Annual Financial Report
at 31 December 2018

Contents

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

2018 Board of Directors' Report

Financial Highlights of the Interpump Group

	31/12/2018 (€/000)	31/12/2017 (€/000)	31/12/2016 (€/000)	31/12/2015 (€/000)	31/12/2014 (€/000)
Consolidated net revenues	1,279,167	1,086,547	922,818	894,928	671,999
Foreign sales	83%	82%	83%	85%	86%
EBITDA	288,519	248,648	198,502	180,258	136,106
EBITDA %	22.6%	22.9%	21.5%	20.1%	20.3%
EBIT (Operating profit)	236,549	198,912	153,533	136,896	104,367
EBIT %	18.5%	18.3%	16.6%	15.3%	15.5%
Consolidated net profit	173,862	135,723	94,473	118,306	57,742
Free cash flow	82,183	93,552	89,947	85,246	38,290
Net debt [c]	331,866	323,808	300,024	278,196	226,044
Consolidated shareholders' equity	868,905	764,729	677,538	622,628	466,550
Indebtedness/EBITDA	1.15	1.30	1.51	1.54	1.66
Net capital expenditure (Capex)	68,185	47,812	36,527	28,863	34,142
Average headcount	6,472	5,750	5,016	4,830	3,575
ROE	20.0%	17.7%	13.9%	19.0%	12.4%
ROCE	19.7%	18.3%	15.7%	15.2%	15.1%
EPS - EUR	1.619	1.257	0.884	1.101	0.541
Dividend per share - EUR	0.220	0.210	0.200	0.190	0.180

ROE: Consolidated net profit / Consolidated shareholders' equity

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

[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.

	31/12/2013	31/12/2012[a]	31/12/2011[b]	31/12/2010	31/12/2009
	(€/000)	(€/000)	(€/000)	(€/000)	(€/000)
Consolidated net revenues	556,513	527,176	471,619	424,925	342,924
Foreign sales	86%	86%	84%	80%	79%
EBITDA	105,173	105,876	94,614	74,100	46,856
EBITDA %	18.9%	20.1%	20.1%	17.4%	13.7%
EBIT (Operating profit)	79,334	84,049	75,650	54,689	29,194
EBIT %	14.3%	15.9%	16.0%	12.9%	8.5%
Consolidated net profit	44,087	53,226	42,585	27,381	13,980
Free cash flow	34,282	38,598	28,800	56,997	63,136
Net debt [c]	121,384	102,552	145,975	147,759	201,833
Consolidated shareholders' equity	432,949	396,876	315,160	291,459	242,796
Indebtedness/EBITDA	1.15	0.97	1.54	1.99	4.31
Net capital expenditure (Capex)	29,278	15,839	12,153	8,478	8,950
Average headcount	2,998	2,685	2,436	2,492	2,427
ROE	10.2%	13.4%	13.5%	9.4%	5.8%
ROCE	14.3%	16.8%	16.4%	12.5%	6.6%
EPS - EUR	0.413	0.556	0.439	0.284	0.187
Dividend per share - EUR	0.170	0.170	0.120	0.110	-

KEY EVENTS OF 2018

Sales reached €1,279.2m, up by 17.7% compared to 2017 (+11.6% at unchanged perimeter, +14.2% also net of exchange differences). A breakdown by business sector shows a 22.2% sales increase in the Hydraulic Sector (+13.1% at unchanged perimeter, +15.6% also net of exchange differences) compared with 2017; Water Jetting Sector sales were up by 9.9% (+8.9% at unchanged perimeter, +11.7% also net of exchange differences).

In geographical terms, growth in Europe including Italy was 19.3%, with 10.4% in North America, 24.5% in the Far East and Oceania, and 22.6% in the Rest of the World. The geographical breakdown at unchanged perimeter shows growth of 10.5% in Europe (including Italy), 8.8% in North America, 15.2% in the Far East and Oceania, and 21.5% in the Rest of the World.

EBITDA reached €288.5m, equivalent to 22.6% of sales. In 2017, EBITDA was €248.6m (22.9% of sales). Accordingly, EBITDA rose by 16.0%. At unchanged perimeter, EBITDA was 23.6% of sales, with an improvement in profitability of 0.7 percentage points that confirms the ongoing optimization efforts made by the Group.

Net profit for 2018 was €173.9m (€135.7m in 2017) reflecting an increase of 28.1%.

The GS Hydro Group (Hydraulic Sector) was consolidated for the first time from 1 January 2018. This group is a world leader in the design and production of piping systems for the industrial, naval and offshore sectors. GS-Hydro revolutionized the piping sector by inventing non-welding assembly technology. 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 total agreed price for the acquisition was €9m. The net financial position at 31 December 2017 showed net cash of €2.5m.

On 2 August 2018, Interpump Group S.p.A. acquired a 100% interest in Ricci Engineering S.r.l., a start-up operating in the design, construction and installation of equipment for the brewery and wine-making industry. The company mainly works in the promising business area of micro-breweries, in a new and fast expanding market; in the space of a few years it achieved annual sales of around €2m, with 2018 EBITDA of 11.3%. The price agreed was €0.6m.

Fluinox Procesos S.L.U. was purchased on 11 December 2018. Based in Valencia (Spain), this company designs, manufactures and installs components and systems for the cosmetics, food processing, pharmaceuticals and chemicals industries, with specific experience in the processing of pastes and powders. This complements perfectly the product range and skills of Inoxpa in the processing of fluids. Fluinox generated sales of €9.2m in 2018, with an EBITDA of 1.6m. The price agreed was €11.2m, including net liquidity of €2.5m. The statement of financial position has been consolidated at 31 December 2018, while the income statement will be consolidated from 1 January 2019.

The Inoxpa Group (Water Jetting Sector) was acquired in February 2017 and was therefore consolidated in full during 2018, compared with just eleven months in 2017, Mariotti & Pecini S.r.l. (Water Jetting Sector) was acquired in early June 2017 and was only consolidated for seven months in 2017, and Fluid System ‘80 S.r.l. (Hydraulic Sector) was acquired in October 2017 and was therefore only consolidated for three months in 2017. When preparing the comparative information at unchanged perimeter presented in this report on operations, the Group did not eliminate the Inoxpa Group data for January 2018, given the negligible impact on the consolidated totals of the data for just one month, and the belief that the more accurate information would not have justified the considerable effort and cost involved. For greater clarity, note that the January 2018 sales of the Inoxpa Group amounted to about €5.2m, with profitability in line with that for the year.

Group Structure

as at 31/12/2018
all holdings 100% unless otherwise specified

Interpump Group SpA

WATER-JETTING | HYDRAULICS

- Inoxihp (52.72%)
- **NLB Corporation Inc.**
  - NLB Poland
- **General Pump Inc.**
  - General Pump China (!)
- **Hammelmann GmbH**
  - Hammelmann Corporation Inc.
  - Hammelmann Australia Pty Ltd
  - Hammelmann Pumps Systems Co. Ltd
  - Hammelmann S.L.
  - Hammelmann Bombas e Sistemas Ltda (99.25%) (remaining 0.75% held by Interpump Group SpA)
  - **GS-Hydro HK Ltd.**
    - GS-Hydro Piping Systems (Shanghai) Co. Ltd.
- Mariotti & Pecini Srl (60%)
- Ricci Engineering Srl
- **Inoxpa S.A.**
  - Inoxpa India Private
  - Inoxpa Solutions France
  - Inoxpa Solution Portugal Lda
  - Inoxpa (UK) Ltd
  - Inoxpa Solutions Moldova (66.67%)
  - Inoxpa Australia Proprietary Ltd
  - Inoxpa Colombia SAS (83.29%)
  - Inoxpa Italia S.r.l.
  - Inoxpa Middle East FZCO (60%)
  - Inoxpa Skandinavien A/S
  - Inoxpa South Africa Proprietary Ltd
  - Inoxpa Special Processing Equipment Co. Ltd
  - Inoxpa Ukraine
  - Inoxpa USA Inc
  - LTD Inoxpa (70%)
  - Inoxpa Poland Sp ZOO (!) (x)
  - Fluinox Procesos S.L.U.
  - Montajes Fluinox S.L.U.
- Sit SpA (65%)
- Teknova Srl (x)

- **Interpump Hydraulics SpA**
  - Hydroven Srl
  - AVI Srl
  - Hydrocar Chile S.A. (90%)
  - Wuxi Interpump Weifu Hydr. Company Ltd (65%)
  - Interpump Hydraulics India Ltd
  - Interpump Hydraulics Middle East FZE
  - Interpump Hydraulics France Sarl (99.77%)
  - Interpump Hydraulics Brasil Ltda
  - Interpump South Africa Pty Ltd
  - Interpump Hydraulics RUS (!)
  - Interpump Hydraulics Peru Sac (90%) (!)
  - Oleodinamica Panni Srl
  - **Contarini Leopoldo Srl**
    - Unidró Contarini Sas
    - Copa Hydrosistem Ood
  - **Interpump Hydraulics (UK) Ltd**
    - Mega Pacific Pty Ltd (65%)
    - Mega Pacific NZ Pty Ltd (65%)
    - IMM Hydraulics Ltd (x)
    - Bristol Hoses Ltd (x)
    - E I Holding Limited (x)
    - Endeavour International Limited (x)
  - **Muncie Inc.**
    - American Mobile Power Inc.
  - **I.M.M. Hydraulics SpA**
    - Hypress Srl
    - Hypress Hydraulik GmbH
    - FGA Srl (!)
    - IMM Hydro Est
    - Hypress Francia Sarl
    - Tekno Tubi Srl
    - Gummi Tech Srl (60%) (!)
- **Walvoil SpA (65%)** (remaining 35% held by Interpump Hydraulics SpA)
  - Walvoil Fluid Power Corporation
  - Walvoil Fluid Power Korea Llc
  - Walvoil Fluid Power (India) Pvt. Ltd (99.97%) (remaining 0.03% held by Interpump Hydraulics India Ltd)
  - Walvoil Fluid Power France Sarl
  - Walvoil Fluid Power Shanghai Co. Ltd
  - Walvoil Fluid Power Australasia
  - Galtech Canada Inc.
  - **HTIL**
    - Walvoil Fluid Power (Dongguan) Co. Ltd
- Tubiflex SpA (80%)
- **Interpump Piping GS Srl**
  - GS-Hydro AB
  - GS-Hydro Denmark AS
  - GS-Hydro UK Ltd
  - GS-Hydro System GmbH
  - GS-Hydro Sp ZOO
  - GS-Hydro Austria GmbH
  - GS-Hydro S.A.U
  - GS-Hydro Benelux B.V.
  - GS-Hydro Korea Ltd.
  - GS-Hydro Singapore Pte Ltd.
  - GS-Hydro U.S. Inc.
  - GS-Hydro do Brasil S.H. Ltda

(!) Not consolidated line-by-line
(x) Dormant, being wound up, or otherwise inactive

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 Cash 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 to be 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)	*2018*	*2017*
Net sales	**1,279,167**	**1,086,547**
Cost of sales	(805,295)	(672,548)
Gross industrial margin	**473,872**	**413,999**
% on net sales	*37.0%*	*38.1%*
Other operating revenues	19,665	16,744
Distribution costs	(117,660)	(102,726)
General and administrative expenses	(135,898)	(124,534)
Other operating costs	(3,430)	(4,571)
EBIT	**236,549**	**198,912**
% on net sales	*18.5%*	*18.3%*
Financial income	11,427	14,379
Financial expenses	(19,212)	(21,424)
Badwill	11,369	305
Equity method contribution	(207)	(22)
Profit for the year before taxes	**239,926**	**192,150**
Income taxes	(66,064)	(56,427)
Consolidated net profit for the year	**173,862**	**135,723**
% on net sales	*13.6%*	*12.5%*
Pertaining to:		
Parent company's shareholders	172,905	134,442
Subsidiaries' minority shareholders	957	1,281
Consolidated profit for the year	**173,862**	**135,723**
EBITDA	**288,519**	**248,648**
% on net sales	*22.6%*	*22.9%*
Shareholders' equity	868,905	764,729
Net debt	287,339	273,542
Payables for the acquisition of investments	44,527	46,815
Capital employed	1,200,771	1,085,086
ROCE	**19.7%**	**18.3%**
ROE	**20.0%**	**17.7%**
Basic earnings per share	**1.619**	**1.257**

NET SALES

Net sales in 2018 totaled €1,279.2m, up by 17.7% from €1,086.5m in 2017 (+11.6% at unchanged perimeter and +14.2% net also of exchange differences).

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

(€/000)	Italy	Rest of Europe	North America	Far East and Oceania	Rest of the World	Total
2018						
Hydraulic Sector	169,162	317,148	184,519	83,358	90,109	844,296
Water Jetting Sector	43,085	154,248	140,371	60,533	36,634	434,871
Total	212,247	471,396	324,890	143,891	126,743	1,279,167
2017						
Hydraulic Sector	153,133	240,636	163,944	63,339	69,862	690,914
Water Jetting Sector	37,900	141,490	130,473	52,254	33,516	395,633
Total	191,033	382,126	294,417	115,593	103,378	1,086,547
2018/2017 percentage changes						
Hydraulic Sector	+10.5%	+31.8%	+12.6%	+31.6%	+29.0%	+22.2%
Water Jetting Sector	+13.7%	+9.0%	+7.6%	+15.8%	+9.3%	+9.9%
Total	+11.1%	+23.4%	+10.4%	+24.5%	+22.6%	+17.7%
2018/2017 at unchanged perimeter (%)						
Hydraulic Sector	+8.6%	+13.6%	+9.9%	+14.8%	+27.4%	+13.1%
Water Jetting Sector	+4.7%	+8.8%	+7.5%	+15.8%	+9.3%	+8.9%
Total	+7.8%	+11.8%	+8.8%	+15.2%	+21.5%	+11.6%

PROFITABILITY

The cost of sales accounted for 63.0% of turnover (61.9% in 2017). Production costs, which totaled €335.8m (€283.2m in 2017, which however did not include the costs of the GS Hydro Group for twelve months, Fluid System ’80 for nine months, or Mariotti & Pecini and Ricci Engineering for five months), accounted for 26.3% of sales (26.1% in 2017). The purchase cost of raw materials and components sourced on the market, including changes in inventories, was €469.5m (€389.3m in 2017, which however did not include the costs of the GS Hydro Group for twelve months, Fluid System’80 for nine months or Mariotti & Pecini and Ricci Engineering for five months). The incidence of purchase costs, including changes in inventories, was 36.7% compared to 35.8% in 2017.

At unchanged perimeter, distribution costs rose by 7.6% with respect to 2017, but the incidence on sales fell by 0.4 percentage points.

General and administrative expenses rose by 2.3% at unchanged perimeter with respect to 2017, while their incidence on sales was 1 percentage point lower.

Payroll costs totaled €297.2m (€260.6m in 2017, which however did not include the costs of the GS Hydro Group and Fluid System ‘80, Mariotti & Pecini for eight months or Ricci Engineering for five months). At unchanged perimeter, payroll costs rose by 5.1% due to an increase of 255 in the average headcount and a 0.6% rise in the per capita cost. The total number of Group employees in 2018 averaged 6,472 (6,004 at unchanged perimeter) compared to 5,750 in 2017. The increase in average headcount in 2018, net of the personnel of the newly acquired companies, breaks down as follows: plus 193 in Europe, plus 38 in the US and plus 24 in the Rest of the World.

EBITDA totaled €288.5m (22.6% of sales) compared with €248.6m in 2017, which represented 22.9% of sales, reflecting a 16.0% increase. At unchanged perimeter, EBITDA was 23.6% of sales, with an improvement in profitability of 0.7 percentage points that confirms the ongoing optimization efforts made by the Group. The following table shows EBITDA by business sector:

	2018 €/000	*% on total sales**	*2017 €/000*	*% on total sales**	*Increase/ Decrease*
Hydraulic Sector	171,002	20.2%	144,563	20.9%	+18.3%
Water Jetting Sector	117,517	26.9%	104,085	26.2%	+12.9%
Total	***288,519***	***22.6%***	***248,648***	***22.9%***	***+16.0%***

* = Total sales also include sales to other Group companies, while the sales analyzed previously are exclusively those external to the group (see Note 4 to the Annual Financial Report at 31 December 2018). For comparability, the percentage is calculated on total sales, rather than the net sales shown earlier.

EBIT was €236.5m (18.5% of sales) compared with €198.9m in 2017 (18.3% of sales), reflecting an increase of 18.9%.

