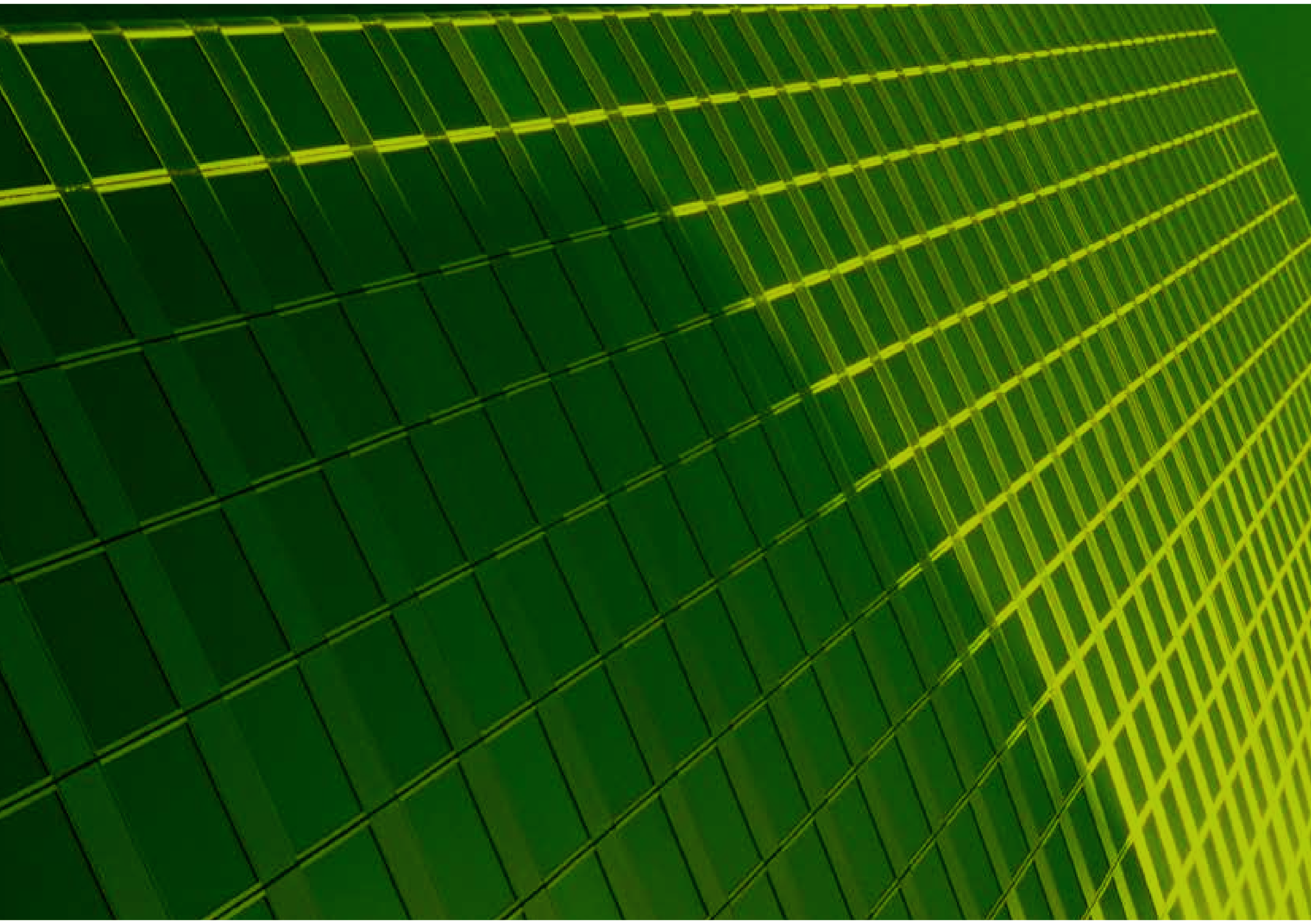
ANNUAL REPORT 2022



DIRECTOR'S REPORT

at 31 December 2022

EMARKET SDIR CERTIFIED

CONTENTS

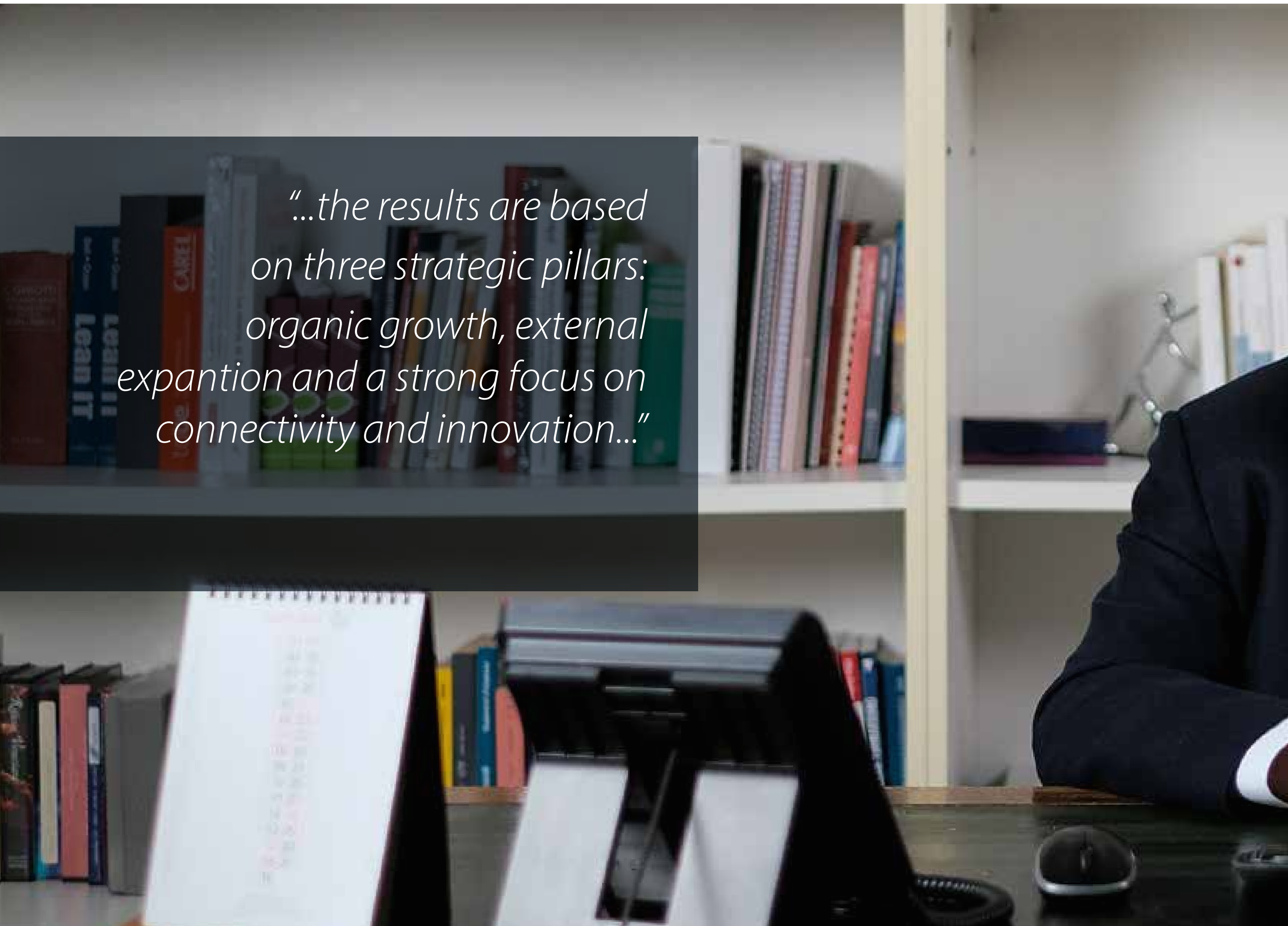
LETTER TO THE SHAREHOLDERS

Dear shareholders,

The three-year period just ended has been among the most troubled in recent history, afflicted by one of the worst pandemics of the last century and the recent conflict between Russia and Ukraine. These two events have enormous economic and social repercussions that still cannot be properly assessed. This situation has been complicated by another two factors that are in a certain way linked and caused or exasperated by the pandemic and the war: the scarcity of electronic and energy raw materials, which, together with other factors, has caused prices to soar, especially in Europe.

The group has proven itself fully capable of adapting to the unexpected situations and sudden changes arising out of this extremely challenging scenario, managing to increase its revenue by a record 29.6% (+20.8% on a like-for-like basis), which is even more positive if the rise of 26.8% of 2021 is considered. Thanks in part to its operating leverage, this achievement reflected on profitability, bringing the ratio of EBITDA to revenue to 20.5%, a slight increase on the previous year. Growth and profitability positively impacted on strong cash generation, part of which was earmarked for M&A activities.

The group carried out four significant transactions during the year (for a total of eight acquisitions since its listing), which increased its debt by around €58 million. It strengthened its position in the sector of sensors dedicated to the air conditioning and refrigeration segments by increasing its investment in the Italian company Arion and by acquiring 100% of Senva, based in Oregon (US), specialised in the design and manufacture of a wide range of sensors, and with



a significant presence in the indoor air quality market. In July, Carel acquired 70% of Lombardy-based Sauber, mainly active in the field of on-field installation and maintenance services for HVAC/humidification systems with a strong focus on energy efficiency. Finally, in September, it completed the acquisition of 100% of Klingenburg, specialised in heat recovery in ventilation systems, making Carel the European leader of this sector. The group worked intensely this year to grow both organically and through acquisitions and it will continue this journey in the next few years as its M&A strategy underpins its growth objectives.

This strategy is increasingly intertwined with Carel's sustainability vision, as demonstrated by its signing the United Nation's Global Compact which promotes the application of ten universal principles related to human rights, labour, the environment and anti-corruption that the group complies with. Carel's commitment to growth that also takes into account protection of the environment and social aspects has been acknowledged by several ESG rating agencies and it has improved most of these ratings during the year. As a result, MSCI, one of the most important international rating providers, has included Carel in the ESG Leader Index.

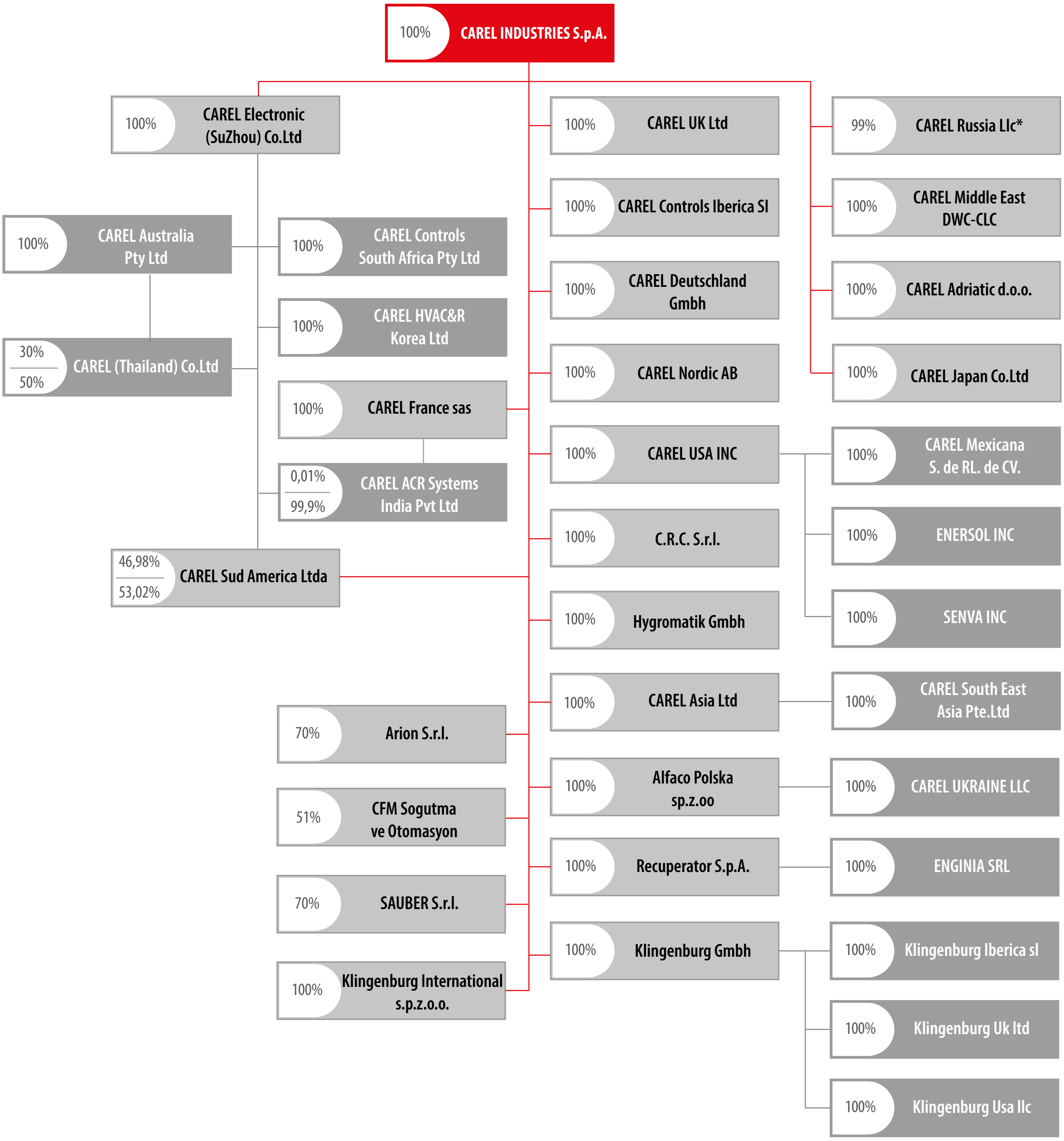
In short, 2022 was both challenging but rewarding as the group basically doubled in size compared to 2018, when it was listed. In less than five years, we have succeeded in making Carel bigger, more resilient, more efficient and sustainable and we can also proudly celebrate its 50th anniversary. In 2023, the company will be 50 years old, completing half a century of innovation, development and growth and looking forward to taking on tomorrow's challenges.

Chairperson

Luigi Rossi Luciani

CAREL INDUSTRIES GROUP STRUCTURE

The following graph shows the group's structure at 31 December 2022:



*= 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	*Maria Grazia Filippini*
Board of statutory auditors	*Chairperson*	*Paolo Prandi*
	Standing statutory auditor	*Saverio Bozzolan*
	Standing statutory auditor	*Claudia Civolani*
	Alternate statutory auditor	*Fabio Gallo*
	Alternate statutory auditor	*Alessandra Pederzoli*
Independent auditors		*Deloitte & Touche SpA*
Audit, risk and sustainability committee	*Chairperson*	*Marina Manna*
	Member	*Cinzia Donalisio*
	Member	*Maria Grazia Filippini*
Remuneration committee	*Chairperson*	*Cinzia Donalisio*
	Member	*Marina Manna*
	Member	*Maria Grazia Filippini*
Supervisory body as per Leg. dec. no. 231/2001	*Chairperson*	*Alberto Berardi**
	Member	*Arianna Giglio*
	Member	*Alessandro Grassetto*

(*) appointed by the board of directors on 16 February 2023. In office in 2022: Fabio Pinelli.

REFRIGERATION applications

Industrial applications HVAC

RESIDENTIAL APPLICATIONS
Heating, Ventilation and Air Conditioning

OPERATIONS AND MARKETS

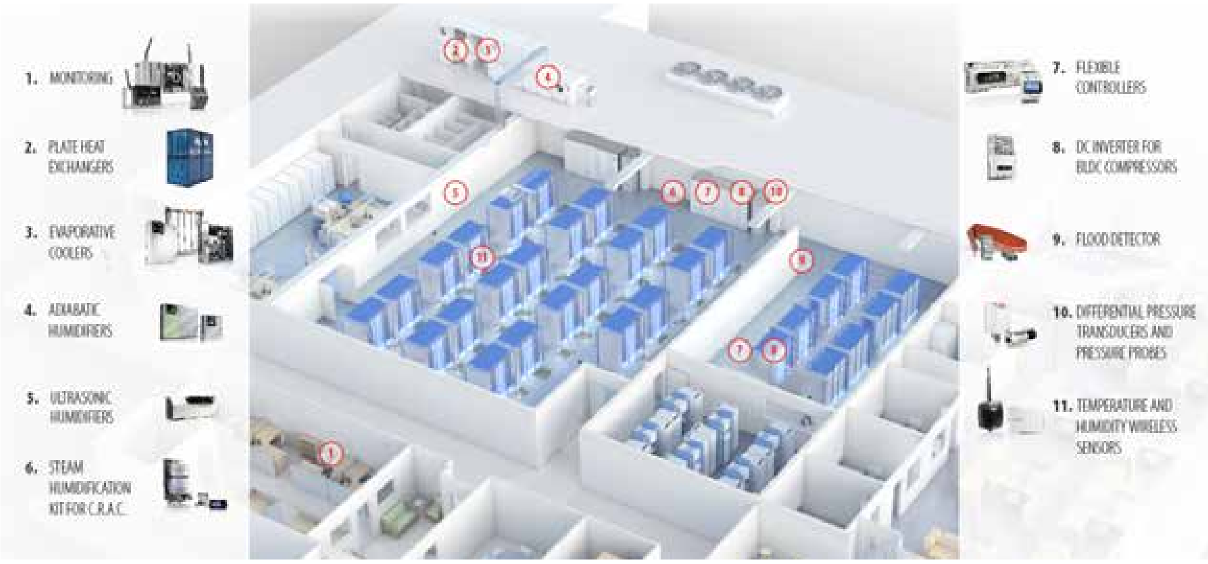
The group is active in the design, manufacturing and global distribution of technologically innovative components and solutions (hardware and software) to achieve energy-efficient control and regulation instruments for the air conditioning (Heating Ventilation Air Conditioning, "HVAC") and refrigeration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

REFRIGERATION | AIR CONDITIONING | HUMIDIFICATION | HEATING | IOT

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:

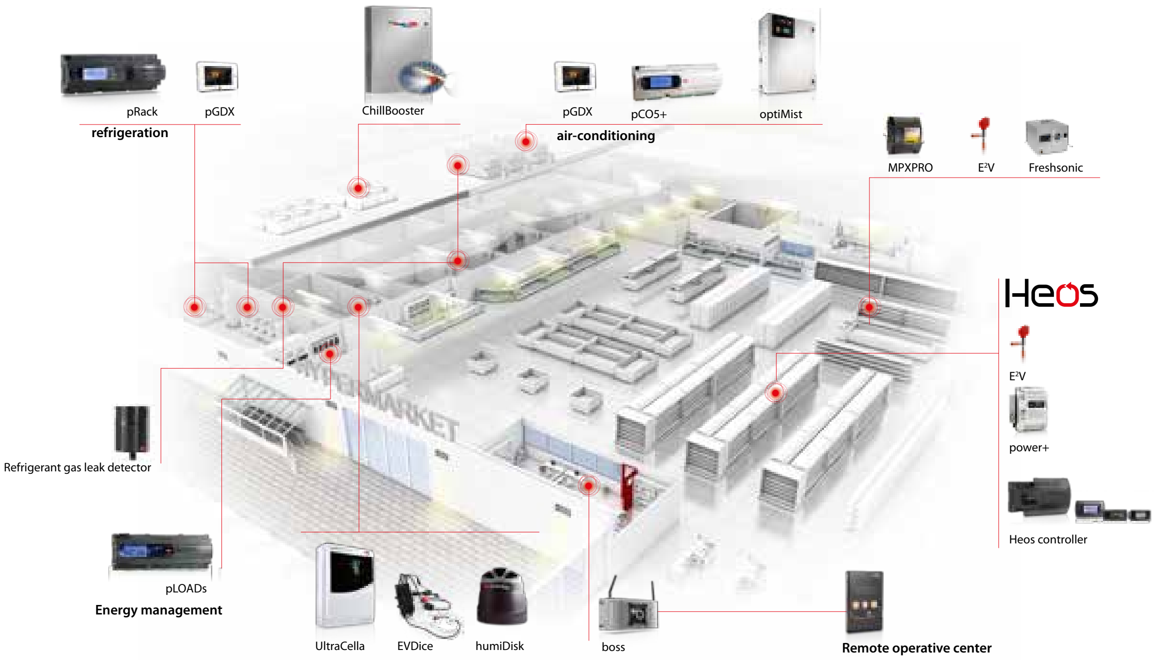


- for air treatment systems:

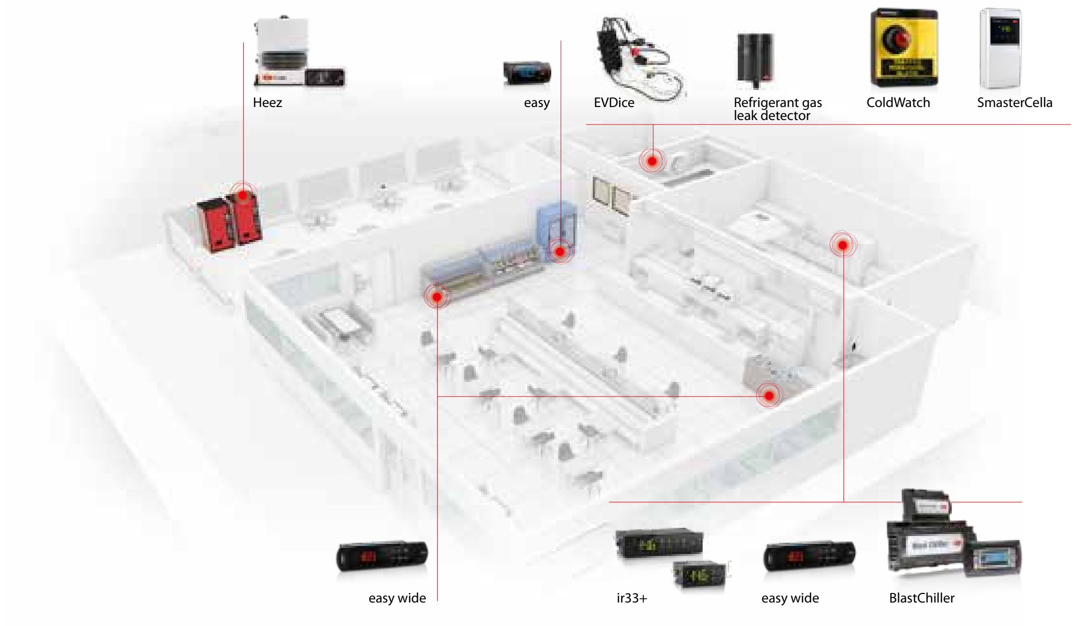
In the **refrigeration sector**, the group specialises in the design, manufacturing and distribution of control systems for the food retail and food service segments. Carel's offer is for:

