liability for post-employment benefits and post-term of office benefits for directors recognised by the Italian group companies and the German subsidiary, HygroMatik GmbH. These benefits qualify as defined benefit plans pursuant to IAS 19 and the related liabilities are calculated by an independent actuary. Changes in the liability in both years are shown below.

	31.12.2020	31.12.2019
Opening balance	**7,844**	**7,333**
Interest cost	54	78
Other variations	164	15
Employee benefits paid	(357)	(202)
Exchange differences	(32)	32
Accruals	2463	2,455
Transfer to pension plans	(2,237)	(2,184)
Actuarial gain (loss)	290	317
Closing balance	**8,189**	**7,844**

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

[17] DEFERRED TAX LIABILITIES

At 31 December 2020, this caption amounts to €10,212 thousand, compared to €10,896 thousand at 31 December 2019. Changes in deferred tax liabilities are available in note [5] "Deferred tax assets". A breakdown of deferred tax liabilities is as follows:

	2020 tax base	2020 deferred tax liabilities	2019 tax base	2019 deferred tax liabilities
Discounting of non-current liabilities	90	25	87	27
Differences from consolidation adjustments	29,664	8,716	32,677	9,544
Differences on amortisation and depreciation and other differences in standards	6,645	1,266	5,172	1,022
Other	1,100	204	1,584	304
Total	**37,498**	**10,212**	**39,520**	**10,896**

The largest amount is due to the allocation of non-taxable amounts upon the first-time consolidation of Recuperator S.p.A. and HygroMatik GmbH and differences on amortisation/depreciation, mainly of the parent and the US subsidiary.

[18] TRADE PAYABLES

Trade payables amount to €43,234 thousand, compared to €38,200 thousand at 31 December 2019 due to investments and purchases performed in the last months of the year.

There are no significant past due amounts at 31 December 2020.

[19] TAX LIABILITIES

At 31 December 2020, this caption amounts to €2,991 thousand compared to €1,113 thousand at the end of the previous year. It entirely consists of direct income tax liabilities.

[20] OTHER CURRENT LIABILITIES

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

	31.12.2020	31.12.2019
Social security contributions	4,760	4,156
Tax withholdings	1,978	1,854
Other current tax liabilities	403	242
VAT liabilities	1,445	1,017
Wages and salaries, bonuses and holiday pay	13,959	11,770
Other	1,220	1,254
Total	**23,766**	**20,292**

Notes to the statement of profit or loss

[21] REVENUE

Revenue amounts to €331,610 thousand, compared to €327,358 thousand in 2019, with a year-on-year increase of 1.3%.
It is shown net of discounts and allowances.

Revenue generated by services amounts to €2,210 thousand compared to €2,828 thousand in 2019. A breakdown of revenue by market is as follows:

	2020	2019	Variation %
HVAC revenue	217,498	215,366	1.0%
REF revenue	110,337	107,578	2.6%
Total core revenue	**327,836**	**322,943**	**1.5%**
Non-core revenue	3,775	4,415	(14.5%)
Total revenue	**331,610**	**327,358**	**1.3%**

There are no group companies that individually contribute more than 5% to the group's revenue.
A breakdown of revenue by geographical segment is as follows:

	2020	2019	Variation %
Europe, Middle East and Africa	236,267	226,470	4.3%
APAC	49,714	50,205	(1.0%)
North America	38,456	42,461	(9.4%)
South America	7,173	8,222	(12.8%)
Total	**331,610**	**327,358**	**1.3%**

[22] OTHER REVENUE

Other revenue amounts to €3,704 thousand, an increase on the €3,611 thousand balance in 2019. The caption may be broken down as follows:

	2020	2019	Variation %
Grants related to income	1,381	986	40.1%
Sundry cost recoveries	1,583	1,767	(10.4%)
Other revenue and income	740	858	13.8%)
Total	**3,704**	**3,611**	**2.6%**

The grants related to income of €1,381 thousand (2019: €986 thousand) mainly relate to the tax credit for development activities carried out as provided for by Law no. 190 of 23 December 2014 (the 2015 Stability Law)

in addition to grants given by various governments to support companies during the Covid-19 pandemic.
Sundry cost recoveries mostly refer to the recovery of transport and other costs.
Other revenue and income principally comprise amounts charged to suppliers and customers.