The tax rate for the year was 27.5% (29.4% in 2017). Net of the badwill recognized as financial income, which is not taxable since it is only recorded in the consolidated financial statements, the tax rate in 2018 was 28.9%.

Net profit for 2018 was €173.9m (€135.7m in 2017), with an increase of 28.1%; in this context it should be noted that 2018 benefited from one-off income of €11.4m arising from the acquisition of GS Hydro. Basic earnings per share rose from EUR 1.257 in 2017 to EUR 1.619 in 2018, reflecting growth of 28.8%.

CASH FLOW

The change in net debt breaks down as follows:

	2018	*2017*
	€/000	*€/000*
Opening net financial position	**(273,542)**	**(257,263)**
Adjustment: opening net cash position of companies not consolidated line by line at the end of the prior year [(a)]	(7)	-
Adjusted opening net financial position	**(273,549)**	**(257,263)**
Cash flow from operations	209,753	172,365
Cash flow generated (absorbed) by the management of commercial working capital	(55,085)	(32,964)
Cash flow generated (absorbed) by other current assets and liabilities	(5,829)	2,156
Investment in tangible fixed assets	(65,174)	(45,139)
Proceeds from the sale of tangible fixed assets	1,127	871
Investment in other intangible assets	(4,138)	(3,544)
Received financial income	602	534
Other	927	(727)
Free cash flow	***82,183***	***93,552***
Acquisition of investments, including received debt and net of treasury shares assigned	(21,079)	(89,144)
Dividends paid	(23,115)	(22,310)
Outlays for the purchase of treasury shares	(54,183)	-
Proceeds from the sale of treasury shares to beneficiaries of stock options	540	3,376
Receipts from the disposal of assets held for sale	785	2,714
Change in other financial assets	(213)	83
Net cash generated (used)	***(15,082)***	***(11,729)***
Exchange differences	1,292	(4,550)
Net financial position at year end	**(287,339)**	**(273,542)**

[(a)] = 2018 relates to Saldature M.D.M. S.r.l.

Net liquidity generated by operating activities totaled €209.8m (€172.4m in 2017), reflecting an increase of 21.7%. Free cash flow was €82.2 million (€93.6 million in 2017). The reduction was due to absorption by working capital linked to the strong increase in sales and to greater capital investment.

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

	31/12/2018	31/12/2017	01/01/2017
	€/000	€/000	€/000
Cash and cash equivalents	118,140	144,938	197,891
Bank payables (advances and STC amounts)	(21,404)	(8,955)	(2,396)
Interest-bearing financial payables (current portion)	(151,917)	(166,465)	(124,784)
Interest-bearing financial payables (non-current portion)	(232,158)	(243,060)	(327,974)
Total	**(287,339)**	**(273,542)**	**(257,263)**

The Group also has contractual commitments for the purchase of residual shareholdings in subsidiaries totaling €44.5m (€46.8m at 31 December 2017). Of this amount, 3.5 million euro relates to the acquisition of equity investments (4.6 million euro at 31 December 2017), while

41.0 million euro relates to contractual agreements for the acquisition of residual interests in subsidiaries (42.2 million euro at 31 December 2017).

GROUP STATEMENT OF FINANCIAL POSITION

Capital employed rose from €1,085.1m at 31 December 2017 to €1,200.1m at 31 December 2018, mainly due to the acquisition of the GS Hydro Group and the increase in working capital following strong organic growth during the year. ROCE was 19.7% (18.3% in 2017). ROE was 20.0% (17.7% in 2017).

The statement of financial position is analyzed below in terms of the sources and applications of funds:

	31/12/2018 (€/000)	*%*	*31/12/2017 (€/000)*	*%*
Trade receivables	270,364		236,761	
Net inventories	366,480		291,701	
Other current assets	35,527		24,497	
Trade payables	(177,782)		(142,975)	
Short-term tax payables	(19,204)		(18,541)	
Short-term portion for provisions for risks and charges	(3,807)		(3,610)	
Other short-term liabilities	(63,618)		(51,810)	
Net working capital	**407,960**	**34.0**	**336,023**	**31.0**
Net intangible and tangible fixed assets	390,219		359,929	
Goodwill*	434,699		425,991	
Other financial fixed assets	2,319		1,145	
Other non-current assets	33,617		29,261	
Liabilities for employee benefits	(19,377)		(20,044)	
Medium/long-term portion for provisions for risks and charges	(3,161)		(3,156)	
Other medium/long-term liabilities	(45,505)		(44,063)	
Total net fixed assets	**792,811**	**66.0**	**749,063**	**69.0**
Total capital employed	**1,200,771**	**100**	**1,085,086**	**100**
Financed by:				
Group shareholders' equity	863,944		759,165	
Minority interests	4,961		5,564	
Total shareholders' equity	**868,905**	**72.4**	**764,729**	**70.5**
Cash and cash equivalents	(118,140)		(144,938)	
Bank payables	21,404		8,955	
Short-term interest-bearing financial payables	151,917		166,465	
Short-term payable for purchase of investments	8,679		2,428	
Total short term financial payables (cash)	**63,860**	**5.3**	**32,910**	**3.0**
Medium/long-term interest-bearing financial payables	232,158		243,060	
Medium/long-term payable for the acquisition of equity investments*	35,848		44,387	
Total medium/long-term financial payables	**268,006**	**22.3**	**287,447**	**26.5**
Total sources of financing	**1,200,771**	**100**	**1,085,086**	**100**

* = 2017 data remeasured in 2018 as required by IFRS 3.

Interpump Group's equity structure is balanced, with a leverage index of 0.38 (0.42 at 31 December 2017). 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 totaled €80.9m, of which €7.5m via the acquisition of equity investments (€75.7m in 2017, of which €20.1m 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 (€7.9m at 31 December 2018 and €6.5m at 31 December 2017). Net of these latter amounts, capital expenditure amounted to €65.5 million in 2018 (€49.1 million in 2017), reflecting increases in production capacity due to the marked rise in volumes, as well as the normal renewal and modernization of plant, machinery and equipment. The difference with respect to the expenditure recorded in the cash flow statement is due to the timing of payments.

Increases in intangible assets totaled €4.7m, of which €0.6m through the acquisition of equity investments (€16.3m in 2017, including €12.6m via the acquisition of equity investments). The 2018 increase refers mainly 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 2018 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 2018, 6 new projects were completed concerning new pump versions, mechanical components for high and very high pressure pumps, and applications for the food processing industry; in addition, work commenced on 10 new projects. Development activities concerning new very high pressure pumps and systems for the Water Jetting sector are instead carried out by Hammelmann. In 2018 Hammelmann completed 6 new projects for new families of very high pressure pumps, systems and several new projects related to accessories.

R&D activities for the Hydraulic Sector are conducted by Walvoil, Interpump Hydraulics and IMM. 2018 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 2018 amounted to €2,136k (€1,971k in 2017), while the costs for design personnel charged to the income statement totaled €20,055k (€19,234k in 2017).

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 corporate 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.

Pursuant to art. 5, para. 3.b), of Decree 254/2016, the Company has prepared a consolidated non-financial declaration, additional to this Annual Financial Report, to which reference is made for further information about the environment and safety. The 2018 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 30 countries and converts financial statements in 24 currencies other than the euro. Accordingly, the Group is primarily exposed to the risk deriving from translation of the financial statements of the companies in question.

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, €5.1m of intercompany loans were disbursed and €0.5m collected during 2018 in currencies other than those utilized by the debtor companies. At 31 December 2018, loans granted in currencies other than those utilized by the debtor companies total €18.5m, up by €8.2m since 31 December 2017, of which €3.7m was due to the consolidation of the GS Hydro Group in 2018. Once again in 2018, the Group made the strategic decision not to hedge these exposures.

(ii) *Interest rate risk*
Interest rate risk derives from medium/long-term loans granted at floating rates. It is currently Group policy not to arrange 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 stand-by lines of 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, aluminum, 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 2018, to which Interpump Group has adhered. This report can be found in the Corporate Governance section of the Group website www.interpumpgroup.it.
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	Company issuer	Number of shares held at the end of the prior year	Number of shares purchased/ subscribed	Number of shares sold	Number of shares held at the end of the year
Fulvio Montipò					
Held directly	Interpump Group S.p.A.	635,233	-	-	635,233
Paolo Marinsek					
Held directly	Interpump Group S.p.A.	42,000	90,000	(72,000)	60,000

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 2018, 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 2018, 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 2018, 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 2018.

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 at the Shareholders' Meeting of 30 April 2013 (**2013/2015** plan) and one approved at the Shareholders' Meeting of 28 April 2016 (**2016/2018** plan).

The "Interpump **2013/2015** Incentive Plan" 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 for a maximum of 2,000,000 shares in the Company 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 has been established at EUR 6.00 per share, which was their market value on the plan approval date. The options can be exercised between 30 June 2016 and 31 December 2019. The subsequent meeting of the Board of Directors, held on the same date, set a figure of 2,000,000 for the number of options to be assigned, divided the total number of options into tranches (500,000 for the first tranche, 700,000 for the second tranche and 800,000 for the third tranche) and established conditions for the exercise of the options, which are connected to both 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 2018 the situation of the plan was as follows:

Number of rights assigned	1,870,000
Number of options canceled	(7,000)
Number of shares purchased	(1,803,000)
Total number of options not yet exercised	60,000

Changes in the options during the year were as follows:

	Price per share for the exercise of options	Vesting period	Number of rights assigned, start of year	Number of rights expired in the year	Number of shares purchased in the year	Number of options exercis-able at year end
Directors of the Parent Company						
❑ Paolo Marinsek	EUR 6.00	01.07.2016-31.12.2019	110,000	-	(90,000)	20,000
Other beneficiaries (employees)	EUR 6.00	01.07.2016-31.12.2019	40,000	-	-	40,000
Total			150,000	-	(90,000)	60,000

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 has been established at EUR 12.8845 per share, which was their market value on the plan approval date. 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 canceled in 2017 totaled 30,000. At 31 December 2018 the situation of the plan was as follows:

Number of rights assigned	2,151,800
Number of rights canceled	(30,000)
Number of shares purchased	-
Total number of options not yet exercised at 31/12/2018	2,121,800

The beneficiaries of the options were:

	Price per share for the exercise of options	Vesting period	Number of rights assigned, start of year	Number of rights expired in the year	Number of rights assigned in the year	Number of options exercis-able at year end
Directors of the Parent Company						
❑ Fulvio Montipò	EUR 12.8845	01.07.2019-31.12.2022	1,620,000	-	-	1,620,000
❑ Paolo Marinsek	EUR 12.8845	01.07.2019-31.12.2022	65,000	-	-	65,000
Other beneficiaries (employees)	EUR 12.8845	01.07.2019-31.12.2022	436,800	-	-	436,800
Total			2,121,800	-	-	2,121,800

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 34 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. Further information is provided in the report on corporate governance and the ownership structure, which can be found in the Corporate Governance section of the Group websitewww.interpumpgroup.it.

TREASURY SHARES

At 31 December 2018 the Parent company held 3,413,489 shares, representing 3.135% of capital, acquired at an average unit cost of EUR 21.0343.

RECONCILIATION WITH THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

The consolidated shareholders' equity and net profit attributable to the owners of the Parent company are reconciled below with the equivalent amounts reported in the separate financial statements:

	Shareholders' equity at 31/12/2018	Net profit for 2018	Shareholders' equity at 31/12/2017
Parent Company's financial statements	395,150	87,932	379,800
Difference between the book value of consolidated investments and their valuation according to the net equity method	471,221	85,431	381,334
Greater book value of a building owned by the Parent Company	186	(5)	191
Elimination of Parent Company's intercompany profits	(2,613)	(453)	(2,160)
Total consolidation adjustments	468,794	84,973	379,365
Consolidated shareholders' equity and net profit attributable to the owners of the Parent Company	863,944	172,905	759,165

GROUP COMPANIES

At 31 December 2018 the Interpump Group is led by Interpump Group S.p.A., which holds direct and indirect controlling interests in 93 companies (six of which are dormant) 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.

Companies consolidated line by line	Share capital (€/000)	% held at 31/12/18	Head office	Main activity	Sales €/million 31/12/2018		Sales €/million 31/12/2017		Average number of employees 2018	Average number of employees 2017
General Pump Inc.	1,854	100.00%	Minneapolis - USA	Distributor of high pressure pumps (Water Jetting Sector)	50.5		48.8		64	61
Hammelmann GmbH	25	100.00%	Oelde - Germany	High pressure systems and pumps (Water Jetting Sector)	108.9		98.0		363	356
Hammelmann Australia Pty Ltd	472	100.00%	Melbourne - Australia	Sale of high pressure systems and pumps (Water Jetting Sector)	10.6		8.2		23	21
Hammelmann Corporation Inc.	39	100.00%	Miamisburg - USA	Sale of high pressure systems and pumps (Water Jetting Sector)	22.3		22.0		27	26
Hammelmann S. L.	500	100.00%	Zaragoza - Spain	Sale of high pressure systems and pumps (Water Jetting Sector)	3.3		2.4		6	5
Hammelmann Pumps Systems Co Ltd	871	90.00%	Tianjin - China	Sale of high pressure systems and pumps (Water Jetting Sector)	13.4		11.8		21	20
Hammelmann Bombas e Sistemas Ltda	765	100.00%	San Paolo - Brazil	Sale of high pressure systems and pumps (Water Jetting Sector)	1.1		1.3		7	6
Inoxihp S.r.l.	119	52.75%	Nova Milanese (MI)	Production and sale of very high pressure systems and pumps (Water Jetting Sector)	10.6		10.4		36	36
NLB Corporation Inc.	12	100.00%	Detroit - USA	Production and sale of very high pressure systems and pumps (Water Jetting Sector)	77.6		69.5		216	212
NLB Poland Corp. Sp. Z.o.o.	1	100.00%	Warsaw – Poland	Sale of high pressure systems and pumps (Water Jetting Sector)	1.4		1.7		2	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)	46.4		37.9	a)	175	145
Suministros Tecnicos Y Alimentarios S.L.	-	-	Bilbao – Spain	Sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	-	b)	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)	14.5		11.5	a)	102	89
Candigra Vision Process Equipment PVT Ltd	-	-	Maharashtra – India	Production and sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)		c)	0.8	a)	-	9
Inoxpa Solutions France	2,071	100.00%	Gleize – France	Production and sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	11.7		8.5	a)	19	16
Improved Solutions Unipessoal Ltda (Portugal)	760	100.00%	Vale de Cambra – Portugal	Production and sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	5.8		2.7	a)	32	22
STA Portoguesa Maquinas Para Industria Alim. Lda	-	-	Vale de Cambra – Portugal	Production and sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	-	b)	2.1	a)	-	5

Companies consolidated line by line	Share capital (€/000)	% held at 31/12/18	Head office	Main activity	Sales €/million 31/12/2018		Sales €/million 31/12/2017		Average number of employees 2018	Average number of employees 2017
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		0.9	a)	5	5
Inoxpa Solutions Moldova	317	66.67%	Chisinau – Moldova	Sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	1.6		1.5	a)	34	36
Inoxpa Australia Proprietary Ltd	584	100.00%	Capalaba – Australia	Sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	1		0.9	a)	3	3
Inoxpa Colombia SAS	133	83.29%	Bogotá - Colombia	Sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	2.9		2.5	a)	13	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)	8	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)	0.9		0.4	a)	3	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		1.7	a)	6	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)	3.4		3.0	a)	14	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)	1.7		1.5	a)	5	5
Inoxpa Ukraine	113	100.00%	Kiev – Ukraine	Sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	0.7		0.5	a)	4	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)	1.8		1.5	a)	3	3
Inoxrus	-	-	Saint Petersburg – Russia	Sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	-	e)	1.2	a)	2	9
Starinox	-	-	Moscow – Russia	Sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	1.7	e)	7.0	a)	12	41
INOXPA LTD	1,435	70.00%	Podolsk - Russia	Sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	6.7		-		41	-
SCI SUALI	-	-	Gleize – France	Property activity (Water Jetting Sector)	-	f)	-	a)	-	-
Fluinox Procesos S.L.U.	3	100.00%	Foios - Spain	Sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	-	g)	-		-	-
Montajes Fluinox S.L.U.	4	100.00%	Foios - Spain	Sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	-	g)	-		-	-
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)	7.8		4.8	h)	13	8
Ricci Engineering S.r.l.	10	100.00%	Orvieto (TR)	Design, manufacture and installation for plant for the beer- and wine-making industry (Water Jetting Sector)	1.0	i)	-		2	-