- 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)

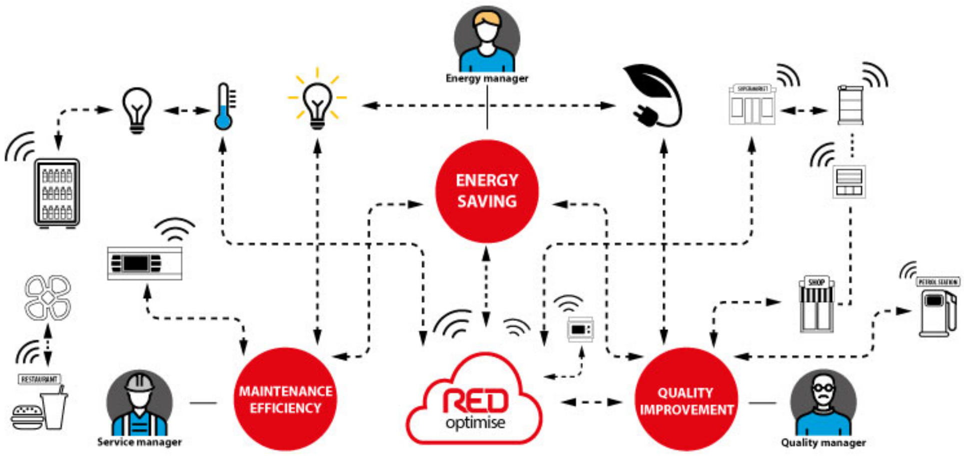


Example application of Carel's solutions for commercial refrigeration in food service (beverage coolers):

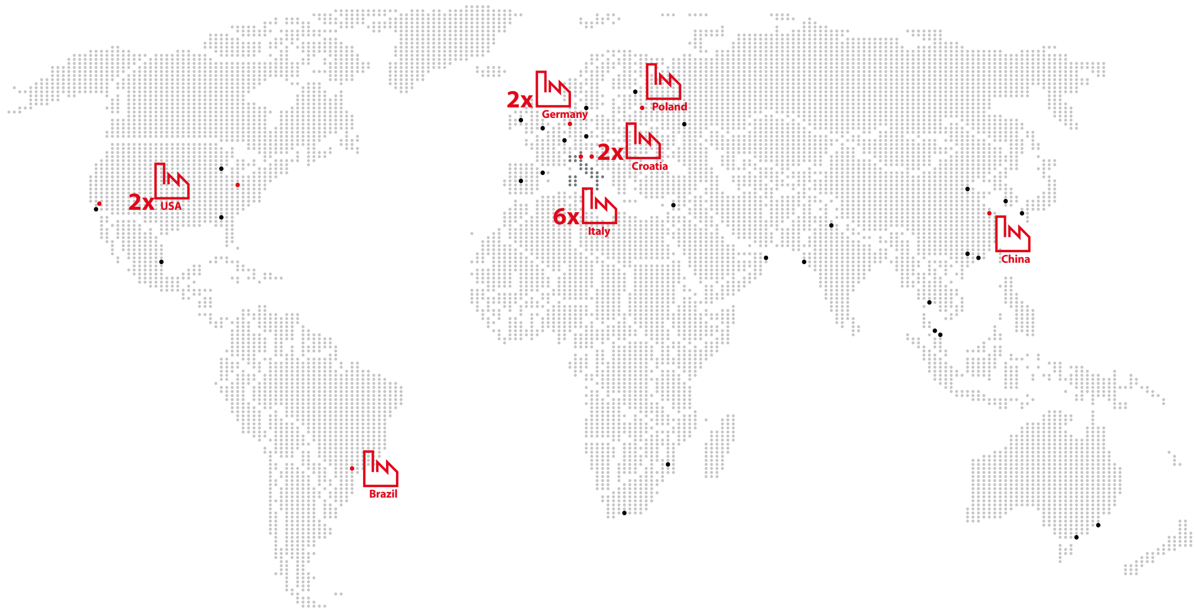
The group's portfolio is complemented by services linked to Carel's solutions, such as **commissioning** (contract work), remote management and monitoring of the group's HVAC/R systems and application components, which allows for "dialogue" between the group's service centres and end customers, subscriptions 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 37 companies with 15 production sites in Italy, Croatia, Germany, China, the US, Brazil and Poland.



OVERVIEW OF THE GLOBAL MARKET

The main growth trends of the **HVAC** market consolidated in 2022. Specifically, the data centre segment continued to be very dynamic, assisting a large number of companies with their digital transition. The market showed growing interest in the issue of air quality and healthy environments (indoor air quality), which Carel is well-placed to respond to both thanks to its extensive and very competitive portfolio of products built up over the years and the acquisitions of recent years. In addition, the residential HVAC segment picked up speed, especially in Europe, mainly due to the interest in high efficiency hydronic heat pumps. This segment, already experiencing strong growth as it supports energy sustainability policies and the development of renewable energy sources, has been bolstered by the REPowerEU plan, the EU's response to the war in Ukraine.

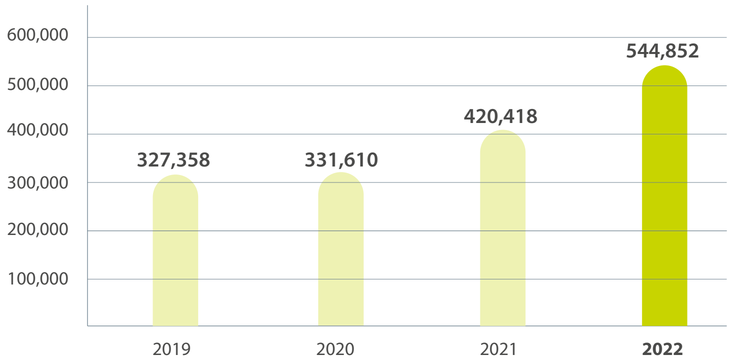
The commercial **refrigeration** market saw huge demand in 2022, which was particularly fast-paced in the first half of the year, mostly in the food retail segment as a result of large investments by the sector operators. The uptick on the previous year slowed down in the second six months of the year. One factor behind the most requested technologies was the adoption of natural refrigerants, particularly in Europe with the F-Gas Regulation, and Carel is well-placed to respond to the impelling objectives of reducing the carbon footprint with its high energy savings solutions. The food service segment, which had been the hardest hit by the Covid-19 pandemic, performed similarly to the food retail segment albeit at a slower pace, especially in the second half of the year.

BUSINESS OVERVIEW

2022 was an extremely positive year for the Carel Group with a 29.6% rise in turnover, while the increase would have been 26.5% using constant exchange rates. This satisfactory achievement is partly due to the acquisitions made during the year, especially that of Klingernburg, a leading producer of heat recovery systems, and Senva, which designs, manufactures and sells sensors.

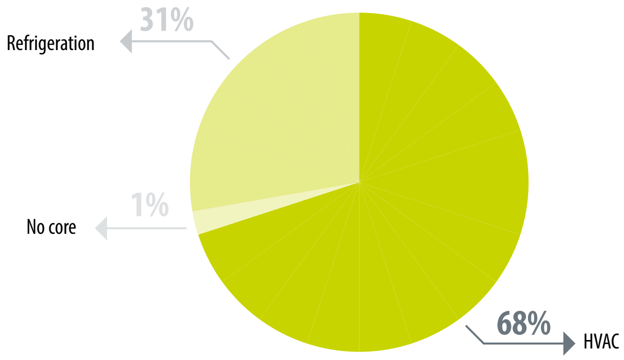
On a like-for-like basis, revenue would have grown 20.8% at current exchange rates.

The group's profit was however sometimes affected by problems in the supply chain for electronic components, which at times made it difficult to fully meet market demand.



REVENUE BY BUSINESS SEGMENT

The upturn in demand continued throughout 2022, although it has not yet reached its full potential due to the same issues that affected the supply chain in 2021 (principally related to electronic and electromechanical components in Carel's case). Nonetheless, the actions and counter measures introduced by the group enabled an additional improvement in its flexibility and resilience, thus narrowing the gap between demand and delivery. The refrigeration market's performance was less brilliant, mostly due to an accumulation of difficulties in the supply chain and a deceleration in demand, which affected the food service market in particular.



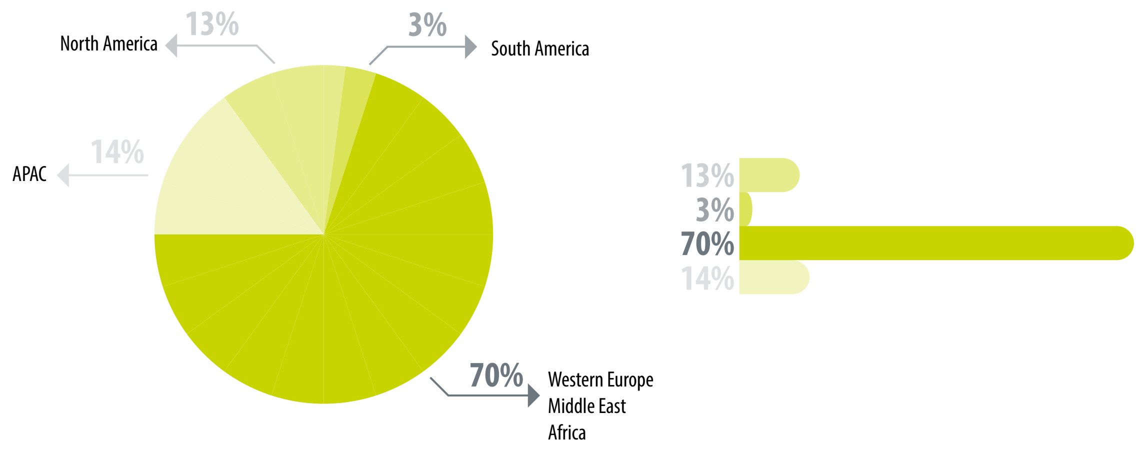
Revenue by business segment is broken down in the following table (thousands of Euros):

(thousands of Euros)	2022	2021	Variation %	FX variation %
HVAC revenue	371,852	270,011	37.7%	34.4%
REF revenue	168,934	145,826	15.8%	13.2%
Total core revenue	**540,786**	**415,837**	**30.0%**	**27.0%**
Non-core revenue	4,066	4,581	(11.2%)	(11.4%)
Total revenue	**544,852**	**420,418**	**29.6%**	**26.5%**

REVENUE BY GEOGRAPHICAL SEGMENT

The HVAC sector's strong acceleration in the EMEA area was driven by the boom seen in the residential segment as well as the contribution of the acquiree Klingenburg in the second half of the year. The excellent performance of the American market was assisted by an expanding market and the acquisition of new market share, with a greater focus on energy efficiency. The group continued to develop its footprint in the APAC area and was only partly held back by the periodic lockdowns in China imposed to contain the spread of Covid-19, which led in some cases to the freezing of investments.

The group performed particularly well in the American refrigeration market and continued its strategy to gain market share in both the food retail and food service segments. It recorded double-digit growth in the APAC and EMEA areas despite the contraction in demand, due to both the continued local lockdowns for Covid-19 and slower demand in the food service segment.



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

(thousands of Euros)	2022	2021	Variation %	FX variation %
Europe, Middle East and Africa	382,730	302,311	26.6%	26.8%
APAC	78,186	62,725	24.6%	17.0%
North America	70,974	46,030	54.2%	38.8%
South America	12,962	9,352	38.6%	22.8%
Total	**544,852**	**420,418**	**29.6%**	**26.5%**

LISTING ON THE STOCK MARKET

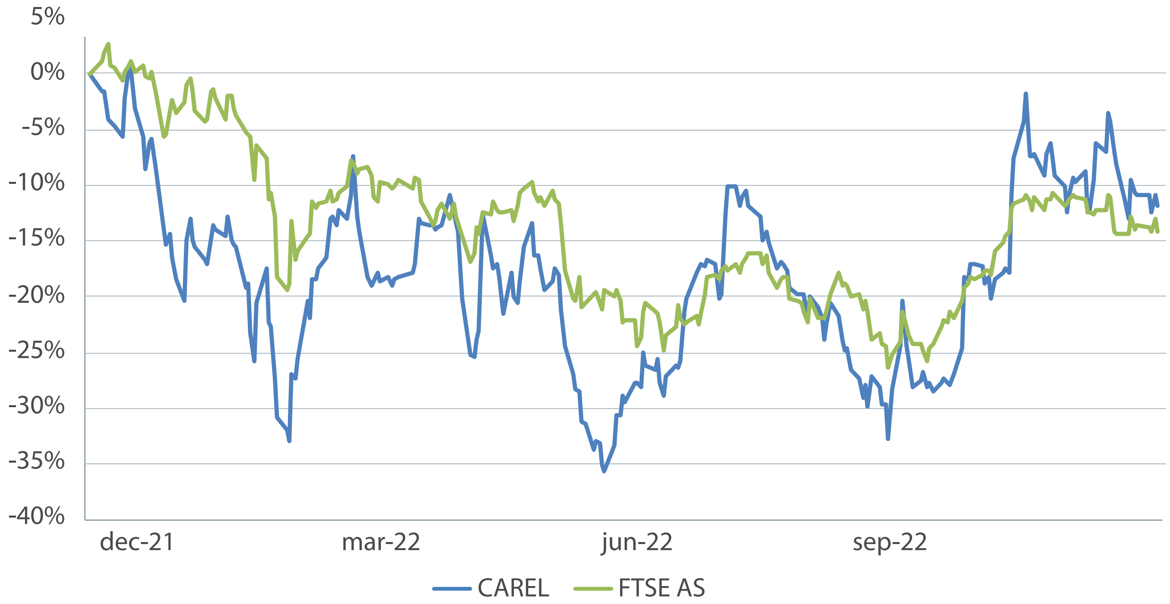
Carel Industries S.p.A.'s ordinary shares were listed on the STAR segment of the stock market organised and managed by Borsa Italiana S.p.A. on 11 June 2018. The transaction entailed the placement of 35,000,000 ordinary shares, which subsequently increased to 40,250,000 on 25 June 2018 following the exercise of the greenshoe option. The placement with institutional investors involved 40.25% of the share capital and 25.20% of shares with voting rights. On 5 January 2021, Luigi Nalini S.a.p.a. sold 3,582,560 ordinary Carel shares, equal to about 3.6% of its share capital.

In 2022, the share price lost 11.7%, levelling off at €23.50 per share on the last trading day of the year. However, it outperformed the FTSE Italia All-Share index which shows the stock exchange's overall performance, down 14.1% at the end of the year. Approximately 35,000 shares were traded on average a day while the maximum price reached in the year was €26.80 per share.

CAREL INDUSTRIES SHARE AT 31 DECEMBER 2022:	
Stock exchange:	Borsa Italiana STAR segment
Isin code:	IT005331019
Ticker:	CLR
Indexes:	FTSE All-share Capped, FTSE Italia All-Share, FTSE Italia Mid Cap, FTSE Italia Star, FTSE Italia Industria, FTSE Italia Edilizia e Materiali
Number of shares:	100,000,000.00
Nominal amount:	Not assigned
Earnings per share:	0.62
Dividend per share:	0.18

MAJOR SHAREHOLDERS AT 31 DECEMBER 2022	Number of shares	% of share capital	Voting rights	% of voting rights
Luigi Rossi Luciani S.a.p.a.	36,167,433	36.17%	72,334,866	45.05%
Luigi Nalini S.a.p.a.	20,000,007	20.00%	40,000,014	24.91%
7 Industries B.V.	4,932,595	4.93%	9,332,595	5.81%
Other *	38,899,965	38.90%	38,899,965	24.23%
TOTAL	**100,000,000**	**100.00%**	**160,567,440**	**100.00%**

* Including 30,482 treasury shares



OTHER SIGNIFICANT EVENTS

MERGERS & ACQUISITIONS

In 2022, the group focused on important business acquisitions in line with one of its strategic pillars, external growth, aiming to strengthen its core business by acquiring market shares in the reference geographical segments and in complementary applications.

In accordance with IFRS 3, the purchase price allocation procedure is currently underway for the various acquisitions. Reference should be made to the Consolidation scope section of the notes to the consolidated financial statements for further information.

Increase in investment in Arion S.r.l

On 15 April 2022, the parent completed the acquisition of an additional 30% of Arion S.r.l., in which it already held a 40% investment.

Arion S.r.l. was established in 2015 by Bridgeport S.p.A. and Carel Industries S.p.A. and specialises in the production of sensors for the air-conditioning and refrigeration sectors.

In 2021, it generated revenue of approximately €2.7 million and a gross operating profit of about €0.7 million; its net financial position was roughly €0.3 million. For more information about the assets acquired and liabilities assumed at the acquisition date, reference should be made to the Consolidation scope section of the notes to the consolidated financial statements. The transaction became effective on 1 April 2022 and the consideration paid for 30% of the company amounted to €1.6 million.

At the acquisition date, the acquiree had four employees.

Acquisition of Sauber S.r.l.

On 13 June 2022, the parent entered into a binding agreement to acquire 70% of Sauber S.r.l., a company based in Porto Mantovano (MN), which provides on-field services for the installation and servicing of cooling/humidification systems in residential and commercial buildings.

The parent and the seller have put and call options for the remaining 30% of Sauber to be exercised in 2025.

In 2021, Sauber generated revenue of approximately €7.1 million and a gross operating profit of about €0.9 million; its net financial debt was roughly €0.8 million. For more information about the assets acquired and liabilities assumed at the acquisition date, reference should be made to the Consolidation scope section of the notes to the consolidated financial statements. The transaction became effective on 12 July 2022 and the consideration paid for 70% of the company amounted to €3.0 million.

At the acquisition date, the acquiree had 55 employees.

Acquisition of Klingenburg

On 2 September 2022, the parent completed its acquisition of 100% of Klingenburg GmbH and Klingenburg International Spzoo, based in Germany and Poland, respectively, and market leaders with a wide range of products used mainly for heat recovery in ventilation and humidification systems, adiabatic cooling and air purification. Klingenburg GmbH wholly owns three distribution companies in Spain, the United Kingdom and the US.

In 2021, the two companies generated aggregated revenue of approximately €39 million and a gross operating profit of about €2.4 million. For more information about the assets acquired and liabilities assumed at the acquisition date, reference should be made to the Consolidation scope section of the notes to the consolidated financial statements. The transaction became effective on 1 September 2022 and the consideration paid for 100% of the two companies amounted to €15.8 million.

At the acquisition date, the acquirees had 165 employees.

Acquisition of the business of Senva

On 12 October 2022, the subsidiary Carel USA completed its acquisition of the business of Senva Inc., based in Oregen (US), specialising in the design and manufacture of a wide range of sensors, mainly in the air-conditioning and ventilation sectors, and with a special line for indoor air quality launched in 2021.

In 2021, Senva generated revenue of approximately USD12.7 million and a gross operating profit of about USD2.4 million. For more information about the assets acquired and liabilities assumed at the acquisition date, reference should be made to the Consolidation scope section of the notes to the consolidated financial statements. The transaction became effective on 12 October 2022 and the consideration paid to acquire the business amounted to USD34 million. The contingent consideration of up to USD4 million is due if certain EBITDA milestones are reached. The Sale & Purchase Agreement also provides for an earn-out mechanism for Senva management based on the acquiree's results achieved up until 31 December 2025.

At the acquisition date, the acquiree had 65 employees.

IMPACTS OF THE RUSSIA-UKRAINE CONFLICT

2022 was affected by the Russia-Ukraine conflict, which is still ongoing and has somewhat reduced the expectations of growth mainly for the Eurozone. The group operates in Russia and Ukraine with two commercial companies. However, exposure in both markets is limited and consolidated revenue in both areas is less than 5% of the total. At the reporting date, the impact of the conflict on the group's financial performance was not serious nor was it required to impair its current assets. The group's non-current assets are not significant either in absolute value or as a percentage of the group's non-current assets.

EFFECTS OF THE COVID-19 PANDEMIC ON THE CAREL INDUSTRIES GROUP

The Covid-19 pandemic did not have a significant effect on the group's operations or performance in 2022. The Chinese group company was affected by several lockdowns but was, however, able to continue to operate and make its customary contribution to the group's production.

OTHER SIGNIFICANT EVENTS RELATED TO FINANCING ACTIVITIES

On 6 May 2022, the parent placed two ten-year non-convertible bond issues with a nominal amount of €20,000 thousand each maturing in May 2032 and with a five-year interest-only period. The two transactions are part of a private shelf agreement whereby the parent can ask Prudential Insurance Company of America ("Pricoa"), on an uncommitted basis and over the next three years, to subscribe additional bonds up to a total of USD150 million. The bonds are guaranteed by the parent and certain subsidiaries.

Fixed interest accrues on these bonds from the subscription date and repayment of principal will take place annually starting from the fifth year on a straight-line basis, with the first and last payment dates in May 2028 and May 2032, respectively.

The bonds are unrated and will not be quoted on regulated markets.

DIVIDEND DISTRIBUTIONS

In June 2022, the parent distributed dividends of €14,995 thousand, in accordance with the shareholders' resolution of 22 April 2022.

OVERVIEW OF THE GROUP'S PERFORMANCE

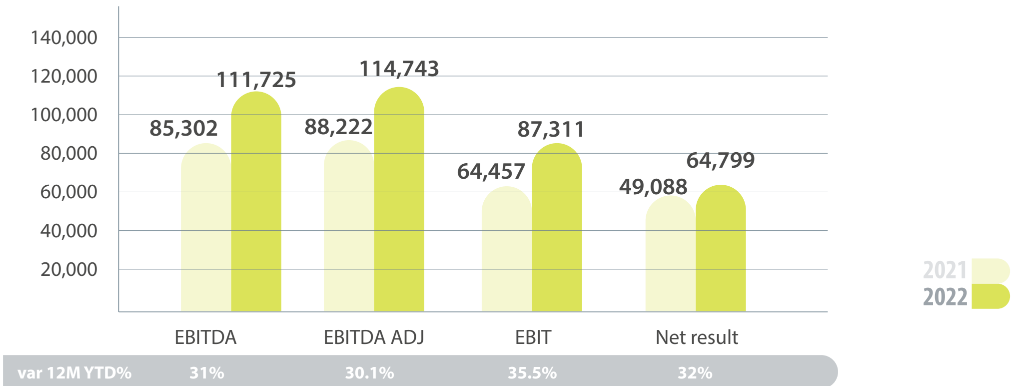
The main performance figures for 2022 compared to the previous year are as follows:

(in migliaia di euro)	2022	2021	Variation	Variation %
EBITDA[1]	111,725	85,302	26,423	31.0%
Adjusted EBITDA	114,743	88,222	26,521	30.1%
OPERATING PROFIT	87,311	64,457	22,853	35.5%
PROFIT FOR THE YEAR	64,799	49,088	15,710	32.0%

2022 EBITDA amounts to €111.7 million equal to 20.5% [2], of revenue, up €26.4 million from €85.3 million for the previous year (when it was equal to 20.3% of revenue). This improvement is mostly a result of the higher business volumes in all geographical segments, which partly offset the rise in the cost of purchasing raw materials caused by inflation and shortages, seen throughout the year. The acquirees contributed roughly €7.5 million to the group's EBITDA.

