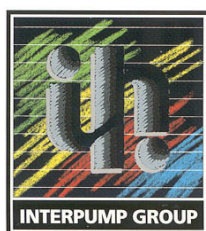


# **Annual financial report at 31 December 2017**





## Contents

	Page
<b><i>Composition of corporate bodies</i></b>	<b>3</b>
<b><i>Board of Directors' Report for 2017</i></b>	<b>5</b>
<b><i>Consolidated financial statements at 31/12/2017</i></b>	<b>31</b>
Consolidated statement of financial position	32
Consolidated income statements for the year	34
Comprehensive consolidated income statements for the year	35
Consolidated cash flow statement	36
Statement of changes in consolidated shareholders' equity	38
Notes to the annual financial report	39
1. General information	39
2. Scope of consolidation	39
3. Accounting standards adopted	41
3.1 Reference accounting standards	41
3.1.1 Accounting standards, amendments and interpretations in force from 1 January 2017 and adopted by the Group	42
3.1.2 Accounting standards, amendments and interpretations in force from 1 January 2017, but not relevant for the Group	43
3.1.3 New accounting standards and amendments not yet applicable and not adopted early by the Group	43
3.2 Consolidation principles	47
3.3 Business sector information	49
3.4 Treatment of foreign currency transactions	50
3.5 Non-current assets held for sale and discontinued operations	51
3.6 Property, plant and equipment	51
3.7 Goodwill	52
3.8 Other intangible assets	52
3.9 Impairment of assets	53
3.10 Equity investments	54
3.11 Cash and cash equivalents	55
3.12 Current financial assets, Receivables and Other current assets	55
3.13 Derivative financial instruments	56
3.14 Inventories	56
3.15 Share capital and Treasury Shares	57
3.16 Interest-bearing financial payables	57
3.17 Liabilities for employee benefits	57
3.18 Income taxes	59
3.19 Provisions for risks and charges	60
3.20 Current financial payables, Trade payables and Other debts	60
3.21 Revenues	60

3.22 Costs	61
4. Business sector information	61
5. Business combinations	67
6. Cash and cash equivalents	72
7. Trade receivables	72
8. Inventories	73
9. Derivative financial instruments	73
10. Other current assets	76
11. Property, plant and equipment	76
12. Goodwill	77
13. Other intangible assets	78
14. Other financial assets	79
15. Deferred tax assets and liabilities	81
16. Assets and liabilities held for sale	81
17. Interest-bearing financial payables and bank payables	82
18. Other current liabilities	83
19. Provisions for risks and charges	84
20. Liabilities for employee benefits	84
21. Other non-current liabilities	85
22. Share capital	86
23. Reserves	92
24. Minority shareholders' equity	93
25. Other net revenues	94
26. Costs by nature	94
27. Directors' and statutory auditors' remuneration	95
28. Financial income and expenses	95
29. Income taxes	96
30. Earnings per share	98
31. Information on financial assets and liabilities	99
32. Information on financial risks	100
33. Notes to the cash flow statement	104
34. Commitments	105
35. Transactions with related parties	105
36. Events occurring after the close of the year	107
<b><i>Annex 1: Certification of the consolidated financial statements pursuant to art. 81-(3) of Consob regulation no. 11971 of 14 May 1999 as amended</i></b>	<b><i>108</i></b>
<b><i>Report of the Board of Statutory Auditors on the consolidated financial statements</i></b>	<b><i>109</i></b>
<b><i>Independent report on the consolidated financial statements</i></b>	<b><i>111</i></b>
<b><i>Interpump Group S.p.A. – Financial statements at 31 December 2017</i></b>	<b><i>117</i></b>

## **Board of Directors**

Fulvio Montipò  
*Chairman and Chief Executive Officer*

Paolo Marinsek  
*Deputy Chairman*

Angelo Busani (a)  
*Independent Director*

Antonia Di Bella  
*Independent Director*

Franco Garilli (a), (b), (c)  
*Independent Director*  
*Lead Independent Director*

Marcello Margotto (b)  
*Independent Director*

Stefania Petruccioli (a), (c)  
*Independent Director*

Paola Tagliavini (a), (c)  
*Independent Director*

Giovanni Tamburi (b)  
*Non-executive Director*

## **Board of Statutory Auditors**

Fabrizio Fagnola  
*Chairman*

Federica Menichetti  
*Statutory auditor*

Alessandra Tronconi  
*Statutory auditor*

## **Independent Auditors**

EY S.p.A.

- (a) Member of the Audit and Risks Committee*
- (b) Member of the Remuneration Committee and Appointments Committee*
- (c) Member of the Related Party Transactions Committee*



## **2017 Board of Directors' Report**

**Financial Highlights of the Interpump Group**

	<u>31/12/2017</u>	<u>31/12/2016</u>	<u>31/12/2015</u>	<u>31/12/2014</u>	<u>31/12/2013</u>
	(€000)	(€000)	(€000)	(€000)	(€000)
Consolidated net revenues	1,086,547	922,818	894,928	671,999	556,513
Foreign sales	82%	83%	85%	86%	86%
EBITDA	248,648	198,502	180,258	136,106	105,173
EBITDA %	22.9%	21.5%	20.1%	20.3%	18.9%
EBIT (Operating profit)	198,912	153,533	136,896	104,367	79,334
EBIT %	18.3%	16.6%	15.3%	15.5%	14.3%
Consolidated net profit	135,723	94,473	118,306	57,742	44,087
Free cash flow	93,552	89,947	85,246	38,290	34,282
Net financial indebtedness <sup>(c)</sup>	323,808	300,024	278,196	226,044	121,384
Consolidated shareholders' equity	764,729	677,538	622,628	466,550	432,949
Indebtedness/EBITDA	1.30	1.51	1.54	1.66	1.15
Net capital expenditure (Capex)	47,812	36,527	28,863	34,142	29,278
Average headcount	5,750	5,016	4,830	3,575	2,998
ROE	17.7%	13.9%	19.0%	12.4%	10.2%
ROCE	18.3%	15.7%	15.2%	15.1%	14.3%
EPS - EUR	1.257	0.884	1.101	0.541	0.413
Dividend per share - EUR	0.210	0.200	0.190	0.180	0.170

ROE: Consolidated net profit / Consolidated shareholders' equity

ROCE: Consolidated operating profit / (Consolidated shareholder's equity + Net debt)

Dividends refer to the year of formation of the distributed profit.

(a) Following application of the amendment to IAS 19, the data has been restated.

(b) Continuing operations.

(c) Inclusive of the debt arising from the acquisition of investments.

	<u>31/12/2012<sup>(a)</sup></u>	<u>31/12/2011<sup>(b)</sup></u>	<u>31/12/2010</u>	<u>31/12/2009</u>	<u>31/12/2008</u>
	(€000)	(€000)	(€000)	(€000)	(€000)
Consolidated net revenues	527,176	471,619	424,925	342,924	424,513
Foreign sales	86%	84%	80%	79%	80%
EBITDA	105,876	94,614	74,100	46,856	86,986
EBITDA %	20.1%	20.1%	17.4%	13.7%	20.5%
EBIT (Operating profit)	84,049	75,650	54,689	29,194	75,666
EBIT %	15.9%	16.0%	12.9%	8.5%	17.8%
Consolidated net profit	53,226	42,585	27,381	13,980	40,161
Free cash flow	38,598	28,800	56,997	63,136	22,132
Net financial indebtedness <sup>(c)</sup>	102,552	145,975	147,759 <sup>j</sup>	201,833	228,264
Consolidated shareholders' equity	396,876	315,160	291,459	242,796	177,951
Indebtedness/EBITDA	0.97	1.54	1.99	4.31	2.62
Net capital expenditure (Capex)	15,839	12,153	8,478	8,950	16,577
Average headcount	2,685	2,436	2,492	2,427	2,036
ROE	13.4%	13.5%	9.4%	5.8%	22.6%
ROCE	16.8%	16.4%	12.5%	6.6%	18.6%
EPS - EUR	0.556	0.439	0.284	0.187	0.545
Dividend per share - EUR	0.170	0.120	0.110	-	-



## KEY EVENTS OF 2017

Sales reached €1,086.5m, up by 17.7% compared to 2016 (+8.6% at unchanged consolidation perimeter and +9.3% also net of exchange differences). A breakdown by business sector shows a 15.8% sales increase in the Hydraulic Sector (+12.2% at unchanged perimeter) compared to the figure for 2016; Water Jetting Sector sales were up in the same period by 21.4% (+2.0% at unchanged perimeter).

In geographical terms, growth in Europe including Italy was 25.7%, 5.8% in North America, 18.7% in the Far East and Oceania, and 13.1% in the Rest of the World. The geographical breakdown at unchanged perimeter shows growth of 12.0% in Europe (including Italy), 5.1% in North America, 8.9% in the Far East and Oceania, and 1.6% in the Rest of the World.

EBITDA reached €248.6m, equivalent to 22.9% of sales. In 2016, EBITDA was €198.5m (21.5% of sales). EBITDA was therefore 25.3% higher, corresponding to a 1.4 percentage point improvement in terms of incidence on sales. At unchanged perimeter, EBITDA grew by 14.8%.

Net profit for 2017 was €135.7m (€94.5m in 2016) reflecting an increase of 43.7%.

The Inoxpa Group (Water Jetting Sector), a world-famous brand in the manufacture and sale of process equipment and systems for fluid treatment in the food, cosmetics and pharmaceutical industry, was acquired on 3 February 2017 and hence consolidated for the first time for eleven months in 2017. This acquisition significantly expands and supplements the products of the Water Jetting division, which will now be able to supply a vast range of pumps, valves, mixers, process plant and accessories alongside Bertoli homogenizers. All products are made from stainless steel, meeting the rigorous requirements demanded by the food industry. Inoxpa is based near Girona (north of Barcelona) in Spain. More than 75% of sales are generated by 21 branches in 16 countries, which will further strengthen the already solid international presence of the Interpump Group. In 2016 the Inoxpa Group recorded sales of around €60m. The agreed acquisition price was €90m, corresponding to an enterprise value of €76.2m and net cash of around €13.8m.

The range of products in the food, cosmetics and pharmaceutical industry was further expanded and supplemented by the acquisition of Mariotti & Pecini S.r.l. on 12 June. This company, based in the province of Florence, is a leader in the design and production of homogenizers and agitators used in the chemical, pharmaceutical, cosmetics and food processing industries, and for environmental technologies. The synergies with the Inoxpa group, in particular, will expand opportunities for the sale of Mariotti & Pecini products many different foreign markets. The components developed by Mariotti & Pecini are also suitable for special applications with constraints imposed by pressure, temperature or hazardous liquids; in addition, employment of the Magna-Safe® magnetic drive technology means that these products can be used in production processes that require the fluids processed to be completely isolated from the external environment. In 2016 Mariotti & Pecini reported net sales of €8.1m and €2.7m EBITDA (33% of sales). The price paid for 60% of the company was €5.3m plus 150,000 treasury shares in Interpump Group S.p.A. On the closing date for the transaction, the net financial position of the company was €2.8m. The entrepreneur-founders retain their roles in the company; mutual put & call options have been agreed with them for acquisition of the residual 40% interest from 2020.

Also, in January 2017, acting through the UK branch of the IMM Group, Interpump acquired 100% of Bristol Hose Ltd, specialized in sales and services in the hydraulic lines and fittings sector and based in Bristol. Bristol Hose operates with 2 sales warehouses and 9 mobile

workshops for on-site assistance and repairs. The mobile units operate around the clock and can typically reach customers' premises within sixty minutes from the call-out time. In 2016, Bristol Hose generated sales of around GBP 2.25m (approximately €2.6m). The price paid for the business was GBP 650k, with net financial debt of GBP 418k.

The entire equity interest in Fluid System 80 S.r.l., a company active in the design and production of hydraulic systems and power packs, was acquired on 3 October 2017. This strengthens the presence of Interpump in the hydraulic power pack sector, where the Group has been present since 2001 with the Hydroven brand. Fluid System solutions are used in heavy engineering, steel mills, plant for the cold processing of metals and non-ferrous materials, and in construction equipment. Significant commercial synergies are therefore expected with other Group companies in the Hydraulic and Water Jetting Sectors that produce components used in these applications. Sales made in 2017 totalled around €6.1m. The business was acquired at the price of €0.9m.

In addition, compared to 2016, Tekno Tubi S.r.l. and Mega Pacific were consolidated for the entire period in 2017 while, having been acquired in July 2016, they were consolidated for only six months in 2016. In addition, Tubiflex was consolidated for twelve months in 2017, while it was consolidated for only 8 months in the prior year, having been purchased in May 2016.

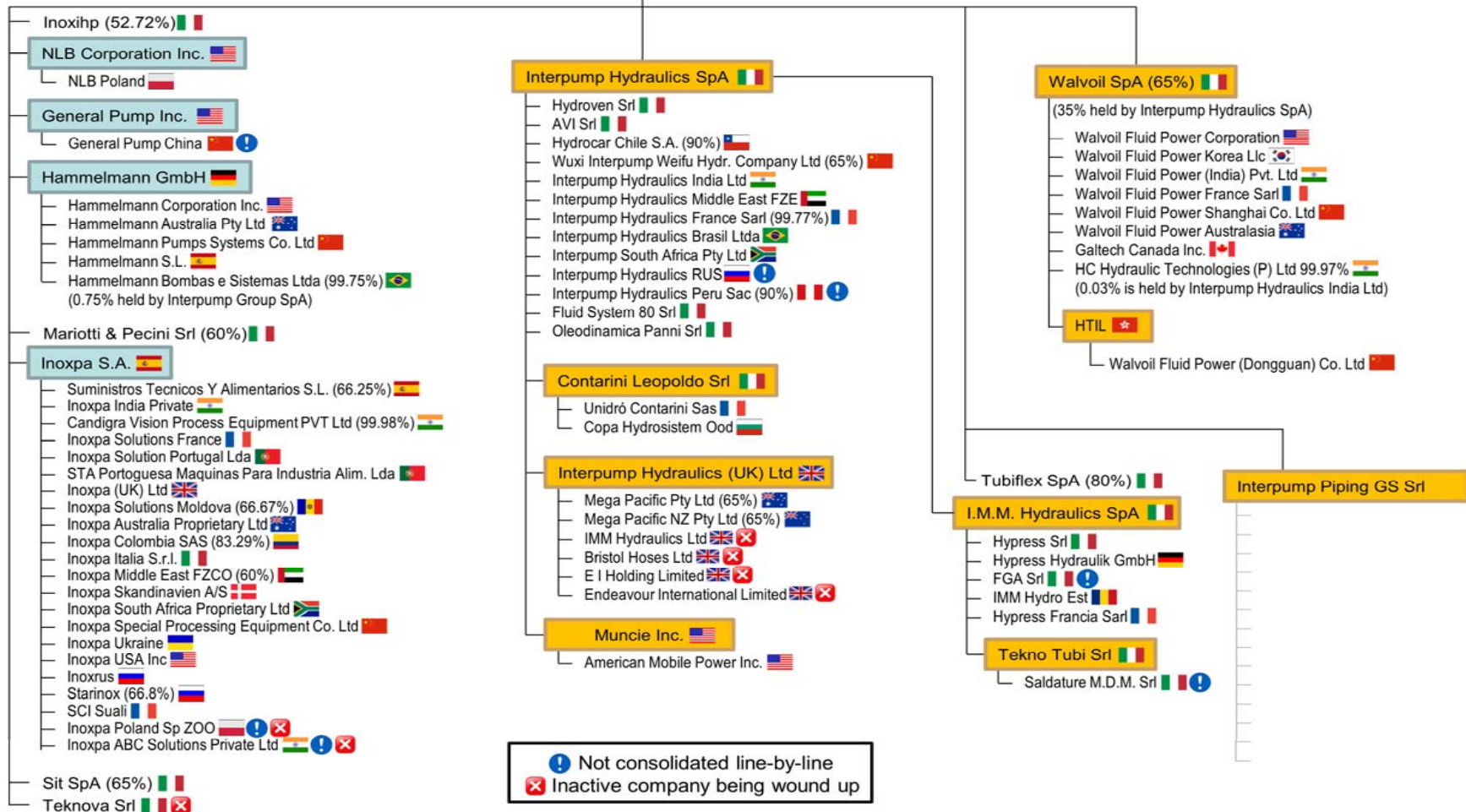
## Group Structure

### Interpump Group SpA

#### WATER-JETTING      HYDRAULICS

as at 31/12/2017

All holdings 100% unless otherwise specified



## ALTERNATIVE PERFORMANCE MEASURES

The Group uses several alternative measures that are not identified as accounting parameters in the framework of IFRS standards, to allow better evaluation of the trend of economic operations and the Group's financial position; such measures are also tools that can assist the directors in identifying operating trends and in making decisions on investments, resource allocation and other business matters. Therefore, the measurement criterion applied by the Group may differ from the criterion adopted by other groups and hence may not be comparable with it. Such alternative performance measures are constituted exclusively starting from the Group's historic data and measured in compliance with the matters established by the Guidelines on Alternative Performance Measures issued by ESMA/2015/1415 and adopted by Consob with communication no. 92543 of 3 December 2015. The measures in question refer only to performance in the accounting period illustrated in this Annual Financial Report and the periods placed in comparison with it, and not to the expected performance and they must not be considered to replace the indicators provided by the reference accounting standards (IFRS). Finally, the alternative measures are processed continuously and with uniformity of definition and representation for all the periods for which financial information is included in this Annual Financial Report.

The performance indicators used by the Group are defined as follows:

- **Earnings/(Losses) before interest and tax (EBIT):** Net sales plus Other operating income less Operating costs (Cost of sales, Distribution costs, General and administrative expenses, and Other operating costs);
- **Earnings/(Losses) before interest, tax, depreciation and amortization (EBITDA):** EBIT plus depreciation, amortization and provisions;
- **Net indebtedness (Net financial position):** calculated as the sum of Loans obtained and Bank borrowing less Liquid funds and cash equivalents;
- **Capital expenditure (CAPEX):** the sum of investment in property, plant and equipment and intangible assets, net of divestments;
- **Free Cash Flow:** the cash flow available for the Group, defined as the difference between the cash flow of operating activities and the cash flow for investments in tangible and intangible fixed assets;
- **Capital employed:** calculated as the sum of shareholders' equity and net financial position, including debts for the acquisition of equity investments;
- **Return on capital employed (ROCE):** EBIT / Capital employed;
- **Return on equity (ROE):** Net profit / Shareholders' equity.

The Group's income statement is prepared by functional areas (also called the "cost of sales" method). This form is deemed more representative than its "type of expense" counterpart, which is nevertheless included in the notes to the Annual Financial Report. The chosen form, in fact, complies with the internal reporting and business management methods.

The cash flow statement was prepared using the indirect method.

## Consolidated income statements for the year

(€000)	<u>2017</u>	<u>2016</u>
<b>Net sales</b>	<b>1,086,547</b>	<b>922,818</b>
Cost of sales	(672,548)	(584,816)
<b>Gross industrial margin</b>	<b>413,999</b>	<b>338,002</b>
<i>% on net sales</i>	<i>38.1%</i>	<i>36.6%</i>
Other operating revenues	16,744	14,372
Distribution costs	(102,726)	(86,425)
General and administrative expenses	(124,534)	(108,973)
Other operating costs	(4,571)	(3,443)
<b>EBIT</b>	<b>198,912</b>	<b>153,533</b>
<i>% on net sales</i>	<i>18.3%</i>	<i>16.6%</i>
Financial income	14,684	7,862
Financial expenses	(21,424)	(12,862)
Equity method contribution	(22)	(40)
<b>Profit for the period before taxes</b>	<b>192,150</b>	<b>148,493</b>
Income taxes	(56,427)	(54,020)
<b>Consolidated net profit for the year</b>	<b>135,723</b>	<b>94,473</b>
<i>% on net sales</i>	<i>12.5%</i>	<i>10.2%</i>
<b>Pertaining to:</b>		
Parent company's shareholders	134,442	93,850
Subsidiaries' minority shareholders	1,281	623
<b>Consolidated profit for the year</b>	<b>135,723</b>	<b>94,473</b>
 <b>EBITDA</b>	 <b>248,648</b>	 <b>198,502</b>
<i>% on net sales</i>	<i>22.9%</i>	<i>21.5%</i>
Shareholders' equity	764,729	677,538
Net debt	273,542	257,263
Payables for the acquisition of investments	50,266	42,761
Capital employed	1,088,537	977,562
<b>ROCE</b>	<b>18.3%</b>	<b>15.7%</b>
<b>ROE</b>	<b>17.7%</b>	<b>13.9%</b>
<b>Basic earnings per share</b>	<b>1.257</b>	<b>0.884</b>

## NET SALES

Net sales in 2017 totalled €1,086.5m, up by 17.7% from the €922.8m in 2016 (+8.6% at unchanged perimeter and +9.3% net also of exchange differences).

The following table gives a breakdown of sales by business sector and geographical area:

(€000)	<u>Italy</u>	<u>Rest of Europe</u>	<u>North America</u>	<u>Far East &amp; Oceania</u>	<u>Rest of the World</u>	<u>Total</u>
<i>2017</i>						
Hydraulic Sector	153,133	240,636	163,944	63,339	69,862	690,914
Water Jetting Sector	<u>37,900</u>	<u>141,490</u>	<u>130,473</u>	<u>52,254</u>	<u>33,516</u>	<u>395,633</u>
Total	<u>191,033</u>	<u>382,126</u>	<u>294,417</u>	<u>115,593</u>	<u>103,378</u>	<u>1,086,547</u>
<i>2016</i>						
Hydraulic Sector	124,390	209,640	145,175	46,958	70,648	596,811
Water Jetting Sector	<u>30,971</u>	<u>90,885</u>	<u>132,996</u>	<u>50,393</u>	<u>20,762</u>	<u>326,007</u>
Total	<u>155,361</u>	<u>300,525</u>	<u>278,171</u>	<u>97,351</u>	<u>91,410</u>	<u>922,818</u>
2017/2016 percentage changes						
Hydraulic Sector	+23.1%	+14.8%	+12.9%	+34.9%	-1.1%	+15.8%
Water Jetting Sector	+22.4%	+55.7%	-1.9%	+3.7%	+61.4%	+21.4%
Total	+23.0%	+27.2%	+5.8%	+18.7%	+13.1%	+17.7%
2017/2016 percentage changes (unchanged perimeter)						
Hydraulic Sector	+14.1%	+12.6%	+12.8%	+23.0%	-1.1%	+12.2%
Water Jetting Sector	-0.8%	+12.2%	-3.4%	-4.2%	+11.1%	+2.0%
Total	+11.1%	+12.5%	+5.1%	+8.9%	+1.6%	+8.6%

## PROFITABILITY

The cost of sales accounted for 61.9% of turnover (63.4% in 2016), representing an improvement of 1.5 percentage points. Production costs, which totalled €283.2m (€246.5m in 2016, which however did not include the costs of Bristol Hose for the full twelve months, the Inoxpa Group for eleven months, Tekno Tubi and Mega Pacific for six months, Mariotti & Pecini for seven months, Tubiflex for four months, and Fluid System '80 for three months), accounted for 26.1% of sales (26.7% in 2016). The purchase cost of raw materials and components sourced on the market, including changes in inventories, was €389.3m (€338.3m in 2016, which however did not include the costs of Bristol Hose for the full twelve months, the Inoxpa Group for eleven months, Tekno Tubi and Mega Pacific for six months, Mariotti & Pecini for seven months, Tubiflex for four months, and Fluid System '80 for three months). The incidence of purchase costs, including changes in inventories, was 35.8% compared to 36.7% in 2016, thus improving by 0.9 percentage points. At unchanged perimeter, the incidence of cost of sales on sales fell by 0.7 percentage points.

Distribution costs at unchanged perimeter rose by 4.4% with respect to 2016, but the incidence on sales fell by 0.4 percentage points.

General and administrative expenses at unchanged perimeter rose by 2.7% with respect to 2016, while their incidence on sales was 0.6 percentage points lower.

Total payroll costs were recorded for €260.6m (€230.3m in 2016, which however did not include the costs of Bristol Hose for the full twelve months, the Inoxpa Group for eleven months, Tekno Tubi and Mega Pacific for six months, Mariotti & Pecini for seven months, Tubiflex for four months, and Fluid System '80 for three months). Payroll costs rose by 4.6% at unchanged perimeter, due to a 1.1% per capita cost increase and an increase of 174 in the average headcount. The total number of Group employees in 2017 averaged 5,750 (5,190 at unchanged perimeter) compared to 5,016 in 2016. This increase in average headcount during 2017 mainly occurred in Europe.

EBITDA amounted to €248.6m (22.9% of sales), compared to €198.5m in 2016 (21.5% of sales). This represents growth of 25.3% and a 1.4 percentage point improvement in profitability. At unchanged perimeter, EBITDA rose by 14.8%, with an increase of 1.2 percentage points (it rose by 16.0% net of exchange differences). The following table shows EBITDA by business sector:

	2017	% on	2016	% on	
	€/000	total sales*	€/000	total sales*	Increase/ Decrease
Hydraulic Sector	144,563	20.9%	115,446	19.3%	+25.2%
Water Jetting Sector	104,090	26.2%	83,075	25.4%	+25.3%
Other Revenues Sector	(5)	n.s.	(19)	n.s.	n.s.
<b>Total</b>	<b><u>248,648</u></b>	<b>22.9%</b>	<b><u>198,502</u></b>	<b>21.5%</b>	<b>+25.3%</b>

\* = Total sales also include sales to other Group companies, while the sales analysed previously are exclusively those external to the group (see Note 4 to the Annual Financial Report at 31 December 2017). For comparability, the percentage is calculated on total sales, rather than the net sales shown earlier.

The marked increase in profitability reflects the rationalization work carried out in the current and prior years.

EBIT stood at €198.9m (18.3% of sales) compared with €153.5m in 2016 (16.6% of sales), reflecting an increase of 29.6%.

The tax rate for the period was 29.4% (36.4% in 2016). The decrease compared to 2016 is mainly due to lower net deferred taxes in the amount of €5.7m further to the US tax reform bill, which reduced the tax rate for future years, and to the reduction of the corporate income tax (IRES) rate in Italy from 27.5% to 24%.

Net profit for the 2017 reporting period was €135.7m (€94.5m in 2016), reflecting an increase of 43.7%. Basic earnings per share rose from the EUR 0.884 of 2016 to EUR 1.257 in 2017, reflecting growth of 42.2%.

## CASH FLOW

The change in net financial indebtedness breaks down as follows:

	2017 €/000	2016 €/000
<b>Opening net financial position</b>	<b>(257,263)</b>	<b>(254,987)</b>
Adjustment: opening net cash position of companies not consolidated line by line at the end of the prior period <sup>(a)</sup>	-	160
<b>Adjusted opening net financial position</b>	<b>(257,263)</b>	<b>(254,827)</b>
Cash flow from operations	172,365	137,995
Cash flow generated (absorbed) by the management of commercial working capital	(32,964)	(5,121)
Cash flow generated (absorbed) by other current assets and liabilities	2,156	(7,061)
Expenditure in tangible fixed assets	(45,139)	(34,071)
Proceeds from the sale of tangible fixed assets	871	566
Investment in other intangible fixed assets	(3,544)	(3,022)
Received financial income	534	496
Other	(727)	165
<b>Free cash flow</b>	<b>93,552</b>	<b>89,947</b>
Acquisition of investments, including received debt and net of treasury shares assigned	(89,144)	(39,552)
Proceeds from the sale of lines of business	-	861
Dividends paid	(22,310)	(21,138)
Outlays for the purchase of treasury shares	-	(43,308)
Receipts from the disposal of assets held for sale	2,714	-
Proceeds from the sale of treasury shares to beneficiaries of stock options	3,376	9,490
Change in other financial assets	83	(53)
<b>Net cash generated (used)</b>	<b>(11,729)</b>	<b>(3,753)</b>
Exchange differences	(4,550)	1,317
<b>Net financial position at period end</b>	<b>(273,542)</b>	<b>(257,263)</b>

<sup>(a)</sup> = 2016: Interpump Hydraulics (UK).

Net liquidity generated by operating activities totalled €172.4m (€138.0m in 2016), reflecting an increase of 24.9%. Free cash flow was €93.6m (€89.9m in 2016) resulting in growth of 4.0%.

The net financial position, excluding the debts and commitments illustrated below, can be broken down as follows:

	31/12/2017 €000	31/12/2016 €000	01/01/2016 €000
Cash and cash equivalents	144,938	197,891	135,130
Bank payables (advances and STC amounts)	(8,955)	(2,396)	(5,735)
Interest-bearing financial payables (current portion)	(166,465)	(124,784)	(83,833)
Interest-bearing financial payables (non-current portion)	(243,060)	(327,974)	(300,549)
<b>Total</b>	<b>(273,542)</b>	<b>(257,263)</b>	<b>(254,987)</b>

The Group also has contractual commitments for the purchase of residual shareholdings in subsidiaries totalling €50.3m (€42.8m at 31 December 2016). Of this amount, €4.6m relates to the acquisition of equity investments (€6.5m at 31 December 2016), while €45.7m relates to contractual agreements for the acquisition of residual interests in subsidiaries (€36.3m at 31

December 2016). The change with respect to the comparative period is mainly due to the new put option arranged on the acquisition of Mariotti & Pecini.

## GROUP BALANCE SHEET

Capital employed increased from €977.6m at 31 December 2016 to €1,088.5m at 31 December 2017, essentially due to new acquisitions. ROCE stood at 18.3% (15.7% in 2016). ROE was 17.7% (13.9% in 2016).

Below we give the reclassified balance sheet on the basis of cash flows obtained/used:

	31/12/2017 (€'000)	%	31/12/2016 (€'000)	%
Trade receivables	236,761		200,018	
Net inventories	291,701		257,545	
Other current assets	24,497		18,826	
Trade payables	(142,975)		(109,004)	
Short-term tax payables	(18,541)		(18,126)	
Short-term portion for provisions for risks and charges	(3,610)		(3,620)	
Other short-term liabilities	<u>(51,810)</u>		<u>(45,525)</u>	
<b>Net working capital</b>	<b><u>336,023</u></b>	<b>30.9</b>	<b><u>300,114</u></b>	<b>30.7</b>
Net intangible and tangible fixed assets	359,929		330,960	
Goodwill	429,442		390,708	
Other financial fixed assets	1,145		790	
Other non-current assets	29,261		27,502	
Liabilities for employee benefits	(20,044)		(19,311)	
Medium/long-term portion for provisions for risks and charges	(3,156)		(2,866)	
Other medium/long-term liabilities	<u>(44,063)</u>		<u>(50,335)</u>	
<b>Total net fixed assets</b>	<b><u>752,514</u></b>	<b>69.1</b>	<b><u>677,448</u></b>	<b>69.3</b>
<b>Total capital employed</b>	<b><u>1,088,537</u></b>	<b>100</b>	<b><u>977,562</u></b>	<b>100</b>
<i>Financed by:</i>				
Group shareholders' equity	759,165		673,744	
Minority interests	<u>5,564</u>		<u>3,794</u>	
<b>Total shareholders' equity</b>	<b><u>764,729</u></b>	<b>70.3</b>	<b><u>677,538</u></b>	<b>69.3</b>
Cash and cash equivalents	(144,938)		(197,891)	
Payables to banks	8,955		2,396	
Short-term interest-bearing financial payables	166,465		124,784	
Short-term payable for purchase of investments	<u>2,428</u>		<u>4,283</u>	
<b>Total short term financial payables (cash)</b>	<b><u>32,910</u></b>	<b>3.0</b>	<b><u>(66,428)</u></b>	<b>-6.8</b>
Medium/long-term interest-bearing financial payables	243,060		327,974	
Medium/long-term payable for the acquisition of equity investments	<u>47,838</u>		<u>38,478</u>	
<b>Total medium/long-term financial payables</b>	<b><u>290,898</u></b>	<b>26.7</b>	<b><u>366,452</u></b>	<b>37.5</b>
<b>Total sources of financing</b>	<b><u>1,088,537</u></b>	<b>100</b>	<b><u>977,562</u></b>	<b>100</b>

Interpump Group's equity structure is balanced, with a leverage index of 0.42 (0.44 at 31 December 2016). The leverage index is calculated as the ratio between the short and medium/long-term financial payables and shareholders' equity inclusive of minority interests.

## **CAPITAL EXPENDITURE**

Expenditure on property, plant and equipment totalled €75.7m, of which €20.1m via the acquisition of equity investments (54.8m in 2016, of which €8.9m via the acquisition of equity investments). Certain companies in the Water Jetting Sector classify machinery manufactured and rented to customers as part of property, plant and equipment (€6.5m at 31 December 2017 and €10.8m at 31 December 2016). Net of these latter amounts, capital expenditure in the strictest sense stood at €49.1m in 2017 (€35.1m in 2016) and mainly refers to the normal renewal and modernization of plant, machinery and equipment, with the exception of €3.5m in 2017 (€6.1m in 2016) related to the construction of new production facilities or their expansion. The difference with respect to the expenditure recorded in the cash flow statement is due to the timing of payments.

Increases in intangible assets totalled €16.3m, of which €12.6m from the acquisition of equity investments (€3.2m in 2016) and refer mainly to allocation of the Inoxpa acquisition excess cost attributable to the trademark (€11.9m) and to expenditure for the development of new products.

## **RESEARCH AND DEVELOPMENT**

The Group considers research and development activities as one of the main factors of success and a source of competitive advantage on international markets. In 2017 the Group made significant investments, aimed at placing new product ranges on the market, at optimizing and customizing existing products, and at developing new technological and circuit solutions. In particular, the design and development of new high pressure pumps and related accessories for the Water Jetting Sector is carried out by the parent company Interpump Group S.p.A. In 2017, five new projects were completed concerning new pump versions and mechanical components for high and very high pressure pumps; in addition, work commenced on seven new projects. Development activities concerning new very high pressure pumps and systems for the Water Jetting sector are instead carried out by Hammelmann. In 2017 Hammelmann launched 3 new projects for new families of very high pressure pumps and several new projects related to accessories.

R&D activities for the Hydraulic Sector are conducted by Walvoil, Interpump Hydraulics and IMM. 2017 saw the development of new power take-offs, valves and hydraulic components and the start of development of new technologies applied to the manufacturer of hoses, fittings and other components of higher quality and performance levels than currently available.

Group strategy over the next few years is to continue with high levels of expenditure in the area of research and development in order to assure renewed impetus to structured growth. Research costs have been capitalized in accordance with their multi-annual usefulness. Product development costs capitalized in 2017 amounted to €1,971k (€1,336k in 2016), while the costs for design personnel charged to the income statement totalled €19,234k (€17,234k in 2016).

## **ENVIRONMENT, HEALTH AND SAFETY**

The Group is exposed to risks associated with occupational health and safety and the environment, typical of a Group that performs productive and sales activities in different

geographical contexts. Given the company structure of the Group (composed of multiple companies, also of small size, operating in different countries with diversified areas of business) and taking account of the growth strategy, both internal and through acquisitions, to date there is no centralized model, and management of activities in a manner that respects normative compliance is handled by the individual companies/facilities, which in certain cases are working with quality, environmental, and occupational health and safety management systems based on international standards ISO 9001, ISO 14001 and OHSAS 18001.

In conformity with the contents of article 5, subsection 3, letter b, of Italian legislative decree 254/2016, the Company has prepared a consolidated non-financial statement, which is provided as a separate document with respect to this Annual Financial Report. The 2017 consolidated non-financial statement, drafted in compliance with GRI Standards and subjected to limited examination by EY S.p.A., is available on the Group's website.

## **EXPOSURE TO RISKS, UNCERTAINTIES AND FINANCIAL RISK FACTORS**

The Group is exposed to the normal risks and uncertainties of any business activity. The markets in which the Group operates are world niche markets in many cases, with limited dimensions and few significant competitors. These characteristics constitute a major barrier to the entry of new competitors, due to significant economy of scale effects against the backdrop of somewhat uncertain economic returns for potential new entrants. The Interpump Group enjoys a position of world leadership in the fields of high and very-high pressure pumps and power take-offs: these positions accentuate the risks and uncertainties of the business venture.

The following is an illustration of the financial risk factors to which the Group is exposed:

### **(a) Market risks**

#### **(i) Exchange rate risk**

The Group has subsidiaries in 25 countries and converts financial statements in 22 currencies other than the euro. Accordingly, the Group is primarily exposed to the risk deriving from the translation of those financial statements.

The Group operates internationally and mostly manufactures in the countries of the destination markets. As such, the majority of local currency revenues are naturally absorbed by costs incurred in the same local currency. On a residual level however, the Group is exposed to the exchange risk originating from sales made in other currencies with respect to costs incurred in local currency.

In order to manage exchange rate risk generated by forecasts of future commercial transactions stated in a currency other than the Group's functional currency (euro), Group companies can use plain vanilla forward contracts or purchase options, when deemed appropriate. The counterparties of these contracts are primary international financial institutions with high ratings.

Notably, the Group is exposed in US dollars, mainly due to sales to its US subsidiaries and, to a lesser extent, due to sales to third party clients. The Group also has limited exposures in Australian dollars, Canadian dollars, Chinese renminbi, Brazilian reals, Indian rupees, Romanian leu and UK Sterling, mainly relating to commercial transactions between Group companies. It is current Group policy not to hedge recurring commercial transactions, taking out exchange risk hedges only in the event of those that are non-recurring, either in terms of amount or of the frequency with which they occur.

In relation to financial exposures, €0.4m of intercompany loans were disbursed and €0.5m collected during 2017 in currencies other than those utilized by the debtor companies. At 31 December 2017, loans totalling €10.3m are still outstanding in currencies other than those utilized by the debtor companies (€4.8m at 31 December 2016). The increase with respect to the end of 2016 is due, in the amount of €4.9m, to the consolidation of newly acquired companies or of companies incorporated in 2017. The Group has decided to proceed also in 2017 with the strategy of not hedging this exposure, due to the limited amounts involved and the uncertainty concerning the collection dates.

(ii) *Interest rate risk*

Interest rate risk derives from medium/long-term loans granted at floating rates. It is currently Group policy not to take out hedges, in view of the short average duration of the existing loans (around 3 years).

(b) *Credit risk*

The Group does not have any significant credit concentrations. It is Group policy to sell to customers only after their credit potential has been checked and hence within predefined credit limits. Historically, the group has not incurred any major losses for bad debts.

(c) *Liquidity risk*

Prudent management of liquidity risk involves the retention of an appropriate level of cash on hand and sufficient access to lines of credit. Because of the dynamic nature of the Group's business with the associated frequent acquisitions, it is Group policy to have access to revolving lines of stand-by credit that can be utilized at short notice.

(d) *Price and cash flow risk*

The group is subject to constant changes in metal prices, especially brass, aluminium, steel, stainless steel and cast iron. Group policy is to hedge this risk where possible by way of medium-term commitments with suppliers, or by means of stocking policies when prices are low, or by entering into agreements with customers to transfer the risk to them.

The Group does not hold listed securities that would be subject to stock market fluctuations. The revenues and cash flow of Group operating activities are not influenced by changes in interest generating assets.

## CORPORATE GOVERNANCE

In relation to corporate governance, Interpump Group's model is based on the provisions of the Code of Corporate Governance promoted by Borsa Italiana S.p.A., published in July 2015, to which Interpump Group has adhered. The above-mentioned report can be consulted on the Group website [www.interpumpgroup.it](http://www.interpumpgroup.it) in the Corporate Governance section.

The following table provides information on the number of shares held by the directors and statutory auditors, as required by art. 79 of CONSOB Resolution no.11971/1999 (“Issuers’ Regulation”):

Name	Issuing company	Number of shares held at end of the prior period	Number of shares purchased/ subscribed	Number of shares sold	Number of shares held at end of the year
<i>Fulvio Montipò</i>					
Held directly	Interpump Group S.p.A.	635,233	-	-	635,233
<i>Paolo Marinsek</i>					
Held directly	Interpump Group S.p.A.	-	210,000	(168,000)	42,000

Changes in the year relate to the exercise of stock options.

Gruppo IPG Holding S.p.A., domiciled in Milan, held around 23.335% of Interpump Group S.p.A. at 31 December 2017, resulting in the fact that it controls the Group even though it does not perform activities of management and coordination. The resolution of the Interpump Group S.p.A. Board of Directors of 12 June 2008 acknowledges that “Interpump Group S.p.A.” is not subject to the management or coordination of the shareholder “Gruppo IPG Holding S.p.A.” because:

- the shareholder has no means or facilities for the execution of such activities, having no employees or other personnel capable of providing support for the activities of the Board of Directors;
- the shareholder does not prepare the budgets or business plans of Interpump Group S.p.A.;
- it does not issue any directives or instructions to its subsidiary, nor does it require to be informed beforehand or to approve either its most significant transactions or its routine administration;
- there are no formal or informal committees or work groups in existence, formed of representatives of Gruppo IPG Holding and representatives of the subsidiary.

At the date of this report there were no changes in relation to the conditions stated above.

The shareholders of Gruppo IPG Holding S.p.A. are the Montipò family and Tamburi Investment Partners S.p.A.

Giovanni Tamburi, non-executive director of Interpump Group S.p.A., is the Chairman and Chief Executive Officer of Tamburi Investment Partners S.p.A., a company that held 67,348 shares at 31 December 2017, representing 23.64% of Gruppo IPG Holding S.p.A. and Fulvio Montipò, Chairman and Chief Executive Officer of Interpump Group S.p.A., held 97,521 shares at 31 December 2017, representing 34.23% of Gruppo IPG Holding S.p.A., which in turn held a total of 25,406,799 shares in Interpump Group S.p.A. In addition, Gruppo IPG Holding S.p.A. held 29.89% of its own treasury shares. The remaining 12.24% of the capital was held by the Montipò family at 31 December 2017.

## STOCK OPTION PLANS

With the aim of motivating Group management and promoting participation in the goal of value creation for shareholders, there are currently two stock option plans in existence, one approved by the Shareholders' Meeting of 30 April 2013 (**2013/2015** plan) and one approved by the Shareholders' Meeting of 28 April 2016. (**2016/2018** plan).

The **2006/2009** plan ended in 2017 with the exercise of the final 20,000 options that had yet to be exercised at 31/12/2016.

The Shareholders' Meeting held on 30 April 2013 approved the adoption of a new incentive plan called the “Interpump **2013/2015** Incentive Plan”. The plan, which is based on the free assignment of options that grant the beneficiaries the right, on the achievement of specified objectives, to (i) purchase or subscribe the Company's shares up to the maximum number of 2,000,000 or, (ii) at the discretion of the Board of Directors, to receive the payment of a differential equivalent to any increase in the market value of the Company's ordinary shares. Beneficiaries of the plan can be employees or directors of the Company and/or its subsidiaries, identified among persons having significant roles or functions. The exercise price was set at EUR 6.00 per share. The options can be exercised between 30 June 2016 and 31 December 2019. The next meeting of the Board of Directors, held on 30 April 2013, set a figure of 2,000,000 for the number of options to be assigned, divided by the total number of options in each tranche (500,000 for the first tranche, 700,000 for the second tranche and 800,000 for the third tranche) and established the terms for the exercise of the options, which are connected to the achievement of specific accounting parameters and the performance of Interpump Group stock. Overall, a total of 1,870,000 options were assigned. At 31 December 2017 the situation of the plan was as follows:

Number of rights assigned	1,870,000
Number of options cancelled	(7,000)
Number of shares purchased	<u>(1,713,000)</u>
Total number of options not yet exercised	<u>150,000</u>

Changes in the options during the period were as follows:

	Price per share for the exercise of options	<u>Vesting period</u>	Number of rights assigned at start of year	Number of rights matured in the year	Number of shares purchased in the year	Number of options exercisable at year end
Directors of the Parent Company						
☐ Paolo Marinsek	EUR 6.00	01.07.2016-31.12.2019	320,000	-	(210,000)	110,000
Other beneficiaries						
(employees)	EUR 6.00	01.07.2016-31.12.2019	380,000	-	(340,000)	40,000
Total			700,000	-	(550,000)	150,000

The Shareholders' Meeting held on 28 April 2016 approved the adoption of a new incentive plan called the “Interpump **2016/2018** Incentive Plan”. The plan, which is based on the free assignment of options that grant the beneficiaries the right, on the achievement of specified objectives, to (i) purchase or subscribe the Company's shares up to the maximum number of 2,500,000 or, (ii) at the discretion of the Board of Directors, receive the payment of a

differential equivalent to any increase in the market value of the Company's ordinary shares. Beneficiaries of the plan can be employees or directors of the Company and/or its subsidiaries, identified among persons having significant roles or functions. The exercise price was set at EUR 12.8845 per share. The options can be exercised between 30 June 2019 and 31 December 2022. The next meeting of the Board of Directors, held on 12 May 2016, set a figure of 2,500,000 for the number of options to be assigned, divided by the total number of options in each tranche (625,000 for the first tranche, 875,000 for the second tranche and 1,000,000 for the third tranche) and established the terms for the exercise of the options, which are connected to the achievement of specific accounting parameters and the performance of Interpump Group stock. The same Board meeting also assigned 1,620,000 options, exercisable subject to the conditions described above, and granted mandates to the Chairman and the Deputy Chairman of Interpump Group, acting separately, to identify the beneficiaries of a further 880,000 options. On 6 and 29 July 2016, 13 December 2016 and 9 November 2017 a total of 531,800 options were assigned to other beneficiaries identified within the Interpump Group. The options cancelled in 2017 totalled 30,000. At 31 December 2017 the situation of the plan was as follows:

Number of rights assigned at 1/1/2017	2,139,800
Number of rights cancelled	(30,000)
Number of rights assigned	12,000
Number of shares purchased	-
Total number of options not yet exercised at 31/12/2017	<u>2,121,800</u>

The beneficiaries of the options were:

	Price per share for the exercise of options	Vesting period	Number of rights assigned at start of year	Number of rights matured in the year	Number of rights assigned in the year	Number of options exercisable at year end
<b>Directors of the Parent Company</b>						
<input type="checkbox"/> Fulvio Montipò	EUR 12.8845	01.07.2019-31.12.2022	1,620,000	-	-	1,620,000
<input type="checkbox"/> Paolo Marinsek	EUR 12.8845	01.07.2019-31.12.2022	65,000	-	-	65,000
<b>Other beneficiaries</b>						
(employees)	EUR 12.8845	01.07.2019-31.12.2022	454,800	(30,000)	12,000	436,800
<b>Total</b>			<b>2,139,800</b>	<b>(30,000)</b>	<b>12,000</b>	<b>2,121,800</b>

## RELATIONS WITH GROUP COMPANIES AND TRANSACTIONS WITH RELATED PARTIES

With regard to transactions entered into with related parties, including intercompany transactions, we point out that they cannot be defined as either atypical or unusual, inasmuch as they form part of the normal course of activities of the Group companies. These transactions are regulated at arm's length conditions, taking into account the characteristics of the assets transferred and services rendered.

Information on relations with related parties, including the information required by Consob communication of 28 July 2006, is given in Note 35 to the Annual Financial Report.

The Board of Directors of Interpump Group S.p.A. has approved the Procedure for Transactions with Related Parties, in application of the new legislation issued to transpose the relevant European Council Directive and the related Consob Regulation. For more details, we invite you to refer to the report on corporate governance and the ownership structure, which is available on the website [www.interpumpgroup.it](http://www.interpumpgroup.it) in the Corporate Governance section.

## TREASURY SHARES

At 31 December 2017 the Parent company held 1,561,752 shares, representing 1.4344% of capital, acquired at an average unit cost of EUR 12.4967.

## RECONCILIATION WITH THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

Reconciliation of consolidated net equity and net profit ascribable to the Parent company's shareholders with those related to the individual financial statements of the Parent company is as follows:

	Shareholders' equity at 31/12/2017	Net profit for 2017	Shareholders' equity at 31/12/2016
Parent Company's financial statements	<u>379,800</u>	<u>80,411</u>	<u>312,034</u>
Difference between the book value of consolidated investments and their valuation according to the net equity method	381,334	54,094	363,616
Greater book value of a building owned by the Parent Company	191	(4)	195
Elimination of Parent Company's intercompany profits	<u>(2,160)</u>	<u>(59)</u>	<u>(2,101)</u>
Total consolidation adjustments	<u>379,365</u>	<u>54,031</u>	<u>361,710</u>
Shareholders equity and consolidated result ascribable to the Parent Company's Shareholders	<u>759,165</u>	<u>134,442</u>	<u>673,744</u>

## GROUP COMPANIES

At 31 December 2017 the Interpump Group is led by Interpump Group S.p.A., which holds direct and indirect controlling interests in 84 companies (seven of which in liquidation) operating in two business segments (known as the Hydraulic Sector and the Water Jetting Sector).

The Parent company, with registered offices in Sant'Ilario d'Enza, mainly produces high and very high pressure plunger pumps for water, as well as high pressure cleaners, which are classified in the Water Jetting Sector.

The main data of the consolidated subsidiaries are summarized in the table below, whereas for the Parent Company the data are provided in the financial report attached hereto.