Companies consolidated line by line	Share capital (€/000)	% held at 31/12/18	Head office	Main activity	Sales €/million 31/12/2018	Sales €/million 31/12/2017	Average number of employees 2018	Average number of employees 2017
SIT S.p.A.	105	65.00%	S.Ilario d'Enza (RE)	Sheet metal drawing, blanking, and pressing (Water Jetting Sector)	4.7	4.3	22	20
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)	88.0	77.1	289	297
AVI S.r.l.	10	100.00%	Varedo (MB)	Sale of ancillary products for industrial vehicles, hydraulic pumps and power take-offs (Hydraulic Sector)	5.9	5.2	13	13
Contarini Leopoldo S.r.l.	47	100.00%	Lugo (RA)	Production and sale of hydraulic cylinders (Hydraulic Sector)	26.1	23.0	112	111
Unidro Contarini S.a.s..	8	100.00%	Barby - France	Production and sale of hydraulic cylinders (Hydraulic Sector)	4.5	4.0	12	11
Copa Hydrosystem Ood	3	100.00%	Troyan - Bulgaria	Production and sale of hydraulic cylinders (Hydraulic Sector)	8.6	7.2	145	119
Fluid System 80 S.r.l.	-	-	Remanzacco (UD)	Sale of ancillary products for industrial vehicles, hydraulic pumps and power take-offs (Hydraulic Sector	- j)	1.5 k)	-	3
Hydrocar Chile S.A.	129	90.00%	Santiago - Chile	Sale of hydraulic pumps and power take-offs (Hydraulic Sector)	8.6	8.2	55	56
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)	23.2	14.9	51	38
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)	9.1	8.5	106	106
Interpump Hydraulics France S.a.r.l.	76	99.77%	Ennery - France	Sale of hydraulic pumps and power take-offs (Hydraulic Sector)	4.9	4.2	14	13
Interpump Hydraulics India Private Ltd	682	100.00%	Hosur - India	Production and sale of power take-offs and hydraulic pumps (Hydraulic Sector)	22.8	14.8	106	95
Interpump Hydraulics Middle East FZE	326	100.00%	Dubai - United Arab Emirates	Sale of ancillary products for industrial vehicles, hydraulic pumps and power takeoffs (Hydraulic Sector)	1.4	1.5	4	5
Interpump South Africa Pty Ltd	-	100.00%	Johannesburg - South Africa	Production and sale of hydraulic cylinders (Hydraulic Sector)	5.9	6.0	35	42
Interpump Hydraulics (UK) Ltd.	13	100.00%	Kidderminster – United Kingdom	Sale of hydraulic pumps and power take-offs (Hydraulic Sector)	17.4	8.8 l)	88	46
Mega Pacific Pty Ltd	335	65.00%	Newcastle – Australia	Sale of hydraulic products (Hydraulic Sector)	14.2	13.3	41	37
Mega Pacific NZ Pty Ltd	557	65.00%	Mount Maunganui – New Zealand	Sale of hydraulic products (Hydraulic Sector)	2.7	2.0	11	8

Companies consolidated line by line	Share capital (€/000)	% held at 31/12/18	Head office	Main activity	Sales €/million 31/12/2018	Sales €/million 31/12/2017	Average number of employees 2018	Average number of employees 2017
Oleodinamica Panni S.r.l.	2,000	100.00%	Tezze sul Brenta (VI)	Production and sale of hydraulic cylinders (Hydraulic Sector)	57.3	49.8	241	227
Muncie Power Prod. Inc.	784	100.00%	Muncie - USA	Power take-offs and hydraulic pumps (Hydraulic Sector)	100.7	93.1	371	355
American Mobile Power Inc.	3,410	100.00%	Fairmount - USA	Power take-offs and hydraulic pumps (Hydraulic Sector)	100.7	93.1	371	355
Wuxi Interpump Weifu Hydraulics Company Ltd	2,095	65.00%	Wuxi - China	Production and sale of hydraulic pumps and power take-offs (Hydraulic Sector)	18.1	15.2	77	74
IMM Hydraulics S.p.A.	520	100.00%	Atessa (Switzerland)	Production and sale of hydraulic hoses and fittings (Hydraulic Sector)	62.6	53.9	281	259
Hypress France S.a.r.l.	162	100.00%	Strasbourg - France	Sale of hydraulic hoses and fittings (Hydraulic Sector)	2.8	2.7	8	7
Hypress Hydraulik GmbH	52	100.00%	Meinerzhagen - Germany	Sale of hydraulic hoses and fittings (Hydraulic Sector)	7.1	7.5	20	20
Hypress S.r.l.	50	100.00%	Atessa (Switzerland)	Production and sale of hydraulic hoses and fittings (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)	13.5	11.0	188	158
Tekno Tubi S.r.l.	100	100.00%	Sant'Agostino (FE)	Production and sale of rigid and flexible hydraulic lines (Hydraulic Sector)	15.6	14.5	84	60
Tubiflex S.p.A.	515	80.00%	Orbassano (TO)	Production and sale of flexible hoses (Hydraulic Sector)	22.6	22.3	144	146
Walvoil S.p.A.	7,692	100.00%	Reggio Emilia	Production and sale of hydraulic valves and directional controls (Hydraulic Sector)	250.5	219.3	1,147	1,139
Walvoil Fluid Power Corp.	137	100.00%	Tulsa - USA	Sale of hydraulic valves and directional controls (Hydraulic Sector)	59.2	52.0	68	64
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	1	30
Walvoil Fluid Power (India) Pvt Ltd	4,803	100.00%	Bangalore - India	Production and sale of hydraulic valves and directional controls (Hydraulic Sector)	33.6	16.2	277	220
Walvoil Fluid Power Korea Llc	453	100.00%	Pyeongtaek – South Korea	Production and sale of hydraulic valves and directional controls (Hydraulic Sector)	13.0	11.9	48	47
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	4
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)	4.2	3.8	15	13

Companies consolidated line by line	Share capital (€/000)	% held at 31/12/18	Head office	Main activity	Sales €/million 31/12/2018	Sales €/million 31/12/2017	Average number of employees 2018	Average number of employees 2017
HC Hydraulic Technologies (P) Ltd	-	-	Bangalore - India	Production and sale of hydraulic valves and directional controls (Hydraulic Sector)	2.9 m)	9.3	24	91
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)	18.2	8.9	107	68
Interpump Piping GS S.r.l.	10	100.00%	Reggio Emilia	Piping holding company (Hydraulic Sector)	-	-	-	-
GS-Hydro Singapore Pte Ltd	624	100.00%	Singapore	Design, production and sale of piping systems (Hydraulic Sector)	1.1	-	3	-
GS-Hydro Korea Ltd.	1,892	100.00%	Busan - South Korea	Design, production and sale of piping systems (Hydraulic Sector)	3.9	-	28	-
GS-Hydro Denmark AS	67	100.00%	Kolding - Denmark	Design, production and sale of piping systems (Hydraulic Sector)	3.2	-	12	-
GS-Hydro Piping Systems (Shanghai) Co. Ltd.	2,760	100.00%	Shanghai (China)	Design, production and sale of piping systems (Hydraulic Sector)	4.3	-	50	-
GS-Hydro Benelux B.V.	18	100.00%	Barendrecht - Netherlands	Design, production and sale of piping systems (Hydraulic Sector)	4.0	-	16	-
GS-Hydro Austria GmbH	40	100.00%	Pashing - Austria	Design, production and sale of piping systems (Hydraulic Sector)	7.0	-	21	-
GS-Hydro Sp Z O O (Poland)	1,095	100.00%	Gdynia - Poland	Design, production and sale of piping systems (Hydraulic Sector)	3.7	-	30	-
GS-Hydro S.A.U (Spain)	90	100.00%	Las Rozas - Spain	Design, production and sale of piping systems (Hydraulic Sector)	14.6	-	181	-
GS-Hydro U.S. Inc.	9,903	100.00%	Huston - USA	Design, production and sale of piping systems (Hydraulic Sector)	4.1	-	22	-
GS-Hydro do Brasil Sistemas Hidraulicos Ltda	252	100.00%	Rio de Janeiro (Brazil)	Design, production and sale of piping systems (Hydraulic Sector)	1.0	-	10	-
GS-Hydro System GmbH (Germany)	179	100.00%	Witten - Germany	Design, production and sale of piping systems (Hydraulic Sector)	-	-	1	-
GS- Hydro UK Ltd	5,095	100.00%	Aberdeen - United Kingdom	Design, production and sale of piping systems (Hydraulic Sector)	12.9	-	70	-
GS-Hydro Ab (Sweden)	20	100.00%	Kista - Sweden	Design, production and sale of piping systems (Hydraulic Sector)	1.7	-	7	-
GS-Hydro Hong Kong Ltd	1	100.00%	Hong Kong	Design, production and sale of piping systems (Hydraulic Sector)	1.4	-	-	-
IMM Hydraulics Ltd	-	100.00%	Kidderminster - UK	Dormant (Hydraulic Sector)	-	5.5 l)	-	20
Bristol Hose Ltd	-	100.00%	Bristol - UK	Dormant (Hydraulic Sector)	-	1.4 l)	-	11

Companies consolidated line by line	Share capital (€/000)	% held at 31/12/18	Head office	Main activity	Sales €/million 31/12/2018	Sales €/million 31/12/2017		Average number of employees 2018	Average number of employees 2017
E.I. Holdings Ltd	-	100.00%	Bath - United Kingdom	Dormant and in liquidation (Hydraulic Sector)	-	-	l)	-	-
Endeavour International Ltd	-	100.00%	Bath - United Kingdom	Dormant and in liquidation (Hydraulic Sector)	-	1.3	l)	-	5
Teknova S.r.l.	28	100.00%	Reggio Emilia	Dormant and in liquidation (Water Jetting Sector)	-	-		-	-

Companies not consolidated line by line				
General Pump China	111	100%	Ningbo – China	Marketing of components (Water Jetting Sector)
Interpump Hydraulics Perù	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)
FGA S.r.l.	10	100%	Fossacesia (CH)	Surface treatments (Hydraulic Sector)
Gummi Tech S.r.l.	25	60%	Monteprandone (AP)	Production and sale of rubber mixtures (Hydraulic Sector)

a) = Sales for 11 months in 2017.
b) = Absorbed by Inoxpa S.A. on 29 May 2018.
c) = Absorbed by Inoxpa India Private Ltd on 30 July 2018.
d) = Absorbed by Inoxpa Solutions Portugal on 1 January 2018.
e) = Companies merged on 2 April 2018 to form INOXPA LTD.
f) = Absorbed by Inoxpa Solutions France on 1 March 2018.
g) = Purchased in December 2018.
h) = Sales for 7 months in 2017.
i) = Sales for 5 months in 2018.
j) = Absorbed by Hydroven S.r.l.. on 1 January 2018.
k) = Sales for 3 months in 2017.
l) = 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.
m) = Absorbed by Walvoil Fluid Power (India) on 1 April 2018.

EVENTS OCCURRING AFTER THE END OF THE YEAR AND BUSINESS OUTLOOK

No atypical or unusual transactions have been carried out subsequent to 31 December 2018 that would call for changes to these consolidated financial statements.

Via Muncie Power Products Inc., a subsidiary, Interpump Group acquired control over HYDRA DYNE TECH, based in Ontario, Canada, on 1 March 2019. This company manufactures and markets hydraulic rotary manifolds, valves and cylinders. These products are designed and customized to meet the needs of several of the most important OEMs in the farm machinery, earth-moving and forestry sectors. The rotary components, for which Hydra Dyne Tech is a recognized specialist, represent a significant extension to the range of hydraulic components offered by Interpump. Hydra Dyne Tech ended its financial year on 31 August 2018 with sales of 35.8 million and an EBITDA of 6.1 million; the net financial position was 7.2 million (amounts expressed in CAD). The price agreed for a 75% interest was €15.2m. The parties also agreed put and call options for the transfer of the minority interest from 2023.

Considering the short time span since 31 December 2018 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 2019, for which positive results are anyway predicted in terms of sales and profitability.

FURTHER INFORMATION

Pursuant to the regulatory requirements for listing that concern subsidiaries formed in or subject to the laws of non-EU states, Walvoil Fluid Power (Dongguan) Co., Ltd has been included since 31 December 2017 among the companies of significant importance to the consolidated financial statements, following its inclusion in the audit plan, even though it has not individually exceeded the limits established in art. 151 of the Issuers' Regulation.

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 30 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), 19 March 2019

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

Consolidated Financial Statements at 31/12/2018

Interpump Group S.p.A. and subsidiaries

Consolidated statement of financial position

(€/000)	*Notes*	*31/12/2018*	*31/12/2017*
ASSETS			
Current assets			
Cash and cash equivalents	6	118,140	144,938
Trade receivables	7, 30	270,364	236,761
Inventories	8	366,480	291,701
Tax receivables		24,596	15,410
Other current assets	9, 30	10,931	8,302
Total current assets		**790,511**	**697,112**
Non-current assets			
Property, plant and equipment	10	355,488	321,833
Goodwill*	11	434,699	425,991
Other intangible assets	12	34,731	38,096
Other financial assets	13, 30	2,319	1,145
Tax receivables		1,664	1,770
Deferred tax assets	14	29,776	24,909
Other non-current assets		2,177	2,582
Total non-current assets		**860,854**	**816,326**
Assets held for sale	15	-	785
Total assets		***1,651,365***	***1,514,223***

*= 2017 data remeasured in 2018 as required by IFRS 3.

(€/000)	***Notes***	***31/12/2018***	***31/12/2017***
LIABILITIES			
Current liabilities			
Trade payables	7, 30	177,782	142,975
Bank payables	16, 30	21,404	8,955
Interest-bearing financial payables (current portion)	16, 30	151,917	166,465
Tax payables		19,204	18,541
Other current liabilities	17, 30	72,297	54,038
Provisions for risks and charges	18	3,807	3,610
Total current liabilities		**446,411**	**394,584**
Non-current liabilities			
Interest-bearing financial payables	16, 30	232,158	243,060
Liabilities for employee benefits	19	19,377	20,044
Deferred tax liabilities	14	41,832	41,504
Tax payables		70	-
Other non-current liabilities*	20, 30	39,451	46,946
Provisions for risks and charges	18	3,161	3,156
Total non-current liabilities		**336,049**	**354,710**
Liabilities held for sale	15	-	200
Total liabilities		**782,460**	**749,494**
SHAREHOLDERS' EQUITY			
Share capital	21	54,842	55,805
Legal reserve	22	11,323	11,323
Share premium reserve	21, 22	71,229	121,228
Reserve from remeasurement of defined benefit plans		(5,965)	(5,722)
Translation reserve	22	3,142	(2,475)
Other reserves	22	729,373	579,006
Group shareholders' equity		**863,944**	**759,165**
Minority interests	23	4,961	5,564
Total shareholders' equity		**868,905**	**764,729**
Total shareholders' equity and liabilities		***1,651,365***	***1,514,223***

*= 2017 data remeasured in 2018 as required by IFRS 3.