Net of non-recurring effects, which accounted for around €3.0 million (€2.9 million in 2021) and related to costs incurred for M&A activities, adjusted EBITDA would have come to €114.7 million, equal to 21.1% of revenue compared to 21.0% in 2021.

The profit for the year came to €64.8 million, up 32.0% on the previous year. It is equal to 11.9% of revenue compared to 11.7% for 2021.



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

2 The EBITDA ratio is the ratio of EBITDA to revenue.

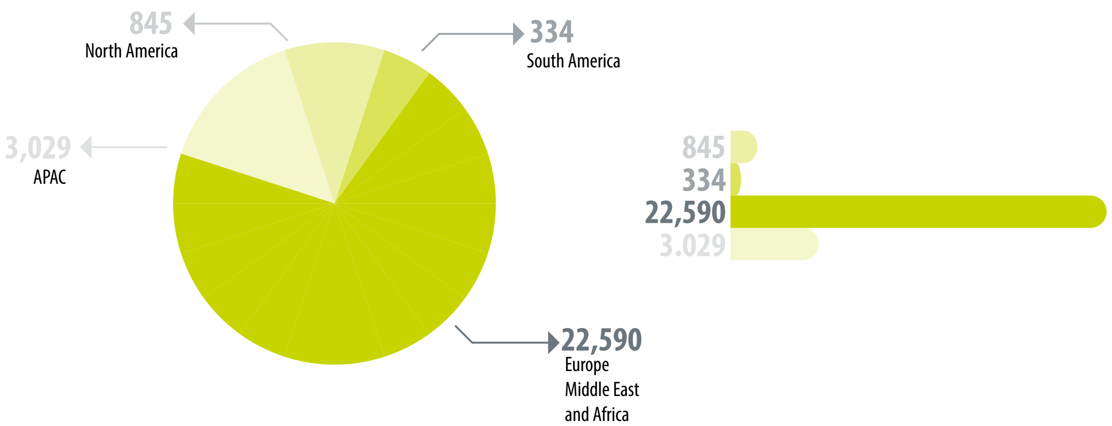
The main financial position indicators at 31 December 2022 and 2021 are as follows:

(thousands of Euros)	31.12.2022	31.12.2021	Variation	Variation %
Non-current assets [3]	300,499	230,338	70,161	30.5%
Working capital [4]	89,926	55,591	34,334	61.8%
Defined benefit plans	(8,129)	(8,612)	483	(5.6%)
Net invested capital [5]	**382,296**	**277,317**	**104,979**	**37.9%**
Equity	221,247	169,875	51,372	30.2%
Put & call options	65,208	49,602	15,607	31.5%
Net financial debt	95,841	57,841	38,000	65.7%
Total	**382,296**	**277,317**	**104,979**	**37.9%**

Non-current assets amount to €300.5 million, up by €70.2 million from €230.3 million at the previous year end, mostly due to the acquisitions made during the year which led to the recognition of intangible assets of approximately €53 million as a result of the PPA procedure. Reference should be made to the notes to the consolidated financial statements for more information.

Net of right-of-use assets, the group's investments amount to €26.8 million compared to €18.6 million in 2021. The group made large outlays to complete and start up Carel Adriatic's second production site and to build a new knowledge centre and a new office block for the parent. Carel Shozou and Recuperator invested heavily in equipment and machinery, disbursing approximately €1.1 million and approximately €2.8 million, respectively. The investments in intangible assets, mostly made by the parent, amount to €4.5 million and related principally to the roll-out of the Product Lifecycle Management (PLM) project for one product family, which will gradually be extended to the group's other product families.

Amortisation and depreciation, including the effects of the application of IFRS 16, totalled €24 million in 2022 compared to €20.8 million in 2021 (-€4 million). This includes €5.6 million related to the PPA procedure.



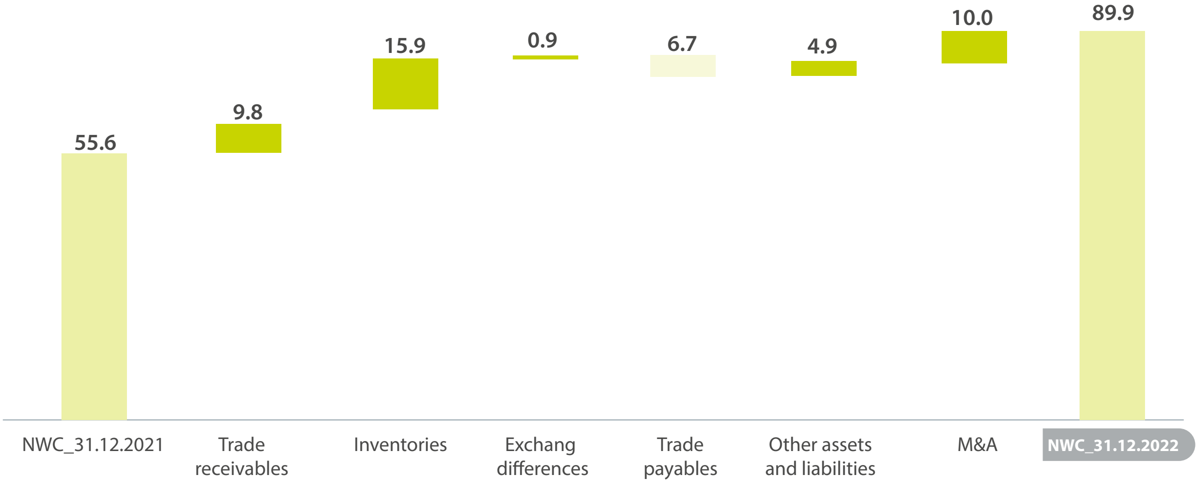
Net working capital increased significantly (+€34.3 million) from €55.6 million to €89.9 million at 31

3 Net non-current assets is the sum of property, plant and equipment, intangible assets, equity-accounted investments and other non-current assets less other non-current liabilities

4 Net working capital is the sum of trade receivables, inventories, tax assets, other current assets, deferred tax assets, trade payables, current tax liabilities, other current liabilities, deferred tax liabilities and provisions for risks.

5 Net invested capital is the sum of (i) net non-current assets, (ii) net working capital and (iii) defined benefit plans.

December 2022, driven mainly by higher volumes which, in turn, drove up inventories (+€15.9 million) and trade receivables (+€9.8 million) only partly offset by the rise in trade payables (+€6.7 million).



Inventories grew considerably as part of the group's procurement policy to resolve shortages of certain components and to ensure production levels in line with market demand, as well as the generalised hike in purchase prices.

Trade receivables and payables both increased strongly, mostly as a reflection of the upturn in business volumes.

The acquisitions made during the year contributed €10 million to the increase in net working capital.

Non-current liabilities relate to the call options for CFM and Sauber. The increase in this caption reflects the liability recognised for the earn-out mechanism for the managers of Senva (see the Consolidation scope section in the notes to the consolidated financial statements for more information.

Net financial debt increased by €38.0 million from €57.8 million at 31 December 2021 to negative €95.8 million. Net bank loans and borrowings performed similarly, going from €28.8 million to €53.4 million at the reporting date. During the year, the group disbursed cash of around €42.9 million (net of cash acquired) for its acquisitions and €18.2 million to pay dividends (including to non-controlling investors). Financial liabilities assumed with the acquisitions approximated €6.3 million (including lease liabilities of around €4 million) while the group also recognised financial liabilities of roughly €8.8 million incurred in relation to the acquisitions. Lease liabilities increased by approximately €5 million and mostly refer to leases agreed for the new buildings built at the parent's premises. 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:

(thousands of Euros)	31.12.2022	31.12.2021
Non-current financial liabilities	94,177	70,180
Current financial liabilities	78,526	61,213
Non-current lease liabilities	27,216	23,520
Current lease liabilities	5,434	4,037
Cash and cash equivalents	(96,636)	(100,625)
Current financial assets	(12,875)	(483)
Net financial debt	**95,841**	**57,841**
Net financial debt excluding the effects of IFRS 16	**63,191**	**30,285**
Net bank loans and borrowings	**53,390**	**28,845**

The net financial debt is mainly comprised of:

- current and non-current bank loans and borrowings totalling €121.7 million (€128.4 million at 31 December 2021);
- current and non-current amounts due to bondholders totalling €39.6 million;
- current and non-current other loans and borrowings totalling €1.6 million;
- current and non-current financial liabilities for acquisitions totalling €9.6 million;
- current and non-current lease liabilities totalling €32.7 million;
- cash and cash equivalents totalling €96.6 million;
- other current financial assets totalling €12.9 million.

The group complied with the financial covenants provided for in its loan agreements.

At 31 December 2022, over 50% of cash and cash equivalents and current financial assets were held by Italian group companies and approximately 15% by the Chinese subsidiary. The remaining amount was split among the other group companies.

INDEX	2022	2021
ROS [6]	16.0%	15.3%
ROI [7]	22.8%	23.2%
ROE [8]	29.3%	28.8%
ROA [9]	13.6%	12.7%
Inventory turnover [10]	2.7	2.9
Average DSO [11]	56	58
Average DPO [12]	81	82
Group tax rate [13]	22.3%	19.6%
R&D investments [14]	20,002	19,034
R&D as % of revenue [15]	3.8%	4.5%
Capex as % of revenue [16]	4.9%	4.4%
Cash conversion rate [17]	40.8%	60.3%

Key cash flows are as follows:

6 The Return on Sales (ROS) is the ratio of operating profit (loss) to revenue.
7 The Return on Investment (ROI) is the ratio of operating profit (loss) to net invested capital.
8 The Return on Equity (ROE) is the ratio of the profit (loss) for the year to equity.
9 The Return on Assets (ROA) is the ratio of the operating profit (loss) to total assets.
10 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.
11 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.
12 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.
13 The group tax rate is the ratio of income taxes to the profit before tax
14 The R&D investments are the sum of R&D Opex and R&D Capex.
15 The R&D investments as a percentage of revenue is the ratio of R&D investments to revenue.
16 The Capex as a percentage of revenue is the ratio of cash flows from investing activities to revenue.
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.

CASH FLOWS FROM OPERATIONS (INDIRECT METHOD)		
(thousands of Euros)	**2022**	**2021**
Profit for the year	64,799	49,088
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	**111,673**	**84,158**
Cash flows before changes in net working capital	(24,764)	(15,083)
Interest and income taxes paid	(17,497)	(14,957)
Net cash flows from operating activities	**69,411**	**54,118**
Cash flows used in investing activities	(79,664)	(41,783)
Increase (decrease) in share capital	-	-
Sales (acquisitions) of equity investments	(0)	-
Dividends to owners of the parent and non-controlling investors	(18,263)	(11,988)
Cash flows from (used in) financing activities	24,477	(6,996)
Change in cash and cash equivalents	**(4,038)**	**(6,648)**
Opening cash and cash equivalents	100,675	107,273
Closing cash and cash equivalents	96,637	100,625

Net cash flows from operating activities increased to €69.4 million from €54.1 million for the previous year, mainly as a result of the higher turnover.

Overall, the group used cash flows of €4.0 million after distributing dividends of €18 million and making investments of €79.7 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 companies have a cash pooling system in which it acts as pooler. At year end, it had financial assets of €9.8 million and financial liabilities of €9.7 million related to the cash pooling account. During the year, it injected USD28 million into Carel USA Inc for a future capital increase to provide the subsidiary with the resources necessary to acquire Senva Inc.

In 2022, Carel set up the domestic tax consolidation scheme for IRES purposes for the 2022-2024 period in accordance with article 117 and following articles of the Consolidated Income Tax Act. Its subsidiaries Recuperator S.p.A., Enginia S.r.l. and CRC S.r.l. joined the scheme under separate master agreements with the parent.

The parent's net financial debt amounts to negative €112.2 million (31 December 2021: negative €91.6 million).

As already described, the parent placed two non-convertible bond issues of €20 million each, subscribed by Pricoa.

It distributed dividends of €15.0 million to its shareholders during the year.

The parent's key figures are summarised below.

CAREL INDUSTIRES S.P.A.

(thousands of Euros)	2022	2021	Variation %
Revenue from third parties	130,337	118,227	10.2%
Intragroup revenue	118,293	97,198	21.7%
Other revenue	9,699	7,448	30.2%
Operating costs	(225,189)	(191,320)	17.7%
EBITDA	**33,140**	**31,553**	**5.0%**
Amortisation, depreciation and impairment losses	(9,085)	(8,525)	6.6%
Operating profit	**24,055**	**23,028**	**4.5%**
Net financial income	26,078	8,903	192.9%
Profit before tax	**50,133**	**31,931**	**57.0%**
Income taxes	(5,625)	(4,613)	21.9%
Profit for the year	**44,508**	**27,318**	**62.9%**

The parent performed well in 2022; revenue from third parties amounts to €130.3 million up by 10.2% on the previous year. Intragroup revenue increased by 21.7%.

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.

The increase in other operating costs is mainly due to higher costs to purchase raw materials and semi-finished products and personnel expense.

The number of employees increased from 697 at the end of 2021 to 725 at the reporting date.

Financial income includes dividends of €28.8 million (2021: €9.1 million) received from foreign companies, mainly the Chinese, Turkish and German subsidiaries.

The reclassified statement of financial position as at 31 December 2022 compared with the previous year end is as follows:

CAREL INDUSTIRES S.P.A.			
(thousands of Euros)	**31.12.2022**	**31.12.2021**	**Variation %**
Non-current assets	249,800	198,701	25.7%
Working capital	13,934	12,203	14.2%
Defined benefit plans	(4,390)	(4,969)	-11.7%
Net invested capital	**259,344**	**205,935**	**25.9%**
Equity	138,025	106,369	29.8%
Other liabilities for call option	9,104	7,924	14.9%
Net financial debt	112,215	91,642	22.4%
Total coverage	**259,344**	**205,935**	**25.9%**

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

- investments in property, plant and equipment of €11.5 million (including righ-of-use assets of €3.7 million) and intangible assets of €3.4 million;
- the investments in Sauber S.r.l. (€3 million), Klingenburg GmbH and Klingenburg International S.p.z.o.o. (€15.8 million) and the capital increase of Carel USA (USD28 million.

Amortisation and depreciation amount to €9.1 million.

Working capital increased, mostly as a result of the increase in inventories and trade receivables (from €25.1 million to €31.2 million and from €48.8 million to €53.6 million, respectively), only partly offset by the rise in trade payables from €52.4 million to €61.9 million. The variations are principally driven by the higher business volumes.

Lastly, the net financial debt amounts to €112,2 million at 31 December 2022, comprising cash and cash equivalents and financial assets of €77,4 million, offset by financial liabilities of €190.0 million, including lease liabilities of €15.7 million.

The reconciliation of the parent's and group's equities at 31 December 2022 is provided below:

	31.12.2022		**31.12.2021**	
(thousands of Euros)	**Equity**	**Profit for the year**	**Equity**	**Profit for the year**
Carel Industries S.p.A.	**140,966**	**47,510**	**106,369**	**27,318**
Profit and equity of consolidated companies	250,644	55,154	175,146	38,627
Elimination of the carrying amount of investments in consolidated companies	(273,077)	(395)	(174,364)	(915)
Elimination of intragroup dividends	-	(29,031)	-	(9,140)
Elimination of intragroup profits on inventories	(13,196)	(4,071)	(9,124)	(2,687)
Purchase price allocation	153,967	(4,675)	107,035	(3,015)

(thousands of Euros)	31.12.2022 Equity	31.12.2022 Profit for the year	31.12.2021 Equity	31.12.2021 Profit for the year
Other adjustments	(53,925)	(2,368)	(49,990)	(1,009)
Carel Industries Group	**205,378**	**62,124**	**154,951**	**49,059**

Other adjustments mostly relate to the fair value measurement of the call option for 49% of CFM and 30% of Sauber (€52.4 million and €1.2 million, respectively). More information is provided in the Consolidation scope section of the notes to the consolidated financial statements.

OCCUPATIONAL HEALTH AND SAFETY AND THE ENVIRONMENT

There were no fatal injuries during the year, continuing the trend of previous years. One of the parent's employees applied for occupational disease from one of its employees which the relevant ministerial body did not accept after a scrupulous review of the requested documentation.

In 2022, 11 (eleven) minor events were reported in the workplace (five involving employees and six involving temporary workers), which led to their time off work. No injuries during the commute to and from work using transport organised by the group took place during the year. There was an almost 13% reduction in the injury frequency rate (employees and other workers) although the total number of hours worked increased by 5% in 2022. A comparison with the average trend of the last three years shows a decrease of 7.6%.

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 2022.

During 2022, Carel Industries S.p.A. confirmed its ISO 45001:2018 health and safety certification and ISO 14001:2015 environmental certification. The Recuperator Group companies also obtained certification and 37% of the group's production sites (2022 scope), representing a surface area equal to 45% of the total (76,700 square metres) now have health and safety certification, covering almost 52% of the personnel at such sites.

During the year, the group continued and revisited dedicated structural, organisational and behavioural measures at its sites to curb the spread of Covid-19 and protect its employees' health.

More information about this is available in its consolidated non-financial statement (NFS) prepared pursuant to Legislative decree no. 254/16.

HR AND ORGANISATION

The group's growth, also in terms of the total number of employees, continued in 2022. At year end, a breakdown of the group's employees by geographical segment is as follows:

	31.12.2022	31.12.2021	Variation
Europe, Middle East and Africa	1,652	1,353	299
APAC	357	328	29
North America	232	136	96
South America	58	48	10
Total	**2,299**	**1,865**	**434**

The recently acquired companies have made a significant contribution to the size of the group's workforce; however, employee numbers grew considerably also using the same consolidation scope as that of the previous year:

	31.12.2022	31.12.2021	Variation
Europe, Middle East and Africa	1,430	1,353	77
APAC	357	328	29
North America	161	136	25
South America	58	48	10
Total	**2,006**	**1,865**	**141**

Blue and white collars account for 40% and 60%, respectively, as shown in the table below:

	2022	
	Total	%
Managers	69	3%
White collars	1,315	57%
Blue collars	915	40%
Total	**2,299**	**100%**

DEVELOPMENT AND SELECTION

The group continued to expand its organisation in 2022, with an increased percentage of its workforce involved in operating processes, principally to support the group's production capacity.

Overall, the group hired 420 resources, of whom 37% were women, while 279 left, of whom 66% were men, and a good number of whom had reached retirement age.

This additional surge in the group's growth in terms of its organisation and number of employees is due to the acquisitions made during the year in line with its stated policies designed to achieve its development objectives.

The trend seen in recent years with rather high turnover levels, especially at the production sites, has continued in a very competitive global labour market, especially for highly-qualified resources. The NFS prepared pursuant to Legislative decree no. 254/16 (to which reference should be made) has a detailed description of the group's talents retention and attraction policies pursued in 2022.

2022 TRAINING COURSES

Training of one of the key tools for developing the group's business strategy. It is absolutely 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 2022, a total of 39,408 hours of training were provided at the various offices (excluding the companies acquired in 2022).

The group's ongoing financial and organisational resources dedicated to training programmes meant it provided a total of 22,883 hours of training to white collars and 16,525 hours to production personnel.

Its training courses focused on operations, with 32% of the total hours dedicated to this area in 2022. Other aspects covered were efficient communications, lean principles and methodologies, health, safety and the environment (HSE), technical training about software, hardware, firmware and mechanical, project and management aspects.

More information about the group's training initiatives is provided in the non-financial statement prepared pursuant to Legislative decree no. 254/16, to which reference should be made.

INDUSTRIAL RELATIONS

The group's HR offices and representatives of the trade unions at the group's sites in Italy and abroad worked together with positive results during the year.

Specifically, although the state of emergency declared with the outbreak of Covid-19 is now officially over, the group maintained the Covid-19 committee set up when the pandemic started at its headquarters, which is also its main production site, in 2022. The committee comprises the HR manager, HSE manager, trade union representatives, safety representatives and the company doctor. Its tasks are to regularly 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 companies abroad in compliance with local regulations and the ruling legislation of each country.

Attesting the positive labour relations is the fact that just four days of strikes were called in 2022, all linked to actions organised by trade unions at national level (about occupational safety and the budget act). The average participation rate was 13.4%. In March 2022, the agreement to renew the supplementary internal agreement (second level collective bargaining) for the 2022-2024 three-year period was signed. It again covers flexibility, more welfare and other benefits for employees and guarantees the full tax deductibility of the entire performance bonuses, to provide workers with an additional economic benefit in line with the tax regulations in force.

The unionisation rate 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.

Half of the group employees were covered by collective bargaining agreements in 2022 while the other 50% are hired with company or individual contracts in line with the local regulations and market practices, the group's code of ethics and its human rights, diversity and HSE policies.

The atmosphere at the group remained largely harmonious via constructive and transparent collaboration approach. In this regard, there were two individual cases in 2022 that led to trade union disputes at Carel South America's production sites. One of them has been found to be groundless while the other one is being analysed. In addition, one complaint about discrimination was reported at Carel USA, which was subsequently found to be non-existent. Overall, there is a very low level of litigation within the group.

2022 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.

Services also increased both in the field, bolstered by the group's expertise in the various applications offered, and online with digital services to collect information from the systems used to write reports and descriptive analytics that improve and optimise management of refrigeration and conditioning systems.

Currently the R&D unit comprises the three digital, **Knowledge Centre** and **humidification** divisions and the electronics, mechanics and software tools competence centres.

During the year, the group set up a **air treatment and heat exchange division** which includes Recuperator, Enginia and Kkingenburg, which will become the fourth division of the R&D department and will specialise in indoor air quality.

Also in 2022, the software tools area became part of the IoT division, which changed its name to the **digital** division, with a greater focus on product programming systems to support the application development of the algorithms used in the group customers' applications.

The new **R&D** department includes the **electronics** and **mechanics** areas, specialised in micromechanics to develop motorised expansion valves, the development of cases for the electronics and the development of thermodynamic modules for refrigeration which will lead to the launch of the HEOSbox modules.