<u>Companies consolidated line by line</u>	<u>Share capital (€000)</u>	<u>% held at 31/12/17</u>	<u>Head office</u>	<u>Main activity</u>	<u>Sales €million 31/12/2017</u>	<u>Sales €million 31/12/2016</u>	<u>Average number of employees 2017</u>	<u>Average number of employees 2016</u>
General Pump Inc.	1,854	100.00%	Minneapolis – USA	Distributor of high pressure pumps (Water Jetting Sector)	48.8	45.6	61	61
Hammelmann GmbH	25	100.00%	Oelde – Germany	High pressure systems and pumps (Water Jetting Sector)	98.0	97.8	356	337
Hammelmann Australia Pty Ltd	472	100.00%	Melbourne – Australia	Sale of high pressure systems and pumps (Water Jetting Sector)	8.2	10.9	21	20
Hammelmann Corporation Inc.	39	100.00%	Miamisburg - USA	Sale of high pressure systems and pumps (Water Jetting Sector)	22.0	22.7	26	28
Hammelmann S. L.	500	100.00%	Zaragoza – Spain	Sale of high pressure systems and pumps (Water Jetting Sector)	2.4	2.4	5	5
Hammelmann Pumps Systems Co Ltd	871	90.00%	Tianjin – China	Sale of high pressure systems and pumps (Water Jetting Sector)	11.8	8.2	20	17
Hammelmann Bombas e Sistemas Ltda	765	100.00%	San Paolo – Brazil	Sale of high pressure systems and pumps (Water Jetting Sector)	1.3	0.9	6	6
Inoxihp S.r.l.	119	52.72%	Nova Milanese (MI)	Production and sale of very high pressure systems and pumps (Water Jetting Sector)	10.4	7.1	36	35
NLB Corporation Inc.	12	100.00%	Detroit – USA	Production and sale of very high pressure systems and pumps (Water Jetting Sector)	69.5	73.7	212	229
NLB Poland Corp. Sp. Z.o.o.	1	100.00%	Warsaw – Poland	Sale of high pressure systems and pumps (Water Jetting Sector)	1.7	-	1	-
Inoxpa S.A.	23,000	100.00%	Banyoles – Spain	Production and sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	37.9 a)	-	145	-
Suministros Tecnicos Y Alimentarios S.L.	96	66.25%	Bilbao – Spain	Sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	3.7 a)	-	10	-
Inoxpa India Private Ltd	6,779	100.00%	Pune – India	Production and sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	11.5 a)	-	89	-
Candigra Vision Process Equipment PVT Ltd	403	99.98%	Maharashtra – India	Production and sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	0.8 a)	-	9	-
Inoxpa Solutions France	1,451	100.00%	Gleize – France	Production and sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	8.5 a)	-	16	-
Inoxpa Solution Portugal Lda	600	100.00%	Vale de Cambra – Portugal	Production and sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	2.7 a)	-	22	-
STA Portuguesa Maquinas Para Industria Alim. Lda	160	100.00%	Vale de Cambra – Portugal	Production and sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	2.1 a)	-	5	-

<u>Companies consolidated line by line</u>	<u>Share capital (€000)</u>	<u>% held at 31/12/17</u>	<u>Head office</u>	<u>Main activity</u>	<u>Sales €million 31/12/2017</u>	<u>Sales €million 31/12/2016</u>	<u>Average number of employees 2017</u>	<u>Average number of employees 2016</u>
Inoxpa (UK) Ltd	1,942	100.00%	Eastbourne – United Kingdom	Sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	0.9 a)	-	5	-
Inoxpa Solutions Moldova	317	66.67%	Chisinau – Moldova	Sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	1.5 a)	-	36	-
Inoxpa Australia Proprietary Ltd	584	100.00%	Capalaba – Australia	Sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	0.9 a)	-	3	-
Inoxpa Colombia SAS	133	83.29%	Bogotá – Colombia	Sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	2.5 a)	-	11	-
Inoxpa Italia S.r.l.	100	100.00%	Mirano (VE)	Sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	- a)	-	7	-
Inoxpa Middle East FZE	253	60.00%	Dubai – United Arab Emirates	Sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	0.4 a)	-	3	-
Inoxpa Skandinavien A/S	134	100.00%	Horsens – Denmark	Sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	1.7 a)	-	6	-
Inoxpa South Africa Proprietary Ltd	104	100.00%	Gauteng – South Africa	Sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	3.0 a)	-	11	-
Inoxpa Special Processing Equipment Co. Ltd	1,647	100.00%	Jianxing – China	Sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	1.5 a)	-	5	-
Inoxpa Ukraine	113	100.00%	Kiev – Ukraine	Sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	0.5 a)	-	4	-
Inoxpa USA Inc.	1,426	100.00%	Santa Rosa – USA	Sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	1.5 a)	-	3	-
Inoxrus	814	100.00%	Saint Petersburg – Russia	Sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	1.2 a)	-	9	-
Starinox	1,242	66.80%	Moscow – Russia	Sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	7.0 a)	-	41	-
SCI SUALI	503	100.00%	Gleize – France	Property activity (Water Jetting Sector)	- a)	-	-	-
Mariotti & Pecini S.r.l.	100	60.00%	Sesto Fiorentino (FI)	Production and sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	4.8 b)	-	8	-
SIT S.p.A.	105	65.00%	S. Ilario d'Enza (RE)	Sheet metal drawing, blanking, and pressing (Water Jetting Sector)	4.3	4.1	20	21
Interpump Hydraulics S.p.A.	2,632	100.00%	Calderara di Reno (BO)	Production and sale of power take-offs and hydraulic pumps (Hydraulic Sector)	77.1	72.6	297	302
AVI S.r.l.	10	100.00%	Varedo (MB)	Sale of ancillary products for industrial vehicles, hydraulic pumps and power take-offs (Hydraulic Sector)	5.2	5.2	13	13
Contarini Leopoldo S.r.l.	47	100.00%	Lugo (RA)	Production and sale of hydraulic cylinders (Hydraulic Sector)	23.0	20.7	111	107

<u>Companies consolidated line by line</u>	<u>Share capital (€000)</u>	<u>% held at 31/12/17</u>	<u>Head office</u>	<u>Main activity</u>	<u>Sales €million 31/12/2017</u>	<u>Sales €million 31/12/2016</u>	<u>Average number of employees 2017</u>	<u>Average number of employees 2016</u>
Unidro Contarini S.a.s..	8	100.00%	Barby – France	Production and sale of hydraulic cylinders (Hydraulic Sector)	4.0	3.6	11	11
Copa Hydrosystem Ood	3	100.00%	Troyan - Bulgaria	Production and sale of hydraulic cylinders (Hydraulic Sector)	7.2	5.4	119	99
Fluid System 80 S.r.l.	47	100.00%	Remanzacco (UD)	Sale of ancillary products for industrial vehicles, hydraulic pumps and power take-offs (Hydraulic	1.5 c)	-	3	-
Hydrocar Chile S.A.	129	90.00%	Santiago – Chile	Sale of hydraulic pumps and power take-offs (Hydraulic Sector)	8.2	7.4	56	57
Hydroven S.r.l.	200	100.00%	Tezze sul Brenta (VI)	Sale of ancillary products for industrial vehicles, hydraulic pumps and power take-offs (Hydraulic Sector)	14.9	13.6	38	39
Interpump Hydraulics Brasil Ltda	13,996	100.00%	Caxia do Sul – Brazil	Production and sale of power take-offs, hydraulic pumps and cylinders (Hydraulic Sector)	8.5	7.0	106	118
Interpump Hydraulics France S.a.r.l.	76	99.77%	Ennery – France	Sale of hydraulic pumps and power take-offs (Hydraulic Sector)	4.2	4.1	13	14
Interpump Hydraulics India Private Ltd	682	100.00%	Hosur – India	Production and sale of power take-offs and hydraulic pumps (Hydraulic Sector)	14.8	13.1	95	85
Interpump Hydraulics Middle East FZCO	326	100.00%	Dubai - United Arab Emirates	Sale of ancillary products for industrial vehicles, hydraulic pumps and power take-offs (Hydraulic Sector)	1.5	2.0	5	5
Interpump South Africa Pty Ltd	-	100.00%	Johannesburg – South Africa	Production and sale of hydraulic cylinders (Hydraulic Sector)	6.0	4.8	42	35
Interpump Hydraulics (UK) Ltd.	13	100.00%	Kidderminster – United Kingdom	Sale of hydraulic pumps and power take-offs (Hydraulic Sector)	8.8 b)	1.3	46	6
Mega Pacific Pty Ltd	335	65.00%	Newcastle – Australia	Sale of hydraulic products (Hydraulic Sector)	13.3	6.8 e)	37	19
Mega Pacific NZ Pty Ltd	557	65.00%	Mount Maunganui – New Zealand	Sale of hydraulic products (Hydraulic Sector)	2.0	0.8 e)	8	4
Muncie Power Prod. Inc.	784	100.00%	Muncie – USA	Power take-offs and hydraulic pumps (Hydraulic Sector)	93.1	89.0	355	340
American Mobile Power Inc.	3,410	100.00%	Fairmount – USA	Production and sale of hydraulic cylinders (Hydraulic Sector)	11.6	11.5	65	61
Oleodinamica Panni S.r.l.	2,000	100.00%	Tezze sul Brenta (VI)	Production and sale of hydraulic cylinders (Hydraulic Sector)	49.8	41.5	227	201
Wuxi Interpump Weifu Hydraulics Company Ltd	2,095	65.00%	Wuxi – China	Production and sale of hydraulic pumps and power take-offs (Hydraulic Sector)	15.2	12.6	74	77
IMM Hydraulics S.p.A.	520	100.00%	Atessa (CH)	Production and sale of hydraulic hoses and fittings (Hydraulic Sector)	53.9	48.6	259	239

<u>Companies consolidated line by line</u>	<u>Share capital (€000)</u>	<u>% held at 31/12/17</u>	<u>Head office</u>	<u>Main activity</u>	<u>Sales €million 31/12/2017</u>	<u>Sales €million 31/12/2016</u>	<u>Average number of employees 2017</u>	<u>Average number of employees 2016</u>
Hypress France S.a.r.l.	162	100.00%	Strasburgo – Francia	Sale of hydraulic hoses and fittings (Hydraulic Sector)	2,7	2,4	7	7
Hypress Hydraulik GmbH	52	100.00%	Meinerzhagen – Germany	Sale of hydraulic hoses and fittings (Hydraulic Sector)	7.5	6.8	20	18
Hypress S.r.l.	50	100.00%	Atessa (CH)	Rental of line of business (Hydraulic Sector)	-	-	2	2
IMM Hydro Est	3,155	100.00%	Catcau Cluj Napoca – Romania	Production and sale of hydraulic hoses and fittings (Hydraulic Sector)	11.0	8.1	158	108
Tekno Tubi S.r.l.	100	100.00%	Sant’Agostino (FE)	Production and sale of rigid and flexible hydraulic lines (Hydraulic Sector)	14.5	6.1 e)	60	23
Tubiflex S.p.A.	515	80.00%	Orbassano (TO)	Production and sale of flexible hoses (Hydraulic Sector)	22.3	12.8 f)	146	96
Walvoil S.p.A.	7,692	100.00%	Reggio Emilia	Production and sale of hydraulic valves and directional controls (Hydraulic Sector)	219.3	191.5	1,139	926
Walvoil Fluid Power Corp.	137	100.00%	Tulsa – USA	Sale of hydraulic valves and directional controls (Hydraulic Sector)	52.0	34.3	64	49
Walvoil Fluid Power Shanghai Co. Ltd	1,872	100.00%	Shanghai – China	Production and sale of hydraulic valves and directional controls (Hydraulic Sector)	9.4	4.7	30	30
Walvoil Fluid Power (India) Pvt Ltd	683	100.00%	Bangalore – India	Production and sale of hydraulic valves and directional controls (Hydraulic Sector)	16.2	13.5	220	211
Walvoil Fluid Power Korea Llc	453	100.00%	Pyeongtaek – South Korea	Production and sale of hydraulic valves and directional controls (Hydraulic Sector)	11.9	10.1	47	42
Walvoil Fluid Power France S.a.r.l.	10	100.00%	Vritz – France	Agent for the sale of hydraulic valves and directional controls (Hydraulic Sector)	-	-	4	3
Walvoil Fluid Power Australasia	7	100.00%	Melbourne – Australia	Agent for the sale of hydraulic valves and directional controls (Hydraulic Sector)	-	-	1	1
Galtech Canada Inc.	76	100.00%	Terrebonne Quebec – Canada	Sale of hydraulic valves and directional controls (Hydraulic Sector)	3.8	3.0	13	12
HC Hydraulic Technologies (P) Ltd	4,120	100.00%	Bangalore – India	Production and sale of hydraulic valves and directional controls (Hydraulic Sector)	9.3	8.2	91	73
HTIL	98	100.00%	Hong Kong	Sub-holding company for Hydrocontrol in China (Hydraulic Sector)	-	-	-	-
Walvoil Fluid Power Dongguan Co. Ltd	3,720	100.00%	Dongguan – China	Production and sale of hydraulic valves and directional controls (Hydraulic Sector)	8.9	6.6	68	67
Interpump Piping GS S.r.l.	10	100.00%	Reggio Emilia	Holding of Piping	-	-	-	-
IMM Hydraulics Ltd (in liquidation)	1	100.00%	Kidderminster – UK	Inoperative (Hydraulic Sector)	5.5 d)	11.4	20	42
Bristol Hose Ltd (in liquidation)	18	100.00%	Bristol – UK	Inoperative (Hydraulic Sector)	1.4 d)	-	11	-

<u>Companies consolidated line by line</u>	<u>Share capital (€000)</u>	<u>% held at 31/12/17</u>	<u>Head office</u>	<u>Main activity</u>	<u>Sales €million 31/12/2017</u>	<u>Sales €million 31/12/2016</u>	<u>Average number of employees 2017</u>	<u>Average number of employees 2016</u>
E.I. Holdings Ltd (in liquidation)	127	100.00%	Bristol – UK	Inoperative (Hydraulic Sector)	- d)	-	-	-
Endeavour International Ltd (in liquidation)	69	100.00%	Bath - Regno Unito	Inoperative (Hydraulic Sector)	1,3 d)	2,4	5	9
Teknova S.r.l. (in liquidation)	28	100.00%	Reggio Emilia	Inoperative (Other Revenues Sector)	-	-	-	-
<u>Companies not consolidated line by line</u>								
General Pump China	111	100%	Ningbo – China	Marketing of components (Water Jetting Sector)				
Interpump Hydraulics Perú	318	90%	Lima - Peru	Sale of hydraulic pumps and power take-offs (Hydraulic Sector)				
Interpump Hydraulics Rus	172	100%	Moscow – Russia	Sale of hydraulic pumps and power take-offs (Hydraulic Sector)				
Inoxpa Poland Sp ZOO	12	100%	Arkonska - Poland	Inoperative (Water Jetting Sector)				
Inoxpa ABC Solutions Private Ltd	27	100%	Ankit Udhog - India	Inoperative (Water Jetting Sector)				
FGA S.r.l.	10	100%	Fossacesia (CH)	Surface treatments (Hydraulic Sector)				
29 Saldature M.D.M. S.r.l.	15	100%	Renazzo (FE)	Pipe welding (Hydraulic Sector)				

a)= Sales for 11 months in 2017.

b)= Sales for 7 months in 2017.

c)= Sales for 3 months in 2017.

d)= On 1 July 2017 the assets and liabilities of IMM Hydraulics UK, E.I. Holdings Ltd, Endeavour Ltd and Bristol Hose Ltd were transferred to Interpump Hydraulics UK.

e)= Sales for 6 months in 2016.

f)= Sales for 8 months in 2016.

## **EVENTS OCCURRING AFTER THE END OF THE YEAR AND BUSINESS OUTLOOK**

No atypical or unusual transactions have been carried out subsequent to 31 December 2017 that would call for changes to these consolidated financial statements.

The acquisition of the international activities of the Finnish group GS-Hydro, world leader in the design and construction of piping systems in the industrial, marine and offshore sectors, was completed at the start of 2018. GS-Hydro revolutionized the piping sector by inventing a solution for pipe assembly without welding. This fast and clean technology not only reduces the environmental impact of the operations, it also guarantees higher technical characteristics and greater ease of use, so it is particularly suitable for continuous or extreme application conditions. The agreement involved the acquisition of the group's subsidiaries in the UK, Spain, Austria, Germany, Denmark, Benelux, Poland, Sweden, the US, China, South Korea, Singapore and Brazil, and also the manufacturing business of the Finnish parent GS-Hydro Oy, including patents and international certifications. Total consolidated sales in the foregoing perimeter were recorded at €61m. The total agreed price for the acquisition is €9m. The net financial position at 31 December 2017 showed net liquidity of €3m.

Considering the short time span since 31 December 2017 and in light of the short period of time historically covered by the order portfolio, we do not yet have sufficient information to make a reliable forecast of trends in 2018, for which positive results are anyway predicted in terms of sales and profitability.

## **FURTHER INFORMATION**

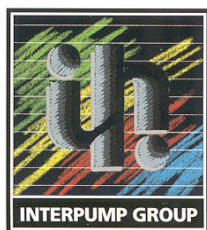
In relation to the regulatory prescriptions concerning the condition for the listing of subsidiaries incorporated or regulated in compliance with the laws of non-EU countries, we draw your attention to the fact that, with respect to 31 December 2016, Walvoil Fluid Power India Pvt Ltd, Walvoil Fluid Power Korea, Inoxpa India Private Ltd, Starinox (Russia) and Interpump Hydraulics India Ltd have been added among the companies of significant importance in relation to the consolidated financial statements further to their inclusion in the audit plan, even though the companies in question had not individually exceeded the limits established pursuant to art. 151 of the Issuers' Code.

The Interpump Group is extremely active in making acquisitions, also of small and medium size companies, which is why it is composed of a large number of companies, including small enterprises, and has a direct presence in 26 countries. This generally means that the audit plan must be added to each year with companies that, although they do not individually exceed the limits set down in art. 151 of the Issuers' Regulation, must anyway be included in order to comply with the cumulative limits prescribed in the same article.

Sant'Ilario d'Enza (RE), 15 March 2018

For the Board of Directors  
Fulvio Montipò  
Chairman of the Board of Directors

## **Consolidated Financial Statements at 31/12/2017**



**Interpump Group S.p.A. and subsidiaries**

**Consolidated statement of financial position**

(€000)	<i>Notes</i>	<i>31/12/2017</i>	<i>31/12/2016</i>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	144,938	197,891
Trade receivables	7, 31	236,761	200,018
Inventories	8	291,701	257,545
Tax receivables		15,410	11,140
Derivative financial instruments	9, 31	-	-
Other current assets	10, 31	8,302	7,686
<b>Total current assets</b>		<b>697,112</b>	<b>674,280</b>
<b>Non-current assets</b>			
Property, plant and equipment	11	321,833	300,921
Goodwill	12	429,442	390,708
Other intangible assets	13	38,096	30,039
Other financial assets	14, 31	1,145	790
Tax receivables		1,770	1,740
Deferred tax assets	15	24,909	24,108
Other non-current assets		2,582	1,654
<b>Total non-current assets</b>		<b>819,777</b>	<b>749,960</b>
Assets held for sale	16	785	-
<b>Total assets</b>		<b>1,517,674</b>	<b>1,424,240</b>

(€000)	<u>Notes</u>	<u>31/12/2017</u>	<u>31/12/2016</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade payables	7, 31	142,975	109,004
Payables to banks	17, 31	8,955	2,396
Interest-bearing financial payables (current portion)	17, 31	166,465	124,784
Derivative financial instruments	9, 31	-	36
Tax payables		18,541	18,126
Other current liabilities	18, 31	54,038	49,772
Provisions for risks and charges	19	3,610	3,620
<b>Total current liabilities</b>		<b>394,584</b>	<b>307,738</b>
<b>Non-current liabilities</b>			
Interest-bearing financial payables	17, 31	243,060	327,974
Liabilities for employee benefits	20	20,044	19,311
Deferred tax liabilities	15	41,504	47,755
Other non-current liabilities	21, 31	50,397	41,058
Provisions for risks and charges	19	3,156	2,866
<b>Total non-current liabilities</b>		<b>358,161</b>	<b>438,964</b>
Liabilities held for sale	16	200	-
<b>Total liabilities</b>		<b>752,945</b>	<b>746,702</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	22	55,805	55,431
Legal reserve	23	11,323	11,323
Share premium reserve	22, 23	121,228	112,386
Reserve for the measurement of hedging derivatives			
at fair value	23	-	(24)
Reserve for restatement of defined benefit plans		(5,722)	(5,022)
Translation reserve	23	(2,475)	33,497
Other reserves	23	579,006	466,153
<b>Group shareholders' equity</b>		<b>759,165</b>	<b>673,744</b>
Minority interests	24	5,564	3,794
<b>Total shareholders' equity</b>		<b>764,729</b>	<b>677,538</b>
<b>Total shareholders' equity and liabilities</b>		<b>1,517,674</b>	<b>1,424,240</b>

**Consolidated income statements for the year**

(€000)	<i>Notes</i>	<i>2017</i>	<i>2016</i>
<b>Net sales</b>		<b>1,086,547</b>	<b>922,818</b>
Cost of sales	26	(672,548)	(584,816)
<b>Gross industrial margin</b>		<b>413,999</b>	<b>338,002</b>
Other net revenues	25	16,744	14,372
Distribution costs	26	(102,726)	(86,425)
General and administrative expenses	26, 27	(124,534)	(108,973)
Other operating costs	26	(4,571)	(3,443)
<b>Ordinary profit before financial expenses</b>		<b>198,912</b>	<b>153,533</b>
Financial income	28	14,684	7,862
Financial expenses	28	(21,424)	(12,862)
Equity method contribution		(22)	(40)
<b>Profit for the period before taxes</b>		<b>192,150</b>	<b>148,493</b>
Income taxes	29	(56,427)	(54,020)
<b>Consolidated net profit for the period</b>		<b>135,723</b>	<b>94,473</b>
<b>Pertaining to:</b>			
Parent company's shareholders		134,442	93,850
Subsidiaries' minority shareholders		1,281	623
<b>Consolidated profit for the year</b>		<b>135,723</b>	<b>94,473</b>
Basic earnings per share	30	1.257	0.884
Diluted earnings per share	30	1.245	0.880

**Comprehensive consolidated income statements for the year**

(€000)	<u>2017</u>	<u>2016</u>
<b>Consolidated profit for the year (A)</b>	<b>135,723</b>	<b>94,473</b>
<b>Other comprehensive profit (loss) that will be subsequently reclassified in consolidated profit for the period</b>		
<i>Accounting for exchange risk hedging derivatives using the cash flow hedge method:</i>		
- Profit (Loss) on derivative financial instruments for the period	-	(33)
- Minus: Adjustment for reclassification of profits (losses) to the income statement	33	19
- Minus: Adjustment for recognition of fair value to reserves in the prior year	-	-
<i>Total</i>	<u>33</u>	<u>(14)</u>
<i>Profits (Losses) arising from the translation to euro of the financial statements of foreign companies</i>	(36,311)	10,664
<i>Profits (Losses) of companies carried at equity</i>	(2)	(5)
<i>Related taxes</i>	<u>(9)</u>	<u>3</u>
<b>Total other profit (loss) that will be subsequently reclassified in consolidated profit for the period, net of the tax effect (B)</b>	<b><u>(36,289)</u></b>	<b><u>10,648</u></b>
<b>Other comprehensive profit (loss) that will not be subsequently reclassified in consolidated profit for the period</b>		
<i>Profit (loss) deriving from the restatement of defined benefit plans</i>	(927)	(1,803)
<i>Related taxes</i>	<u>219</u>	<u>262</u>
<b>Total other comprehensive profit (loss) that will not be subsequently reclassified in consolidated profit for the year, net of the tax effect (C)</b>	<b><u>(708)</u></b>	<b><u>(1,541)</u></b>
<b>Comprehensive consolidated profit for the year (A) + (B) + (C)</b>	<b><u>98,726</u></b>	<b><u>103,580</u></b>
<b>Pertaining to:</b>		
Parent company's shareholders	97,794	103,115
Subsidiaries' minority shareholders	<u>932</u>	<u>465</u>
<b>Comprehensive consolidated profit for the period</b>	<b><u>98,726</u></b>	<b><u>103,580</u></b>

**Consolidated cash flow statement**

(€000)

	<u>2017</u>	<u>2016</u>
<b>Cash flow from operating activities</b>		
Pretax profit	192,150	148,493
Adjustments for non-cash items:		
Capital losses (Capital gains) from the sale of fixed assets	(3,257)	(2,099)
Capital losses (Capital gains) from the sale of business divisions and equity investments	-	(61)
Amortization and depreciation, loss and reinstatement of assets	47,792	44,044
Costs ascribed to the income statement relative to stock options that do not involve monetary outflows for the Group	1,781	1,733
Loss (Profit) from investments	22	40
Net change in risk provisions and provisions for employee benefits	(306)	(1,298)
Outlays for tangible fixed assets destined for hire	(6,508)	(10,784)
Proceeds from the sale of fixed assets granted for hire	7,966	6,494
Net financial charges	6,740	5,000
	<u>246,380</u>	<u>191,562</u>
(Increase) decrease in trade receivables and other current assets	(29,522)	(4,614)
(Increase) decrease in inventories	(32,603)	(5,753)
Increase (decrease) in trade payables and other current liabilities	31,317	(1,815)
Interest paid	(3,331)	(4,450)
Currency exchange gains	(3,370)	(653)
Taxes paid	(67,314)	(48,464)
<b>Net cash from operating activities</b>	<u><b>141,557</b></u>	<u><b>125,813</b></u>
<b>Cash flows from investing activities</b>		
Outlay for the acquisition of investments, net of received cash and net of divested treasury stock	(78,329)	(35,786)
Disposal of investments including transferred cash	-	861
Capital expenditure on property, plant and equipment	(44,533)	(31,954)
Proceeds from the sale of tangible fixed assets	871	566
Receipts from the disposal of assets held for sale	2,714	-
Increase in intangible fixed assets	(3,544)	(3,022)
Received financial income	534	496
Other	(531)	149
<b>Net liquidity used in investing activities</b>	<u><b>(122,818)</b></u>	<u><b>(68,690)</b></u>
<b>Cash flows of financing activity</b>		
Disbursal (repayment) of loans	(52,681)	66,464
Dividends paid	(22,310)	(21,138)
Outlays for purchase of treasury shares	-	(43,308)
Proceeds from the sale of treasury shares to beneficiaries of stock options	3,376	9,490
Change in other financial assets	83	(53)
Disbursal (repayment) of loans from (to) shareholders	(50)	(7)
Payment of finance leasing instalments (principal portion)	(2,207)	(3,992)
<b>Net liquidity generated (used by) financing activities</b>	<u><b>(73,789)</b></u>	<u><b>7,456</b></u>
<b>Net increase (decrease) of cash and cash equivalents</b>	<u><b>(55,050)</b></u>	<u><b>64,579</b></u>

(€000)	<u>2017</u>	<u>2016</u>
<b>Net increase (decrease) of cash and cash equivalents</b>	<b>(55,050)</b>	<b>64,579</b>
Opening cash and cash equivalents of companies consolidated line by line for the first time	-	160
Exchange differences from conversion of cash of companies in areas outside the EU	(4,462)	1,361
Cash and cash equivalents at beginning of period	<u>195,495</u>	<u>129,395</u>
<b>Cash and cash equivalents at end of period</b>	<b><u>135,983</u></b>	<b><u>195,495</u></b>

For reconciliation of cash on hand, please refer to Note 33.

## Statement of changes in consolidated shareholders' equity

(€000)	Share capital	Legal reserve	Share premium reserve	Reserve for valuation of hedging derivatives at fair value	Reserve for restatement of defined benefit plans	Translation reserve	Other reserves	Group shareholders' equity	Minority interests	Total
<i>Balances at 1 January 2016</i>	56,032	11,323	138,955	(13)	(3,501)	22,657	391,704	617,157	5,471	622,628
Recognition in the income statement of the fair value of stock options assigned and exercisable	-	-	1,733	-	-	-	-	1,733	-	1,733
Purchase of treasury shares	(1,772)	-	(43,308)	-	-	-	1,772	(43,308)	-	(43,308)
Sale of treasury shares to the beneficiaries of stock options	937	-	9,490	-	-	-	(937)	9,490	-	9,490
Sale of treasury shares for payment of equity investments	234	-	5,516	-	-	-	(234)	5,516	-	5,516
Purchase of residual interests in subsidiaries	-	-	-	-	-	43	52	95	(1,040)	(945)
Dividends paid	-	-	-	-	-	-	(20,054)	(20,054)	(1,102)	(21,156)
Comprehensive Profit (loss) for 2016	-	-	-	(11)	(1,521)	10,797	93,850	103,115	465	103,580
<i>Balances at 31 December 2016</i>	55,431	11,323	112,386	(24)	(5,022)	33,497	466,153	673,744	3,794	677,538
Recognition in the income statement of the fair value of stock options assigned and exercisable	-	-	1,781	-	-	-	-	1,781	-	1,781
Sale of treasury shares to the beneficiaries of stock options	296	-	3,376	-	-	-	(296)	3,376	-	3,376
Sale of treasury shares for payment of equity investments	78	-	3,685	-	-	-	(78)	3,685	-	3,685
Purchase of Inoxpa Group	-	-	-	-	-	-	-	-	2,291	2,291
Purchase of residual interests in subsidiaries	-	-	-	-	-	-	141	141	(527)	(386)
Dividends paid	-	-	-	-	-	-	(21,356)	(21,356)	(926)	(22,282)
Comprehensive Profit (loss) for 2017	-	-	-	24	(700)	(35,972)	134,442	97,794	932	98,726
<i>Balances at 31 December 2017</i>	55,805	11,323	121,228	-	(5,722)	(2,475)	579,006	759,165	5,564	764,729

## Notes to the annual financial report

### 1. General information

Interpump Group S.p.A. is a company domiciled in Sant'Ilario d'Enza (Reggio Emilia, Italy) and incorporated under Italian law. The company is listed on the Milan stock exchange in the STAR segment.

The Group manufactures and markets high and very high pressure plunger pumps, very high pressure systems (Water Jetting Sector), power take-offs, gear pumps, hydraulic cylinders, directional controls, valves, hydraulic hoses and fittings and other hydraulic components (Hydraulic Sector). The Group has production facilities in Italy, the US, Germany, France, Portugal, China, India, Brazil, Bulgaria, Romania and South Korea.

The consolidated financial statements at 31 December 2017 were approved by the Board of Directors on this day (15 March 2018).

### 2. Scope of consolidation

The 2017 consolidation basis includes the Parent Company and the following subsidiaries consolidated on a line-by-line basis (with the information required on the basis of Consob communication DEM/6064293 of 28/07/2006):

<i>Company</i>	<i>Head office</i>	<i>Share capital €000</i>	<i>Shareholders' Equity €000</i>	<i>Profit 2017 €000</i>	<i>% stake at 31/12/17</i>
General Pump Inc.	Minneapolis (USA)	1,854	16,105	4,200	100.00%
Hammelmann GmbH	Oelde (Germany)	25	123,643	23,201	100.00%
Hammelmann Australia Pty Ltd (1)	Melbourne (Australia)	472	5,720	544	100.00%
Hammelmann Corporation Inc (1)	Miamisburg (USA)	39	11,544	3,671	100.00%
Hammelmann S. L. (1)	Zaragoza (Spain)	500	1,213	422	100.00%
Hammelmann Pumps Systems Co Ltd (1)	Tianjin (China)	871	6,560	1,527	90.00%
Hammelmann Bombas e Sistemas Ltda (1)	San Paolo (Brazil)	765	(114)	(724)	100.00%
Inoxihp S.r.l.	Nova Milanese (MI)	119	4,897	1,515	52.72%
NLB Corporation Inc.	Detroit (USA)	12	89,520	10,607	100.00%
NLB Poland Corp. Sp. Z.o.o. (2)	Warsaw (Poland)	1	(420)	(100)	100.00%
Inoxpa S.A.	Banyoles (Spain)	23,000	55,249	7,774	100.00%
Suministros Tecnicos Y Alimentarios S.L. (3)	Bilbao (Spain)	96	2,652	335	66.25%
Inoxpa India Private Ltd (3)	Pune (India)	6,779	9,378	535	100.00%
Candigra Vision Process Equipment PVT Ltd (4)	Maharashtra (India)	403	122	59	99.98%
Inoxpa Solutions France (3)	Gleize (France)	1,451	2,664	1,084	100.00%
Inoxpa Solution Portugal Lda (3)	Vale de Cambra (Portugal)	600	1,874	600	100.00%
STA Portuguesa Maquinas Para Industria Alim. Lda (3)	Vale de Cambra (Portugal)	160	1,148	199	100.00%
Inoxpa (UK) Ltd (3)	Eastbourne (UK)	1,942	146	(39)	100.00%
Inoxpa Solutions Moldova (3)	Chisinau (Moldova)	317	560	112	66.67%
Inoxpa Australia Pty. Ltd (3)	Capalaba (Australia)	584	213	(13)	100.00%
Inoxpa Colombia SAS (3)	Bogotá (Colombia)	133	849	222	83.29%
Inoxpa Italia S.r.l. (3)	Mirano (VE)	100	447	90	100.00%
Inoxpa Middle East FZCO (3)	Dubai (UAE)	253	470	58	60.00%
Inoxpa Skandinavien A/S (3)	Horsens (Denmark)	134	785	164	100.00%
Inoxpa South Africa Proprietary Ltd (3)	Gauteng (South Africa)	104	1,492	305	100.00%

<i>Company</i>	<i>Head office</i>	<i>Share capital</i>	<i>Shareholders' Equity</i>	<i>Profit 2017</i>	<i>% stake at 31/12/17</i>
		<i>€/000</i>	<i>€/000</i>	<i>€/000</i>	
Inoxpa Special Processing Equipment Co. Ltd (3)	Jianxing (China)	1,647	902	63	100.00%
Inoxpa Ukraine (3)	Kiev (Ukraine)	113	166	58	100.00%
Inoxpa USA Inc (3)	Santa Rosa (USA)	1,426	889	31	100.00%
Inoxrus (3)	Saint Petersburg (Russia)	814	1,391	207	100.00%
Starinox (5)	Moscow (Russia)	1,242	2,166	507	66.80%
SCI Suali (3)	Gleize (France)	503	1,098	110	100.00%
Mariotti & Pecini S.r.l.	Sesto Fiorentino (FI)	100	4,706	1,243	60.00%
SIT S.p.A.	S. Ilario d'Enza (RE)	105	1,201	70	65.00%
Interpump Hydraulics S.p.A.	Calderara di Reno (BO)	2,632	141,833	29,591	100.00%
AVI S.r.l. (6)	Varedo (MB)	10	1,306	307	100.00%
Contarini Leopoldo S.r.l. (6)	Lugo (RA)	47	8,073	2,814	100.00%
Unidro Contarini S.a.s. (7)	Barby (France)	8	2,355	417	100.00%
Copa Hydrosystem Ood (7)	Troyan (Bulgaria)	3	5,530	1,013	100.00%
Fluid System '80 S.r.l. (6)	Remanzacco (UD)	47	1,278	77	100.00%
Hydrocar Chile S.A. (6)	Santiago (Chile)	129	5,055	276	90.00%
Hydroven S.r.l. (6)	Tezze sul Brenta (VI)	200	4,182	1,561	100.00%
Interpump Hydraulics Brasil Ltda (6)	Caxia do Sul (Brazil)	13,996	9,862	(996)	100.00%
Interpump Hydraulics France S.a.r.l. (6)	Ennery (France)	76	1,189	241	99.77%
Interpump Hydraulics India Private Ltd (6)	Hosur (India)	682	10,514	981	100.00%
Interpump Hydraulics Middle East FZE (6)	Dubai (UAE)	326	125	(324)	100.00%
Interpump South Africa Pty Ltd (6)	Johannesburg (South Africa)	-	2,162	306	100.00%
Interpump Hydraulics (UK) Ltd. (6)	Kidderminster (United Kingdom)	13	10,261	(2,030)	100.00%
Mega Pacific Pty Ltd (8)	Newcastle (Australia)	335	5,536	1,226	65.00%
Mega Pacific NZ Pty Ltd (8)	Mount Maunganui (New Zealand)	557	1,571	363	65.00%
Muncie Power Prod. Inc. (6)	Muncie (USA)	784	69,961	13,788	100.00%
American Mobile Power Inc. (9)	Fairmount (USA)	3,410	5,380	1,590	100.00%
Oleodinamica Panni S.r.l. (6)	Tezze sul Brenta (VI)	2,000	21,929	6,074	100.00%
Wuxi Interpump Weifu Hydraulics Company Ltd (6)	Wuxi (China)	2,095	6,997	1,092	65.00%
IMM Hydraulics S.p.A. (6)	Atessa (CH)	520	31,686	7,157	100.00%
Hypress France S.a.r.l. (10)	Strasbourg (France)	162	862	352	100.00%
Hypress Hydraulik GmbH (10)	Meinerzhagen (Germany)	52	1,831	150	100.00%
Hypress S.r.l. (10)	Atessa (CH)	50	560	23	100.00%
IMM Hydro Est (10)	Catcau Cluj Napoca (Romania)	3,155	7,879	577	100.00%
Tekno Tubi S.r.l. (10)	Sant'Agostino (FE)	100	4,191	1,648	100.00%
Tubiflex S.p.A.	Orbassano (TO)	515	12,898	3,134	80.00%
Walvoil S.p.A.	Reggio Emilia	7,692	131,987	33,846	100.00%
Walvoil Fluid Power Corp. (11)	Tulsa (USA)	137	12,774	4,170	100.00%
Walvoil Fluid Power Shanghai Co. Ltd (11)	Shanghai (China)	1,872	3,240	444	100.00%
Walvoil Fluid Power Pvt Ltd (11)	Bangalore (India)	683	11,493	1,456	100.00%
Walvoil Fluid Power Korea (11)	Pyeongtaek (South Korea)	453	4,729	1,389	100.00%
Walvoil Fluid Power France S.a.r.l. (11)	Vritz (France)	10	188	28	100.00%
Walvoil Fluid Power Australasia (11)	Melbourne (Australia)	7	109	58	100.00%
Galtech Canada Inc. (11)	Terrebonne, Quebec (Canada)	76	1,620	370	100.00%
HC Hydraulics Technologies (P) Ltd (11)	Bangalore (India)	4,120	6,707	727	100.00%
HTIL (11)	Hong Kong	98	4,114	(3)	100.00%
Walvoil Fluid Power (Dongguan) Co., Ltd (12)	Dongguan (China)	3,720	7,680	1,343	100.00%
Interpump Piping GS S.r.l.	Reggio Emilia	10	8	2	100.00%
IMM Hydraulics Ltd (in liquidation) (8)	Kidderminster (United Kingdom)	1	1,591	117	100.00%

<u>Company</u>	<u>Head office</u>	<u>Share capital</u> <u>€/000</u>	<u>Shareholders' Equity</u> <u>€/000</u>	<u>Profit 2017</u> <u>€/000</u>	<u>% stake</u> <u>at 31/12/17</u>
E.I. Holdings Ltd (in liquidation) (8)	Bath (United Kingdom)	127	150	-	100.00%
Endeavour International Ltd (in liquidation) (8)	Bath (United Kingdom)	69	1,689	237	100.00%
Bristol Hose Ltd (in liquidation) (8)	Bristol (United Kingdom)	18	289	81	100.00%
Teknova S.r.l. (in liquidation)	Reggio Emilia	28	30	(5)	100.00%

(1) = controlled by Hammelmann GmbH  
 (2) = controlled by NLB Corporation  
 (3) = controlled by Inoxpa S.A.  
 (4) = controlled by Inoxpa India Private Ltd  
 (5) = controlled by Inoxrus  
 (6) = controlled by Interpump Hydraulics S.p.A.  
 The other companies are controlled directly by Interpump Group S.p.A.

(7) = controlled by Contarini Leopoldo S.r.l.  
 (8) = controlled by Interpump Hydraulics (UK) Ltd.  
 (9) = controlled by Muncie Power Inc.  
 (10) = controlled by IMM Hydraulics Ltd  
 (11) = controlled by Walvoil S.p.A.  
 (12) = controlled by HTIL

The companies of the Inoxpa Group (Water Jetting Sector) were consolidated for the first time for eleven months, having been acquired on 3 February; Mariotti & Pecini S.r.l. was consolidated for 7 months, having been acquired on 12 June, Fluid System '80, acquired on 3 October, was consolidated for three months, while Bristol Hose (Hydraulic Sector) was consolidated for the entire period.

The minority shareholder of Inoxihp S.r.l. is entitled to dispose of its holdings starting from the approval of the 2025 financial statements up to the 2035 financial statements, on the basis of the average results of the company in the last two financial statements for the years ended before the exercise of the option. Likewise, the minority shareholder of Tubiflex S.p.A. is entitled and required to dispose of its holdings upon approval of the 2018 financial statements, on the basis of the results of the company reported in the 2018 financial statements. The minority shareholder of Mega Pacific Pty Ltd and of Mega Pacific NZ Pty Ltd is entitled and required to sell its shares within 90 days of 29 July 2021, based on the results of the financial statements prepared immediately prior to exercise of the option. The minority shareholder of Mariotti & Pecini S.r.l. is entitled and required to dispose of its holdings, starting from approval of the financial statements as at 31 December 2020 up to approval of the financial statements as at 31 December 2022, on the basis of the results reported in the latest financial statements prior to exercise of the option. The minority shareholder of Inoxpa Solution Moldova is entitled to dispose of its holdings from October 2020, based on the most recent balance sheet of that company.

In compliance with the requirements of IFRS 10 and IFRS 3, Inoxihp, Tubiflex, Mega Pacific Australia, Mega Pacific New Zealand, Mariotti & Pecini and Inoxpa Solution Moldova have been consolidated in full, recording a payable representing an estimate of the present value of the exercise price of the options determined with reference to the business plans of the companies. Any changes in the payable representing the estimate of the present value of the exercise price that occur within 12 months of the date of acquisition, as a result of additional or better information, will be recorded as an adjustment of goodwill, while any changes after 12 months from the date of acquisition will be recognized in the income statement.

### 3. Accounting standards adopted

#### 3.1 Reference accounting standards

The annual financial report at 31 December 2017 was drafted in compliance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and approved by the European Union. "IFRS" also means the

International Accounting Standards (“IAS”) currently in force and all the interpretative documents issued by the IFRS Interpretation Committee, previously denominated International Financial Reporting Interpretations Committee (“IFRIC”) and still earlier known as the Standing Interpretations Committee (“SIC”).

The consolidated financial statements are drafted in thousands of euro. The financial statements are drafted according to the cost method, with the exception of financial instruments, which are measured at fair value.

Preparation of financial statements in compliance with IFRS (International Financial Reporting Standards) calls for judgments, estimates, and assumptions that have an effect on assets, liabilities, costs and revenues. The final results may differ from the results obtained using estimates of this type. The captions of the financial statements that call for more subjective appraisal by the directors when preparing estimates and for which a change in the conditions underlying the assumptions utilized could have a significant effect on the financial statements are: goodwill, amortization and depreciation of fixed assets, deferred tax assets and liabilities, the allowance for doubtful accounts and the allowance for inventories, provisions for risks and charges, defined benefit plans for employees, and liabilities for the acquisition of investments included under other liabilities.

Notably, discretionary measurements and significant accounting estimates concern the recoverable value of non-financial assets calculated as the greater amount between the fair value minus the cost of sale and the value in use. The value in use calculation is based on a cash flow actualization model. The recoverable value is highly dependent on the discount rate used for cash flow actualization, as are the expected future cash flows and the growth rate applied. The key assumptions used to determine the recoverable value for the two cash flow generating units, including a sensitivity analysis, are described in Note 12 to the Consolidated Financial Statements at 31 December 2017.

Moreover, the use of accounting estimates and significant assumptions concerns also the determination of the fair values of the assets and liabilities acquired in the framework of business combinations. In fact, at the acquisition date the Group must record, separately from the associated fair value, assets, liabilities and potential liabilities identifiable and acquired or assumed in the context of the business combination, and also determine the current value of the exercise price of any purchase options on minority interests. This process calls for the preparation of estimates, based on measurement techniques that require discretionary considerations in the prediction of future cash flows and the development of other hypotheses, namely the long-term growth rates and the discount rates for the measurement models developed also with the assistance of experts from outside the management team. The accounting impacts of determination of the fair value of acquired assets and assumed liabilities, and of the options to purchase minority interests for operations of business combinations that occurred during the year, are provided in Note 5. Business combinations.

### **3.1.1 Accounting standards, amendments and interpretations in force from 1 January 2017 and adopted by the Group**

As from 2017 the Group has applied the following new accounting standards, amendments and interpretations, reviewed by IASB:

- *Amendments to IAS 12 – “Income taxes”*. The IASB has published certain amendments to the standard. The document entitled *Recognition of deferred tax assets for unrealized losses (Amendment to IAS 12)* seeks to clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value.

- *Amendments to IAS 7 – “Statement of cash flows”*. On 29 January 2016, IASB published an amendment to the standard entitled “*Disclosure initiative*” in order to improve the information provided concerning changes in liabilities deriving from finance operations.

### **3.1.2 Accounting standards, amendments and interpretations in force from 1 January 2017 but not relevant for the Group**

- *IFRS Annual improvements cycle 2014–2016* - On 8 December 2016 IASB issued several minor changes to IFRS 12 “*Disclosure of interests in other entities*”. The aim of the annual improvements is to address necessary matters related to inconsistencies found in IFRSs or for clarifications of terminology, which are not of an urgent nature but which reflect issues discussed by IASB during the project cycle.

### **3.1.3 New accounting standards and amendments not yet applicable and not adopted early by the Group**

- *IFRS 2 – “Share-based payments”*. On 21 June 2016 IASB published amendments to the standard with a view to clarifying the accounting for certain operations involving share-based payments. The changes concern: (i) the effects of “vesting conditions” and “non-vesting conditions” in relation to the measurement of payments based on shares and settled in cash; (ii) payment transactions based on shares with a net settlement function for the withholding tax obligations and (iii) an amendment of the terms and conditions of a payment based on shares that changes the classification of the transaction from a settlement in cash settlement to a payment of capital. The changes will be applicable from 1 January 2018; early application is permitted, but the Group will adopt said amendments only prospectively as from 1 January 2018 and no significant impact is expected on the consolidated financial statements or on the additional disclosures further to adoption of the amendments.
- *IFRS 9 – “Financial instruments”*. On 12 November 2009 IASB published the following standard, which was subsequently amended on 28 October 2010 and in a further amendment in mid-December 2011. The standard, which is applicable from 1 January 2018, constitutes the first part of a process in stages aimed at replacing IAS 39 and introduces new criteria for the classification and measurement of financial assets and liabilities, and for derecognition of financial assets from the financial statements. The new standard is designed to simplify interpretation of financial statements and understanding of the amounts, the times and the uncertainty of the cash flows, by replacing the different categories of financial instruments provided for by IAS 39. In fact, all financial assets are initially recognized at fair value, adjusted by the transaction costs, if the instrument is not recognized at fair value through profit and loss (FVTPL). However, trade receivables that do not have a significant financial component are initially measured at their transaction price, as defined by the new IFRS 15 - Revenue from contracts with customers. Debt instruments are measured on the basis of the contractual cash flows and the business model on the basis of which the instrument is held. If the instrument envisages cash flows exclusively for the payment of interest and the capital portion, it is recognized in compliance with the amortized cost method, while if, in addition to the foregoing cash flows, it involves the exchange of financial assets, it is measured at fair value in Other Comprehensive Income, with subsequent reclassification in the income statement (FVOCI). Finally, there exists an express option for recognition at fair value (FVO). Likewise, all equity instruments are initially measured at FVTPL, but the entity has an irrevocable option on each instrument for

recognition at *FVTOCI*. All the other classifications and measurement rules contained in IAS39 have been included in the new standard IFRS9. With regard to impairment, the IAS39 model based on losses sustained has been replaced by the ECL model (Expected Credit Loss). Finally, several new aspects are introduced in relation to Hedge Accounting, with the facility to perform a prospective efficacy and qualitative test, measuring the components of risk autonomously, if they can be identified. On the basis of a preliminary qualitative assessment no significant potential impacts have been identified in relation to the Group's financial and economic situation.

- *IFRS 15 – “Revenue from contracts with customers”*. The new standard replaces the previous IAS11 – “Construction contracts”, IAS18 – “Revenue”, IFRIC13 – “Customer loyalty contracts”, IFRIC15 – “Agreements for the Construction of Real Estate”, IFRIC18 – “Transfers of Assets from Customers”, SIC31 – “Barter Transactions Involving Advertising Services”. It supplies a model for recognition and measurement of all revenues from the sale of non-financial assets, including disposals of plant and equipment or intangible assets. The general principle is that the entity must recognize an economic benefit for an amount that reflects the consideration that the entity expects to be entitled to receive in exchange for transferring goods or services to a customer. Guidelines are provided for the identification of contracts, the obligations contained therein and the transaction price. If the services involved are multiple, indications are also provided concerning the allocation of the price to the services in question. Furthermore, criteria are clarified for recognition of the income once the performance obligation has been satisfied. Finally, indications are provided concerning the recognition of the incremental costs associated with securing the contract and directly correlated to the performance thereof. The standard also provides an extensive application guide concerning specific topics including licences, warranties, right of return, agency relations, and contract terminations. The standard is applicable in accordance with a *full retrospective approach* or *modified retrospective approach*. Moreover, in April 2016 IASB issued several amendments to IFRS15 containing clarifications regarding application of the standard, said amendments also being applicable as from 1 January 2018.

From the assessment of the impact of IFRS15 conducted from both qualitative and quantitative perspectives, using the modified retrospective method as permitted by the standard, no significant effects were identified on the financial and economic situation either on the consolidated level or on the level of individual companies, so it will not be necessary to proceed with restatement of 2017 data in 2018.

- *IFRS 16 – “Leasing”*. On 13 January 2016, IASB published the new standard that replaces IAS 17. The scope of application of the new standard concerns leasing contracts, with certain exceptions. A leasing contract ascribes the entitlement to use an asset (the “underlying asset”) for a certain period of time in return for the payment of a consideration. The method of recognition of all leasing contracts reflects the model proposed by IAS 17, although excluding leasing contracts concerning an asset of small value (such as computers) and short term contracts (i.e. less than 12 months). On the date of recognition of the leasing contract also the liability for the leasing instalments and the asset that the entity is entitled to use must be booked, with separate recording of the financial expenses and amortization amounts concerning the asset. The liability can be subject to remeasurement (e.g. to reflect a change in the contractual terms or a change in the indices to which the payment of the leasing instalments is linked) and the resulting change must be recognized on the underlying asset. Finally, from the standpoint of the lessor the accounting model is substantially unchanged with respect to the provisions of the current IAS17. The standard must be applied with the modified

retrospective method, while early application is simultaneously allowed for IFRS15. The Group has started to perform an analysis of the potential impacts that application of the new standard may have on the economic and financial situation and on the information given in the financial statements. The preliminary assessment performed by the Group in 2017 may be subject to adjustment following the more detailed analysis currently in progress. Note that at 31 December 2017, the Group had commitments for rentals of €49,907k, as indicated in Note 34 to the financial statements.

- *IFRS Annual improvements cycle 2014–2016* - On 8 December 2016 IASB issued several minor changes to IFRS 1 – “*First-Time Adoption of IFRS*” and IAS 28 – “*Investments in Associates and Joint Ventures*”, as well as an IFRIC interpretation – “*Interpretation 22 Foreign Currency Transactions and Advance Consideration*”. The aim of the annual improvements is to address necessary matters related to inconsistencies found in IFRSs or for clarifications of terminology, which are not of an urgent nature but which reflect issues discussed by IASB during the project cycle. Among the principal amendments, IFRIC 22 provides guidance on the use of exchange rates in transactions in which foreign currency considerations are paid or received in advance. These amendments will be effective for reporting periods starting after 1 January 2018.
- *Applying IFRS 9 - “Financial Instruments with IFRS 4 Insurance Contracts*”. The amendments introduced provide two options for entities that issue insurance contracts in the framework of standard IFRS 4: (i) one option that allows reclassification, from profit and loss to other components of the comprehensive income statement, of part of the income or expenses deriving from designated financial assets (“overlay approach”) and (ii) a temporary and optional exemption from the application of IFRS 9 for entities whose primary activity is the issue of contracts in the framework of application of IFRS 4 (“deferral approach”). Application of the changes introduced by these amendments will not produce any significant impact on the Group's consolidated financial statements.
- *IFRS 17 – “Insurance contracts*”. On 18 May 2017, IASB published a new standard to replace IFRS 4, which was issued in 2004. The new standard seeks to improve the understanding of investors and others about the risk exposure, profitability and financial position of insurers. IFRS 17 is applicable from 1 January 2021, although early adoption is permitted.
- *IFRIC 23 – “Uncertainty over Income Tax Treatments*”. On 8 June 2017 IASB published interpretation IFRIC 23, which clarifies the application of the requirements for recognition and measurement in IAS 12 – “Income taxes” in the case of uncertainty concerning income tax treatment. Specifically, the interpretation concerns: (i) the case wherein an entity considers uncertain tax treatments independently, (ii) the assumptions that an entity makes in relation to taxation authorities’ examinations, (iii) how an entity determines its taxable profit (or tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and (iv) the way in which an entity deals with changes in facts and circumstances. The Interpretation does not add any new information requirements, although it underscores the existing requirements of IAS 1 concerning information on judgments, information on assumptions made and other estimates and information concerning tax assets and liabilities given in IAS 12 “Income taxes”. The interpretation is applicable to annual reporting periods starting from 1 January 2019 or successively, and it offers a choice between two transition methods: (i) retroactive application using IAS 8 – “Accounting policies, changes in accounting estimates and errors”, only if application is possible without the use of hindsight, or (ii) retroactive application with cumulative effect of the initial demand recognized as an adjustment of the components

of equity at the date of the initial demand and without adjusting the comparative information. The date of the initial demand is the start of the annual reference period in which an entity applies this Interpretation for the first time. The Group is currently assessing the implementation and impact of adoption of the interpretation on the consolidated Group financial statements.