Consolidated income statements

(€/000)	*Notes*	*2018*	*2017*
Net sales		**1,279,167**	**1,086,547**
Cost of sales	25	(805,295)	(672,548)
Gross industrial margin		**473,872**	**413,999**
Other net revenues	24	19,665	16,744
Distribution costs	25	(117,660)	(102,726)
General and administrative expenses	25, 26	(135,898)	(124,534)
Other operating costs	25	(3,430)	(4,571)
Ordinary profit before financial expenses		**236,549**	**198,912**
Financial income	27	11,427	14,379
Financial expenses	27	(19,212)	(21,424)
Badwill		11,369	305
Equity method contribution		(207)	(22)
Profit for the year before taxes		**239,926**	**192,150**
Income taxes	28	(66,064)	(56,427)
Consolidated net profit for the year		**173,862**	**135,723**
Pertaining to:			
Parent company's shareholders		172,905	134,442
Subsidiaries' minority shareholders		957	1,281
Consolidated profit for the year		**173,862**	**135,723**
Basic earnings per share	29	1.619	1.257
Diluted earnings per share	29	1.602	1.245

Comprehensive consolidated income statements for the year

(€/000)	*2018*	*2017*
Consolidated profit for the year (A)	**173,862**	**135,723**
Other comprehensive profit (loss) that will be subsequently reclassified to consolidated profit		
Accounting for exchange risk hedges using the cash flow hedge method:		
- Profit (Loss) on derivative financial instruments	-	-
- Minus: Adjustment for reclassification of profits (losses) to the income statement	-	33
- Minus: Adjustment for recognition of fair value to reserves in the prior year	-	-
Total	-	*33*
Profits (Losses) arising from the translation to euro of the financial statements of foreign companies	*5,454*	*(36,311)*
Profits (Losses) of companies carried at equity	*(30)*	*(2)*
Related taxes	-	*(9)*
Total other comprehensive profit (loss) that will be subsequently reclassified to consolidated profit, net of tax effect (B)	**5,424**	**(36,289)**
Other comprehensive profit (loss) that will not be subsequently reclassified to consolidated profit		
Profit (loss) deriving from the restatement of defined benefit plans	*(304)*	*(927)*
Related taxes	*72*	*219*
Total other comprehensive profit (loss) that will not be subsequently reclassified to consolidated profit, net of tax effect (C)	**(232)**	**(708)**
Comprehensive consolidated profit for the year (A) + (B) + (C)	**179,054**	**98,726**
Pertaining to:		
Parent company's shareholders	178,279	97,794
Subsidiaries' minority shareholders	775	932
Comprehensive consolidated profit for the year	**179,054**	**98,726**

Consolidated cash flow statement

(€/000)	*2018*	*2017*
Cash flow from operating activities		
Pretax profit	239,926	192,150
Adjustments for non-cash items:		
Capital losses (gains) from the sale of fixed assets	(4,474)	(3,257)
Amortization and depreciation, loss and reinstatement of assets	50,469	47,792
Costs recognized in the income statement related to stock options that do not involve monetary outflows for the Group	1,881	1,781
Loss (profit) from equity investments	207	22
Net change in risk provisions and provisions for employee benefits	(718)	(306)
Outlays for tangible fixed assets destined for hire	(7,912)	(6,508)
Proceeds from the sale of fixed assets granted for hire	9,335	7,966
Net financial charges	(3,584)	6,740
	285,130	**246,380**
(Increase) decrease in trade receivables and other current assets	(33,413)	(29,522)
(Increase) decrease in inventories	(62,868)	(32,603)
Increase (decrease) in trade payables and other current liabilities	35,367	31,317
Interest paid	(4,324)	(3,331)
Currency exchange gains	(1,475)	(3,370)
Taxes paid	(69,578)	(67,314)
Net cash from operating activities	**148,839**	**141,557**
Cash flows from investing activities		
Outlay for the acquisition of equity investments, net of received cash and net of divested treasury stock	(19,045)	(78,329)
Capital expenditure on property, plant and equipment	(63,683)	(44,533)
Proceeds from the sale of tangible fixed assets	1,127	871
Proceeds from the disposal of assets held for sale	785	2,714
Increase in intangible assets	(4,138)	(3,544)
Received financial income	602	534
Other	1,114	(531)
Net liquidity used in investing activities	**(83,238)**	**(122,818)**
Cash flows from financing activities		
Disbursal (repayment) of loans	(25,384)	(52,681)
Dividends paid	(23,115)	(22,310)
Outlays for purchase of treasury shares	(54,183)	-
Proceeds from the sale of treasury shares to beneficiaries of stock options	540	3,376
Loans repaid (granted) by/to non-consolidated subsidiaries	(200)	-
Change in other financial assets	(13)	83
Disbursal (repayment) of loans from (to) shareholders	-	(50)
Payment of finance leasing installments (principal portion)	(3,131)	(2,207)
Net liquidity generated (used by) financing activities	**(105,486)**	**(73,789)**
Net increase (decrease) in cash and cash equivalents	**(39,885)**	**(55,050)**

(€/000)	***2018***	***2017***
Net increase (decrease) in cash and cash equivalents	**(39,885)**	**(55,050)**
Opening cash and cash equivalents of companies consolidated line by line for the first time	645	-
Exchange differences on translation of liquidity of non-EU companies	(7)	(4,462)
Cash and cash equivalents at beginning of year	135,983	195,495
Cash and cash equivalents at end of year	**96,736**	**135,983**

For reconciliation of cash and cash equivalents refer to Note 32.

Statement of changes in consolidated shareholders' equity

(€/000)	*Share capital*	*Legal reserve*	*Share premium reserve*	*Reserve from measurement of hedging derivatives at fair value*	*Reserve from remeasurement of defined benefit plans*	*Translation reserve*	*Other reserves*	*Group shareholders' equity*	*Minority interests*	*Total*
Balances at 1 January 2017	*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
Assignment of treasury shares as payment for 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
Balances at 31 December 2017	*55,805*	*11,323*	*121,228*	-	*(5,722)*	*(2,475)*	*579,006*	*759,165*	*5,564*	*764,729*
Recognition in the income statement of the fair value of stock options assigned and exercisable	-	-	1,881	-	-	-	-	1,881	-	1,881
Purchase of treasury shares	(1,042)	-	(54,183)	-	-	-	1,042	(54,183)	-	(54,183)
Sale of treasury shares to the beneficiaries of stock options	47	-	540	-	-	-	(47)	540	-	540
Assignment of treasury shares as payment for equity investments	32	-	1,763	-	-	-	(32)	1,763	-	1,763
Purchase of residual interests in subsidiaries	-	-	-	-	-	-	(869)	(869)	(894)	(1,763)
Inoxpa Russia merger operation	-	-	-	-	-	-	(100)	(100)	100	-
Dividends paid	-	-	-	-	-	-	(22,532)	(22,532)	(584)	(23,116)
Comprehensive Profit (loss) for 2018	-	-	-	-	(243)	5,617	172,905	178,279	775	179,054
Balances at 31 December 2018	*54,842*	*11,323*	*71,229*	-	*(5,965)*	*3,142*	*729,373*	*863,944*	*4,961*	*868,905*

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, machines for the food processing, chemicals, cosmetics and pharmaceuticals industries (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 2018 were approved by the Board of Directors on this day (19 March 2019).

2. Scope of consolidation

The 2018 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):

Company	Head office	Share capital €/000	Share-holders' equity €/000	Profit 2018 €/000	% held at 31/12/18
General Pump Inc.	Minneapolis (USA)	1,854	17,214	5,419	100.00%
Hammelmann GmbH	Oelde (Germany)	25	123,615	26,972	100.00%
Hammelmann Australia Pty Ltd (1)	Melbourne (Australia)	472	5,158	746	100.00%
Hammelmann Corporation Inc (1)	Miamisburg (USA)	39	11,766	4,767	100.00%
Hammelmann S. L. (1)	Zaragoza (Spain)	500	1,377	564	100.00%
Hammelmann Pumps Systems Co Ltd (1)	Tianjin (China)	871	8,110	1,622	90.00%
Hammelmann Bombas e Sistemas Ltda (1)	San Paolo (Brazil)	765	(272)	(174)	100.00%
Inoxihp S.r.l.	Nova Milanese (MI)	119	5,850	1,973	52.75%
NLB Corporation Inc.	Detroit (USA)	12	94,448	8,284	100.00%
NLB Poland Corp. Sp. Z.o.o. (2)	Warsaw (Poland)	1	(789)	(385)	100.00%
Inoxpa S.A.	Banyoles (Spain)	23,000	47,111	11,862	100.00%
Inoxpa India Private Ltd (3)	Pune (India)	6,779	10,187	1,161	100.00%
Inoxpa Solutions France (3)	Gleize (France)	2,071	4,064	1,223	100.00%
Improved Solutions Unipessoal Ltda (Portugal)	Vale de Cambra (Portugal)	760	3,007	985	100.00%
Inoxpa (UK) Ltd (3)	Eastbourne (UK)	1,942	132	(14)	100.00%
Inoxpa Solutions Moldova (3)	Chisinau (Moldova)	317	524	(63)	66.67%
Inoxpa Australia Pty. Ltd (3)	Capalaba (Australia)	584	163	(39)	100.00%
Inoxpa Colombia SAS (3)	Bogotá (Colombia)	133	961	153	83.29%
Inoxpa Italia S.r.l. (3)	Mirano (VE)	100	494	151	100.00%
Inoxpa Middle East FZCO (3)	Dubai (UAE)	253	564	68	60.00%
Inoxpa Skandinavien A/S (3)	Horsens (Denmark)	134	548	163	100.00%
Inoxpa South Africa Proprietary Ltd (3)	Gauteng (South Africa)	104	708	390	100.00%
Inoxpa Special Processing Equipment Co. Ltd (3)	Jianxing (China)	1,647	1,019	123	100.00%
Inoxpa Ukraine (3)	Kiev (Ukraine)	113	229	52	100.00%
Inoxpa USA Inc (3)	Santa Rosa (USA)	1,426	1,038	103	100.00%

Company	*Head office*	*Share capital €/000*	*Share-holders' equity €/000*	*Profit 2018 €/000*	*% held at 31/12/18*
INOXPA LTD (Russia) (3)	Podolsk (Russia)	1,435	2,582	409	70.00%
SCI Suali (3)	Gleize (France)	-	-	79	100.00%
Fluinox Procesos S.L.U (3)	Foios (Spain)	3	3,625	-	100.00%
Montajes Fluinox S.L.U (3)	Foios (Spain)	4	340	-	100.00%
Mariotti & Pecini S.r.l.	Sesto Fiorentino (FI)	100	2,825	1,618	60.00%
Ricci Engineering S.r.l.	Orvieto (TR)	10	536	119	100.00%
SIT S.p.A.	S.Ilario d'Enza (RE)	105	1,361	173	65.00%
Interpump Hydraulics S.p.A.	Calderara di Reno (BO)	2,632	174,578	32,736	100.00%
AVI S.r.l. (4)	Varedo (MB)	10	1,310	407	100.00%
Contarini Leopoldo S.r.l. (4)	Lugo (RA)	47	8,452	2,885	100.00%
Unidro Contarini S.a.s. (5)	Barby (France)	8	2,486	531	100.00%
Copa Hydrosystem Ood (5)	Troyan (Bulgaria)	3	6,528	998	100.00%
Hydrocar Chile S.A. (4)	Santiago (Chile)	129	5,165	498	90.00%
Hydroven S.r.l. (4)	Tezze sul Brenta (VI)	200	5,948	2,324	100.00%
Interpump Hydraulics Brasil Ltda (4)	Caxia do Sul (Brazil)	13,996	8,075	(763)	100.00%
Interpump Hydraulics France S.a.r.l. (4)	Ennery (France)	76	1,346	357	99.77%
Interpump Hydraulics India Private Ltd (4)	Hosur (India)	682	12,390	2,263	100.00%
Interpump Hydraulics Middle East FZE (4)	Dubai (UAE)	326	(34)	(159)	100.00%
Interpump South Africa Pty Ltd (4)	Johannesburg (South Africa)	-	2,107	173	100.00%
Interpump Hydraulics (UK) Ltd. (4)	Kidderminster (United Kingdom)	13	12,284	2,131	100.00%
Mega Pacific Pty Ltd (6)	Newcastle (Australia)	335	5,251	507	65.00%
Mega Pacific NZ Pty Ltd (6)	Mount Maunganui (New Zealand)	557	1,724	419	65.00%
Muncie Power Prod. Inc. (4)	Muncie (USA)	784	81,063	16,026	100.00%
American Mobile Power Inc. (7)	Fairmount (USA)	3,410	5,947	1,573	100.00%
Oleodinamica Panni S.r.l. (4)	Tezze sul Brenta (VI)	2,000	24,184	7,272	100.00%
Wuxi Interpump Weifu Hydraulics Company Ltd (4)	Wuxi (China)	2,095	7,216	1,785	65.00%
IMM Hydraulics S.p.A. (4)	Atessa (Switzerland)	520	38,498	6,833	100.00%
Hypress France S.a.r.l. (8)	Strasbourg (France)	162	1,916	1,354	100.00%
Hypress Hydraulik GmbH (8)	Meinerzhagen (Germany)	52	1,780	(51)	100.00%
Hypress S.r.l. (8)	Atessa (Switzerland)	50	658	100	100.00%
IMM Hydro Est (8)	Catcau Cluj Napoca (Romania)	3,155	8,767	903	100.00%
Tekno Tubi S.r.l. (8)	Sant'Agostino (FE)	100	5,580	1,400	100.00%
Tubiflex S.p.A.	Orbassano (TO)	515	12,238	3,345	80.00%
Walvoil S.p.A.	Reggio Emilia	7,692	152,087	40,153	100.00%
Walvoil Fluid Power Corp. (9)	Tulsa (USA)	137	17,789	5,975	100.00%
Walvoil Fluid Power Shanghai Co. Ltd (9)	Shanghai (China)	1,872	2,436	114	100.00%
Walvoil Fluid Power (India) Pvt. Ltd. (9)	Bangalore (India)	4,803	20,885	3,495	100.00%
Walvoil Fluid Power Korea Llc. (9)	Pyeongtaek (South Korea)	453	5,140	1,400	100.00%
Walvoil Fluid Power France S.a.r.l. (9)	Vritz (France)	10	252	64	100.00%
Walvoil Fluid Power Australasia (9)	Melbourne (Australia)	7	121	18	100.00%
Galtech Canada Inc. (9)	Terrebonne, Quebec (Canada)	76	1,744	437	100.00%
HC Hydraulics Technologies (P) Ltd (9)	Bangalore (India)	-	-	(136)	100.00%
HTIL (9)	Hong Kong	98	4,294	(5)	100.00%
Walvoil Fluid Power (Dongguan) Co., Ltd (10)	Dongguan (China)	3,720	10,792	3,210	100.00%
Interpump Piping GS S.r.l.	Reggio Emilia	10	146	(162)	100.00%
GS-Hydro Singapore Pte Ltd (11)	Singapore	624	391	95	100.00%
GS-Hydro Korea Ltd. (11)	Busan (South Korea)	1,892	2,676	(209)	100.00%
GS-Hydro Denmark AS (11)	Kolding (Denmark)	67	552	(259)	100.00%

Company	*Head office*	*Share capital €/000*	*Share-holders' Equity €/000*	*Profit 2018 €/000*	*% held at 31/12/18*
GS-Hydro Piping Systems (Shanghai) Co. Ltd. (12)	Shanghai (China)	2,760	3,774	(283)	100.00%
GS-Hydro Benelux B.V. (11)	Barendrecht (Netherlands)	18	2,343	2,440	100.00%
GS-Hydro Austria GmbH (11)	Pashing (Austria)	40	921	179	100.00%
GS-Hydro Sp Z O O (Poland) (11)	Gdynia (Poland)	1,095	919	3	100.00%
GS-Hydro S.A.U (Spain) (11)	Las Rozas (Spain)	90	1,864	858	100.00%
GS-Hydro U.S. Inc. (11)	Huston (USA)	9,903	939	(201)	100.00%
GS-Hydro do Brasil Sistemas Hidraulicos Ltda (11)	Rio de Janeiro (Brazil)	252	1,274	104	100.00%
GS-Hydro System GmbH (Germany) (11)	Witten (Germany)	179	(430)	30	100.00%
GS- Hydro UK Ltd (11)	Aberdeen (United Kingdom)	5,095	1,669	(84)	100.00%
GS-Hydro Ab (Sweden) (11)	Kista (Sweden)	20	159	(109)	100.00%
GS-Hydro Hong Kong Ltd (1)	Hong Kong	1	874	18	100.00%
IMM Hydraulics Ltd (in liquidation) (6)	Kidderminster (United Kingdom)	-	-	-	100.00%
E.I. Holdings Ltd (in liquidation) (6)	Bath (United Kingdom)	-	-	-	100.00%
Endeavour International Ltd (in liquidation) (6)	Bath (United Kingdom)	-	-	-	100.00%
Bristol Hose Ltd (in liquidation) (6)	Bristol (United Kingdom)	-	-	-	100.00%
Teknova S.r.l. (in liquidation)	Reggio Emilia	28	23	(7)	100.00%

(1) = controlled by Hammelmann GmbH
(2) = controlled by NLB Corporation
(3) = controlled by Inoxpa S.A.
(4) = controlled by Interpump Hydraulics S.p.A.
(5) = controlled by Contarini Leopoldo S.r.l.
(6) = controlled by Interpump Hydraulics (UK) Ltd.
(7) = controlled by Muncie Power Inc.
(8) = controlled by IMM Hydraulics Ltd
(9) = controlled by Walvoil S.p.A.
(10) = controlled by HTIL
(11) = controlled by Interpump Piping GS S.r.l.
(12) = controlled by GS Hydro Hong Kong Ltd
The other companies are controlled directly by Interpump Group S.p.A.