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

This caption amounts to €139,644 thousand, compared to €138,637 thousand in 2019. A breakdown of the caption is as follows:

	2020	2019	Variation %
Costs of raw materials, consumables and goods and changes in inventories	(139,644)	(138,637)	0.7%
% of revenue	(42.1%)	(42.4%)	(0.6%)

[24] SERVICES

The group incurred costs of €42,536 thousand for services in 2020, down 10.5% on the previous year. The main decrease related to "Business trips and travel", which was mostly due to actions implemented by management to contain costs and restrictions on movement imposed by the various governments.
Consultancies and marketing and advertising fees also decreased as a result of the aforementioned actions.
Such decreases were only partially offset by higher outsourcing and transport costs incurred in order to overcome the reduced production capacity of certain sites and to mitigate the longer delivery times for products and raw materials due to the shutdown in China.

The caption may be broken down as follows:

	2020	2019	Variation %
Transport	(12,076)	(9,925)	21.7%
Consultancies	(6,533)	(7,909)	(17.4%)
Business trips and travel	(1,529)	(4,829)	(68.3%)
Use of third party assets	(1,406)	(1,711)	(17.9%)
Maintenance and repairs	(4,379)	(3,887)	12.6%
Marketing and advertising	(1,361)	(2,388)	(43.0%)
Outsourcing	(2,774)	(1,956)	41.8%
Agency commissions	(1,847)	(2,045)	(9.7%)
Utilities	(1,619)	(1,769)	(8.5%)
Fees to directors, statutory auditors and independent auditors	(2,062)	(2,187)	(5.7%)

	2020	2019	Variation %
Insurance	(1,283)	(1,113)	15.3%
Telephone and connections	(928)	(1,089)	(14.8%)
Other services	(4,741)	(6,693)	(29.2%)
Total	**(42,536)**	**(47,503)**	**(10.5%)**

[25] CAPITALISED DEVELOPMENT EXPENDITURE

This caption amounts to €2,227 thousand, compared to €2,970 thousand in 2019 and is almost entirely related to development projects capitalised under intangible assets. Part of the capitalised costs refer to equipment and machinery constructed internally and recognised under property, plant and equipment.

The caption may be analysed as follows:

	2020	2019	Variation %
Development expenditure	2,120	2,859	(25.8%)
Plant and machinery constructed on a time and materials basis	107	111	(3.9%)
Total	**2,227**	**2,970**	**(25.0%)**

The group incurred research and development expenditure of €17,499 thousand and €18,060 thousand in 2020 and 2019, respectively. Only the amounts described above were capitalised, as they met the requirements of IAS 24.

[26] PERSONNEL EXPENSE

This caption amounted to €88,620 thousand for 2019 compared to €83,412 thousand for the previous year. A breakdown of this caption and of the workforce by employee category is as follows:

	2020	2019	Variation %
Wages and salaries, including bonuses and accruals	(69,375)	(64,744)	7.2%
Social security contributions	(15,198)	(14,962)	1.6%
Defined benefit plans	(2,463)	(2,455)	0.3%
Other costs	(1,584)	(1,251)	26.6%
Total	**(88,620)**	**(83,412)**	**6.2%**

	2020		2019	
	year end	average	year end	average
Managers	62	62	62	53
White collars	1,059	1,056	1,052	1,020
Blue collars	624	600	575	563
Total	**1,745**	**1,717**	**1,689**	**1,633**

[27] OTHER EXPENSE, NET

This caption amounted to €1,548 thousand, compared to €1,255 thousand for the previous year. It may be broken down as follows:

	2020	2019	Variation %
Gains on the sale of non-current assets	72	873	(91.7%)
Prior year income	493	435	13.3%
Release of provisions for risks	1,203	0	>100%
Other income	**1,768**	**1,308**	**35.1%**
Losses on the sale of non-current assets	(19)	(34)	(44.3%)
Prior year expense	(360)	(386)	(6.7%)
Other taxes and duties	(1,059)	(918)	15.4%
Accrual to the loss allowance	(262)	(12)	>100%
Accrual to the provisions for risks	(1,310)	(655)	99.9%
Credit losses	(26)	(51)	(49.4%)
Other costs	(280)	(507)	(44.8%)
Other expense	**(3,316)**	**(2,563)**	**29.4%**
Other expense, net	**(1,548)**	**(1,255)**	**23.3%**

The gains on the sale of non-current assets in 2019 mainly relate to the sale of the Chinese site, which was replaced by the new site opened in July 2019.