- *Amendments to IFRS 9 – “Prepayment Features with Negative Compensation”*. IASB published an *Amendment to IFRS9* in December 2017, allowing entities to measure particular prepaid financial assets by means of so-called negative compensation at amortized cost or fair value through “*other comprehensive income*”, in the event in which a specific condition is met, rather than at fair value in profit and loss. The amendment will take effect as from 1 January 2019. The Group is currently assessing the impact of adoption of the interpretation on the consolidated Group financial statements.
- *Amendments to IAS 28 – “Long-term interests in associates and joint ventures”*. In October 2017, IASB issued *Amendments to IAS 28*, clarifying the way in which the entities should use IFRS 9 to represent long-term interests in associates or joint ventures to which the equity method is not applied. The amendment will take effect as from 1 January 2019. The Group is currently assessing the impact of adoption on the consolidated Group financial statements.
- *Annual improvements — 2015-2017 cycle* – On 12 December 2017 IASB published several amendments to IAS 12 (*Income Taxes*) clarifying that the impact related to taxes in income deriving from dividends (or distribution of profit) should be recognized in profit and loss, regardless of the way in which the tax arises, to IAS 23 (*Borrowing Costs*) clarifying that an entity should treat any borrowing originally carried out for the development of an asset as part of general borrowings when the asset in question is ready for its intended use or for sale, to IFRS 3 (*Business Combinations*), clarifying that an entity must remeasure previously held interests in a business combination once it obtains control of the business in question, and to IFRS 11 (*Joint Arrangements*) whereby a company does not remeasure previously held interests in a business combination when it obtains joint control of the business. The changes will take effect as from 1 January 2019. Early adoption of the changes is however permitted. The Group is currently assessing the impact of adoption on the consolidated Group financial statements.
- *Amendments to IAS 19 – “Plan Amendment, Curtailment or Settlement”*. In February 2018 IASB issued *Amendments to IAS 19*, which specifies the way in which entities must determine pension expenses when changes are made to a given pension plan. IAS 19 “Employee Benefits” specifies the way in which an entity should recognize a defined benefits pension plan. When a change is made to a plan – adjustment, curtailment or settlement – IAS 19 requires a company to remeasure its net defined benefit asset or liability. The amendments require a company to use the assumptions updated by this remeasurement to determine the current service cost and the net interest for remainder of the reference period after the plan has been amended. The changes will take effect as from 1 January 2019. The Group is currently assessing the impact of adoption on the consolidated Group financial statements.

## 3.2 Consolidation principles

### *(i) Subsidiaries*

Companies are subsidiaries when the Parent Company is exposed to or is entitled to variable returns deriving from its investment relationship and, at the same time, is able to influence such returns by exercising its power over the entity concerned.

Specifically, the Group controls an investment if, and only if, the Group has:

- power over the entity in which the investment is held (i.e. holds valid rights granting the real ability to direct the significant activities of that entity);
- exposure to or rights to variable returns deriving from its investment relationship with the entity concerned;
- the ability to exercise its power over the entity concerned in order to influence the amounts of its returns.

Generally, ownership of the majority of voting rights is presumed to result in control. In support of this presumption and when the Group holds less than the majority of voting rights (or similar), the Group considers all significant facts and circumstances in order to determine whether or not it controls the entity concerned, including:

- Contractual agreements with other owners of voting rights;
- Rights deriving from contractual agreements;
- Voting rights and potential voting rights held by the Group that are not freely exercisable or convertible.

The Group reviews whether or not it controls an entity, if the facts and circumstances indicate changes in one or more of the three elements that are significant for the definition of control. Said potential voting rights are not considered for the purposes of the consolidation process at the time of attribution to minority interests of the economic result and the portion of shareholders' equity pertaining to them. The financial statements of several subsidiaries were not consolidated in consideration of their limited significance; these investments are carried in accordance with the principles illustrated in note 3.10.

The financial statements of subsidiaries are consolidated starting from the date on which the Group acquires control, and deconsolidated from the date on which control is relinquished.

Acquisitions of stakes in subsidiary companies are recorded in accordance with the purchase account method. The acquisition cost corresponds to the current value of the acquired assets, shares issued, or liabilities assumed at the date of acquisition. Ancillary expenses associated with the acquisition are generally recognized in the income statement when they are incurred. The excess of the acquisition cost with respect to the amount of pertinence to the Group of the current value of the net assets acquired is recognized under balance sheet assets as goodwill. For all business combinations, the Group decides whether to measure the non-controlling interest in the acquired entity at fair value, or in proportion to its interest in the identifiable net assets of the entity concerned. Any negative goodwill is recorded in the income statement at the date of acquisition.

If the business combination is achieved in several phases, the equity interest previously held is measured at fair value at the acquisition date and any profits or losses are recognized in the income statement.

The fair value of any contingent consideration payable is recognized by the purchaser at the acquisition date. Changes in the fair value of the contingent consideration classified as an asset or a liability, as a financial instrument governed by IAS 39 “Financial instruments: recognition and measurement”, are recognized in the income statement or in the statement of other comprehensive income. Any contingent consideration not falling within the scope of

IAS 39 is measured in accordance with the appropriate IFRS. If the contingent consideration is classified in equity, its value is not remeasured and the effect of subsequent settlement is also recognized in equity.

After the Group has obtained control of an entity, subsequent acquisitions of interests in said entity that result in an increase or decrease in acquisition cost with respect to the amount attributable to the Group are recognized as equity transactions.

For the purposes of consolidation of subsidiaries, the method of global integration is adopted, i.e. assuming the entire amount of equity assets and liabilities and all the costs and revenues irrespective of the percentage of control. The accounting value of consolidated equity investments is therefore eliminated against the related interest in their shareholders' equity. The portions of shareholders' equity and profits of minority interests are shown respectively in a specific caption under shareholders' equity and on a separate line of the consolidated income statement. When the losses ascribable to minority shareholders in a consolidated subsidiary exceed the minority interests, the excess and all further losses attributable to minority shareholders are ascribed to the Parent Company's shareholders, with the exception of the part for which the minority shareholders have a binding obligation to cover the loss with additional expenditure and are capable of doing so. If the subsidiary subsequently makes a profit, such profits are attributable to the Parent Company shareholders up to the amount of the losses of the minority shareholders that were previously covered.

If the Group loses control over a subsidiary, the related assets (including goodwill), liabilities, non-controlling interests and other components of equity are deconsolidated, while any profits or losses are recognized in the income statement. Any equity interest retained is recognized at fair value.

#### *(ii) Associates*

Associates are companies over which the Group has significant influence, without exercising control over their operations. The considerations made in order to determine the existence of significant interest or joint control are similar to those made to determine the existence of control over subsidiaries. The Group's investments in associates are measured using the equity method.

Under the equity method, the investment in an associate is initially measured at cost. The carrying amount of the investment is increased or decreased to recognize the interest of the investor in the profits and losses earned by the entity subsequent to the acquisition date. Any goodwill for an associate is included in its carrying amount and is not subject to separate impairment testing.

The income statement reflects the Group's interest in the results for the year of the associate. All changes in the other comprehensive income reported by associates are recognized as part of the other comprehensive income of the Group. In addition, if an associate recognizes a change directly in equity, the Group also recognizes its share of that change, where applicable, in the statement of changes in shareholders' equity. Any unrealized profits and losses deriving from transactions between the Group and associates are eliminated in proportion to the interests held in them.

The total interest of the Group in the results for the year of associates is classified in the income statement below the operating results line. This interest represents their results after taxation and the portion attributable to the other owners of the associate.

The financial statements of associates are prepared at the same reporting date as that used by the Group. Where necessary, they are adjusted to reflect the accounting policies adopted by the Group.

Subsequent to application of the equity method, the Group considers if it is necessary to recognize any impairment in the value of its interests in associates. On each reporting date, the Group determines if there is any objective evidence that the carrying amount of associates might be impaired. If so, the Group calculates the loss as the difference between the recoverable value of the associate and its carrying amount, and charges it to the "interest in the results of associates" caption of the income statement.

When significant interest over an associate is lost, the Group measures and recognizes the residual investment at its fair value. The difference between the carrying amount of an investment on the date when significant influence is lost, and the fair value of the residual investment plus the consideration received, is recognized in the income statement.

*(iii) Investments in other companies*

Investments in other companies constituting financial assets held for sale are measured at their fair value, if this can be established, and the gains and losses deriving from the change in fair value are recognized directly in equity until investments are divested or have suffered a value impairment; at that time, the overall gains or losses previously recognized in equity are recognized in the income statement for the year. Investments in other companies for which the fair value is not available are recorded at cost after deducting any impairment losses.

*(iv) Transactions eliminated in the consolidation process*

Intercompany balances and gains and losses arising from intercompany transactions are omitted in the consolidated financial statements. Intercompany gains deriving from transactions with associated companies are omitted in the valuation of the investment with the net equity method. Intercompany losses are only omitted in the presence of evidence that they have not been incurred in relation to third parties.

### **3.3 Business sector information**

Based on the definition provided by standard IFRS 8 an operating segment is a component of an entity:

- that undertakes business activity that generates costs and revenues;
- the operating results of which are periodically reviewed at the highest decisional/operating level of the entity in order to make decisions concerning the resources to allocate to the segment and the measurement of the results;
- for which separate accounting information is available.

The business segments in which the Group operates are determined on the basis of the reporting utilized by Group top management to make decisions, and they have been identified as the Water Jetting Sector, which basically includes high and very-high pressure pumps, very high pressure systems and homogenizers, and the Hydraulic Sector, which includes power take-offs, hydraulic cylinders, directional controls and hydraulic valves, hydraulic hoses and fittings, and other hydraulic components. With the aim of providing more comprehensive disclosure, information is provided for the geographical areas in which the Group operates, namely Italy, the Rest of Europe (including non-EU European countries), North America, the Far East and Oceania, and the Rest of the World.

### 3.4 Treatment of foreign currency transactions

#### (i) Foreign currency transactions

The functional and presentation currency adopted by the Interpump Group is the euro. Foreign exchange transactions are translated to euro on the basis of the exchange rates in force on the date that the related transactions were carried out. Monetary assets and liabilities are translated at the exchange rate in force on the balance sheet reference date. Foreign exchange differences arising from the translation are recognized in the income statement. Non-monetary assets and liabilities measured at historical cost are translated at the exchange rates in force on the date of the related transactions. Monetary assets and liabilities stated at fair value are translated to euro at the exchange rate in force on the date in respect of which the relative fair value was determined.

#### (ii) Translation to euro of financial statements in foreign currencies

Assets and liabilities of companies residing in countries other than EU countries, including adjustments deriving from the consolidation process relative to goodwill and adjustments to fair value generated by the acquisition of a foreign company outside the EU, are translated at the exchange rates in force on the reporting date. Revenues and costs of the same companies are translated at the average exchange rate in force in the year, which approximates the exchange rates in force on the dates on which the individual transactions were carried out. Foreign exchange differences arising from translation are allocated to a specific equity reserve designated Translation Reserve. At the time of disposal of a foreign economic entity, accumulated exchange differences reported in the Translation Reserve will be recognized in the income statement.

The exchange rates used for the translation to euro of the amounts booked to the income statements and balance sheets of companies with functional currency other than the euro are as follows:

	2017 averages	At 31 December 2017	2016 averages	At 31 December 2016
US Dollar	1.129	1.199	1.107	1.054
Australian Dollar	1.473	1.535	1.488	1.460
UK Pound	0.877	0.887	0.819	0.856
Brazilian Real	3.605	3.973	3.856	3.431
Indian Rupee	73.532	76.606	74.372	71.594
Chilean Peso	732.607	737.290	748.477	704.945
Chinese Yuan	7.629	7.804	7.352	7.320
Canadian Dollar	1.465	1.504	1.466	1.419
Romanian Leu	4.569	4.659	4.490	4.539
South African Rand	15.049	14.805	16.264	14.457
Hong Kong Dollar	8.805	9.372	8.592	8.175
Bulgarian Lev	1.956	1.956	1.956	1.956
UAE Dirham	4.148	4.404	4.063	3.870
South Korean Won	1,276.738	1,279.610	1,284.181	1,269.360
Peruvian Sol	3.683	3.885	3.736	3.540
New Zealand dollar	1.590	1.685	1.589	1.516
Danish Crown	7.439	7.445	-	-
Ukrainian Hryvnia	30.020	33.732	-	-
Polish Zloty	4.257	4.177	-	-

	2017 averages	At 31 December 2017	2016 averages	At 31 December 2016
Moldovan Leu	20.842	20.527	-	-
Columbian Peso	3,336.168	3,580.190	-	-
Russian Ruble	65.938	69.392	-	-

The economic values of companies that entered the scope of consolidation in 2017 were converted at the average exchange rate of the period in which they contributed to the Group results.

### 3.5 Non-current assets held for sale and discontinued operations

Non-current assets held for sale and any assets and liabilities pertaining to lines of business destined for sale are measured at the lower of their book value at the time these items were classified as held for sale, and their fair value, net of the costs of sale. Any impairments recorded in application of said principle are recorded in the income statement, both in the event of write-downs for adaptation to the fair value and also in the case of profits and losses deriving from future changes of the fair value.

Business complexes that represent a large portion of the Group's assets are classified as discontinued operations at the time of their disposal or when they fit the description of assets held for sale, if said requirements existed previously.

### 3.6 Property, plant and equipment

#### *(i) Own assets*

Property, plant and equipment are measured at their historic cost and reported net of accumulated depreciation (see next point *iv*) and impairment losses (see heading 3.9). The cost of goods produced internally includes the cost of raw materials, directly related labour costs, and a portion of indirect production costs. The cost of assets, whether purchased externally or produced internally, includes the ancillary costs that are directly attributable and necessary for use of the asset and, when they are significant and in the presence of contractual obligations, the current value of the cost estimated for the dismantling and removal of the related assets.

Financial charges relative to loans utilized for the purchase of tangible fixed assets are recorded in the income statement on an accruals basis if they are not specifically allocated to the purchase or construction of the asset, otherwise they are capitalized.

Assets held for sale are measured at the lower of the fair value net of ancillary sales charges and their book value.

#### *(ii) Assets held through finance leasing*

Assets held through finance leasing agreements, for which the Group has assumed practically all the risks and benefits associated with membership, are recognized as Group assets. These assets are measured at the lower of the fair value and the discounted value of the leasing instalments at the time of signing of the agreement, net of accumulated depreciation (see following point *iv*) and the impairment value (see section 3.9). The corresponding liability in relation to the lessor is recorded in the financial statements under financial debts, reduced on the basis of the plan for repayment of the principal amounts. Finance leasing instalments are booked in accordance with the method outlined in section 3.22.

*(iii) Subsequent costs*

The replacement costs of certain parts of assets are capitalized when it is expected that said costs will result in future economic benefits and they can be measured in a reliable manner. All other costs, including maintenance and repair costs, are ascribed to the income statement when they arise.

*(iv) Depreciation*

Depreciation is charged to the income statement on a straight-line basis in relation to the estimated residual useful life of the associated asset. Land is not depreciated. The estimated useful life of assets is as follows:

- Property	20-25 years
- Plant and equipment	12.5 years
- Industrial and commercial equipment	3-6 years
- Other assets	3-8 years

The estimated useful life of the assets is reviewed on an annual basis, and any changes in the rates of depreciation are applied, where necessary, to future depreciation charges.

For assets purchased and/or that became operational in the year, depreciation is calculated utilizing annual rates reduced by 50%. Historically, this method has been representative of the effective utilization of the assets concerned.

Any profits/losses emerging on the retirement and derecognition of assets (being the difference between their carrying amount and the net consideration obtained) is recorded in the income statement.

### **3.7 Goodwill**

For acquisitions made after 1 January 2004, goodwill represents the excess amount of the purchase cost with respect to the Group portion of the fair value of current and potential assets and liabilities at the date of purchase.

Goodwill is recorded at cost, net of impairment losses.

Goodwill is allocated to the cash generating units of the financial flows and is no longer amortized as from 1 January 2004 (date of transition to IFRS). The book value is measured in order to assess the absence of impairment (see section 3.9). Goodwill related to non-consolidated subsidiaries and associates is included in the value of the investment.

Any negative goodwill originating from acquisitions is entered directly in the income statement.

If the goodwill was allocated to a cash generating unit and the entity retires part of that unit's activities, the goodwill associated with the retired assets is added to their carrying amount when determining the profit or loss on retirement. The goodwill associated with the retired activity is determined with reference to the value of the retired assets with respect to those retained by the cash generating unit.

### **3.8 Other intangible assets**

*(i) Research and development costs*

Research costs for the acquisition of new technical know-how are ascribed to the income statement when they arise.

Development costs relating to the creation of new products/accessories or new production processes are capitalized if the Group's companies can prove:

- the technical feasibility and intention of completing the intangible asset in such a way that it is available for use or for sale;
- their ability to use or sell the asset;
- the forecast volumes and realization values indicate that the costs incurred for development activities will generate future economic benefits;
- if said costs are measurable in a reliable manner;
- and if the resources exist to complete the development project.

The capitalized cost includes the cost of raw materials, directly related labour costs and a portion of indirect costs. Capitalized development costs are measured at cost, net of accumulated amortization, (see next point v) and impairment (see section 3.9). Other development costs are ascribed to the income statement when they arise.

*(ii) Loan ancillary costs*

Loan ancillary costs are treated as outlined in section 3.16. Ancillary costs relating to loans still to be paid out are recorded as current assets and deducted from the loan amounts after payment has been received.

*(iii) Other intangible assets*

Other intangible assets, all having a defined useful life, are measured at cost and recorded net of accumulated amortization (see next point v) and impairment (see section 3.9).

Trademarks and patents, which constitute almost the entirety of this caption, are amortized as follows: the Hammelmann trademark and NLB trademark and patents, the Inoxihp trademark, Inoxpa and the American Mobile trademark are amortized over 15 years, this period being considered representative of the expected useful life, in consideration of their positions as world leaders in their respective niche markets. The Walvoil and Hydrocontrol trademarks are amortized over 10 years, in consideration of their leadership positions in highly competitive markets. The IMM trademark is amortized over 5 years in view of the specific characteristics of the market for hoses and fittings.

Software licenses are amortized over their period of utilization (3-5 years).

The costs incurred internally for the creation of trademarks or goodwill are recognized in the income statement when they are incurred.

*(iv) Subsequent costs*

Costs incurred subsequently relative to intangible fixed assets are capitalized only if they increase the future economic benefits of the specific capitalized asset, otherwise they are entered in the income statement when they are sustained.

*(v) Amortization/depreciation*

Amortization amounts are recorded in the income statement on a straight-line basis in accordance with the estimated useful life of the capitalized assets to which they refer. The estimated useful life of assets is as follows:

- Patents and trademarks	5-15 years
- Development costs	5 years
- Software and other licenses	3-5 years

The useful life is reviewed on an annual basis and any changes in the rates are made, where necessary, for future amounts.

### 3.9 Impairment of assets

The book values of assets, with the exception of inventories (see section 3.14), financial assets regulated by IAS 39, deferred tax assets (see section 3.18), and non-current assets held for sale regulated by IFRS 5, are subject to measurement at the balance sheet reference date in order to identify the existence of possible indicators of impairment. If the valuation process identifies the presence of such indicators, the presumed recoverable value of the asset is calculated using the methods indicated in the following point (i).

The presumed recovery value of goodwill and intangible assets that have not yet been used is estimated at intervals of no longer than once a year or more frequently if specific events occur that point to the possible existence of impairment.

If the estimated recoverable value of the asset or its cash generating unit is lower than its net book value, the asset to which it refers is consequently adjusted for impairment loss with entry into the income statement.

Adjustments for impairment losses made in relation to the cash generating units are allocated initially to goodwill, and, for the remainder, to other assets on a proportional basis.

Goodwill is tested for impairment on a yearly basis even if there are no indicators of potential impairment.

#### *(i) Calculation of presumed impairment loss*

The presumed recovery value of securities held to maturity and financial receivables recorded with the criterion of the amortized cost is equivalent to the discounted value of estimated future cash flows; the discounted rate is equivalent to the interest rate envisaged at the time of issue of the security or the emergence of the receivable. Short-term receivables are not discounted to current value.

The presumed recovery value of other assets is equal to the higher of their net sale price and their value in use. The value in use is equivalent to the projected future cash flows, discounted to present value at a rate, including tax, that takes account of the market value, of interest rates and specific risks of the asset to which the presumed realization value refers. For assets that do not give rise to independent cash flows the presumed realization value is determined with reference to the cash generating unit to which the asset belongs.

#### *(ii) Reinstatement of impairment losses*

An impairment relative to securities held to maturity and financial assets recorded with the criterion of the amortized cost is reinstated when the subsequent increase in the presumed recovery value can be objectively related to an event that occurred in a period following the period in which the impairment loss was recorded.

An impairment relative to other assets is reinstated if a change has occurred in the estimate used to determine the presumed recovery value.

Impairment is reinstated to the extent of the corresponding book value that would have been determined, net of depreciation/amortization, if no impairment loss had ever been recognized.

Impairment related to goodwill can never be reinstated.

### 3.10 Equity investments

Investments in associated companies are measured with the net equity method as specified by IAS 28.

Investments in other companies are classified among financial instruments available for sale in accordance with the requirements of IAS 39, even if the Group has not manifested any intention of divesting the relative holdings.

Investments in other companies, including investments in subsidiaries, which, because of their negligible significance have not been consolidated, are entered at their fair value.

Should any impairment of value arise at the balance sheet reference date in comparison to the value determined according to the above method, the investment in question will be written down.

### **3.11 Cash and cash equivalents**

Cash and cash equivalents include cash on hand, bank and post office deposits, and securities having original maturity date of less than three months. Current account overdrafts and advances with recourse are deducted from cash only for the purposes of the cash-flow statement.

### **3.12 Current financial assets, Receivables and Other current assets**

Current financial assets, trade receivables and other current assets (excluding derivative financial instruments) are recorded, at the time of their initial entry, on the basis of the purchase cost inclusive of ancillary costs (fair value for the initial entry).

Subsequently, available for sale financial assets are assessed at their fair value (market value). Gains or losses deriving from the valuation are recognized in equity up to the moment in which the financial asset is sold, at which time the gains or losses are recorded in the income statement. If the market value of the financial assets cannot be reliably determined, they are entered at their purchase cost.

Accounts receivable, with due date within normal commercial terms or that accrue interest at market rates, are not discounted to current value and are entered at amortized cost net of a bad debt provision booked as a direct deduction from the receivables in question to bring the valuation to the presumed realizable value (see section 3.9). Accounts receivable with due dates beyond normal commercial terms are initially entered at their fair value and subsequently at the amortized cost using the method of the effective interest rate, net of the relative value impairments.

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognized (i.e. removed from the Group's statement of financial position) when:

- the right to receive cash flows deriving from the asset has expired, or
- the Group has transferred the right to receive cash flows deriving from the asset to a third party, or has accepted a contractual obligation to pay them over in full and without delay and (a) has transferred substantially all the risks and benefits of ownership of the financial asset, or (b) has not transferred or retained substantially all the risks and benefits of ownership of the financial asset, but has transferred control over it.

### 3.13 Derivative financial instruments

It is Group policy to avoid subscribing speculative derivative financial instruments, although, when derivative financial instruments fail to meet the requirements set down for the accounting of hedging derivatives (hedge accounting) in IAS 39, changes to the fair value of such instruments are booked to the income statement as financial charges and/or income.

Derivative financial instruments are brought to account using hedge accounting methods when:

- formal designation and documentation of the hedge relation is present at the start of the hedge;
- the hedge is expected to be highly effective;
- effectiveness can be reliably measured and the hedge is highly effective during the periods of designation.

The methods used to recognize derivative financial instruments depend on whether or not the conditions and requirements of IAS 39 are fulfilled. Specifically:

#### *(i) Cash flow hedges*

In the case of a derivative financial instrument for which formal documentation is provided of the hedging relation of the variations in cash flows originating from an asset or liability of a future transaction (underlying hedged variable), considered to be highly probable and that could impact on the income statement, the effective hedge portion deriving from the adaptation of the derivative financial instrument to fair value is recognized directly in equity. When the underlying hedged item is delivered or settled, the relative provision is derecognized from equity and attributed at the recording value of the underlying element. The ineffective portion, if present, of the change in value of the hedging instrument is immediately ascribed to the income statement under financial expenses and/or income.

When a hedging financial instrument expires, is sold, terminated, or exercised, or the company changes the relationship with the underlying variable, and the forecast transaction has not yet occurred although it is still considered likely, the relative gains or losses deriving from adjustment of the financial instrument to fair value are still retained in equity and are recognized in the income statement when the transaction takes place in accordance with the situation described above. If the forecast transaction related to the underlying risk is no longer expected to occur, the relative gains or losses of the derivative contract, originally deferred in equity, must be taken to the income statement immediately.

#### *(ii) Hedges of monetary assets and liabilities (Fair value hedges)*

When a derivative financial instrument is used to hedge changes in value of a monetary asset or liability already recorded in the financial statements that can impact on the income statement, the gains and losses related to changes in the fair value of the derivative instrument are taken to the income statement immediately. Likewise, the gains and losses related to the hedged item modify the book value of said item and are recognized in the income statement.

### 3.14 Inventories

Inventories are measured at the lower of purchase cost and the presumed realization value. Cost is determined on a weighted-average basis and includes all costs incurred to purchase the materials and transform them into their state and condition at the reporting date. The cost of semi-finished goods and finished products includes a portion of indirect costs determined on

the basis of normal production capacity. Write down provisions are calculated for materials, semi-finished goods and finished products considered to be obsolete or slow moving, taking account of their expected future usefulness and their realization value. The net realization value is estimated taking account of the market price during the course of normal business activities, from which the costs of completion and costs of sale are subsequently deducted.

### **3.15 Share capital and treasury shares**

In the case of purchase of treasury shares, the price paid, inclusive of any directly attributable ancillary costs, is deducted from share capital for the portion concerning the nominal value of shares and from shareholders' equity for the surplus portion. When said treasury shares are resold or reissued, the price collected, net of any directly attributable ancillary charges and the relative tax effect, is recorded as share capital for the portion concerning the nominal value of shares and as shareholders' equity for the surplus.

### **3.16 Interest-bearing financial payables**

Interest-bearing financial payables are initially recorded at their fair value, net of ancillary charges. After the original entry, interest-bearing financial payables are measured with the amortized cost criterion; the difference between the resulting value and the discharge value is entered in the income statement during the term of the loan on the basis of the amortization plan.

A financial liability is derecognized when the underlying obligation expires or is canceled or settled. If an existing financial liability is replaced by another from the same lender, on substantially different conditions, or if the conditions of an existing financial liability are amended substantially, this exchange or amendment is recognized by canceling the original liability and recording the new liability, with the recognition in the income statement of any difference between their carrying amounts.

### **3.17 Liabilities for employee benefits**

#### *(i) Defined contribution plans*

The Group participates in defined pension plans with public administration or private plans on a compulsory, contractual, or voluntary basis. The payment of contributions fulfils the Group's obligations towards its employees. The contributions therefore constitute costs of the period in which they are due.

#### *(ii) Defined benefit plans*

Defined benefits for employees disbursed on termination of their employment with the Group or thereafter, and which include severance indemnity of Italian companies, are calculated separately for each plan, using actuarial techniques to estimate the amount employees have accrued in the year and in previous years. The resulting benefit is discounted to present value and recorded net of the fair value of any relative assets. The discount rate at the balance sheet reference date is calculated as required by IAS 19 with reference to the market yields of high quality corporate bonds. Only the securities of corporate issuers with an "AA" rating are considered, on the assumption that this class identifies a high rating level in the context of "Investment Grade" securities, with the exclusion, therefore, of higher risk securities. Considering that IAS 19 makes no explicit reference to a specific product sector, we opted for a composite market curve that summarizes the market conditions existing at the date of valuation of the securities issued by companies operating in various sectors including utilities,

telecommunications, finance, banking and industrial. The curve of “AA” rates at 29 December 2017 as described above, utilized for the actuarial measurement, is effectively extremely similar to the same curve at 30 December 2016, even if the two curves intercept in the case of certain maturities. This phenomenon is due to a macroeconomic situation that is substantially stable compared to the prior year; in fact, as highlighted by the ECB, the Italian economy certainly grew in 2017, confirming the favourable trend, although the rate of growth remains below the average for Europe. The calculation is performed on an annual basis by an independent actuary using the projected unit credit method.

If increases in the benefits of the plan, the portion of the increase pertaining to the previous period of employment is entered in the income statement on a straight line basis in the period in which the relative rights will be acquired. If the rights are acquired immediately, the increase is immediately recorded in the income statement.

Actuarial profits and losses are recognized in a specific equity reserve on an accrual basis.

Until 31 December 2006 the severance indemnity provision (TFR) of Italian companies was considered to be a defined benefits plan. The rules governing the provision were amended by Law no. 296 of 27 December 2006 (“2007 Finance Act”) and by subsequent Decrees and Regulations enacted in the initial months of 2007. In the light of these changes, and in particular with reference to companies with at least 50 employees, the TFR severance indemnity should now be classified as a defined benefits plan exclusively for the portions accrued prior to 1 January 2007 (and not yet paid out at the date of the financial statements), while after that date TFR should be considered as a defined contributions plan.

*(iii) Stock options*

On the basis of the stock option plan currently in existence, certain employees and directors are entitled to purchase the treasury shares of Interpump Group S.p.A. The options are measured at their fair value, which is charged to the income statement as an increase in the cost of personnel and directors, with a matching entry to the share premium reserve for share-based payment transactions. Fair value is measured at the grant date of the option and recorded in the income statement in the period that runs between said date and the date on which the options become exercisable (vesting period), after the conditions relating to the achievement of objectives and/or the provision of services have been met. The costs accumulated in relation to these transactions at each reporting date through maturity are apportioned with reference to the vesting dates and the best estimate of the number of participating instruments that will actually vest. The cost or income reported in the income statement reflects the change in the accumulated costs between the start and the end of the year.

No costs are recognized for rights that do not vest, except in the case of rights whose assignment is dependent on market conditions or a non-vesting condition. These are treated as if vested, regardless of whether or not the market conditions or other non-vesting conditions have been satisfied, without prejudice to the fact that all other performance and/or service conditions must still be satisfied. If the plan conditions are amended, the minimum cost recognized is that which would have been incurred without the plan amendment. A cost is also recognized for each amendment that increases the total fair value of the payment plan, or that is in any case favourable for employees; this cost is measured with reference to the amendment date.

The diluting effect of unexercised options is reflected in the calculation of diluted earnings per share.

The fair value of the option is determined using the applicable options measurement method (specifically, the binomial lattice model), taking account the terms and conditions at which the options were granted.

### 3.18 Income taxes

Income taxes disclosed in the income statement include current and deferred taxes. Income taxes are generally disclosed in the income statement, except when they refer to types of items that are recorded directly under shareholders' equity. In this case, the income taxes are also recognized directly in equity.

Current taxes are taxes that are expected to be due, calculated by applying to the taxable income the tax rate in force at the balance sheet reference date and the adjustments to taxes of prior years.

Deferred taxes are calculated using the liability method on the timing differences between the amount of assets and liabilities in the consolidated financial statements and the corresponding values recognized for tax purposes. Deferred tax liabilities are recognized in relation to all taxable temporary differences, except for:

- the deferred tax liabilities deriving from the initial recognition of an asset or liability in a transaction that does not represent a business combination and, at the time of the transaction, does not affect the reported results or taxable income;
- reversals of taxable temporary differences, associated with investments in subsidiaries, associates and joint ventures, that can be controlled and that are unlikely to occur in the foreseeable future.

Deferred tax assets are recognized in relation to all deductible temporary differences, tax credits and unused tax losses carried forward, to the extent that future taxable income is likely to be sufficient to allow the recovery of the deductible temporary differences, tax credits and tax losses carried forward, except for:

- the deferred tax assets linked to deductible temporary differences that derive from the initial recognition of an asset or liability in a transaction that does not represent a business combination and, at the time of the transaction, does not affect the reported results or taxable income;
- the deferred tax assets linked to deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, which are only recognized if they are likely to reverse in the foreseeable future and there will be sufficient taxable income for the recovery of such temporary differences.

Deferred taxes are calculated in accordance with the envisaged method of transfer of timing differences, using the tax rate in force at the reference date of years in which the timing differences arose.

Deferred tax assets are recognized exclusively in the event that it is probable that in future years sufficient taxable incomes will be generated for the realization of said deferred taxes. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that future taxable income is no longer likely to be sufficient to allow the recovery of such assets, in whole or in part. Any unrecognized deferred tax assets are reviewed at each reporting date and recognized to the extent that it has become probable that future taxable income will be sufficient to allow their recovery.

### 3.19 Provisions for risks and charges

In cases where the Group has a legal or substantial obligation resulting from a past event, and when it is probable that the loss of economic benefits must be sustained in order to fulfil such an obligation, a specific provision for risks and charges is created. If the temporal factor of the envisaged loss of benefits is significant, the amount of the future cash outflows is discounted to present values at a rate, gross of taxes, that takes account of the market interest rates and the specific risk of the liability referred to.

#### *(i) Product warranty provision*

Liabilities for warranty repairs are allocated to the specific product warranty provision at the time of sale of the products. The provision is determined on the basis of historic data describing the cost of warranty repairs.

#### *(ii) Restructuring provision*

A restructuring provision is formed exclusively in the event that the Group has approved a formal and detailed restructuring plan and has started to implement it or has published it before the balance sheet reference date. In other cases, the future costs are not set aside.

#### *(iii) Onerous contracts*

When the forecast future benefits of a contract are less than the non-eliminable costs relative to it, a specific provision is created equivalent to the difference.

### 3.20 Current financial payables, Trade payables and Other debts

Trade payables and other debts, the relative due date of which is within normal commercial terms, are not discounted to present value and are entered at the amortized cost representative of their discharge value.

Current financial liabilities include the short term portions of financial debts, inclusive of debts for cash advances and other financial liabilities. Financial liabilities are measured at their amortized cost according to the effective interest method.

Financial assets hedged by derivative financial instruments taken out to hedge the interest rate risk are measured at their current value in accordance with the methods specified for hedge accounting.

### 3.21 Revenues

#### *(i) Revenues from the sale of goods and services*

Revenues from the sale of goods are entered in the income statement when the risks and benefits connected to the ownership of the goods are substantially transferred to the purchaser. Revenues for services rendered are recognized in the income statement on the basis of the percentage of completion at the balance sheet reference date.

#### *(ii) State grants*

State grants are recorded as deferred revenue under other liabilities at the time in which there exists a reasonable certainty that they will be disbursed and in which the Group has fulfilled all the necessary conditions to obtain them. Grants received against costs sustained are recorded in the income statement systematically in the same periods in which the relative costs are incurred.

### 3.22 Costs

#### *(i) Rental and leasing instalments*

Rental and operating leasing instalments are recorded in the income statement on an accrual basis.

#### *(ii) Finance leasing instalments*

Finance leasing instalments are entered, in the amount of the capital portion, in reduction of the financial debt, while the interest portion is entered in the income statement.

#### *(iii) Financial income and expenses*

Financial revenues and charges are recorded on an accrual basis in accordance with the interest matured on the net value of the relative financial assets and liabilities, using the effective interest rate. Financial charges and income include currency exchange gains and losses and gains and losses on derivative instruments to be charged to the income statement (see section 3.13).

## 4. Business sector information

Business sector information is supplied with reference to the operating sectors. We also present the information required by IFRS by geographical area. The information provided about business sectors reflects the Group's internal reporting structure.

The value of components and products transferred between sectors is generally the effective sales price between Group companies and corresponds to the best customer sale prices.

Sector information includes directly attributable costs and costs allocated on the basis of reasonable estimates. The holding costs, i.e. remuneration of directors, statutory auditors and functions of the Group's financial management, control and internal auditing, and also consultancy costs and other related costs, were booked to the sectors on the basis of sales.

The Group is composed of the following business sectors:

*Water Jetting Sector.* This sector is mainly composed of high- and very-high-pressure pumps and pumping systems used in a wide range of industrial sectors for the conveyance of fluids. High pressure plunger pumps are the main component of professional high pressure cleaners. These pumps are also employed for a broad range of industrial applications including car wash installations, forced lubrication systems for machine tools, and inverse osmosis systems for seawater desalination plants. Very high pressure pumps and systems are used for cleaning surfaces, ship hulls, various types of hoses, and also for removing machining burr, cutting and removing cement, asphalt, and paint coatings from stone, cement and metal surfaces, and for cutting solid materials. The Sector also includes high pressure homogenizers, mixers, agitators, piston pumps, valves and other machines produced mainly for the food processing industry and also used in the chemicals and cosmetics sectors.

*Hydraulic Sector.* This sector includes the production and sale of power take-offs, hydraulic cylinders, pumps, directional controls, valves, hydraulic hoses and fittings and other hydraulic components. Power take-offs are mechanical devices designed to transmit drive from an industrial vehicle engine or transmission to power a range of ancillary services through hydraulic components. These products, combined with other hydraulic components (spool valves, controls, etc.) allow the execution of special functions such as lifting tipping bodies, operating truck-mounted cranes, operating truck mixer truck drums, and so forth. Hydraulic cylinders are components of the hydraulic system of various vehicle types employed in a wide

range of applications depending on the type. Front-end and underbody cylinders (single acting) are utilized mainly on industrial vehicles in the construction sector, while double acting cylinders are utilized in a range of applications: earthmoving machinery, agricultural machinery, cranes and truck cranes, waste compactors, etc. Hydraulic lines and fittings are used in a vast range of hydraulic equipment and are also employed in very high pressure water systems.

**Interpump Group business sector information**
**(Amounts shown in €000)**
**Progressive accounts at 31 December (twelve months)**

	Hydraulic Sector		Water Jetting Sector		Other		Elimination entries		Interpump Group	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Net sales external to the Group	690,914	596,811	395,633	326,007	-	-	-	-	1,086,547	922,818
Sales between sectors	382	272	1,735	1,347	-	-	(2,117)	(1,619)	-	-
<b>Total net sales</b>	<b>691,296</b>	<b>597,083</b>	<b>397,368</b>	<b>327,354</b>	<b>-</b>	<b>-</b>	<b>(2,117)</b>	<b>(1,619)</b>	<b>1,086,547</b>	<b>922,818</b>
Cost of sales	(456,551)	(399,594)	(218,129)	(186,850)	-	-	2,132	1,628	(672,548)	(584,816)
<b>Gross industrial margin</b>	<b>234,745</b>	<b>197,489</b>	<b>179,239</b>	<b>140,504</b>	<b>-</b>	<b>-</b>	<b>15</b>	<b>9</b>	<b>413,999</b>	<b>338,002</b>
<i>% on net sales</i>	<i>34.0%</i>	<i>33.1%</i>	<i>45.1%</i>	<i>42.9%</i>					<i>38.1%</i>	<i>36.6%</i>
Other net revenues	10,844	9,512	6,084	4,923	-	-	(184)	(63)	16,744	14,372
Distribution costs	(56,097)	(49,476)	(46,785)	(36,983)	-	-	156	34	(102,726)	(86,425)
General and administrative expenses	(73,486)	(69,730)	(51,056)	(39,244)	(5)	(19)	13	20	(124,534)	(108,973)
Other operating costs	(3,268)	(2,653)	(1,303)	(790)	-	-	-	-	(4,571)	(3,443)
<b>Ordinary profit before financial expenses</b>	<b>112,738</b>	<b>85,142</b>	<b>86,179</b>	<b>68,410</b>	<b>(5)</b>	<b>(19)</b>	<b>-</b>	<b>-</b>	<b>198,912</b>	<b>153,533</b>
<i>% on net sales</i>	<i>16.3%</i>	<i>14.3%</i>	<i>21.7%</i>	<i>20.9%</i>	<i>n.s.</i>	<i>n.s.</i>			<i>18.3%</i>	<i>16.6%</i>
Financial income	5,933	6,386	10,386	3,359	-	1	(1,635)	(1,884)	14,684	7,862
Financial expenses	(11,041)	(9,125)	(12,018)	(5,621)	-	-	1,635	1,884	(21,424)	(12,862)
Dividends	-	-	35,500	29,201	-	-	(35,500)	(29,201)	-	-
Equity method contribution	(36)	(43)	14	3	-	-	-	-	(22)	(40)
<b>Profit for the period before taxes</b>	<b>107,594</b>	<b>82,360</b>	<b>120,061</b>	<b>95,352</b>	<b>(5)</b>	<b>(18)</b>	<b>(35,500)</b>	<b>(29,201)</b>	<b>192,150</b>	<b>148,493</b>
Income taxes	(34,737)	(31,504)	(21,690)	(22,542)	-	26	-	-	(56,427)	(54,020)
<b>Consolidated profit for the year</b>	<b>72,857</b>	<b>50,856</b>	<b>98,371</b>	<b>72,810</b>	<b>(5)</b>	<b>8</b>	<b>(35,500)</b>	<b>(29,201)</b>	<b>135,723</b>	<b>94,473</b>
<b>Pertaining to:</b>										
Parent company's shareholders	72,150	50,384	97,797	72,659	(5)	8	(35,500)	(29,201)	134,442	93,850
Subsidiaries' minority shareholders	707	472	574	151	-	-	-	-	1,281	623
<b>Consolidated profit for the year</b>	<b>72,857</b>	<b>50,856</b>	<b>98,371</b>	<b>72,810</b>	<b>(5)</b>	<b>8</b>	<b>(35,500)</b>	<b>(29,201)</b>	<b>135,723</b>	<b>94,473</b>
<b>Further information required by IFRS 8</b>										
Amortization, depreciation and write-downs	31,158	29,909	16,634	14,135	-	-	-	-	47,792	44,044
Other non-monetary costs	2,842	2,822	3,287	1,936	-	-	-	-	6,129	4,758

**Financial position**  
(Amounts shown in €000)

	Hydraulic Sector		Water Jetting Sector		Other Revenues Sector		Elimination entries		Interpump Group	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
<b>Assets by sector</b>	<b>851,470</b>	<b>812,397</b>	<b>684,238</b>	<b>587,459</b>	<b>549</b>	<b>549</b>	<b>(164,306)</b>	<b>(174,056)</b>	<b>1,371,951</b>	<b>1,226,349</b>
<b>Assets held for sale</b>	<b>-</b>	<b>-</b>	<b>785</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>785</b>	<b>-</b>
<b>Subtotal of assets of the sector (A)</b>	<b>851,470</b>	<b>812,397</b>	<b>685,023</b>	<b>587,459</b>	<b>549</b>	<b>549</b>	<b>(164,306)</b>	<b>(174,056)</b>	<b>1,372,736</b>	<b>1,226,349</b>
Cash and cash equivalents									144,938	197,891
<b>Total assets</b>									<b>1,517,674</b>	<b>1,424,240</b>
<b>Liabilities of the sector</b>	<b>353,332</b>	<b>341,131</b>	<b>94,412</b>	<b>81,148</b>	<b>561</b>	<b>564</b>	<b>(164,306)</b>	<b>(174,056)</b>	<b>283,999</b>	<b>248,787</b>
<b>Liabilities held for sale</b>	<b>-</b>	<b>-</b>	<b>200</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>200</b>	<b>-</b>
<b>Subtotal of liabilities of the sector (B)</b>	<b>353,332</b>	<b>341,131</b>	<b>94,612</b>	<b>81,148</b>	<b>561</b>	<b>564</b>	<b>(164,306)</b>	<b>(174,056)</b>	<b>284,199</b>	<b>248,787</b>
Debts for the payment of investments									50,266	42,761
Payables to banks									8,955	2,396
Interest-bearing financial payables									409,525	452,758
<b>Total liabilities</b>									<b>764,729</b>	<b>746,702</b>
<b>Total assets, net (A-B)</b>	<b>498,138</b>	<b>471,266</b>	<b>590,411</b>	<b>506,311</b>	<b>(12)</b>	<b>(15)</b>	<b>-</b>	<b>-</b>	<b>1,088,537</b>	<b>977,562</b>
<b><u>Further information required by IFRS 8</u></b>										
Investments carried at equity	362	72	255	272	-	-	-	-	617	344
Non-current assets other than financial assets and deferred tax assets	469,016	466,820	324,707	258,242	-	-	-	-	793,723	725,062

The sectors are compared as follows, at unchanged perimeter:

	Hydraulic		Water Jetting	
	2017	2016	2017	2016
Net sales external to the Group	669,449	596,811	332,480	326,007
Sales between sectors	382	272	1,731	1,347
<b>Total net sales</b>	<b>669,831</b>	<b>597,083</b>	<b>334,211</b>	<b>327,354</b>
Cost of sales	(444,101)	(399,594)	(186,169)	(186,850)
<b>Gross industrial margin</b>	<b>225,730</b>	<b>197,489</b>	<b>148,042</b>	<b>140,504</b>
<i>% on net sales</i>	<i>33.7%</i>	<i>33.1%</i>	<i>44.3%</i>	<i>42.9%</i>
Other net revenues	10,522	9,512	3,885	4,923
Distribution costs	(53,188)	(49,476)	(37,159)	(36,983)
General and administrative expenses	(70,729)	(69,730)	(41,206)	(39,244)
Other operating costs	(3,248)	(2,653)	(1,223)	(790)
<b>Ordinary profit before financial expenses</b>	<b>109,087</b>	<b>85,142</b>	<b>72,339</b>	<b>68,410</b>
<i>% on net sales</i>	<i>16.3%</i>	<i>14.3%</i>	<i>21.6%</i>	<i>20.9%</i>
Financial income	5,663	6,386	5,427	3,359
Financial expenses	(10,759)	(9,125)	(6,382)	(5,621)
Dividends	747	-	35,500	29,201
Equity method contribution	(484)	(43)	-	3
<b>Profit for the period before taxes</b>	<b>104,254</b>	<b>82,360</b>	<b>106,884</b>	<b>95,352</b>
Income taxes	(33,576)	(31,504)	(18,347)	(22,542)
<b>Consolidated profit for the period</b>	<b>70,678</b>	<b>50,856</b>	<b>88,537</b>	<b>72,810</b>
<b>Pertaining to:</b>				
Parent company's shareholders	69,971	50,384	88,360	72,659
Subsidiaries' minority shareholders	707	472	177	151
<b>Consolidated profit for the year</b>	<b>70,678</b>	<b>50,856</b>	<b>88,537</b>	<b>72,810</b>

Cash flows for the year by business sector are as follows:

€000	Hydraulic Sector		Water Jetting Sector		Other revenues Sector		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Cash flows from:								
Operating activities	82,139	84,682	59,426	41,129	(8)	2	141,557	125,813
Investing activities	(45,914)	(37,119)	(76,904)	(31,572)	-	1	(122,818)	(68,690)
Financing activities	(47,778)	(28,170)	(26,011)	35,626	-	-	(73,789)	7,456
Total	(11,553)	19,393	(43,489)	45,183	(8)	3	(55,050)	64,579

Hydraulic Sector investing activities in 2017 include €8,090k related to the acquisition of equity interests (€13,563k in 2016), while Water Jetting Sector investing activities include €70,239k (€21,750k for the acquisition of equity investments in 2016).

2017 financing activities included net repayments of intercompany loans in the amount of €8,648k (€10,243k in 2016) and payments of intercompany dividends from the Hydraulic Sector to the Water Jetting Sector in the amount of €35,500k (€29,201k in 2016). Moreover, cash flows from financing activities of the Water Jetting Sector in 2016 include the outlays for the purchase of treasury shares for €43,308k (no outlay in 2017) and proceeds from the sale of treasury shares to the beneficiaries of stock options totalling €9,490k (€3,376k in 2017). In 2017 the financing activities of the Water Jetting Sector included also the payment of dividends totalling €21,748k (€20,150k in 2016).

## Geographical sectors

The Group's sector-based operations are divided into five geographical areas, even though management is conducted on a global level.

A breakdown of sales by geographical area is provided below:

	2017		2016		
	<u>(€000)</u>	<u>%</u>	<u>(€000)</u>	<u>%</u>	<u>Growth</u>
Italy	191,033	18	155,361	17	+23.0%
Rest of Europe	382,126	35	300,525	33	+27.2%
North America	294,417	27	278,171	30	+5.8%
Far East and Oceania	115,593	11	97,351	10	+18.7%
Rest of the World	<u>103,378</u>	<u>9</u>	<u>91,410</u>	<u>10</u>	+13.1%
Total	<u>1,086,547</u>	<u>100</u>	<u>922,818</u>	<u>100</u>	+17.7%

Data by geographical sector on the basis of the location of non-concurrent assets other than financial assets and deferred tax assets are as follows:

	31/12/2017	31/12/2016
	<u>(€000)</u>	<u>(€000)</u>
Italy	504,138	487,701
Rest of Europe	161,204	100,146
North America	88,151	101,719
Far East and Oceania	10,285	9,466
Rest of the World	<u>29,945</u>	<u>26,030</u>
Total	<u>793,723</u>	<u>725,062</u>

The geographical areas to which operations are assigned depend on the nationality of the company performing them. No companies have operations in more than one area.

## 5. Business combinations

### Bristol Hose

On 25 January 2017 the Interpump Group, acting through subsidiary IMM Hydraulics Ltd (now Interpump Hydraulics UK Ltd), acquired 100% of the voting stock of Bristol Hose Ltd, a company incorporated under UK law operating in the hydraulic hoses and fittings sector with sales and service activities. The operation was recorded in accordance with the acquisition method and the consolidated financial statements include the results of Bristol Hose Ltd as from 1 January 2017, the date conventionally designated as the acquisition date exclusively for accounting purposes, there being no significant differences between said date and the real acquisition date and given the availability of a statement of account on said date.