The companies of the GS-Hydro Group (Hydraulic Sector) were consolidated for first time in 2018, together with Ricci Engineering S.r.l., which was only consolidated for 5 months, having been acquired on 2 August 2018. The 2018 closing balances of Fluinox Procesos S.L.U. and Montajes Fluinox S.L.U., a complementary company, (both in the Water Jetting Sector) were also consolidated following their acquisition towards year end.

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 at 31 December 2020 up to approval of the financial statements 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 statement of financial position 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 2018 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 presented in thousands of euro. The financial statements are prepared using 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 11 to the Consolidated Financial Statements at 31 December 2018.

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 2018 and adopted by the Group

As from 2018 the Group has applied the following new accounting standards, amendments and interpretations, reviewed by IASB:

- *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 amendments to *IFRS 2*, some of which affect the Interpump Group, did not result in any adjustments to economic or financial balances in 2018.
- *IFRS 9 – "Financial instruments"*. The new standard replaces IAS 39 - "Financial instruments: recognition and measurement", bringing together all three aspects addressed when accounting for financial instruments: classification and measurement, impairment and hedge accounting.
  Application of the classification and measurement requirements of IFRS 9 did not have a significant impact on the economic and financial position of the Group, since the various financial assets and liabilities of the Group have always been measured at fair value (loans granted, trade receivables and financial liabilities); historically, the Interpump Group has not held any debt or capital instruments. The loans granted and trade receivables are held by the Group for collection on the contractual due dates. The cash flows generated comprise solely collections of principal and interest. Given the characteristics of these contractual cash flows, the Group has concluded that they satisfy the criteria for measurement at amortized cost in accordance with IFRS 9.
  The Group has decided to apply the simplified approach with regard to the impairment of financial instruments, and to recognize expected losses on trade receivables with reference to their residual duration. Accordingly, a provision matrix has been defined for the recognition of losses based on the historical experience of each Group company, as adjusted to take account of specific expectations regarding debtors and the economic environment. This has resulted in the grouping of customers into clusters considering a number of different factors and variables, such as geographical area, product category and credit rating. Within this simplified model, an analytical approach has been adopted with regard to those trade receivables deemed by management to be individually significant, and for which more detailed information was available about the increased credit risk. Application of the new impairment model has not had a significant impact on the economic and financial position and cash flows of the Group.
  Lastly, with regard to the recognition of hedging instruments (hedge accounting), the Group did not enter into any hedging arrangements during 2018 and, therefore, the adoption of IFRS 9 has not had any impact on the economic and financial position and cash flows of the Group.
- *IFRS 15 – "Revenue from contracts with customers*". The new standard replaces the previous IAS 11 – "Construction contracts", IAS 18 – "Revenue", IFRIC 13 – "Customer loyalty contracts", IFRIC 15 – "Agreements for the Construction of Real Estate", IFRIC 18 – "Transfers of Assets from Customers", SIC 31 – "Barter

Transactions Involving Advertising Services" and is applicable to all revenues from contracts with customers, unless the contracts are included within the scope of other standards. The new standard introduces a new model for recognition of revenues deriving from contracts with customers based on five steps: (i) identification of the contract with the customer; (ii) identification of the contractual performance obligations to be transferred to the customer in exchange for the transaction price; (iii) determination of the transaction price; (iv) allocation of the transaction price to the individual performance obligations; (v) recognition of the revenue when the associated performance obligation is fulfilled. IFRS 15 requires recognition of revenues for an amount that reflects the consideration to which the entity considers it is entitled in exchange for the transfer of goods or services to a customer. The standard requires the exercise of a judgment by the entity, that takes account of all the facts and significant circumstances in the application of each step to the model to contracts with its customers. The standard also specifies recognition of the incremental costs linked to obtaining a contact and the costs directly linked to fulfillment of a contract. Application of the new standard, using the modified retrospective method, did not have a significant impact on the consolidated economic and financial position and cash flows for 2017 that would have made restatement necessary. The Group manufactures and markets high and very high pressure plunger pump, power take-offs, hydraulic cylinders, valves and directional controls, hydraulic hoses and fittings and other hydraulic products, and the Group contracts concerning the sale of goods generally include a single obligation. The Group has concluded that revenues from the sale of goods are recognized in the specific moment wherein control of the asset is transferred to the customer, which generally coincides with the moment delivery of the goods. The adoption of IFRS 15 thus had no impact the revenues recognition times, because the revenues occur at a specific moment.

3.1.2 Accounting standards, amendments and interpretations taking effect as from 1 January 2018 but not relevant for the Group

- *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 main amendments we bring your attention to IFRIC 22, which provides guidance on the use of exchange rates in transactions in which the foreign currency considerations are paid or received in advance.
- *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").

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

- *IFRS 16 – "Leasing"*. On 13 January 2016, IASB published the new standard that replaces IAS 17. IFRS 16 is applicable from 1 January 2019. 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 contacts concerning an asset of small value (such as computers) and short term contracts (i.e. less than 12 months). The liability for the future lease installments and the asset that the entity is entitled to use must be recognized when the leasing contract is signed, with separate recognition of the relate borrowing costs and depreciation. The liability can be subject to re-measurement (e.g. to reflect a change in the contractual terms or a change in the indices to which the payment of the leasing installments 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 is completing a detailed assessment of the effects of adopting the new standard. The Group will apply the exceptions allowed by the standard in relation to those leasing contracts that expire within 12 months of the first-time adoption date and those for assets of low value. At 31 December 2018, the Group had lease commitments of €56,208k, including €16,202k due in 2019, as indicated in Note 33. The leasing and rental costs charged to the 2018 income statement totaled €15,893k.
- *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.

- *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 took effect from 1 January 2019.
- *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 took effect from 1 January 2019.
- *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 took effect from 1 January 2019. Early adoption of the changes was however permitted.
- *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 amendments took effect from 1 January 2019 and will only be applicable to the Group if changes are made to the existing pension plans.
- *Amendments to IFRS 3 - "Definition of Business"*. IASB published these amendments in October 2018 in order to help determine if a transaction represents the acquisition of a business or a group of activities that does not satisfy the definition of a business pursuant to IFRS 3. The amendments will take effect from 1 January 2020. Early application is permitted.
- *Amendments to IAS 1 and IAS 8 - "Definition of Material"*. IASB published these amendments in November 2018 in order to clarify the definition of "material", with a view to helping companies determine if a disclosure should be made in the financial statements. The amendments will take effect from 1 January 2020. Early adoption is however permitted.

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 acquisition cost over the Group interest in the current value of the net assets acquired is recognized in the statement of financial position 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 the minority equity interest acquired. 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 remeasured 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 contingent consideration classified as an asset or a liability, as a financial instrument governed by IFRS 9 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 IFRS 9 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 losses 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 and very high pressure systems, as well as machines for the food processing, chemicals, cosmetics and pharmaceutical industries, 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 currency transactions are translated to euro using the exchange rates in force on the date of the transaction. Monetary assets and liabilities are translated at the exchange rate in force on the reporting 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 statements of financial position of companies with functional currency other than the euro are as follows:

	2018 averages	At 31 December 2018	2017 averages	At 31 December 2017
Danish Crown	7.453	7.467	7.439	7.445
Swedish Crown	10.258	10.255	-	-
UAE Dirham	4.337	4.205	4.148	4.404
Australian Dollar	1.580	1.622	1.473	1.535
Canadian Dollar	1.529	1.561	1.465	1.504
Hong Kong Dollar	9.256	8.968	8.805	9.372
New Zealand dollar	1.706	1.706	1.590	1.685
Singapore Dollar	1.593	1.559	-	-
US Dollar	1.180	1.145	1.129	1.199
Ukrainian Hryvnia	32.109	31.736	30.020	33.732
Moldovan Leu	19.835	19.542	20.842	20.527
Romanian Leu	4.654	4.664	4.569	4.659
Bulgarian Lev	1.956	1.956	1.956	1.956
Peruvian Sol	3.879	3.863	3.683	3.885
Chilean Peso	756.941	794.370	732.607	737.290
Columbian Peso	3,486.741	3,721.810	3,336.168	3,580.190
South African Rand	15.619	16.459	15.049	14.805
Brazilian Real	4.308	4.444	3.605	3.973
Russian Ruble	74.042	79.715	65.938	69.392
Indian Rupee	80.733	79.730	73.532	76.606
UK Pound	0.885	0.895	0.877	0.887
South Korean Won	1,299.071	1,277.930	1,276.738	1,279.610
Chinese Yuan	7.808	7.875	7.629	7.804
Polish Zloty	4.261	4.301	4.257	4.177

The economic values of companies that entered the scope of consolidation during the year 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 labor 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 installments 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 installments 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;
- those costs are measurable in a reliable manner;
- and the resources exist to complete the development project.

The capitalized cost includes the cost of raw materials, directly related labor costs and a portion of indirect costs. Capitalized development costs are valued 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 IFRS 9, deferred tax assets (see section 3.18), and non-current assets held for sale regulated by IFRS 5, are subject to measurement at the reporting 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.

As envisaged in IFRS 9, all investments in equity instruments (investments in other companies) are measured at fair value. The measurement of minority interests at cost is only allowed if this represents a reasonable estimate of their fair value. Investments in subsidiaries, which, because of their negligible significance have not been consolidated, are measured at their fair value.

Should any impairment of value arise at the reporting 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 Financial assets (Trade receivables, Other financial assets and Other assets)

Depending on the circumstances, financial assets are measured as follows at the time of initial recognition: amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit and loss (FVPL). Again at the time of initial recognition, financial assets are classified with reference to the characteristics of the related contractual cash flows and the business model used by the Group for their management. With the exclusion of trade receivables that do not contain a significant financing component, the Group initially measures financial assets at their fair value, including transaction costs in the case of those not measured at fair value through profit and loss. Trade receivables that do not have a significant financial component are measured at their transaction price, as defined in accordance with IFRS 15.

Financial assets are measured at amortized cost if the objective of the underlying business model is to hold them for the purpose of collecting cash flows, and the related contractual terms envisage the receipt of cash flows on predetermined dates that solely comprise payments of principal and interest on the outstanding principal. Financial assets measured at amortized cost are subsequently measured using the effective interest method and are subject to impairment adjustments. Profits and losses are recognized in the income statement when assets are derecognized, modified or remeasured.

Financial assets are measured at fair value through other comprehensive income (FVOCI) if the objective of the underlying business model is satisfied by the collection of contractual cash flows or by the sale of the financial assets, and the related contractual terms envisage the receipt of cash flows on predetermined dates that solely comprise payments of principal and interest on the outstanding principal. For assets represented by debt instruments measured at fair value though other comprehensive income (OCI), the related interest income, exchange differences and impairment losses and writebacks are measured with reference to the amortized cost method and recognized in the income statement. The remaining changes in fair value are recognized in OCI. Upon derecognition, the cumulative change in fair value recognized in OCI is reclassified to the income statement. Upon initial recognition, the Group may irrevocably elect to classify its equity investments as capital instruments recognized at fair value through other comprehensive income (FVOCI), in view of the strategic nature of the investments concerned. Such classification is determined individually for each instrument. The profits and losses deriving from these financial assets are never reclassified to the income statement. Capital instruments measured at FVOCI are not subjected to impairment testing.

If an asset is not measured in one of the above two ways, it must be measured at fair value through profit and loss (FVPL). This category therefore comprises both assets held for trading and assets designated on initial recognition as financial assets measured at fair value through profit and loss, as well as the financial assets that must be measured at fair value.

In compliance with IFRS 9, commencing from 1 January 2018, the Group has adopted a new impairment model for financial assets measured at amortized cost or at fair value through other comprehensive income (FVOCI), except for capital instruments and assets deriving from contracts with customers. This new model is based on determining the expected credit loss (ECL), which replaced the incurred loss model previously envisaged in IAS 39.

The new standard envisages adoption of the following methodologies: the General deterioration method and the Simplified approach. The General deterioration method require financial instruments to be classified in three stages, depending on the extent of the deterioration in the credit quality between the date of initial recognition and the measurement date: (i) *Stage 1*: for assets that have not suffered a significant increase in credit risk since the moment of initial recognition or that have a low credit risk at the reference date, a provision must be recorded that reflects the 12-month ECL, by estimating the expected loss with reference to the default events considered possible over the following 12 months; (ii) *Stages 2 and 3*: for assets that, on the other hand, have suffered a significant increase in credit risk, the Group must record a provision equal to the loss expected over their entire residual lives, having regard for the possible probabilities of default that might emerge over the entire life of the instrument (Lifetime ECL).

For trade receivables, contract assets and amounts due under leasing contract, the “simplified approach” envisages that the loss must be recognized using a lifetime approach and, accordingly, “stage allocation” is not required. The standard establishes that the loss rates may be estimated by classes of customer that have the same loss paths. The standard does not define specific criteria for the segmentation of customers, leaving entities free to select the sampling subsets in a manner that ensures consistency with historical experience. Accordingly, depending on their customer base, each entity must create a provision matrix by grouping its customers into clusters considering a number of different factors and variables, such as geographical area, product category and credit rating. Expected losses are generally determined by multiplying: (i) the exposure to the counterpart, net of related guarantees (known as Exposure At Default, EAD); (ii) the probability that the counterpart will not meet its payment obligation (known as Probability of Default, PD); (iii) the estimate, in percentage terms, of the amount of the receivable that will be recovered upon default (known as Loss Given Default, LGD).

Within the simplified model, an analytical approach has been applied in relation to trade receivables deemed by management to be individually significant, and for which more detailed information is available about the significant increase in credit risk.

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 for the accounting of hedging derivatives (hedge accounting), 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 IFRS 9 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 relative to the changes in the fair value of the derivative instrument are taken to the income statement immediately. Likewise, the gains and losses relative 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 or their estimated realizable 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 Financial liabilities (Trade payables, Bank payables, Interest-bearing financial payables and Other liabilities)

On initial recognition, financial liabilities are measured at fair value through profit and loss and classified either as loans or as derivatives designated as hedging instruments. All financial liabilities are initially recognized at fair value, including directly-attributable transaction costs in the case of loans and payables. Following initial recognition, loans are measured at amortized cost using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated collections over the expected life of the financial instrument or the future payments to the gross carrying amount of the financial asset or the amortized cost of the financial liability. Profits and losses are recognized in the income statement when liabilities are settled, as well as via the amortization process. Amortization using the effective interest rate is classified among financial expenses in the income statement.

A financial liability is derecognized when the underlying obligation expires or when the obligation specified in the contract is settled, canceled or expires.

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 the interest-bearing financial payables, bank payables and other financial liabilities.

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 fulfills 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 reporting 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. At 31 December 2018, the above rate curve for "AA" securities indicates higher expected yields for maturities up to 20 years and lower yields thereafter with respect to the same curve at 29 December 2017, which was used for the previous actuarial valuation. This change is explained by the major uncertainties facing the Italian economy, which translate into a higher cost for the risk associated with corporate securities, resulting in higher expected rates over the short-medium term. The phenomenon is inverted for long-term rates (more than 20 years), which are now lower than those expected in 2017, due to the positive effect of the budget agreement reached between the European Commission and the Italian government. 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 favorable 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 reporting 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 is 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 fulfill 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 reporting 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 Revenues

(i) Revenues from the sale of goods and services
Revenues deriving from contracts with customers are recognized on the basis of the following 5 steps: (i) identification of the contract with the customer; (ii) identification of the contractual performance obligations to be transferred to the customer in exchange for the transaction price; (iii) determination of the transaction price; (iv) allocation of the transaction price to the individual performance obligations; (v) recognition of the revenue when the associated performance obligation is fulfilled. Revenues are recognized at the amount of the consideration to which the Group considers it is entitled on satisfaction of the obligation, when the customer acquires control over the goods or services transferred. The Group has identified a single revenue stream from the sale of products and spare parts representing the obligations satisfied at a given point in time. Revenues from the sale of products are recognized when the significant risks and benefits associated with control over the goods are transferred to the purchaser. The change of control coincides with the transfer of ownership or possession of the goods to the purchaser and, therefore, generally occurs on shipment or on completion of the service.

(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.