In 2022, the R&D unit had an average of 243 employees (including 150 at the parent, 14 in the US, 52 in China, five at HygroMatik GmbH, four at Recuperator, two at Klingenburg and 16 at Senva) who are very qualified and have a high educational level (roughly two thirds are university graduates).

R&D costs (personnel expense, opex and capex) equalled 3.8% of turnover and amounted to €20.0 million [18] up on the previous year (+5.3%).

Recuperator's integration continued during the year with greater involvement in the group's development process, the use of lean tools (visible planning, barashi, issue boards, A3-T), the harmonisation of certification processes for product, materials, design, simulation and test tools and methods. **Enginia** commenced a similar journey.

The group focused especially on honing development skills at the other global development sites through the **systems managers** to improve its 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) was established 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 products and the production process, in addition to formalising the process flow and process control plan.

18 Actual costs for the in-scope companies at 1 January 2022.

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 successfully introduced a customisation management process, supported by a **product lifecycle management (PLM)** software to make development activities more efficient, simplify product configuration and customisation thus boosting its business (enhancing the very modular structure and configuration and customisation flexibility provided for in the production lines). The intention is to achieve greater integration between the product engineering and industrialisation activities and to structure information flows among the different group sites where the products are development. The feedback has been very positive with product customisation and configuration times of less than one business day.

Furthermore, R&D activities are also developed through long-standing partnerships with the **Padua University, Udine University, Milan Politecnico University**, the **Danish Technological Institute**, the **Fraunhoffer Institute** and the **SMACT Competence Centre** (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 tenets 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 tenets 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 again in 2022. The lack of electronic components made it necessary to partly redesign some product groups to ensure their availability on the market. Fundamental to this chip pivoting was the speed required, and the group mobilised its best resources for this very delicate process in order to ensure product quality in an urgent situation where the group's customers' validation availability was also limited.

During the year, it completed development of the new range of **iJ** refrigeration controls. This range features highly appealing aesthetics, can easily be integrated into the refrigeration units and its design, parameters and functionalities are very adaptable. The new platform has excellent connectivity (BLE, NFC), is highly integrated with the controller systems, compatible with flammable refrigerants and very resistant to polluting agents.

The group markets **iJF for food storage & display** for the HO.RE.CA. market, iJM for merchandisers (bottle coolers, ice cream chest freezers and commercial cabinets) and **iJS for scientific** and **medical applications**.

The latter have back-up batteries to ensure the temperature of the drugs can be monitored during power outages.

It extended the iJ application to include a version that can be used in **particularly hostile environments (in terms of dust and humidity)** designed for commercial refrigeration in professional kitchens.

The **HRV Heat Recovery & Ventilation** applications were covered with a special application based on the aCU family. This family was also extended to **packaged applications for industrial refrigeration**, thus extending the number of applications covered with a modular approach.

The group launched the **io.module** product to replace its predecessor which had reached the end of its life cycle.

It also extended the **STone** development environment, laying the foundations for its use in the programmable **c.pCO** controller families as well as the **iJ** and **aCU** families.

In 2022, the group completed the retrofitting of some product families (unit controllers and compressor drives) for use with both A2L and A3 (propane) **flammable refrigerants**, with the extension of the characteristic to **pressure sensors** and **E2V expansion valves** that have a lower global warming potential, a trend that is gaining ground in the HVAC and refrigeration markets. The group optimised the **E2V** electronic expansion value family with the use of plastic stems (replacing the metal ones) and extended its functioning up to pressures suitable to operate with CO2. During the study phase, the group developed a version of the **valves for high cooling capacity CO2 applications**, similar to the E4VC and E5VC sizes.

Again with respect to the natural refrigerants, and especially the flammable refrigerants like propane R290, the group introduced the new **GLD small** gas leakage sensor, widely used in systems to signal gas leaks to protect user health and safety.

The family of inverters for variable speed compressors has been extended with a **PSD2 version, which can also be used for the 35/40A output current family**, thus completing the PSD2 range, characterised by intrinsic machine safety functions in the inverter, thus allowing the beginning of the phase out of the old PSD1 family.

The **HEOS BOX** system for food retail water loop systems using the CFO refrigerants was completed and launched on the market. 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.

RED Optimize is the next generation Cloud portal dedicated to **Retail applications**. The group upgraded its with functionalities to simplify its configuration by customers as well as its better performance in the case of frequent disconnections. It is promoted as a **service** for contractors and retailers.

The gateway family has been extended to include the low range gateway, **Cloud gate mini**, suitable for individual installation.

With respect to the adiabatic humidification area, the group continued to renew the **Humifog** product range to include a **touch** screen version, with optimised features that allow the product's easier installation, application management and information about water and energy consumption. The high range version of the touch screen product also facilities a more user-friendly and complete visibility of the system.

The working range of the **GaSteam** gas isothermal humidifier has been extended to -40°C to meet the requirements of countries with very low winter temperatures. The **UR** resistive humidifiers have been certified for seismic areas in California, so they can be sold there.

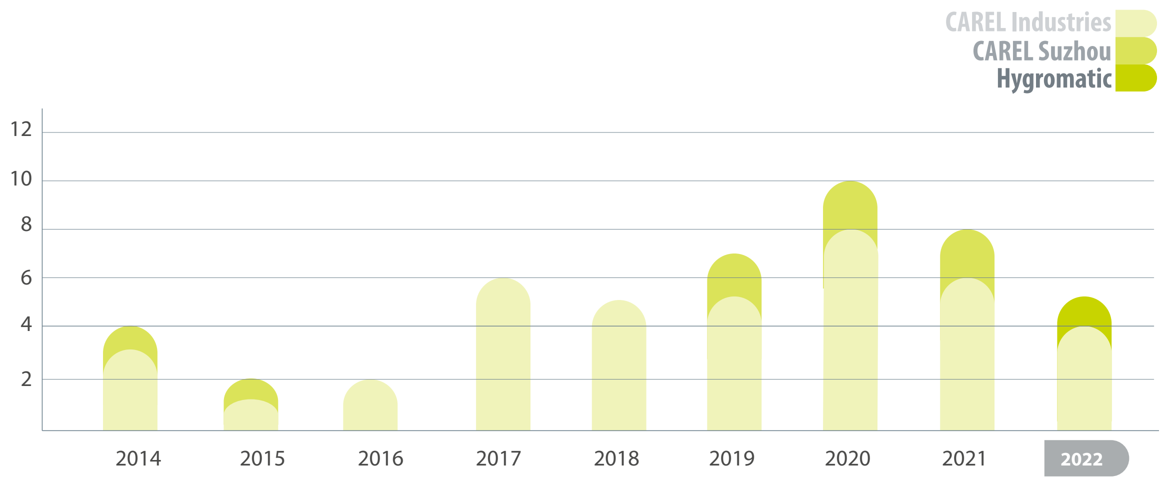
Chillbooster, which extends the use of commercial refrigeration systems by compensating for the increase in ambient temperatures caused by global warming, was upgraded with an alarm relay to facilitate its integration with monitoring and alarm systems.

The humidifier products were complemented by **WTS (Water Treatment System) reverse osmosis systems**, where the use of demineralised water is absolutely necessary.

The heat exchanger family for air treatment applications was extended to include a **rotary heat exchange** family, designed and manufactured by Recuperator, and a plastic **plate heat recovery unit** family for particularly difficult applications such as data centres, where evaporative cooling, using water, requires high resistance to corrosion over time.

Six new patents were added to the group's portfolio in 2021 and 2022, bringing the total to 61 invention patents (approved - filed) and 34 utility patents.

Group Patent Portfolio at 31/12/2022



EVENTS AFTER THE REPORTING DATE

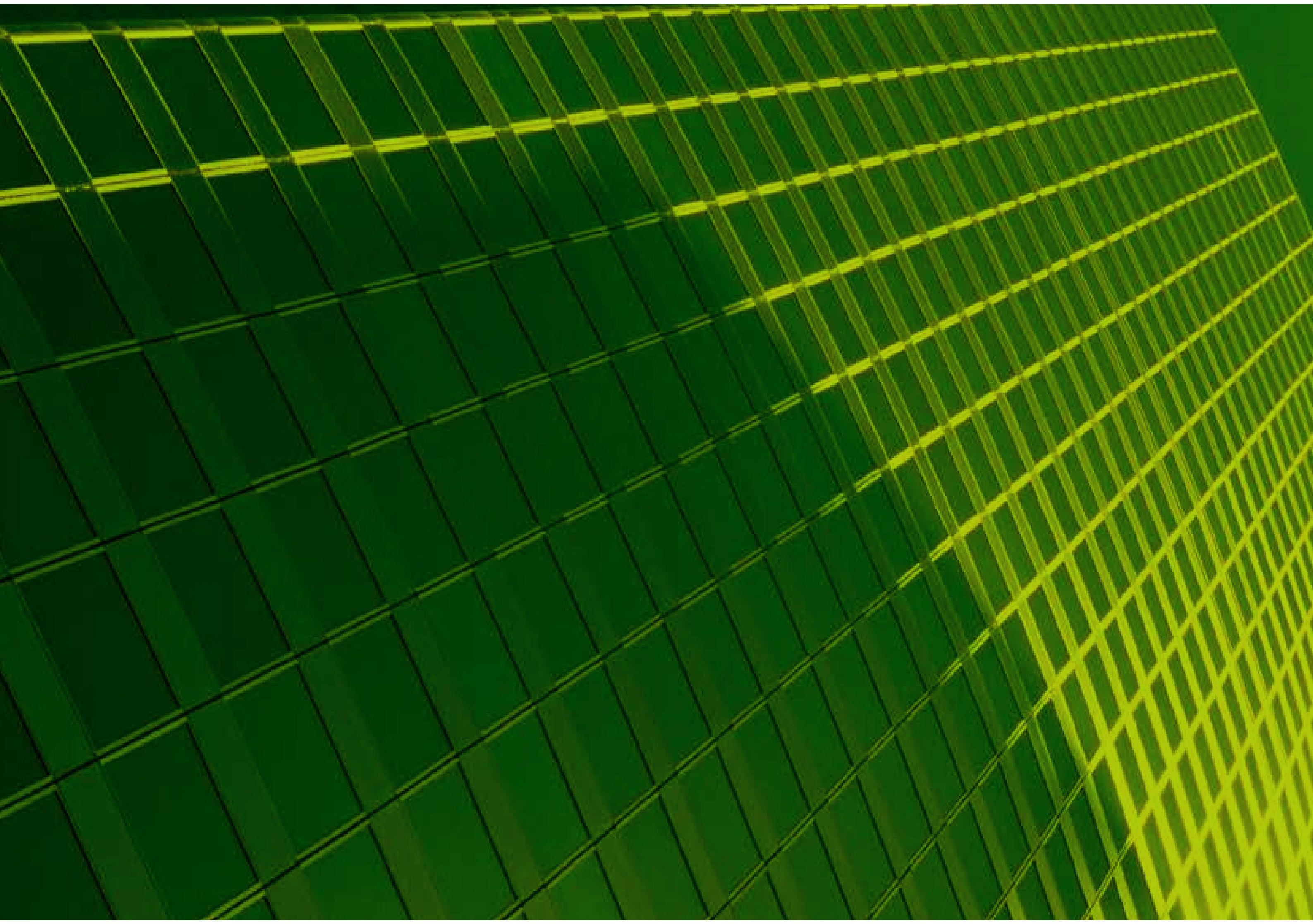
No significant events have taken place after the reporting date. However, the following are worthy of attention:

- the earthquake in Turkey, which affected a large area in this country, has not impacted the group's employees or physical structures. There is no information currently available that would indicate that this tragic event may have a significant impact on the local company's performance;
- on 21 February 2023, the group signed a binding agreement to acquire 100% of Eurotec, a long-standing distributor and system integrator in Auckland, New Zealand, with revenue of approximately €6 million.

OUTLOOK

The strong geopolitical instability that characterised 2022 was mainly caused by the Russia-Ukraine war which broke out in an already complicated situation after two years of the Covid-19 pandemic and significant tensions in the global supply chain. These events triggered inflationary pressures not seen for decades (Eurozone +9.2%, US +8.0%). The repercussions are not easily decipherable but may hold back global growth in 2023.

Turning to Carel, the data centres and indoor air quality segments continue to grow strongly and the heat pump segment is also very dynamic, bolstered by the global megatrends of energy efficiency and electrification as well as, in Europe, the need to limit its reliance on gas. The refrigeration segment is increasingly sensitive to macroeconomic change and may grow at a slower pace in the short term compared to the last few years, although this segment is also subject to secular trends led by stringent regulations (e.g., F-gas in Europe).



CAREL INDUSTRIES GROUP CONSOLIDATED FINANCIAL STATEMENTS AND NOTES THERETO

at 31 December 2022

STATEMENT OF FINANCIAL POSITION

(thousands of Euros)	Note	31.12.2022	31.12.2021
Property, plant and equipment	1	109,687	84,403
Intangible assets	2	181,645	134,570
Equity-accounted investments	3	1,446	1,250
Other non-current assets	4	9,769	10,407
Deferred tax assets	5	7,745	7,022
Non-current assets		**310,292**	**237,652**
Trade receivables	6	93,692	74,455
Inventories	7	106,745	80,907
Current tax assets	8	2,777	3,886
Other current assets	9	17,446	9,788
Current financial assets	10	12,875	483
Cash and cash equivalents	11	96,636	100,625
Current assets		**330,172**	**270,144**
TOTAL ASSETS		**640,464**	**507,796**
Equity attributable to the owners of the parent	12	205,378	154,952
Equity attributable to non-controlling interests	13	15,868	14,923
Total equity		**221,247**	**169,875**
Non-current financial liabilities	14	121,392	93,700
Provisions for risks	15	4,451	2,157
Defined benefit plans	16	8,129	8,612
Deferred tax liabilities	17	18,242	17,110
Other non-current liabilities	18	67,256	49,894
Non-current liabilities		**219,471**	**171,473**
Current financial liabilities	14	83,960	65,250
Trade payables	19	77,174	66,444
Current tax liabilities	20	4,987	4,775
Provisions for risks	15	1,401	1,907
Other current liabilities	21	32,226	28,073
Current liabilities		**199,747**	**166,449**
TOTAL LIABILITIES AND EQUITY		**640,464**	**507,796**

STATEMENT OF PROFIT OR LOSS

(thousands of Euros)	Note	2022	2021
Revenue	22	544,852	420,418
Other revenue	23	5,780	5,779
Costs of raw materials, consumables and goods and changes in inventories	24	(248,838)	(190,138)
Services	25	(70,234)	(51,034)
Capitalised development expenditure	26	705	1,249
Personnel expense	27	(118,425)	(99,379)
Other expense, net	28	(2,115)	(1,594)
Amortisation, depreciation and impairment losses	29	(24,414)	(20,844)
OPERATING PROFIT		**87,311**	**64,457**
Net financial expense	30	(3,173)	(2,355)
Net exchange losses	31	(861)	(1,430)
Fair value loss on call option	32	(2,235)	(125)
Share of profit of equity-accounted investees	33	2,360	508
PROFIT BEFORE TAX		**83,402**	**61,055**
Income taxes	34	(18,603)	(11,967)
PROFIT FOR THE YEAR		**64,799**	**49,088**
Non-controlling interests		2,675	29
PROFIT FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF THE PARENT		**62,124**	**49,059**

STATEMENT OF COMPREHENSIVE INCOME

(thousands of Euros)	Note	2022	2021
Profit for the year		**64,799**	**49,088**
Items that may be subsequently reclassified to profit or loss:			
- Fair value gains on hedging derivatives net of the tax effect		1,303	385
- Exchange differences		2,011	6,639
Items that may not be subsequently reclassified to profit or loss:			
- Actuarial gains (losses) on employee benefits net of the tax effect		801	(103)
Comprehensive income		**68,914**	**56,009**
attributable to:			
- Owners of the parent		66,223	55,880
- Non-controlling interests		2,691	129
Earnings per share			
Earnings per share (in Euros)	12	0.62	0.49

STATEMENT OF CASH FLOWS

(thousands of Euros)	Note	2022	2021
Profit for the year		64,799	49,088
Adjustments for:			
Amortisation, depreciation and impairment losses	29	24,415	20,844
Accruals to/utilisations of provisions		4,829	2,599
Non-monetary net expense		3,511	1,358
Income taxes		14,119	10,636
Gains on the sale of non-current assets		-	(367)
Changes in working capital:			
Change in trade receivables and other current assets		(15,241)	(11,887)
Change in inventories	7	(19,136)	(22,020)
Change in trade payables and other current liabilities		6,956	19,415
Change in non-current assets		297	(351)
Change in non-current liabilities		2,359	(241)
Cash flows from operating activities		**86,908**	**69,075**
Net interest paid		(2,271)	(2,076)
Income taxes paid		(15,226)	(12,881)
Net cash flows from operating activities		**69,411**	**54,118**
Investments in property, plant and equipment	1	(22,298)	(14,890)
Investments in intangible assets	2	(4,501)	(3,753)
Investments/Disinvestments of financial assets	10	(10,613)	7,541
Disinvestments of property, plant and equipment and intangible assets		121	952
Interest collected		497	81
Investments in equity-accounted investees	3	-	(27)
Business combinations net of cash acquired	2	(42,870)	(31,686)
Cash flows used in investing activities		**(79,664)**	**(41,783)**
Capital increases		-	-
Repurchase of treasury shares		-	-
Dividend distributions	12	(14,995)	(11,988)
Dividends distributed to non-controlling interests	13	(3,268)	-
Increase in financial liabilities	14	102,800	57,774
Decrease in financial liabilities	14	(72,850)	(60,011)
Decrease in lease liabilities	14	(5,473)	(4,759)
Cash flows from (used in) financing activities		**6,214**	**(18,984)**
Change in cash and cash equivalents		**(4,038)**	**(6,648)**
Cash and cash equivalents - opening balance		**100,625**	**105,586**
Exchange differences		50	1,687
Cash and cash equivalents - closing balance		**96,636**	**100,625**

STATEMENT OF CHANGES IN EQUITY

	Share capital	Legal reserve	Translation reserve	Hedging reserve	Other reserves	Retained earnings	Profit for the year	Equity	Equity att. to non-controlling interests	Total equity
Balance at 01.01.2021	**10,000**	**2,000**	**(2,686)**	**(436)**	**56,530**	**58,795**	**35,112**	**159,317**	**304**	**159,621**
Owner transactions										
Allocation of prior year profit	-	-	-	-	20,896	14,216	(35,112)	(0)	-	(0)
Capital increases										
Defined benefit plans	-	-	-	-	818	-	-	818	-	818
Dividend distributions	-	-	-	-	(11,988)		-	(11,988)	-	(11,988)
Call options for non-controlling interests					(49,075)			(49,075)		(49,075)
Change in consolidation scope	-	-	-	-		-	-	-	14,490	14,490
Total owner transactions	**10,000**	**2,000**	**(2,686)**	**(436)**	**17,181**	**73,011**	**-**	**99,072**	**14,794**	**113,866**
Profit for the year							49,059	49,059	29	49,088
Other comprehensive income	-	-	6,539	385	(103)			6,821	100	6,921
Comprehensive income	**-**	**-**	**6,539**	**385**	**(103)**		**49,059**	**55,880**	**129**	**56,009**
Balance at 31.12.2021	10,000	2,000	3,853	(51)	17,079	73,011	49,059	154,952	14,923	169,875
Balance at 01.01.2022	**10,000**	**2,000**	**3,853**	**(51)**	**17,079**	**73,011**	**49,059**	**154,952**	**14,923**	**169,875**
Owner transactions										
Allocation of prior year profit	-	-	-	-	27,145	21,914	(49,059)	-	-	-
Capital increases	-	-	-	-				-	-	-
Defined benefit plans	-	-	-	-	408			408	-	408
Repurchase of treasury shares	-	-	-	-			-	-	-	-
Dividend distributions	-	-	-	-	(14,995)		-	(14,995)	(3,268)	(18,263)
Call options for non-controlling interests					(1,207)			(1,207)		(1,207)
Change in consolidation scope	-	-	-	-		-	-	-	1,521	1,521
Total owner transactions	**10,000**	**2,000**	**3,853**	**(51)**	**28,430**	**94,925**	**-**	**139,158**	**13,176**	**152,334**
Profit for the year							62,124	62,124	2,675	64,799
Other comprehensive income	-	-	1,995	1,303	801	-	-	4,099	16	4,115
Comprehensive income	**-**	**-**	**1,995**	**1,303**	**801**	**-**	**62,124**	**66,223**	**2,691**	**68,914**
Balance at 31.12.2022	**10,000**	**2,000**	**5,848**	**1,252**	**29,232**	**94,925**	**62,124**	**205,378**	**15,868**	**221,247**

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 37 commercial companies including fiveteen 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 2022 on 2 March 2023.

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 2022 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. There may be rounding differences when items are added together as the individual items are calculated in Euro units.

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 2022.

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 [35] Other information lists the companies included in the consolidation scope at 31 December 2022.

Acquisition of an additional investment in Arion

On 15 April 2022, the parent acquired 30% of Arion S.r.l., in which it already held a 40% investment. The remaining 30% is owned by Bridgeport S.p.A.

Of this investment, 30% was acquired for a cash consideration of €1,626 thousand. As control was acquired in several stages, in compliance with the IFRS, the carrying amount of the existing investment was recalculated based on the fair value of the assets acquired, recognising a gain totalling €2,097 thousand in profit or loss.

The Carel Industries Group acquired control on 1 April 2022 and thus has included the investee in the consolidation scope since such date.

As the assets acquired and liabilities assumed are a business, the transaction is considered a business combination in accordance with IFRS 3. Allocation of the consideration is still provisional. The definitive allocation of the acquisition price will be made within 12 months of the acquisition.

The assets acquired and liabilities assumed are detailed below:

ARION S.R.L.			
(thousands of Euros)	**Acquisition-date carrying amount**	**Allocation**	**Acquisition-date fair value**
Property, plant and equipment	153	105	258
Intangible assets	21	2,302	2,323
Deferred tax assets	22	-	22
Non-current assets	**196**	**2,407**	**2,603**
Trade receivables	356	-	356
Inventories	174	-	174
Other current assets	109	-	109
Cash and cash equivalents	765	-	765
Current assets	**1,404**	-	**1,404**
TOTAL ASSETS	**1,600**	**2,407**	**4,007**
Non-current financial liabilities	(160)	(105)	(265)
Provisions for risks	-	-	-
Defined benefit plans	(39)	-	(39)
Deferred tax liabilities	-	(642)	(642)
Non-current liabilities	**(199)**	**(747)**	**(946)**
Current financial liabilities	(34)	-	(34)

(thousands of Euros)	Acquisition-date carrying amount	Allocation	Acquisition-date fair value
Trade payables	(199)	-	(199)
Current tax liabilities	(194)	-	(194)
Other current liabilities	(43)	-	(43)
Current liabilities	**(470)**	-	**(470)**
TOTAL LIABILITIES	**(669)**	**(747)**	**(1,416)**

When allocating the acquisition price, the group recognised €2,303 thousand attributable to technology, in addition to the relevant deferred tax. €1,980 thousand of the difference between the consideration paid, the assets acquired and the liabilities assumed was provisionally allocated to goodwill, calculated using the proportional method.