The following breakdown shows the fair value of the assets and liabilities acquired on the acquisition date, with amounts expressed in euro thousands, applying an exchange rate used for currency conversion of GBP 0.8532 per 1 euro, corresponding to the exchange rate in force on the acquisition date:

€000	Amount s <u>acquired</u>	Adjustments <u>to fair value</u>	Carrying values in the acquiring <u>company</u>
Cash and cash equivalents	97	-	97
Trade receivables	515	-	515
Inventories	300	-	300
Other current assets	18	-	18
Property, plant and equipment	226	-	226
Trade payables	(243)	-	(243)
Payables to banks	(353)	-	(353)
Interest-bearing financial payables (current portion)	(145)	-	(145)
Tax payables	(105)	-	(105)
Other current liabilities	(26)	-	(26)
Interest-bearing financial payables (medium-/long-term portion)	<u>(89)</u>	=	<u>(89)</u>
Net assets acquired	<u>195</u>	=	195
Goodwill related to the acquisition			567
<b>Total net assets acquired paid in cash (A)</b>			<b><u>762</u></b>
Acquired net financial indebtedness (B)			490
Total amount paid in cash			<u>762</u>
<b>Total change in net financial position</b>			<b><u>1,252</u></b>
<b>Capital employed (A) + (B)</b>			<b>1,252</b>

## Inoxpa Group

On 3 February 2017 the parent company Interpump Group S.p.A. acquired the Spanish Inoxpa Group by acquiring 100% of the capital stock of the Group's holding company, Inoxpa Grup S.L.U. The list of companies held directly or indirectly by Inoxpa Grup S.L.U at the time of the acquisition is as follows:

<i>Company</i>	<i>Head office</i>	<i>% stake at 03/02/17</i>	<i>Sector</i>
Inoxpa S.A.	Banyoles (Spain)	100.00%	Water Jetting
Suministros Tecnicos Y Alimentarios S.L.	Bilbao (Spain)	66.25%	Water Jetting
Inoxpa India Private Ltd	Pune (India)	100.00%	Water Jetting
Candigra Vision Process Equipment PVT Ltd	Maharashtra (India)	99.98%	Water Jetting
Inoxpa Solutions France	Gleize (France)	100.00%	Water Jetting
Inoxpa Solution Portugal Lda	Vale de Cambra (Portugal)	100.00%	Water Jetting
STA Portuguesa Maquinas Para Industria Alim. Lda	Vale de Cambra (Portugal)	100.00%	Water Jetting
Inoxpa Solutions SRL	Chisinau (Moldova)	66.67%	Water Jetting
Inoxpa (UK) Ltd	Eastbourne (UK)	100.00%	Water Jetting
Inoxpa Australia Pty. Ltd	Capalaba (Australia)	100.00%	Water Jetting
Inoxpa Colombia SAS	Bogotá (Colombia)	83.29%	Water Jetting
Inoxpa Italia S.r.l.	Mirano (VE)	100.00%	Water Jetting
Inoxpa Middle East FZCO	Dubai (UAE)	60.00%	Water Jetting
Inoxpa Skandinavien A/S	Horsens (Denmark)	100.00%	Water Jetting
Inoxpa South Africa Proprietary Ltd	Gauteng (South Africa)	100.00%	Water Jetting
Inoxpa Special Processing Equipment Co. Ltd	Jianxing (China)	100.00%	Water Jetting
Inoxpa Ukraine	Kiev (Ukraine)	100.00%	Water Jetting
Inoxpa USA Inc	Santa Rosa (USA)	100.00%	Water Jetting
Inoxrus	Saint Petersburg (Russia)	100.00%	Water Jetting
STARINOX	Moscow (Russia)	55.00%	Water Jetting
SUALI S.L.U.	Banyoles (Spain)	100.00%	Water Jetting
SCI Suali	Gleize (France)	100.00%	Water Jetting

The Inoxpa Group is active in the manufacture and sale of process equipment and systems for the treatment of fluids generated by the food, cosmetics and pharmaceuticals industries. The brand is well known throughout the world. The operation was recorded in accordance with the acquisition method and the consolidated financial statements include the results of the Inoxpa Group as from 1 February 2017, the date conventionally designated as the date of acquisition exclusively for accounting purposes, there being no significant differences between said date and the real date of acquisition and given the availability of a statement of account on said date. The following table contains a breakdown of the fair value of the assets and liabilities acquired at the acquisition date and revised during the reporting period:

€000	Amounts <u>acquired</u>	Adjustments <u>to fair value</u>	Carrying values in the acquiring <u>company</u>
Cash and cash equivalents	24,602	-	24,602
Trade receivables	9,624	-	9,624
Inventories	14,703	-	14,703
Derivative financial instruments	61	-	61
Tax receivables	3,346	-	3,346
Other current assets	1,361	-	1,361
Property, plant and equipment	14,398	4,808	19,206
Other intangible assets	753	11,887	12,640
Other financial assets	176	-	176
Deferred tax assets	1,985	-	1,985
Other non-current assets	468	-	468
Other assets held for sale	2,173	1,325	3,498
Trade payables	(2,857)	-	(2,857)
Payables to banks	(355)	-	(355)
Interest-bearing financial payables (current portion)	(2,702)	-	(2,702)
Tax payables	(3,221)	-	(3,221)
Other current liabilities	(3,327)	-	(3,327)
Provisions for risks and charges (current portion)	(26)	-	(26)
Interest-bearing financial payables (medium-/long-term portion)	(7,803)	-	(7,803)
Liabilities for employee benefits (severance indemnity provision)	(159)	-	(159)
Deferred tax liabilities	(1,080)	(4,609)	(5,689)
Other non-current liabilities	(385)	-	(385)
Liabilities held for sale	-	(200)	(200)
Minority interests	<u>(2,291)</u>	-	<u>(2,291)</u>
Net assets acquired	<u>49,444</u>	<u>13,211</u>	62,655
Goodwill related to the acquisition			<u>30,024</u>
<b>Total net assets acquired</b>			<b><u>92,679</u></b>
Total amount paid in cash			90,769
Amount due in short-term for deferred payment			<u>1,910</u>
<b>Total acquisition cost (A)</b>			<b><u>92,679</u></b>
Net liquidity acquired (B)			(13,742)
Total amount paid in cash			90,769
Short-term debt on acquisition of investments due to deferred payment			<u>1,910</u>
<b>Total change in the net financial position including changes in debt for the acquisition of investments</b>			<b><u>78,937</u></b>
<b>Capital employed (A) + (B)</b>			<b>78,937</b>

The exchange rates used to translate the financial statements of the Inoxpa Group's subsidiaries outside the Eurozone are those in force on 31 January 2017.

The fair value of assets and liabilities was initially determined on a provisional basis for the purposes of preparing the abbreviated interim consolidated financial statements, and it is now determined on a definitive basis, recognizing in particular: (i) Property, plant and equipment for €4,808k further to an appraisal prepared by an independent expert; (ii) Other intangible assets for €11,887k further to measurement of the brand performed internally by the company; (iii) Other assets held for sale for €1,325k, representing the higher value attributed to properties to be repurchased by the sellers; (iv) Deferred tax liabilities in the amount of €4,609k calculated on

the higher values acquired and on additional timing differences present; (v) Liabilities held for sale in the amount of €200k, linked to property conveyancing taxes.

### **Mariotti & Pecini S.r.l.**

On 12 June 2017 parent company Interpump Group S.p.A. acquired 60% of the shares with voting rights in Mariotti & Pecini S.r.l., an Italian company and a leader in the design and production of mixers and agitators used in the chemical, pharmaceutical, cosmetic and food industries and in the field of environmental technology. Put & call options are defined contractually to acquire the remaining 40% starting from 30 June 2020 up to 30 June 2022. The transaction was recognized in accordance with the acquisition method and the Group has decided to measure the interest of the minority shareholders in the acquired company at fair value.

The consolidated financial statements include the results of Mariotti & Pecini S.r.l. as from 1 January 2017, the date conventionally designated as the acquisition date exclusively for accounting purposes, there being no significant differences between said date and the real acquisition date and given the availability of a statement of account on said date. The following table contains a breakdown of the fair value of the assets and liabilities acquired at the acquisition date and revised during the reporting period:

€000	Amounts <u>acquired</u>	Adjustments <u>to fair value</u>	Carrying values in the acquiring <u>company</u>
Cash and cash equivalents	2,847	-	2,847
Trade receivables	2,000	-	2,000
Inventories	386	-	386
Tax receivables	1	-	1
Other current assets	14	-	14
Property, plant and equipment	87	-	87
Other intangible assets	3	-	3
Deferred tax assets	40	-	40
Trade payables	(1,186)	-	(1,186)
Tax payables	(75)	-	(75)
Other current liabilities	(263)	-	(263)
Liabilities for employee benefits (severance indemnity provision)	<u>(347)</u>	=	<u>(347)</u>
Net assets acquired	<u>3,507</u>	=	<u>3,507</u>
Goodwill related to the acquisition			<u>17,040</u>
<b>Total net assets acquired</b>			<b><u>20,547</u></b>
Amount paid in treasury shares			3,685
Total amount paid in cash			5,262
Amount to pay in the medium/long-term for acquisition of minority interests			<u>11,600</u>
<b>Total acquisition cost (A)</b>			<b><u>20,547</u></b>
Net liquidity acquired (B)			(2,847)
Total amount paid in cash			5,262
Debt for acquisition of investments in medium/long-term for minority interests			<u>11,600</u>
<b>Total change in the net financial position including changes in debt for the acquisition of investments</b>			<b><u>14,015</u></b>
<b>Capital employed (A) + (B)</b>			<b>17,700</b>

**Fluid System 80 S.r.l.**

On 3 October 2017, by means of subsidiary Interpump Hydraulics S.p.A., the Interpump Group acquired 100% of the shares of Fluid System '80 S.r.l., an Italian company operating in the design and production of hydraulic systems and power packs. The operation was recorded in accordance with the acquisition method and the consolidated financial statements include the results of Fluid System 80 S.r.l. as from 1 October 2017, the date conventionally designated as the acquisition date exclusively for accounting purposes, there being no significant differences between said date and the real acquisition date and given the availability of a statement of account on said date.

The following table contains a breakdown of the fair value of the assets and liabilities acquired at the acquisition date:

€000	Amounts <u>acquired</u>	Adjustments <u>to fair value</u>	Carrying values in the acquiring <u>company</u>
Cash and cash equivalents	238	-	238
Trade receivables	2,053	-	2,053
Inventories	690	-	690
Tax receivables	275	-	275
Other current assets	4	-	4
Property, plant and equipment	36	-	36
Other intangible assets	4	-	4
Other non-current assets	1	-	1
Deferred tax assets	33	-	33
Trade payables	(1,596)	-	(1,596)
Financial payables to banks (current portion)	(76)	-	(76)
Tax payables	(157)	-	(157)
Other current liabilities	(155)	-	(155)
Liabilities for employee benefits (severance indemnity provision)	<u>(149)</u>	=	<u>(149)</u>
Net assets acquired	<u>1,201</u>	=	<u>1,201</u>
Negative goodwill			<u>(305)</u>
<b>Total net assets acquired</b>			<b><u>896</u></b>
Total amount paid in cash			750
Amount due in medium/long-term for deferred payment			<u>146</u>
<b>Total acquisition cost (A)</b>			<b><u>896</u></b>
Net liquidity acquired (B)			(162)
Total amount paid in cash			750
Medium/long-term debt on acquisition of investments due to deferred payment			<u>146</u>
<b>Total change in the net financial position including changes in debt for the acquisition of investments</b>			<b><u>734</u></b>
<b>Capital employed (A) + (B)</b>			<b>734</b>

The operation involved the recognition of a profit deriving from a favourable transaction ("badwill") equal to €305k, recoded under financial income.

**6. Cash and cash equivalents**

	31/12/2017 (€000)	31/12/2016 (€000)
Cash	132	140
Bank deposits	<u>144,806</u>	<u>197,751</u>
Total	<u>144,938</u>	<u>197,891</u>

Bank deposits also include amounts in currencies other than the euro, as shown below:

	Amounts in €000	Amount in original currency
EUR	94,623	94,623
US Dollar	32,259	38,839
Chinese Renminbi	6,395	49,888
Indian Rupee	2,624	201,052
UK Sterling	1,894	1,680
Australian Dollars	1,492	2,289
South African Rand	1,255	18,578
Brazilian Real	850	3,379
Bulgarian Lev	564	1,103
Korean Won	477	609,350
Canadian Dollars	439	659
Russian Ruble	421	29,231
Colombian Peso	412	1,476,242
Danish Crown	375	2,795
Chilean Peso	276	203,582
New Zealand dollars	166	280
Other minor currencies	<u>416</u>	n.a.
Total	<u>144,938</u>	

At 31 December 2017, the total nominal value of bank deposits was €4.7m at an average fixed interest rate of 0.28%.

Investment of the Group's excess liquidity made it possible to achieve an average yield of 0.25% in 2017, in line with the 0.26% yield of 2016.

**7. Trade receivables**

	31/12/2017 (€000)	31/12/2016 (€000)
Trade receivables, gross	244,646	207,358
Bad debt provision	<u>(7,885)</u>	<u>(7,340)</u>
Trade receivables, net	<u>236,761</u>	<u>200,018</u>

Changes in the bad debt provision were as follows:

	2017 (€000)	2016 (€000)
Opening balances	7,340	7,455
Exchange rate difference	(120)	93
Change to consolidation basis	296	343
Provisions in the year	1,495	1,394
Decreases in the year due to surpluses	(138)	(381)
Drawdowns in the year	<u>(988)</u>	<u>(1,564)</u>
Closing balance	<u>7,885</u>	<u>7,340</u>

Provisions in the year are booked under other operating costs.

At 31 December 2017 there were no trade receivables or payables due beyond 12 months.

## 8. Inventories

	31/12/2017 (€000)	31/12/2016 (€000)
Raw materials and components	90,614	74,130
Semi-finished products	88,313	75,395
Finished products	<u>112,774</u>	<u>108,020</u>
Total inventories	<u>291,701</u>	<u>257,545</u>

Inventories are net of the depreciation provision that changed as indicated below:

	2017 (€000)	2016 (€000)
Opening balances	28,596	27,154
Exchange rate difference	(914)	171
Change to consolidation basis	5,279	1,256
Reclassifications	(115)	-
Provisions for the period	2,423	2,329
Drawdowns in the year	(2,421)	(2,314)
Reversal of provisions due to surpluses	-	-
Closing balance	<u>32,848</u>	<u>28,596</u>

## 9. Derivative financial instruments

### Interest rate hedging

The Group adopts a procedure, approved by the Board of Directors, which identifies the derivative financial instruments to be used to hedge against the risk of interest rate fluctuations. These instruments are as follows: *Interest Rate Swaps (IRS)*, *Forward Rate Agreements (FRA)* and *options on interest rates (Caps & Floors)*.

Current Group policy is to assess the opportunities offered by the market in relation to the possibility to arrange interest rate swaps on economically advantageous conditions. However, considering the limited average duration of medium/long-term loans, it was not deemed

necessary to hedge interest-rate risks during 2017. Moreover, the exchange risk hedging derivatives present in 2016 reached their natural maturity dates in 2017.

#### *Exchange rate risk hedging*

The Group is mainly subject to exposure of US dollar exchange risks in relation to sales of the following products made in USD:

- high pressure pumps;
- very high pressure systems and pumps;
- directional controls and valves;
- various hydraulic components;

As in 2016, the hedges arranged in 2017 solely related to the sale of high pressure pumps to third parties and all took the form of plain vanilla forward contracts.

At 31 December 2017 there were no exchange risk hedging derivatives in existence, while at 31 December 2016 derivatives had been taken out for a notional value of \$600k, with a negative fair value of \$36k.

During 2017 the Group removed from equity and transferred to the income statement a negative portion of previously recorded losses in the amount of €24k, net of the theoretical tax effect. This amount was booked as a reduction of net sales in the amount of €33k and under deferred and current taxes with positive sign in the amount of €9k.

#### *Fair values*

The main methods and assumptions made in the estimation of fair value are outlined below.

##### *Derivatives*

The fair value of derivative financial instruments is calculated considering market parameters at the date of these financial statements and using measurement models widely adopted in the financial sector. Specifically:

- the fair value of plain vanilla forwards is calculated considering the exchange rate and interest rates of the two currencies at 31 December (last available trading day);
- the fair value of the interest rate swaps is calculated utilizing the discounted cash flow model: the input data used by this model comprise the interest rate curves at 31 December and the current interest rate fixings.

In application of IFRS 13, the fair value measurement of the instruments is performed taking account of the counterparty risk and, in particular, by calculating a credit value adjustment (CVA) in the case of derivatives with positive fair value, or a debit value adjustment (DVA) in the case of derivatives with negative fair value.

##### *Investments in other companies*

The fair value is essentially represented by the cost, written down if necessary to take account of any value impairments.

##### *Interest-bearing financial payables*

The fair value is based on the predicted cash flows for the principal amount and interest.

##### *Finance leasing payables*

The fair value is represented by the discounted value of future cash flows generated by the payment of instalments; the interest rate utilized is the market rate for similar transactions.

##### *Receivables/Payables*

For receivables and payables due within twelve months the carrying value is assumed as the fair value. The fair value of other receivables and payables is the discounted nominal value if the temporal factor and notional value are significant.

*Interest rates utilized to obtain the fair value*

To establish the fair value, the Group utilizes the interest rate curve at 31 December plus a suitable spread. The interest rates utilized are as follows:

	31/12/2017 %	31/12/2016 %
Derivative financial instruments (EUR)	-	-0.33/1.18
Derivative financial instruments (USD)	-	0.69/2.56
Interest bearing financial payables in euro	Euribor +0.40/1.80	Euribor +0.65/1.80
Finance leasing agreements	2.5	3.0
Financial assets	0.7	0.7
Payables	1.6	1.5

At 31 December 2017, cash on hand totalling €4.7m was held at fixed interest rates, while the remainder was held at floating rates. With the exception of €8.1m, also loan debts and bank borrowings are subject to floating rates.

In relation to financial instruments recorded in fair value in the balance sheet, international accounting principles require that said values be classified on the basis of a hierarchy of levels that reflects the significance of the inputs utilized to establish the fair value and subdivided on the basis of the recurrence in their measurement. International accounting standards identify the following levels:

- Level 1      quotations recorded on an active market for assets and liabilities subject to measurement;
- Level 2      inputs other than the price quotations mentioned in the above point, which are directly (prices) or indirectly (price derivatives) observable in the market;
- Level 3      inputs that are not based on empirical market data.

The following table shows the financial instruments measured at fair value at 31 December 2017, broken down by level:

(€000)	Level 1	Level 2	Level 3	Total
Other financial assets available for sale	416	-	47	463
<b>Total assets</b>	<b>416</b>	<b>-</b>	<b>47</b>	<b>463</b>

No transfers between levels were carried out in 2017.

All fair value measurements shown in the above table are to be considered as recurrent; the Group did not perform any non-recurrent fair value measurements in 2017.

**10. Other current assets**

	31/12/2017 (€000)	31/12/2016 (€000)
Accrued income and prepayments	4,190	3,862
Other receivables	2,950	2,483
Other current assets	<u>1,162</u>	<u>1,341</u>
Total other current assets	<u>8,302</u>	<u>7,686</u>

**11. Property, plant and equipment**

	<i>Land and buildings</i> (€000)	<i>Plant and machinery</i> (€000)	<i>Equipment</i> (€000)	<i>Other assets</i> (€000)	<i>Total</i> (€000)
<b>At 31 December 2015</b>					
Cost	151,728	290,655	86,640	74,264	603,287
Accumulated amortization	<u>(35,527)</u>	<u>(163,244)</u>	<u>(73,845)</u>	<u>(44,605)</u>	<u>(317,221)</u>
Net book value	<u>116,201</u>	<u>127,411</u>	<u>12,795</u>	<u>29,659</u>	<u>286,066</u>
<b>Changes in 2016</b>					
Opening net book value	116,201	127,411	12,795	29,659	286,066
Exchange differences	290	968	118	994	2,370
Change to consolidation basis	2,204	5,667	339	659	8,869
Additions	6,790	21,529	5,548	12,035	45,902
Disposals	(24)	(1,257)	(32)	(3,581)	(4,894)
Reclassifications	591	1,172	(234)	(1,402)	127
Capitalized depreciation	-	(11)	-	-	(11)
Write-downs	(422)	(4)	-	-	(426)
Depreciation and amortization	<u>(3,393)</u>	<u>(22,896)</u>	<u>(4,573)</u>	<u>(6,220)</u>	<u>(37,082)</u>
Closing net book value	<u>122,237</u>	<u>132,579</u>	<u>13,961</u>	<u>32,144</u>	<u>300,921</u>
<b>At 31 December 2016</b>					
Cost	162,691	326,051	94,476	82,282	665,500
Accumulated amortization	<u>(40,454)</u>	<u>(193,472)</u>	<u>(80,515)</u>	<u>(50,138)</u>	<u>(364,579)</u>
Net book value	<u>122,237</u>	<u>132,579</u>	<u>13,961</u>	<u>32,144</u>	<u>300,921</u>
<b>Changes in 2017</b>					
Opening net book value	122,237	132,579	13,961	32,144	300,921
Exchange differences	(1,438)	(3,320)	(652)	(3,312)	(8,722)
Change to consolidation basis	14,520	3,448	190	1,975	20,133
Additions	5,448	30,783	6,859	12,448	55,538
Disposals	(79)	(1,439)	(176)	(3,884)	(5,578)
Reclassifications	(71)	(381)	442	19	9
Capitalized depreciation	-	(9)	-	-	(9)
Write-downs	(24)	(164)	(140)	-	(328)
Depreciation and amortization	<u>(3,893)</u>	<u>(24,636)</u>	<u>(4,896)</u>	<u>(6,706)</u>	<u>(40,131)</u>
Closing net book value	<u>136,700</u>	<u>136,861</u>	<u>15,588</u>	<u>32,684</u>	<u>321,833</u>
<b>At 31 December 2017</b>					
Cost	180,437	352,956	98,519	87,571	719,483
Accumulated amortization	<u>(43,737)</u>	<u>(216,095)</u>	<u>(82,931)</u>	<u>(54,887)</u>	<u>(397,650)</u>
Net book value	<u>136,700</u>	<u>136,861</u>	<u>15,588</u>	<u>32,684</u>	<u>321,833</u>

The cost of assets under construction, included in the net book values disclosed in the previous table, is as follows:

	<u>Land and buildings</u> (€000)	<u>Plant and machinery</u> (€000)	<u>Equipment</u> (€000)	<u>Other assets</u> (€000)	<u>Total</u> (€000)
At 1 January 2016	1,736	3,742	519	82	6,079
At 31 December 2016	1,233	2,645	530	4	4,412
At 31 December 2017	1,222	9,003	489	68	10,782

The following value, included in the net book value of assets disclosed above, is associated with finance leasing agreements:

	<u>Land and buildings</u> (€000)	<u>Plant and machinery</u> (€000)	<u>Equipment</u> (€000)	<u>Other assets</u> (€000)	<u>Total</u> (€000)
At 1 January 2016	14,358	18,976	78	456	33,868
At 31 December 2016	15,837	15,909	69	428	32,243
At 31 December 2017	15,484	11,711	184	683	28,062

Depreciation of €35,111k was charged to the cost of sales (€32,543k in 2016), €1,043k to distribution costs (€767k in 2016) and €3,977k to general and administrative costs (€3,772k in 2016).

At 31 December 2017 the Group had contractual commitments for the purchase of tangible assets in the amount of €5,853k (€3,201k at 31 December 2016).

## 12. Goodwill

The changes in goodwill in 2017 were as follows:

<u>Company:</u>	<u>Balance at 31/12/2016</u>	<u>Increases (Decreases) in the period</u>	<u>Changes due to foreign exchange differences</u>	<u>Balance at 31/12/2017</u>
Water Jetting Sector	160,621	47,064	(5,192)	202,493
Hydraulic Sector	<u>230,087</u>	<u>1,043</u>	<u>(4,181)</u>	<u>226,949</u>
<i>Total goodwill</i>	<u>390,708</u>	<u>48,107</u>	<u>(9,373)</u>	<u>429,442</u>

The increases in 2017 refer to:

- €67k to the acquisition of Bristol Hose (Hydraulic Sector);
- €30,024k to the acquisition of the Inoxpa Group (Water Jetting Sector);
- €17,040k to the acquisition of Mariotti & Pecini (Water Jetting Sector), inclusive of the debt for put options;
- €357k to adjustment of the price paid for the acquisition of Tekno Tubi (Hydraulic Sector);
- €119k to the acquisition of a line of business by our New Zealand distributor (Hydraulic Sector).

The impairment test was conducted using the Discounted Cash Flow method (DCF) net of taxation. Expected cash flows utilized in the calculation of DCF were determined on the basis of 5-year business plans that take account of the various reference scenarios and on the basis of growth forecasts in the various markets. In particular, the Group considers that the sales policies adopted in prior years, aimed at improving the degree of integration between its production and

distribution networks and consolidating the recovery of several important outlet markets for the Group (primarily the Asian area and the Eurozone), will make it possible to boost sales by around 5% - 6% for both the “Water Jetting Sector” CGU and for the “Hydraulic Sector” CGU. A perpetual growth rate of 1% was applied for periods after 2022 for the “Hydraulic Sector” CGU, while a perpetual growth rate of 1.5% was applied for the “Water Jetting Sector” CGU due to the sustainability through time of the competitive advantages of the individual CGUs. The projected cash flows determined in this manner were reduced by a discount factor in order to take account of the risk that future plans could become impracticable. The weighted average cost of capital (WACC) after tax was measured for the various CGUs as follows:

CGU	WACC
Water Jetting Sector	4.17%
Hydraulic Sector	4.77%
Weighted average cost of capital	4.46%

The WACC utilized in 2016 was 5.04%. In addition, a sensitivity analysis was carried out in compliance with the requirements of the joint document issued by Banca d'Italia, Consob, and ISVAP on 3 March 2010. Reducing the expected cash flows of each CGU by 10% would not have resulted in the need to write down goodwill, and nor would increasing the cost of capital utilized by 50 basis points to actualize the expected flows. Moreover, as an additional positive element supporting the recoverability of goodwill, Interpump Group's stock market capitalization is far higher than the Group's Shareholders' equity throughout 2017.

### 13. Other intangible assets

	<i>Product development costs</i>	<i>Patents trademarks and industrial rights</i>	<i>Other intangible assets</i>	<i>Total</i>
	<u>(€000)</u>	<u>(€000)</u>	<u>(€000)</u>	<u>(€000)</u>
<b>At 31 December 2015</b>				
Cost	24,280	52,873	11,312	88,465
Accumulated amortization	<u>(17,228)</u>	<u>(28,844)</u>	<u>(9,200)</u>	<u>(55,272)</u>
Net book value	<u>7,052</u>	<u>24,029</u>	<u>2,112</u>	<u>33,193</u>
<b>Changes in 2016</b>				
Opening net book value	7,052	24,029	2,112	33,193
Exchange differences	17	315	55	387
Change in the scope of consolidation	-	18	67	85
Increases	1,336	569	1,167	3,072
Decreases	(26)	(1)	(1)	(28)
Reclassifications	(29)	214	(312)	(127)
Write-downs	(16)	-	-	(16)
Capitalized depreciation	-	-	(7)	(7)
Depreciation and amortization	<u>(1,740)</u>	<u>(4,083)</u>	<u>(697)</u>	<u>(6,520)</u>
Closing net book value	<u>6,594</u>	<u>21,061</u>	<u>2,384</u>	<u>30,039</u>
<b>At 31 December 2016</b>				
Cost	25,818	56,203	11,055	93,076
Accumulated amortization	<u>(19,224)</u>	<u>(35,142)</u>	<u>(8,671)</u>	<u>(63,037)</u>
Net book value	<u>6,594</u>	<u>21,061</u>	<u>2,384</u>	<u>30,039</u>

	<i>Product development costs (€000)</i>	<i>Patents trademarks and industrial rights (€000)</i>	<i>Other intangible assets (€000)</i>	<i>Total (€000)</i>
<b>Changes in 2017</b>				
Opening net book value	6,594	21,061	2,384	30,039
Exchange differences	(77)	(600)	(150)	(827)
Change in the scope of consolidation	4	11,945	698	12,647
Increases	1,971	623	1,060	3,654
Decreases	-	-	(94)	(94)
Reclassifications	(25)	15	27	17
Write-downs	-	-	-	-
Capitalized depreciation	-	-	(7)	(7)
Depreciation and amortization	<u>(1,567)</u>	<u>(4,738)</u>	<u>(1,028)</u>	<u>(7,333)</u>
Closing net book value	<u>6,900</u>	<u>28,306</u>	<u>2,890</u>	<u>38,096</u>
<b>At 31 December 2017</b>				
Cost	32,311	67,192	14,638	114,141
Accumulated amortization	<u>(25,411)</u>	<u>(38,886)</u>	<u>(11,748)</u>	<u>(76,045)</u>
Net book value	<u>6,900</u>	<u>28,306</u>	<u>2,890</u>	<u>38,096</u>

The cost of assets under construction, included in the net book values disclosed in the previous table, is as follows:

	<i>Product development costs (€000)</i>	<i>Patents trademarks and industrial rights (€000)</i>	<i>Other intangible assets (€000)</i>	<i>Total (€000)</i>
At 1 January 2016	3,051	10	354	3,415
At 31 December 2016	3,708	4	505	4,217
At 31 December 2017	4,368	4	611	4,983

Amortization was charged in full to general and administrative costs.

Product development costs consist mainly of capitalized internal costs.

#### 14. Other financial assets

This item comprises:

	31/12/2017 (€000)	31/12/2016 (€000)
Investments in non-consolidated subsidiaries	617	344
Assets servicing employee benefits	384	367
Loans to non-consolidated subsidiaries	2	-
Other loan receivables	5	5
Other	<u>137</u>	<u>74</u>
Total	<u>1,145</u>	<u>790</u>

The following changes were recorded:

	<u>2017</u> <u>(€000)</u>	<u>2016</u> <u>(€000)</u>
Opening balance	790	1,025
Exchange differences	(9)	35
Change in the scope of consolidation	176	(201)
Reclassifications	(103)	-
Increases for the year	282	45
Change in fair value	9	3
Decreases for the year	<u>-</u>	<u>(117)</u>
Closing balance	<u>1,145</u>	<u>790</u>

Breakdown of the value of investments in non-consolidated subsidiaries:

Company	<u>31/12/2017</u> <u>(€000)</u>	% <u>stake</u>	<u>31/12/2016</u> <u>(€000)</u>	% <u>stake</u>
General Pump China	247	100%	272	100%
FGA S.r.l.	153	100%	-	-
Saldature MDM S.r.l.	114	100%	-	-
Interpump Hydraulics Rus	95	100%	-	-
Inoxpa ABC Solutions Private Ltd (in liquidation)	8	100%	-	-
Inoxpa Poland Sp ZOO (in liquidation)	-	100%	-	-
Interpump Hydraulics Perù S.a.c.	<u>-</u>	90%	<u>72</u>	90%
<i>Total non-consolidated subsidiaries</i>	<u>617</u>		<u>344</u>	

General Pump China, FGA S.r.l., Saldature MDM S.r.l., Interpump Hydraulics RUS, Inoxpa ABC Solution Private Ltd, Inoxpa Poland Sp ZOO and Interpump Hydraulics Perù S.a.c. are all subsidiaries that were not however consolidated in 2017 due to their modest size.

Interpump Hydraulics RUS with headquarters in Moscow was incorporated in 2017 with the aim of guaranteeing a direct Group presence in this important market.

In 2017 interests were acquired in FGA S.r.l. and in Saldature MDM S.r.l. Saldature MDM S.r.l. was absorbed by Tekno Tubi S.r.l. in January 2018.

Inoxpa ABC Solution Private Ltd and Inoxpa Poland Sp ZOO were acquired within the Inoxpa Group business combination.

The value of the investment in Interpump Hydraulics Perù, a distribution company based in Lima incorporated at the end of 2015 with the aim of strengthening the Group's direct presence in South America, was reduced to zero and a provision for risks was created in the amount of €13k in accordance with the losses incurred during the start-up stage.

## 15. Deferred tax assets and liabilities

The changes in the year of deferred tax assets and liabilities are listed below:

	<u>Deferred tax assets</u>		<u>Deferred tax liabilities</u>	
	2017	2016	2017	2016
	(€000)	(€000)	(€000)	(€000)
At 31 December of the previous year	24,108	25,190	47,755	48,098
Exchange differences	(599)	203	(2,292)	691
Change in the scope of consolidation	2,058	736	5,689	980
Charged to income statement in the year	(877)	(2,698)	(9,648)	(2,393)
Reclassifications	-	(114)	-	(147)
Charged to net equity	<u>219</u>	<u>791</u>	<u>-</u>	<u>526</u>
At 31 December 2016	<u>24,909</u>	<u>24,108</u>	<u>41,504</u>	<u>47,755</u>

The deferred taxes recognized directly in equity arise from remeasurement of defined benefit plans.

Deferred tax assets and liabilities refer to the following items of the balance sheet:

	<u>Deferred tax assets</u>		<u>Deferred tax liabilities</u>	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
	(€000)	(€000)	(€000)	(€000)
Property, plant and equipment	5,553	5,662	27,832	32,340
Intangible fixed assets	173	253	12,263	14,200
Equity investments	357	392	737	10
Inventories	12,784	11,438	31	29
Receivables	764	693	4	4
Liabilities for employee benefits	1,084	887	89	-
Derivative instruments	-	(11)	-	-
Provisions for risks and charges	1,553	1,951	31	385
Losses to be carried forward	677	478	-	-
Other	<u>1,964</u>	<u>2,365</u>	<u>517</u>	<u>787</u>
Total	<u>24,909</u>	<u>24,108</u>	<u>41,504</u>	<u>47,755</u>

No deferred tax liabilities were recorded for reserves qualifying for tax relief as they are not expected to be distributed (see note 23).

## 16. Assets and liabilities held for sale

Assets held for sale at 31 December 2017 refer to two buildings subject to repurchase by the ex-shareholders of Inxopa at a contractually agreed price. The carrying amount at 31 December 2017 was lower than the fair value of the building, net of selling costs.

Liabilities held for sale refer to the liabilities linked to the property conveyancing taxes related to the repurchase of several buildings of the Inxopa Group by the ex shareholders.

## 17. Interest-bearing financial payables and bank payables

The main loans are all subject to the following financial covenants, calculated on the consolidated values:

- Net financial indebtedness / Shareholders' equity;
- Net financial indebtedness / EBITDA;
- EBITDA / Financial charges.

At 31/12/2017 all financial covenants had been amply complied with.

	31/12/2017 (€000)	31/12/2016 (€000)
<i>Current</i>		
Payables to banks	<u>8,955</u>	<u>2,396</u>
Bank loans	163,451	122,874
Finance leasing agreements	<u>3,014</u>	<u>1,910</u>
Total current interest bearing financial payables	<u>166,465</u>	<u>124,784</u>
<i>Non-current</i>		
Bank loans	233,945	316,462
Finance leasing agreements	<u>9,115</u>	<u>11,512</u>
Total non-current interest bearing financial payables	<u>243,060</u>	<u>327,974</u>

At 31 December 2017, fixed-rate loans amounted to €8,146k, while the remainder were at floating rates.

Bank payables and loans include €2,764k in currencies other than the euro, mainly in UK sterling, Brazilian reals, Australian dollars and Canadian dollars related to foreign subsidiaries. Amounts in currencies other than the euro are as follows:

(€000)	Payables to <u>banks</u>	Current interest-bearing <u>financial payables</u>	Non-current interest- bearing <u>financial payables</u>	<u>Total</u>
UK Sterling	32	1,490	47	1,569
Russian Ruble	297	6	-	303
Brazilian Real	-	140	82	222
Australian Dollar	-	104	117	221
Canadian Dollar	-	-	175	175
Chilean Peso	-	67	53	120
US Dollar	-	19	58	77
New Zealand Dollar	-	17	46	63
Indian Rupee	-	10	2	12
South African Rand	-	<u>2</u>	-	<u>2</u>
Total	<u>329</u>	<u>1,855</u>	<u>580</u>	<u>2,764</u>

See Note 9 for details of interest rates.

## Breakdown of finance lease payables at 31 December:

(€000)	31 December 2017				31 December 2016			
	Within the year	Between one and five years	Beyond five years	Total	Within the year	Between one and five years	Beyond five years	Total
Outstanding instalments on finance leasing contracts	3,362	4,771	5,345	13,478	2,255	6,611	6,381	15,247
Interest	<u>(348)</u>	<u>(659)</u>	<u>(342)</u>	<u>(1,349)</u>	<u>(345)</u>	<u>(944)</u>	<u>(536)</u>	<u>(1,825)</u>
Present value of finance lease payables	<u>3,014</u>	<u>4,112</u>	<u>5,003</u>	<u>12,129</u>	<u>1,910</u>	<u>5,667</u>	<u>5,845</u>	<u>13,422</u>

At 31 December 2017 the Group held several active finance leasing contracts for industrial buildings, plant and machinery, the carrying value of which, totalling €28,062k (€32,243k at 31 December 2016), has been booked under Property, plant and equipment (Note 11).

Non-current financial payables have the following due dates:

	31/12/2017 (€000)	31/12/2016 (€000)
In 2 years	156,110	136,474
From 2 to 5 years	81,950	182,402
Beyond 5 years	<u>5,000</u>	<u>9,098</u>
Total	<u>243,060</u>	<u>327,974</u>

The Group has the following lines of credit that were unused at year-end:

	31/12/2017 (€000)	31/12/2016 (€000)
Export advances and Italian portfolio	101,104	121,001
Current account overdrafts	6,036	6,036
Medium/long-term loans	<u>76,442</u>	<u>86,138</u>
Total	<u>183,582</u>	<u>213,175</u>

**18. Other current liabilities**

	31/12/2017 (€000)	31/12/2016 (€000)
Payables related to the acquisition of investments	2,428	4,283
Other short-term payables	49,659	44,651
Government grants	508	50
Other	<u>1,443</u>	<u>788</u>
Total	<u>54,038</u>	<u>49,772</u>

Other short-term payables mainly concern amounts due to personnel, directors, statutory auditors and social security institutions.

## 19. Provisions for risks and charges

Changes were as follows:

(€000)	Product warranties	Agents' termination indemnity	Provision for returns on sales	Provision for risks on investments	Other	Total
Balance at 31/12/2016	2,786	795	357	223	2,325	6,486
Exchange rate difference	(100)	-	(13)	-	(65)	(178)
Increase in the year	1,551	18	-	113	375	2,057
Surplus released to the income statement	(497)	-	-	(103)	(47)	(647)
Change in the scope consolidation basis	-	-	-	26	-	26
Drawdowns in the year	<u>(393)</u>	<u>(29)</u>	<u>(23)</u>	<u>(16)</u>	<u>(517)</u>	<u>(978)</u>
Balance at 31/12/2017	<u>3,347</u>	<u>784</u>	<u>321</u>	<u>243</u>	<u>2,071</u>	<u>6,766</u>

The balance of other provisions at 31 December 2017 refers to various disputes or estimated liabilities in group companies.

The closing balance is disclosed as shown below in the balance sheet:

	31/12/2017 (€000)	31/12/2016 (€000)
Current	3,610	3,620
Non-current	<u>3,156</u>	<u>2,866</u>
Total	<u>6,766</u>	<u>6,486</u>

The Parent company and some of its subsidiaries are directly involved in lawsuits for limited amounts. The settlement of said lawsuits is not expected to generate any significant liabilities for the Group that are not covered by the risk provisions already made.

## 20. Liabilities for employee benefits

### *Liabilities for defined benefit plans*

The following movements were recorded in liabilities:

	2017 (€000)	2016 (€000)
Liabilities at 1 January	19,311	17,264
Amount charged to the income statement in the year	300	264
Reclassifications to other current liabilities	(71)	(92)
Recognition in equity of actuarial results	936	1,803
Change to consolidation basis	655	1,361
Payments	<u>(1,087)</u>	<u>(1,289)</u>
Liabilities at 31 December	<u>20,044</u>	<u>19,311</u>

The following items were recognized in the income statement:

	2017 (€000)	2016 (€000)
Current service cost	341	260
Financial expenses (Income)	(41)	4
Past service cost	-	-
Total recognized in the income statement	<u>300</u>	<u>264</u>

Items recognized in the income statement were booked as follows:

	2017 (€000)	2016 (€000)
Cost of sales	155	112
Distribution costs	113	79
General and administrative expenses	73	69
Financial expenses (Income)	<u>(41)</u>	<u>4</u>
Total	<u>300</u>	<u>264</u>

Liabilities for defined benefit plans (Severance indemnity - TFR) were established with the following actuarial assumptions:

	Unit of measurement	2017	2016
Discount rate	%	1.37	1.69
Expected increase in rate of remuneration*	%	2.76	2.82
Percentage of employees expected to resign (turnover)**	%	3.24	2.51
Annual cost-of-living increase	%	1.50	1.50
Average period of employment	Years	13.45	13.07

\* = restricted to companies with less than 50 employees.

\*\* = average annual resignation percentage, all causes, in the first ten years following the assessment.

## 21. Other non-current liabilities

	2017 (€000)	2016 (€000)
Payables related to the acquisition of investments	47,838	38,478
Other long-term employee benefits	2,360	2,536
Other	<u>199</u>	<u>44</u>
Total	<u>50,397</u>	<u>41,058</u>

The changes in other non-current liabilities were as follows:

	2017 (€000)	2016 (€000)
Liabilities at 1 January	41,058	22,017
Exchange rate difference	(461)	425
Change to consolidation basis	11,985	17,199
Amount charged to the income statement in the year	(2,119)	1,401
Reclassifications to other current liabilities	(74)	16
Increase in medium/long-term debts	247	-
Payments	(239)	-
Liabilities at 31 December	<u>50,397</u>	<u>41,058</u>

The other non-current liabilities recognized in the income statement during the year mainly relate to interest charges on put options and adjustments to the long-term element of payables related to the acquisition of investments.

## 22. Share capital

The share capital at 31 December 2017 was composed of 108,879,294 ordinary shares with a unit par value of €0.52 for a total amount of €56,617,232.88. In contrast, share capital recorded in the financial statements amounted to €55,805k because the nominal value of purchased treasury shares, net of divested treasury shares, was deducted from the share capital in compliance with the reference accounting standards. At 31 December 2017 Interpump S.p.A. held 1,561,752 treasury shares in the portfolio corresponding to 1.43% of the share capital, acquired at an average unit cost of EUR 12.4967.

Changes in treasury shares over the past two years have been as follows:

	<u>Number</u>
<i>Balance at 31/12/2015</i>	<i>1,125,912</i>
2016 purchases	3,407,000
Sale of shares to finance subsidiaries' purchases	(449,160)
Sale of shares for the exercise of stock options	<u>(1,802,000)</u>
<i>Balance at 31/12/2016</i>	<i>2,281,752</i>
2017 purchases	-
Sale of shares to finance subsidiaries' purchases	(150,000)
Sale of shares for the exercise of stock options	<u>(570,000)</u>
<i>Balance at 31/12/2017</i>	<u><u>1,561,752</u></u>

Taking treasury shares into consideration, the following changes were recorded in the number of shares in circulation:

	2017 <u>Number of shares</u>	2016 <u>Number of shares</u>
Ordinary shares in existence at 1 January	108,879,294	108,879,294
Treasury shares held	<u>(2,281,752)</u>	<u>(1,125,912)</u>
Shares in circulation at 1 January	106,597,542	107,753,382
Treasury shares purchased	-	(3,407,000)
Treasury shares sold	<u>720,000</u>	<u>2,251,160</u>
Total shares in circulation at 31 December	<u>107,317,542</u>	<u>106,597,542</u>

The aims identified by the Group in the management of capital are the creation of value for all shareholders and supporting development of the group, both through internal means and by means of targeted acquisitions. The Group therefore intends to maintain an adequate level of capitalization, which simultaneously makes it possible to generate a satisfactory economic return for shareholders and to guarantee economically effective access to external sources of borrowing. The Group constantly monitors the evolution of the debt to equity ratio and the generation of cash through its industrial operations. In order to attain the aforementioned goals, the Group constantly monitors the cash flows generated by the business sectors in which it operates, both through improvement or maintenance of profitability, and careful management of working capital and of other expenditure. Capital is construed as both the value provided by Interpump Group shareholders (share capital and share premium reserve, totalling €177,033k at 31 December 2017 and €167,817k at 31 December 2016), and the value generated by the Group in terms of the results of operations (other reserves and legal reserve, including profit for the year, overall equivalent to €590,329k at 31 December 2017 and €477,476k at 31 December 2016, excluding the translation provision, the reserve for restatement of defined benefit plans, and the provision for fair value measurement of derivative hedges).

#### *Treasury shares purchased*

The amount of treasury shares held by Interpump Group is recorded in an equity provision. The Group did not acquire any treasury shares in 2017 (3,407,000 treasury shares were purchased in 2016 for €43,308k at an average price of EUR 12.7114).

#### *Treasury shares sold*

In the framework of the execution of stock option plans a total of 570,000 options were exercised resulting in a receipt of €3,376k (1,802,000 options were exercised for €9,490k in 2016). Moreover, 150,000 treasury shares were divested in 2017 to pay for part of the equity investment in Mariotti & Pecini (449,160 treasury shares divested in 2016 for payment of part of the price of the investment in Tubiflex).

#### *Stock options*

The fair value of the 2013/2015 and 2016/2018 stock option plans was recorded in the 2017 and 2016 financial statements in compliance with IFRS 2. Costs of €1,781 (€1,733 in 2016) relating to the stock option plans were therefore recognized in the 2017 income statement, with a matching entry in the share premium reserve. Said costs represent the portion for the year of the value of the options assigned to employees and directors, established at the allocation date, corresponding to the value of the services rendered by the latter in addition to normal remuneration.

Items recognized in the income statement were booked as follows:

	2017 (€000)	2016 (€000)
Cost of sales	-	27
Distribution costs	55	67
General and administrative expenses	<u>1,726</u>	<u>1,639</u>
Total	<u>1,781</u>	<u>1,733</u>

Changes in the share premium reserve were as follows:

	2017 €000	2016 €000
Share premium reserve at 1 January	112,386	138,955
Increase due to income statement recognition of the fair value of stock options granted	1,781	1,733
Increase for the disposal of treasury shares further to payment for acquisitions of subsidiaries	3,685	5,516
Increase for the disposal of treasury shares further to the exercise of stock options	3,376	9,490
Drawdown to cover purchase of treasury shares	-	(43,308)
Share premium reserve at 31 December	<u>121,228</u>	<u>112,386</u>

The “2006/2009 Stock option plan” plan ended in the current year with the exercise of the final 20,000 options that had yet to be exercised at 31 December 2016.

The Shareholders' Meeting held on 30 April 2013 approved the adoption of the “2013/2015 Interpump Incentive Plan”, which is also described in detail in the Board of Directors' Report. The exercise price was set at EUR 6.00 per share. The options can be exercised between 30 June 2016 and 31 December 2019. The changes in options during 2017 and 2016 were as follows:

	2017 Number of options	2016 Number of options
Options assigned at 1 January	700,000	1,870,000
Options granted in the year	-	-
Options exercised in the year	(550,000)	(1,163,000)
Options cancelled in the year	-	(7,000)
Total options assigned at 31 December	<u>150,000</u>	<u>700,000</u>
Of which:		
- vested at 31 December	150,000	700,000
- not vested at 31 December	-	-
Total options assigned at 31 December	<u>150,000</u>	<u>700,000</u>

The Shareholders' Meeting held on 28 April 2016 approved the adoption of a new incentive plan called the “Interpump 2016/2018 Incentive Plan”. The plan, which is based on the free assignment of options that grant the beneficiaries the right, on the achievement of specified objectives, to (i) purchase or subscribe the Company's shares up to the maximum number of 2,500,000 or, (ii) at the discretion of the Board of Directors, receive the payment of a differential equivalent to any increase in the market value of the Company's ordinary shares. Beneficiaries of the plan can be employees or directors of the Company and/or its subsidiaries, identified among persons having significant roles or functions. The exercise price has been established at EUR 12.8845 per share, equivalent to the market value at the time of the decision

of the Board of Directors to submit the Plan to the Shareholders' Meeting. The options can be exercised between 30 June 2019 and 31 December 2022. The next meeting of the Board of Directors, held on 12 May 2016, set a figure of 2,500,000 for the number of options to be assigned, divided by the total number of options in each tranche (625,000 for the first tranche, 875,000 for the second tranche and 1,000,000 for the third tranche) and established the terms for the exercise of the options, which are connected to the achievement of specific accounting parameters and the performance of Interpump Group stock. The same Board meeting assigned 1,620,000 options to the Chairman, exercisable subject to the conditions described above, and granted mandates to the Chairman and the Deputy Chairman of Interpump Group, acting separately, to identify the beneficiaries of a further 880,000 options. On 6 and 29 July 2016, 13 December 2016 and 9 November 2017 a total of 531,800 options were assigned to other beneficiaries identified within the Interpump Group. The options cancelled in 2017 totalled 30,000.