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

[28] AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES

Amortisation and depreciation amount to €18,315 thousand, up from €16,747 thousand in the previous year. This increase is principally due to the significant investments made in 2019 that were fully up and running in 2020. The caption also includes depreciation and amortisation arising from the purchase price allocation (€2,551 thousand).

The caption may be broken down as follows:

	2020	2019	Variation %
Amortisation	(6,493)	(5,804)	11.9%
Depreciation	(11,822)	(10,944)	8.0%
Impairment losses	(166)	(22)	>100%
Total	**(18,482)**	**(16,769)**	**10.2%**

[29] NET FINANCIAL EXPENSE

Net financial expense amounts to €1,489 thousand compared to €1,431 thousand in the previous year. The caption may be broken down as follows:

	2020	2019	Variation %
Interest income	178	316	(43.5%)
Gains on derivatives	28	13	>100%
Other financial income	145	205	(29.2%)
Financial income	**351**	**534**	**(34.2%)**
Bank interest expense	(933)	(948)	(1.6%)
Lease interest expense	(416)	(399)	4.3%
Other interest expense	(33)	(45)	(27.2%)
Losses on derivatives	(61)	(123)	(50.7%)
Other financial expense	(399)	(450)	(11.4%)
Financial expense	**(1,841)**	**(1,965)**	**(6.3%)**
Net financial expense	**(1,489)**	**(1,431)**	**4.1%**

[30] NET EXCHANGE LOSSES

Net exchange losses amount to €921 thousand compared to €152 thousand in 2019 mainly due to the US Dollar fluctuation. They are made up as follows:

	2020	2019	Variation %
Exchange losses	(5,853)	(3,522)	66.2%
Exchange gains	4,932	3,370	46.4%
Net exchange losses	**(921)**	**(152)**	**>100%**

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

This caption shows a net profit of €208 thousand, compared to €177 thousand in 2019. It comprises the group's share of the profit or loss of equity-accounted investees.

[32] INCOME TAXES

This caption amounts to €9,393 thousand compared to €9,910 thousand in the previous year. It may be broken down as follows:

	2020	2019
Current taxes	(11,713)	(10,214)
Deferred taxes	1,572	945
Taxes relative to prior years	748	(641)
Total	**(9,393)**	**(9,910)**

Taxes relative to prior years mostly refer to reimbursements of the Chinese subsidiary's 2019 income taxes.

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

	2020	2019
Profit before tax	44,511	44,957
Income taxes calculated using the theoretical IRES rate	(10,683)	(10,790)
IRAP	(819)	(1,041)
Effect of the different rates applied by the group companies operating in other countries	2,092	2,183
Withholding tax on dividends	(1,250)	(587)
Taxes relative to prior years	748	(641)
Effect of the different rates applied by the group companies operating in other countries and other changes	519	966
Total	**(9,393)**	**(9,910)**

Reference should be made to note [5] for information about changes in deferred tax assets and liabilities and their composition.
The *tax* rate applied for the reconciliation of the tax burden is 24%, in line with the IRES rate in Italy, the country in which most of the group's taxable profit is earned.

[33] OTHER INFORMATION

Segment reporting

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

Financial instruments

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

	31.12.2020				31.12.2019			
forward	**Purchases**	**Sales**	**Positive fair value**	**Negative fair value**	**Purchases**	**Sales**	**Positive fair value**	**Negative fair value**
USD/EUR	-	-	-	-	-	1,200	10	-
JPY/EUR	-	12,500	-	(1)	37,431	-	-	(3)
USD/CNY	-	-	-	-	-	5,500	38	-
EUR/ZAR	-	228	-	-	165	-	-	(1)
ZAR/USD	-	8,800	-	(47)	-	3,400	-	(9)
USD/ZAR	-	-	-	-	-	147	-	(9)
PLN/EUR	-	-	-	-	-	6,921	-	(14)
THB/USD	-	6,200	-	(3)	-	3,500	-	(1)
Total forwards				**(51)**			**48**	**(37)**
Options								
ZAR/USD		18,000	12	-		12,000	1	-
THB/USD		46,000	5	-		26,000	-	-
Total options			**17**	**-**			**1**	**-**
Total			**17**	**(51)**			**49**	**(37)**