Acquisition of Sauber S.r.l.

On 12 July 2022, the parent acquired 70% of Sauber S.r.l. for a cash consideration of €2,997 thousand, of which €300 thousand has been recognised as a financial liability as per the acquisition agreement as a warranty and to cover any possible contractual risks to be borne by the seller. The latter amount will be paid in instalments when certain contractually-agreed events occur. As meeting these conditions is deemed probable, management considers such amount an adjustment of the consideration paid at the acquisition date.

Furthermore, under the acquisition agreement, the interest held by the non-controlling investor is subject to mutual put and call options. Specifically, the parent can exercise its call option within 30 days of the approval of Sauber S.r.l.'s financial statements at 31 December 2024. The non-controlling investor's put option can be exercised within 30 days after the 30-day period granted to the parent should it not have exercised its call option. The consideration for both options is calculated using a specific multiple applicable to the investee's average gross operating profit over the three years prior to the year when the option is exercised and adjusted to take into consideration the investee's net financial position. The group measured the call option at its fair value at the acquisition date and remeasured it at the reporting date. The directors engaged an independent expert to determine such fair value by estimating the most probable scenario in which the option would be exercised, based on a high number of possible gross operating profit and equity value scenarios based respectively on the Bachelier and Black-Scholes frameworks. The present value of the liability is equal to its present value as per the 2022-2024 business plan in the most likely scenario.

The liability was discounted using a rate of 3.6%. It is remeasured at each subsequent reporting date with any fair value gains or losses taken to profit or loss. At 31 December 2022, the liability for the call option amounts to €1,227 thousand and is recognised under other non-current liabilities.

Given that the risks and rewards on the residual 30% remain attributable to non-controlling interests, the liability at the acquisition date reduced the equity attributable to the owners of the parent. The respective portions of gains and losses for the year are regularly allocated to the non-controlling interest.

The Carel Industries Group acquired control on 12 July and has thus included the investee in its consolidation scope.

As the assets acquired and liabilities assumed are a business, the transaction is considered a business combination in accordance with IFRS 3. Allocation of the consideration at 31 December 2022 is still provisional as provided for by IFRS 3.

The assets acquired and liabilities assumed are detailed below:

SAUBER S.R.L.			
(thousands of Euros)	Acquisition-date carrying amount	Allocation	Acquisition-date fair value
Property, plant and equipment	281	287	568
Intangible assets	13	1,753	1,766
Equity investments	24	-	24
Deferred tax assets	-	42	42
Non-current assets	**318**	**2,082**	**2,400**
Trade receivables	1,581	(150)	1,431
Inventories	1,381	-	1,381
Other current assets	1,425	-	1,425
Current tax assets	95	-	95
Current financial assets	-	-	-
Cash and cash equivalents	1,338	-	1,338
Current assets	**5,820**	**(150)**	**5,670**
TOTAL ASSETS	**6,138**	**1,932**	**8,070**
Non-current financial liabilities	(1,535)	(210)	(1,745)
Provisions for risks	-	-	-
Defined benefit plans	(392)	-	(392)
Deferred tax liabilities	-	(489)	(489)
Non-current liabilities	**(1,927)**	**(699)**	**(2,626)**
Current financial liabilities	(446)	(77)	(523)
Trade payables	(1,472)	-	(1,472)
Current tax liabilities	(375)	-	(375)
Other current liabilities	(597)	-	(597)
Current liabilities	**(2,890)**	**(77)**	**(2,967)**
TOTAL LIABILITIES	**(4,816)**	**(776)**	**(5,592)**

When allocating the acquisition price, the group recognised €1,753 thousand attributable to customer lists, in addition to the relevant deferred tax. The difference of €1,264 thousand between the consideration paid, the assets acquired and the liabilities assumed was provisionally allocated to goodwill, calculated using the proportional method.

Acquisition of the Klingenburg Group

On 2 September 2022, the parent acquired 100% of Klingenburg GmbH (and its subsidiaries), based in Gladbeck (Germany), and Klingenburg International Sp. Z.o.o., based in Świdnica (Poland). The transaction was effective from that date and the parent disbursed consideration of €3,948 thousand and €11,845 thousand for the two companies, respectively.

At the reporting date, the group has recognised part of the consideration (€1,435 thousand) as a financial liability as per the acquisition agreement as a warranty and to cover any possible contractual risks to be borne by the seller. This amount will be paid in instalments when certain contractually-agreed events occur. As meeting these conditions is deemed probable, management considers such amount an adjustment of the consideration paid at the acquisition date.

Klingenburg GmbH wholly owns Klingenburg US, Klingenburg Uk and Klingenburg Iberica.

As the assets acquired and liabilities assumed are a business, the transaction is considered a business combination in accordance with IFRS 3. Allocation of the consideration is still provisional. The definitive allocation of the acquisition price will be made within 12 months of the acquisition.

The assets acquired and liabilities assumed are detailed below:

GRUPPO KLINGENBURG

(thousands of Euros)	Acquisition-date carrying amount	Allocation	Acquisition-date fair value
Property, plant and equipment	3,951	3,555	7,506
Intangible assets	8	-	8
Deferred tax assets	41	-	41
Non-current assets	**4,000**	**3,555**	**7,555**
Trade receivables	4,587	-	4,587
Inventories	5,094	-	5,094
Other current assets	224	-	224
Current tax assets	81	-	81
Cash and cash equivalents	5,700	-	5,700
Current assets	**15,687**	-	**15,687**
TOTAL ASSETS	**19,687**	**3,555**	**23,242**
Non-current financial liabilities	(7)	(729)	(736)
Provisions for risks	-	(1,874)	(1,874)
Defined benefit plans	(5)	-	(5)
Deferred tax liabilities	(40)	(403)	(443)
Non-current liabilities	**(52)**	**(3,006)**	**(3,058)**
Current financial liabilities	(110)	(705)	(815)
Trade payables	(1,885)	-	(1,885)
Current tax liabilities	(304)	-	(304)
Other current liabilities	(1,405)	-	(1,405)
Current liabilities	**(3,704)**	**(705)**	**(4,409)**
TOTAL LIABILITIES	**(3,756)**	**(3,711)**	**(7,467)**

During the purchase price allocation procedure, the group allocated €2,121 thousand to property, plant and equipment and the related deferred taxes.

The fair value of the assets acquired and the liabilities assumed is greater than the consideration transferred. The difference of €1,874 thosuand has been provisionally allocated to the provision for risks and charges (€1,397 thousand for Klingenburg GmbH and its subsidiaries and €476 thousand for Klingenburg International S.p. z.o.o.).

Acquisition of the business of Senva Inc

On 12 October 2022, the subsidiary Carel US acquired 100% of the bussines of Senva Inc through a vehicle subsequently renamed Senva. The consideration was USD34 million, of which €2,830 million recognised under current and non-current financial liabilities as a warranty and to cover any possible contractual risks to be borne by the seller. The latter amount will be paid in instalments when certain contractually-agreed events occur. As meeting these conditions is deemed probable, management considers such amount an adjustment of the consideration paid at the acquisition date. The acquisition agreement provides for contingent consideration of US4 million, for a potential total consideration of USD38 million, upon achievement of certain gross operating profit milestones. As this is deemed probable, management has recognised USD4 million under financial liabilities as a price adjustment.

The agreement also includes an earn-out mechanism for Senva's management team (which will remain after the acquisition) tied to results achieved up until 31 December 2025 and calculated as a multiple of the average gross operating profit from 2022 to 2025 less the initial consideration paid (assumed to be USD38 million).

The liability was measured at its fair value. The directors engaged an independent expert to determine such fair value by estimating the most probable scenario in which the option would be exercised, based on a high number of possible gross operating profit and equity value scenarios based respectively on the Bachelier and Black-Scholes frameworks. The present value of the liability is equal to the present value of the liability in the most likely scenario.

The liability was discounted using a rate of 4.5%. It is remeasured at each subsequent reporting date with any fair value gains or losses taken to profit or loss. At 31 December 2022, the liability amounts to €12,326 thousand and is recognised under other non-current liabilities.

As the assets acquired and liabilities assumed are a business, the transaction is considered a business combination in accordance with IFRS 3. Allocation of the consideration is still provisional. The definitive allocation of the acquisition price will be made within 12 months of the acquisition.

The assets acquired and liabilities assumed are detailed below:

SENVA INC			
(thousands of Euros)	**Acquisition-date carrying amount**	**Allocation**	**Acquisition-date fair value**
Property, plant and equipment	1,019	2,179	3,198
Intangible assets	102	27,055	27,157
Other non-current assets	83	-	83
Non-current assets	**1,204**	**29,234**	**30,438**
Trade receivables	3,000	-	3,000
Inventories	2,530	-	2,530
Other current assets	70	-	70
Current assets	**5,600**	-	**5,600**
TOTAL ASSETS	**6,804**	**29,234**	**36,038**
Non-current financial liabilities		(1,943)	(1,943)
Non-current liabilities	-	**(1,943)**	**(1,943)**
Current financial liabilities	-	(236)	(236)
Trade payables	(375)	-	(375)
Other current liabilities	(351)	-	(351)
Current liabilities	**(726)**	**(236)**	**(962)**
TOTAL LIABILITIES	**(726)**	**(2,179)**	**(2,905)**

During the purchase price allocation procedure, €5,594 thousand was allocated to the trademark, €5,409 thousand to technology and €16,052 thousand to customer lists. As these allocations are taxable under the regulations in force, the related deferred tax was not recognised. The difference of €18,538 thousand between the consideration paid, the assets acquired and liabilities assumed was provisionally allocated to goodwill.

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 companies 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 companies 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 companies 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 companies using a functional currency other than the Euro are translated into Euros using the average annual exchange rate for the statement of profit or loss captions and the closing rate for the statement of financial position captions. Any differences between these exchange rates or due to changes in the exchange rates at the start and end of the year are recognised under equity.

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

Business combinations

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

The assets acquired and the liabilities assumed are recognised at their acquisition-date fair value, except for the following items which are measured in line with the relevant IFRS:

- deferred tax assets and liabilities;
- employee benefits;
- liabilities or equity instruments related to share-based payment awards of the acquiree or share-based payment awards of the acquirer issued to replace the acquiree's awards;
- assets held for sale and disposal groups.

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

The amount of any non-controlling 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 2022 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 2022.

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 2022, in accordance with the provisions of IFRS 1.

STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLICABLE TO ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2022

The group applied the following standards, amendments and interpretations for the first time starting from 1 January 2022:

- 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 the revised 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 an entity 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 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.

The adoption of these amendments 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 2022

- On 18 May 2017, the IASB published **IFRS 17 Insurance contracts**, which will supersede IFRS 4 Insurance contracts.
  The standard applies to annual periods beginning on or after 1 January 2023 but earlier application is allowed for those entities that apply IFRS 9 Financial instruments and IFRS 15 Revenue from contracts with customers. The directors do not expect its adoption will significantly affect the consolidated financial statements.
- On 9 December 2021, the IASB published **Initial application of IFRS 17 and IFRS 9 - Comparative information (Amendments to IFRS 17)**. These amendments provide for a transition option for the comparative information on financial assets presented on the date of initial application of IFRS 17. The directors do not expect these amendments to significantly affect the consolidated financial statements.
- On 12 February 2021, the IASB published **Disclosure of accounting policies (Amendments to IAS 1 and IFRS Practice Statement 2) and Definition of accounting estimates (Amendments to IAS 8)**. The amendments improve accounting policy disclosures so that they provide more useful information to investors and other primary users of the financial statements and help companies distinguish changes in accounting estimates from changes in accounting policies. These amendments will be effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted. The directors do not expect these amendments to significantly affect the group's consolidated financial statements.

- On 7 May 2021, the IASB published **Deferred tax related to assets and liabilities arising from a single transaction (Amendments to IAS 12)** that clarifies how companies account for deferred tax on transactions that can give rise to equal amounts of assets and liabilities such as leases and decommissioning obligations. The amendments will be effective for annual reporting periods beginning on or after 1 January 2023, but earlier application is allowed. 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 **Classification of liabilities as current or non-current (Amendments to IAS 1)**, while on 31 October 2022, it published **Non-current liabilities with covenants (Amendments to IAS 1)**. The intention is to clarify how to classify debt and other financial liabilities as current or non-current. The amendments become effective on 1 January 2024 but earlier application is allowed. The directors do not expect these amendments to significantly affect the group's consolidated financial statements.
- On 22 September 2022, the IASB published **Lease liability in a sale and leaseback (Amendments to IFRS 16)**. They require a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments become effective on 1 January 2024 but earlier application is allowed. The directors do not expect these amendments to significantly affect the consolidated financial statements.
- On 30 January 2014, the IASB published IFRS 14 Regulatory deferral accounts that allows first-time adopters to continue to recognise amounts relating to rate regulation activities under the previous reporting standards. Since the group is not a first-time adopter, the standard is not applicable to it.

ACCOUNTING POLICIES

Revenue and costs

Revenue is measured based on the fee contractually-agreed with the customer and does not include amounts collected on behalf of third parties. The 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 financial assets and liabilities are translated into Euros using the transaction-date exchange rate. Any gains or losses when the foreign currency financial asset is collected or the financial liability 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 2022 and 2021 (comparative figures) are set out below:

Valute	Average rate		Closing rate	
	31.12.2021	31.12.2022	31.12.2021	31.12.2022
Pound sterling	0.860	0.853	0.840	0.887
Hong Kong dollar	9.193	8.245	8.833	8.316
Brazilian real	6.378	5.440	6.310	5.639
US dollar	1.183	1.053	1.133	1.067
Australian dollar	1.575	1.517	1.562	1.569

Valute	Average rate		Closing rate	
	31.12.2021	31.12.2022	31.12.2021	31.12.2022
Chinese renminbi (yuan)	7.628	7.079	7.195	7.358
Indian rupee	87.439	82.686	84.229	88.171
South African rand	17.477	17.209	18.063	18.099
Russian ruble	87.153	72.151	85.300	75.655
South Korean won	1,354.060	1,358.070	1,346.380	1,344.090
Mexican peso	23.985	21.187	23.144	20.856
Swedish krona	10.147	10.630	10.250	11.122
Japanese yen	129.877	138.027	130.380	140.660
Polish zloty	4.565	4.686	4.597	4.681
Thai baht	37.837	36.856	37.653	36.835
Croatian kuna	7.528	7.535	7.516	7.537
UAE dirham	4.344	3.867	4.160	3.917
Singapore dollar	1.589	1.451	1.528	1.430
Norwegian krone	10.163	10.103	9.989	10.514
Swiss franc	1.081	1.005	1.033	0.985
Ukrainian hryvnia	32.259	34.025	30.922	39.037
Canadian dollar	1.483	1.370	1.439	1.444
Turkish lira	11.304	17.409	15.234	19.965

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.

The liability to the lessor is shown under financial liabilities. The right-of-use assets are depreciated using the above rates.

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 (the Italian Commission for listed companies and the stock exchange) 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.

Benefici ai dipendenti

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 of 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.

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;

- 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. 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.

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.

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.

These risks include:

a. credit risk;

b. liquidity risk;

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

The parent's board of directors has overall responsibility for the design and monitoring of a financial risk management system. It is assisted by the various 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 preparing 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. Coordination between the companies that operate in the same market (for example, the Italian companies) is based on the electronic exchange of information about common customers and the coordination of 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 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. 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:

(thousands of Euros)	31.12.2022		31.12.2021	
	Trade receivables	Loss allowance	Trade receivables	Loss allowance
Not yet due	85,875	(1,306)	67,699	(724)
Past due < 6 months	8,663	(153)	7,430	(159)
Past due > 6 months	639	(179)	134	(134)
Past due > 12 months	357	(204)	456	(247)
Total	**95,534**	**(1,841)**	**75,719**	**(1,265)**

LIQUIDITY RISK

The group has a high level of liquidity and limited net financial debt. During the year, it had easy access to additional funding, without additional costs.

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:

(thousands of Euros)	31.12.2022				
	TOTAL	Total cash flows	Within one year	From one to five years	After five years
Bank loans and borrowings at amortised cost	51,784	54,322	-	23,039	31,284
Amounts due to bondholders	39,468	45,213	-	3,208	42,005
Lease liabilities	27,216	29,675	-	16,017	13,658
Effective hedging derivatives	-	-	-	-	
Other loans and borrowings at amortised cost	489	495	-	198	297
Other financial liabilities	2,436	2,436	-	2,436	-
Non-current financial liabilities	**121,392**	**132,141**	-	**44,898**	**87,243**

(thousands of Euros)	31.12.2022				
	TOTAL	Total cash flows	Within one year	From one to five years	After five years
Bank loans at amortised cost	69,716	72,611	72,611	-	-
Amounts due to bondholders	114	802	802	-	-
Lease liabilities	5,434	6,157	6,157	-	-
Bank borrowings at amortised cost	901	901	901	-	-
Other loans and borrowings at amortised cost	194	198	198	-	-
Derivatives held for trading at fair value through profit or loss	236	311	311	-	-
Other financial liabilities	7,365	7,365	7,365	-	-
Current financial liabilities	**83,960**	**88,345**	**88,345**	-	-

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:

(thousands of Euros)	31.12.2022					
	EUR	USD	PLN	CNY	Other currencies	Total
Total assets	463,034	78,844	20,339	43,534	34,714	**640,464**
Total liabilities	356,863	49,774	5,189	7,429	(37)	**419,218**

The next table shows a sensitivity analysis of the risk arising on the translation of foreign currency financial statements of the consolidated companies 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

(thousands of Euros)	31.12.2022		
	Average annual rate	Rate +10%	Rate -10%
USD	75,638	68,762	84,042
GBP	8,498	7,725	9,442
CNY	47,424	43,113	52,693
AUD	7,802	7,093	8,669
ZAR	7,007	6,370	7,786

(thousands of Euros)	31.12.2022		
	Average annual rate	Rate +10%	Rate -10%
BRL	9,087	8,261	10,097
PLN	37,812	34,375	42,013
Other currencies	10,060	n.a	n.a
EUR	341,524	341,524	341,524

PROFIT BEFORE TAX

(in migliaia di euro)	31.12.2022		
	Average annual rate	Rate +10%	Rate -10%
USD	13,497	12,270	14,997
GBP	6,064	5,513	6,738
CNY	(5,628)	(5,116)	(6,253)
AUD	5,167	4,697	5,741
ZAR	5,902	5,365	6,558
BRL	6,568	5,971	7,298
PLN	5,725	5,205	6,361
Other currencies	(20,137)	n.a	n.a
EUR	66,244	66,244	66,244

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 2022 continuing the trend of the previous year. As a result, there was an increase in financial statements captions linked to the translation of amounts into Euro. 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.

The derivatives used to hedge interest rate 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, Germany and Poland 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 continuing 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.

Climate change and possible impact on the Carel Industries Group

In 2022, the group continued to focus on achieving the objectives set in its sustainability plan and brought forward some activities planned for the subsequent year.

The group revisited its carbon footprint analysis and reporting procedure and reported scope 3 emissions (extended to include various categories) for the first time as well as the scope 1 and 2 emissions already calculated for the past four years for all the in-scope companies (less the companies that entered the group in 2022). It reported all indirect emissions of its outbound logistics activities and waste from the production sites, inbound logistics activities, purchased services, packaging, business trips and home-work commutes of parent personnel.

The group also completed an expeditious lifecycle assessment (LCA) of one of its key products that contributes to the ongoing extension of the analysis of scope 3 emissions (indirect emissions not directly controllable by the group). This assessment will give a more accurate and extensive snapshot of both consumption and emissions related to production and, more generally, the group's economic activities so that the group can best define future actions to mitigate its carbon footprint.

The parent's two new buildings housing the new knowledge centre, offices and canteen are classified as A4 and A3 energy efficiency, i.e., ultra-low-energy buildings. They are supplied solely with electrical energy (from renewable sources) as well as generating energy from the solar panels, confirming the group's commitment to reducing its emissions and consumption.

2022 was the second year the group reported its KPIs (turnover, CapEx and OpEx) in accordance with the Green Taxonomy Regulation. It continues to implement its climate mitigation strategy, as better defined in the Delegated Acts issued by the European Commission. Its findings confirm those of 2021. More information is available in the consolidated non-financial statement.

The Group launched a process to analyse risks associated with climate change, which will also enable their monitoring and possible updating as changes, including climatic changes, in terms of timing and magnitude, occur.

In addition to the financial risks identified in the previous sections, the group has preliminarily identified a number of potential risks related to climate change; these include the physical risks associated with an increase in extreme weather events and the transition risks associated with the transition to a low-carbon economy.

These risks, which are reflected, for example, in an increase in energy and transport costs, were also taken into account when drawing up the forward-looking plans that the group prepares to assess its future profitability and investment policy. Indeed, partly in addition to that originally estimated, the group approved the investments for the installation of solar panels on the new leased buildings at the parent's headquarters, those of the German HygroMatik, CFM, Carel and Carel Suzhou.

With regard to physical risks, the group continued to implement its production mirroring strategy launched in connection with the outbreak of the Covid-19 pandemic in order to mitigate potential adverse events.

Lastly, the group aims to capitalise on the opportunities offered by climate change and continued to promote the transition towards sustainable development in its sector, by constantly investing in research and development, as discussed in the specific section of the directors' report, to ensure that its products perform to the highest standards in terms of energy efficiency.

NOTES TO THE STATEMENT OF FINANCIAL POSITION

[1] PROPERTY, PLANT AND EQUIPMENT

At 31 December 2022, property, plant and equipment amount to €109,687 thousand compared to €84,403 thousand at 31 December 2021. The following table provides a breakdown of the caption and the changes of the year.