The changes in the options in the year were as follows:

	2017
	<u>Number of options</u>
Number of rights assigned at 1 January	2,139,800
Number of rights cancelled	(30,000)
Number of rights assigned	12,000
Number of shares purchased	-
Total number of options not yet exercised at 31 December	<u>2,121,800</u>

The fair value of the stock options and the actuarial assumptions utilized in the binomial lattice model are as follows:

2013/2015 Plan

<i>First assignment</i>	Unit of measurement	
Number of shares assigned	no.	1,320,000
Grant date		30 April 2013
Exercise price		6.0000
Vesting date		1 July 2016
Fair value per option at the grant date	EUR	1.8631
Expected volatility (expressed as the weighted average of the volatility values utilized to build the binomial lattice model)	%	30
Expected average duration of the plan life	years	6.666
Expected dividends (compared with share value)	%	2.50
Risk free interest rate (calculated using a linear interpolation of Euro Swap rates at 30 April 2013)	%	From 0.91 to 1.06

2013/2015 Plan

<i>Second assignment</i>	Unit of measurement	
Number of shares assigned	no.	550,000
Grant date		29 October 2013
Exercise price		6.0000
Vesting date		1 July 2016
Fair value per option at the grant date	EUR	2.8916
Expected volatility (expressed as the weighted average of the volatility values utilized to build the binomial lattice model)	%	30
Expected average duration of the plan life	years	6.166
Expected dividends (compared with share value)	%	2.50
Risk free interest rate (calculated using a linear interpolation of Euro Swap rates at 29 October 2013)	%	From 1.38 to 1.57

2016/2018 Plan

<i>First assignment</i>	Unit of measurement	
Number of shares assigned	no.	1,620,000
Grant date		12 May 2016
Exercise price		12.8845
Vesting date		1 July 2019
Fair value per option at the grant date	EUR	2.4585
Expected volatility (expressed as the weighted average of the volatility values utilized to build the binomial lattice model)	%	30
Expected average duration of the plan life	years	6.583
Expected dividends (compared with share value)	%	2.50
Risk free interest rate (calculated using a linear interpolation of Euro Swap rates at 12 May 2016)	%	From 0.11 to 0.22

<i>Second assignment</i>	Unit of measurement	
Number of shares assigned	no.	483,800
Grant date		6 July 2016
Exercise price		12.8845
Vesting date		1 July 2019
Fair value per option at the grant date	EUR	3.0520
Expected volatility (expressed as the weighted average of the volatility values utilized to build the binomial lattice model)	%	30
Expected average duration of the plan life	years	6.417
Expected dividends (compared with share value)	%	2.50
Risk free interest rate (calculated using a linear interpolation of Euro Swap rates at 6 July 2016)	%	From -0.094 to -0.004

2016/2018 Plan

<i>Third assignment</i>	Unit	
Number of shares assigned	no.	30,000
Grant date		29 July 2016
Exercise price		12.8845
Vesting date		1 July 2019
Fair value per option at the grant date	EUR	3.7130
Expected volatility (expressed as the weighted average of the volatility values utilized to build the binomial lattice model)	%	30
Expected average duration of the plan life	years	6.417
Expected dividends (compared with share value)	%	2.50
Risk free interest rate (calculated using a linear interpolation of Euro Swap rates at 29 July 2016)	%	From -0.082 to -0.002
<i>Fourth assignment</i>	Unit	
Number of shares assigned	no.	6,000
Grant date		13 December 2016
Exercise price		12.8845
Vesting date		1 July 2019
Fair value per option at the grant date	EUR	4.33130
Expected volatility (expressed as the weighted average of the volatility values utilized to build the binomial lattice model)	%	30
Expected average duration of the plan life	years	6
Expected dividends (compared with share value)	%	2.50
Risk free interest rate (calculated using a linear interpolation of Euro Swap rates at 13 December 2016)	%	0.264
<i>Fifth assignment</i>	Unit	
Number of shares assigned	no.	12,000
Grant date		9 November 2017
Exercise price		12.8845
Vesting date		1 July 2019
Fair value per option at the grant date	EUR	13.4162
Expected volatility (expressed as the weighted average of the volatility values utilized to build the binomial lattice model)	%	30
Expected average duration of the plan life	years	3 years and 5 months
Expected dividends (compared with share value)	%	2.50
Risk free interest rate (calculated using a linear interpolation of Euro Swap rates at 13 December 2016)	%	-0.0285

The expected volatility of the underlying variable (Interpump Group share) is a measure of the prospect of price fluctuations in a specific period. The indicator that measures volatility in the model utilized to evaluate the options is the mean square annualized deviation of compound returns of the Interpump Group share through time.

## 23. Reserves

### *Reserve for valuation of hedging derivatives at fair value*

This includes net accumulated changes in the fair value of derivative financial instruments classified as hedges and recorded using the hedge accounting method.

### *Translation reserve*

This provision consists of exchange gains generated by the translation of the financial statements of foreign subsidiaries based outside the EU and from variations in goodwill ascribable to these companies, again as a result of exchange rate fluctuations.

### *Reserve for restatement of defined benefit plans*

Includes the actuarial component of defined benefit plans (TFR).

### *Classification of net equity depending on possibility of utilization*

(amounts in €000)	Amount	Possibility of utilization	Available portion	Tax payable in the event of distribution	Summary of drawdowns over the past three years	
					to cover losses	other
<b>Share capital</b>	56,617	B	-	-	-	-
Nominal value of treasury shares in portfolio	(812)					
Total share capital	<u>55,805</u>					
<b>Capital reserves</b>						
From Parent Company's financial statements:						
Legal reserve	6,860	B	-	-	-	-
Share premium reserve	<u>42,601</u>	A,B,C	<u>42,601</u>	-	-	28,712
Total from Parent Company's financial statements	49,461		<u>42,601</u>			
Consolidation entries	<u>36</u>					
Total from consolidated financial statements	<u>49,497</u>					
<b>Profit reserves:</b>						
From Parent Company's financial statements:						
Legal reserve	4,463	B	-	-	-	-
Share premium reserve	77,789	A,B,C	75,974	1,232	-	-
Extraordinary reserve	112,216	A,B,C	110,082	-	-	-
Reserve for share capital reduction	812	-	-	-	-	-
First Time Adoption Reserve	(60)	-	-	-	-	-
Merger surplus	863	A,B,C	698	-	-	-
Reserve for restatement of defined benefits plans	(1,960)	-	-	-	-	-
Profit for the year	<u>80,411</u>	A,B,C	<u>80,411</u>	-	-	-
Total from Parent Company's financial statements	274,534		<u>267,165</u>			
Consolidation entries	<u>379,329</u>					
Total from consolidated financial statements	<u>653,863</u>					
Reserve for treasury shares held	19,517	-	-	-	-	76,017
Treasury shares	(19,517)					
Non-distributable portion*			<u>(3,676)</u>			
<b>Remaining distributable portion</b>			<u>306,090</u>			

A: for capital increase

B: for coverage of losses

C: for distribution to shareholders

\*= represents the non-distributable portion destined to cover deferred costs that have not yet been amortized.

Drawdowns refer to dividends, purchase of treasury shares and reductions of reserves for other causes and do not include transfers between reserves. In particular, with reference to the changes that occurred in the past three years note that the drawdowns of the reserve for treasury shares held refer to purchases of treasury shares, while the drawdowns from the share premium reserve refer to the sale of treasury shares at a price below their carrying value.

On the basis of Italian tax legislation the reserves and profits are freely distributable and do not attract tax even in the case of distribution, on the condition that the reserves and residual profits exceed the negative components of income ascribed exclusively in the tax return; otherwise, distributed reserves and profits would be subject to tax in the measure in which the residual reserves and profits were lower than the negative components of income that have been ascribed exclusively to the tax return. At 31 December 2017, this condition has been complied with in full, hence no taxes were payable in the event of distribution of the parent company's entire profits for the year and the entirety of available reserves, beyond the taxes already indicated in the prior statement.

*Breakdown of components recorded directly in equity*

(amounts in €000)	2017			2016		
	Pre-tax amount	Taxation	Amount net of taxes	Pre-tax amount	Taxation	Amount net of taxes
Accounting for derivatives hedging exchange-rate risks using the cash flow hedge method	33	(9)	24	(14)	3	(11)
Profit (Loss) arising from translation of foreign subsidiaries' financial statements	(36,311)	-	(36,311)	10,664	-	10,664
Profit (Loss) of companies carried at equity	(2)	-	(2)	(5)	-	(5)
Actuarial Profits (Losses) associated with restatement of defined-benefits plans	(927)	219	(708)	(1,803)	262	(1,541)
<b>Total</b>	<b><u>(37,207)</u></b>	<b><u>210</u></b>	<b><u>(36,997)</u></b>	<b><u>8,842</u></b>	<b><u>265</u></b>	<b><u>9,107</u></b>

## 24. Minority shareholders' equity

This is the portion of consolidated shareholders' equity pertaining to minority shareholders of the consolidated subsidiaries. The following changes were recorded:

(€000)	Interpump Hydraulics Group	Inoxpa Group	Sit	Hammelmann Pump System	Portions of intercompany profits tied up in inventories	Total
Balance at 31/12/2016	3,527	-	403	543	(679)	3,794
Change to consolidation basis		2,291	-	-	-	2,291
Dividends distributed to minority interests	(539)	(387)		-	-	(926)
Interests acquired	(257)	(270)		-	-	(527)
Changes recorded directly in equity	-	-	(8)	-	-	(8)
Exchange rate difference	(213)	(89)	-	(39)	-	(341)
Minority interests profit (loss) for the period	<u>442</u>	<u>397</u>	<u>25</u>	<u>153</u>	<u>264</u>	<u>1,281</u>
Balance at 31/12/2017	<u>2,960</u>	<u>1,942</u>	<u>420</u>	<u>657</u>	<u>(415)</u>	<u>5,564</u>

Minority interest subsidiaries are not individually or cumulatively significant to the Interpump Group.

## 25. Other net revenues

	2017 (€000)	2016 (€000)
Reimbursement of expenses	7,476	6,504
Income from the sale of waste and scrap	3,751	3,161
Offsetting of surplus provisions and allocations	682	1,013
Income from rent/royalties	562	397
Capital gains from the sale of property, plant and equipment	381	299
Refunds from insurance	118	155
Capital gains on the sale of equity investments and lines of business	-	61
Capital gains from the sale of intangible assets	-	4
Other	<u>3,774</u>	<u>2,778</u>
Total	<u>16,744</u>	<u>14,372</u>

## 26. Costs by nature

	2017 (€000)	2016 (€000)
Raw materials and components	389,309	338,332
Personnel and temporary staff	274,003	237,376
Services	111,079	92,647
Amortization / depreciation (Notes 11 and 13)	47,464	43,602
Directors' and statutory auditors' remuneration	7,753	7,780
Hire purchase and leasing charges	15,609	13,533
Provisions for risks and charges and impairment of tangible and intangible fixed assets (notes 11, 13 and 19)	2,272	1,367
Other operating costs	<u>56,890</u>	<u>49,020</u>
Total cost of sales, distribution costs, general and administrative expenses, other operating costs and impairment losses of tangible and intangible fixed assets	<u>904,379</u>	<u>783,657</u>

In accordance with the requirements of article 149-(12) of the Issuers' Regulation as amended by Consob Resolution no. 15915 of 3 May 2007 published in the Official Journal of the Italian Republic no. 111 of 15 May 2007 (S.O. no. 115), the remuneration amounts for 2017 are listed below for services rendered to the Group by the independent auditors and the entities belonging to the network of the independent auditors:

- assignments for auditing of the parent company €125k;
- assignments for auditing of subsidiaries €31k;
- limited examination of Parent Company non-financial statements €48k;
- other services provided €61.

The above amounts are included under Other costs within general and administrative expenses.

**27. Directors' and statutory auditors' remuneration**

The emoluments of the Directors and Statutory Auditors of Interpump Group S.p.A., for their functions performed at the Parent Company and at other consolidated companies, are summarized below:

	2017 <u>(€000)</u>	2016 <u>(€000)</u>
Parent Company	4,159	4,492
Statutory auditors	<u>171</u>	<u>177</u>
Total remuneration	<u>4,330</u>	<u>4,669</u>

The amounts include the emoluments authorized at the Shareholders' Meeting and those established by the Board of Directors for directors with special duties, including bonuses, non-cash benefits, payments to cover the cost of personal security and the remuneration element of stock option plans, as represented by the period portion of the fair value of the options calculated at the grant date.

**28. Financial income and expenses**

	2017 <u>€000</u>	2016 <u>€000</u>
<u>Financial income</u>		
Interest income from liquid funds	363	412
Interest income from other assets	95	65
Financial income to adjust debt estimate for commitment to purchase residual interests in subsidiaries	1,195	-
Foreign exchange gains	12,531	7,283
Earnings from valuation of derivative financial instruments	111	70
Income deriving from business combinations ("badwill")	305	-
TFR financial income	41	-
Other financial income	<u>43</u>	<u>32</u>
Total financial income	<u>14,684</u>	<u>7,862</u>
<u>Financial expenses</u>		
Interest expense on loans	3,451	4,108
Interest expense on put options	629	610
Financial charges to adjust estimated debt for commitment to purchase residual interests in subsidiaries	1,164	1,100
<i>Tobin Tax</i>	-	107
Foreign exchange losses	16,098	6,688
Losses from valuation of derivative financial instruments	-	27
Other financial expenses	<u>82</u>	<u>222</u>
Total financial expenses	<u>21,424</u>	<u>12,862</u>
Total financial expenses (income), net	<u>6,740</u>	<u>5,000</u>

The interest expense on put options relates to the release of the discounting effect on payables for the purchase of equity investments.

Adjustment of the estimated liability for the purchase of residual interests in subsidiaries may result in financial charges, if the actual performance of the companies concerned is better than initially expected, or if the related put options are exercised later than initially expected. Conversely, financial income may be recognized if the actual performance of the companies concerned is worse than initially expected, or if the related put options are exercised earlier than initially expected.

## 29. Income taxes

The effective tax rate for the year was 29.4% (36.4% in 2016). This change is explained in the Report on operations.

Taxes recognized in the income statement can be broken down as follows:

	2017 (€000)	2016 (€000)
Current taxes	(64,785)	(53,432)
Current taxes from past financial years	(413)	(283)
Deferred taxes	<u>8,771</u>	<u>(305)</u>
Total taxes	<u>(56,427)</u>	<u>(54,020)</u>

Deferred tax recognized in the income statement can be broken down as follows:

	2017 (€000)	2016 (€000)
Deferred tax assets generated in the year	2,839	3,820
Deferred tax liabilities generated in the year	(1,693)	(2,457)
Deferred tax assets transferred to the income statement	(2,696)	(4,524)
Deferred tax liabilities recognized in the income statement	3,932	4,772
Deferred tax assets resulting from change in rate	(1,522)	(519)
Deferred tax liabilities resulting from change in rate	7,410	78
Derecognized deferred tax assets	-	(1,475)
Deferred taxes not calculated in previous years	<u>501</u>	<u>-</u>
Total deferred taxes	<u>8,771</u>	<u>(305)</u>

The reconciliation of taxes calculated on the basis of the nominal rates in force in the different countries and the effective tax burden is as follows:

	2017 (€000)	2016 (€000)
<u>IRES/National tax</u>		
Profit before taxes from the income statement	<u>192,150</u>	<u>148,493</u>
Theoretical taxes at Italian rate (24.0% in 2017 – 27.5% in 2016)	46,116	40,836
Effect of different rates applicable to foreign subsidiaries	3,258	(382)
Tax on dividends from consolidated companies	1,947	2,702
Higher (Lower) taxes resulting from the measurement of investments at equity	4	11
Higher tax for non-deductible stock option costs	60	84
Lower taxes due to IRAP deduction relating to expenses for employees and similar for the year	(123)	(154)
Lower taxes due to IRAP deduction on interest expenses in the year	(47)	(60)
Higher taxes due to not recognizing deferred tax assets on current year tax losses	787	28
Lower taxes due to not recognizing deferred tax assets on prior year tax losses	(395)	(210)
Deferred taxes derecognized in the year	-	1,085
Taxes relating to previous years (current plus deferred)	(572)	270
Higher (Lower) taxes on financial expenses relative to discounting of debts for the purchase of investments and related adjustments	62	417
Effect of scheduled change in the IRES tax rate from 2017	-	441
Effect of scheduled change in the tax rate of the US companies from 2018	(5,730)	-
Effect of scheduled change in the tax rate for a Chinese company from 2018	(158)	-
Higher (Lower) taxes for non-taxable revenues and non-deductible costs	<u>238</u>	<u>(496)</u>
<i>Total IRES/National tax</i>	<u>45,447</u>	<u>44,572</u>
<u>IRAP/Local income taxes</u>		
Profit before taxes from the income statement	<u>192,150</u>	<u>148,493</u>
Theoretical taxes at the Italian rate (3.9%)	7,494	5,791
Effect of different rates applicable to foreign subsidiaries and for holding companies	2,123	2,463
Higher taxes for non-deductible payroll costs	413	111
Higher taxes for non-deductible directors' emoluments	273	284
Higher taxes due to non-deductible financial expenses	172	194
Tax on dividends from consolidated companies	-	-
Higher taxes due to measuring investments at equity	1	2
Taxes relating to previous years (current plus deferred)	457	13
Deferred taxes derecognized in the year	-	390
Higher (Lower) taxes for non-taxable revenues and non-deductible costs	<u>47</u>	<u>200</u>
<i>Total IRAP/Local income taxes</i>	<u>10,980</u>	<u>9,448</u>
<i>Total income taxes recognized in the income statement</i>	<u>56,427</u>	<u>54,020</u>

Together with Hypress S.r.l., IMM S.p.A. opted for inclusion in the Italian domestic tax group in the period 2017-2019.

### 30. Earnings per share

#### *Basic earnings per share*

Earnings per share are calculated on the basis of consolidated profit for the period attributable to Parent Company shareholders divided by the weighted average number of ordinary shares, as follows:

	<u>2017</u>	<u>2016</u>
Consolidated net profit for the period attributable to Parent company shareholders (€000)	134,442	93,850
Average number of shares in circulation	106,973,877	106,196,360
Basic earnings per share (€)	<u>1.257</u>	<u>0.884</u>

#### *Diluted earnings per share*

Diluted earnings per share are calculated on the basis of diluted consolidated profit for the period attributable to the parent company's shareholders, divided by the weighted average number of ordinary shares in circulation adjusted by the number of potentially dilutive ordinary shares. The calculation is as follows:

	<u>2017</u>	<u>2016</u>
Consolidated net profit for the period attributable to Parent company shareholders (€000)	<u>134,442</u>	<u>93,850</u>
Average number of shares in circulation	106,973,877	106,196,360
Number of potential shares for stock option plans (*)	<u>1,031,352</u>	<u>419,088</u>
Average number of shares (diluted)	<u>108,005,229</u>	<u>106,615,448</u>
Diluted earnings per share (€)	<u>1.245</u>	<u>0.880</u>

(\*) calculated as the number of shares assigned for in-the-money stock option plans multiplied by the ratio between the difference of the average value of the share in the year and the exercise price at the numerator, and the average value of the share in the year at the denominator.

### 31. Information on financial assets and liabilities

Financial assets and liabilities, broken down by the categories identified by IAS 39, are summarized in the following table:

(€000)	<i>Financial assets at 31/12/2017</i>				<i>Financial liabilities at 31/12/2017</i>		
	At the fair value recorded in the Income Statement		Loans and receivables	Held for sale	Valued at the amortized cost	Total	Fair value
	Initially*	IAS 39**					
Trade receivables	-	-	236,761	-	-	236,761	236,761
Other current assets	-	-	4,111	-	-	4,111	4,111
Other financial assets	384	-	7	754	-	1,145	1,145
Trade payables	-	-	-	-	(142,975)	(142,975)	(142,975)
Payables to banks	-	-	-	-	(8,487)	(8,487)	(8,487)
Current interest-bearing financial payables	-	-	-	-	(166,465)	(166,465)	(166,465)
Other current liabilities	-	-	-	-	(52,595)	(52,595)	(52,595)
Non-current interest-bearing financial payables	-	-	-	-	(243,060)	(243,060)	(243,060)
Other non-current assets	-	-	-	-	(50,397)	(50,397)	(50,397)
Total	<u>384</u>	<u>=</u>	<u>240,879</u>	<u>754</u>	<u>(663,979)</u>	<u>(421,962)</u>	<u>(421,962)</u>

(€000)	<i>Financial assets at 31/12/2016</i>				<i>Financial liabilities at 31/12/2016</i>		
	At the fair value recorded in the Income Statement		Loans and receivables	Held for sale	Valued at the amortized cost	Total	Fair value
	Initially*	IAS 39**					
Trade receivables	-	-	200,018	-	-	200,018	200,018
Other current assets	-	-	3,824	-	-	3,824	3,824
Other financial assets	367	-	5	418	-	790	790
Trade payables	-	-	-	-	(109,004)	(109,004)	(109,004)
Payables to banks	-	-	-	-	(1,921)	(1,921)	(1,921)
Current interest-bearing financial payables	-	-	-	-	(124,784)	(124,784)	(124,784)
Other current liabilities	-	-	-	-	(48,984)	(48,984)	(48,984)
Non-current interest-bearing financial payables	-	-	-	-	(327,974)	(327,974)	(327,974)
Other non-current liabilities	-	-	-	-	(41,058)	(41,058)	(41,058)
Total	<u>367</u>	<u>=</u>	<u>203,847</u>	<u>418</u>	<u>(653,725)</u>	<u>(449,093)</u>	<u>(449,093)</u>

\* = designated as such at the time of initial recording.

\*\* = classified as held for trading according to the requirements of IAS 39.

The carrying amount of financial assets and liabilities is substantially the same as their fair value.

The 2017 consolidated income statement only reports fair value earnings of €107k (€54k of fair value profit and €6k of fair value losses in 2016) on derivative financial instruments, which, although arranged for hedging purposes, failed to meet all the requirements of IAS 39 in order to be considered hedges. These derivative financial instruments were plain vanilla forwards. Note 9 gives the methods for calculation employed to establish the fair value of derivative financial instruments and their maturity dates.

Loans and receivables generated costs and revenues. Revenues refer to exchange rate gains for €4,907k (€3,475k in 2016). In contrast, costs refer to bad debts for €1,653k (€1,471k in 2016),

included in the income statement layout adopted under other operating costs, to foreign exchange losses for €5,687k (€3,471k in 2016).

The financial liabilities measured at amortized cost also generated costs and revenues in the income statement. Revenues refer to exchange rate gains €6,948k (€3,354k in 2016), while costs refer to currency exchange losses for €9,825k (€2,201k in 2016) and the portion of ancillary charges initially incurred to obtain the loans and then distributed on the basis of the loan duration according to the financial method. In 2017 the value of these expenses booked to the income statement was €164k (€356k in 2016).

Financial assets and liabilities not designated at fair value through the income statement (all those indicated in the previous table, with the exception of those appearing in the first two columns) generated, respectively, interest income of €1,324k (€87k in 2016) and interest expense of €5,162k (€5,690k in 2016); in addition, general and administrative expenses include commission amounts and bank charges of €1,338k (€1,263k in 2016).

### 32. Information on financial risks

The company is exposed to financial risks associated with its activities:

- market risk (mainly related to currency exchange rates and interest rates) since the Group does business internationally and is exposed to the exchange risk;
- credit risk connected with business relations with customers;
- liquidity risk, with special reference to the availability of financial resources and access to the lending market and financial instruments in general;
- price risk in relation to metal price fluctuations that constitute a significant portion of the raw materials purchase price.

The Group is not exposed to significant risk concentrations.

As described in the Board of Directors' Report, the Interpump Group constantly monitors the financial risks to which it is exposed so that the potential negative effects can be evaluated in advance and appropriate actions can be taken to mitigate them.

The following section provides reference qualitative and quantitative indications concerning the uncertainty of such risks for the Interpump Group.

The quantitative data given below are not to be construed as forecasts; specifically, the sensitivity analyses concerning market risks are unable to reflect the complexity and correlated relations of markets that may derive from each prospected change.

#### Exchange risk

The Group is exposed to risks deriving from fluctuations in currency exchange rates that can impact on the economic result and shareholders' equity value. Specifically:

- Some of the Group's subsidiaries are located in countries outside the Eurozone, notably in the USA, Canada, Brazil, Chile, Peru, Australia, New Zealand, China, Hong Kong, India, South Korea, Denmark, Poland, Romania, Moldova, Bulgaria, Ukraine, UK, UAE, Russia, Colombia and South Africa. Since the Group's functional currency is the euro, the income statements of these companies are translated into euro at the average exchange rate of the year. Changes in exchange rates can impact on the corresponding value of revenues, costs and economic result in euro.
- The assets and liabilities of consolidated companies whose account currency is different from the euro can assume different equivalent euro values depending on the rates of

exchange. As provided for by the reference accounting standards, the effects of changes in the exchange rate are recognized directly in equity in the Translation reserve. The Group monitors the main exposures to translation risk; at the date of the financial statements no hedges have been arranged in relation to these exposures.

- Wherever Group companies generate revenues in currencies other than the currencies in which the respective costs are denominated, exchange rate fluctuations can impact on the relative companies' operating profit.

In 2017 the total amount of cash flows directly exposed to exchange risks corresponded to approximately 11% of Group turnover (approximately 10% in 2016).

The main exchange rates to which the Group is exposed are:

- EUR/USD in relation to dollar sales of high pressure pumps, very high pressure systems, directional controls and valves in North America through the Group's distribution companies and, to a lesser degree, to customers external to the Group;
- EUR/AUD in relation to sales in Australian dollars of very high pressure systems in Australia through one of the Group's distribution companies;
- EUR/CAD in relation to sales in Canadian dollars of valves and directional controls on the Canadian market to customers external to the Group;
- EUR/GBP in relation to sales in UK sterling of hydraulic components, hoses and fittings in the UK through one of the Group's distribution companies, and to a lesser extent, sales of very high pressure systems to customers external to the Group;
- USD/EUR in relation to euro sales of high pressure pumps, directional controls and valves in North America by the Group's distribution companies;
- RON/EUR in relation to euro sales of hoses and fittings made in Romania for the Italian market;
- Chilean Peso/USD, in relation to sales in US dollars of various hydraulic components in South America;
- Indian rupee/USD, Renminbi/EUR, Indian rupee/EUR, in relation to euro and dollar sales of hydraulic components, directional controls and valves in North America, Korea and Italy.

In cases in which it is not possible to establish micro hedges between revenues and costs in foreign currency, it is current Group policy to take out exchange risk hedges only in the presence of commercial transactions classified as non-recurring, both in terms of amount or of the frequency with which they occur. To proceed in this manner, the Interpump Group has set up a hedging procedure for commercial transactions in foreign currency, in the framework of which the most effective derivative instruments for the achievement of the preset goals have been identified and the associated responsibilities, duties and system of delegations have been attributed.

- Whenever Group companies sustain costs denominated in foreign currencies other than the currencies of denomination of the relative revenues, fluctuations in the exchange rates can affect the operating profit of the companies in question.

In 2017 the commercial cash flows directly exposed to exchange risks were equivalent to approximately 27% of Group purchases (21% in 2016) and mainly related to intercompany transactions and the USD/EUR, USD/Renminbi, Romanian Leu/EUR, GBP/EUR, Renminbi/EUR, Indian Rupee/EUR, South Korean Won/EUR, Rand/EUR, Brazilian Real/EUR, AUD/EUR and Chilean Peso/EUR exchange rates. Current Group policy regarding purchases in foreign currency is to refrain from systematic hedging and, where possible, to establish macro hedges for currency costs and revenues. This was the case, for example, in 2017 with €14.5m of purchases and sales in euro made in North America by the Group's distribution companies. The decision to refrain from systematic hedging is due to

the large number of transactions, usually between Group companies, that occur constantly throughout the year and that can therefore be considered to be recurrent in terms of amount and also of the frequency with which they take place. However, the Group monitors this phenomenon constantly both in relation to exchange rate trends and also the evolution of business.

- Again in relation to commercial activities, Group companies may be obliged to hold trade receivables or payables denominated in currencies other than the account currency of the holding entity. Fluctuations in exchange rates can therefore result in the realization or assessment of positive or negative exchange differences.
- In relation to financial exposure, wherever the monetary outflows/inflows are denominated in a currency other than the account currency utilized by the creditor/debtor company, fluctuation of the exchange rates can impact negatively on the net profits of said companies. In relation to financial exposures, €0.4m of intercompany loans were disbursed and €0.5m collected during 2017 in currencies other than those utilized by the debtor companies. At 31 December 2017, loans totalling €10.3m are still outstanding in currencies other than those utilized by the debtor companies (€4.8m at 31 December 2016). The increase with respect to the end of 2016 is due, in the amount of €4.9m, to the consolidation of newly acquired companies or of companies incorporated in 2017. Once again, the Group has decided not to hedge this exposure in 2017.

The nature and structure of the exposure to exchange risk and the related hedging policies adopted by the Group were substantially unchanged in 2017.

#### **Exchange risk sensitivity analysis**

The potential loss deriving from the change in the fair value of financial assets and liabilities caused by a hypothetical and sudden increase in the value of the euro of 10% with respect to the main foreign currencies would be approximately €4,627k (€2,425k in 2016).

The sensitivity analysis did not take account of changes in the receivables and payables in relation to which the hedge operations were arranged. It is reasonable to assume that the fluctuation in exchange rates could produce an opposite economic effect on the derivative financial instruments of an amount that is identical to the change in the underlying hedged transactions thereby effectively offsetting the fluctuation.

#### **Interest rate risk**

Group companies use external financial resources in the form of debt and employ cash on hand available in bank deposits. Changes in the market interest rate influence the cost and return of various forms of financing and investment, thus impacting on the Group's level of financial expenses.

It is currently Group policy not to take out hedges, in view of the short average duration of the existing loans (around 3 years). As more fully described in notes 9 and 17, at 31 December 2017 loans at fixed rates of interest totalled €8,146k.

At 31 December 2017, liquidity of €4.7m was held in the form of unrestricted deposits at fixed interest rates, while the remainder is held at floating rates consistent with the Group's financial payables and bank debt.

#### **Sensitivity analysis related to the interest rate risk**

The effects on the Group of a hypothetical and immediate upward variation in interest rates of 50 basis points would be higher financial expenses, net of the increase in financial income, totalling €1,350k (€1,261k in 2016). It is reasonable to assume that a 50 basis points decrease in interest rates would produce an equivalent effect, although this time in terms of lower financial

expenses. The sensitivity analysis did not take account of loans in relation to which hedges have been taken out, those at fixed interest rates and liquidity invested at fixed rates. It is reasonable to assume that the fluctuation in interest rates could produce an opposite economic effect on the derivative financial instruments of an amount that is identical to the change in the underlying hedged transactions thereby effectively offsetting the fluctuation.

### **Credit risk**

The maximum theoretical credit risk exposure of the Group at 31 December 2017 and 2016 is represented by the carrying value of the financial assets recorded in the financial statements.

However, historically the Group has never suffered any significant bad debts (0.2% of sales in 2017 and 2016). This is because Group companies generally grant extended payment terms only to their long-term customers of known solvency and reliability. In contrast, after having passed an initial credit rating analysis, new customers are required to make payments in advance or to open a letter of credit for amounts due.

Individual write-downs are applied in relation to positions, if of significant magnitude, in relation to which an objective condition of uncollectability is present for all or part of the outstanding amount. The amount of the write-down takes account of an estimate of the recoverable flows and the associated collection date, and the expenses and costs for future debt recovery. Collective provisions are allocated in relation to receivables that are not subject to individual write-downs, taking account of the historic exposure and statistical data.

At 31 December 2017 the Loans and Receivables booked under financial assets for the purposes of IFRS 7 totalled €240,879k (€203,847k at 31 December 2016), and they include €7,885k related to written down receivables (€7,340k at 31 December 2016); on the residual amount payments overdue by less than three months were €44,470k (€32,745k at 31 December 2016), while those overdue beyond three months totalled €13,123k (€15,194k at 31 December 2016). The increases were mainly due to the change in the scope of consolidation.

The Group is not exposed to any significant concentrations of sales. In fact, in 2017 the top customer in terms of sales accounted for about 2% of the total (approximately 1% in 2016), while the top 15 customers accounted for around 11% of total sales (approximately 11% also in 2016). The concentration is similar on the sector level because the top customer in terms of sales accounts for around 1% for the Water Jetting Sector and around 2% for the Hydraulic Sector, while the top 15 customers absorb 11% for the Water Jetting Sector and 17% for the Hydraulic Sector.

### **Liquidity risk**

The liquidity risk can arise if it becomes impossible to obtain, at acceptable economic conditions, the financial resources needed for the Group's business operations.

The two main factors that define the Group's liquidity situation are the resources generated by or used in operating and spending activities, and the characteristics of expiry and renewal of debt or liquidity of financial investments and the relative market conditions.

The Group has adopted a series of policies and processes aimed at optimizing the management of resources in order to reduce the liquidity risk:

- retention of an appropriate level of cash on hand;
- diversification of the banks with which the Group operates;
- access to adequate lines of credit;
- negotiation of covenants at a consolidated level;
- monitoring of the prospective conditions of liquidity in relation to the corporate process.

The maturity characteristics of interest bearing financial debts and bank debts are described in Note 17.

Management considers that the currently available funds and lines of credit, in addition to resources that will be generated by operating and financing activities will allow the Group to meet requirements deriving from investing activities, management of working capital and repayment of debts at the natural due date, in addition to ensuring the pursuit of a strategy of growth also by means of targeted acquisitions able to create value for shareholders. Cash on hand at 31 December 2017 totals €144.9m. Cash on hand, combined with the significant cash generation from operations that the Group has proved able to achieve in 2017 and in prior years, are definitely factors that make it possible to reduce the Group's exposure to liquidity risk. The decision to maintain a high level of liquidity was taken in order to pick up on any acquisition opportunities that may arise and to minimize the liquidity risk due to possible periods of uncertainty of the macroeconomic context that may emerge in the future.

### **Price risk**

The Group is exposed to risks deriving from fluctuations in the prices of metals that can impact on economic results and profit margins. Specifically, the incidence of costs for the purchase of metals was 28% of total Group purchase costs of raw materials, semi-finished products and finished products in 2017 (24% in 2016). The main metals utilized by the Group include brass, aluminium, steel, stainless steel, cast iron, mild steel and, to a lesser extent, copper and sheet metal. The average prices of the raw materials used by the Group are higher on average in 2017, although the strategies adopted by the Group have made it possible to limit the increase. The Group sectors feature differing levels of propensity towards the risk of fluctuations in the prices of metals, notably:

- in the Water Jetting Sector the cost of metals constituted approximately 19% of costs for the purchase of raw materials, semi-finished products and finished products in 2017 (16% in 2016). The metals utilized are primarily brass, stainless steel, aluminium and copper. The policy is to leave the cost of storage of materials to vendors; this means that the risk is hedged by means of orders for periods and quantities made at fixed price. Agreements in place at 31 December 2017 covered 32% of projected brass consumption and 47% of projected aluminium consumption for 2017 (97% coverage of projected brass consumption and 43% coverage of projected aluminium consumption for the following year). The percentages of coverage of the predicted consumption of brass and aluminium rise still further to 74% and to 64% if, in addition to the agreements signed, we consider also the stocks of brass and aluminium on hand at 31 December 2017;
- the cost of metals in the Hydraulic Sector constituted around 32% of purchase costs for raw materials, semi-finished products and finished products in 2017 (28% in 2016). The metals utilized are primarily steel, aluminium, mild steel and iron. The prices of these commodities, with the exception of aluminium, are not historically sensitive to significant fluctuations. The Group therefore considers a strategy capable of assuring accurate analysis of price trends to be sufficient to mitigate the price risk. In relation to aluminium, no hedging transactions are undertaken because of the limited incidence on purchase costs.

Selling prices of the various Group companies are generally reviewed on an annual basis.

## **33. Notes to the cash flow statement**

### **Property, plant and equipment**

In 2017, the Group purchased buildings, plant and machinery totalling €5,538k (€45,902k in 2016). This investment involved payments of €1,041k, including the purchase of assets for

subsequent rental and considering the dynamics of the payables incurred for this reason (€42,738k in 2016).

#### **Cash and cash equivalents**

This item can be broken down as follows:

	31/12/2017 (€000)	31/12/2016 (€000)
Cash and cash equivalents from the balance sheet	144,938	197,891
Payables to banks (current account overdrafts and advances subject to collection)	(8,955)	(2,396)
Cash and cash equivalents from the cash flow statement	<u>135,983</u>	<u>195,495</u>

#### **Net financial position and cash-flow statement**

For the amount and detail of the main components of the net financial position and the changes that occurred in 2017 and 2016 we invite you to refer to the "Cash Flow" section of the Report on operations.

### **34. Commitments**

At 31 December 2017 the group had commitments to purchase raw materials totalling €230k (€139k at 31 December 2016).

Furthermore, the Group also has commitments to purchase tangible assets totalling €5,853 (€3,201 at 31 December 2016).

The Group has signed rental and hire purchase agreements primarily regarding buildings, machinery, cars and computers. The total outlay in 2017 was €14,851k (€13,535k in 2016). At 31 December 2017, the following commitments were outstanding:

	(€000)
Due within 1 year	13,424
Due from 1 to 2 years	11,395
Due from 2 to 5 years	17,492
Due beyond 5 years	<u>7,596</u>
Total	<u>49,907</u>

### **35. Transactions with related parties**

The Group has business relations with unconsolidated subsidiaries, associates and other related parties at arm's length conditions considered to be normal in the relevant reference markets, taking account of the characteristics of the goods and services rendered. Transactions between Interpump Group S.p.A. and its consolidated subsidiaries, which are related parties of the company, were eliminated in the consolidated financial statements and are not described in this note.

The effects on the Group's consolidated income statements for 2017 and 2016 are shown below:

	2017					
	Consolidated	Non-consolidated		Other	Total	% of
(€000)	<u>Total</u>	<u>subsidiaries</u>	<u>Associates</u>	<u>related parties</u>	<u>related parties</u>	<u>corresponding line item</u>
Net sales	1,086,547	1,094	-	1,418	2,512	0.2%
Cost of sales	672,548	991	-	11,039	12,030	1.8%
Other revenues	16,744	43	-	6	49	0.3%
Distribution costs	102,726	37	-	939	976	1.0%
G&A expenses	124,534	4	-	1,371	1,375	1.1%

	2016					
	Consolidated	Non-consolidated		Other	Total	% of
(€000)	<u>Total</u>	<u>subsidiaries</u>	<u>Associates</u>	<u>related parties</u>	<u>related parties</u>	<u>corresponding line item</u>
Net sales	922,818	1,304	-	1,016	2,320	0.3%
Cost of sales	584,816	499	-	10,076	10,575	1.8%
Other revenues	14,372	64	-	23	87	0.6%
Distribution costs	86,425	54	-	643	697	0.8%
G&A expenses	108,973	-	-	1,582	1,582	1.5%

The effects on the consolidated statement of financial position at 31 December 2017 and 2016 are described below:

	31 December 2017					
	Total	Non-consolidated		Other	Total	% of
(€000)	<u>Total</u>	<u>subsidiaries</u>	<u>Associates</u>	<u>related parties</u>	<u>related parties</u>	<u>corresponding line item</u>
Trade receivables	236,761	1,631	-	949	2,580	1.1%
Other financial assets	1,145	2	-	-	2	0.2%
Trade payables	142,975	209	-	915	1,124	0.8%

	31 December 2016					
	Total	Non-consolidated		Other	Total	% of
(€000)	<u>Total</u>	<u>subsidiaries</u>	<u>Associates</u>	<u>related parties</u>	<u>related parties</u>	<u>corresponding line item</u>
Trade receivables	200,018	1,240	-	324	1,564	0.8%
Trade payables	109,004	19	-	310	329	0.3%

#### *Relations with non fully-consolidated subsidiaries*

Relations with subsidiaries that are not fully consolidated are as follows:

(€000)	Receivables		Revenues	
	<u>31/12/2017</u>	<u>31/12/2016</u>	<u>2017</u>	<u>2016</u>
Interpump Hydraulics Perù	1,003	958	298	800
General Pump China Inc.	264	282	649	568
Interpump Hydraulics Rus	190	-	190	-
FGA S.r.l.	<u>174</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Total subsidiaries</i>	<u>1,631</u>	<u>1,240</u>	<u>1,137</u>	<u>1,368</u>

(€000)	Payables		Costs	
	<u>31/12/2017</u>	<u>31/12/2016</u>	<u>2017</u>	<u>2016</u>
MDM Saldature S.r.l.	107	-	138	-
General Pump China Inc.	54	19	629	553
Interpump Hydraulics Perù	27	-	136	-
Interpump Hydraulics Rus	21	-	125	-
FGA S.r.l.	-	-	4	-
<i>Total subsidiaries</i>	<u>209</u>	<u>19</u>	<u>1,032</u>	<u>553</u>

(€000)	Loans		Financial income	
	<u>31/12/2017</u>	<u>31/12/2016</u>	<u>2017</u>	<u>2016</u>
Inoxpa Poland Sp ZOO	<u>2</u>	=	=	=
<i>Total subsidiaries</i>	<u>2</u>	=	=	=

#### *Relations with associates*

The Group does not hold any associated companies.

#### *Transactions with other related parties*

Transactions with other related parties regard the leasing of facilities owned by companies controlled by current shareholders and directors of Group companies for €4,761k (€4,319k in 2016), and consultancy services provided by entities connected with directors and statutory auditors of the Group for €31k (€84k in 2016). Rental costs were recorded under the cost of sales in the amount of €3,404k (€3,195k in 2016), under distribution costs in the amount of €667k (€335k in 2016) and under general and administrative expenses in the amount of €90k (€789k in 2016). Consultancy costs were allocated to distribution costs in the amount of €60k (€60k allocated to distribution costs also in 2016) and to general and administrative expenses in the amount of €271k (€24k in 2016). Revenues from sales at 31 December 2017 included revenues from sales to companies in which stakes are held by shareholders or directors of Group companies totalling €1,418k (€1,016k at 31 December 2016). In addition, the cost of sales includes purchases from subsidiaries by minority shareholders or Group company directors in the amount of €7,073k (€6,913k in 2016).

Moreover, further to the signing of building rental contracts with other related parties, at 31 December 2017 the Group had commitments of €13,630k (€16,192k at 31 December 2016).

### **36. Events occurring after the close of the year**

The acquisition of the international activities of the Finnish group GS-Hydro, world leader in the design and construction of piping systems in the industrial, marine and offshore sectors, was completed at the start of 2018. GS-Hydro revolutionized the piping sector by inventing a solution for pipe assembly without welding. This fast and clean technology not only reduces the environmental impact of the operations, it also guarantees higher technical characteristics and greater ease of use, so it is particularly suitable for continuous or extreme application conditions. The agreement involved the acquisition of the group's subsidiaries in the UK, Spain, Austria, Germany, Denmark, Benelux, Poland, Sweden, the US, China, South Korea, Singapore and Brazil, and also the manufacturing business of the Finnish parent GS-Hydro Oy, including patents and international certifications. Total consolidated sales in the foregoing perimeter were recorded at €61m. The total agreed price for the acquisition is €9m. The net financial position at 31 December 2017 showed cash assets of €3m.

## Annex 1

### **Certification of the consolidated financial statements pursuant to art. 81-(3) of Consob regulation no. 11971 (which refers to art. 154-(2) para. 5 of the Consolidated Finance Act) of 14 May 1999, as amended**

1. The undersigned, Fulvio Montipò and Carlo Banci, respectively Executive Director and Chief Reporting Officer of Interpump Group S.p.A., taking account also of the provisions of art. 154-(2), subsections 3 and 4 of legislative decree no. 58 of 24 February 1998, attest to:
  - adequacy in relation to the characteristics of the business and
  - effective applicationof the administrative and accounting procedures for the formation of the consolidated financial statements during 2017.
2. It is further attested that the consolidated financial statements of Interpump Group S.p.A. and its subsidiaries for the year ended 31 December 2017, which show consolidated total assets of €1,517,674k, consolidated net profit of €135,723k and consolidated shareholder's equity of €764,729k:
  - a) correspond to the results of the company books and accounting entries;
  - b) were prepared in compliance with the international accounting standards approved by the European Commission further to the enforcement of Ruling (CE) no. 1606/2002 of the European Parliament and the European Council of 19 July 2002, and the provisions issued in implementation of art. 9 of Italian legislative decree 38/2005 and the contents are suitable for providing a truthful and fair representation of the equity, economic and financial situation of the company and the group of companies included in the scope of consolidation;
  - c) include the Board of Directors' Report, which contains a reliable analysis of performance and results and the situation of the issuer and the companies included in the consolidation together with a description of the main risks and uncertainties to which they are exposed.

Sant'Ilario d'Enza (RE), 15 March 2018

Fulvio Montipò  
Chairman and  
Chief Executive Officer

Carlo Banci  
Chief Reporting  
Officer

## **Report of the Board of Statutory Auditors to the Shareholders' Meeting of Interpump Group S.p.A. on the consolidated financial statements at 31 December 2017**

Shareholders,

This report concerns the consolidated financial statements of Interpump Group S.p.A., which show net profit of EUR 135,723 thousand and shareholder's equity of EUR 764,729 thousand, of which EUR 1,281 thousand and EUR 5,564 thousand, respectively, attributable to minority interests.

We received the consolidated financial statements within the legally prescribed terms, together with the Board of Directors' Report, the separate financial statements for 2017 and the associated report. They were prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union.

Pursuant to legislative decree 27 January 2010, no. 39 and art. 41 subsection 2 of legislative decree 9 April 1991, no. 127, the task of checking the conformity of the consolidated financial statements in relation to the articles of law and their compliance with the contents of the accounting entries and consolidation entries is attributed to the Independent Auditors. Our supervisory activity was conducted in compliance with the rules of conduct of the Board of Statutory Auditors promulgated by the national councils of certified public accountants.

On the foregoing grounds, we:

- have verified and monitored, within the scope of our remit, the adequacy of the Company's organizational structure (with special regard to the existence of an information system that guarantees an adequate flow of financial information from the subsidiaries) and the observance of the principles of correct administration, by means of direct checks and through information gathered from the persons in charge of the administrative function and the Internal Audit function and through meetings held with representatives of the Independent Auditors responsible for performing legal auditing of the accounts, EY S.p.A., with the aim of assuring the reciprocal exchange of significant data and information;
- have ascertained the methods adopted to identify the scope of consolidation, the consolidation principles, and the procedures adopted for the purpose of consolidation, which are compliant with IFRS prescriptions;
- have checked compliance with legal provisions regulating the consolidated financial statements and board of directors' report, and, with reference to the latter, its adequacy in representing the financial position and economic performance of the companies subject to consolidation, the trend of operating activities in the year and their foreseeable evolution, and also congruence of the report with the contents of the consolidated financial statements;
- have accepted that the financial statements of the main subsidiaries, for the purpose of formation of the consolidated financial statements, were examined by the bodies and/or persons responsible for the supervision of the individual companies, in compliance with their respective legal systems, where applicable, and by the Independent Auditors in the framework of the procedures followed for auditing of the consolidated financial statements;
- have witnessed the report of the Independent Auditors issued on this day (28 March 2018), which contained no qualifications or emphasis of matter and which is drafted in accordance with the requirements of the new regulations applicable starting from auditing of the financial statements at 31 December 2017;

- have witnessed the attestation issued by the Chief Executive Officer and the Chief Reporting Officer, pursuant to art. 81-(3) of Consob regulation no. 11971/1999 as amended, and to art. 154-(2) of legislative decree 58/1998;
- have monitored the adequacy of the instructions issued by the competent function of Interpump Group S.p.A. to obtain the flow of data necessary for consolidation, examining the information supplied by the main subsidiaries;
- consider that the consolidated financial statements are in compliance with the events and information that have come to our attention in the framework of our duties of supervision and our powers of monitoring and inspection;
- confirm that the Notes to the consolidated financial statements contain the information required by paragraph 134 of Accounting standard IAS 36- Impairment of assets, the application of which is recommended by the document Banca d'Italia/CONSOB/ISVAP no. 4 of 3 March 2010. We acknowledge that we have examined the documents containing the analyses performed and the results obtained in the impairment testing activity. We consider the procedure to be correct and the main measurement hypotheses applied to be reasonable and we therefore agree with the results.

As part of our general supervisory role, we identified no significant events requiring disclosure in this report.

In completion of this report we invite you to read our comments on the separate financial statements of Interpump Group S.p.A. for the year ending 31 December 2017, containing all the information required by the Regulatory Body of the Italian stock exchange.

Finally, we draw your attention to the fact that, in compliance with the provisions of legislative decree no. 254 of 30 December 2016 and the related code of implementation adopted by CONSOB with resolution 20267 of 18 January 2018, the Company has prepared a “consolidated non-financial statement”. The statement is accompanied by a report of the independent auditor EY S.p.A., dated 28 March 2018, in which it is certified that the auditor did not identify any elements such as to lead it to conclude that the statement was not prepared in compliance with the prescriptions of articles 3 and 4 of the decree or of the reporting standard chosen by the Company. In the context of the functions ascribed to us, we have supervised over compliance with the provisions established in the decree in question, without the emergence of any matters requiring mention in this report.

S. Ilario d'Enza, 28 March 2018

The Board of Statutory Auditors

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Fabrizio Fagnola

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Alessandra Tronconi

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Federica Menichetti



EY S.p.A.  
Via Massimo D'Azeglio, 34  
40123 Bologna

Tel: +39 051 278311  
Fax: +39 051 236666  
ey.com

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014  
(Translation from the original Italian text)

To the Shareholders of  
Interpump Group S.p.A.

## Report on the Audit of the Consolidated Financial Statements

### Opinion

We have audited the consolidated financial statements of Interpump Group S.p.A. and its subsidiaries ("Interpump Group" or "the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated income statements, the comprehensive consolidated income statements, the statement of changes in consolidated shareholders' equity and the consolidated cash flows statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

### 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 Interpump Group S.p.A. in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. 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.

We identified the following key audit matters:

EY S.p.A.  
Sede Legale: Via Po, 32 - 00198 Roma  
Capitale Sociale deliberato Euro 3.250.000,00, sottoscritto e versato Euro 3.100.000,00 i.v.  
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma  
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904  
P.IVA 00891231003  
Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998  
Iscritta all'Albo Speciale delle società di revisione  
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997  
A member firm of Ernst & Young Global Limited



Key Audit Matter	Audit Response
<p><b>Business combinations</b></p> <p>During the financial year 2017, the Group completed the acquisition of the total share capital of Bristol Hose Ltd, Inoxpa S.A. and Fluid System 80 S.r.l., as well as the controlling stake in Mariotti &amp; Pecini S.r.l..</p> <p>The processes and accounting policies for acquisition transactions require, for each transaction, the identification of all intangible assets acquired, the allocation of the purchase price to the fair value of the assets acquired and liabilities assumed and the determination of the present value of the exercise price of the purchase options on minority interests, which are sometimes based on complex assumptions that by their nature involve Directors' judgmental considerations, in particular with reference to the forecast of profitability and cash flows that such companies will generate in the future.</p> <p>Business combinations were, therefore, considered as a key audit matter in relation to the estimates made by Directors with reference to the determination of the present value of the exercise price for the purchase options on minority interests as well as the identification of the acquired intangible assets and the allocation of the purchase price to the fair value of the assets acquired and liabilities assumed.</p> <p>The financial statements disclosures related to business combinations are included in note 3.1 "Accounting standards" and note 5 "Business combinations".</p>	<p>The audit procedures performed to address this key audit matter include, among others:</p> <ul style="list-style-type: none"> <li>• the review of the signed acquisition agreements in order to understand the key terms and conditions;</li> <li>• the assessment of the accounting for such transactions;</li> <li>• the assessment of the estimated fair values of the assets acquired and liabilities assumed at the acquisition date, with also the support of our experts in valuation techniques;</li> <li>• the analysis of the report issued by the third party experts who assisted the Company, as well as the assessment of their expertise, capabilities and objectivity;</li> <li>• the assessment of valuation assumptions such as long-term growth rates and discounting rates used by Management to determine the present value of the price of the exercise price for the purchase options on minority interests.</li> </ul> <p>Finally, we reviewed the adequacy of the disclosures provided in the notes to the financial statements in relation to business combination transactions.</p>



Key audit matters	Audit Response
Valuation of goodwill	
<p>Goodwill as of 31 December 2017 amounts to Euro 429 million, allocated to the Cash Generating Units ("CGUs") related to the Water Sector, for Euro 202 million, and to the Oil Sector for Euro 227 million.</p> <p>The processes and valuation methodologies for assessing and determining the recoverable value of each CGU, in terms of value in use, are based on assumptions, sometimes complex, that by their nature require the Directors' judgment, in particular with reference to the forecasted future cash flows for the period covered by the Group business plan, the determination of the normalized future cash flows underlying the estimate of the terminal value, as well as the determination of long-term growth rates and discount rates applied to the forecasted future cash flows.</p> <p>Considering the judgment required and the complexity of the assumptions used in the estimate of the recoverable value of the goodwill, and the number of business combinations carried out by the Group, we considered this area as a key audit matter.</p> <p>The financial statements disclosures related to goodwill are included in note 3.1 "Accounting standards" and note 12 "Goodwill".</p>	<p>The audit procedures performed to address this key audit matter include, among others</p> <ul style="list-style-type: none"> <li>• the assessment of the process and key controls implemented by the Group regarding the assessment of goodwill;</li> <li>• the verification of the adequacy of CGUs' perimeter and the allocation of the carrying values of the assets and liabilities to the individual CGUs;</li> <li>• the assessment of forecasted future cash flows;</li> <li>• the assessment of the consistency of the forecasted future cash flows of each CGU with the Group business plan for the period 2018-2022;</li> <li>• the assessment of the accuracy of forecasted measures as compared to actual data from previous years;</li> <li>• the assessment of the long-term growth rates and discounting rates.</li> </ul> <p>In performing our audit procedures, we also involved our valuation specialists who independently performed their independent recalculation and sensitivity analyses on key assumptions in order to determine any changes in assumptions that could significantly impact the valuation of the recoverable value.</p> <p>Lastly, we reviewed the adequacy of the disclosures provided in the notes to the financial statements in relation to the valuation of goodwill.</p>

### Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



The Directors are responsible for assessing the Group's ability to continue as a going concern and, when preparing the consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the consolidated financial statements on a going concern basis unless they either intend to liquidate the Parent Company Interpump Group S.p.A. or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing 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 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 have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained 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;
- we have obtained 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;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' 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 financial statements or, if such disclosures are inadequate, to consider this matter in forming 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;
- we have evaluated 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;
- we have obtained 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 have communicated 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 have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

#### Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Interpump Group S.p.A., in the general meeting held on April 30, 2014, engaged us to perform the audits of the consolidated financial statements for each of the years ending 31 December 2014 to 31 December 2022.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Group in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

### Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of Interpump Group S.p.A. are responsible for the preparation of the Board of Directors' Report and of the Report on Corporate Governance and Ownership Structure of Interpump Group as at 31 December 2017, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Board of Directors' Report and of specific information included in the Report on Corporate Governance and Ownership Structure, published in the section "Corporate Governance" of Interpump Group S.p.A.'s website, as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements of Interpump Group as at 31 December 2017 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Board of Directors' Report and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated



financial statements of Interpump Group as at 31 December 2017 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

**Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016**

The Directors of Interpump Group S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that non-financial information have been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information are subject to a separate compliance report signed by us.