The next table provides information about the interest rate swaps hedging the related risk:

	Notional amount	Floating interest rate	Fixed interest rate	Maturity	Fair value 31.12.2020	Fair value 31.12.2019
BNL	15,000	3m Euribor > -0.55% -0.55% > 3m Euribor	-0.10%	30/06/2021	**(3)**	(13)
BNL	30,000	6m Euribor > -0.78% / -0.78% if 6m Euribor < -0.78%	-0.78%	19/11/2022	**(135)**	(180)
BNL	20,000	3m Euribor > -0.98% / -0.98% if 3m Euribor < -0.98%	-0.02%	30/04/2023	**(262)**	(192)
Unicredit	20,000	3m Euribor > -0.92% / -0.92% if 3m Euribor < -0.92%	-0.04%	30/04/2023	**(113)**	(128)
Mediobanca	25,000	3m Euribor > -0.95% / -0.95% if 3m Euribor < -0.95%	-0.42%	04/08/2023	**(68)**	n.a.

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

Long-term share-based incentive (LTI) plan

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 boards of directors and/or group employees. The plan is divided into three rolling cycles (vesting period), each lasting three years (2018-2020, 2019-2021 and 2020-2022), at the end of which the shares will be distributed, after checking that the performance objectives have been reached and based on the date of the board of directors' resolution. The third vesting period that refers to 2019-2021 began in 2020.

The number of shares allocated is subject to achieving specific 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 shares 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 2020, the group recognised an expense of €766 thousand in profit or loss and the same amount was also recognised as an increase in equity. This amount represents the amount attributable to 2020 for the first, second and third cycles of the plan, the fair values of which amount to €691 thousand, €855 thousand and €865 thousand, respectively.

Categories of financial instruments and *fair value* hierarchy

The next table shows the financial assets and liabilities recognised in accordance with IFRS 7, broken down by the categories established by IFRS 9 at 31 December 2019 and 2020 and their fair value:

			Fair Value		
31.12.2019	**IFRS 9 category**	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**
Securities	Available-for-sale financial assets				
Derivatives	Financial instruments held for trading	49		49	
Other financial assets	Loans and receivables	7			7
Other current financial assets		**56**			
Trade receivables	Loans and receivables	**58,552**			**58,552**
Total financial assets		**58,608**			
including:	**Available-for-sale financial assets**				
	Financial instruments held for trading	**49**			
	Loans and receivables	**58,560**			
Bank loans and borrowings	Financial liabilities at amortised cost	72,648		72,648	
Other loans and borrowings	Financial liabilities at amortised cost	1,539		1,539	
Lease liabilities	Financial liabilities at amortised cost	11,787			11,787
Effective designated derivative hedges	Financial instruments held for trading	513		513	
Non-current financial liabilities		**86,486**			
Bank borrowings	Financial liabilities at amortised cost	123		123	
Bank loans	Financial liabilities at amortised cost	34,236		34,236	
Lease liabilities	Financial liabilities at amortised cost	3,461			3,461
Derivatives	Financial instruments held for trading	37		37	
Other loans and borrowings	Financial liabilities at amortised cost	635		635	
Current financial liabilities		**38,492**			
Trade payables	Financial liabilities at amortised cost	**38,200**			38,200
Total financial liabilities		**163,178**			
including	**Financial liabilities at amortised cost**	**162,629**			
	Financial instruments held for trading	**550**			