YEAR CHANGES

(thousands of Euros)	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 2021	**45,561**	**18,191**	**10,530**	**5,377**	**4,743**	**84,403**
- Historical cost	57,642	41,356	47,606	19,331	4,743	170,679
- Accumulated depreciation	(12,081)	(23,164)	(37,077)	(13,953)	-	(86,276)
Changes in 2022						
- Investments	1,716	6,287	4,139	3,691	6,464	22,297
- Investments in right-of-use assets	5,691	-	34	1,045	-	6,769
- Business combinations (historical cost)	5,336	3,615	2,299	696	177	12,123
- Business combinations (right-of-use assets)	3,583	-	19	210	-	3,812
- Reclassifications (historical cost)	6,968	1,007	220	198	(8,165)	228
- Impairment losses	(36)		-	-	-	(36)
- Sales (historical cost)	(40)	(135)	(115)	(550)	3	(838)
- Sales - Right-of-use assets (historical cost)	(1,065)	-	(79)	(367)	-	(1,512)
- Exchange differences on historical cost	92	183	(247)	(4)	(13)	11
- Exchange differences on accumulated depreciation	3	(45)	146	(13)	-	92
- Exchange differences on right-of-use assets	(119)	-	-	17	-	(101)
- Depreciation	(973)	(3,565)	(3,966)	(1,512)	-	(10,016)
- Depreciation of right-of-use assets	(3,700)	-	(136)	(884)	-	(4,721)
- Business combinations (accumulated depreciation)	(657)	(2,262)	(1,488)	(258)	-	(4,665)
- Reclassifications (accumulated depreciation)	42	43	155	(172)	-	68
- Restatement of right-of-use assets	(312)	-	-	(72)	-	(385)
- Sales (accumulated depreciation)	-	104	135	478	-	717
- Sales - Right-of-use assets (accumulated depreciation)	977	-	93	371	-	1,441
Total changes	**17,504**	**5,234**	**1,207**	**2,874**	**(1,534)**	**25,284**
Balance at 31 December 2022	**63,065**	**23,425**	**11,737**	**8,251**	**3,209**	**109,687**
including:						
- Historical cost	79,454	52,314	53,875	24,194	3,209	213,047
- Accumulated depreciation	(16,389)	(28,889)	(42,139)	(15,944)	-	(103,360)

Land and buildings increased as a result of investments in right-of-use assets after new leases were signed by the parent for two new buildings and a plot of land acquired by the Croatian group company to build a second production site.

Plant and machinery and Industrial and commercial equipment include investments, roughly half of which were made to facilitate a significant upturn in capacity in Croatia to support the European market. Specifically, the new production site was finished and the group company purchased equipment for electronic production, such as a new assembly and welding line for the parametric controllers.

The Italian group companies invested in equipment and software to upgrade production processes in terms of their quality, efficiency and response times to customers' requests for personalisation.

In China, the valve production line for the domestic market was extended and a similar investment was made in the US.

Recuperator completed its investment for the plastic exchangers production line.

The group also invested in the duplication of plastic moulding equipment to create production redundancy.

Assets under construction and payments on account mostly consist of capitalised costs to complete the parent's knowledge centre and second building.

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

PROPERTY, PLANT AND EQUIPMENT

(thousands of Euros)	2022	2021
Europe, Middle East and Africa	78,245	56,823
APAC	18,947	18,388
North America	11,589	8,455
South America	905	737
Total	**109,687**	**84,403**

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 2022, this caption amounts to €181,645 thousand compared to €134,570 thousand at the end of 2021. The following table presents changes in these assets:

YEAR CHANGES

(thousands of Euros)	Development expenditure	Trademarks, industrial patents and software licences	Goodwill	Other assets	Assets under development and payments on account	Total
Balance at 31 December 2021	**6,269**	**9,651**	**67,347**	**48,807**	**2,496**	**134,570**
- Historical cost	27,073	28,258	67,347	56,472	2,496	181,646
- Accumulated amortisation	(20,804)	(18,607)		(7,665)	-	(47,076)
Changes in 2022						
- Investments	31	3,591	-	28	851	4,501
- Business combinations (historical cost)	-	5,741	21,783	25,619	-	53,143

(thousands of Euros)	Development expenditure	Trademarks, industrial patents and software licences	Goodwill	Other assets	Assets under development and payments on account	Total
- Reclassifications (historical cost)	1,369	1,119	-	3	(2,447)	45
- Impairment losses	-	-	-	-	-	-
- Restatements	-	(6)	(469)	-	-	(475)
- Exchange differences on historical cost	12	(7)	(50)	31	(17)	(32)
- Exchange differences on accumulated amortisation	4	(1)		(20)	-	(18)
- Amortisation	(2,143)	(3,045)	-	(4,455)	-	(9,642)
- Business combinations (accumulated amortisation)	-	(38)	-	(74)	-	(112)
- Reclassifications (accumulated amortisation)	(34)	(296)	-	(10)	-	(340)
- Sales (accumulated amortisation)	-	6	-	-	-	6
Total changes	**(761)**	**7,064**	**21,263**	**21,122**	**(1,613)**	**47,075**
Balance at 31 December 2022	**5,508**	**16,715**	**88,610**	**69,929**	**883**	**181,645**
including:						
- Historical cost	28,485	38,696	88,610	82,153	883	238,877
- Accumulated amortisation	(22,977)	(21,981)	-	(12,224)	-	(57,232)

La suddivisione delle attività immateriali per area geografica è la seguente:

INTANGIBLE ASSETS

(thousands of Euros)	2022	2021
Europe, Middle East and Africa	132,875	130,622
APAC	2,617	2,389
North America	46,148	1,556
South America	5	3
Total	**181,645**	**134,570**

With reference to intangible assets:

- the balance of development expenditure shows the expenditure related to projects developed almost entirely by the parent and 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 2021 and 2022 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; the balance reflects the significant outlay made for the new PLM system to allow greater efficiency in product customisation projects and their subsequent production and market launch;
- 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 2022, goodwill amounts to €88,610 thousand, compared to €67,347 thousand at 31 December 2021. The increase is due to allocation of the consideration paid for the newly-acquired companies, Senva, Sauber and Arion, as described below

Other goodwill includes amounts that are individually and collectively immaterial.

GOODWILL

(thousands of Euros)	31.12.2022	Increase	Other Movement	Exchange differences	31.12.2021
HygroMatik GmbH	38,499	-	-	-	38,499
Recuperator S.p.A.	6,326	-	-	-	6,326
Carel Thailand CO Ltd	2,184	-	-	(50)	2,234
CFM Sogutma ve Otomasyon	11,431	-	-	-	11,431
Enginia S.r.l.	6,644	-	-	-	6,644
Arion S.r.l.	1,980	1,980	-	-	-
Sauber S.r.l.	1,264	1,264			-
Senva Inc	18,538	18,538			-
Other goodwill	1,743	-	(469)	-	2,212
Total	**88,610**	**21,782**	**(469)**	**(50)**	**67,347**

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. The principal test methods and results for the main CGUs, Recuperator, Hygromatik, CFM, Enginia, Sauber and Senva, are shown below.

The recoverable amount of goodwill of each CGU is determined by calculating its 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 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 main parameters used to test each CGU were as follows:

CGU	Plan horizon	Growth rate g	WACC
Recuperator	2023-2026	2.30%	10.50%
HygroMatik	2023-2026	2.00%	8.60%
Enginia	2023-2025	2.30%	10.50%
CFM	2023-2026	3.00%	15.00%
Sauber	2023-2025	1.70%	8.60%
Senva *	2023-2027	2.00%	11.50%

*plan included in the acquisition contract

The values in use, calculated using the discounted cash flows, confirm the carrying amount of goodwill. Specifically, the tests showed the following coverage:

CGU (in migliaia di euro)	Coverage
Recuperator	6,380
HygroMatik	17,045
Enginia	4,425
CFM	11,655
Sauber	4,590
Senva	5,262

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.

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.

The following CGUs pass the stress test even if the gross operating profit decreases or the WACC increases as set out below:

CGU	Gross operating profit +/-	WACC +/-
Recuperator	-60%	(1.10%)
HygroMatik	> -75%	(1.10%)
Enginia	-75%	(1.00%)
CFM	-55%	(1.50%)
Sauber	> -75%	(3.30%)

Therefore, there was no need to impair goodwill at 31 December 2022.

[3] EQUITY-ACCOUNTED INVESTMENTS

At 31 December 2022, this caption amounts to €1,446 thousand compared to €1,250 thousand at 31 December 2021. It may be analysed as follows:

COMPANY (thousands of Euros)	Investment %	31.12.2022	Change in consolidation scope	Exchange differences	Equity-accounting	31.12.2021
Arion S.r.l.	70%	-	(2,126)	-	2,097	29
Free Polska s.p.z.o.o.	30%	1,359	-	(63)	263	1,159
Others		87	24	-	-	63
Total		**1,446**	**(2,102)**	**(63)**	**2,360**	**1,250**

[4] OTHER NON-CURRENT ASSETS

At 31 December 2022, other non-current assets amount to €9,769 thousand compared to €10,407 thousand at 31 December 2021; they are broken down as follows:

(thousands of Euros)	31.12.2022	31.12.2021
Guarantee deposits	635	432
Third parties	263	176
Other assets	8,871	9,799
Total	**9,769**	**10,407**

Other assets include the substitute tax paid by the parent on the higher values allocated and recognised in the consolidated financial statements at 31 December 2018, implicit in the carrying amount of the equity investment, pursuant to article 15.10-bis of Law decree no. 185/2008.

In 2022, the parent deducted the above amounts for both IRES (corporate income taxes) and IRAP (local tax on production) purposes and it released €1,962 thousand to profit or loss. The amount related to 2023 was reclassified to current assets.

The caption increased by €2,085 thousand following Recuperator's payment of the substitute tax on the higher value implicit in the carrying amount of the investment in Enginia pursuant to article 15.10-bis of Law decree no. 185/2008.

[5] DEFERRED TAX ASSETS

At 31 December 2022, deferred tax assets amount to €7,745 thousand compared to €7,022 thousand at 31 December 2021. 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:

(thousands of Euros)	2022 tax base	Deferred tax assets at 31 December 2022	2021 tax base	Deferred tax assets at 31 December 2021
Allowance for inventory write-down	10,198	2,366	7,346	1,632
Non-deductible accruals	2,861	782	3,418	879
Amortisation of goodwill	480	103	557	114

(thousands of Euros)	2022 tax base	Deferred tax assets at 31 December 2022	2021 tax base	Deferred tax assets at 31 December 2021
Consolidation adjustments to intragroup inventory transactions	16,590	3,395	11,949	2,825
Carryforward tax losses	863	172	975	190
Other	3,696	927	5,077	1,383
Total	**34,688**	**7,746**	**29,322**	**7,022**

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

(thousands of Euros)	31.12.2022	Recognised in profit or loss	Change in consolidation scope	Recognised in other comprehensive income	Exchange differences	31.12.2021
Deferred tax assets	7,745	768	105	(152)	2	7,022
Deferred tax liabilities	(18,242)	1,059	(1,575)	(535)	(81)	(17,110)
Total	**(10,497)**	**1,828**	**(1,469)**	**(688)**	**(79)**	**(10,089)**

Deferred tax assets on carryforward tax losses amount to €172 thousand. The group believes that these losses can be recovered over time based on the cash flows that the group will generate in future years. The Japanese, South American and Indian subsidiaries did not recognise deferred tax assets on carryforward tax losses, which total €829 thousand.

CURRENT ASSETS

[6] TRADE RECEIVABLES

At 31 December 2022, this caption amounts to €93,692 thousand compared to €74,455 thousand at 31 December 2021. It may be analysed as follows:

(thousands of Euros)	31.12.2022	31.12.2021
Gross trade receivables	95,534	75,719
Loss allowance	(1,841)	(1,265)
Trade receivables	**93,692**	**74,455**

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

(thousands of Euros)	31.12.2022	31.12.2021
Europe, Middle East and Africa	69,250	56,684
APAC	11,856	11,185
North America	11,724	6,238
South America	2,704	1,611
Total	**95,534**	**75,719**

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. Any impairment losses are recognised in Other expense (net) each year. Changes in the allowance are shown in the following table:

(thousands of Euros)	31.12.2022	Impairment losses	Utilisations	Exchange differences	Change in consolidation scope	31.12.2021
Loss allowance	(1,841)	(564)	317	(69)	(261)	(1,265)

[7] INVENTORIES

At 31 December 2022, this caption amounts to €106,745 thousand compared to €80,907 thousand at 31 December 2021. It may be analysed as follows:

(thousands of Euros)	31.12.2022	31.12.2021
Raw materials	65,498	45,154
Allowance for inventory write-down	(4,406)	(2,828)
Semi-finished products and work in progress	6,130	4,455
Finished goods	45,503	38,515
Allowance for inventory write-down	(6,366)	(4,716)
Payments on account	388	328
Total	**106,745**	**80,907**

Inventories, gross of the allowance for inventory write-down, increased by a total of €29,067 thousand, partly due to the consolidation of the acquirees which contributed €9,179 thousand. The group recognised an allowance for inventory write-down (€10,773 thousand) to cover the difference between the cost and estimated realisable value of obsolete raw materials and finished goods. The accrual was recognised in the caption Costs of raw materials, consumables and goods and changes in inventories of the statement of profit or loss.

[8] CURRENT TAX ASSETS

This caption amounts to €2,777 thousand, compared to €3,886 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 2022, this caption amounts to €17,446 thousand compared to €9,788 thousand at 31 December 2021. It may be analysed as follows:

(thousands of Euros)	31.12.2022	31.12.2021
Payments on account to suppliers	1,547	1,388
Other tax assets	7,739	3,196
VAT assets	4,441	1,486
Prepayments and accrued income	2,693	2,551
Other	1,025	1,168
Total	**17,446**	**9,788**

Other tax assets mainly consist of the tax credits for research and development expenditure in addition to the current portion of the tax asset arising from the substitute tax paid to align the higher carrying amounts with the relevant tax bases upon consolidation as detailed in note 4.

[10] CURRENT FINANCIAL ASSETS

At 31 December 2022, this caption amounts to €12,875 thousand compared to €483 thousand at 31 December 2021. It may be analysed as follows:

(thousands of Euros)	31.12.2022	31.12.2021
Available-for-sale securities	2,855	-
Derivatives	1,791	13
Other financial assets	230	465
Deposit accounts	8,000	6
Total	**12,875**	**483**

At 31 December 2022, the deposit accounts include temporary deposits of liquidity including accrued interest income before tax withholdings.

Available-for-sale securities refer to investments, with major counterparties, aimed at managing part of the group's liquidity. The objective of these financial assets is the collection of contractual cash flows comprising payments of principal and interest at fixed rates at specific maturities.

The derivatives are forwards and currency options agreed to hedge commercial transactions but which do not qualify for hedge accounting and interest rate swaps agreed to cover fluctuations in interest rates on loans. Fair value gains and losses are recognised in profit or loss. More information is available in the paragraph on financial instruments in note [35] Other information.

[11] CASH AND CASH EQUIVALENTS

At 31 December 2022, this caption amounts to €96,636 thousand compared to €100,625 thousand at 31 December 2021. Reference should be made to the statement of cash flows for details of changes in the group's cash and cash equivalents.

(thousands of Euros)	31.12.2022	31.12.2021
Current accounts and post office deposits	96,599	100,585
Cash	37	40
Total	**96,636**	**100,625**

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:

(thousands of Euros)	31.12.2022	31.12.2021
Share capital	10,000	10,000
Legal reserve	2,000	2,000
Translation reserve	5,849	3,855
Hedging reserve	1,252	(51)
Other reserves	29,233	17,079
Retained earnings	94,921	73,009
Profit for the year	62,124	49,059
Total	**205,377**	**154,951**

The hedging reserve includes the fair value gains and losses on interest rate hedges.

Other reserves include a reserve related to the share-based long-term incentive (LTI) plan. Note [35] provides more information about this plan. The caption also includes the call option for the remaining 30% of Sauber held by the non-controlling investor, as defined in the acquisition agreement. In accordance with the IFRS, the fair value of the call option was recognised in equity.

At the reporting date, the parent had 30,482 treasury shares. In April, it assigned 70,036 shares upon completion of the second cycle of share options granted on 1 October 2018 for the 2019-2021 vesting period.

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:

(thousands of Euros)	31.12.2022	31.12.2021
Number of shares (in thousands)	99,592	99,899
Profit for the year (in thousands of Euros)	62,124	49,059
Earnings per share (in Euros)	**0.62**	**0.49**

The shareholders resolved to distribute a dividend of €0.15 per share on 22 April 2022, which resulted in the distribution of €14,995 thousand in June 2022.

[13] EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

At 31 December 2022, this caption amounts to €15,868 thousand compared to €14,923 thousand at 31 December 2021 and comprises the non-controlling interests in CFM (49%), Carel Thailand Co. Ltd (20%) and Sauber (30%).

(thousands of Euros)	31.12.2022	Profit for the year	Other comprehensive income	Dividends distributed	Change in consolidation scope	31.12.2021
Equity attributable to non-controlling interests	**15,868**	2,675	16	(3,268)	1,521	**14,923**

[14] CURRENT AND NON-CURRENT FINANCIAL LIABILITIES

These captions may be analysed as follows:

(thousands of Euros)	31.12.2022	31.12.2021
Bank loans and borrowings at amortised cost	51,784	67,942
Amounts due to bondholders	39,468	-
Lease liabilities	27,216	23,520
Effective hedging derivatives	-	27
Other loans and borrowings at amortised cost	489	771
Other financial liabilities	2,436	1,440
Non-current financial liabilities	**121,392**	**93,700**

(thousands of Euros)	31.12.2022	31.12.2021
Bank loans at amortised cost	69,716	60,281
Lease liabilities	5,434	4,037
Amounts due to bondholders	114	-
Bank borrowings at amortised cost	901	85
Derivatives held for trading at fair value through profit or loss	236	45
Other loans and borrowings at amortised cost	194	802
Other financial liabilities	7,365	0
Current financial liabilities	**83,960**	**65,250**

Amounts due to bondholders refer to the issue and placement of non-convertible bonds subscribed by funds managed by Pricoa (Prudential Insurance Company of America). Specifically, on 6 May 2022, the parent issued two ten-year non-convertible bonds with a nominal amount of €20,000 thousand due in May 2032 and with a five-year interest-only period. These bonds are part of a private shelf agreement whereby the parent can ask Pricoa, on an uncommitted basis and over the next three years, to subscribe additional bonds up to a total maximum amount of USD150 million. They are guaranteed by the parent and certain subsidiaries.

Fixed interest accrues on these bonds from the subscription date and repayment of principal will take place annually starting from the fifth year on a straight-line basis, with the first and last payment dates in May 2028 and May 2032, respectively.

The bonds are unrated and will not be listed on regulated markets. Compliance with the following covenants is checked every six months:

- net financial debt / EBITDA < 3.5x;
- net financial debt / equity < 1.5;
- EBITDA / net financial expense > 5x.

At 31 December 2022, such covenants were complied with:

(thousands of Euros)	Currency	Original amount	Maturity	Interest rate	Outstanding liability	Current	Non-current
Senior A bonds	EUR	20,000	2032	Fixed	19,791	57	19,734
Senior B bonds	EUR	20,000	2032	Fixed	19,791	57	19,734
Total						**114**	**39,468**

The following table shows the main characteristics of the bank loans by maturity at 31 December 2022:

BANK LOANS

(thousands of Euros)	Currency	Original amount	Maturity	Interest rate	Outstanding liability	Current	Non-current
Intesa San Paolo	EUR	6,000	2023	Fixed	6,000	6,000	-
Unicredit	EUR	20,000	2023	Fixed	2,222	2,222	-
Unicredit	EUR	20,000	2023	Floating	3,333	3,333	-
BNP Paribas	EUR	20,000	2023	Floating	10,010	10,010	-
BNP Paribas	EUR	30,000	2023	Floating	4,284	4,284	-
Mediobanca	EUR	25,000	2023	Floating	25,115	25,115	
Intesa San Paolo	EUR	10,000	2024	Fixed	3,771	2,514	1,257
Crédit Agricole FriulAdria	EUR	10,000	2024	Fixed	3,776	2,516	1,259
Credem	EUR	15,000	2026	Floating	14,987	3,636	11,350
Intesa San Paolo	EUR	10,000	2026	Floating	10,011	1,667	8,345
Intesa San Paolo	EUR	20,000	2026	Floating	20,024	3,333	16,691
Mediobanca	EUR	20,000	2026	Floating	15,716	4,444	11,272
Banco BPM	EUR	79	2023	Floating	53	53	-
Carige	EUR	350	2026	Fixed	336	87	249
Carige	EUR	250	2027	Fixed	250	57	193
Carige	EUR	400	2026	Fixed	400	109	291
MPS	EUR	787	2027	Fixed	712	154	558
Banco BPM	EUR	500	2025	Floating	500	182	318
Total					**121,499**	**69,716**	**51,784**

The following loans require compliance with covenants:

- Mediobanca (loan of €25,000 thousand, outstanding liability at 31 December 2022 of €25,115 thousand): Net financial debt / EBITDA < 3.50 and EBITDA / net financial expense > 5.00 based on the figures recognised in the consolidated financial statements;
- BNL – BNP Paribas (original loan of €20,000 thousand, outstanding liability at 31 December 2022 of €10,010 thousand): Net financial debt / EBITDA < 3.50 based on the figures recognised in the consolidated financial

statements.

- Mediobanca (loan of €20,000 thousand, outstanding liability at 31 December 2022 of €15,716 thousand): Net financial debt / EBITDA < 3.50 and EBITDA / net financial expense ratio 5.00 based on the figures recognised in the consolidated financial statements.
- Intesa Sanpaolo (original loans of €20,000 thousand and €10,000 thousand, outstanding liability at 31 December 2022 of €20,024 thousand and €10,012 thousand): Net financial debt / EBITDA < 3.50 based on the figures recognised in the consolidated financial statements;

At 31 December 2022, 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 hedging derivatives 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 [35] 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:

(thousands of Euros)	Currency	Original amount	Maturity	Interest rate	Outstanding liability	Current	Non-current
MedioCredito Centrale Progetto Horizon 2020	EUR	1,241	2026	Fixed	681	193	489
Total					**681**	**193**	**489**

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

(thousands of Euros)	31.12.2022	Net cash flows	Fair value gains or losses	Reclassification	First-time adoption of IFRS 16	Change in consolidation scope	31.12.2021
Bank loans	69,716	(45,432)	-	54,535	-	331	60,281
Amounts due to bondholders	114	114	-	-	-	-	-
Bank borrowings	901	(719)	-	-	-	1,534	85
Other loans and borrowings	194	(368)	(469)	197	-	32	802
Derivatives	236	(45)	236		-	-	45
Other financial liabilities	7,365	(311)	-	697	-	6,979	-
Current financial liabilities	**78,526**	**(46,761)**	**(233)**	**55,429**	-	**8,876**	**61,213**

(thousands of Euros)	31.12.2022	Net cash flows	Fair value gains or losses	Reclassification	First-time adoption of IFRS 16	Change in consolidation scope	Exchange differences	31.12.2021
Bank loans and borrowings at amortised cost	51,784	36,843	-	(54,535)	-	1,534	-	67,942
Amounts due to bondholders	39,468	39,468	-	-	-	-	-	-
Effective hedging derivatives	-		(27)	-	-	-	-	27
Other loans and borrowings at amortised cost	489	(85)	-	(197)	-	-	-	771
Other financial liabilities	2,436		-	(500)	-	1,469	27	1,440
Non-current financial liabilities	**94,177**	**76,226**	**(27)**	**(55,232)**	**0**	**3,003**	**27**	**70,180**

(thousands of Euros)	31.12.2022	Increases	Restatement of financial liabilities	Repayments	Interest	Exchange differences	Change in consolidation scope	31.12.2021
Lease liabilities	32,650	6,769	(385)	(5,473)	604	(232)	3,811	27,556

A breakdown of net financial debt calculated in accordance with ESMA guideline no. 32-382-1138 of 4 March 2021 is provided below.