Bologna, 28 March 2018

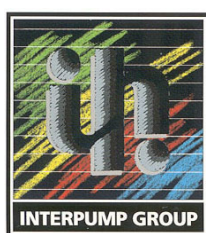
EY S.p.A.

Signed by: Marco Mignani, partner

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

**Interpump Group S.p.A.**

**Annual Financial Statements**  
**at 31 December 2017**





## Contents

	<i>Page</i>
<b>2017 Board of Directors' Report of the Parent Company Interpump Group S.p.A.</b>	<b>121</b>
<b>Annual Financial Statements at 31 December 2017 of the Parent Company Interpump Group S.p.A.</b>	<b>133</b>
Statement of financial position	135
Income statements	137
Comprehensive income statements	138
Cash flow statement	139
Statement of changes in shareholders' equity	140
Notes to the financial statements of Interpump Group S.p.A.	141
1 General Information	141
2 Accounting Principles adopted	
2.1 Reference accounting standards	141
2.1.1 Accounting standards, amendments and interpretations in force from 1 January 2017 and adopted by the company	141
2.1.2 Accounting standards, amendments and interpretations in force from 1 January 2017, but not relevant for the company	141
2.1.3 Accounting standards and amendments not yet applicable and not adopted early by the company	141
2.2 Business sector information	146
2.3 Treatment of foreign currency transactions	146
2.4 Non-current assets held for sale and discontinued operations	146
2.5 Property, plant and equipment	147
2.6 Goodwill	148
2.7 Other intangible assets	148
2.8 Impairment of assets	149
2.9 Equity investments	150
2.10 Cash and cash equivalents	150
2.11 Current financial assets, Receivables and Other current assets	150
2.12 Derivative financial instruments	150
2.13 Inventories	151
2.14 Share capital and Treasury Shares	151
2.15 Interest-bearing financial payables	152
2.16 Liabilities for employee benefits	152
2.17 Income taxes	153
2.18 Provisions for risks and charges	154
2.19 Current financial liabilities, Trade payables and Other debts	154
2.20 Revenues	154
2.21 Costs	155

3	Cash and cash equivalents	155
4	Trade receivables	155
5	Inventories	156
6	Derivative financial instruments	156
7	Other current assets	157
8	Property, plant and equipment	157
9	Goodwill	159
10	Other intangible assets	159
11	Investments in subsidiaries	161
12	Other financial assets	163
13	Deferred tax assets and liabilities	163
14	Interest-bearing financial payables and bank payables	164
15	Other current liabilities	165
16	Provisions for risks and charges	166
17	Liabilities for employee benefits	166
18	Share capital	167
19	Reserves	172
20	Information on financial assets and liabilities	174
21	Information on financial risks	175
22	Net sales	179
23	Other net revenues	179
24	Costs by nature	180
25	Financial income and charges	180
26	Income taxes	181
27	Earnings per share	182
28	Notes to the cash flow statement	182
29	Commitments	183
30	Transactions with related parties	183
31	Events occurring after the close of the year	184
32	Proposal to the Shareholders' Meeting	184
<b><i>Annex I: Certification of the annual financial statements pursuant to art. 81-(3) of Consob regulation no.11971 of 14 May 1999, as amended</i></b>		<b>185</b>
<b><i>Statutory Auditors' Report to the Shareholders' Meeting</i></b>		<b>186</b>
<b><i>Independent Report on the annual financial statements of Interpump Group S.p.A.</i></b>		<b>193</b>

**2017 Board of Directors' Report  
of the Parent Company Interpump Group S.p.A.**

## ALTERNATIVE PERFORMANCE MEASURES

The Company monitors its operations using several alternative performance measures that are not identified as accounting parameters in the framework of IFRS standards, to allow better evaluation of the trend of economic operations and the Company's financial position; such measures are also tools that can assist the directors in identifying operating trends and in making decisions on investments, resource allocation and other business matters. Therefore, the measurement criterion applied by the Company may differ from the criterion adopted by other companies and hence the Company may not be comparable with such other companies. Such alternative performance measures are constituted exclusively starting from the Company's historic data and measured in compliance with the matters established Guidelines on Alternative Performance Measures issued by ESMA/2015/1415 and adopted by Consob with communication no. 92543 of 3 December 2015. The measures in question refer only to performance in the accounting period illustrated in this Annual Financial Report and the periods placed in comparison with it, and not to the expected performance and they must not be considered to replace the indicators provided by the reference accounting standards (IFRS). Finally, the alternative measures are processed continuously and with uniformity of definition and representation for all the periods for which financial information is included in this Annual Financial Report.

The performance indicators used by the Company are defined as follows:

- **Earnings/(Losses) before interest and tax (EBIT):** Net sales plus Other operating income less Operating costs (Cost of sales, Distribution costs, General and administrative expenses, and Other operating costs);
- **Earnings/(Losses) before interest, tax, depreciation and amortization (EBITDA):** EBIT plus depreciation, amortization and provisions;
- **Net indebtedness (Net financial position):** calculated as the sum of Loans obtained and Bank borrowing less Liquid funds and cash equivalents;
- **Capital expenditure (CAPEX):** the sum of investment in property, plant and equipment and intangible assets, net of divestments;
- **Free Cash Flow:** the cash flow available for the Group, defined as the difference between the cash flow from operating activities and the cash flow for investments in tangible and intangible fixed assets;
- **Capital employed:** calculated as the sum of shareholders' equity and net financial position, including debts for the acquisition of equity investments.

Interpump Group S.p.A. presents its income statement by functional areas (also called the "cost of sales" method). This form is deemed more representative than its "type of expense" counterpart, which is nevertheless included in the notes to the annual financial report. The chosen form, in fact, complies with the internal reporting and business management methods.

The cash flow statement was prepared using the indirect method.

As in previous years, the operations of Interpump Group S.p.A. consisted, in addition to ordinary industrial activities, in the strategic and management coordination of the Group, in the drive to optimize its financial flows, and in research activities and the selection of equity investments to acquire with the aim of maximizing the Group's rate of growth. This external growth strategy includes the 2017 acquisitions of the Inoxpa Group, Mariotti & Pecini and, operating through subsidiaries, of Bristol Hose and Fluid System 80. A more complete discussion of these operations is given in the "2017 Board of Directors' Report" accompanying the Consolidated Annual Financial Report at 31 December 2017.

## 1 Profitability

Interpump Group S.p.A. booked net revenues of €100.1m (€92.3m in 2016), reflecting growth of 8.4%. An analysis by geographic area of the revenues from sales and services is given in the commentary on this item in the notes to the financial statements.

The cost of sales accounted for 59.8% of turnover (61.4% in 2016). Production costs, which totalled €32.7m (€30.0m in 2016) accounted for 32.7% of sales (32.5% in 2016). The purchase costs of raw materials and components sourced on the market, including changes in inventories, totalled €27.1m equivalent to 27.1% of sales (€26.7m in 2016).

Distribution costs stood at €5.9m (€6.2m in 2016), reflecting a saving of 5.4%, and their incidence on sales fell by 0.8 percentage points compared to 2016.

General and administrative expenses were recorded for €16.9m (€16.7m in 2016) and their incidence on sales fell by 1.2 percentage points.

Total payroll costs were €27.0m (€25.9m in 2016) for an average number of 454 employees (434 employees in 2016). The per capita cost is virtually identical to that of the prior year (-0.2%).

The reconciliation of the income statement to obtain sub-totals is shown below:

	<u>2017</u> <u>(€/000)</u>	<u>% on</u> <u>sales</u>	<u>2016</u> <u>(€/000)</u>	<u>% on</u> <u>sales</u>
Ordinary profit before financial charges	88,398		71,310	
Dividends	<u>(69,605)</u>		<u>(56,814)</u>	
<b>Operating profit (EBIT)</b>	<b><u>18,793</u></b>	<b>18.8%</b>	<b><u>14,496</u></b>	<b>15.7%</b>
Amortization, depreciation and write-downs	<u>4,686</u>		<u>4,988</u>	
<b>Gross operating profit (EBITDA)</b>	<b><u>23,479</u></b>	<b>23.5%</b>	<b><u>19,484</u></b>	<b>21.1%</b>

EBIT totalled €18.8m or 18.8% of sales, compared to the €14.5m of 2016 (15.7% of sales), reflecting an increase in the incidence on sales of 3.1 percentage points.

EBITDA stood at €23.5m or 23.5% of sales, compared to the €19.5m of 2016, which accounted for 21.1% of sales, reflecting an increase of 2.4 percentage points.

The year closed at 31 December 2017 with a net profit of €80.4m (€64.1m in 2016). The increase is due both to the different amount of dividends received from subsidiaries, which totalled €9.6m in 2017 and €6.8m in 2016 (+12.8 million), and to the improvement in profitability in the amount of €3.5m.

The effective tax rate for the year, net of dividends, was 30.2% compared to 35.3% in 2016. The tax rate in 2017 benefited from a reduction in the corporate income tax (IRES) rate from 27.5% to 24%.

## 2 Balance sheet

Below we give the reclassified balance sheet on the basis of cash flows obtained/used.

	31/12/2017 (€000)	%	31/12/2016 (€000)	%
Trade receivables	14,297		16,030	
Net inventories	20,910		18,992	
Other current assets	35,464		21,008	
Trade payables	(13,050)		(12,828)	
Short-term tax payables	(856)		(1,690)	
Short-term portion for provisions for risks and charges	-		(275)	
Other short-term liabilities	<u>(6,207)</u>		<u>(6,362)</u>	
<b>Net working capital</b>	<b><u>50,558</u></b>	<b>7.3</b>	<b><u>34,875</u></b>	<b>5.8</b>
Net intangible and tangible fixed assets	28,482		28,490	
Goodwill	34,043		34,043	
Equity investments	460,491		357,817	
Other financial fixed assets	122,370		147,630	
Other non-current assets	2,885		3,217	
Liabilities for employee benefits	(5,230)		(5,424)	
Medium/long-term portion for provisions for risks and charges	(17)		(14)	
Other medium/long-term liabilities	<u>(776)</u>		<u>(851)</u>	
<b>Total net fixed assets</b>	<b><u>642,248</u></b>	<b>92.7</b>	<b><u>564,908</u></b>	<b>94.2</b>
<b>Total capital employed</b>	<b><u>692,806</u></b>	<b>100.0</b>	<b><u>599,783</u></b>	<b>100.0</b>
<i>Financed by:</i>				
<b>Total shareholders' equity</b>	<b><u>379,800</u></b>	<b>54.8</b>	<b><u>312,034</u></b>	<b>52.0</b>
Cash and cash equivalents	(22,669)		(87,956)	
Payables to banks	341		433	
Short-term interest-bearing financial payables	122,618		92,673	
Short-term payables for acquisition of investments	<u>2,110</u>		<u>-</u>	
<b>Total short-term financial payables (cash on hand)</b>	<b><u>102,400</u></b>	<b>14.8</b>	<b><u>5,150</u></b>	<b>0.9</b>
<b>Total medium/long-term financial payables</b>	<b><u>210,606</u></b>	<b>30.4</b>	<b><u>282,599</u></b>	<b>47.1</b>
<b>Total sources of financing</b>	<b><u>692,806</u></b>	<b>100.0</b>	<b><u>599,783</u></b>	<b>100.0</b>

The reclassified balance sheet layout adopted makes it possible to assess the capital soundness of the company, highlighting its capacity to maintain a condition of financial equilibrium in the medium/long-term.

### 3 Capital expenditure

Capital expenditure in tangible fixed assets stood at €4.1m (€3.0m in 2016) and is related to the normal renewal and modernization of plant and equipment. The difference with respect to the expenditure recorded in the cash flow statement is due to the dynamics of payments.

Increases in intangible fixed assets amounted to €0.6m (€0.7m in 2016), mostly due to the capitalization of development costs.

### 4 Loans

Net financial indebtedness at 31 December 2017 was €310.9m (€287.7m at 31 December 2016). Changes in the year are listed in the table below:

	2017 (€000)	2016 (€000)
<b>Opening net financial position</b>	<b>(287,749)</b>	<b>(256,483)</b>
Adjustment: Opening net financial position of absorbed companies	-	2,112
<b>Adjusted opening net financial position</b>	<b>(287,749)</b>	<b>(254,371)</b>
Cash flow from operations	15,194	11,889
Liquidity generated (absorbed) by operating capital	(501)	(3,490)
Liquidity generated (absorbed) by other current assets and liabilities	(353)	(5,055)
Net investment in tangible and intangible fixed assets	(4,627)	(4,314)
Received financial income	2,065	1,660
Other	(23)	8
<i>Free cash flow</i>	<i>11,755</i>	<i>698</i>
Proceeds (payments) from the disposal (purchase) of investments	(96,630)	(21,750)
Purchase of treasury shares	-	(43,308)
Proceeds from sales of treasury shares for stock options	3,376	9,490
Dividends received from subsidiaries	71,924	54,483
Dividends paid	(21,356)	(20,054)
Change in other financial assets	22	16
Reimbursement (Disbursement) of loans from (to) subsidiaries	7,762	(12,953)
<i>Net cash generated (used)</i>	<i>(23,147)</i>	<i>(33,378)</i>
<b>Net financial position at end of year</b>	<b><u>(310,896)</u></b>	<b><u>(287,749)</u></b>

The net financial position breaks down as follows:

	31/12/2017 (€000)	31/12/2016 (€000)	01/01/2016 (€000)
Cash and cash equivalents	22,669	87,956	46,601
Payables to banks	(341)	(433)	(731)
Interest-bearing financial payables (current portion)	(122,618)	(92,673)	(47,227)
Interest-bearing financial payables (non-current portion)	<u>(210,606)</u>	<u>(282,599)</u>	<u>(255,126)</u>
<b>Total</b>	<b><u>(310,896)</u></b>	<b><u>(287,749)</u></b>	<b><u>(256,483)</u></b>

At 31 December 2017 all loan covenants had been amply complied with.

## 5 Relations with subsidiaries

The company also operates through subsidiaries with which it maintains commercial and financial relations. These relations are detailed in the table below (amounts expressed in €000):

	Receivables		Revenues	
	<u>31/12/2017</u>	<u>31/12/2016</u>	<u>2017</u>	<u>2016</u>
<i>Subsidiaries:</i>				
General Pump Inc.	3,013	2,438	20,122	17,653
NLB Corporation Inc.	11	2,811	1,410	2,044
Interpump Hydraulics India Ltd	409	479	943	687
General Pump China Inc.	264	282	595	525
Muncie Power Inc.	15	138	380	282
Interpump Hydraulics S.p.A.	494	1,142	74	75
Hammelmann Bombas e Sistemas Ltda	46	36	115	47
AVI S.r.l.	12	18	41	41
Interpump Hydraulics Middle East FZE	2	2	4	41
Hammelmann S. L.	2	13	89	38
IMM Hydraulics S.p.A.	150	64	175	37
Hammelmann GmbH	84	-	107	34
Inoxihp S.r.l.	13	14	49	33
Walvoil S.p.A.	61	53	8	12
Hydroven S.r.l.	10	6	7	8
Interpump South Africa Pty Ltd	-	-	2	8
Interpump Hydraulics (UK) Ltd	5	6	7	6
Unidro Contarini Sarl	-	-	6	2
Tubiflex S.p.A.	-	-	3	2
Tekno Tubi S.r.l.	11	7	2	2
Teknova S.r.l. (in liquidation)	12	12	-	-
Contarini Leopoldo S.r.l.	9	2	-	-
Oleodinamica Panni S.r.l.	8	2	-	-
Walvoil Fluid Power Korea Llc	1	-	1	-
SIT S.p.A.	-	-	1	-
American Mobile Power Inc.	-	2	-	-
Hydrocar Chile S.A.	-	-	6	-
Inoxpa S.A.	3	-	23	-
Inoxpa South Africa	11	-	30	-
Inoxpa Colombia Sas	-	-	82	-
Mariotti & Pecini S.r.l.	-	-	2	-
<i>Total</i>	<u>4,646</u>	<u>7,527</u>	<u>24,284</u>	<u>21,577</u>

Receivables due to Interpump Hydraulics S.p.A., Walvoil S.p.A., Teknova S.r.l., IMM Hydraulics S.p.A., Contarini Leopoldo S.r.l. and Tekno Tubi S.r.l. include, in addition to the trade receivables component, also the part of the uncollected part of financial income, which amounted, respectively, to €420k, €14k, €12k, €23k, €0k and €9k (€348k, €35k, €12k, €26k, €1k and €7k in 2016). All other receivables refer to relations of a commercial nature governed at arm's length conditions.

	Payables		Costs	
	<u>31/12/2017</u>	<u>31/12/2016</u>	<u>2017</u>	<u>2016</u>
<i>Subsidiaries:</i>				
SIT S.p.A.	59	83	329	252
Hammelmann GmbH	-	-	161	206
Interpump Hydraulics S.p.A.	486	498	176	154
General Pump Inc.	-	-	32	77
IMM Hydraulics S.p.A.	39	26	75	68
NLB Corporation Inc.	17	-	2	61
General Pump China Inc.	-	-	37	59
Interpump Hydraulics India Ltd	-	-	-	22
Inoxihp S.r.l.	1	10	1	8
Hammelmann Bombas e Sistemas Ltda	-	-	-	3
Hydroven S.r.l.	3	-	43	2
Walvoil S.p.A.	2	-	30	-
Inoxpa S.A.	-	-	6	-
<i>Total subsidiaries</i>	<u>607</u>	<u>617</u>	<u>892</u>	<u>912</u>

The amount payable to Interpump Hydraulics S.p.A. includes €411k relating, for both 2017 and 2016, to the inclusion in the Italian domestic tax group, said option having expired in 2016 and not renewed. All other payables refer to relations of a commercial nature governed at arm's length conditions.

Financial relations are as outlined below (amounts shown in €000):

	Loans granted		Interest income	
	<u>31/12/2017</u>	<u>31/12/2016</u>	<u>2017</u>	<u>2016</u>
<i>Subsidiaries:</i>				
Interpump Hydraulics S.p.A.	136,590	136,590	1,360	1,640
Walvoil S.p.A.	6,000	13,500	85	143
IMM Hydraulics S.p.A.	10,500	10,500	93	77
Tekno Tubi S.r.l.	3,540	3,800	38	8
Contarini Leopoldo S.r.l.	-	-	-	3
<i>Total</i>	<u>156,630</u>	<u>164,390</u>	<u>1,576</u>	<u>1,871</u>

The intercompany loans outstanding at 31 December 2017 earn interest at Euribor (3 or 6 months) uplifted by a spread that fluctuates in the range between 80 and 100 basis points.

The following dividends have been credited to the income statement (amounts expressed in €000):

	<u>2017</u>	<u>2016</u>
Interpump Hydraulics S.p.A.	25,000	24,200
Hammelmann GmbH	25,000	18,000
NLB Corporation Inc.	2,635	4,565
General Pump Inc.	5,416	4,521
Walvoil S.p.A.	6,500	5,000
Tubiflex S.p.A.	4,000	-
Walvoil Fluid Power (India) Pvt Ltd	-	1
Inoxihp S.r.l.	<u>1,054</u>	<u>527</u>
<i>Total</i>	<u>69,605</u>	<u>56,814</u>

All dividends resolved in the year were collected in 2017, plus €2,372k (USD 2,500k) resolved by NLB Corporation in the prior year.

## 6 Transactions with related parties

Transactions with related parties concern the leasing of facilities owned by companies controlled by the current shareholders and directors of the Parent company for €666k (€665k in 2016), consultancy services provided by entities connected with directors and statutory auditors of the Parent company for €172k (€16k in 2016) and other costs in the amount of €15k (€3k in 2016). The leasing costs are classified among the cost of sales, €500k (€599k in 2016), and general and administrative costs of €66k (€66k in 2016). The consultancy costs were charged in full to general and administrative expenses.

At 31 December 2017 the company had commitments in the amount of €2,004k (€2,664k in 2016) connected to rental contracts with related parties.

The transactions mentioned above were carried out at arm's length conditions.

## 7 Exposure to risks and uncertainties and Financial risk factors

The company is exposed to the normal risks and uncertainties of any business activity. The markets in which the company operates are world niche markets of moderate size and with few competitors. These market characteristics constitute a high barrier to the entry of new competitors, due to significant economy of scale effects against the backdrop of uncertain economic returns for potential new entrants. The company retains world leadership positions that mitigate the risks and uncertainties of the business activity.

The business of the company is exposed to various financial risks: market risk (including the exchange rate risk and interest rate risk), credit risk and liquidity risk. The financial risks management programme is based on the unpredictability of financial markets and it is aimed at minimizing any negative impact on the company's financial performance. Interpump Group S.p.A. can use derivative financial instruments to hedge against exchange and interest rate risks. The company does not hold derivative financial instruments of a speculative nature, in compliance with the rulings established by the procedure approved by the Board of Directors.

**(a) Market risks**

**(i) Exchange rate risk**

The company does business internationally and is exposed to the exchange risk related to business conducted in US dollars. In this context, the company invoices its US subsidiaries and a major US customer in dollars. The company's current policy is to refrain from hedging recurring transactions and instead to hedge only exposures that are non-recurring in terms of amount or frequency of occurrence.

**(ii) Interest rate risk**

Interest rate risk derives from medium/long-term loans granted at floating rates. It is currently company policy not to take out hedges, in view of the short average duration of the existing loans (around 3 years).

**(b) Credit risk**

The company does not have any significant concentrations of receivables. It is company policy to make sales to customers following a careful assessment of their credit rating and therefore within preset credit limits. Historically, the company has not had to support any significant losses on receivables.

**(c) Liquidity risk**

Prudent management of liquidity risk involves the retention of an appropriate level of cash on hand and sufficient access to lines of credit. Because of the dynamic nature of the company's business, which results also in frequent targeted acquisitions, it is company policy to ensure access to revolving stand-by lines of credit that can be utilized at short notice.

**(d) Price and cash flow risk**

The company is subject to constant changes in metal prices, especially brass, aluminium, copper and steel. It is company policy to hedge this risk where possible by way of medium-term commitments with suppliers or stockpiling policies when prices are at the low point of their cycle.

The income and cash flow of the company's operating activities are not influenced by changes in interest generating assets.

## **8 Environment, health and safety**

The Company is engaged exclusively in mechanical engineering and components assembly activities that are not accompanied by the emission of pollutants into the environment. The production process is performed in compliance with statutory legislation. The Company is exposed to risks associated with occupational health and safety and the environment, typical of a company that performs manufacturing and sales activities in different geographical contexts. In relation to occupational health and safety and the environment the Company applies international standards ISO 9001, ISO 14001 and OHSAS 18001.

In conformity with the contents of article 5, subsection 3, letter b, of Italian legislative decree 254/2016, the Company has prepared a consolidated non-financial statement, which is provided as a separate document with respect to this Annual Financial Report. The 2017 consolidated non-financial statement, drafted in compliance with GRI Standards and subjected to limited examination by EY S.p.A., is available on the Company's website.

## **9 Further information**

In 2017, five new projects were completed concerning new pump versions and mechanical components for high and very high pressure pumps; in addition, work commenced on seven new projects. It is company policy to continue to invest heavily in research and development in future years in order to add further impetus to organic growth. Product development costs totalling €10k in 2017 were capitalized because they are expected to benefit future years, while the costs charged to profit and loss totalled €491k.

At 31 December 2017 the Company held 1,561,752 shares, representing 1.4344% of capital, acquired at an average unit cost of EUR 12.4967.

With regard to stock option plans and the shares of the company and of subsidiaries held by directors, statutory auditors, and general managers, you are invited to consult the “2017 Board of Directors' Report”, which is attached to the consolidated financial statements.

The company is not subject to management and coordination activities; Gruppo IPG Holding S.r.l., with registered office in Milan, is the company that drafts the consolidated financial statements that include data of Interpump Group S.p.A. and its subsidiaries. The consolidated financial statements are available from the Milan business register.

## **10 Events occurring after the end of the year and business outlook**

The acquisitions, via subsidiary Interpump Piping GS S.r.l., of the international activities of the assets of Finnish group GS-Hydro, world leader in the design and construction of piping systems in the industrial, marine and offshore sectors, were completed at the start of 2018. GS-Hydro revolutionized the piping sector by inventing a solution for pipe assembly without welding. This fast and clean technology not only reduces the environmental impact of the operations, it also guarantees higher technical characteristics and greater ease of use, so it is particularly suitable for continuous or extreme application conditions. The agreement involved the acquisition of the group's subsidiaries in the UK, Spain, Austria, Germany, Denmark, Benelux, Poland, Sweden, the US, China, South Korea, Singapore and Brazil, and also the manufacturing business of the Finnish parent GS-Hydro Oy, including patents and international certifications. Total consolidated sales in the foregoing perimeter were recorded at €61m. The total agreed price for the acquisition is €9m. The net financial position at 31 December 2017 showed cash assets of €3m.

Considering the short time since 31 December 2017, and in the light of the short period of time historically covered by the order portfolio, we do not yet have enough information to make a reliable forecast of expected trends in the current year. No other events occurred such as to deserve mention in this report, and the company's business proceeded smoothly.

## **11 Proposal to the Shareholders' Meeting**

In relation to the profit for the year of EUR 80,411,397, we propose:

- assigning a dividend of EUR 0.21 for each of the shares in circulation including the right as per art. 2357-(3) subsection 2 of the Italian Civil Code;
- booking the remaining amount to the extraordinary reserve, since the legal reserve now stands at one fifth of the share capital.

Sant'Ilario d'Enza (RE), 15 March 2018

For the Board of Directors

Fulvio Montipò

Chairman and Chief Executive Officer



**Financial statements at 31 December 2017  
of the Parent Company Interpump Group S.p.A.**

**INTERPUMP GROUP S.p.A.**

Registered Office: S. Ilario d'Enza (RE)

Via E. Fermi 25

Share Capital: EUR 56,617,232.88

Reggio Emilia Court - Company Register no. 117217

Tax code 11666900151

VAT number 01682900350



## Statement of financial position

EUR	<u>Notes</u>	<u>31/12/2017</u>	<u>31/12/2016</u>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	3	22,668,746	87,956,381
Trade receivables	4, 20	14,296,932	16,029,645
Dividends receivable		-	2,371,691
Inventories	6	20,909,603	18,992,371
Tax receivables		922,012	1,364,538
Current financial assets	12, 20	34,260,000	16,760,000
Other current assets	7, 20	283,388	510,962
<b>Total current assets</b>		<b>93,340,681</b>	<b>143,985,588</b>
<b>Non-current assets</b>			
Property, plant and equipment	8	24,806,309	23,813,088
Goodwill	9	34,043,360	34,043,360
Other intangible assets	10	3,675,742	4,677,263
Investments in subsidiaries	11	460,491,140	357,816,716
Other financial assets	12, 20	122,370,340	147,630,340
Tax receivables		1,088,656	1,052,253
Deferred tax assets	13	1,786,774	2,151,143
Other non-current assets		9,674	13,198
<b>Total non-current assets</b>		<b>648,271,995</b>	<b>571,197,361</b>
<b>Total assets</b>		<b>741,612,676</b>	<b>715,182,949</b>

EUR	<u>Notes</u>	<u>31/12/2017</u>	<u>31/12/2016</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade payables	4, 20	13,049,930	12,828,315
Payables to banks		340,825	432,637
Interest-bearing financial payables (current portion)	14, 20	122,618,592	92,673,180
Derivative financial instruments	6	-	35,548
Tax payables		856,268	1,690,322
Other current liabilities	15, 20	8,317,491	6,325,767
Provisions for risks and charges	16	-	275,000
<b>Total current liabilities</b>		<b>145,183,106</b>	<b>114,260,769</b>
<b>Non-current liabilities</b>			
Interest-bearing financial payables	14, 20	210,606,054	282,598,894
Liabilities for employee benefits	17	5,230,106	5,423,966
Deferred tax liabilities	13	775,669	850,818
Provisions for risks and charges	16	17,362	14,424
<b>Total non-current liabilities</b>		<b>216,629,191</b>	<b>288,888,102</b>
<b>Total liabilities</b>		<b>361,812,297</b>	<b>403,148,871</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	18	55,805,122	55,430,722
Legal reserve	19	11,323,447	11,323,447
Share premium reserve	18	120,389,782	111,548,066
Reserve for restatement of defined benefit plans		(1,960,165)	(1,805,238)
Reserve for the measurement of hedging derivatives at fair value	19	-	(23,624)
Other reserves	19	194,242,193	135,560,705
<b>Total shareholders' equity</b>		<b>379,800,379</b>	<b>312,034,078</b>
<b>Total shareholders' equity and liabilities</b>		<b>741,612,676</b>	<b>715,182,949</b>

**Income statements**

EUR	<i>Notes</i>	<i>2017</i>	<i>2016</i>
<b>Net sales</b>	22	<b>100,083,466</b>	<b>92,286,149</b>
Cost of sales	24	(59,873,846)	(56,634,935)
<b>Gross industrial margin</b>		<b>40,209,620</b>	<b>35,651,214</b>
Other net revenues	23	1,471,134	2,309,191
Distribution costs	24	(5,888,720)	(6,227,899)
General and administrative expenses	24	(16,876,555)	(16,733,106)
Impairment losses on assets	10, 11	-	(22,229)
Other operating costs	24	(122,013)	(480,973)
Dividends		69,604,844	56,813,890
<b>Ordinary profit before financial expenses</b>		<b>88,398,310</b>	<b>71,310,088</b>
Financial income	25	1,676,500	2,334,379
Financial expenses	25	(3,165,327)	(3,414,115)
<b>Profit for the period before taxes</b>		<b>86,909,483</b>	<b>70,230,352</b>
Income taxes	26	(6,498,086)	(6,163,801)
<b>Net profit for the year</b>		<b>80,411,397</b>	<b>64,066,551</b>
Basic earnings per share	27	0.752	0.603
Diluted earnings per share	27	0.745	0.601

**Comprehensive income statements**

(€000)	<u>2017</u>	<u>2016</u>
<b>Net profit (A)</b>	<b>80,411</b>	<b>64,067</b>
<b>Other comprehensive profit (loss) that will be subsequently reclassified in profit for the year</b>		
<i>Accounting for exchange risk hedging derivatives using the cash flow hedge method:</i>		
- Profit (Loss) on derivative financial instruments for the period	-	(33)
- Minus: Adjustment for reclassification of profits (losses) to the income statement	33	19
- Minus: Adjustment for fair value recognition of reserves in the prior period	-	-
<i>Total</i>	<u>33</u>	<u>(14)</u>
<i>Related taxes</i>	<u>(9)</u>	<u>3</u>
<b>Total other profit (loss) that will be subsequently reclassified in profit for the year, net of the tax effect (B)</b>	<b><u>24</u></b>	<b><u>(11)</u></b>
<b>Other profit (loss) that will not be subsequently reclassified in profit for the year</b>		
<i>Profit (Loss) deriving from the restatement of defined benefit plans</i>	(204)	(383)
<i>Related taxes</i>	<u>49</u>	<u>22</u>
<b>Total other comprehensive profit (loss) that will not be subsequently reclassified in profit for the year, net of the tax effect (C)</b>	<b><u>(155)</u></b>	<b><u>(361)</u></b>
<b>Comprehensive net profit (A) + (B) + (C)</b>	<b><u>80,280</u></b>	<b><u>63,695</u></b>

**Cash flow statement**

(€000)

	<b>2017</b>	<b>2016</b>
<b>Cash flow from operating activities</b>		
Pretax profit	86,909	70,230
Profit before taxes of merged companies prior to absorption	-	(897)
Adjustments for non-cash items:		
Capital gains from the sale of fixed assets	(7)	(10)
Amortization and depreciation of tangible and intangible fixed assets	4,683	4,711
Costs ascribed to the income statement relative to stock options, that do not involve monetary outflows for the Group	1,531	1,429
Net change in risk funds and allocations to provisions for employee benefits	(659)	85
Dividends ascribed in the income statement	(69,605)	(56,814)
Net financial charges	1,489	1,080
	<b>24,341</b>	<b>19,814</b>
(Increase) decrease in trade receivables and other current assets	1,927	(3,340)
(Increase) decrease in inventories	(1,918)	(948)
Increase (decrease) in trade payables and other current liabilities	(863)	(4,257)
Taxes paid	(6,153)	(4,887)
Interest paid	(2,285)	(3,021)
Currency exchange gains	(709)	(17)
<b>Net cash from operating activities</b>	<b>14,340</b>	<b>3,344</b>
<b>Cash flows from investing activities</b>		
Outlay for the acquisition of equity investments net of treasury stock assigned	(96,630)	(21,750)
Outlays for purchase of treasury shares	-	(43,308)
Proceeds from sales of treasury shares for stock options	3,376	9,490
Capital expenditure on property, plant and equipment	(4,075)	(3,666)
Proceeds from the sale of tangible fixed assets	10	14
Increase in intangible fixed assets	(562)	(662)
Received financial income	2,065	1,660
Other	22	16
<b>Net liquidity generated (used) by investing activities</b>	<b>(95,794)</b>	<b>(58,206)</b>
<b>Cash flows of financing activity</b>		
Dividends received from subsidiaries	71,924	54,483
Dividends paid	(21,356)	(20,054)
(Disbursal) Repayment of intercompany loans	7,762	(12,953)
Disbursals (repayments) of loans	(41,922)	72,689
Payment of finance leasing instalments (principal portion)	(149)	(190)
<b>Net liquidity generated (used by) financing activities</b>	<b>16,259</b>	<b>93,975</b>
<b>Net increase (decrease) of cash and cash equivalents</b>	<b>(65,195)</b>	<b>39,113</b>
Opening cash and cash equivalents of merged companies	-	2,540
Cash and cash equivalents at beginning of period	<b>87,523</b>	<b>45,870</b>
Cash and cash equivalents at end of period	<b>22,328</b>	<b>87,523</b>

For reconciliation of cash on hand, please refer to Note 28.

## Statement of changes in shareholders' equity

	Share capital	Legal reserve	Share premium reserve	Reserve for restatement of defined benefit plans	Reserve for valuation of hedging derivatives at fair value	Other reserves	Total shareholders' equity
<i>Balances at 1 January 2016</i>	56,032	11,323	138,117	(1,479)	(13)	90,947	294,927
Distribution of the dividend	-	-	-	-	-	(20,054)	(20,054)
Recognition in the income statement of the fair value of stock options granted to and exercisable by employees of Interpump Group S.p.A.	-	-	1,429	-	-	-	1,429
Fair value measurement of the stock options granted to and exercisable by employees of subsidiaries	-	-	304	-	-	-	304
Bertoli merger effect	-	-	-	35	-	-	35
Purchase of treasury shares	(1,772)	-	(43,308)	-	-	1,772	(43,308)
Sale of treasury shares to the beneficiaries of stock options	937	-	9,490	-	-	(937)	9,490
Sale of treasury shares for the acquisition of equity investments	234	-	5,516	-	-	(234)	5,516
Comprehensive net profit for the year	-	-	-	(361)	(11)	64,067	63,695
<i>Balances at 31 December 2016</i>	55,431	11,323	111,548	(1,805)	(24)	135,561	312,034
Distribution of the dividend	-	-	-	-	-	(21,356)	(21,356)
Recognition in the income statement of the fair value of stock options granted to and exercisable by employees of Interpump Group S.p.A.	-	-	1,531	-	-	-	1,531
Fair value measurement of the stock options granted to and exercisable by employees of subsidiaries	-	-	250	-	-	-	250
Sale of treasury shares to the beneficiaries of stock options	296	-	3,376	-	-	(296)	3,376
Sale of treasury shares for the acquisition of equity investments	78	-	3,685	-	-	(78)	3,685
Comprehensive net profit for the year	-	-	-	(155)	24	80,411	80,280
<i>Balances at 31 December 2017</i>	55,805	11,323	120,390	(1,960)	-	194,242	379,800

## **Notes to the financial statements of Interpump Group S.p.A.**

### **1. General information**

Interpump Group S.p.A. is a company incorporated under Italian law with registered offices in Sant'Ilario d'Enza (RE), listed on the Milan Stock Exchange.

The company manufactures and markets high and very high pressure plunger pumps, and has controlling interests in 84 companies. Interpump Group S.p.A. has production facilities in Sant'Ilario d'Enza (RE). For more specific information on the Group's operations, refer to the "Board of Directors' Report" provided with the Consolidated Financial Statements.

The financial statements at 31 December 2017, drafted on the basis of the going concern assumption, were approved by the Board of Directors in the meeting held on this day (15 March 2018).

### **2. Accounting standards adopted**

#### **2.1 Reference accounting standards**

The consolidated financial statements at 31 December 2017 have been prepared in compliance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union. "IFRS" also means the International Accounting Standards ("IAS") currently in force and all the interpretative documents issued by the IFRS Interpretation Committee, previously denominated International Financial Reporting Interpretations Committee ("IFRIC") and still earlier known as the Standing Interpretations Committee ("SIC").

The figures of Balance sheet and Income statement are shown in euro, while the other schedules and notes are shown in thousands of euro. The financial statements are drafted according to the cost method, with the exception of financial instruments, which are measured at fair value.

Preparation of a report in compliance with IFRS (International Financial Reporting Standards) calls for judgments, estimates, and assumptions that effect assets, liabilities, costs and revenues. The final results may differ from the results obtained using estimates of this type. The captions of the financial statements that call for more subjective appraisal by the directors when preparing estimates and for which a change in the conditions underlying the assumptions utilized could have a significant effect on the financial statements are: goodwill, amortization and depreciation of fixed assets, deferred tax assets and liabilities, the allowance for doubtful accounts and the allowance for inventories, provisions for risks and charges, defined benefit plans for employees.

The company's income statement is prepared by functional areas (or cost of sales), this form being considered more representative than presentation by type of sales, this information being specified in the notes to the financial statements. The chosen form, in fact, complies with the internal reporting and business management methods. For a more comprehensive analysis of the Group's economic results, we invite you to refer to the "Board of Director's Report" submitted together with the 2017 Consolidated Financial Statements.

The cash flow statement was prepared using the indirect method.

### **2.1.1 Accounting standards, amendments and interpretations in force from 1 January 2017 and adopted by the company**

As from 2017 the Company has applied the following new accounting standards, amendments and interpretations, reviewed by IASB:

- *Amendments to IAS 12 – “Income taxes”*. The IASB has published certain amendments to the standard. The document entitled *Recognition of deferred tax assets for unrealized losses (Amendment to IAS 12)* seeks to clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value.
- *Amendments to IAS 7 – “Statement of cash flows”*. On 29 January 2016, IASB published an amendment to the standard entitled “*Disclosure initiative*” in order to improve the information provided concerning changes in liabilities deriving from finance operations.

### **2.1.2 Accounting standards, amendments and interpretations in force from 1 January 2017 but not relevant for the Company**

- *IFRS Annual improvements cycle 2014–2016* - On 8 December 2016 IASB issued several minor changes to IFRS 12 “*Disclosure of interests in other entities*”. The aim of the annual improvements is to address necessary matters related to inconsistencies found in IFRSs or for clarifications of terminology, which are not of an urgent nature but which reflect issues discussed by IASB during the project cycle.

### **2.1.3 Accounting standards and amendments not yet applicable and not adopted early by the Company**

- *IFRS 2 – “Share-based payments”*. On 21 June 2016 IASB published amendments to the standard with a view to clarifying the accounting for certain operations involving share-based payments. The changes concern: (i) the effects of “vesting conditions” and “non-vesting conditions” in relation to the measurement of payments based on shares and settled in cash; (ii) payment transactions based on shares with a net settlement function for the withholding tax obligations and (iii) an amendment of the terms and conditions of a payment based on shares that changes the classification of the transaction from a settlement in cash settlement to a payment of capital. The changes will be applicable from 1 January 2018; early application is permitted, but the Company will adopt said amendments only prospectively as from 1 January 2018 and no significant impact is expected on the financial statements or on the additional disclosures further to adoption of the amendments.
- *IFRS 9 – “Financial instruments”*. On 12 November 2009 IASB published the following standard, which was subsequently amended on 28 October 2010 and in a further amendment in mid-December 2011. The standard, which is applicable from 1 January 2018, constitutes the first part of a process in stages aimed at replacing IAS 39 and introduces new criteria for the classification and measurement of financial assets and liabilities, and for derecognition of financial assets from the financial statements. The new standard is designed to simplify interpretation of financial statements and understanding of the amounts, the times and the uncertainty of the cash flows, by replacing the different categories of financial instruments provided for by IAS 39. In fact, all financial assets are initially recognized at fair value, adjusted by the transaction costs, if the instrument is not recognized at fair value through profit and loss (FVTPL). However, trade receivables that do not have a significant financial component are

initially measured at their transaction price, as defined by the new IFRS 15 - Revenue from contracts with customers. Debt instruments are measured on the basis of the contractual cash flows and the business model on the basis of which the instrument is held. If the instrument envisages cash flows exclusively for the payment of interest and the capital portion, it is recognized in compliance with the amortized cost method, while if, in addition to the foregoing cash flows, it involves the exchange of financial assets, it is measured at fair value in Other Comprehensive Income, with subsequent reclassification in the income statement (FVOCI). Finally, there exists an express option for recognition at fair value (FVO). Likewise, all equity instruments are initially measured at *FVTPL*, but the entity has an irrevocable option on each instrument for recognition at *FVTOCI*. All the other classifications and measurement rules contained in IAS39 have been included in the new standard IFRS9. With regard to impairment, the IAS39 model based on losses sustained has been replaced by the ECL model (Expected Credit Loss). Finally, several new aspects are introduced in relation to Hedge Accounting, with the facility to perform a prospective efficacy and qualitative test, measuring the components of risk autonomously, if they can be identified. Based on a preliminary qualitative assessment no significant potential impacts have been identified in relation to the Company's financial and economic situation.

- *IFRS 15 – “Revenue from contracts with customers”*. The new standard replaces the previous IAS11 – “Construction contracts”, IAS18 – “Revenue”, IFRIC13 – “Customer loyalty contracts”, IFRIC15 – “Agreements for the Construction of Real Estate”, IFRIC18 – “Transfers of Assets from Customers”, SIC31 – “Barter Transactions Involving Advertising Services”. It supplies a model for recognition and measurement of all revenues from the sale of non-financial assets, including disposals of plant and equipment or intangible assets. The general principle is that the entity must recognize an economic benefit for an amount that reflects the consideration that the entity expects to be entitled to receive in exchange for transferring goods or services to a customer. Guidelines are provided for the identification of contracts, the obligations contained therein and the transaction price. If the services involved are multiple, indications are also provided concerning the allocation of the price to the services in question. Furthermore, criteria are clarified for recognition of the income once the performance obligation has been satisfied. Finally, indications are provided concerning the recognition of the incremental costs associated with securing the contract and directly correlated to the performance thereof. The standard also provides an extensive application guide concerning specific topics including licences, warranties, right of return, agency relations, and contract terminations. The standard is applicable in accordance with a *full retrospective approach* or *modified retrospective approach*. In April 2016 IASB issued several amendments to IFRS15 containing clarifications regarding application of the standard, said amendments also being applicable as from 1 January 2018.

From the assessment of the impact of IFRS15 conducted from both qualitative and quantitative perspectives, using the modified retrospective method as permitted by the standard no significant effects were identified on the financial and economic situation either on the consolidated level or on the level of individual companies, so it will not be necessary to proceed with restatement of 2017 data in 2018.

- *IFRS 16 – “Leasing”*. On 13 January 2016, IASB published the new standard that replaces IAS 17. The scope of application of the new standard concerns leasing contracts, with certain exceptions. A leasing contract ascribes the entitlement to use an asset (the “underlying asset”) for a certain period of time, in return for the payment of a consideration. The method of recognition of all leasing contracts reflects the model

proposed by IAS 17, although excluding leasing contracts concerning an asset of small value (such as computers) and short term contracts (i.e. less than 12 months). On the date of recognition of the leasing contract also the liability for the leasing instalments and the asset that the entity is entitled to use must be booked, with separate recording of the financial expenses and amortization amounts concerning the asset. The liability can be subject to remeasurement (e.g. to reflect a change in the contractual terms or a change in the indices to which the payment of the leasing instalments is linked) and the resulting change must be recognized on the underlying asset. Finally, from the standpoint of the lessor the accounting model is substantially unchanged with respect to the provisions of the current IAS17. The standard must be applied with the modified retrospective method, while early application is simultaneously allowed for IFRS15. The Company has started to perform an analysis of the potential impacts that application of the new standard may have on the economic and financial situation and on the information given in the annual financial statements and the consolidated financial statements. The preliminary assessment performed in 2017 may be subject to adjustment following the more detailed analysis currently in progress. On 31 December 2017 the Company had commitments for rentals of €2,239k, as indicated in Note 29 to the financial statements.

- *IFRS Annual improvements cycle 2014–2016* - On 8 December 2016 IASB issued several minor changes to IFRS 1 – “*First-Time Adoption of IFRS*” and IAS 28 – “*Investments in Associates and Joint Ventures*”, as well as an IFRIC interpretation – “*Interpretation 22 Foreign Currency Transactions and Advance Consideration*”. The aim of the annual improvements is to address necessary matters related to inconsistencies found in IFRSs or for clarifications of terminology, which are not of an urgent nature but which reflect issues discussed by IASB during the project cycle. Among the principal amendments, IFRIC 22 provides guidance on the use of exchange rates in transactions in which foreign currency considerations are paid or received in advance. These amendments will be effective for reporting periods starting after 1 January 2018.
- *Applying IFRS 9 - “Financial Instruments with IFRS 4 Insurance Contracts”*. The amendments introduced provide two options for entities that issue insurance contracts in the framework of standard IFRS 4: (i) one option that allows reclassification, from profit and loss to other components of the comprehensive income statement, of part of the income or expenses deriving from designated financial assets (“overlay approach”) and (ii) a temporary and optional exemption from the application of IFRS 9 for entities whose primary activity is the issue of contracts in the framework of application of IFRS 4 (“deferral approach”). Application of the changes introduced by these amendments will not produce any significant impact on the annual financial statements and the consolidated financial statements.
- *IFRS 17 – “Insurance contracts”*. On 18 May 2017, IASB published a new standard to replace IFRS 4, which was issued in 2004. The new standard seeks to improve the understanding of investors and others about the risk exposure, profitability and financial position of insurers. IFRS 17 is applicable from 1 January 2021, although early adoption is permitted.
- *IFRIC 23 – “Uncertainty over Income Tax Treatments”*. On 8 June 2017 IASB published interpretation IFRIC 23, which clarifies the application of the requirements for recognition and measurement in IAS 12 – “Income taxes” in the case of uncertainty concerning income tax treatment. Specifically, the interpretation concerns: (i) the case wherein an entity considers uncertain tax treatments independently, (ii) the assumptions that an entity makes in relation to taxation authorities’ examinations, (iii) how an entity

determines its taxable profit (or tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and (iv) the way in which an entity deals with changes in facts and circumstances. The Interpretation does not add any new information requirements, although it underscores the existing requirements of IAS 1 concerning information on judgments, information on assumptions made and other estimates and information concerning tax assets and liabilities given in IAS 12 “Income taxes”. The interpretation is applicable to annual reporting periods starting from 1 January 2019 or successively, and it offers a choice between two transition methods: (i) retroactive application using IAS 8 – “Accounting policies, changes in accounting estimates and errors”, only if application is possible without the use of hindsight, or (ii) retroactive application with cumulative effect of the initial demand recognized as an adjustment of the components of equity at the date of the initial demand and without adjusting the comparative information. The date of the initial demand is the start of the annual reference period in which an entity applies this Interpretation for the first time. The Company is currently assessing the implementation and impact of adoption of the interpretation on its financial statements.