3.21 Costs

(i) Rental and leasing installments

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

(ii) Finance leasing installments

Finance leasing installments 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 pressure washers. 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)

	Hydraulic		Water Jetting		Elimination entries		**Interpump Group**	
	2018	2017	2018	2017	2018	2017	2018	2017
Net sales external to the Group	844,296	690,914	434,871	395,633	-	-	1,279,167	1,086,547
Sales between sectors	784	382	2,654	1,735	(3,438)	(2,117)	-	-
Total net sales	**845,080**	**691,296**	**437,525**	**397,368**	**(3,438)**	**(2,117)**	**1,279,167**	**1,086,547**
Cost of sales	(569,599)	(456,551)	(239,143)	(218,129)	3,447	2,132	(805,295)	(672,548)
Gross industrial margin	**275,481**	**234,745**	**198,382**	**179,239**	**9**	**15**	**473,872**	**413,999**
% on net sales	*32.6%*	*34.0%*	*45.3%*	*45.1%*			*37.0%*	*38.1%*
Other net revenues	13,477	10,844	7,036	6,084	(848)	(184)	19,665	16,744
Distribution costs	(67,248)	(56,097)	(50,705)	(46,785)	293	156	(117,660)	(102,726)
General and administrative expenses	(83,159)	(73,486)	(53,285)	(51,061)	546	13	(135,898)	(124,534)
Other operating costs	(2,188)	(3,268)	(1,242)	(1,303)	-	-	(3,430)	(4,571)
Ordinary profit before financial expenses	**136,363**	**112,738**	**100,186**	**86,174**	**-**	**-**	**236,549**	**198,912**
% on net sales	*16.1%*	*16.3%*	*22.9%*	*21.7%*			*18.5%*	*18.3%*
Financial income	6,367	5,628	6,669	10,386	(1,609)	(1,635)	11,427	14,379
Financial expenses	(12,620)	(11,041)	(8,201)	(12,018)	1,609	1,635	(19,212)	(21,424)
Dividends	-	-	16,200	35,500	(16,200)	(35,500)	-	-
Badwill	11,369	305	-	-	-	-	11,369	305
Equity method contribution	(116)	(36)	(91)	14	-	-	(207)	(22)
Profit for the year before taxes	**141,363**	**107,594**	**114,763**	**120,056**	**(16,200)**	**(35,500)**	**239,926**	**192,150**
Income taxes	(38,225)	(34,737)	(27,839)	(21,690)	-	-	(66,064)	(56,427)
Consolidated profit for the year	**103,138**	**72,857**	**86,924**	**98,366**	**(16,200)**	**(35,500)**	**173,862**	**135,723**
Pertaining to:								
Parent company's shareholders	102,581	72,150	86,524	97,792	(16,200)	(35,500)	172,905	134,442
Subsidiaries' minority shareholders	557	707	400	574	-	-	957	1,281
Consolidated profit for the year	**103,138**	**72,857**	**86,924**	**98,366**	**(16,200)**	**(35,500)**	**173,862**	**135,723**
Further information required by IFRS 8								
Amortization, depreciation and write-downs	33,705	31,158	16,764	16,634	-	-	50,469	47,792
Other non-monetary costs	3,952	2,842	3,651	3,287	-	-	7,603	6,129

Financial position
(Amounts shown in €/000)

	Hydraulic		Water Jetting		Elimination entries		**Interpump Group**	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Assets of the sector*	**974,751**	**851,470**	**707,393**	**681,336**	**(148,919)**	**(164,306)**	**1,533,225**	**1,368,500**
Assets held for sale	-	-	-	785	-	-	-	785
Total assets of the sector (A)	**974,751**	**851,470**	**707,393**	**682,121**	**(148,919)**	**(164,306)**	**1,533,225**	**1,369,285**
Cash and cash equivalents							118,140	144,938
Total assets							**1,651,365**	**1,514,223**
Liabilities of the sector	**374,973**	**353,332**	**106,400**	**94,973**	**(148,919)**	**(164,306)**	**332,454**	**283,999**
Liabilities held for sale	-	-	-	200	-	-	-	200
Total liabilities of the sector (B)	**374,973**	**353,332**	**106,400**	**95,173**	**(148,919)**	**(164,306)**	**332,454**	**284,199**
Payables related to the acquisition of investments*							44,527	46,815
Bank payables							21,404	8,955
Interest-bearing financial payables							384,075	409,525
Total liabilities							**782,460**	**749,494**
Total assets, net (A-B)	**599,778**	**498,138**	**600,993**	**586,948**	**-**	**-**	**1,200,771**	**1,085,086**
<u>Further information required by IFRS 8</u>								
Investments carried at equity	1,127	362	167	255	-	-	1,294	617
Non-current assets other than financial assets and deferred tax assets*	495,067	469,016	333,692	321,256	-	-	828,759	790,272

*= 2017 data remeasured in 2018 as required by IFRS 3.

At unchanged perimeter, the Hydraulic Sector is compared as follows:

	Hydraulic Sector	
	2018	2017
Net sales external to the Group	781,569	690,914
Sales between sectors	784	382
Total net sales	**782,353**	**691,296**
Cost of sales	(522,850)	(456,551)
Gross industrial margin	**259,503**	**234,745**
% on net sales	*33.2%*	*34.0%*
Other net revenues	13,040	10,844
Distribution costs	(60,264)	(56,097)
General and administrative expenses	(74,861)	(73,486)
Other operating costs	(1,833)	(3,268)
Ordinary profit before financial expenses	**135,585**	**112,738**
% on net sales	*17.3%*	*16.3%*
Financial income	5,858	5,628
Financial expenses	(11,850)	(11,041)
Badwill	-	305
Equity method contribution	(116)	(36)
Profit for the year before taxes	**129,477**	**107,594**
Income taxes	(38,208)	(34,737)
Consolidated profit for the year	**91,269**	**72,857**
Pertaining to:		
Parent company's shareholders	90,712	72,150
Subsidiaries' minority shareholders	557	707
Consolidated profit for the year	**91,269**	**72,857**

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

€/000	Hydraulic		Water Jetting		Total	
	2018	2017	2018	2017	2018	2017
Cash flows from:						
Operating activities	81,737	82,139	67,102	59,418	148,839	141,557
Investing activities	(59,368)	(45,914)	(23,870)	(76,904)	(83,238)	(122,818)
Financing activities	(41,737)	(47,778)	(63,749)	(26,011)	(105,486)	(73,789)
Total	(19,368)	(11,553)	(20,517)	(43,497)	(39,885)	(55,050)

The investing activities of the Hydraulic Sector included €8,320k associated with the acquisition of equity investments (€8,090k in 2017). The investing activities of the Water Jetting Sector included €10,725k associated with the acquisition of equity investments (€70,239k in 2017).

The cash flows deriving from the financing activities of the Hydraulic Sector included the payment of dividends to Water Jetting Sector companies totaling €16,200k (€35,500k in 2017), as well as net repayments of intercompany loans amounting to €16,894k (€8,648k in 2017). Moreover, the cash flows deriving from the financing activities of the Water Jetting Sector in 2018 included proceeds from the sale of treasury shares to the beneficiaries of stock options totaling €539k (€9,490k in 2017), outlays for the purchase of treasury shares amounting to €54,184k (none in 2017) and the payment of dividends of €22,591k (€21,748k in 2017).

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:

	2018 (€/000)	%	2017 (€/000)	%	Growth
Italy	212,247	17	191,033	18	+11.1%
Rest of Europe	471,396	37	382,126	35	+23.4%
North America	324,890	25	294,417	27	+10.4%
Far East and Oceania	143,891	11	115,593	11	+24.5%
Rest of the World	126,743	10	103,378	9	+22.6%
Total	*1,279,167*	100	1,086,547	100	+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:

	31/12/2018 (€/000)	31/12/2017 (€/000)
Italy	519,506	500,687
Rest of Europe	173,269	161,204
North America	93,725	88,151
Far East and Oceania	11,092	10,285
Rest of the World	31,167	29,945
Total	828,759	790,272

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

GS Hydro Group

The GS Hydro Group (Hydraulic Sector) was consolidated for the first time in 2018. This group is a world leader in the design and production of piping systems for the industrial, naval and offshore sectors. The GS Hydro Group was acquired from a Finnish bankruptcy procedure that sold 12 direct equity investments (UK, Spain, Austria, Germany, Denmark, Benelux, Poland, Sweden, USA, China, South Korea, Singapore and Brazil) to Interpump Piping GS S.r.l., as well as the manufacturing business of the Finnish parent GS-Hydro Oy, including the trademark, patents and international certifications. The complete list of companies acquired is shown below:

Company	*Head office*	*% held*	*Sector*
GS Hydro S.A. U.	Las Rozas – Madrid (Spain)	100.00%	Hydraulic
GS Hydro UK Ltd	Aberdeen (UK)	100.00%	Hydraulic
GS Hydro Austria GmbH	Pasching (Austria)	100.00%	Hydraulic
GS Hydro System GmbH	Witten (Germany)	100.00%	Hydraulic
GS Hydro do Brasil Sistemas Hydraulics Ltda	Rio de Janeiro (Brazil)	100.00%	Hydraulic
GS Hydro Denmark AbS	Kolding (Denmark)	100.00%	Hydraulic
GS Hydro US, Inc.	Houston (USA)	100.00%	Hydraulic
GS Hydro Benelux B.V.	Barendrecht (Netherlands)	100.00%	Hydraulic
GS Hydro Hong Kong Ltd (1)	Hong Kong	100.00%	Hydraulic
GS Hydro Piping Systems (Shanghai) Co., Ltd (2)	Shanghai (China)	100.00%	Hydraulic
GS Hydro Korea Ltd	Busan (South Korea)	100.00%	Hydraulic
GS Hydro SP Z.o.o.	Gydnia (Poland)	100.00%	Hydraulic
GS Hydro AB	Kista (Sweden)	100.00%	Hydraulic
GS Hydro Singapore PTE Ltd	Singapore	100.00%	Hydraulic

(1) = controlled by GS Hydro Benelux B.V.
(2) = controlled by GS Hydro Hong Kong Ltd

A preliminary contract for the acquisition of the GS Hydro Group was signed on 29 December 2017, but the various closings for the individual activities acquired only took place in early 2018. This was consistent with the technical-legal regulations in force in the respective countries and, in some cases, it took several months to satisfy the various requirements. This said, the Interpump Group took operating control of the GS-Hydro Group from the start of 2018, inviting the managers of the various companies to Italy to receive the necessary operating and financial instructions; from that time on, the bankruptcy administrators were no longer involved, having achieved their objective of divesting the assets. As a consequence, the GS Hydro Group was consolidated from 1 January 2018.

The transaction was recognized in accordance with the acquisition method.

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 acquired	Adjustments to fair value	Carrying values in the acquiring company
Cash and cash equivalents	3,349	-	3,349
Trade receivables	9,715	-	9,715
Inventories	9,824	-	9,824
Tax receivables	296	-	296
Other current assets	940	-	940
Property, plant and equipment	4,958	-	4,958
Other intangible assets	395	-	395
Other financial assets	299	-	299
Deferred tax assets	1,643	-	1,643
Other non-current assets	449	-	449
Trade payables	(5,096)	-	(5,096)
Bank payables - loans (current portion)	(581)	-	(581)
Leasing payables (current portion)	(46)	-	(46)
Tax payables	(950)	-	(950)
Other current liabilities	(3,772)	-	(3,772)
Short-term payables for purchase of investments	(75)	-	(75)
Provisions for risks and charges (current portion)	(46)	-	(46)
Leasing payables (non-current portion)	(188)	-	(188)
Deferred tax liabilities	(249)	-	(249)
Provision for risks (non-current portion)	(30)	-	(30)
Other non-current liabilities	(466)	-	(466)
Net assets acquired	20,369	-	20,369
Negative goodwill related to the acquisition			(11,369)
Total net assets acquired			**9,000**
Total amount paid in cash			9,000
Total acquisition cost (A)			**9,000**
Total amount paid in cash			9,000
Net liquidity acquired (B)			(2,534)
Total change in the net financial position including changes in debt for the acquisition of investments			**6,466**
Capital employed (A) - (B)			**6,466**

The financial statements of the GS Hydro Group's subsidiaries outside the Eurozone were translated using the exchange rates in force on 31 December 2017.

This favorable transaction resulted in the recognition of a profit (badwill) of €11,369k.

Ricci Engineering S.r.l.
On 2 August 2018, Interpump Group S.p.A. acquired the entire equity interests in the quotas with voting rights of Ricci Engineering S.r.l. (Water Jetting Sector), which is an Italian company operating in the design, manufacture and installation for plant for the beer- and wine-making industry. The transaction was recognized in accordance with the acquisition method.

The consolidated financial statements include the results of Ricci Engineering S.r.l. from 1 August 2018, the date conventionally designated as the acquisition date for accounting purposes. 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 acquired	Adjustments to fair value	Carrying values in the acquiring company
Cash and cash equivalents	213	-	213
Trade receivables	481	-	481
Inventories	44	-	44
Tax receivables	21	-	21
Other current assets	242	-	242
Property, plant and equipment	54	-	54
Other intangible assets	4	-	4
Deferred tax assets	11	-	11
Other non-current assets	4	-	4
Trade payables	(130)	-	(130)
Bank payables	(114)	-	(114)
Bank payables - loans (current portion)	(43)	-	(43)
Tax payables	(31)	-	(31)
Other current liabilities	(182)	-	(182)
Bank payables - loans (non-current portion)	(139)	-	(139)
Liabilities for employee benefits (severance indemnity provision)	(18)	-	(18)
Net assets acquired	417	-	417
Goodwill related to the acquisition			183
Total net assets acquired			**600**
Total amount paid in cash			500
Current payables			100
Total acquisition cost (A)			600
Total amount paid in cash			500
Payables related to the acquisition of investments			100
Net financial position acquired (B)			83
Total change in the net financial position including changes in debt for the acquisition of investments			**683**
Capital employed (A) + (B)			**683**

Fluinox

On 11 December 2018 via Inoxpa S.A., the Interpump Group acquired the entire equity interest in Fluinox Procesos S.L.U. and its complementary company,Montajes Fluinox S.L.U. These companies are active in the design, production and installation of components and systems for the cosmetics, food processing, pharmaceuticals and chemicals industries, with specific experience in the processing of pastes and powders. The operation was recorded in accordance with the acquisition method and the 2018 consolidated financial statements include solely the assets and liabilities of Fluinox and Montajes at 31 December 2018, 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 financial statements at that date.

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

€/000	Amounts acquired	Adjustments to fair value	Carrying values in the acquiring company
Cash and cash equivalents	3,549	-	3,549
Trade receivables	1,559	-	1,559
Inventories	600	-	600
Tax receivables	128	-	128
Other current assets	24	-	24
Property, plant and equipment	2,493	-	2,493
Other intangible assets	171	-	171
Deferred tax assets	116	-	116
Other non-current assets	16	-	16
Trade payables	(800)	-	(800)
Bank payables - loans (current portion)	(194)	-	(194)
Leasing payables (current portion)	(6)		(6)
Tax payables	(345)	-	(345)
Other current liabilities	(2,287)	-	(2,287)
Provisions for risks and charges (current portion)	(138)	-	(138)
Bank payables - loans (non-current portion)	(796)	-	(796)
Leasing payables (non-current portion)	(41)	-	(41)
Deferred tax liabilities	(82)	-	(82)
Other medium/long-term liabilities	(2)	-	(2)
Net assets acquired	3,965	-	3,965
Goodwill related to the acquisition			7,196
Total net assets acquired			**11,161**
Total amount paid in cash			11,161
Total acquisition cost (A)			**11,161**
Total amount paid in cash			11,161
Net liquidity acquired (B)			(2,512)
Total change in the net financial position including changes in debt for the acquisition of investments			**8,649**
Capital employed (A) + (B)			**8,649**

6. Cash and cash equivalents

	31/12/2018 (€/000)	31/12/2017 (€/000)
Cash	130	132
Bank deposits	117,330	144,806
Other liquid funds	680	-
Total	118,140	144,938

Cash and cash equivalents include amounts denominated in foreign currencies, as shown below:

	Amounts in €/000	Amount in original currency
Euro	64,225	64,225
US Dollar	34,015	38,951
Chinese Renminbi	8,742	68,848
Indian Rupee	2,753	219,602
UK Sterling	1,814	1,625
Colombian Peso	1,143	4,256,792
Brazilian Real	1,126	5,008
Australian Dollar	1,094	1,774
Korean Won	808	1,032,723
New Zealand Dollar	564	962
South African Rand	317	5,215
Singapore Dollar	292	455
Chilean Peso	287	227,565
Polish Zloty	190	817
Danish Crown	175	1,308
Bulgarian Lev	155	302
Canadian Dollars	144	244
UAE Dirham	100	423
Other minor currencies	196	n.a.
Total	118,140	

At 31 December 2018, bank deposits include deposits and restricted accounts with a total notional balance of €2.6m at an average fixed interest rate of 1.48%.