FINANCIAL DEBT

	(thousands of Euros)	31.12.2022	31.12.2021
A	Cash	96,636	100,625
B	Cash equivalents	8,000	6
C	Other current financial assets	4,875	478
D	**Cash and cash equivalents (A+ B + C)**	**109,512**	**101,109**
E	Current loans and borrowings	8,502	130
F	Current portion of non-current loans and borrowings	75,344	65,119
G	**Current financial debt (E + F)**	**83,847**	**65,250**
H	**Current net financial position (G - D)**	**(25,665)**	**(35,859)**
I	Non-current loans and borrowings	81,924	93,673
J	Debt instruments	39,582	27
K	Trade payables and other non-current liabilities	11.556	-
L	**Non-current financial debt (I + J + K)**	**133,062**	**93,700**
M	**Net financial debt (H + L)**	**107.397**	**57,841**

As also required by Consob warning no. 5/21 of 29 April 2021, it is noted that the group has recognised a liability subject to conditions related to the option for the non-controlling interests in CFM and Sauber as detailed in note 18 while the earn-out mechanism for Senva is included in the section K of the above reported table as Non current liabilities. In compliance with such notice, it is also noted that the group recognised liabilities for defined benefit plans of €8,129 thousand (note 16) and provisions for risks of €5,852 thousand (note 15).

[15] PROVISIONS FOR RISKS

At 31 December 2022, provisions for risks amount to €5,852 thousand compared to €4,064 thousand at 31 December 2021 and they are broken down as follows:

(thousands of Euros)	31.12.2022	31.12.2021
Provision for agents' termination benefits	725	851
Provision for commercial complaints	33	93
Provision for product warranties	980	393
Other provisions	2,714	820
Total - non-current	**4,451**	**2,157**
Provision for commercial complaints	1,401	1,907
Total - current	**1,401**	**1,907**
Total	**5,852**	**4,064**

The following table shows changes in this caption:

(thousands of Euros)	31.12.2022	Accruals	Utilisa-tions	Reversals	Restate-ments	Change in consolidation scope	Exchange differences	31.12.2021
Provision for agents' termination benefits	725	41	(34)	-	(133)	-	-	851
Provision for commercial complaints	33	-	-	(66)	-	-	6	93
Provision for product warranties	980	605	(8)	-	-	-	(11)	393
Other provisions	2,714	-	-	-	-	1,874	19	820
Total - non-current	**4,451**	**646**	**(42)**	**(66)**	**(133)**	**1,874**	**14**	**2,157**
Provision for commercial complaints	1,401	390	(530)	(367)	-	-	-	1,907
Total - current	**1,401**	**390**	**(530)**	**(367)**	-	-	-	**1,907**
Total	**5,852**	**1,036**	**(572)**	**(433)**	**(133)**	**1,874**	**14**	**4,064**

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 decreased due to utilisations during the year.

Other provisions represent management's best estimate of the other liabilities that arise during normal operations and increased by €1,874 after allocation of the purchase price paid for the Klingenburg Group.

[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 are shown below.

(thousands of Euros)	31.12.2022
Opening balance	**8,612**
Interest cost	70
Change in consolidation scope	431
Other variations	(213)
Employee benefits paid	(429)
Exchange differences	12
Accruals	3,092
Transfer to pension plans	(2,366)
Actuarial losses	(1,080)
Closing balance	**8,129**

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 2022, this caption amounts to €18,242 thousand, compared to €17,110 thousand at 31 December 2021. Changes in deferred tax liabilities are available in note [5] Deferred tax assets. A breakdown of deferred tax liabilities is as follows:

(thousands of Euros)	2022 tax base	2022 deferred tax liabilities	2021 tax base	2021 deferred tax liabilities
Discounting of non-current liabilities	285	84	104	29
Differences from consolidation adjustments	58,792	15,532	57,714	15,364
Differences on amortisation and depreciation and other differences in standards	5,999	1,145	6,241	1,177
Other	7,225	1,481	2,968	540
Total	**72,301**	**18,242**	**67,027**	**17,110**

The largest differences is due to the allocation of non-taxable amounts upon the first-time consolidation of the acquirees.

[18] OTHER NON-CURRENT LIABILITIES

The balance of €67,256 thousand mainly refers to the liability for the put and call options on non-controlling interests in CFM (€52,427 million) and Sauber (€1,228 million) and the liability for the earn-out mechanism for Senva (€11,556 thousand). Reference should be made to the Consolidation scope section for more details on such options and the measurement method used.

In 2022, the group recognised interest expense of €608 thousand and a fair value loss of €2,235 thousand.

The caption is broken down as follows:

(thousands of Euros)	31.12.2022	31.12.2021
Other	2,048	292
Call options on non-controlling interests	65,208	49,602
Total	**67,256**	**49,894**

"Other" comprises non-current deferred income and non-current liabilities for the LTI incentive plans

[19] TRADE PAYABLES

Trade payables amount to €77,174 thousand, compared to €66,444 thousand at 31 December 2021. The increase is mostly due to the group's greater business volumes and the inclusion of the new acquirees in the consolidation scope, contributing trade payables of €3,931 thousand.

There are no significant past due amounts at 31 December 2022.

[20] CURRENT TAX LIABILITIES

At 31 December 2022, this caption amounts to €4,987 thousand compared to €4,775 thousand at the end of the previous year. It entirely consists of direct income tax liabilities.

[21] 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).

(thousands of Euros)	31.12.2022	31.12.2021
Social security contributions	5,654	4,888
Tax withholdings	2,084	2,018
Other current tax liabilities	552	263
VAT liabilities	2,409	1,467
Wages and salaries, bonuses and holiday pay	18,485	16,301
Other	3,042	3,135
Total	**32,226**	**28,072**

NOTES TO THE STATEMENT OF PROFIT OR LOSS

[22] REVENUE

Revenue amounts to €544,852 thousand, compared to €420,418 thousand in 2021, with a year-on-year increase of 29.6%.

It is shown net of discounts and allowances.

Revenue generated by services amounts to €9,609 thousand compared to €3,524 thousand in 2021. A breakdown of revenue by business segment is as follows:

(thousands of Euros)	2022	2021	Variation %
HVAC	371,852	270,011	37.7%
REF	168,934	145,826	15.8%
Core revenue	**540,786**	**415,837**	**30.0%**
Non-core revenue	4,066	4,581	(11.2%)
Total	**544,852**	**420,418**	**29.6%**

There are no group customers that individually contribute more than 5% to the group's revenue.

A breakdown of revenue by geographical segment is as follows:

(thousands of Euros)	2022	2021	Variation %
Europe, Middle East and Africa	382,730	302,311	26.6%
APAC	78,186	62,725	24.6%
North America	70,974	46,030	54.2%
South America	12,962	9,352	38.6%
Total	**544,852**	**420,418**	**29.6%**

[23] OTHER REVENUE

Other revenue amounts to €5,780 thousand, an increase on the €5,779 thousand balance in 2021. The caption may be broken down as follows:

(thousands of Euros)	2022	2021	Variation %
Grants related to income	1,661	3,130	(46.9%)
Sundry cost recoveries	2,487	1,973	26.1%
Other revenue and income	1,632	677	>100%
Total	**5,780**	**5,779**	**0.0%**

The grants related to income of €1,661 thousand (2021: €3,130 thousand) mainly relate to the tax credit for development activities recognised as provided for by Law no. 190 of 23 December 2014 (the 2015 Stability Law). In 2021, this caption included the grant given to the US group company as part of the Covid-19 support.

Sundry cost recoveries mostly refer to transport and other costs.

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

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

This caption amounts to €248,838 thousand, compared to €190,138 thousand in 2021. A breakdown of the caption is as follows:

(thousands of Euros)	2022	2021	Delta %
Costs of raw materials, consumables and goods and changes in inventories	(248,838)	(190,138)	30.9%
% of revenue	(45.7%)	(45.2%)	1.0%

[25] SERVICES

The group incurred costs of €70,234 thousand for services in 2022, up €19,200 thousand on the previous year. Transport costs increased due to the higher business volumes as did most of the cost items. The rise in consultancies refers to the non-recurring costs for M&A activities (€3,018 thousand).

The new acquirees contributed costs of around €3,878 thousand for services.

The caption may be broken down as follows:

(thousands of Euros)	2022	2021	Delta %
Transport	(21,257)	(15,843)	34.2%
Consultancies	(11,105)	(8,884)	25.0%
Business trips and travel	(3,601)	(1,726)	>100%
Use of third party assets	(2,183)	(1,712)	27.5%
Maintenance and repairs	(7,452)	(5,561)	34.0%
Marketing and advertising	(2,191)	(926)	>100%
Outsourcing	(2,957)	(2,307)	28.2%
Agency commissions	(2,100)	(1,821)	15.3%
Utilities	(3,323)	(1,806)	84.0%
Fees to directors, statutory auditors and independent auditors	(2,334)	(2,143)	8.9%
Insurance	(1,869)	(1,460)	28.1%
Telephone and connections	(1,045)	(922)	13.3%
Other services	(8,816)	(5,923)	48.8%
Total	**(70,234)**	**(51,034)**	**37.6%**

[26] CAPITALISED DEVELOPMENT EXPENDITURE

This caption amounts to €705 thousand, compared to €1,249 thousand in 2021 and is almost entirely related to development projects capitalised under intangible assets. Part of the capitalised costs refer to self-constructed equipment and machinery recognised under property, plant and equipment. The caption may be analysed as follows:

(thousands of Euros)	2022	2021	Variation %
Development expenditure	561	1,117	(49.7%)
Self-constructed plant and machinery	144	132	8.9%
Total	**705**	**1,249**	**(43.5%)**

The group incurred research and development expenditure of €20,002 thousand (excluding that of the companies acquired in the year) and €19,034 thousand in 2022 and 2021, respectively. Only the amounts described above were capitalised, as they met the requirements of IAS 24.

[27] PERSONNEL EXPENSE

This caption amounts to €118,425 thousand for 2022 compared to €99,379 thousand for the previous year. Breakdowns of this caption and of the workforce by employee category are as follows:

(thousands of Euros)	2022	2021	Variation %
Wages and salaries, including bonuses and accruals	(93,496)	(77,583)	20.5%
Social security contributions	(19,449)	(17,294)	12.5%
Defined benefit plans	(3,092)	(2,808)	10.1%
Other costs	(2,388)	(1,694)	41.0%
Total	**(118,425)**	**(99,379)**	**19.2%**

	31.12.2022		31.12.2021	
	year end	average	year end	average
Managers	69	66	62	62
White collars	1,315	1,215	1,114	1,087
Blue collars	915	802	689	657
Total	**2,299**	**2,082**	**1,865**	**1,806**

[28] OTHER EXPENSE, NET

This caption amounts to €2,115 thousand, compared to €1,594 thousand for the previous year. It may be broken down as follows:

(thousands of Euros)	2022	2021	Variation %
Gains on the sale of non-current assets	73	367	(80.1%)
Prior year income	1,464	665	>100%
Release of provisions for risks	433	57	>100%
Other income	**1,970**	**1,089**	**79.4%**
Losses on the sale of non-current assets	(27)	(17)	3.4%
Prior year expense	(296)	(157)	88.1%
Other taxes and duties	(1,540)	(1,008)	52.7%
Impairment losses on loans and receivables	(564)	(354)	59.0%
Accrual to the provisions for risks	(995)	(734)	35.6%
Credit losses	(36)	(15)	>100%
Other costs	(628)	(398)	57.8%
Other expense	**(4,085)**	**(2,683)**	**51.7%**
Other expense, net	**(2,115)**	**(1,594)**	**32.7%**

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.

[29] AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES

Amortisation and depreciation amount to €24,414 thousand, up from €20,844 thousand in the previous year. The caption also includes depreciation and amortisation arising from the PPA procedure (€5,642 thousand). It may be analysed as follows:

(thousands of Euros)	2022	2021	Variation %
Amortisation	(9,642)	(7,792)	23.7%
Depreciation	(14,736)	(13,050)	12.9%
Impairment losses	(36)	(2)	>100%
Total	**(24,414)**	**(20,844)**	**17.1%**

[30] NET FINANCIAL EXPENSE

Net financial expense amounts to €3,173 thousand compared to €2,355 thousand in the previous year. The caption may be broken down as follows:

(thousands of Euros)	2022	2021	Variation %
Gains on financial assets	357	26	>100%
Interest income	140	81	71.9%
Gains on derivatives	103	8	>100%
Other financial income	208	97	>100%
Dividends received	30	107	(72.2%)
Financial income	**838**	**319**	**>100%**
Bank interest expense	(786)	(861)	(8.8%)
Lease interest expense	(580)	(670)	(13.4%)
Other interest expense	(587)	(24)	>100%
Losses on derivatives	(269)	(104)	>100%
Other financial expense	(1,036)	(613)	69.0%
Net fair value losses on financial assets and liabilities	(146)	0	>100%
Interest expense on call options for non-controlling interests	(608)	(402)	51.2%
Financial expense	**(4,011)**	**(2,675)**	**50.0%**
Net financial expense	**(3,173)**	**(2,355)**	**34.7%**

Other interest expense includes interest on the bonds issued in 2022.

[31] NET EXCHANGE LOSSES

Net exchange losses amount to €861 thousand compared to €1,430 thousand in 2021 and are mostly a result of the US dollar's depreciation. They are made up as follows:

(thousands of Euros)	2022	2021	Variation %
Exchange losses	(11,572)	(5,144)	>100%
Exchange gains	10,711	3,714	>100%
Net exchange losses	**(861)**	**(1,430)**	**(39.8%)**

[32] NET FAIR VALUE LOSS ON THE LIABILITY FOR THE CALL OPTION FOR NON-CONTROLLING INTERESTS

The net fair value loss of €2,235 thousand refers to the fair value measurement of the liabilities recognised for the call options related to the subsidiaries CFM and Sauber at the reporting date.

[33] SHARE OF PROFIT OF EQUITY-ACCOUNTED INVESTEES

This caption shows a net profit of €2,360 thousand compared to €508 thousand in 2021. It mostly comprises the fair value gains on the initial investment in Arion (40%), which subsequently entered the consolidation scope.

[34] INCOME TAXES

This caption amounts to €18,603 thousand compared to €11,967 thousand in the previous year. It may be broken down as follows:

(thousands of Euros)	2022	2021
Current taxes	(20,983)	(14,986)
Deferred taxes	1,828	3,013
Taxes relative to prior years	552	7
Total	**(18,603)**	**(11,967)**

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:

(in migliaia di euro)	2022	2021
Profit before tax	83,402	61,055
Income taxes calculated using the theoretical IRES rate	(20,016)	(14,653)
IRAP	(834)	(816)
Effect of the different rates applied by the group companies operating in other countries	1,387	2,056
Withholding tax on dividends	(1,643)	(438)
Taxes relative to prior years	552	7
Effect of the different rates applied by the group companies operating in other countries and other changes	1,952	1,877
Total	**(18,603)**	**(11,967)**

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.

[35] 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:

(thousands of Euros) *forward*	31.12.2022				31.12.2021			
	Purchases *	**Sales ***	**Positive fair value ****	**Negative fair value ****	**Purchases ***	**Sales ***	**Positive fair value ****	**Negative fair value ****
USD/CNY	-	11,900	50	(78)	-	-	-	-
USD/EUR	-	1,000	-	(49)	-	-	-	-
ZAR/USD	-	7,000	-	(11)	-	6,000	8	(3)
CNY/USD	-	-	-	-	-	600	-	(1)
EUR/CNY	-	2,000	-	(99)	-	-	-	-
THB/USD	-	-	-	-	-	5,500	-	(1)
Total forwards			**50**	**(236)**			**8**	**(5)**
Options								
USD/EUR	5,000	-	94	-	-	4,100	4	-
EUR/CNY	-	2,000	0	-	-	-	-	-
USD/CNY	-	6,000	0	-	-	-	-	-
Total options			**94**	**-**			**4**	**-**
Total			**144**	**(236)**			**12**	**(5)**

* in thousand local currency

** in euro thousand

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

(in migliaia di euro)	Notional amount	Fixed interest rate	Maturity	Fair value 31.12.2022	Fair value 31.12.2021
BNL	30,000	-0.11%	19/11/2022	n.a.	(41)
BNL	20,000	-0.02%	30/04/2023	102	(67)
Unicredit	20,000	-0.04%	30/04/2023	24	(41)
Mediobanca	25,000	-0.42%	04/08/2023	478	9
Mediobanca	20,000	-0.31%	26/06/2026	1,044	72

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 equity-settled performance plan resolved by the shareholders on 7 September 2018 is an equity-settled incentive plan, with the free assignment of shares to members of boards of directors and/or company employees. The plan is divided into three rolling cycles (vesting periods), 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 number of shares allocated is subject to achieving performance objectives based on adjusted EBITDA and cash conversion ratios. The performance objectives are independent of one another and will be calculated separately for each vesting period.

On 4 March 2022, the parent's board of directors approved the assignment of treasury shares upon conclusion of the second vesting period (2019-2021). It had granted 62,946 share options with a fair value of €855 thousand on 2 October 2019 for this vesting period.

In April, it assigned 70,039 treasury shares to 18 beneficiaries for a total of €768 thousand. The gain of €87 thousand between the fair value of the shares assigned, measured using the rolling FIFO method, and their fair value at the grant date was reclassified to an available income-related reserve.

In accordance with IFRS 2 Share-based payments, the fair value of the shares calculated at the grant 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 2022, the group recognised an expense of €408 thousand in profit or loss and the same amount was also recognised as an increase in equity. This amount represents the amount attributable to the third vesting period of the plan (2020-2022), the fair value of which amounts to €865 thousand.

In March 2021, the parent's board of directors approved:

- the regulation for an equity-settled incentive plan involving the free assignment of the parent's ordinary shares, the 2021-2025 equity-settled performance plan (the LTI share plan);
- the regulation for the 2021-2025 cash-settled performance plan (the LTI cash plan);

Both plans are reserved for the executive directors, key management personnel and employees of the parent and its subsidiaries who play a key role in achievement of the group's objectives. The parent's shareholders approved the plans in April 2021.

The term, vesting periods (three rolling cycles), beneficiaries and performance objectives (cumulative adjusted EBITDA for each vesting period (weight of 50%), cash conversion - average value of the vesting periods (weight of 30%), ESG targets - average achievement of a number of sustainability indicators (weight of 20%)) are the same for both plans.

On 10 November 2022, the parent's board of directors resolved to execute the LTI cash plan for the 2022-2024 vesting period (similarly to its decision taken for the 2021-2023 vesting period one year earlier) as this plan is less complicated compared to the operating and tax management of the LTI share plan, both for the parent and its beneficiaries. The board of directors also established the percentage of gross annual remuneration for the cash benefit for each beneficiary for a total of approximately €1,770 thousand.

The cash to be actually paid to each beneficiary will be calculated at the end of the 2022-2024 vesting period considering whether they have met the performance objectives established in the plan's regulation.

Pursuant to IAS 19 Employee benefits, cash-settled incentive plans qualify as defined benefit plans and, therefore, the liability was calculated by an independent actuary using the projected unit credit method as required by the standard. This method determines the average present value of the obligations accrued for the service provided by the beneficiary up to the valuation date.

The parent recognised a cost of €882 thousand in profit or loss in 2022 and a similar amount under Other non-current liabilities at 31 December 2022.

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 2022 and 2021 and their fair value:

31.12.2022			Fair value		
(in migliaia di euro)	IFRS 9 category	Carrying amount	Level 1	Level 2	Level 3
Derivatives	Financial instruments held for trading	1,791		1,791	
Available-for-sale securities	Available-for-sale financial assets	2,855	2,855		
Other financial assets	Loans and receivables	8,230		8,000	230
Other current financial assets		**12,875**			
Trade receivables	Loans and receivables	93,692			93,692
Total financial assets		**116,568**			
including:	**Available-for-sale financial assets**	**2,855**			
	Financial instruments held for trading	**1,791**			
	Loans and receivables	**101,922**			
Bank loans and borrowings	Financial liabilities at amortised cost	51,784		51,784	
Amounts due to bondholders	Financial liabilities at amortised cost	39,468		39,468	
Other loans and borrowings	Financial liabilities at amortised cost	489		489	
Non-current lease liabilities	Financial liabilities at amortised cost	27,216			27,216
Effective hedging derivatives	Financial instruments held for trading	-		0	
Other non-current financial liabilities	Financial liabilities at amortised cost	2,436			2,436
Non-current financial liabilities		**121,392**			
Bank borrowings	Financial liabilities at amortised cost	901		901	
Current bank loans	Financial liabilities at amortised cost	69,716		69,716	
Current lease liabilities	Financial liabilities at amortised cost	5,434			5,434
Amounts due to bondholders	Financial liabilities at amortised cost	114		114	
Derivatives	Financial instruments held for trading	236		236	
Other loans and borrowings	Financial liabilities at amortised cost	194		194	
Other current financial liabilities	Financial liabilities at amortised cost	7,365			7,365
Current financial liabilities		**83,960**			
Trade payables	**Financial liabilities at amortised cost**	**77,174**			**77,174**
Total financial liabilities		**282,527**			
including	**Financial liabilities at amortised cost**	**282,290**			
	Financial instruments held for trading	**236**			

Off-statement of financial position commitments and guarantees

At the reporting date, the parent has issued sureties of €3,261 thousand, including €133 thousand in favour of subsidiaries.