31.12.2020	IFRS 9 category	Carrying amount	Fair Value Level 1	Level 2	Level 3
Securities	Available-for-sale financial assets				
Derivatives	Financial instruments held for trading	17		17	
Other financial assets	Loans and receivables	7,523		7,523	
Other current financial assets		**7,540**			
Trade receivables	Loans and receivables	57,728			57,728
Total financial assets		**65,268**			
including:	**Available-for-sale financial assets**	**0**			
	Financial instruments held for trading	**17**			
	Loans and receivables	**65,251**			
Bank loans and borrowings	Financial liabilities at amortised cost	86,975		86,975	
Other loans and borrowings	Financial liabilities at amortised cost	1,506		1,506	
Lease liabilities	Financial liabilities at amortised cost	24,597			24,597
Effective designated derivative hedges	Financial instruments held for trading	578		578	
Non-current financial liabilities		**113,657**			
Bank borrowings	Financial liabilities at amortised cost	148		148	
Bank loans	Financial liabilities at amortised cost	44,767		44,767	
Lease liabilities	Financial liabilities at amortised cost	3,588			3,588
Derivatives	Financial instruments held for trading	55		55	
Other loans and borrowings	Financial liabilities at amortised cost	523		523	
Current financial liabilities		**49,080**			
Trade payables	Financial liabilities at amortised cost	**43,234**			43,234
Total financial liabilities		**205,971**			
including:	**Financial liabilities at amortised cost**	**205,338**			
	Financial instruments held for trading	**633**			

Off-statement of financial position commitments and guarantees

At the reporting date, the parent issued sureties of €2,150 thousand, including €132 thousand in favour of subsidiaries.

Related party transactions

During 2020 and 2019, the group carried out commercial transactions with related parties as follows:

31.12.2019	Trade receivables	Loan assets	Trade payables	Financial liabilities	Revenue	Costs	Financial expense
Arion S.r.l.	-	160	-	-	1	(1,147)	-
Free Polska s.p.z.o.o.	-	-	(31)		10	(3,293)	-
Total associates		**160**	**(31)**	**-**	**11**	**(4,440)**	**-**
RN Real Estate S.r.l.	3	-	(95)	(2,468)	27		(19)
Nastrificio Victor S.p.A.	-	-	(13)	-		(36)	-
Eurotest laboratori S.r.l.	11	-	(83)	-	37	(265)	-
Carel Real Estate Adratic d.o.o.	-	-		(2,704)	2	(1)	(107)
Agriturismo Le Volpi	-	-	(6)	-	-	(17)	-
Eurotec Ltd	132	-	(7)	-	586	(27)	-
Panther S.r.l.	-	-	(6)	-	-	(12)	-
Gestion A.Landry Inc	-	-	(41)	(28)	-	(1)	-
Humide Expert	-	-	(15)	-	-	(32)	-
Others	6	-	(11)	-	8	(41)	-
Total other related parties	**152**	**-**	**(277)**	**(5,200)**	**660**	**(432)**	**(126)**
Total	**152**	**160**	**(308)**	**(5,200)**	**671**	**(4,872)**	**(126)**

31.12.2020	Trade receivables	Loan assets	Trade payables	Financial liabilities	Revenue	Costs	Financial expense
Arion S.r.l.	-	160	(74)	-	1	(1,692)	-
Free Polska s.p.z.o.o.	227	-	-	-	7	(8,006)	
Total associates	**227**	**160**	**(74)**	**-**	**8**	**(9,698)**	**-**
RN Real Estate S.r.l.	3	-	-	(14,684)	20	-	(15)
Arianna S.p.A.	5	-	-	-	5	-	-
Nastrificio Victor S.p.A.	-	-	(9)	-	-	(28)	-
Eurotest laboratori S.r.l.	11	-	(73)	-	38	(296)	-
Carel Real Estate Adratic d.o.o.	-	-	-	(2,465)	2	(1)	(96)
Agriturismo Le Volpi	-	-	(9)	-	-	(6)	-
Eurotec Ltd	254	-	-	-	623	(22)	-
Panther S.r.l.	-	-	(7)	-	-	(6)	-
Gestion A.Landry Inc	-	-	-	(5)	-	(2)	(0)
Humide Expert	-	-	-	-	-	(25)	-
Others	2	-	(10)	-	1	(48)	-
Total other related parties	**274**	**-**	**(108)**	**(17,154)**	**689**	**(435)**	**(112)**
Total	**501**	**160**	**(182)**	**(17,154)**	**696**	**(10,133)**	**(112)**

Transactions with RN Real Estate S.r.l. and Carel Real Estate Adriatic d.o.o. relate to the lease of the industrial buildings where the parent and the Croatian subsidiary carry out their business. Financial liabilities and expense have been recognised following the application of IFRS 16. Liabilities with RN Real Estate S.r.l. at 31 December 2020 are impacted by the restatement of lease liabilities as described earlier.