Investment of the Group's liquidity made it possible to achieve an average yield of 0.32% in 2018, which was slightly higher than the 0.25% yield obtained in 2017.

7. Trade receivables

	31/12/2018 (€/000)	31/12/2017 (€/000)
Trade receivables, gross	283,653	244,646
Bad debt provision	(13,289)	(7,885)
Trade receivables, net	270,364	236,761

Changes in the bad debt provision were as follows:

	2018 (€/000)	*2017* (€/000)
Opening balances	7,885	7,340
Exchange rate difference	(44)	(120)
Change in consolidation basis	4,750	296
Reclassifications	2	-
Provisions in the year	2,020	1,495
Decreases in the year due to surpluses	(507)	(138)
Utilizations in the year	(817)	(988)
Closing balance	13,289	7,885

Provisions in the year are booked under other operating costs.

At 31 December 2018, receivables due beyond 12 months total €220k, while trade payables are all due within 12 months.

8. Inventories

	31/12/2018 (€/000)	31/12/2017 (€/000)
Raw materials and components	123,382	90,614
Semi-finished products	112,630	88,313
Finished products	130,468	112,774
Total inventories	366,480	291,701

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

	2018 (€/000)	*2017* (€/000)
Opening balances	32,848	28,596
Exchange rate difference	57	(914)
Change in consolidation basis	3,102	5,279
Reclassifications	-	(115)
Provisions for the year	3,843	2,423
Utilizations in the year	(2,962)	(2,421)
Reversal of provisions due to surpluses	-	-
Closing balance	36,888	32,848

9. Other current assets

	31/12/2018 (€/000)	31/12/2017 (€/000)
Accrued income and prepayments	5,106	4,190
Other receivables	4,440	2,950
Other current assets	1,385	1,162
Total other current assets	10,931	8,302

10. Property, plant and equipment

	Land and buildings (€/000)	*Plant and machinery* (€/000)	*Equipment* (€/000)	*Other assets* (€/000)	*Total* (€/000)
At 31 December 2016					
Cost	162,691	326,051	94,476	82,282	665,500
Accumulated depreciation	(40,454)	(193,472)	(80,515)	(50,138)	(364,579)
Net carrying amount	122,237	132,579	13,961	32,144	300,921
Changes in 2017					
Opening net carrying amount	122,237	132,579	13,961	32,144	300,921
Exchange differences	(1,438)	(3,320)	(652)	(3,312)	(8,722)
Change in 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	(3,893)	(24,636)	(4,896)	(6,706)	(40,131)
Closing net carrying amount	136,700	136,861	15,588	32,684	321,833
At 31 December 2017					
Cost	180,437	352,956	98,519	87,571	719,483
Accumulated depreciation	(43,737)	(216,095)	(82,931)	(54,887)	(397,650)
Net carrying amount	136,700	136,861	15,588	32,684	321,833
Changes in 2018					
Opening net carrying amount	136,700	136,861	15,588	32,684	321,833
Exchange differences	(97)	187	128	769	987
Change in consolidation basis	2,239	4,774	238	269	7,520
Additions	8,097	45,099	9,648	10,498	73,342
Disposals	(253)	(1,033)	(74)	(4,526)	(5,886)
Reclassifications	(152)	240	(27)	(62)	(1)
Capitalized depreciation	-	(10)	(2)	-	(12)
Write-downs	-	(9)	-	-	(9)
Depreciation	(4,097)	(25,479)	(5,939)	(6,771)	(42,286)
Closing net carrying amount	142,437	160,630	19,560	32,861	355,488
At 31 December 2018					
Cost	192,149	406,994	109,072	91,261	799,476
Accumulated depreciation	(49,712)	(246,364)	(89,512)	(58,400)	(443,988)
Net carrying amount	142,437	160,630	19,560	32,861	355,488

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

	Land and buildings (€/000)	*Plant and machinery* (€/000)	*Equipment* (€/000)	*Other assets* (€/000)	*Total* (€/000)
At 1 January 2017	1,233	2,645	530	4	4,412
At 31 December 2017	1,222	9,003	489	68	10,782
At 31 December 2018	2,866	13,890	654	170	17,580

The following value, included in the net carrying amount of the assets reported above, is associated with finance leasing agreements:

	Land and buildings (€/000)	*Plant and machinery* (€/000)	*Equipment* (€/000)	*Other assets* (€/000)	*Total* (€/000)
At 1 January 2017	15,837	15,909	69	428	32,243
At 31 December 2017	15,484	11,711	184	683	28,062
At 31 December 2018	13,597	9,349	270	775	23,991

Depreciation of €37,134k was charged to the cost of sales (€35,111k in 2017), €1,120k to distribution costs (€1,043k in 2017) and €4,032k for general and administrative costs (€3,977k in 2017).

At 31 December 2018 the Group had contractual commitments for the purchase of tangible assets in the amount of €4,017k (€5,853k at 31 December 2017).

11. Goodwill

The changes in goodwill in 2018 were as follows:

Company:	Balance at 31/12/2017	Increases (Decreases) in the year	Changes due to foreign exchange differences	Balance at 31/12/2018
Water Jetting Sector	199,042	7,379	1,787	208,208
Hydraulic Sector	226,949	104	(562)	226,491
Total goodwill	*425,991*	*7,483*	*1,225*	*434,699*

The value of Water Jetting Sector goodwill at 31 December 2017 was changed in 2018 as required by IFRS 3, following adjustment of the value of the put option of a subsidiary after revision of the business plan that gave rise to the valuation at 31 December 2017. Since less than twelve months had elapsed from the date of acquisition, the value of the put option was adjusted by changing the opening balance of goodwill and other non-current liabilities.

The increases in 2018 refer to:
- €183k, due to the acquisition of Ricci Engineering (Water Jetting Sector);
- €7,196k, due to the acquisition of Fluinox and Montajes (Water Jetting Sector);
- €104k, due to the first-time consolidation of M.D.M., which was absorbed by Tekno Tubi (Hydraulic Sector) on 1 January 2018.

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 growth of several important outlet markets for the Group, will make it possible to boost sales by around 5% for the “Water Jetting Sector” CGU and about 7% for the “Hydraulic Sector” CGU. A perpetual growth rate of 1% was applied for periods after 2023 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	5.79%
Hydraulic Sector	6.78%
Weighted average cost of capital	6.28%

The WACC utilized in 2017 was 4.46%. 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 was far higher than the Group's Shareholders' equity throughout 2018.

12. Other intangible assets

	Product development costs (€/000)	*Patents trademarks and industrial rights* (€/000)	*Other intangible assets* (€/000)	*Total* (€/000)
At 31 December 2016				
Cost	25,818	56,203	11,055	93,076
Accumulated amortization	(19,224)	(35,142)	(8,671)	(63,037)
Net carrying amount	6,594	21,061	2,384	30,039
Changes in 2017				
Opening net carrying amount	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 amortization	-	-	(7)	(7)
Amortization	(1,567)	(4,738)	(1,028)	(7,333)
Closing net carrying amount	6,900	28,306	2,890	38,096
At 31 December 2017				
Cost	32,311	67,192	14,638	114,141
Accumulated amortization	(25,411)	(38,886)	(11,748)	(76,045)
Net carrying amount	6,900	28,306	2,890	38,096

	Product development costs (€/000)	*Patents trademarks and industrial rights* (€/000)	*Other intangible assets* (€/000)	*Total* (€/000)
Changes in 2018				
Opening net carrying amount	6,900	28,306	2,890	38,096
Exchange differences	17	55	18	90
Change in the scope of consolidation	164	304	102	570
Increases	2,136	641	1,392	4,169
Decreases	-	(2)	(11)	(13)
Reclassifications	(148)	(47)	196	1
Write-downs	(35)	(10)	-	(45)
Capitalized amortization	-	-	(8)	(8)
Amortization	(1,894)	(4,767)	(1,468)	(8,129)
Closing net carrying amount	7,140	24,480	3,111	34,731
At 31 December 2018				
Cost	35,179	63,979	21,226	120,384
Accumulated amortization	(28,039)	(39,499)	(18,115)	(85,653)
Net carrying amount	7,140	24,480	3,111	34,731

The cost of assets in progress, included in the net carrying amounts reported above, is as follows:

	Product development costs (€/000)	*Patents trademarks and industrial rights* (€/000)	*Other intangible assets* (€/000)	*Total* (€/000)
At 1 January 2017	3,708	4	505	4,217
At 31 December 2017	4,368	4	611	4,983
At 31 December 2018	3,354	20	920	4,294

Amortization was charged in full to general and administrative costs.

Product development costs consist mainly of capitalized internal costs.

13. Other financial assets

This item comprises:

	31/12/2018 (€/000)	31/12/2017 (€/000)
Investments in non-consolidated subsidiaries	1,294	617
Assets servicing employee benefits	603	384
Loans to non-consolidated subsidiaries	202	2
Other loan receivables	5	5
Other financial assets	215	137
Total	2,319	1,145

The following changes were recorded:

	2018 (€/000)	2017 (€/000)
Opening balance	1,145	790
Exchange differences	(37)	(9)
Change in the scope of consolidation	238	176
Reclassifications	(55)	(103)
Increases for the year	1,253	282
Change in fair value	(11)	9
Decreases for the year	(214)	-
Closing balance	2,319	1,145

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

Company	31/12/2018 (€/000)	% held	31/12/2017 (€/000)	% held
Innovativ Gummi Tech S.r.l.	892	60%	-	-
General Pump China	167	100%	247	100%
FGA S.r.l.	126	100%	153	100%
Saldature MDM S.r.l.	-	-	114	100%
Interpump Hydraulics Rus	109	100%	95	100%
Inoxpa ABC Solution Private Ltd	-	-	8	100%
Inoxpa Poland Sp ZOO	-	100%	-	100%
Interpump Hydraulics Perù S.a.c.	-	90%	-	90%
Total non-consolidated subsidiaries	*1,294*		*617*	

Innovativ Gummi Tech S.r.l., General Pump China, FGA S.r.l., Interpump Hydraulics RUS, Inoxpa Poland Sp ZOO and Interpump Hydraulics Perù S.a.c. are all subsidiaries, but they have not been consolidated in 2018 in view of their limited size.

A 60% interest in Innovativ Gummi Tech S.r.l., based in Monteprandone (AP) and active in the production and sale of rubber mixtures, was acquired during 2018 with a view to it becoming a strategic supplier to IMM Hydraulics S.p.A..

Interpump Hydraulics RUS with headquarters in Moscow was incorporated in 2017 with the aim of guaranteeing a direct Group presence in this important market. During 2018, Interpump Hydraulics RUS worked on consolidating its presence in the Russian market, achieving increases in sales and profitability that however remain at a very early stage.

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 in February 2017 as part of the Inoxpa Group business combination. At the time of acquisition, both companies were already in liquidation. This process was completed for Inoxpa ABC Solution Private Ltd during 2018 and should be completed for Inoxpa Poland Sp ZOO during 2019. The value of the investment in Inoxpa Poland Sp ZOO was written off at 31 December 2018 and a provision for risks of €10k was recorded in the statement of financial position (€10k in 2017 as well).

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, has been reduced to zero and a provision for risks has been created in the amount of €125k to cover the losses incurred during the start-up stage.

In relation to financial instruments recorded at fair value in the statement of financial position (assets servicing employee benefits and other financial assets), international accounting standards 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 2018, broken down by level:

(€/000)	Level 1	Level 2	Level 3	Total
Other financial assets available for sale	681	-	137	818
Total assets	**681**	**-**	**137**	**818**

No transfers between levels were carried out in 2018.

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 2018.

14. Deferred tax assets and liabilities

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

	Deferred tax assets		Deferred tax liabilities	
	2018	2017	2018	2017
	(€/000)	(€/000)	(€/000)	(€/000)
At 31 December of the previous year	24,909	24,108	41,504	47,755
Exchange differences	31	(599)	570	(2,292)
Change in the scope of consolidation	1,777	2,058	331	5,689
Recognized in the income statement	3,009	(877)	(586)	(9,648)
Reclassifications	(22)	-	13	-
Recognized directly in equity	72	219	-	-
At 31 December of the current year	29,776	24,909	41,832	41,504

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

Deferred tax assets and liabilities refer to the following items in the statement of financial position:

	Deferred tax assets		Deferred tax liabilities	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
	(€/000)	(€/000)	(€/000)	(€/000)
Property, plant and equipment	5,529	5,553	27,477	27,832
Intangible assets	217	173	12,826	12,263
Equity investments	359	357	554	737
Inventories	15,798	12,784	51	31
Receivables	1,108	764	6	4
Intercompany dividends receivable	-	-	240	-
Liabilities for employee benefits	1,293	1,084	82	89
Provisions for risks and charges	1,487	1,553	82	31
Losses to be carried forward	2,262	677	-	-
Other	1,723	1,964	514	517
Total	29,776	24,909	41,832	41,504

No deferred tax liabilities were recorded for reserves qualifying for tax relief as they are not expected to be distributed (see note 22).

15. Assets and liabilities held for sale

Assets held for sale at 31 December 2017 related to two buildings subject to repurchase by the former shareholders of Inxopa at a contractually agreed price. The above assets held for sale were actually sold at the agreed price during 2018.

Liabilities held for sale at 31 December 2017 comprised the property conveyancing taxes on the repurchase of several buildings of the Inoxpa Group by the former shareholders. These liabilities were derecognized on completion of the sale of the related assets during 2018.

16. 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 2018 all financial covenants are amply complied with.

	31/12/2018 (€/000)	31/12/2017 (€/000)
Current		
Bank payables	21,404	8,955
Bank loans	150,508	163,451
Finance leases	1,326	3,014
Other financial payables	83	-
Total current interest bearing financial payables	151,917	166,465
Non-current		
Bank loans	222,818	233,945
Finance leases	8,503	9,115
Other financial payables	837	-
Total non-current interest bearing financial payables	232,158	243,060

At 31 December 2018, fixed-rate loans amounted to €13,033k, while the remainder were at floating rates.

Bank payables and loans include €3,087k in currencies other than the euro, mainly comprising Indian rupees, Australian dollars, Polish zlotys and Canadian dollars relating to foreign subsidiaries. Amounts in currencies other than the euro are as follows:

(€/000)	Bank payables	Current interest-bearing financial payables	Non-current interest-bearing financial payables	Total
Indian Rupee	2,050	10	5	2,065
Australian Dollar	-	57	131	188
Polish Zloty		64	123	187
Canadian Dollar	-	-	169	169
Russian Ruble	130	6	-	136
Chilean Peso	-	70	40	110
Brazilian Real	-	29	44	73
New Zealand Dollar	-	15	47	62
US Dollar	-	21	39	60
UK Pound	4	25	7	36
South African Rand	-	1	-	1
Total	2,184	298	605	3,087

The following rates were charged on the interest-bearing financial payables:

	31/12/2018 %	31/12/2017 %
Bank loans	Euribor+0.81 (average spread)	Euribor+0.83 (average spread)
Finance leases	3.0	2.5

Breakdown of finance lease payables at 31 December:

(€/000)	31 December 2018 Within the year	Between one and five years	Beyond five years	Total	31 December 2017 Within the year	Between one and five years	Beyond five years	Total
Outstanding installments on finance leasing contracts	1,606	5,162	4,306	11,074	3,362	4,771	5,345	13,478
Interest	(280)	(740)	(225)	(1,245)	(348)	(659)	(342)	(1,349)
Present value of finance lease payables	1,326	4,422	4,081	9,829	3,014	4,112	5,003	12,129

At 31 December 2018 the Group held several active finance leasing contracts for industrial buildings, plant and machinery, the carrying value of which, totaling €23,991k (€28,062k at 31 December 2017), has been booked under Property, plant and equipment (Note 10).