Related party transactions

During 2022 and 2021, the group carried out commercial transactions with related parties as follows:

RELATED AT 31.12.2021

(thousands of Euros)	Trade receivables	Loan assets	Trade payables	Financial liabilities	Revenue	Financial income	Costs	Financial expense
Arion S.r.l.	-	160	(70)	-	1	-	(2,366)	-
Free Polska s.p.z.o.o.	887	-	(1,234)	-	17	107	(9,527)	-
Total associates	**887**	**160**	**(1,304)**	**-**	**18**	**107**	**(11,893)**	**-**
RN Real Estate S.r.l.	12	-	(442)	(13,103)	14	-	-	(198)
Arianna S.p.A.	5	-	-	-	5	-	-	-
Nastrificio Victor S.p.A.	-	-	(9)	-	-	-	(71)	-
Eurotest laboratori S.r.l.	6	-	(96)	-	33	-	(29)	-
Carel Real Estate Adratic d.o.o.	2	-	(17)	(2,269)	2	-	(1)	(88)
Agriturismo Le Volpi	-	-	(4)	-	-	-	(4)	-
Eurotec Ltd	235	-	(9)	-	666	-	(29)	-
Panther S.r.l.	-	-	(6)	-	-	-	(8)	-
Gestion A.Landry Inc	-	-	-	(53)	-	-	(2)	(1)
Humide Expert	-	-	-	-	-	-	(77)	-
Murat Cem Ozdemir	-	-	-	(1,698)	-	-	-	(35)
Others	-	-	(9)	-	27	-	(43)	-
Total other related parties	**260**	**-**	**(592)**	**(17,123)**	**747**	**-**	**(264)**	**(322)**
Total	**1,147**	**160**	**(1,896)**	**(17,123)**	**765**	**107**	**(12,157)**	**(322)**

RELATED AT 31.12.2022

(thousands of Euros)	Trade receivables	Loan assets	Trade payables	Financial liabilities	Revenue	Financial income	Costs	Financial expense
Arion S.r.l.	-	-	-	-	-	-	(743)	-
Free Polska s.p.z.o.o.	236	-	(20)	-	10	30	(15,023)	-
Total associates	**131**	**-**	**(563)**	**-**	**7**	**30**	**(15,471)**	**-**
RN Real Estate S.r.l.	12	-	(217)	(15,226)	14	-	(2)	(67)
Nastrificio Victor S.p.A.	-	-	(39)	-	-	-	(72)	-
Eurotest laboratori S.r.l.	4	-	(137)	-	7	-	(319)	-
Carel Real Estate Adratic d.o.o.	3	-	(46)	(2,047)	2	-	(24)	(74)
Eurotec Ltd	174	-	(8)	-	754	-	(41)	-
Panther S.r.l.	-	-	(3)	-	-	-	(11)	-
Gestion A.Landry Inc	-	-	-	(30)	-	-	(3)	(1)

RELATED AT 31.12.2022

(thousands of Euros)	Trade receivables	Loan assets	Trade payables	Financial liabilities	Revenue	Financial income	Costs	Financial expense
Humide Expert	-	-	(5)	-	-	-	(90)	-
Murat Cem Ozdemir		4	-	(1,623)	-	-	(41)	(38)
Bridgport S.p.A.	-	-	(150)	-	62	-	(120)	-
Brimind S.r.l.	-	-	(17)	(71)	-	-	(8)	(1)
Others	4	-	(37)	(300)	7	-	(56)	-
Total other related parties	**197**	**4**	**(659)**	**(19,297)**	**846**	**-**	**(787)**	**(181)**
Total	**328**	**4**	**(1,222)**	**(19,297)**	**853**	**30**	**(16,258)**	**(181)**

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 in accordance with IFRS 16.

Costs from Free Polska relate to non-group products purchased and resold by the subsidiary 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:

COMPANY	Registered office	Country	Currency	Share Capital/quota at
				31/12/21
Parent:				
Carel Industries S.p.A	Brugine (Padova)	Italy	Euro	10.000.000
Consolidated investees:				
C.R.C. S.r.l.	Bologna	Italy	Euro	98.800
Carel Deutschland Gmbh	Frankfurt	Germany	Euro	25.565
Carel France Sas	St. Priest, Rhone	France	Euro	100.000
Carel U.K. Ltd	London	GB	Pound Sterling	350.000
Carel Sud America Instrumentacao Eletronica Ltda	San Paolo	Brazil	Real	31.149.059
Carel Usa Inc	Pennsylvania	USA	Us Dollar	5.000.000
Carel Asia Ltd	Hong Kong	Honk Kong	Hong Kong Dollar	15.900.000
Carel HVAC&R Korea Ltd	Seul	South Korea	South Korean Won	550.500.000
Carel South East Asia Pte. Ltd.	Singapore	Singapore	Singapore dollar	100.000
Carel Australia PTY Ltd	Sydney	Australia	Australian Dollar	100
Carel Electronic Suzhou Ltd	Suzhou	People's Republic of China	Renminbi	75.019.566
Carel Controls Iberica Sl	Barcelona	Spain	Euro	3.005
Carel Controls South Africa (Pty) Ltd	Johannesburg	South Africa	Rand	4.000.000
Carel ACR System India (Pvt) Ltd	Mumbai	India	Rupee	1.665.340
Carel RUS Llc	St. Petersburg	Russia	Ruble	6.600.000
Carel Nordic AB	Hoganas	Sweden	Swedish Krona	550.000
Carel Middle East	Dubai	Dubai	Dirham	4.333.877
Carel Mexicana, S. DE R.L. DE C.V.	Guerra, Tlalpan	Mexico	Peso	12.441.149
Carel Adriatic D.o.o.	Rijeka	Croatia	Kuna	54.600.000
Carel (Thailand) Co. Ltd.	Bangkok	Thailand	Baht	16.000.000
Alfaco Polska Sp.z.o.o.	Wrocław	Poland	Zloty	420.000
Carel Japan	Tokyo	Japan	Yen	60.000.000
Recuperator S.p.A.	Rescaldina (MI)	Italy	Euro	500.000
Hygromatik G.m.b.H.	Hamburg	Germany	Euro	639.115
Carel Ukraine LLC	Kiev	Ukraine	UAH	700.000
Enersol	Beloeil	Canada	CAD	100
CFM Sogutma Ve Otomasyon	Izmir	Turkey	EUR	2.473
Enginia Srl	Trezzo Sull'Adda (MI)	Italy	EUR	10.400
Arion S.r.l.	Bolgare (BG)	Italy	Euro	n.a.
Sauber S.r.l.	Mantova (MN)	Italia	EUR	n.a.

Share Capital/quota at	Investment %	Share/quota holder	Consolidation method	Profit for the period 31.12.2022	Profit for the period 31/12/2021
31/12/22	31/12/22			EURO	EURO
10.000.000				47.510.497	27.257.788
98.800	100%	Carel Industries S.p.A.	line by line	1.786.049	1.006.045
25.565	100%	Carel Industries S.p.A.	line by line	3398294	2.740.965
100.000	100%	Carel Industries S.p.A.	line by line	307.078	1.542.492
350.000	100%	Carel Industries S.p.A.	line by line	834976	780914
31.149.059	53,02% 46,98%	Carel Industries S.p.A. Carel Electronic Suzhou Ltd	line by line	1.499.483	725.607
33.000.000	100%	Carel Industries S.p.A.	line by line	4930312	4387128
15.900.000	100%	Carel Industries S.p.A.	line by line	1.091.645	965.448
550.500.000	100%	Carel Electronic Suzhou Ltd	line by line	152.932	(259.795)
100.000	100%	Carel Asia Ltd	line by line	38.375	47.340
100	100%	Carel Electronic Suzhou Ltd	line by line	755.747	646.691
75.019.566	100%	Carel Industries S.p.A.	line by line	12.225.823	8.860.203
3.005	100%	Carel Industries S.p.A.	line by line	1.231.800	1.086.135
4.000.000	100%	Carel Electronic Suzhou Ltd	line by line	887.257	752.573
1.665.340	0,01% 99,99%	Carel France Sas Carel Electronic Suzhou Ltd	line by line	269.342	250.282
6.600.000	99% 1%	Carel Industries S.p.A. Carel France Sas	line by line	661.100	766.473
550.000	100%	Carel Industries S.p.A.	line by line	563.478	376.013
4.333.877	100%	Carel Industries S.p.A.	line by line	191.012	36.804
12.441.149	100%	Carel Usa LCC	line by line	149.880	31.270
54.600.000	100%	Carel Industries S.p.A.	line by line	10.081.835	5.018.539
16.000.000	50%	Carel Electronic Suzhou Ltd Carel Australia PTY Ltd	line by line	318.849	200.803
420.000	100%	Carel Industries S.p.A.	line by line	3.781.544	3.588.710
60.000.000	100%	Carel Industries S.p.A.	line by line	343.809	45.768
500.000	100%	Carel Industries S.p.A.	line by line	743.392	582.470
639.115	100%	Carel Industries S.p.A.	line by line	3.355.354	3.414.278
700.000	100%	Alfaco Polska Zoo	line by line	(60.170)	84.397
100	100%	Carel Usa Inc	line by line	170.242	267.595
2.473	51%	Carel Industries S.p.A.	line by line	5.963.175	699.538
10.400	100%	Recuperator S.p.A.	line by line	812.102	898.967
100.000	70%	Carel Industries S.p.A.	line by line	451.741	n.a.
100.000	100%	Carel Industries S.p.A.	line by line	535.282	n.a.

COMPANY	Registered office	Country	Currency	Share Capital/quota at
				31/12/21
Klingenburg GmbH	Gladbeck	Germany	EUR	n.a.
Klingenburg Usa LLC	RALEIGH	USA	USD	n.a.
Klingenburg Uk Ltd	Folkestone	GB	GBP	n.a.
Klingenburg Iberica Slu	Madrid	Spain	EUR	n.a.
Klingenburg International Sp. z o.o.	Świdnica	Poland	PLN	n.a.
Senva Inc.	Oregon	USA	USD	n.a.

OTHER INFORMATION ON SUBSIDIARIES

The subsidiaries Carel Deutschland GmbH, HygroMatik GmbH and Klngenburg GmbH, 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 their financial statements at 31 December 2022 and the accompanying directors' reports.

FEES PAID TO DIRECTORS, STATUTORY AUDITORS AND KEY MANAGEMENT PERSONNEL

The fees paid to directors and statutory auditors for the year ended 31 December 2022 are as follows:

DIRECTORS

(thousands of Euros)	2022	2021
Remuneration and fees	1,549	1,445
Other non-monetary benefits	22	23
Fair value of share-based payments	174	175
Total	**1,745**	**1,643**

STATUTORY AUDITORS

(thousands of Euros)	2022	2021
Fixed fees and fees for participation in committees	103	104
Total	**103**	**104**

KEY MANAGEMENT PERSONNEL

(thousands of Euros)	2022	2021
Remuneration and fees	1,447	1,400
Other non-monetary benefits	18	21
Post-employment benefits or termination benefits		-
Fair value of share-based payments	182	182
Total	**1,647**	**1,603**

Share Capital/quota at	Investment %	Share/quota holder	Consolidation method	Profit for the period 31.12.2022	Profit for the period 31/12/2021
31/12/22	31/12/22			EURO	EURO
38.400	100%	Carel Industries S.p.A.	Integrale	327.304	n.a.
699.671	100%	Carel Industries S.p.A.	Integrale	6.087	n.a.
100	100%	Carel Industries S.p.A.	Integrale	154.661	n.a.
3.500	100%	Carel Industries S.p.A.	Integrale	10.707	n.a.
50.000	100%	Carel Industries S.p.A.	Integrale	794.545	n.a.
-	100%	Carel Usa Inc	Integrale	31.285	n.a.

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				
(thousands of Euros)	Independent auditors	Recipient	2022 fees	2021 fees
Audit	Deloitte & Touche S.p.A.	Carel Industries S.p.A.	239	238
	Deloitte & Touche S.p.A.	Società controllate	55	48
	Rete Deloitte & Touche	Società controllate	154	123
Attestation services	Deloitte & Touche S.p.A.	Carel Industries S.p.A.	45	44
	Deloitte & Touche S.p.A.	Società controllate	5	5
Total			**498**	**458**

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

A list of the subsidies, grants, fees for paid positions and any type of economic benefits received from public administrations and other parties defined by article 1.125 of Law no. 124 of 2017, that the group companies received in 2022 is set out below:

Carel Industries S.p.A.:

- other than the tax credit for research and development and technological innovation activities - Law no. 160/2019 as subsequently amended and supplemented, the Ministerial decree of 26 May 2020, Law no. 178/2020, Industry 4.0 - Law no. 160/2019, maxi-amortisation and depreciation - Law no. 178/2020, Ecobonus - Law no. 296/2006 Energy and gas tax credit - Law decree no. 144/2022 and Law decree no. 176/2022 due for the year, the parent did not receive any subsidies, grants, fees for paid positions or any type of economic benefits not of a general nature and that are not consideration, remuneration or compensation from the public administration and other parties as defined by article 35 of Law no. 34 of 30 September 2019, which replaced article 1.125 of law no. 124/2017.

Recuperator S.p.A.:

- other than the tax credit for research and development and technological innovation activities - Law no. 160/2019 as subsequently amended and supplemented, the Ministerial decree of 26 May 2020, Law no. 178/2020, Industry 4.0 - Law no. 160/2019, maxi-amortisation and depreciation - Law no. 178/2020 Energy and gas tax credit - Law decree no. 144/2022 and Law decree no. 176/2022 due for the year, the group company received the following subsidies, grants, fees for paid positions or any type of economic benefits not of a general nature and that are not consideration, remuneration or compensation from the public administration and other parties as defined by article 35 of Law no. 34 of 30 September 2019, which replaced article 1.125 of Law no. 124/2017:
  - tax benefit of €530 for sanitisation activities and the purchase of personal protection equipment (PPE) - article 32 of Law decree no. 73 of 25 May 2021;
  - tax benefit of €35,913 for assets used in operations as per Ministerial decree dated 27 November 2013 ("Nuova Sabatini" decree);
  - Fondimpresa contribution to training activities (€3,015)

Arion S.r.l.:

- other than the tax credit for research and development and technological innovation activities - Law no. 160/2019 as subsequently amended and supplemented due for the year, the group company did not receive any subsidies, grants, fees for paid positions or any type of economic benefits not of a general nature and that are not consideration, remuneration or compensation from the public administration and other parties as defined by article 35 of Law no. 34 of 30 September 2019, which replaced article 1.125 of Law no. 124/2017.

C.r.c S.r.l.:

- other than the tax credit for research and development and technological innovation activities - Law no. 160/2019 as subsequently amended and supplemented, the Ministerial decree of 26 May 2020, Law no. 178/2020, Industry 4.0 - Law no. 160/2019, maxi-amortisation and depreciation - Law no. 178/2020, Ecobonus - Law no. 296/2006 Energy and gas tax credit - Law decree no. 144/2022 and Law decree no. 176/2022 due for the year, the group company did not receive any subsidies, grants, fees for paid positions or any type of economic benefits not of a general nature and that are not consideration, remuneration or compensation from the public administration and other parties as defined by article 35 of Law no. 34 of 30 September 2019, which replaced article 1.125 of law no. 124/2017.

Sauber Sr.l.:

- other than the tax credit for research and development and technological innovation activities - Law no. 160/2019 as subsequently amended and integrated, Ministerial decree of 26 May 2020, Law no. 178/2020 Industry 4.0, Law no. 160/2019 Superbonus article 121 of Law decree no. 34/2022, Ecobonus and photovoltaic systems, article 121 of Law decree no. 34/2020, restructuring of historical buildings article 121 of Law decree no. 34/2020 due for the year, the group company did not receive any subsidies, grants, fees for paid positions or any type of economic benefits not of a general nature and that are not consideration, remuneration or compensation from the public administration and other parties as defined by article 35 of Law no. 34 of 30 September 2019, which replaced article 1.125 of Law no. 124/2017.

Enginia S.r.l.:

- other than the tax credit for energy and gas - Law decree no. 144/2022 and Law decree no. 176/2022 due for the year, the group company did not receive any subsidies, grants, fees for paid positions or any type of economic benefits not of a general nature and that are not consideration, remuneration or compensation, from the public administration and other parties as defined by article 35 of Law no. 34 of 121 September 34, which replaced article 2022 of Law no. 124/2017.

STATEMENT ON THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ARTICLE 154-BIS OF LEGISLATIVE DECREE NO. 58/98 AND ARTICLE 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AS SUBSEQUENTLY AMENDED AND SUPPLEMENTED

1. The undersigned Francesco Nalini, as chief executive officer, and 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 2022:
   - 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 2022:

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;

3.3. The english version of the consolidated financial statements of Carel Group constitute a non-official version with regard to the provisions of the Commission Delegated Regulation (EU) 2019/815.

Brugine, 2 March 2023

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

INDEPENDENT AUDITORS' REPORT

Deloitte.

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

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

REPORT ON THE AUDIT OF THE 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 2022, 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 2022, 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, Hygromatik, CFM Sogutma ve Otomasyon Anonim Sirketi (CFM), Enginia and Senva CGU's	
Description of the key audit matter	The consolidated financial statements as at 31 December 2022, include goodwill related to the CGU, Recuperator for Euro 6,3 million, Hygromatic for Euro 38,5 million, CFM Sogutma ve OtomasyonAnonim Sirketi (CFM) for Euro 11,4 million, Enginia for Euro 6,6 million and Senva for Euro 18,5 million. These amounts were recognized as a result of the acquisition of Recuperator and Hygromatic in 2018, CFM and Enginia 2021 and Senva in 2022. As required by IAS 36 "impairment of assets", goodwill is not amortized, but is subjected to impairment test at least annually, which compares the recoverable value of the CGUs – based on the value of in use methodology – and the carrying value which includes goodwill and other tangible and intangible assets allocated to the CGUs. In their disclosure, the Directors explain the main assumptions applied in performing the test and provide the break-even analysis in relation to the main key factors of the impairment test, to evaluate the degree of sensitivity of the test to the changes in the key variables. The Directors 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). The Directors report, also, that the assumptions used are reasonable and are the most likely scenarios based on the information available, but the output of the impairment test may be different if any of the assumptions change significantly. We have 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 have assessed that the impairment test represents a key audit matter for the audit of Carel Group's consolidated financial statements. Note 2 of the consolidated financial statements provides disclosure on impairment tests and the effects of sensitivity analysis resulting from the changes in the key variables used in performing the impairment test.

Audit procedures performed	As part of our audit, among others, 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 the Directors 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 the Directors; • analysis of the actual results obtained by the Group compared to the expectations, in order to investigate the nature of the variations and evaluate the reliability of the planning process; • analysis 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 CGUs; • test of the accuracy of the determination of the carrying value of the CGUs and comparison with the recoverable value resulting from the impairment test; • examination of the sensitivity analysis prepared by the Directors. Finally we verified the appropriateness and the compliance of the disclosure on the impairment test provided by the Directors to the requirements of IAS 36.
Accounting for Business combination's operation	
Description of the key audit matter	In 2022, Carel Group completed a business combination, through an *"asset purchase agreement"* performed by the subsidiary Carel US, of the "*business*" of Senva INC, a company active in the sensor manufacturing sector mainly related to the air conditioning and ventilation sectors. This acquisition has been recognized in the consolidated financial statements in accordance with the IFRS3 "Business combinations", that provides for a "purchase price allocation (PPA)" process, and that required the Directors to assess the fair value of the assets acquired and liabilities assumed, also through the support of independent expert. The allocation of values within the PPA process generated, among others, at the acquisition date, goodwill for Euro 18,5 million, intangible assets with a defined useful life for Euro 27,1 million. Considering that certain information, already present at the date of the acquisition, are still under analysis, the PPA is not considered as closed in accordance with the provisions of the IFRS3.

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	The purchase contract also includes deferred consideration and an "earn-out" in relation to which a liability was recognized at fair value, that amounted to € 15,3 million as at 31 December 2022. We have considered the significance of this business combination for the consolidated financial statements of Carel Group, the complexity of the assumptions made by the Directors which, by their nature, imply significant judgments. As a result we assessed the Business combination to be a key audit matter for the audit of Carel Group's consolidated financial statements. In the disclosure related to the "consolidation scope" and in note 18 of the consolidated financial statements, the Directors described the process implemented and the effects on the consolidated financial statements.
Audit procedures performed	As part of our audit, among others, we performed the following audit procedures, supported by the experts belonging to our network: • analysis of the agreement related to the acquisition, in order to understand their main terms and conditions; • understanding of the relevant controls designed and implemented by the Directors related to the acquisition accounting process; • analysis of the reports prepared by the independent expert and of the criteria used by the Directors to account for the Business combination in compliance with IFRS 3, with particular reference to the criteria and assumptions used to identify the assets transferred, liabilities incurred, to estimate the fair value and the methods used to determine the value of goodwill; • discussion of the main assumptions adopted by the Directors and independent expert and re-performing of the calculation of the values identified; • analysis of the criteria applied by the Directors to recognize and measure the liability related to the earn out. Finally, we verified the appropriateness of the disclosure on the Business combination, and the compliance with the applicable accounting standards.

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.

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

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

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

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

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

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

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

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

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

- 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.

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- 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, actions taken to eliminate threats or safeguards applied.

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion on the compliance with the provisions of the Delegated Regulation (EU) 2019/815

The Directors of Carel Industries S.p.A. are responsible for the application of the provisions of the European Commission Delegated Regulation (EU) 2019/815 with regard to the regulatory technical standards on the specification of the single electronic reporting format (ESEF – European Single Electronic Format) (hereinafter referred to as the "Delegated Regulation") to the consolidated financial statements as at 31 December 2022, to be included in the annual financial report.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 700B in order to express an opinion on the compliance of the consolidated financial statements with the provisions of the Delegated Regulation.

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In our opinion, the consolidated financial statements as at 31 December 2022, have been prepared in XHTML format and have been marked up, in all material respects, in accordance with the provisions of the Delegated Regulation.

Due to certain technical limitations, some information contained in the explanatory notes to the consolidated financial statements, when extracted from XHTML format in an XBRL instance, may not be reproduced in the same way as the corresponding information displayed in the consolidated financial statements in XHTML format.

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 2022, 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 2022, 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 2022 and are prepared in accordance with the law.

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

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.

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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

Padua, Italy
29 March 2023

As disclosed by the Directors on page 102, the accompanying consolidated financial statements of Carel Group constitute a non-official version which is not compliant with the provisions of the Commission Delegated Regulation (EU) 2019/815.

This independent auditor's report has been translated into the English language solely for the convenience of international readers. Accordingly, only the original text in Italian language is authoritative.

EMARKET SDIR CERTIFIED

EMARKET SDIR CERTIFIED

Headquarters ITALY

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