Costs from Arion relate to purchases of pressure sensors and those from Free Polska relate to non-group products purchased and resold by the group company Alfaco Polska.

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

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

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

	Registered office	Country	Currency	Share/quota capital 31/12/2019
Parent:				
CAREL INDUSTRIES S.p.A	Brugine (Padua)	Italy	EUR	10,000,000
Group companies:				
C.R.C. S.r.l.	Bologna	Italy	EUR	98,800
Carel Deutschland Gmbh	Frankfurt	Germany	EUR	25,565
Carel France Sas	St. Priest, Rhone	France	EUR	100,000
Carel U.K. Ltd	London	United Kingdom	GBP	350,000
Carel Sud America Instrumentacao Eletronica Ltda	San Paolo	Brazil	BRL	31,149,059
Carel Usa Inc	Wilmington Delaware	United States	USD	5,000,000
Carel Asia Ltd	Hong Kong	Honk Kong	HKD	15,900,000
Carel HVAC&R Korea Ltd	Seul	South Korea	KRW	550,500,000
Carel South East Asia Pte. Ltd.	Singapore	Singapore	SGD	100,000
Carel Australia PTY Ltd	Sydney	Australia	AUD	100
Carel Electronic Suzhou Ltd	Suzhou	People's Republic of China	CNY	75,019,566
Carel Controls Iberica Sl	Barcelona	Spain	EUR	3,005
Carel Controls South Africa (Pty) Ltd	Johannesburg	South Africa	ZAR	4,000,000
Carel ACR System India (Pvt) Ltd	Mumbai	India	INR	1,665,340
Carel RUS Llc	St. Petersburg	Russia	RUB	6,600,000
Carel Nordic AB	Hoganas	Sweden	SEK	550,000
Carel Middle East	Dubai	Dubai	AED	4,333,877
Carel Mexicana, S. DE R.L. DE C.V.	Guerra, Tlalpan	Mexico	MXN	12,441,149
Carel Adriatic D.o.o.	Rijeka	Croatia	HRK	54,600,000
Carel (Thailand) Co. Ltd.	Bangkok	Thailand	THB	10,000,000
Alfaco Polska Sp.z.o.o.	Wrocław	Poland	PLN	420,000
Carel Japan	Tokyo	Japan	JPY	60,000,000
Recuperator S.p.A.	Rescaldina (MI)	Italy	EUR	500,000
Hygromatik G.m.b.H.	Hamburg	Germany	EUR	639,115
Carel Ukraine LLC	Kiev	Ukraine	UAH	700,000
Enersol	Beloeil	Canada	CAD	100

Share/quota capital 31/12/2020	Investment % 31/12/2020	Share/quotaholder Azionista-Socio	Consolidation method	Profit for 2020 EURO	Profit for 2019 EURO
10,000,000				20,895,918	22,249,135
98,800	100%	Carel Industries S.p.A.	line by line	564,583	277,785
25,565	100%	Carel Industries S.p.A.	line by line	1,105,460	584,126
100,000	100%	Carel Industries S.p.A.	line by line	406,458	288,379
350,000	100%	Carel Industries S.p.A.	line by line	1,132,770	1,096,413
31,149,059	53.02%	Carel Industries S.p.A.	line by line	1,057,697	639,737
	46.98%	Carel Electronic Suzhou Ltd			
5,000,000	100%	Carel Industries S.p.A.	line by line	2,749,057	2,093,438
15,900,000	100%	Carel Industries S.p.A.	line by line	336,342	182,947
550,500,000	100%	Carel Electronic Suzhou Ltd	line by line	(20,519)	120,867
100,000	100%	Carel Asia Ltd	line by line	72,516	59,631
100	100%	Carel Electronic Suzhou Ltd	line by line	441,974	271,438
75,019,566	100%	Carel Industries S.p.A.	line by line	6,267,260	6,354,520
3,005	100%	Carel Industries S.p.A.	line by line	768,405	574,596
4,000,000	100%	Carel Electronic Suzhou Ltd	line by line	112,713	156,457
1,665,340	0,01%	Carel France Sas	line by line	66,270	51,285
	99,99%	Carel Electronic Suzhou Ltd			
6,600,000	99%	Carel Industries S.p.A.	line by line	963,081	306,092
	1%	Carel France Sas			
550,000	100%	Carel Industries S.p.A.	line by line	208,364	107,327
4,333,877	100%	Carel Industries S.p.A.	line by line	(7,067)	(230,818)
12,441,149	100%	Carel Usa LCC	line by line	(150,973)	47,299
54,600,000	100%	Carel Industries S.p.A.	line by line	7,680,717	4,276,597
16,000,000	50%	Carel Electronic Suzhou Ltd	line by line	26,246	138,956
	30%	Carel Australia PTY Ltd			
420,000	100%	Carel Industries S.p.A.	line by line	2,628,957	2,031,509
60,000,000	100%	Carel Industries S.p.A.	line by line	23,252	(15,501)
500,000	100%	Carel Industries S.p.A.	line by line	674,619	804,544
639,115	100%	Carel Industries S.p.A.	line by line	2,868,867	3,539,284
700,000	100%	Alfaco Polska Zoo	line by line	(100,649)	(90,855)
100	100%	Carel Usa Inc	line by line	(206,465)	36,055