- *Amendments to IFRS 9 – “Prepayment Features with Negative Compensation”*. IASB published an *Amendment to IFRS9* in December 2017, allowing entities to measure particular prepaid financial assets by means of so-called negative compensation at amortized cost or fair value through “*other comprehensive income*”, in the event in which a specific condition is met, rather than at fair value profit and loss. The amendment will take effect as from 1 January 2019. The Company is currently assessing the implementation and impact of adoption of the interpretation on its financial statements.
- *Amendments to IAS 28 – “Long-term interests in associates and joint ventures”*. In October 2017, IASB issued *Amendments to IAS 28*, clarifying the way in which the entities should use IFRS 9 to represent long-term interests in associates or joint ventures to which the equity method is not applied. The amendment will take effect as from 1 January 2019. The Company is currently assessing the implementation and impact of adoption of the interpretation on its financial statements.
- *Annual improvements — 2015-2017 cycle* – On 12 December 2017 IASB published several amendments to IAS 12 (*Income Taxes*) clarifying that the impact related to taxes on income deriving from dividends (or distribution of profit) should be recognized in profit and loss, regardless of the way in which the tax arises, to IAS 23 (*Borrowing Costs*) clarifying that an entity should treat any borrowing originally carried out for the development of an asset as part of general borrowings when the asset in question is ready for its intended use or for sale, to IFRS 3 (*Business Combinations*), clarifying that an entity must remeasure previously held interests in a business combination once it obtains control of the business in question, and to IFRS 11 (*Joint Arrangements*) whereby a company does not remeasure previously held interests in a business combination when it obtains joint control of the business. The changes will take effect as from 1 January 2019. Early adoption of the changes is however permitted. The Company is currently assessing the implementation and impact of adoption of the interpretation on its financial statements.
- *Amendments to IAS 19 – “Plan Amendment, Curtailment or Settlement”*. In February 2018 IASB issued *Amendments to IAS 19*, which specifies the way in which entities must determine pension expenses when changes are made to a given pension plan. IAS 19 “Employee Benefits” specifies the way in which an entity should recognize a defined benefits pension plan. When a change is made to a plan – adjustment, curtailment or settlement – IAS 19 requires a company to remeasure its net defined

benefit asset or liability. The amendments require a company to use the assumptions updated by this remeasurement to determine the current service cost and the net interest for remainder of the reference period after the plan has been amended. The changes will take effect as from 1 January 2019. The Company is currently assessing the implementation and impact of adoption of the interpretation on its financial statements.

## **2.2 Business sector information**

Based on the definition provided by standard IFRS 8 an operating segment is a component of an entity:

- that undertakes business activity that generates costs and revenues;
- the operating results of which are periodically reviewed at the highest decisional/operating level of the entity in order to make decisions concerning the resources to allocate to the segment and the measurement of the results;
- for which separate accounting information is available.

The business sectors in which the Group operates are determined on the basis of the reporting utilized by Group top management to make decisions, and they have been identified as the Water Jetting Sector, which basically includes high and very-high pressure pumps, very high pressure systems, and high pressure homogenizers, mixers, agitators, piston pumps, valves and other machinery, primarily for the food industry but also for the chemicals and cosmetics sectors, and as the Hydraulic Sector, which includes power take-offs, gear pumps, hydraulic cylinders, directional controls, valves, hoses and fittings, and other hydraulic components. Interpump Group S.p.A. operates entirely in the Water Jetting Sector so it was not considered necessary to present the associated sector information.

With the aim of providing more comprehensive disclosure, information is provided for the geographical areas in which the company operates, namely Italy, the Rest of Europe (including non-EU European countries) and the Rest of the World.

## **2.3 Treatment of foreign currency transactions**

### *(i) Foreign currency transactions*

The functional and presentation currency adopted by Interpump Group S.p.A. is the euro. Foreign exchange transactions are translated to euro on the basis of the exchange rates in force on the date that the related transactions were carried out. Monetary assets and liabilities are translated at the exchange rate in force on the balance sheet reference date. Foreign exchange differences arising from the translation are recognized in the income statement. Non-monetary assets and liabilities measured at historical cost are translated at the exchange rates in force on the date of the related transactions. Monetary assets and liabilities stated at fair value are translated to euro at the exchange rate in force on the date in respect of which the relative fair value was determined.

## **2.4. Non-current assets held for sale and discontinued operations**

Non-current assets held for sale and any assets and liabilities pertaining to lines of business or consolidated investments held for sale, are measured at the lower of their book value at the time of classification of said captions as "held for sale", and their fair value, net of the costs of sale.

Any impairments recorded in application of said principle are recorded in the income statement, both in the event of write-downs for adaptation to the fair value and also in the case of profits and losses deriving from future changes of the fair value.

Investments that fit the definition of discontinued operations are classified as discontinued operations at the time of their disposal or when they fit the description of assets held for sale, if said requirements existed previously.

## 2.5 Property, plant and equipment

### *(i) Own assets*

Property, plant and equipment are measured at the historic cost and disclosed net of accumulated depreciation (see next point *iii*) and impairment losses (see section 2.8). The cost of goods produced internally includes the cost of raw materials, directly related labour costs, and a portion of indirect production costs. The cost of assets, whether purchased externally or produced internally, includes the ancillary costs that are directly attributable and necessary for use of the asset and, when they are significant and in the presence of contractual obligations, the current value of the cost estimated for the dismantling and removal of the related assets.

Financial charges relative to loans utilized for the purchase of tangible fixed assets are recorded in the income statement on an accruals basis if they are not specifically allocated to the purchase or construction of the asset, otherwise they are capitalized.

Assets held for sale are measured at the lower of the fair value net of ancillary charges to the sale and their book value at the time of classification of said captions as held for sale.

### *(ii) Subsequent costs*

The replacement costs of certain parts of assets are capitalized when it is expected that said costs will result in future economic benefits and they can be measured in a reliable manner. All other costs, including maintenance and repair costs, are ascribed to the income statement when they arise.

### *(iii) Depreciation*

Depreciation is charged to the income statement on a straight-line basis in relation to the estimated residual useful life of the associated asset. Land is not depreciated. The estimated useful life of assets is as follows:

- Buildings	25 years
- Plant and machinery	12.5 years
- Industrial and commercial equipment	4 years
- Other assets	4-8 years

The estimated useful life of the assets is reviewed on an annual basis, and any changes in the rates of depreciation are applied, where necessary, to future depreciation charges.

For assets purchased and/or that became operational in the year, depreciation is calculated utilizing annual rates reduced by 50%. Historically, this method of calculation has been representative of the effective use of the assets in question.

## 2.6 Goodwill

Goodwill is represented by the merger deficit portions paid for this reason and arising from the merger operations.

Goodwill is recorded at cost, net of impairment losses. Goodwill is allocated to a single cash generating unit and is no longer amortized as from 1 January 2004. The book value is measured in order to assess the absence of impairment (see section 2.8).

## 2.7 Other intangible assets

### *(i) Research and development costs*

Research costs for the acquisition of new technical know-how are ascribed to the income statement when they arise.

Development costs relating to the creation of new products/accessories or new production processes are capitalized if the company can prove:

- the technical feasibility and intention of completing the intangible asset in such a way that it is available for use or for sale;
- its ability to use or sell the asset;
- the forecast volumes and realization values indicate that the costs incurred for development activities will generate future economic benefits;
- if said costs are measurable in a reliable manner;
- and if the resources exist to complete the development project.

The capitalized costs relate to development projects that meet the requirements for deferral. Capitalized development costs are measured at cost, net of accumulated amortization, (see next point v) and impairment (see section 2.8).

### *(ii) Loan ancillary costs*

Loan ancillary costs are deducted from the nominal amount of the loan and treated as outlined in section 2.14.

### *(iii) Other intangible assets*

Other intangible assets, all having a defined useful life, are measured at cost and recorded net of accumulated amortization (see next point v) and impairment (see section 2.8).

Software licenses are amortized over their period of utilization (5 years).

The costs incurred internally for the creation of trademarks or goodwill are recognized in the income statement when they are incurred.

### *(iv) Subsequent costs*

Costs incurred subsequently relative to intangible fixed assets are capitalized only if they increase the future economic benefits of the specific capitalized asset, otherwise they are entered in the income statement when they are sustained.

*(v) Amortization/depreciation*

Amortization amounts are recorded in the income statement on a straight-line basis in accordance with the estimated useful life of the capitalized assets to which they refer. The estimated useful life of assets is as follows:

Patents and trademarks	3 years
Development costs	5 years
Software licenses	5 years

The useful life is reviewed on an annual basis and any changes in the rates are made, where necessary, for future amounts.

## 2.8 Impairment of assets

The book values of assets, with the exception of inventories (see section 2.12), financial assets regulated by IAS 39, deferred tax assets (see section 2.16), and non-current assets held for sale regulated by IFRS 5, are subject to measurement at the balance sheet reference date in order to identify the existence of possible indicators of impairment. If the valuation process identifies the presence of such indicators, the presumed recoverable value of the asset is calculated using the methods indicated in the following point (i).

The presumed recovery value of goodwill and intangible assets that have not yet been used is estimated at intervals of no longer than once a year or more frequently if specific events occur that point to the possible existence of impairment. If the estimated recoverable value of the asset or its cash generating unit is lower than its net book value, the asset to which it refers is consequently adjusted for impairment loss with entry into the income statement.

Goodwill is systematically measured (impairment test) at least once a year or more as prescribed by IAS 36.

*(i) Calculation of presumed impairment loss*

The presumed recovery value of securities held to maturity and financial receivables recorded with the criterion of the amortized cost is equivalent to the discounted value of estimated future cash flows; the discounted rate is equivalent to the interest rate envisaged at the time of issue of the security or the emergence of the receivable. Short-term receivables are not discounted to current value.

The presumed recovery value of other assets is equal to the higher of their net sale price and their value in use. The value in use is equivalent to the projected future cash flows, discounted to a rate, including taxes, that takes account of the market value of interest rates and the specific risks of the asset to which the presumed realization value refers. For assets that do not give rise to independent cash flows the presumed realization value is determined with reference to the cash generating unit to which the asset belongs.

*(ii) Reinstatement of impairment losses*

An impairment relative to securities held to maturity and financial assets recorded with the criterion of the amortized cost, is reinstated when the subsequent increase in the presumed recovery value can be objectively related to an event that occurred in a period following the period in which the impairment loss was recorded.

An impairment relative to other assets is reinstated if a change has occurred in the estimate used to determine the presumed recovery value.

Impairment is reinstated to the extent of the corresponding book value that would have been determined, net of depreciation/amortization, if no impairment loss had ever been recognized.

Impairment related to goodwill can never be reinstated.

## **2.9 Equity investments**

Investments in subsidiaries and associates are measured at cost.

Should any impairment of value arise at the balance sheet reference date in comparison to the value determined according to the above method, the investment in question will be written down.

## **2.10 Cash and cash equivalents**

Cash and cash equivalents include cash on hand, bank and post office deposits, and securities having original maturity date of less than three months. Current account overdrafts and advances with recourse are deducted from cash only for the purposes of the cash-flow statement.

## **2.11 Current financial assets, Receivables and Other current assets**

Current financial assets, trade receivables and other current assets (excluding derivative financial instruments) are recorded, at the time of their initial entry, on the basis of the purchase cost inclusive of ancillary costs (fair value for the initial entry).

Subsequently, financial assets available for sale are assessed at their fair value. Gains or losses deriving from the valuation are recognized in equity up to the moment in which the financial asset is sold, at which time the gains or losses are recorded in the income statement. If the market value of the financial assets cannot be reliably determined, they are entered at their purchase cost.

Accounts receivable, with due date within normal commercial terms or that accrue interest at market rates, are not discounted to current value and are entered at amortized cost net of a bad debt provision booked as a direct deduction from the receivables in question to bring the valuation to the presumed realizable value (see section 2.8). Accounts receivable with due dates beyond normal commercial terms are initially entered at their fair value and subsequently at the amortized cost using the method of the effective interest rate, net of the relative value impairments.

## **2.12 Derivative financial instruments**

The company has a policy of not taking out any speculative derivative financial instruments; however, if derivative financial instruments fail to meet the requirements for hedge accounting set down in IAS 39, the fair value changes of such instruments are booked to profit and loss as financial charges and/or income. Derivative financial instruments are brought to account using hedge accounting methods when:

- formal designation and documentation of the hedge relation is present at the start of the hedge;
- the hedge is expected to be highly effective;

- effectiveness can be reliably measured and the hedge is highly effective during the periods of designation.

The methods used to recognize derivative financial instruments depend on whether or not the conditions and requirements of IAS 39 have been fulfilled. Specifically:

*(i) Cash flow hedges*

In the case of a derivative financial instrument for which formal documentation is provided of the hedging relation of the variations in cash flows originating from an asset or liability of a future transaction (underlying hedged variable), considered to be highly probable and that could impact on the income statement, the effective hedge portion deriving from the adaptation of the derivative financial instrument to fair value is recognized directly in equity. When the underlying hedged item is delivered or settled, the relative provision is derecognized from equity and attributed at the recording value of the underlying element. The ineffective portion, if present, of the change in value of the hedging instrument is immediately ascribed to the income statement under financial expenses and/or income. When a hedging financial instrument expires, is sold, terminated, or exercised, or the company changes the relationship with the underlying variable, and the forecast transaction has not yet occurred although it is still considered likely, the relative gains or losses deriving from adjustment of the financial instrument to fair value are still retained in equity and are recognized in the income statement when the transaction takes place in accordance with the situation described above. If the forecast transaction related to the underlying risk is no longer expected to occur, the relative gains or losses of the derivative contract, originally deferred in equity, must be taken to the income statement immediately.

*(ii) Hedges of monetary assets and liabilities (Fair value hedges)*

When a derivative financial instrument is used to hedge changes in value of a monetary asset or liability already recorded in the financial statements that can impact on the income statement, the gains and losses related to changes in the fair value of the derivative instrument are taken to the income statement immediately. Likewise, the gains and losses related to the hedged item modify the book value of said item and are recognized in the income statement.

## **2.13 Inventories**

Inventories are measured at the lower of purchase cost and the presumed realization value. The cost is determined with the criterion of the average weighted cost and it includes all the costs incurred to purchase the materials and transform them at the conditions in force on the date of the balance sheet. The cost of semi-finished goods and finished products includes a portion of indirect costs determined on the basis of normal production capacity. Write down provisions are calculated for materials, semi-finished goods and finished products considered to be obsolete or slow moving, taking account of their expected future usefulness and their realization value. The net realization value is estimated taking account of the market price during the course of normal business activities, from which the costs of completion and costs of sale are subsequently deducted.

## **2.14 Share capital and Treasury shares**

In the case of purchase of treasury shares, the price paid, inclusive of any directly attributable ancillary costs, is deducted from share capital for the portion concerning the nominal value of shares and from shareholders' equity for the surplus portion. When treasury shares are sold or reissued, the price collected, net of any directly attributable ancillary charges and the associated

tax effect, is recorded as share capital for the portion concerning the nominal value of shares and as shareholders' equity for the surplus.

## **2.15 Interest-bearing financial payables**

Interest-bearing financial payables are initially recorded at their fair value, net of ancillary charges. After the original entry, interest-bearing financial payables are measured with the amortized cost criterion; the difference between the resulting value and the discharge value is entered in the income statement during the term of the loan on the basis of the amortization plan.

## **2.16 Liabilities for employee benefits**

### *(i) Defined contribution plans*

The company participates in defined pension plans with public administration or private plans on a compulsory, contractual or voluntary basis. The payment of contributions fulfils the company's obligations towards its employees. The contributions therefore constitute costs of the period in which they are due.

### *(ii) Defined benefit plans*

Defined benefit plans for employees - disbursed at the time of termination of the period of employment with the company or thereafter - that include severance indemnity, are calculated separately for each plan, estimating the amount of the future benefit that the employees have accrued during the year and in previous years by means of actuarial techniques. The resulting benefit is discounted to present value and recorded net of the fair value of any relative assets. The discount rate at the balance sheet reference date is calculated as required by IAS 19 with reference to the market yield of high quality corporate bonds. Exclusively the securities released by corporate issuers included in rating class "AA" are considered, in the assumption that this class identifies a high rating level in the framework of a group of "Investment Grade" securities and thereby excluding higher risk securities. Considering that IAS 19 makes no explicit reference to a specific product sector, we opted for a composite market curve that summarizes the market conditions existing at the date of valuation of the securities issued by companies operating in various sectors including utilities, telecommunications, finance, banking and industrial. The curve of "AA" rates at 29 December 2017 as described above, utilized for the actuarial measurement, is effectively extremely similar to the same curve at 30 December 2016, even if the two curves intercept in the case of certain maturities. This phenomenon is due to a macroeconomic situation that is substantially stable compared to the prior year; in fact, as highlighted by the ECB, the Italian economy certainly grew in 2017, confirming the favourable trend, although the rate of growth remains below the average for Europe. The calculation is performed on an annual basis by an independent actuary using the projected unit credit method.

If increases in the benefits of the plan, the portion of the increase pertaining to the previous period of employment is entered in the income statement on a straight line basis in the period in which the relative rights will be acquired. If the rights are acquired immediately, the increase is immediately recorded in the income statement.

Actuarial profits and losses are recognized in a dedicated equity reserve on an accrual basis.

Until 31 December 2006 the severance indemnity provision (TFR) of Italian companies was considered to be a defined benefits plan. The rules governing the provision were amended by Law no. 296 of 27 December 2006 ("2007 Finance Act") and by subsequent Decrees and

Regulations enacted in the initial months of 2007. In the light of these changes, and in particular with reference to companies with at least 50 employees, as is the case of Interpump Group S.p.A., the TFR severance indemnity provision should now be classified as a defined benefits plan exclusively for the portions accrued prior to 1 January 2007 (and not yet paid out at the date of the financial statements), while after that date TFR should be considered as a defined contributions plan.

*(iii) Stock options*

On the basis of the stock option plan currently in existence, certain employees and directors are entitled to purchase the treasury shares of Interpump Group S.p.A. The options are measured at fair value, this being booked to the income statement as an addition to the cost of personnel and directors, with a matching entry in the share premium reserve. The fair value is measured at the grant date of the option and recorded in the income statement in the period that runs between said date and the date on which the options become exercisable (vesting period). The fair value of the option is determined using the applicable options measurement method (specifically, the binomial lattice model), taking account the terms and conditions at which the options were granted.

The remuneration component deriving from stock option plans with Interpump Group S.p.A. shares as the underlying, in accordance with the matters envisaged by interpretation IFRIC 11, is recognized as a capital grant disbursed to subsidiaries wherein the beneficiaries of the stock option plans are employees and consequently recorded as an increase of the relative value of the shareholdings, with a matching entry recorded directly in equity.

## **2.17 Income taxes**

Income taxes disclosed in the income statement include current and deferred taxes. Income taxes are generally disclosed in the income statement, except when they refer to types of items that are recorded directly under shareholders' equity. In this case, the income taxes are also recognized directly in equity.

Current taxes are taxes that are expected to be due, calculated by applying to the taxable income the tax rate in force at the balance sheet reference date and the adjustments to taxes of prior years.

Deferred taxes are calculated using the liability method on the temporary differences between the amount of assets and liabilities in the financial statements and the corresponding values recognized for tax purposes. Deferred taxes are calculated in accordance with the envisaged method of transfer of timing differences, using the tax rate in force at the reference date of years in which the timing differences arose.

Deferred tax assets are recognized exclusively in the event that it is probable that in future years sufficient taxable incomes will be generated for the realization of said deferred taxes.

## **2.18 Provisions for risks and charges**

In cases wherein the company has a legal or substantial obligation resulting from a past event, and when it is probable that the loss of economic benefits must be sustained in order to fulfil such an obligation, a specific provision for risks and charges is created. If the temporal factor of the envisaged loss of benefits is significant, the amount of the future cash outflows is discounted to present values at a rate, gross of taxes, that takes account of the market interest rates and the specific risk of the liability referred to.

## **2.19 Current financial liabilities, Trade payables and Other debts**

Trade payables and other debts, the relative due date of which is within normal commercial terms, are not discounted to present value and are entered at the amortized cost representative of their discharge value.

Current financial liabilities include the short term portions of financial debts, inclusive of debts for cash advances and other financial liabilities. Financial liabilities are measured at their amortized cost according to the effective interest method. Financial assets hedged by derivative financial instruments taken out to hedge the interest rate risk are measured at their current value in accordance with the methods specified for hedge accounting.

## **2.20 Revenues**

### *(i) Revenues from the sale of goods and services*

Revenues from the sale of goods are entered in the income statement when the risks and benefits connected to the ownership of the goods are substantially transferred to the purchaser. Revenues for services rendered are recorded in the income statement on the basis of the percentage of completion at the balance sheet reference date.

### *(ii) Dividends*

Dividends are recognized in the income statement on the date they became payable, and are classified under ordinary earnings before interest and tax because they are considered to represent the ordinary holding activities performed by the company.

## 2.21 Costs

### (i) Rental and leasing instalments

Rental and operating leasing instalments are recorded in the income statement on an accrual basis.

### (ii) Financial income and charges

Financial income and charges are recorded on an accrual basis in accordance with the interest matured on the net value of the relative financial assets and liabilities, using the effective interest rate. Financial income and charges include foreign exchange gains and losses and gains and losses on derivative instruments booked to the income statement (see section 3.2).

## 3. Cash and cash equivalents

	31/12/2017 (€000)	31/12/2016 (€000)
Cash	11	13
Bank deposits	<u>22,658</u>	<u>87,943</u>
Total	<u>22,669</u>	<u>87,956</u>

Bank accounts include €201k held in US dollars (\$241k).

The company continued its strategy of maintaining immediately available liquidity also in 2017, relinquishing the very modest yields that can be achieved only by accepting conditions of limited access.

## 4. Trade receivables

	31/12/2017 (€000)	31/12/2016 (€000)
Trade receivables, gross	14,677	16,610
Bad debt provision	<u>(380)</u>	<u>(580)</u>
Trade receivables, net	<u>14,297</u>	<u>16,030</u>

Changes in the bad debt provision were as follows:

	2017 (€000)	2016 (€000)
Opening balances	580	466
Provisions in the year	62	78
Merger effect	-	321
Drawdowns in the period to cover losses	<u>(262)</u>	<u>(285)</u>
Closing balance	<u>380</u>	<u>580</u>

Provisions in the year are booked under other operating costs.

Receivables expressed in US dollars totalled €2,874k (USD 3,446k) while loans stated in pounds sterling totalled €5k (GBP 5k). At 31 December 2017 no receivables were hedged against the risk of exchange rate fluctuations.

No trade receivables or payables are due beyond twelve months.

## 5. Inventories

	31/12/2017 (€000)	31/12/2016 (€000)
Raw materials and components	8,168	7,777
Semi-finished products	10,155	8,367
Finished products	<u>2,587</u>	<u>2,848</u>
Total inventories	<u>20,910</u>	<u>18,992</u>

Inventories are stated net of an allowance for inventories totalling €2,373k (€2,373k also at 31 December 2016) allocated to cover materials considered to be obsolete and slow moving stock. Changes in the inventories allowance were as follows:

	2017 (€000)	2016 (€000)
Opening balances	2,373	1,804
Provisions in the year	-	100
Merger effect	-	469
Drawdowns in the period to cover losses	-	-
Closing balance	<u>2,373</u>	<u>2,373</u>

## 6. Derivative financial instruments

### *Interest rate hedging*

The company adopts a procedure, approved by the Board of Directors, which identifies the derivative financial instruments to be used to hedge against the risk of interest rate fluctuations. These instruments are as follows: Interest Rate Swaps (IRS), Forward Rate Agreements (FRA) and options on interest rates (Caps & Floors).

Company policy is currently to assess the opportunities offered by the market in relation to the possibility to take out Interest Rate Swaps at economically advantageous conditions. There were no interest rate hedging derivatives in existence at 31 December 2017.

### *Exchange rate risk hedging*

The company is subject to exposure to the US dollar for sales in the US

- of high pressure pumps to General Pump;
- of a mechanical component to NLB;
- of high pressure pumps to customers outside the Interpump Group.

The hedges arranged solely related to the sale of high pressure pumps to third parties and all took the form of plain vanilla forward contracts.

At 31 December 2017 there were no exchange risk hedging derivatives in existence, while at 31 December 2016 derivatives had been taken out for a notional value of \$600k, with a negative fair value of \$36k.

*Receivables/Payables*

For receivables and payables due within twelve months the carrying value is assumed as the fair value. The fair value of other receivables and payables is the discounted nominal value if the temporal factor and notional value are significant.

*Interest rates utilized to obtain the fair value*

To establish the fair value, the company uses the interest rate curve plus an appropriate spread. The interest rates utilized are as follows:

	31/12/2017	31/12/2016
	%	%
Derivative financial instruments (EUR)	-	-0.33/1.18
Derivative financial instruments (USD)	-	0.69/2.56
Interest bearing financial payables in euro	Euribor 0.40/0.85	Euribor 0.65/0.90
Finance leasing agreements	4.44	3.25
Financial assets	0.7	0.7

At 31 December 2017 all liquid assets were held at floating interest rates, as were all financial payables and bank debts.

**7. Other current assets**

This item comprises:

	31/12/2017	31/12/2016
	(€000)	(€000)
Other receivables	127	331
Accrued income and prepayments	<u>156</u>	<u>180</u>
Total	<u>283</u>	<u>511</u>

**8. Property, plant and equipment**

	<i>Land and buildings</i>	<i>Plant and machinery</i>	<i>Equipment</i>	<i>Other assets</i>	<i>Total</i>
	(€000)	(€000)	(€000)	(€000)	(€000)
<b>At 1 January 2016</b>					
Cost	10,888	35,732	16,186	3,108	65,914
Accumulated amortization	(4,290)	(22,337)	(14,224)	(2,657)	(43,508)
Allowance for impairment	-	-	(146)	-	(146)
Net book value	<u>6,598</u>	<u>13,395</u>	<u>1,816</u>	<u>451</u>	<u>22,260</u>
<b>Changes in 2016</b>					
Opening net book value	6,598	13,395	1,816	451	22,260
Increases	183	1,973	635	185	2,976
Merger effect	2	1,385	178	28	1,593
Disposals	-	-	(4)	-	(4)
Reclassifications	-	(82)	63	19	-
Write-downs	-	(4)	-	-	(4)
Capitalized depreciation	-	(10)	(1)	-	(11)
Depreciation and amortization	<u>(138)</u>	<u>(1,795)</u>	<u>(859)</u>	<u>(205)</u>	<u>(2,997)</u>
Closing net book value	<u>6,645</u>	<u>14,862</u>	<u>1,828</u>	<u>478</u>	<u>23,813</u>

	<i>Land and buildings (€000)</i>	<i>Plant and machinery (€000)</i>	<i>Equipment (€000)</i>	<i>Other assets (€000)</i>	<i>Total (€000)</i>
<b>At 31 December 2016</b>					
Cost	11,075	40,255	17,371	3,487	72,188
Accumulated amortization	(4,430)	(25,389)	(15,397)	(3,009)	(48,225)
Allowance for impairment	-	(4)	(146)	-	(150)
Net book value	<u>6,645</u>	<u>14,862</u>	<u>1,828</u>	<u>478</u>	<u>23,813</u>
<b>Changes in 2017</b>					
Opening net book value	6,645	14,862	1,828	478	23,813
Increases	67	3,188	714	147	4,116
Disposals	-	(3)	-	-	(3)
Capitalized depreciation	-	(7)	(2)	-	(9)
Depreciation and amortization	<u>(142)</u>	<u>(1,994)</u>	<u>(791)</u>	<u>(184)</u>	<u>(3,111)</u>
Closing net book value	<u>6,570</u>	<u>16,046</u>	<u>1,749</u>	<u>441</u>	<u>24,806</u>
<b>At 31 December 2017</b>					
Cost	11,142	42,704	18,065	3,425	75,336
Accumulated amortization	(4,572)	(26,654)	(16,170)	(2,984)	(50,380)
Allowance for impairment	-	(4)	(146)	-	(150)
Net book value	<u>6,570</u>	<u>16,046</u>	<u>1,749</u>	<u>441</u>	<u>24,806</u>

The cost of assets under construction, included in the net book values disclosed in the previous table, is as follows:

	<i>Land and buildings (€000)</i>	<i>Plant and machinery (€000)</i>	<i>Equipment (€000)</i>	<i>Other assets (€000)</i>	<i>Total (€000)</i>
At 1 January 2016	287	3,330	347	-	3,964
At 31 December 2016	-	1,244	465	-	1,709
At 31 December 2017	-	2,516	339	9	2,864

The following value, included in the net book value of assets disclosed above, is associated with finance leasing agreements:

	<i>Land and buildings (€000)</i>	<i>Plant and machinery (€000)</i>	<i>Equipment (€000)</i>	<i>Other assets (€000)</i>	<i>Total (€000)</i>
At 1 January 2016	-	-	-	-	-
At 31 December 2016	-	939	29	11	979
At 31 December 2017	-	208	-	-	208

Depreciation of €2,866k was charged to the cost of sales (€2,719k in 2016) and €245k to general and administrative expenses (€278k in 2016).

At 31 December 2017 the company had contractual commitments for the purchase of tangible assets equal to €5,108k (€2,698k at 31 December 2016).

## 9. Goodwill

Goodwill is represented by the merger deficit portions paid for this reason and arising from the merger operations. Goodwill was recorded at €34,043k at 31 December 2017, this figure being unchanged with respect to the prior year. The value of goodwill is referred to the sole CGU in which the Company is active

The impairment test was conducted using the Discounted Cash Flow method (DCF) net of taxation. The projected cash flows used in the DCF calculation were determined on the basis of a 5-year business plan that takes account of the various reference scenarios and on the basis of growth forecasts in the various markets. A perpetual growth rate of 1.5% was used for periods after 2022. The projected cash flows determined in this manner were reduced by a discount factor in order to take account of the risk that future plans could become impracticable. The weighted average cost of capital after tax was measured at 4.17%. The WACC was 4.53% at 31 December 2016. In addition, a sensitivity analysis was carried out in compliance with the requirements of the joint document issued by Banca d'Italia, Consob, and ISVAP on 3 March 2010. Even reducing the projected cash flows of the CGU by 10% would not have led to any impairment, and nor would an 0.5% increase in the cost of capital used to actualize the projected cash flows. For a complete and more detailed analysis of goodwill, refer to Note 14 in the Consolidated Financial Statements at 31 December 2017.

## 10. Other intangible assets

	<i>Product development expenses (€000)</i>	<i>Patents trademarks and industrial rights (€000)</i>	<i>Other intangible assets (€000)</i>	<i>Total (€000)</i>
<b>At 1 January 2016</b>				
Cost	19,621	137	1,675	21,433
Accumulated amortization	<u>(14,506)</u>	<u>(137)</u>	<u>(1,110)</u>	<u>(15,753)</u>
Net book value	<u>5,115</u>	=	<u>565</u>	<u>5,680</u>
<b>Changes in 2016</b>				
Opening net book value	5,115	-	565	5,680
Increases	552	-	128	680
Merger effect	-	34	-	34
Reclassifications		(34)	34	-
Write-downs	(19)	-	-	(19)
Capitalized depreciation	-	-	(7)	(7)
Depreciation and amortization	<u>(1,463)</u>	=	<u>(228)</u>	<u>(1,691)</u>
Closing net book value	<u>4,185</u>	=	<u>492</u>	<u>4,677</u>
<b>At 31 December 2016</b>				
Cost	20,154	137	2,372	22,663
Accumulated amortization	(14,600)	(137)	(1,880)	(16,617)
Allowance for impairment	<u>(1,369)</u>	=	=	<u>(1,369)</u>
Net book value	<u>4,185</u>	=	<u>492</u>	<u>4,677</u>

	<i>Product development expenses (€000)</i>	<i>Patents trademarks and industrial rights (€000)</i>	<i>Other intangible assets (€000)</i>	<i>Total (€000)</i>
<b>Changes in 2017</b>				
Opening net book value	4,185	-	492	4,677
Increases	510	-	68	578
Capitalized depreciation	-	-	(7)	(7)
Depreciation and amortization	<u>(1,341)</u>	=	<u>(231)</u>	<u>(1,572)</u>
Closing net book value	<u>3,354</u>	=	<u>322</u>	<u>3,676</u>
<b>At 31 December 2017</b>				
Cost	20,664	137	2,440	23,241
Accumulated amortization	(15,941)	(137)	(2,118)	(18,196)
Allowance for impairment	<u>(1,369)</u>	=	=	<u>(1,369)</u>
Net book value	<u>3,354</u>	=	<u>322</u>	<u>3,676</u>

Product development costs are referred to the costs for the development of new products, which were capitalized for the part that complies with the criteria set down in IAS 38. The Company writes down any capitalized project costs that are no longer deemed to be recoverable.

The other intangible assets mainly relate to the cost of developing the new management information software.

The cost of assets under construction, included in the net book values disclosed in the previous table, is as follows:

	<i>Product development expenses (€000)</i>	<i>Other intangible assets (€000)</i>	<i>Total (€000)</i>
At 1 January 2016	2,059	-	2,059
At 31 December 2016	1,760	-	1,760
At 31 December 2017	1,335	-	1,335

Amortization of €1,572k (€1,691k in 2016) was booked entirely to general and administrative expenses.

## 11. Investments in subsidiaries

(€000)	Balance at 31 December <u>2016</u>	Increases due to assignment of stock options	Increases	Impairment losses	Balance at 31 December <u>2017</u>
<i>Subsidiaries:</i>					
Walvoil S.p.A.	118,172	-	-	-	118,172
Walvoil Fluid Power India Pvt Ltd.	14	-	-	-	14
NLB Corporation Inc.	62,048	-	-	-	62,048
General Pump Companies Inc.	8,903	-	-	-	8,903
Interpump Hydraulics S.p.A.	104,258	-	-	-	104,258
Hammelmann GmbH	26,032	-	-	-	26,032
Inoxpa S.A.	-	-	93,127	-	93,127
Mariotti & Pecini S.r.l.	-	-	9,288	-	9,288
Inoxihp S.r.l.	8,704	-	-	-	8,704
Interpump Piping GS S.r.l.	-	-	10	-	10
Teknova S.r.l. (in liquidation)	27	-	-	-	27
SIT S.p.A.	814	-	-	-	814
Hammelmann Bombas e Sistemas Ltda	13	-	-	-	13
Tubiflex S.p.A.	27,266	-	-	-	27,266
Fair value of the stock options of the employees of subsidiaries	<u>1,565</u>	<u>250</u>	-	-	<u>1,815</u>
<i>Total subsidiaries</i>	<u>357,816</u>	<u>250</u>	<u>102,425</u>	=	<u>460,491</u>

On 3 February 2017 Interpump Group S.p.A. acquired 100% of Inoxpa S.A., a holding of the Spanish group Inoxpa. The total cost was €93,127k, of which €2,679 related to the price paid and €448k for the transaction costs sustained.

On 12 June 2017 a 60% stake was acquired in Mariotti & Pecini S.r.l. for a total outlay of €9,288k, of which €8,947k for the price paid for the 60% interest and €341k for to the transaction costs sustained. There is a contractual option to acquire the remaining 40%, exercisable from 30 June 2020 up to 30 June 2022.

Interpump Piping GS S.r.l. was incorporated on 4 December 2017, underwriting 100% of the fully paid up capital, i.e. €10k. The company was incorporated as a vehicle to acquire the Finnish GS-Hydro group, world leader in the design and construction of piping systems in the industrial, marine and offshore sectors, which will be completed next year.

All the equity investments held by Interpump Group S.p.A., with the exception of the investment in Sit S.p.A., are considered, starting from the date of acquisition, as financial assets since they correspond to financial instruments available for sale and are therefore investments (financial instruments) that differ from held for sale investments.

As required by IFRIC 11, which came into force on 1 January 2010, share-based payment agreements (stock option plans) were recorded, the subject of which is equity instruments of the parent company in favour of the employees of its subsidiaries. The fair value of the stock options assigned to and exercisable by employees of subsidiaries of €250k was added to the value of the investments, with the increase in the share premium reserve as a matching entry.

The following breakdown shows the cost of investments in subsidiaries at 31 December 2017, compared with the related portion of equity pertaining to Interpump Group S.p.A.:

(€000)	Share capital	Shareholders' equity	Profit (Loss)	% stake	Carrying value	Shareholders' equity	% Difference
Walvoil S.p.A.	7,692	131,987	33,846	65%	118,172	85,792	(32,380)
Walvoil Fluid Power India Pvt Ltd.	683	11,493	1,456	1%	14	115	101
NLB Corporation Inc.	12	89,520	10,607	100%	62,048	89,520	27,472
General Pump Companies Inc.	1,854	16,105	4,200	100%	8,903	16,105	7,202
Interpump Hydraulics S.p.A.	2,632	141,833	29,591	100%	104,258	141,833	37,575
Hammelmann GmbH	25	123,643	23,201	100%	26,032	123,643	97,611
Inoxpa S.A.	23,000	55,973	7,533	100%	93,127	55,973	(37,154)
Mariotti & Pecini S.r.l.	100	4,706	1,243	60%	9,288	2,824	(6,464)
Inoxihp S.r.l.	119	4,897	1,515	53%	8,704	2,582	(6,122)
Interpump Piping GS S.r.l.	10	8	(2)	100%	10	8	(2)
Teknova S.r.l. (in liquidation)	28	30	(5)	100%	27	30	3
SIT S.p.A.	105	1,201	70	65%	814	781	(33)
Hammelmann Bombas e Sistemas Ltda	765	(114)	(724)	1%	13	(1)	(14)
Tubiflex S.p.A.	515	12,898	3,134	100%	27,266	12,898	(14,368)

As can be evinced from the above table, for certain investments the carrying value booked to the financial statements of Interpump Group S.p.A. is higher than the corresponding portion of Shareholders' Equity held.

The Company therefore subjected the values of the investments to impairment testing by means of the Discounted Cash Flow method (DCF), net of taxation. The projected cash flows used in the DCF calculation were determined on the basis of a 5-year business plan that takes account of the various reference scenarios and on the basis of growth forecasts in the various markets. A perpetual growth rate of 1-1.5% was used for periods after 2022. The projected cash flows determined in this manner were reduced by a discount factor in order to take account of the risk that future plans could become impracticable. In addition, a sensitivity analysis was performed, reducing the projected cash flows of the single companies and increasing the cost of capital employed to actualize the prospective cash flows. No value impairment emerged in any of the cases examined.

The negative differentials are solely related to investments acquired in recent years, for which the capital gains that emerged and the related goodwill are booked to the Group's consolidated financial statements.

## 12. Other financial assets

Other financial assets are composed exclusively of loans granted to subsidiaries.

The following table shows existing financial relations (amounts expressed in €000):

	Loans granted		Interest income	
	<u>31/12/2017</u>	<u>31/12/2016</u>	<u>2017</u>	<u>2016</u>
<i>Subsidiaries:</i>				
Interpump Hydraulics S.p.A.	136,590	136,590	1,360	1,640
Walvoil S.p.A.	6,000	13,500	85	143
IMM Hydraulics S.p.A.	10,500	10,500	93	77
Tekno Tubi S.r.l.	3,540	3,800	38	8
Contarini Leopoldo S.r.l.	-	-	-	3
<i>Total</i>	<u>156,630</u>	<u>164,390</u>	<u>1,576</u>	<u>1,871</u>

The interest rates applied to intercompany loans during the year are equivalent to Euribor (3 or 6 months) uplifted by a spread that fluctuates in the range between 80 and 100 basis points.

In relation to the loans granted, €34,260k are current, while the remaining €122,370k are to be considered non-current.

## 13. Deferred tax assets and liabilities

The changes in the year of deferred tax assets and liabilities are listed below:

	<i>Deferred taxes assets</i>		<i>Deferred taxes liabilities</i>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
	(€000)	(€000)	(€000)	(€000)
At 1 January	2,151	2,082	851	679
Charged to income statement in the year	(404)	(740)	(75)	(526)
Merger effect	-	263	-	176
Charged to net equity	40	573	-	549
Reclassifications	-	(27)	-	(27)
At 31 December	<u>1,787</u>	<u>2,151</u>	<u>776</u>	<u>851</u>

Deferred tax assets and liabilities can be booked to the following items of the balance sheet:

	31/12/2017	31/12/2016	31/12/2017	31/12/2016
	<i>Deferred</i>	<i>Deferred</i>	<i>Deferred tax</i>	<i>Deferred tax</i>
	<i>tax assets</i>	<i>tax assets</i>	<i>liabilities</i>	<i>liabilities</i>
	(€000)	(€000)	(€000)	(€000)
Property, plant and equipment	103	132	766	786
Intangible fixed assets	13	54	-	-
Inventories	680	680	-	-
Receivables	54	39	-	-
Equity investments	318	318	10	10
Liabilities for employee benefits	(534)	(508)	-	-
Shareholders' equity				
- derivative financial instruments	-	10	-	-
- liabilities for employee benefits	619	570	-	-
Provision for risks and charges	-	66	-	-
Other	<u>534</u>	<u>790</u>	<u>-</u>	<u>55</u>
Total	<u>1,787</u>	<u>2,151</u>	<u>776</u>	<u>851</u>

Deferred taxes recognized directly in equity are related to remeasurement of liabilities for employee benefits (TFR) connected to the actuarial component.

No deferred tax liabilities were recorded on provisions qualifying for tax relief due to the fact that distribution is not anticipated (see Note 19).

#### 14. Interest-bearing financial payables and bank payables

The main loans are all subject to the following financial covenants, calculated on the consolidated values:

- Net financial indebtedness / Shareholders' equity;
- Net financial indebtedness / EBITDA;
- EBITDA / Financial charges.

At 31 December 2017 all financial covenants had been amply complied with.

Interest bearing financial payables at 31 December 2017 also included payables for finance leases of €89k deriving from the merger of Bertoli S.r.l., the term end value of which is €47k in 2018 (€1k of lease instalments) and €42k in 2019 (€43k of lease instalments).

Finance leasing contracts concern plant and machinery the carrying value of which, totalling €208k, has been included under the Property, plant and equipment caption (Note 8).

Non-current financial payables have the following due dates:

	31/12/2017 (€000)	31/12/2016 (€000)
From 1 to 2 years	140,566	119,015
From 2 to 5 years	70,040	163,584
Beyond 5 years	-	-
Total	<u>210,606</u>	<u>282,599</u>

The average interest rate on loans in 2017 was approximately 0.58% (0.68% in 2016).

At 31/12/2017 all loans were at floating-rates.

The company has the following lines of credit which were unused at year-end:

	31/12/2017 (€000)	31/12/2016 (€000)
Current account overdrafts and export advances	21,045	19,045
Medium/long-term loans	<u>62,900</u>	<u>63,400</u>
Total	<u>83,945</u>	<u>82,445</u>

## 15. Other current liabilities

This item comprises:

	31/12/2017 (€000)	31/12/2016 (€000)
Payables to personnel	2,916	2,509
Payables to social security institutions	1,525	1,956
Payables related to the acquisition of investments	2,110	-
Customer advances	762	756
Customer credit balances	353	160
Customers for credit notes to issue	6	36
Payables for remuneration of directors/auditors	548	812
Other	<u>97</u>	<u>97</u>
Total	<u>8,317</u>	<u>6,326</u>

## 16. Provisions for risks and charges

Provisions for risks and charges refer to the agents' termination indemnity provision in the amount of €17k, which rose by €3k in 2017 and is entirely classified in the non-current portion of the balance sheet. A specific provision for risks of €275k was booked at 31 December 2016 to cover ongoing disputes at the time, this amount having been used in its entirety during the year.

## 17. Liabilities for employee benefits

### *Liabilities for defined benefit plans*

The following movements were recorded in liabilities:

	2017 (€000)	2016 (€000)
Liabilities at 1 January	5,424	4,403
Amount charged to the income statement in the year	(12)	2
Recognition in equity of actuarial results	204	383
Reclassifications	-	(62)
Merger effect	-	891
Payments	(386)	(193)
Liabilities at 31 December	<u>5,230</u>	<u>5,424</u>

The following items were recognized in the income statement:

	2017 (€000)	2016 (€000)
Current service cost	-	-
Financial Income / Expenses	(12)	2
Past service cost	<u>-</u>	<u>-</u>
Total recognized in the income statement	<u>(12)</u>	<u>2</u>

Refer to the "Board of Directors' Report" in chapter "1. Profitability" for a breakdown of labour costs.

The average number of employees broken down by category is as follows:

	2017	2016
Executives	12	12
Middle management	15	13
White collar	94	87
Blue collar	314	299
Fixed-contract personnel	<u>19</u>	<u>23</u>
Total	<u>454</u>	<u>434</u>

Liabilities for defined benefit plans (Severance indemnity - TFR) were established with the following actuarial assumptions:

	Unit of measurement	2017	2016
Discount rate	%	1.37	1.69
Percentage of employees expected to resign before retirement age ( <i>turnover</i> )*	%	3.71	3.08
Annual cost-of-living increase	%	1.50	1.5
Average period of employment	Years	15.82	15.51

\* = average annual resignation percentage, all causes, in the first ten years following the assessment.

## 18. Share capital

The share capital at 31 December 2017 was composed of 108,879,294 ordinary shares with a unit par value of €0.52 for a total amount of €56,617,232.88. In contrast, share capital recorded in the financial statements amounted to €55,805k because the nominal value of purchased treasury shares, net of divested treasury shares, was deducted from the share capital in compliance with the reference accounting standards. At 31 December 2017 Interpump S.p.A. held 1,561,752 treasury shares in the portfolio corresponding to 1.43% of the share capital, acquired at an average unit cost of EUR 12.4967.

Changes in treasury shares over the past two years have been as follows:

	<u>Number</u>
<i>Balance at 31/12/2015</i>	<i>1,125,912</i>
2016 purchases	3,407,000
Sale of shares to finance subsidiaries' purchases	(449,160)
Sale of shares for the exercise of stock options	<u>(1,802,000)</u>
<i>Balance at 31/12/2016</i>	<i>2,281,752</i>
2017 purchases	-
Sale of shares to finance subsidiaries' purchases	(150,000)
Sale of shares for the exercise of stock options	<u>(570,000)</u>
<i>Balance at 31/12/2017</i>	<i><u>1,561,752</u></i>

Taking treasury shares into consideration, the following changes were recorded in the number of shares in circulation:

	2017 <u>Number of shares</u>	2016 <u>Number of shares</u>
Ordinary shares in existence at 1 January	108,879,294	108,879,294
Treasury shares held	<u>(2,281,752)</u>	<u>(1,125,912)</u>
Shares in circulation at 1 January	106,597,542	107,753,382
Treasury shares purchased	-	(3,407,000)
Treasury shares sold	<u>720,000</u>	<u>2,251,160</u>
Total shares in circulation at 31 December	<u>107,317,542</u>	<u>106,597,542</u>

The aims identified by the company in the management of capital are the creation of value for all shareholders and supporting development of the group, both through internal means and by means of acquisitions. The company therefore intends to maintain an adequate level of

capitalization, which simultaneously makes it possible to generate a satisfactory economic return for shareholders and to guarantee the economically effective access to external sources of borrowing. The company constantly monitors the evolution of the level of debt in relation to shareholders' equity and the generation of cash through its industrial operations. In order to attain the aforementioned goals, the company constantly monitors the cash flows generated, both through improvement or maintenance of profitability, and through careful management of working capital and investment. Capital is construed as both the value provided by Interpump Group shareholders (share capital and share premium reserve, totalling €176,195k at 31 December 2017 and €166,979k at 31 December 2016), and the value generated by the company in terms of the results of operations (other reserves and legal reserve, including profit for the year, overall equivalent to €205,565k at 31 December 2017 and €146,884k at 31 December 2016, excluding the reserve for restatement of defined benefit plans and the provision for fair value measurement of hedging derivatives).

#### *Treasury shares purchased*

The amount of the treasury shares held by Interpump Group S.p.A. is recorded in an equity reserve. The Company did not acquire any treasury shares in 2017 (3,407,000 treasury shares were purchased in 2016 for €43,308k at an average price of EUR 12.7114).

#### *Treasury shares sold*

In the framework of the execution of stock option plans a total of 570,000 options were exercised resulting in a receipt of €3,376k (1,802,000 options were exercised for €9,490k in 2016). Moreover, 150,000 treasury shares were divested in 2017 to pay for part of the equity investment in Mariotti & Pecini (449,160 treasury shares divested in 2016 for the payment of equity investments).

#### *Stock options*

The fair value of the 2013/2015 and 2016/2018 stock option plans was recorded in the 2017 and 2016 financial statements in compliance with IFRS 2. Costs of €1,531k (€1,429k in 2016) relating to the stock option plans were therefore recognized in the 2017 income statement, with a matching entry in the share premium reserve. Said costs represent the portion for the year of the value of the options assigned to employees and directors, established at the allocation date, corresponding to the value of the services rendered by the latter in addition to normal remuneration.

Items recognized in the income statement were booked as follows:

	2017 (€000)	2016 (€000)
Cost of sales	-	-
Distribution costs	26	53
General and administrative expenses	<u>1,505</u>	<u>1,376</u>
Total	<u>1,531</u>	<u>1,429</u>

Changes in the share premium reserve were as follows:

	2017 <u>€000</u>	2016 <u>€000</u>
Share premium reserve at 1 January	111,548	138,117
Increase due to income statement recognition of the fair value of stock options granted	1,531	1,429
Increase due to the recognition in equity of the fair value of stock options assigned to employees of subsidiaries	250	304
Increase for the disposal of treasury shares further to payment for acquisitions of subsidiaries	3,685	5,516
Increase for the disposal of treasury shares further to stock options exercised	3,376	9,490
Drawdown to cover purchase of treasury shares	-	(43,308)
Share premium reserve at 31 December	<u>120,390</u>	<u>111,548</u>

The “2006/2009 Stock option plan” plan ended in the current year with the exercise of the final 20,000 options that had yet to be exercised at 31 December 2016.