Other information on subsidiaries

The subsidiaries Carel Deutschland GmbH and HygroMatik GmbH, both included in these consolidated financial statements, used the exemption provided for by section 264 (3) of the German Commercial Code (HGB) for the disclosures, audit and the preparation of the notes to and directors' report on their financial statements at 31 December 2020.

Fees paid to directors, statutory auditors and key management personnel

The fees paid to directors and statutory auditors for the year ended 31 December 2020 are as follows:

Directors	**2020**	**2019**
Remuneration and fees	1,256	1,092
Other non-monetary benefits	16	17
Other fees	-	-
Fair value of share-based payments	308	149
Total directors	**1,580**	**1,258**

Statutory auditors	**2020**	**2019**
Fixed fees and fees for participation in committees	103	103
Total statutory auditors	**103**	**103**

Key management personnel	**2020**	**2019**
Remuneration and fees	1,243	952
Other non-monetary benefits	22	23
Other fees	-	-
Post-employment benefits or termination benefits	26	-
Fair value of share-based payments	318	151
Total key management personnel	**1,609**	**1,126**

Events after the reporting date

See the relevant section of the directors' report.

Information pursuant to article 149-duodecies of consob issuers' regulation

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

Services	Independent auditor	Recipient	2020 fees	2019 fees
Audit	Deloitte & Touche S.p.A.	Carel Industries S.p.A.	205	195
	Deloitte & Touche S.p.A.	Subsidiaries	42	37
	Deloitte & Touche network	Subsidiaries	150	212
Attestation services	Deloitte & Touche S.p.A.	Carel Industries S.p.A.	41	42
	Deloitte & Touche S.p.A.	Subsidiaries	5	9
Other services	Deloitte & Touche S.p.A.	Carel Industries S.p.A.	-	-
	Deloitte & Touche network	Subsidiaries	-	2
Total			**443**	**495**

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

A list of the subsidies, grants, paid positions and any type of economic benefits received from public administrations and subjects defined as such by Article 1.125 of Law no. 124 of 2017, that the parent received in 2020 is set out below: Decree law no. 34/2020, converted into Law no. 77/2020, regarding tax assets to the extent of 60% of costs incurred in 2020 to sanitise work areas and tools and to purchase personal protective equipment (PPE) and other equipment needed to ensure the health and safety of workers and users amounting to €28 thousand.

During the year, the subsidiary Recuperator S.p.A. received: €2 thousand under the Sabatini law and €300 from the Italian bilateral metalworking body as a grant to purchase PPE due to the Covid-19 emergency.

Statement on the consolidated financial statements pursuant to article 154-bis of Legislative decree no. 58/98 and article 81-ter of Consob regulation no. 11971 of 14 May 1999 as subsequently amended and supplemented

1. 1. The undersigned Francesco Nalini, as chief executive officer, and Nicola Biondo, as manager in charge of financial reporting of Carel Industries S.p.A., also considering the provisions of article 154-bis.3/4 of Legislative decree no. 58 of 24 February 1998, state that the administrative and accounting policies adopted for the preparation of the consolidated financial statements at 31 December 2020:
   - are adequate in relation to the group's characteristics and
   - have been effectively applied during the year.
2. There is nothing to report.
3. Moreover, they state that:

   3.1 the consolidated financial statements as at and for the year ended 31 December 2020:

   a. have been prepared in accordance with the International Financial Reporting Standards endorsed by the European Community pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council on 19 July 2002;
   b. are consistent with the accounting ledgers and records;
   c. are suitable to give a true and fair view of the financial position, financial performance and cash flows of the issuer and the group of companies included in the consolidation scope;

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

Brugine, 4 marzo 2021

Chief executive officer	Manager in charge of financial reporting
Francesco Nalini	**Nicola Biondo**

Independent auditors' report

Deloitte.

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

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

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

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

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Carel Industries S.p.A. and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Impairment of goodwill allocated to the Recuperator and Hygromatik CGU's	
Description of the key audit matter	As disclosed in Note 2, as of 31 December 2020 the Group presents goodwill related to the Recuperator and Hygromatik CGU's for Euro 6.3 million and 38.5 million respectively. These amounts were recognized as a result of the acquisition of the two companies in 2018 and, as required by IAS 36 "Impairment of assets", they are not amortized but are subject to an impairment test, performed at least on an annual basis, which compares the recoverable value of the CGUs – based on the value in use methodology – and the carrying value which includes goodwill and other tangible and intangible assets allocated to the CGUs. Note 2 presents the main assumptions applied by the Directors in performing the test, together with the indication of the break-even analyses that they prepared for each key input to evaluate the uncertainties. In their disclosure, the Direcotrs explain that the process of performing the impairment test is complex and is based on assumptions related, among others, to the expectations in term of cash flows for the CGU and the determination of appropriate discount rates (WACC) and long-term growth (g-rate). Those estimates depend on factors which may change in time, also as a consequence of the potential impacts of the persistence of Covid 19 pandemic, with possible effects which may be significant on Management's assessment. We considered the significance of the amount of the goodwill, the subjectivity of the estimates underlying the determination of the cash flows for the CGU and the key variables of the impairment test. As a result we assessed that the impairment test represents a key audit matter for the audit of Carel Group's consolidated financial statements.
Audit procedures	As part of our audit, among other things, we performed the following audit procedures, supported by the experts belonging to our network: • understanding of the process and relevant controls designed and implemented by Management related to the process of performing and approving the impairment test; • analysis of the main assumptions adopted to prepare the expectations in terms of cash flows, also using industry data, and obtaining information from Group Management; • analysis of the actual performance compared to the expectations, in order to investigate the nature of the variations and evaluate the reliability of the planning process; • analysis of of the reasonableness of the discount rates (WACC) and long-term growth (g-rate); • test of the clerical accuracy of the model used to calculate the value in use for the CGU;

- test of the accuracy of the determination of the carrying value of the CGU and comparison with the recoverable value resulting from the impairment test;
- analysis of the stress test prepared by Group Management.

Finally we verified the appropriateness and the compliance of the disclosure on the impairment test provided by the Group to the requirements of IAS 36.

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

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

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or the termination of the business or have no realistic alternatives to such choices.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

The Directors of Carel Industries S.p.A. are responsible for the preparation of the report on operations and the report on corporate governance and the ownership structure of Carel Group as at 31 December 2020, including their consistency with the related consolidated financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations and some specific information contained in the report on corporate governance and the ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98, with the consolidated financial statements of Carel Group as at 31 December 2020 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 some specific information contained in the report on corporate governance and the ownership structure are consistent with the consolidated financial statements of Carel Group as at 31 December 2020 and are prepared in accordance with the law.

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

Deloitte.

Statement pursuant to art. 4 of the Consob Regulation for the implementation of Legislative Decree 30 December 2016, no. 254

The Directors of Carel Industries S.p.A. are responsible for the preparation of the non-financial statement pursuant to Legislative Decree 30 December 2016, no. 254.

We verified the approval by the Directors of the non-financial statement.

Pursuant to art. 3, paragraph 10 of Legislative Decree 30 December 2016, no. 254, this statement is subject of a separate attestation issued by us.

DELOITTE & TOUCHE S.p.A.

Signed by
Cristiano Nacchi
Partner

Padova, Italy
March 26, 2021

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

Headquarters ITALY

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