The Shareholders' Meeting held on 30 April 2013 approved the adoption of an incentive plan denominated “2013/2015 Interpump Incentive Plan”, which is also described in detail in the “Board of Directors' Report” accompanying the consolidated financial statements. The exercise price was set at EUR 6.00 per share. The options can be exercised between 30 June 2016 and 31 December 2019. The changes in options in 2017 and 2016 were as follows:

	2017 <u>Number of options</u>	2016 <u>Number of options</u>
Options assigned at 1 January	700,000	1,870,000
Options granted in the year	-	-
Options exercised in the year	(550,000)	(1,163,000)
Options cancelled in the year	-	(7,000)
Total options assigned at 31 December	<u>150,000</u>	<u>700,000</u>
Of which:		
- vested at 31 December	150,000	700,000
- not vested at 31 December	-	-
Total options assigned at 31 December	<u>150,000</u>	<u>700,000</u>

The Shareholders' Meeting held on 28 April 2016 approved the adoption of a new incentive plan called the “Interpump 2016/2018 Incentive Plan”. The plan, which is based on the free assignment of options that grant the beneficiaries the right, on the achievement of specified objectives, to (i) purchase or subscribe the Company's shares up to the maximum number of 2,500,000 or, (ii) at the discretion of the Board of Directors, receive the payment of a differential equivalent to any increase in the market value of the Company's ordinary shares. Beneficiaries of the plan can be employees or directors of the Company and/or its subsidiaries, identified among persons having significant roles or functions. The exercise price was set at EUR 12.8845 per share. The options can be exercised between 30 June 2019 and 31 December 2022. The next meeting of the Board of Directors, held on 12 May 2016, set a figure of 2,500,000 for the number of options to be assigned, divided by the total number of options in each tranche (625,000 for the first tranche, 875,000 for the second tranche and 1,000,000 for the

third tranche) and established the terms for the exercise of the options, which are connected to the achievement of specific accounting parameters and the performance of Interpump Group stock. The same Board meeting assigned 1,620,000 options, exercisable subject to the conditions described above, and granted mandates to the Chairman and the Deputy Chairman of Interpump Group, acting separately, to identify the beneficiaries of a further 880,000 options. On 6 and 29 July 2016, 13 December 2016 and 9 November 2017 a total of 531,800 options were assigned to other beneficiaries identified within the Interpump Group. The options cancelled in 2017 totalled 30,000. The changes in the options in the year were as follows:

	2017 <u>Number of options</u>
Number of rights assigned at 1 January	2,139,800
Number of rights cancelled	(30,000)
Number of rights assigned	12,000
Number of shares purchased	-
Total number of options not yet exercised at 31 December	<u>2,121,800</u>

The fair value of the stock options and the actuarial assumptions utilized in the binomial lattice model are as follows:

#### 2013/2015 Plan

<i>First assignment</i>	Unit	
Number of shares assigned	no.	1,320,000
Grant date		30 April 2013
Exercise price		6.0000
Vesting date		1 July 2016
Fair value per option at the grant date	EUR	1.8631
Expected volatility (expressed as the weighted average of the volatility values utilized to build the binomial lattice model)	%	30
Expected average duration of the plan life	years	6.666
Expected dividends (compared with share value)	%	2.50
Risk free interest rate (calculated using a linear interpolation of Euro Swap rates at 30 April 2013)	%	From 0.91 to 1.06
<i>Second assignment</i>	Unit	
Number of shares assigned	no.	550,000
Grant date		29 October 2013
Exercise price		6.0000
Vesting date		1 July 2016
Fair value per option at the grant date	EUR	2.8916
Expected volatility (expressed as the weighted average of the volatility values utilized to build the binomial lattice model)	%	30
Expected average duration of the plan life	years	6.166
Expected dividends (compared with share value)	%	2.50
Risk free interest rate (calculated using a linear interpolation of Euro Swap rates at 29 October 2013)	%	From 1.38 to 1.57

2016/2018 Plan

<i>First assignment</i>	Unit	
Number of shares assigned	no.	1,620,000
Grant date		12 May 2016
Exercise price		12.8845
<i>Vesting date</i>		1 July 2019
Fair value per option at the grant date	EUR	2.4585
Expected volatility (expressed as the weighted average of the volatility values utilized to build the binomial lattice model)	%	30
Expected average duration of the plan life	years	6.583
Expected dividends (compared with share value)	%	2.50
Risk free interest rate (calculated using a linear interpolation of Euro Swap rates at 12 May 2016)	%	From 0.11 to 0.22
<i>Second assignment</i>	Unit	
Number of shares assigned	no.	483,800
Grant date		6 July 2016
Exercise price		12.8845
<i>Vesting date</i>		1 July 2019
Fair value per option at the grant date	EUR	3.0520
Expected volatility (expressed as the weighted average of the volatility values utilized to build the binomial lattice model)	%	30
Expected average duration of the plan life	years	6.417
Expected dividends (compared with share value)	%	2.50
Risk free interest rate (calculated using a linear interpolation of Euro Swap rates at 6 July 2016)	%	From -0.094 to -0.004
<i>Third assignment</i>	Unit	
Number of shares assigned	no.	30,000
Grant date		29 July 2016
Exercise price		12.8845
<i>Vesting date</i>		1 July 2019
Fair value per option at the grant date	EUR	3.7130
Expected volatility (expressed as the weighted average of the volatility values utilized to build the binomial lattice model)	%	30
Expected average duration of the plan life	years	6.417
Expected dividends (compared with share value)	%	2.50
Risk free interest rate (calculated using a linear interpolation of Euro Swap rates at 29 July 2016)	%	From -0.082 to -0.002

<i>Fourth assignment</i>	Unit	
Number of shares assigned	no.	6,000
Grant date		13 December 2016
Exercise price		12.8845
Vesting date		1 July 2019
Fair value per option at the grant date	EUR	4.33130
Expected volatility (expressed as the weighted average of the volatility values utilized to build the binomial lattice model)	%	30
Expected average duration of the plan life	years	6
Expected dividends (compared with share value)	%	2.50
Risk free interest rate (calculated using a linear interpolation of Euro Swap rates at 13 December 2016)	%	0.264
<i>Fifth assignment</i>	Unit	
Number of shares assigned	no.	12,000
Grant date		9 November 2017
Exercise price		12.8845
Vesting date		1 July 2019
Fair value per option at the grant date	EUR	13.4162
Expected volatility (expressed as the weighted average of the volatility values utilized to build the binomial lattice model)	%	30
Expected average duration of the plan life	years	3 years and 5 months
Expected dividends (compared with share value)	%	2.50
Risk free interest rate (calculated using a linear interpolation of Euro Swap rates at 9 November 2017)	%	-0.0285

The expected volatility of the underlying variable (Interpump Group share) is a measure of the prospect of price fluctuations in a specific period. The indicator that measures volatility in the model utilized to evaluate the options is the mean square annualized deviation of compound returns of the Interpump Group share through time.

## 19. Reserves

### *Reserve for valuation of hedging derivatives at fair value*

This includes net accumulated changes in the fair value of derivative financial instruments classified as hedges and recorded using the hedge accounting method.

### *Reserve for restatement of defined benefit plans*

Includes the actuarial component of defined benefit plans (TFR).

*Classification of net equity depending on possibility of utilization*

(amounts in €000)	Amount	Possibility of utilization	Available portion	Tax payable in the event of distribution	Summary of drawdowns over the past three years	
					to cover losses	for other reasons
<b>Share capital</b>						
Subscribed and fully paid-up share capital	56,617	B	-	-	-	-
Nominal value of treasury shares in portfolio	(812)	-	-	-	-	-
Total share capital	<u>55,805</u>					
<b>Capital reserves</b>						
Legal reserve	6,860	B	-	-	-	-
Share premium reserve	<u>42,601</u>	A,B,C	<u>42,601</u>	-	-	28,712
Total capital reserves	<u>49,461</u>		<u>42,601</u>			
<b>Profit reserves:</b>						
Legal reserve	4,463	B	-	-	-	-
Share premium reserve	77,789	A,B,C	75,974	1,232	-	-
Extraordinary reserve	112,216	A,B,C	110,082	-	-	-
Reserve for share capital reduction	812	-	-	-	-	-
First Time Adoption Reserve	(60)	-	-	-	-	-
Merger surplus	863	A,B,C	698	-	-	-
Reserve for restatement of defined benefit plans	(1,960)	-	-	-	-	-
Profit for the year	<u>80,411</u>	A,B,C	<u>80,411</u>	-	-	-
Total profit reserves	<u>274,534</u>		<u>267,165</u>			
Reserve for treasury shares held	19,517	-	-	-	-	76,017
Treasury shares	(19,517)	-	-	-	-	-
Non-distributable portion*			<u>(3,676)</u>			
<b>Remaining distributable portion</b>			<u>306,090</u>			

A: for capital increase

B: for coverage of losses

C: for distribution to shareholders

\*= represents the non-distributable portion destined to cover deferred costs that have not yet been amortized.

We draw your attention to the fact that €12,987k of the share premium reserve qualifies for tax relief in that it was fiscally formed from the revaluation reserve, Law 342/2000 and Law 266/2005.

Drawdowns refer to dividends, purchase of treasury shares and reductions of reserves for other causes and do not include transfers between reserves. In particular, with reference to the changes that occurred in the past three years note that the drawdowns of the reserve for treasury shares held refer to purchases of treasury shares, while the drawdowns from the share premium reserve refer to the sale of treasury shares at a price below their carrying value.

On the basis of tax legislation the reserves and profits are freely distributable and do not attract tax even in the case of distribution, on the condition that the reserves and residual profits exceed the negative components of income ascribed exclusively to the tax return; otherwise, distributed reserves and profits are subject to tax in the measure in which the residual reserves and profits are lower than the negative components of income that have been ascribed exclusively to the tax return. At 31 December 2017, this condition has been complied with in full, hence no taxes

were payable in the event of distribution of the parent company's entire profits for the year and the entirety of available reserves, beyond the taxes already indicated in the prior statement.

*Breakdown of components recorded directly in equity*

(€000)	2017			2016		
	Pre-tax amount	Amount net of taxes		Pre-tax amount	Amount net of taxes	
	Taxation			Taxation		
Accounting for derivatives hedging exchange-rate risks using the cash flow hedge method	33	(9)	24	(14)	3	(11)
Restatement of defined benefit plans	(204)	49	(155)	(383)	22	(361)
<b>Total</b>	<b>(171)</b>	<b>40</b>	<b>(131)</b>	<b>(397)</b>	<b>25</b>	<b>(372)</b>

## 20. Information on financial assets and liabilities

Financial assets and liabilities, broken down by the categories identified by IAS 39, are summarized in the following tables:

(€000)	At the fair value recorded in the Income Statement		Financial assets at 31/12/2017	Financial liabilities at 31/12/2017	Total	Fair value
	Initially*	IAS 39**	Loans and receivables	Valued at the amortized cost		
Trade receivables	-	-	14,297		14,297	14,297
Dividends receivable	-	-	-		-	-
Other current assets	-	-	127		127	127
Other current financial assets	-	-	34,260		34,260	34,260
Other non-current financial assets	-	-	122,370		122,370	122,370
Trade payables				(13,050)	(13,050)	(13,050)
Current interest-bearing financial payables				(122,959)	(122,959)	(122,959)
Derivative instruments - Payables				-	-	-
Payables for the acquisition of investments				(2,110)	(2,110)	(2,110)
Other current liabilities				(6,207)	(6,207)	(6,207)
Non-current interest-bearing financial payables				(210,606)	(210,606)	(210,606)
<b>Total</b>	<b>≡</b>	<b>≡</b>	<b>171,054</b>	<b>(354,932)</b>	<b>(183,878)</b>	<b>(183,878)</b>

\* = designated as such at the time of initial recording.

\*\* = classified as held for trading according to the requirements of IAS 39.

(€000)	At the fair value recorded in the Income Statement		Financial assets at 31/12/2016	Financial liabilities at 31/12/2016	Total	Fair value
	Initially*	IAS 39**	Loans and receivables	Valued at the amortized cost		
Trade receivables	-	-	16,030		16,030	16,030
Dividends receivable	-	-	2,372		2,372	2,372
Other current assets	-	-	331		331	331
Other current financial assets	-	-	16,760		16,760	16,760
Other non-current financial assets	-	-	147,630		147,630	147,630
Trade payables				(12,828)	(12,828)	(12,828)
Current interest-bearing financial payables				(93,106)	(93,106)	(93,106)
Derivative instruments	-	-		-	-	-
Payables						
Other current liabilities				(6,326)	(6,326)	(6,326)
Non-current interest-bearing financial payables				(282,599)	(282,599)	(282,599)
Total	=	=	<u>183,123</u>	<u>(394,859)</u>	<u>(211,736)</u>	<u>(211,736)</u>

\* = designated as such at the time of initial recording.

\*\* = classified as held for trading according to the requirements of IAS 39.

The carrying amount of financial assets and liabilities is substantially the same as their fair value.

The Company has not recognized any fair value gains or losses on derivative financial instruments in the 2017 income statement since, although arranged for hedging purposes, they did not meet all the requirements required by IAS 39 for recognition as hedges (fair value gains of €2k in 2016).

Loans and receivables generated revenues and costs. Revenues refer to exchange rate gains for in the amount of €45k (€428k in 2016). In contrast, the costs refer to exchange losses in the amount of €709k (€208k in 2016) and to bad debts for €62k (€78k in 2016) classified under other operating costs.

Financial liabilities measured at amortized cost have generated costs relating to the portion of ancillary charges initially incurred to obtain the loans and subsequently expensed over the duration of the loan in accordance with the financial method. In 2017 the value of these expenses booked to the income statement totalled €160k (€346k in 2016).

Financial assets and liabilities that are not designated at fair value through profit or loss (in the case of Interpump Group S.p.A. all those indicated in the above tables) generated interest income of €1,576k (€1,871k in 2016) and interest expense of €2,138k (€2,502k in 2016); in addition, general and administrative expenses include commissions and bank charges of €108k (€116k in 2016).

## 21. Information on financial risks

The company is exposed to financial risks associated with its activities:

- market risks (mainly related to currency exchange rates and interest rates) since the company does business internationally and is exposed to the exchange risk deriving from exposure to the US dollar;
- credit risk connected with business relations with customers;

- liquidity risk, with special reference to the availability of financial resources and access to the lending market and financial instruments in general;
- price risk in relation to metal price fluctuations that constitute a significant portion of the raw materials purchase price.

The company is not exposed to significant concentrations of risk.

The company constantly monitors the financial risks to which it is exposed in such a way as to make an advance assessment of potential negative effects and take appropriate actions to mitigate them.

The following section contains reference qualitative and quantitative indications regarding the uncertainty of these risks for Interpump Group S.p.A.

The quantitative data given below are not to be construed as forecasts; specifically, the sensitivity analyses concerning market risks are unable to reflect the complexity and correlated relations of markets that may derive from each prospected change.

### **Exchange risk**

The company is exposed to risks arising from fluctuations in currency exchange rates, which may affect economic results. Specifically:

- for revenues denominated in currencies other than the currencies in which the respective costs are denominated, exchange rate fluctuations can impact on the company's operating profit.

In 2017 the total amount of cash flow exposed directly to exchange risks was approximately 23% of company sales (approximately 22% in 2016) of which around 1% hedged with respect to the exchange fluctuations risk.

The exchange rates to which the company is exposed are EUR/USD in relation to sales in dollars of high pressure pumps in North America through General Pump Inc., which is sited in this important market, and in direct relation to an important US customer. In recent years the company has started billing in USD also to its other US subsidiary, NLB Inc.

The Interpump Group has adopted a policy of hedging commercial transactions denominated in foreign currency in the framework of which the most effective derivative instruments for the achievement of the preset goals have been identified and the relative responsibilities, duties and system of delegations have been defined.

In relation to the exposure in dollars for recurring sales on the American market the company policy is not to hedge foreign currency transactions, while in relation to the exposure in dollars for sales on the US market that are non-recurring either in terms of amount or of frequency of occurrence, it is company policy to take out hedges exclusively when deemed appropriate.

- Again in relation to commercial activities, the company may be in a position wherein it holds commercial receivables denominated in currencies other than the account currency. Fluctuations in exchange rates can therefore result in the realization or assessment of positive or negative exchange differences.
- In relation to financial exposure, wherever the monetary outflows are denominated in a currency other than the account currency, fluctuation of the exchange rates can impact the net profits of the company negatively. At 31 December 2017 and 31 December 2016 the company had no financial exposures in foreign currency.

The nature and structure of the exposure to exchange risk and the related hedging policies were substantially unchanged in 2017 and 2016.

### **Exchange risk sensitivity analysis**

The potential loss from the change in fair value of financial assets and liabilities caused by a hypothetical and immediate increase in the value of the euro of 10% with respect to the US dollar would be in the order of approximately €276k (€496k in 2016).

The sensitivity analysis did not take account of changes in the receivables and payables in relation to which the hedge operations were arranged. It is reasonable to assume that the fluctuation in exchange rates could produce an opposite economic effect on the derivative financial instruments of an amount that is identical to the change in the underlying hedged transactions thereby effectively offsetting the fluctuation.

### **Interest rate risk**

It is currently company policy not to take out hedges, in view of the short average duration of the existing loans (around 3 years). At 31 December 2017 all the group's cash on hand was subject to floating interest rates, as were all financial and bank debts. In addition, in 2017 and in prior years the company granted loans to its subsidiaries in the amount of €156.6m (€164.4m at 31 December 2016), mainly to finance the Group's process of expansion through acquisitions. As described in Note 5 of the “Board of directors' report” attached to the financial statements, all the loans were granted at floating rates.

### **Sensitivity analysis related to the interest rate risk**

The effects of a hypothetical and instantaneous upward variation in interest rates of 50 basis points would provide Interpump Group S.p.A. with higher financial expenses, net of the increase in financial income of €71k (higher financial expenses of €15k in 2016). It is reasonable to assume that a 50 basis points decrease in interest rates would produce an equivalent effect, although this time in terms of lower financial expenses.

### **Credit risk**

The maximum theoretical credit risk exposure of the company at 31 December 2017 and 2016 is represented by the accounting value of the financial assets recorded in the financial statements.

Historically the company has not suffered any significant losses on receivables. This is because the company generally allows extended payments only to its long-term customers, whose solvency and economic stability is known. In contrast, after having passed an initial credit rating analysis, new customers are required to make payments in advance or to open a letter of credit for amounts due.

Individual write-downs are applied in relation to positions, if of significant magnitude, in relation to which an objective condition of uncollectability is present for all or part of the outstanding amount. The amount of the write-down takes account of an estimate of the recoverable flows and the associated collection date, and the expenses and costs for future debt recovery. Collective provisions are allocated in relation to receivables that are not subject to individual write-downs, taking account of the historic exposure and statistical data.

At 31 December 2017, Loans and Receivables from financial activities total €171,054k (€183,123k at 31 December 2016), and include €380k for written down receivables (€580k at 31 December 2016); amounts overdue by less than three months are €2,259k (€2,783k at 31 December 2016), while those overdue beyond three months total €224k (€335k at 31 December 2016).

The Company is not exposed to any significant concentrations of sales. In fact, the top customer in terms of sales is part of the Interpump Group and accounted for about 20% of total sales in 2017 (19% in 2016). The top customer outside the Group accounted for approximately 4% of

sales in 2017 (6% in 2016) while, in total, the top 10 customers after the first intercompany customer accounted for 19% of sales (22% in 2016).

### **Liquidity risk**

The liquidity risk can arise if it becomes impossible to obtain, at acceptable economic conditions, the financial resources needed for the company's business operations. The two main factors that define the company's liquidity situation are the resources generated by or used in business activities and investment, and the characteristics of expiry and renewal of debt or liquidity of financial investments and the relative market conditions.

The company has adopted a series of policies and processes aimed at optimizing the management of resources in order to reduce the liquidity risk:

- retention of an appropriate level of cash on hand;
- diversification of the banks with which the company operates;
- access to adequate lines of credit;
- negotiation of covenants at a consolidated level;
- monitoring of the prospective conditions of liquidity in relation to the corporate process.

The maturity characteristics of interest bearing financial debts and bank debts are described in Note 14.

Management considers that the currently available funds and lines of credit, in addition to resources generated by operating and financing activities, will allow the company to meet requirements deriving from investing activities, management of working capital and repayment of debts at their natural due dates, in addition to ensuring the pursuit of a strategy of growth, also by means of targeted acquisitions capable of creating value for shareholders. Cash on hand at 31 December 2017 totalled €22.7m. Cash on hand and the cash generated by the company in 2017 are both factors that serve to reduce the company's exposure to the liquidity risk. The decision to maintain a high level of cash was adopted in order to minimize the liquidity risk, which is considered important given the current state of uncertainty of the economy, and to pick up on any acquisition opportunities that may arise.

### **Price risk**

Interpump Group S.p.A. is exposed to risks deriving from price fluctuations of metals, which may affect economic results and profitability. Specifically, the purchase cost of metals accounted for 30% of the company purchase cost of raw materials, semi-finished products and finished products (34% in 2016). The main metals utilized by the company include brass, aluminium, stainless steel and steel.

Company policy is to transfer the cost of stocking materials to suppliers; in this scenario the risk is hedged by means of orders for specific periods and quantities agreed at a fixed price; at 31 December 2017 signed commitments were in place entirely covering 36% of projected 2018 consumption of brass (100% at 31 December 2016), 49% of aluminium consumption predicted for 2018 (53% at 31 December 2016), 17% of steel consumption (35% at 31 December 2016) and 60% of stainless steel consumption predicted for next year (35% at 31 December 2016). In addition, at 31 December 2017 stocks covered about 45% of forecast brass consumption (30% at 31 December 2016), 13% of aluminium consumption (38% at 31 December 2016), 31% of steel consumption (18% at 31 December 2016) and 19% of stainless steel consumption (15% at 31 December 2016).

The company's selling prices are generally reviewed on an annual basis.

## 22. Net sales

The following table gives a breakdown of sales by geographical area:

	2017 (€000)	2016 (€000)
Italy	19,721	18,817
Rest of Europe	30,787	25,356
Rest of the World	49,575	48,113
Total	<u>100,083</u>	<u>92,286</u>

Details of net sales in each invoicing currency are provided below:

	2017 (€000)	2016 (€000)
EUR	77,814	72,359
USD	22,262	19,921
GBP	7	6
Total	<u>100,083</u>	<u>92,286</u>

Sales in USD refer primarily to invoices issued to the US subsidiaries General Pump Inc. and NLB Corporation Inc.

## 23. Other net revenues

	2017 (€000)	2016 (€000)
Capital gains on the sale of tangible assets	9	14
Offsetting of surplus provisions	-	36
Income from rent/royalties	161	40
Sale of scrap	152	993
Other	351	403
Reimbursement of expenses	798	823
Total	<u>1,471</u>	<u>2,309</u>

**24. Costs by nature**

	2017 (€000)	2016 (€000)
Raw materials and components	27,144	26,653
Personnel and temporary staff	28,109	26,482
Services	13,090	11,791
Amortization and depreciation of intangible and tangible fixed assets (notes 8 and 10)	4,683	4,688
Directors' and statutory auditors' remuneration	4,242	4,577
Hire purchase and leasing charges	847	653
Provisions and impairment of tangible and intangible fixed assets (notes 8, 10 and 16)	3	300
Other operating costs	<u>4,643</u>	<u>4,933</u>
Total cost of sales, distribution costs, general and administrative expenses, other operating costs and impairment losses of tangible and intangible fixed assets	<u>82,761</u>	<u>80,077</u>

The emoluments of the Directors and Statutory Auditors of Interpump Group S.p.A. in 2017 were, respectively, €4,137k and €105k and they include remuneration resolved by the Shareholders' Meeting, the remuneration established by the Board of Directors for directors vested with special offices, including bonuses and the remunerative component deriving from stock option plans represented by the fair value of the options calculated at the time of their allocation, for the current portion.

**25. Financial income and expenses**

	2017 (€000)	2016 (€000)
<u>Financial income</u>		
Interest income from liquid funds	4	12
Interest income from financial assets (intercompany loans)	1,576	1,871
Other financial income	47	5
Foreign exchange gains	45	428
Earnings from valuation of derivative financial instruments	<u>4</u>	<u>18</u>
Total	<u>1,676</u>	<u>2,334</u>
<u>Financial expenses</u>		
Interest expense on loans	2,298	2,848
Other financial expenses	20	124
Tobin tax	-	43
Foreign exchange losses	847	378
Losses from valuation of derivative financial instruments	<u>-</u>	<u>21</u>
Total	<u>3,165</u>	<u>3,414</u>

## 26. Income taxes

The reconciliation of taxes calculated on the basis of the nominal rates in force and the effective tax burden is as follows:

	2017 (€000)	2016 (€000)
<b>IRES</b>		
Profit before taxes from the income statement	86,909	70,230
Theoretical taxes at Italian rate (24.0% in 2017 and 27.5% in 2016)	20,858	19,313
Lower taxes for non-taxable dividends	(15,377)	(14,521)
Lower taxes due to IRAP deduction relating to expenses for employees and similar	(60)	(71)
Lower taxes due to IRAP deduction on interest expenses	(25)	(24)
Higher / (Lower) taxes on absorption of difference between severance indemnities under IFRS and those determined using fiscal criteria	-	(23)
Taxes for prior financial years	(57)	323
Effect of scheduled change in the IRES tax rate from 2017	-	23
Other	41	185
<b>Total IRES</b>	<b>5,380</b>	<b>5,205</b>
<b>IRAP/Local income taxes</b>		
Profit before taxes from the income statement	86,909	70,230
Theoretical taxes at nominal rate (4.65%)	4,041	3,266
Lower taxes for non-taxable dividends	(3,237)	(2,642)
Higher taxes for non-deductible payroll costs	76	91
Higher taxes for non-deductible directors' emoluments	179	196
Higher taxes due to non-deductible financial expenses	42	14
Taxes for prior financial years	(7)	-
Other	24	34
<b>Total IRAP (Local income taxes)</b>	<b>1,118</b>	<b>959</b>
<b>Total income taxes recognized in the income statement</b>	<b>6,498</b>	<b>6,164</b>

Taxes recognized in the income statement can be broken down as follows:

	2017 (€000)	2016 (€000)
Current taxes	(6,233)	(5,627)
Current taxes from past financial years	64	(323)
Deferred taxes	(329)	(214)
<b>Total taxes</b>	<b>(6,498)</b>	<b>(6,164)</b>

Deferred tax recognized in the income statement can be broken down as follows:

	2017 (€000)	2016 (€000)
Deferred tax assets generated in the year	250	580
Deferred tax liabilities generated in the year	-	(55)
Deferred tax assets transferred to the income statement	(654)	(1,297)
Deferred tax liabilities recognized in the income statement	75	581
Deferred tax assets due to changes in the tax rate	-	(23)
Total deferred taxes	<u>(329)</u>	<u>(214)</u>

## 27. Earnings per share

### *Basic earnings per share*

Earnings per share are calculated on the basis of profit for the year divided by the weighted average number of ordinary shares during the year as follows:

	2017	2016
Profit for the year attributable to shareholders (€000)	<u>80,411</u>	<u>64,067</u>
Average number of shares in circulation	106,973,877	106,196,360
Basic earnings per share for the year	<u>0.752</u>	<u>0.603</u>

### *Diluted earnings per share*

Diluted earnings per share are calculated on the basis of diluted profit of the year attributable to the parent company's shareholders, divided by the weighted average number of ordinary shares in circulation adjusted by the number of potentially dilutive ordinary shares. The calculation is as follows:

	2017	2016
Profit for the year attributable to shareholders (€000)	<u>80,411</u>	<u>64,067</u>
Average number of shares in circulation	106,973,877	106,196,360
Number of potential shares for stock option plans (*)	<u>1,031,352</u>	<u>419,088</u>
Average number of shares (diluted)	<u>108,005,229</u>	<u>106,615,448</u>
Earnings per diluted share at 31 December (EUR)	<u>0.745</u>	<u>0.601</u>

(\*) calculated as the number of shares assigned for in-the-money stock option plans multiplied by the ratio between the difference of the average value of the share in the year and the exercise price at the numerator, and the average value of the share in the year at the denominator.

## 28. Notes to the cash flow statement

### *Property, plant and equipment*

In 2016 the company purchased property, plant and equipment totalling €4,116k (€2,976k in 2016). This expenditure involved the payment of €4,075k, inclusive of the payment of past debts for the same purpose and net of payables deferred to the following year (€3,666k in 2016).

**Cash and cash equivalents**

This item can be broken down as follows:

	31/12/2017 (€000)	31/12/2016 (€000)	01/01/2016 (€000)
Cash and cash equivalents from the balance sheet	22,669	87,956	46,601
Payables to banks (for current account overdrafts and advances subject to collection and accrued expenses for interest payable)	(341)	(433)	(731)
Cash and cash equivalents from the cash flow statement	<u>22,328</u>	<u>87,523</u>	<u>45,870</u>

**Net financial position and cash-flow statement**

For the amount and details of the main components of the net financial position and the changes that occurred in 2017 and 2016 we invite you to refer to the "Loans" section of the Board of Directors' Report.

**29. Commitments**

The company has commitments to purchase tangible assets totalling €5,108k (€2,698k at 31 December 2016).

Interpump Group S.p.A. has signed rental and hire purchase agreements mainly for warehouses, offices, and cars. The total outlay in 2017 was €12k (€41k in 2016). At 31/12/2017, the following commitments were outstanding:

	€000
Due within 1 year	807
Due from 1 to 2 years	727
Due from 2 to 5 years	705
Due beyond 5 years	-
Total	<u>2,239</u>

**30. Transactions with related parties***Transactions involving top management*

Transactions with related parties concern the leasing of facilities owned by companies controlled by the current shareholders and directors of the Parent company for €666k (€665k in 2016), consultancy services provided by entities connected with directors and statutory auditors of the Parent company for €172k (€16k in 2016) and other costs in the amount of €15k (€3k in 2016). The leasing costs are classified among the cost of sales, €500k (€599k in 2016), and general and administrative costs of €166k (€66k in 2016). The consultancy costs were charged in full to general and administrative expenses.

At 31 December 2017 the company had commitments in the amount of €2,004k (€2,664k in 2016) connected to rental contracts with related parties.

With regard to transactions with Group companies we invite you to refer to chapter 5 of the "Board of Directors' Report".

The transactions mentioned above were carried out at arm's length conditions.

### **31. Events occurring after the close of the year**

The acquisitions, via subsidiary Interpump Piping GS S.r.l., of the assets of the Finnish GS-Hydro group, world leader in the design and construction of piping systems in the industrial, marine and offshore sectors, were completed in January and February of 2018. GS-Hydro revolutionized the piping sector by inventing a solution for pipe assembly without welding. This fast and clean technology not only reduces the environmental impact of the operations, it also guarantees higher technical characteristics and greater ease of use, so it is particularly suitable for continuous or extreme application conditions. The agreement involved the acquisition of the group's subsidiaries in the UK, Spain, Austria, Germany, Denmark, Benelux, Poland, Sweden, the US, China, South Korea, Singapore and Brazil, and also the manufacturing business of the Finnish parent GS-Hydro Oy, including patents and international certifications. Total consolidated sales in the foregoing perimeter were recorded at €61m. The total agreed price for the acquisition is €9m. The net financial position at 31 December 2017 showed cash assets of €3m.

### **32. Proposal to the Shareholders' Meeting**

In relation to the profit for the year of EUR 80,411,397, we propose:

- assigning a dividend of EUR 0.21 for each of the shares in circulation including the right as per art. 2357-(3) subsection 2 of the Italian Civil Code;
- booking the remaining amount to the extraordinary reserve, since the legal reserve now stands at one fifth of the share capital.

## Annex 1

### **Certification of the annual financial statements pursuant to art. 81-(3) of Consob regulation no. 11971 of 14 May 1999, as amended**

1. The undersigned, Fulvio Montipò and Carlo Banci, respectively Executive Director and Chief Reporting Officer of Interpump Group S.p.A., taking account also of the provisions of art. 154-(2), subsections 3 and 4 of legislative decree no. 58 of 24 February 1998, attest to:
  - adequacy in relation to the characteristics of the business and
  - effective application,of the administrative and accounting procedures for formation of the financial statements during 2017.
2. We further confirm that the annual financial statements of Interpump Group S.p.A for the year ended 31 December 2017, showing total assets of €741,613k, net profit of €80,411k and shareholders' equity of €379,800k:
  - a) correspond to the results of the company books and accounting entries;
  - b) were prepared in compliance with the international accounting standards approved by the European Commission further to the enforcement of Ruling (CE) no. 1606/2002 of the European Parliament and the European Council of 19 July 2002, and the provisions issued in implementation of art. 9 of Italian legislative decree 38/2005 and the contents are suitable for providing a truthful and fair representation of the equity, economic and financial situation of the company;
  - c) include the Board of Directors' Report, which contains a reliable analysis of performance and results and the situation of the issuer together with a description of the main risks and uncertainties to which it is exposed.

Sant'Ilario d'Enza (RE), 15 March 2018

Fulvio Montipò  
Chairman and  
Chief Executive Officer

Carlo Banci  
Chief Reporting  
Officer

## **Report of the Statutory Auditors to the Shareholders' Meeting of Interpump Group S.p.A. pursuant to art. 153 of Italian legislative decree no.58/98 and art. 2429 of the Italian civil code**

To the Shareholders' Meeting of Interpump Group S.p.A.

The Board of Statutory Auditors of Interpump Group S.p.A. (hereinafter also “IPG” or the “Company”), pursuant to art. 153 of Italian legislative decree 58/98 (hereinafter also the consolidated finance act) and art. 2429, sub. 2 of the Italian civil code, is required to report to the Shareholders' Meeting convened to approve the financial statements, with regard to the supervisory activity we have carried out during the reporting period in the fulfilment of our duties, to any omissions or inappropriate conduct that we have identified, and with regard to the results of the year, and also to make proposals in relation to the financial statements, to the approval thereof, and to the other matters falling within the competence of the Board of Statutory Auditors.

In the year ending 31 December 2017 and thereafter, up to this day, we performed our supervisory activities, complying with the pertinent legal requirements, taking account of the rules of conduct prescribed by the “Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili” (national councils of certified public accountants), by the provisions of CONSOB in relation to the statutory auditing of companies, and by the provisions contained in art. 19 of Italian legislative decree 39/2010.

The financial statements of IPG were drafted based on the IAS/IFRS international reporting standards issued by the International Accounting Standards Board (IASB) and approved by the European Union, and in compliance with the provisions issued by CONSOB in implementation of art. 9 sub. 3 of Italian legislative decree 38/2005.

The Company's Financial Statements were drafted in compliance with the law and accompanied by the documents prescribed by the Italian civil code and the consolidated finance act. Moreover, in accordance with legal requirements, the Company submitted the consolidated financial statements and the consolidated statement of non-financial information for 2017.

We obtained information instrumental to the execution of the duties of supervision assigned to the Board of Statutory Auditors by attending the meetings of the Board of Directors and the Committees set up within the Board of Directors, and by conducting interviews with the management of the Company and the Group, by means of information obtained from the competent company structures, and by additional monitoring activities.

### **Appointment and Independence of the Board of Statutory Auditors**

The Board of Statutory Auditors in office at the date of this Report was appointed by the Shareholders' Meeting of 28 April 2017: its members are Fabrizio Fagnola (Chair), Alessandra Tronconi (Statutory Auditor), Federica Menichetti (Statutory Auditor), and Roberta Senni and Federico Quaiotti (Acting Auditors). The Board will remain in office for three years and will lapse on the date of the Shareholders' Meeting convened to approve the 2019 Financial Statements.

The appointment was made based on two lists submitted, respectively, by the majority shareholder and by a group of institutional investors and minority shareholders, in compliance with the requirements of the law, and the applicable regulations and company bylaws. The Chair of the Board of Statutory Auditors and one Acting Auditor were appointed from the minority list.

The composition of the Board of Statutory Auditors complies with the criterion of gender balance pursuant to art. 148 of Italian legislative decree 58/98 (consolidated finance act).

At the time of our appointment, we assessed compliance with the independence requirement; this check was performed based on the criteria set down in the Rules of conduct of listed companies - April 2015 and the Code of Corporate Governance, with reference to the independent directors.

We informed Board of Directors of the results of our analysis, pursuant to the requirements of art. 144-(9) sub. 1-(3) of CONSOB Regulation no. 11971, and article 8.C.1 of the Code of Corporate Governance.

### **Supervisory and control activity of the Board of Statutory Auditors**

We conducted our supervisory activities in compliance with the rules set down in art. 2403 of the Italian civil code, in art. 149 of Italian legislative decree 58/98, and in art. 19 of Italian legislative decree 39/2010, as illustrated hereunder.

### ***Supervisory and informative activities required by CONSOB***

In the performance of our duties we carried out the supervisory activities prescribed by art. 2403 of the civil code, by art. 149 of legislative decree 58/98, and by the prescriptions of CONSOB concerning corporate controls and activities of Statutory Auditors, complying with the indications set down in the Code of Corporate Governance, and the Rules of Conduct of the Board of Statutory Auditors of listed companies issued by the national councils of certified public accountants - 2015 edition. In drafting this Report, we considered the CONSOB communications concerning the contents of the reports to Shareholders' Meetings of the Statutory Auditors' of companies with shares listed on the stock market.

In the context of our duties we have therefore:

- attended the meetings of the Board of Directors, supervising over their compliance with the company bylaws, legislation and regulations governing the operation of the corporate bodies and the adherence to the principles of correct administration;
- monitored, within our competence, the adequacy of the company's organizational structure and the adherence to the principles of correct administration, by means of direct observations, collection of information from the persons in charge of several administrative functions, and meetings held with the Independent Auditors in a relationship based on the reciprocal exchange of data and relevant information;
- assessed and monitored the adequacy of the internal control system and the administrative and accounting system, and the reliability of the latter in representing the operating events correctly, by means of information provided by the persons in charge of the respective functions, examination of the corporate documents and analysis of the results of the work carried out by the Independent Auditors;
- held 8 meetings in the year, each lasting approximately 2 hours (of which 2 concerning the previous Board of Statutory Auditors and 6 the current Board of Statutory Auditors); we also attended all the meetings of the Board of Directors, the Control and Risks Committee, and the Related Parties Transactions Committee, and we have been informed of the arguments addressed and the results of the meetings of the Remuneration Committee and the Appointments Committee.
- monitored the adequacy of the reciprocal information flows between IPG and its subsidiaries, in compliance with the provisions of article 114, subsection 2, of legislative decree 58/1998, as assured by the instructions issued to the Group by Company management. An additional guarantee of reciprocal information is constituted by the fact that several parent company management representatives are members of subsidiaries' corporate bodies;
- monitored compliance procedures concerning the rules of "Market abuse" and "Safety of deposits" in relation to "Internal Dealing", with special reference to the treatment of inside information and the procedures for diffusion of press releases and the disclosure of information to the public. In relation to "Market abuse", we monitored the introduction of the amendments made to EU Regulation 596/2014 (MAR), and also compliance with the prescriptions of art. 115-(2) of the consolidated finance act, of articles 152-(2) and 152-(5) of the Issuers' Code, and of EU Regulation 596/2014, concerning maintenance and updating of the Register of persons with access to inside information;
- with reference to normative constraints deriving from enforcement of the European general data protection regulation (24 May 2016), the IPG Group is completing the assimilation of all the regulatory aspects of the new rules, with the aim of becoming fully compliant by 25 May 2018;

- monitored the three-yearly revision of the Related Parties Transactions Procedure, which was approved by the Board of Directors on 4 August 2017.

In relation to the submission of the Consolidated statement of non-financial information, in conformity with the requirements of legislative decree no 254 of 30 December 2016 we monitored compliance with the prescriptions set down in the decree and in CONSOB resolution no. 20267 of 18/01/2018 for preparation of the statements in question, also obtaining the certification issued by the designated independent auditing firm EY S.p.A. dated 28 March 2018. This activity did not reveal any matters calling for mention in this report.

The Board of Statutory Auditors also:

- obtained adequate information from the Directors concerning the activities undertaken and the operations of the greatest economic, financial and capital significance performed by the Company and its subsidiaries pursuant to the requirements of art. 150 sub. 1 of the consolidated finance act. In this regard, both jointly and individually, we paid special attention to ensuring that operations resolved and carried out were performed in compliance with the law and with the company bylaws, and were not imprudent or subject to undue risk, in contrast with the resolutions passed by the Shareholders' Meeting, in potential conflict of interest, or capable of jeopardizing the integrity of the company's assets;
- held meetings with the representatives of the Independent Auditors pursuant to art. 150 sub. 3 of the consolidated finance act, from which no data and/or information emerged requiring mention in this Report;
- exchanged information with the boards of statutory auditors of companies directly or indirectly controlled by IPG S.p.A. pursuant to art. 151 sub. 1 and 2 of the consolidated finance act;
- supervised over the methods of practical implementation of the rules of corporate governance set down in the Code of Corporate Governance to which the Company adheres, as adequately described in the Report on Corporate Governance and the Ownership Structure, in compliance with art. 124-(3) of the consolidated finance act and art. 89-(2) of the Issuers' Code;
- checked, in relation to the periodic assessment required pursuant to art. 3.C.5 of the Code of Corporate Governance, in the framework of our supervision over the methods of practical implementation of the corporate governance rules, correct application of the appraisal criteria and procedures adopted by the Board of Directors, with regard to the positive assessment of the independence of the Directors, and with reference to the matters prescribed by art. 148, subsection 3, of the consolidated finance act, and with reference to the matters set down in the Code of Corporate Governance.

We agreed with the positive evaluation expressed by the Appointments Committee and adopted by the Board of Directors, as required by application criterion no. 1.C.1, letter g) of the Code of Corporate Governance, concerning the size and composition of the administrative body and its operation, and the size, composition and operation of the board committees. The assessment was carried out using the measurement criteria already adopted in the prior year, based on the results of a self-assessment questionnaire prepared by the Appointments Committee and filled in by all members of the Board of Directors.

We further confirm that:

- we have issued our opinion pursuant to art. 2389 of the civil code, also in the light of the assessments of the Remuneration Committee concerning the proposal for the remuneration of directors with special duties;
- we expressed a favourable opinion as expressly required by the Code of Corporate Governance - art. 7, criterion 7.C.1, in relation to the attribution of remuneration to the manager in charge of the Internal Audit function.

***Supervisory and information activities required by the consolidated legal auditing law***

Pursuant to the terms of art. 19 of Italian legislative decree 39/2010 (consolidated legal auditing law), the Board of Statutory Auditors, which includes the "Internal Control and Audit Committee", is

required to supervise:

- over the financial reporting process;
- over the efficacy of the internal control and risk management system;
- over legal auditing of the annual accounts and the consolidated accounts;
- over the independence of the Independent Auditors, particularly with regard to the provision of non-auditing services.

We performed our work with the collaboration of the Control and Risks Committee in order to coordinate the respective competences and avoid overlapping of activities.

On 17 July 2016 legislative decree 39/2010 was amended, with the changes taking effect from 2017, to assimilate the innovations introduced by directive 2014/56/EU in relation to legal auditors of annual accounts and consolidated accounts.

#### *Financial reporting process*

We have supervised over the presence of rules and procedures related to the process of formation and diffusion of financial information. In this regard we highlight the fact that the Report on corporate governance and the ownership structure illustrates the ways in which the Group has defined its Internal Control and Risks Management System in relation to the financial information process on the Consolidated level. The post of Chief Reporting Officer is held by Carlo Banci.

The Chief Reporting Officer makes use of the support of the Internal Audit function to check the operation of the administrative and accounting procedures by means of the activity of testing of controls.

We confirm that we have received adequate information on the monitoring activity of corporate processes with an administrative-accounting impact, in the framework of the internal control system, carried out during the year in relation to interim operating reports, and at the time of closure of the accounts for preparation of the Financial statements, in compliance with the monitoring and certification obligations to which IPG S.p.A. is subject pursuant to the provisions of Law 262/05. In particular, we have taken account of the Risk Assessment for 2017, and the half-yearly update on the test activity pursuant to Law 262/05.

The adequacy of the administrative-reporting system was assessed also through the acquisition of information from the persons in charge of the respective functions and the analysis of results of the work carried out by the Independent Auditors.

No particular criticalities emerged or impediments preventing the release of the certificate by the Chief reporting officer and the Chief executive officer concerning the adequacy of the administrative and accounting procedures for formation of the Annual financial statements of IPG S.p.A. and the Consolidated financial statements for 2017.

We supervised over compliance with the rules concerning the formation and publication of the Interim Financial Report and the Interim Board of Directors' Reports, over the associated layouts, and over correct application of accounting standards, also making use of information obtained from the Independent Auditors.

#### *Effectiveness of the systems for internal control, risk management and for Legal auditing of the annual and consolidated accounts*

We have assessed and supervised over the adequacy of the internal control function and the efficacy of the risk control and management systems.

We confirm that we have checked the most significant activities performed by the overall internal control and risk management system by participating in the meetings of the Control and Risks Committee and the Related Parties Transactions Committee, which were attended by:

- the Director in charge of the internal control and risk management system;
- the Internal Audit/Internal Audit, Risk & Compliance function;
- the CFO;

- the Regulatory Body;
- the information systems manager.

In the framework of this activity, in particular, we acknowledge that we have received and examined:

- the periodic reports on the activity performed, prepared by the Control and Risks Committee and by the Internal Audit/Internal Audit, Risk & Compliance Department;
- the reports prepared by the Internal Audit/Internal Audit, Risk & Compliance Department on conclusion of the checking and monitoring activities, the actions prescribed and the checks of implementation of such actions;
- the periodic updates of the evolution of the risk management process, the result of the monitoring and assessment activities performed by the Internal Audit/Internal Audit, Risk & Compliance functions and by the Group Risk Management & Corporate Finance function, and the aims accomplished.

We acknowledge and agree with the update of the policy for risk management in the IPG Group. We also examined, on a half-yearly basis, the periodic reports on the activity carried out by the Regulatory Body and we examined the activities plan and 2018 budget. Likewise, we acknowledged the Compliance activity pursuant to legislative decree 231/01 and the 2018 activities plan, and we examined and agreed with the proposal to update the Organization and Management Model pursuant to legislative decree 231/01.

Further to our activity in the period, as illustrated in detail above, we agreed with the positive evaluation expressed by the Control and Risks Committee concerning the adequacy of the Internal control and risks management system.

Furthermore, we acknowledge that:

- the Independent Auditors responsible for legal auditing of the accounts have provided us with an illustration of the checks carried out and did not highlight any qualifications during the periodic meetings held with the Board of Statutory Auditors;
- we supervised over Auditing of the annual and consolidated accounts, obtaining information from and holding discussions with the Independent Auditors, also in the light of the innovations introduced with regard to the report of the Independent Auditors.

In particular, we were informed of all the main stages of the auditing activity, including identification of the areas of risk, with a description of the related procedures adopted; moreover, also the main accounting principles applied by IPG were illustrated. We also focused our attention on the normative updates that, starting from the 2017 annual financial statements, affect the contents and methods of formation of the report of the independent auditing firm. We also acknowledge that the Independent Auditors EY S.p.A. have issued their opinions concerning the consolidated financial statements and the separate financial statements on this day (28 March 2018) and have furthermore issued, also on this day, the Supplementary Report for the attention of the Board of Statutory Auditors, as prescribed by art. 11 of EU regulation 537/2014.

#### *Independence of the Independent Auditors, fees and non-audit services*

We supervised over the independence of the Independent Auditors EY S.p.A., checking the nature and extent of services rendered other than auditing of the accounts of IPG and subsidiaries, and we obtained explicit confirmation from the Independent Auditors that the independence requirement has been met.

In detail, the fees paid by the IPG Group to the Independent Auditors and companies belonging to the network of the Independent Auditing Firm were as follows:

<b>Activity</b>	<b>Amount Euro/000</b>
Auditing of the accounts	956
Certification of the consolidated non-financial statement	48
Other services	61
Total	1,065

In the light of the matters presented above, the Board of Statutory Auditors deems that the requirement of independence of the Independent Auditing Firm EY S.p.A. has been met.

Changes occurred in the perimeter subject to auditing in 2017, with the consequent addition of fees related to the ingress of new companies in the scope of consolidation further to the acquisitions carried out in 2017.

### **Operations and events of special significance**

Based on the information obtained, the analyses conducted in the context of our supervisory activity revealed that the operations of the greatest financial and economic significance performed by the Company, also via directly held subsidiaries, are those described below and illustrated in detail in the Board of directors' report.

In particular, apart from the ordinary industrial activities the operations of Interpump Group S.p.A. consisted, as in prior years, in the strategic and operational coordination of the Group, in the drive to optimize the Group's financial flows, and in activities of research and selection of equity investments to acquire with the aim of increasing the Group's rate of growth. This external growth strategy includes the 2017 acquisitions of the Inoxpa Group, Mariotti & Pecini and, operating through subsidiaries, of Bristol Hose and Fluid System 80.

### **Atypical and/or unusual transactions**

Further to the activity of supervision and control performed in the year, we can attest to the fact that:

- the activities performed did not reveal any omissions, irregularities, inappropriate conduct or significant violations such as to require reporting to the controlling bodies or mention in this Report;
- we have received no complaints pursuant to art. 2408 of the Italian civil code and nor have we received petitions from third parties;
- we did not identify third party transactions or intercompany transactions of an atypical or unusual nature in terms of contents, type, size, or temporal positioning.

### **Additional supervisory activity in relation to the Annual financial statements and the Consolidated financial statements**

With regard to the Separate Financial Statements at 31 December 2017, the Consolidated financial statements and the Board of Directors' Report, we draw your attention to the following matters:

- by means of direct checks and information obtained from the Independent Auditors, we ascertained compliance with the articles of law that govern the formation and layout of the Financial statements and the Board of Directors' report and the accounting tables adopted, attesting to the correct use of the accounting standards, as described in the Notes to the Financial statements and in the Board of directors' report;
- in application of CONSOB Resolution no. 15519/2006, the effects of transactions with related parties are expressly indicated in the accounting tables;
- the Financial statements comply with the events and information that came to our attention in the context of our duties of supervision and our powers of monitoring and inspection;
- to our knowledge, during preparation of the Financial statements the Directors did not depart from the articles of law pursuant to art. 2423 sub. 4 of the Italian civil code;
- the Chief executive officer and the Chief reporting officer have issued the certification, pursuant to art. 81-(3) of CONSOB Regulation no. 11971/1999 as amended, and to art. 154-(2) of legislative decree 58/1998 (consolidated finance act);
- the Board of Directors' Report complies with the relevant legal requirements and it is consistent

with the data and results of the Financial statements; it provides ample information concerning the operations and significant transactions, of which we were promptly informed, and of the salient risks of the Company and of its subsidiaries, in relation to intercompany transactions and transactions with related parties, and in relation to the process of adaptation of the company organization to comply with the principles of corporate governance, in line with the Code of Corporate Governance of listed companies;

- pursuant to the terms of art. 123-(3) of legislative decree 58/1998 (consolidated finance act), the Shareholders Meeting will be presented with the Remuneration report, which we have examined and agree with the related layout followed during preparation, in a joint meeting held with the Remuneration Committee.

**Proposal to the Shareholders' Meeting**

We express our favourable opinion for the approval of the Financial Statements at 31 December 2017 and raise no objection concerning the resolution proposal made by the Board of Directors as formulated in the Board of Directors' Report.

S. Ilario d'Enza, 28 March 2018

The Board of Statutory Auditors

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Fabrizio Fagnola

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Alessandra Tronconi

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Federica Menichetti



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Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014  
(Translation from the original Italian text)

To the Shareholders of  
Interpump Group S.p.A.

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of Interpump Group S.p.A. (the Company), which comprise the statement of financial position as at 31 December 2017, and the income statements, the comprehensive income statements, the statement of changes in shareholders' equity and cash flows statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

### Basis for Opinion

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

### Key Audit Matters

There are not key audit matters to be communicated in the hereby report.

### Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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The Directors are responsible for assessing the Company's ability to continue as a going concern and, when preparing the financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the financial statements on a going concern basis unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

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

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

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained 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;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated 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 have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

#### Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Interpump Group S.p.A., in the general meeting held on April 30, 2014, engaged us to perform the audits of the financial statements for each of the years ending 31 December 2014 to 31 December 2022.

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

We confirm that the opinion on the financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

#### Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of Interpump Group S.p.A. are responsible for the preparation of the Board of Directors' Report and of the Report on Corporate Governance and Ownership Structure of Interpump Group S.p.A. as at 31 December 2017, including their consistency with the related financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Board of Directors' Report and of specific information included in the Report on Corporate Governance and Ownership Structure, published in the section "Corporate Governance" of Interpump Group S.p.A.'s website, as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the financial statements of Interpump Group S.p.A. as at 31 December 2017 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Board of Directors' Report and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the financial statements of Interpump Group S.p.A. as at 31 December 2017 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.



Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of Interpump Group S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that non-financial information have been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information are subject to a separate compliance report signed by us.

Bologna, 28 March 2018

EY S.p.A.

Signed by: Marco Mignani, partner

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