Non-current financial payables have the following due dates:

	31/12/2018 (€/000)	31/12/2017 (€/000)
Within 2 years	138,105	156,110
From 2 to 5 years	88,905	81,950
Beyond 5 years	5,148	5,000
Total	232,158	243,060

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

	31/12/2018 (€/000)	31/12/2017 (€/000)
Export advances and Italian portfolio	89,669	101,104
Current account overdrafts	6,536	6,036
Medium/long-term loans	170,000	76,442
Total	266,205	183,582

17. Other current liabilities

	31/12/2018 (€/000)	31/12/2017 (€/000)
Payables related to the acquisition of investments	8,679	2,428
Other short-term payables	60,631	49,659
Government grants	1,752	508
Other	1,235	1,443
Total	72,297	54,038

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

18. Provisions for risks and charges

Changes were as follows:

(€/000)	Product warranty provision	Agents' termination indemnity provision	Provision for returns on sales	Provision for risks on investments	Other	Total
Balance at 31/12/2017	3,347	784	321	243	2,071	6,766
Exchange rate difference	39	-	4	(4)	17	56
Increase in the year	1,008	133	78	16	360	1,595
Surplus released to the income statement	(170)	-	-	-	(64)	(234)
Change in the scope consolidation basis	175	-	-	-	39	214
Reclassifications	2	-	-	-	(291)	(289)
Utilizations in the year	(830)	(15)	-	-	(295)	(1,140)
Balance at 31/12/2018	3,571	902	403	255	1,837	6,968

The balance of other provisions at 31 December 2018 refers to various disputes or estimated liabilities in group companies.

The closing balance is classified as follows in the statement of financial position:

	31/12/2018 (€/000)	31/12/2017 (€/000)
Current	3,807	3,610
Non-current	3,161	3,156
Total	6,968	6,766

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.

19. Liabilities for employee benefits

Liabilities for defined benefit plans

The following movements were recorded in liabilities:

	2018 (€/000)	2017 (€/000)
Liabilities at 1 January	20,044	19,311
Amount charged to the income statement in the year	372	300
Reclassifications to other current liabilities	(134)	(71)
Recognition in equity of actuarial results	302	936
Change in consolidation basis	109	655
Payments	(1,316)	(1,087)
Liabilities at 31 December	19,377	20,044

The following items were recognized in the income statement:

	2018 (€/000)	2017 (€/000)
Current service cost	421	341
Financial expenses (Income)	(49)	(41)
Past service cost	-	-
Total recognized in the income statement	372	300

Items recognized in the income statement were booked as follows:

	2018 (€/000)	2017 (€/000)
Cost of sales	208	155
Distribution costs	107	113
General and administrative expenses	106	73
Financial expenses (Income)	(49)	(41)
Total	372	300

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

	Unit of measurement	2018	2017
Discount rate	%	1.50	1.37
Expected increase in rate of remuneration*	%	2.77	2.76
Percentage of employees expected to resign (turnover)**	%	3.77	3.24
Annual cost-of-living increase	%	1.50	1.50
Average period of employment	Years	13.26	13.45

* = restricted to companies with less than 50 employees.
** = average annual resignation percentage, all causes, in the first ten years following the assessment.

20. Other non-current liabilities

	2018 (€/000)	2017 (€/000)
Payables related to the acquisition of investments	35,848	44,387
Other long-term employee benefits	3,169	2,360
Other	434	199
Total	39,451	46,946

The payables related to the acquisition of investments at 31 December 2017 were changed in 2018 as required by IFRS 3, following adjustment of the value of the put option of a subsidiary after revision of the business plan that gave rise to the valuation at 31 December 2017. Since less than twelve months had elapsed from the date of acquisition, the value of the put option was adjusted by changing the opening balance of the payables related to the acquisition of investments.

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

	2018 (€/000)	2017 (€/000)
Liabilities at 1 January	46,946	41,058
Exchange rate difference	(688)	(461)
Change in consolidation basis	468	8,534
Amount charged to the income statement in the year	1,185	(2,119)
Reclassifications to other current liabilities	(6,050)	(74)
Increase in medium/long-term debts	764	247
Payments	(3,174)	(239)
Liabilities at 31 December	39,451	46,946

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.

21. Share capital

The share capital at 31 December 2018 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 €54,842k 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 2018 Interpump S.p.A. held 3,413,489 treasury shares in the portfolio corresponding to 3.135% of share capital, acquired at an average unit cost of EUR 21.0343.

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

	Number
Balance at 31/12/2016	*2,281,752*
2017 purchases	-
Sale of shares to finance subsidiaries' purchases	(150,000)
Sale of shares for the exercise of stock options	(570,000)
Balance at 31/12/2017	*1,561,752*
2018 purchases	2,003,806
Sale of shares to finance subsidiaries' purchases	(62,069)
Sale of shares for the exercise of stock options	(90,000)
Balance at 31/12/2018	*3,413,489*

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

	2018 Number of shares	2017 Number of shares
Ordinary shares in existence at 1 January	108,879,294	108,879,294
Treasury shares held	(1,561,752)	(2,281,752)
Shares in circulation at 1 January	107,317,542	106,597,542
Treasury shares purchased	(2,003,806)	-
Treasury shares sold	152,069	720,000
Total shares in circulation at 31 December	105,465,805	107,317,542

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 contributed by Interpump Group shareholders (share capital and share premium reserve, totaling €126,071k at 31 December 2018 and €177,033k at 31 December 2017), and the value generated by Group operations (other reserves and legal reserve, including profit for the year, totaling €740,696k at 31 December 2018 and €590,329k at 31 December 2017, excluding the translation reserve and the reserve for the restatement of defined benefit plans).

Treasury shares purchased
The amount of treasury shares held by Interpump Group is recorded in an equity provision. The Group purchased 2,003,806 treasury shares in 2018 for €54,183k at an average unit price of EUR 27.0405 (the Group did not purchase any treasury shares in 2017).

Treasury shares sold
In the framework of the execution of stock option plans, a total of 90,000 options have been exercised resulting in the collection of €540k (570,000 options were exercised for €3,376k in 2017). In addition, 62,069 treasury shares were assigned in 2018 on acquisition of the residual 33.75% interest in Suministros Tecnicos Y Alimentarios S.L. (150,000 treasury shares assigned in 2017 as payment of acquisitions).

Stock options
The fair value of the 2013/2015 and 2016/2018 stock option plans was recorded in the 2018 and 2017 financial statements in compliance with IFRS 2. Costs of €1,881k (€1,781k in 2017) relating to the 2016/2018 stock option plan were therefore recognized in the 2018 income statement, with a matching entry to 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:

	2018 (€/000)	2017 (€/000)
Cost of sales	-	-
Distribution costs	55	55
General and administrative expenses	1,826	1,726
Total	1,881	1,781

Changes in the share premium reserve were as follows:

	2018 €/000	2017 €/000
Share premium reserve at 1 January	121,228	112,386
Increase due to income statement recognition of the fair value of stock options granted	1,881	1,781
Increase for the disposal of treasury shares further to payment for acquisitions of subsidiaries	1,763	3,685
Increase for the disposal of treasury shares further to the exercise of stock options	540	3,376
Utilization to cover purchase of treasury shares	(54,183)	-
Share premium reserve at 31 December	71,229	121,228

The Shareholders' Meeting held on 30 April 2013 approved the adoption of the "*Interpump 2013/2015 Incentive Plan*", which is 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 in 2018 and 2017 were as follows:

	2018 Number of options	2017 Number of options
Options assigned at 1 January	150,000	700,000
Options granted in the year	-	-
Options exercised in the year	(90,000)	(550,000)
Options canceled in the year	-	-
Total options assigned at 31 December	60,000	150,000
Of which:		
- vested at 31 December	60,000	150,000
- not vested at 31 December	-	-
Total options assigned at 31 December	60,000	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 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 canceled in 2017 totaled 30,000.

The changes in options in 2018 and 2017 were as follows:

	2018 Number of options	2017 Number of options
Number of rights assigned at 1 January	2,121,800	2,139,800
Number of rights canceled	-	(30,000)
Number of rights assigned	-	12,000
Number of shares purchased	-	-
Total options not yet exercised at 31 December	2,121,800	2,121,800

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

2013/2015 Plan

First assignment	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 in construction of 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

Second assignment	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 in construction of 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

First assignment	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 in construction of 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

Second assignment	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 in construction of 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

Third assignment	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 in construction of 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

Fourth assignment	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 in construction of 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

Fifth assignment	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 in construction of 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.

22. Reserves

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 from remeasurement 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 utilizations over the past three years: to cover losses	Summary of utilizations over the past three years: for other reasons
Share capital	56,617	B	-	-	-	-
Nominal value of treasury shares in portfolio	(1,775)					
Total share capital	54,842					
Capital reserves						
From Parent Company's financial statements:						
Legal reserve	6,860	B	-	-	-	-
Share premium reserve	17,888	A,B,C	17,888	-	-	17,304
Total from Parent Company's financial statements	24,748		17,888			
Consolidation entries	36					
Total from consolidated financial statements	24,784					
Profit reserves						
From Parent Company's financial statements:						
Legal reserve	4,463	B	-	-	-	-
Share premium reserve	52,503	A,B,C	50,339	1,232	-	-
Extraordinary reserve	170,099	A,B,C	168,020	-	-	-
Reserve for share capital reduction	1,775	-	-	-	-	-
First Time Adoption Reserve	(64)		-	-	-	-
Merger surplus	863	A,B,C	698	-	-	-
Reserve from remeasurement of defined benefit plans	(2,011)	-	-	-	-	-
Profit for the year	87,932	A,B,C	87,932	-	-	-
Total from Parent Company's financial statements	315,560		306,989			
Consolidation entries	469,118					
Total from consolidated financial statements	784,678					
Reserve for treasury shares held	71,800	-	-	-	-	97,492
Treasury shares	(71,800)					
Non-distributable portion*			(3,055)			
Remaining distributable portion			321,822			

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.

Utilizations refer to dividends, purchases 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 utilizations of the reserve for treasury shares held refer to purchases of treasury shares, while the utilizations 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 2018, 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

	2018			2017		
(amounts in €/000)	Pre-tax amount	Taxation	Amount net of taxes	Pre-tax amount	Taxation	Amount net of taxes
Accounting for exchange risk hedges using the cash flow hedge method	-	-	-	33	(9)	24
Profit (Loss) arising from translation of the financial statements of foreign companies	5,454	-	5,454	(36,311)	-	(36,311)
Profit (Loss) of companies carried at equity	(30)	-	(30)	(2)	-	(2)
Actuarial Profits (Losses) associated with remeasurement of defined benefit plans	(304)	72	(232)	(927)	219	(708)
Total	**5,120**	**72**	**5,192**	**(37,207)**	**210**	**(36,997)**

23. Minority shareholders' equity

This is the portion of consolidated shareholders' equity pertaining to minority shareholders of the consolidated subsidiaries. Minority interest subsidiaries are not individually or cumulatively significant to the Interpump Group.

24. Other net revenues

	2018 (€/000)	2017 (€/000)
Reimbursement of expenses	8,268	7,476
Income from the sale of waste and scrap	4,575	3,751
Release of surplus provisions and allocations	741	682
Income from rent/royalties	325	562
Capital gains from the sale of property, plant and equipment	545	381
Refunds from insurance	640	118
Other	4,571	3,774
Total	19,665	16,744

25. Costs by nature

	2018 (€/000)	2017 (€/000)
Raw materials and components	469,486	389,309
Personnel and temporary staff	321,656	274,003
Services	129,308	111,079
Amortization / depreciation(Notes 10 and 12)	50,415	47,464
Directors' and statutory auditors' remuneration	7,833	7,753
Hire purchase and leasing charges	18,963	15,609
Provisions / impairment of tangible and intangible fixed assets (Notes 10, 12 and 18)	1,555	2,272
Other operating costs	63,067	56,890
Total cost of sales, distribution costs, general and administrative expenses, other operating costs and impairment losses on intangible and tangible fixed assets	1,062,283	904,379

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 2018 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 €126k;
- assignments for auditing of subsidiaries €950k;
- limited examination of the Parent company's non-financial statements €48k.

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

26. 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:

	2018 (€/000)	2017 (€/000)
Parent Company	4,042	4,159
Statutory auditors	172	171
Total remuneration	4,214	4,330

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.

27. Financial income and expenses

	2018 €/000	2017 €/000
Financial income		
Interest income from liquid funds	465	363
Interest income from other assets	160	95
Financial income to adjust estimated debt for commitment to purchase residual interests in subsidiaries	1,021	1,195
Foreign exchange gains	9,689	12,531
Earnings from valuation of derivative financial instruments	-	111
TFR financial income	49	41
Other financial income	43	43
Total financial income	11,427	14,379
Financial expenses		
Interest expense on loans	2,980	3,451
Interest expense on put options	697	629
Financial charges to adjust estimated debt for commitment to purchase residual interests in subsidiaries	2,755	1,164
Foreign exchange losses	11,239	16,098
Other financial charges	1,541	82
Total financial expenses	19,212	21,424
Total financial expenses (income), net	7,785	7,045

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

Adjustments of the estimated liability for the purchase of residual interests in subsidiaries may result in financial charges due to an increase in the liability, 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 following a decrease in the liability, 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.

28. Income taxes

The effective tax rate for the year was 27.5% (29.4% in 2017). This change is explained in the Report on operations.

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

	2018 (€/000)	2017 (€/000)
Current taxes	(69,361)	(64,785)
Current taxes for prior financial years	(298)	(413)
Deferred taxes	3,595	8,771
Total taxes	(66,064)	(56,427)

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

	2018 (€/000)	2017 (€/000)
Deferred tax assets generated in the year	4,751	2,839
Deferred tax liabilities generated in the year	(2,820)	(1,693)
Deferred tax assets transferred to the income statement	(2,793)	(2,696)
Deferred tax liabilities recognized in the income statement	3,406	3,932
Deferred tax assets resulting from change in rate	-	(1,522)
Deferred tax liabilities resulting from change in rate	-	7,410
Derecognized deferred tax assets	-	-
Deferred taxes not calculated in previous years	1,051	501
Total deferred taxes	3,595	8,771

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:

	2018 (€/000)	2017 (€/000)
IRES/National tax		
Profit before taxes from the income statement	239,926	192,150
Theoretical taxes at the Italian rate (24.0%)	57,582	46,116
Effect of different rates applicable to foreign subsidiaries	(3,572)	3,258
Tax on dividends from consolidated companies	2,500	1,947
Higher (Lower) taxes resulting from the measurement of investments at equity	50	4
Higher tax for non-deductible stock option costs	84	60
Lower taxes due to IRAP deduction relating to expenses for employees and similar for the year	(204)	(123)
Lower taxes due to IRAP deduction on interest expenses in the year	(49)	(47)
Higher taxes due to not recognizing deferred tax assets on current year tax losses	527	787
Lower taxes due to not recognizing deferred tax assets on prior year tax losses	(1,054)	(395)
Taxes relating to previous years (current plus deferred)	(114)	(572)
Higher (Lower) taxes on financial expenses relative to discounting of debts for the purchase of investments and related adjustments	426	62
Higher (Lower) taxes on other financial charges	349	-
Lower taxes due to non-taxability of income deriving from badwill	(2,729)	(73)
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	254	311
Total IRES/National tax	*54,050*	*45,447*
IRAP/Local income taxes		
Profit before taxes from the income statement	239,926	192,150
Theoretical taxes at the Italian rate (3.9%)	9,357	7,494
Effect of different rates applicable to foreign subsidiaries and for holding companies	1,943	2,123
Higher taxes for non-deductible payroll costs	620	413
Higher taxes for non-deductible directors' emoluments	280	273
Higher taxes due to non-deductible financial expenses	215	172
Higher taxes due to measuring investments at equity	7	1
Lower taxes due to non-taxability of income deriving from badwill	(445)	(12)
Taxes relating to previous years (current plus deferred)	(238)	457
Higher (Lower) taxes for non-taxable revenues and non-deductible costs	275	59
Total IRAP/Local income taxes	*12,014*	*10,980*
Total income taxes recognized in the income statement	*66,064*	*56,427*

Interpump Group S.p.A. Joined a domestic tax group in 2018 together with Interpump Piping S.r.l. In addition, IMM S.p.A. and Hypress S.r.l. are members of a different domestic tax group.

29. Earnings per share

Basic earnings per share

Basic earnings per share are calculated as the consolidated net profit attributable to the owners of the Parent Company divided by the weighted average number of ordinary shares, as follows:

	2018	2017
Consolidated net profit attributable to the owners of the Parent Company (€/000)	172,905	134,442
Average number of shares in circulation	106,766,319	106,973,877
Basic earnings per share (€)	1.619	1.257

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:

	2018	2017
Consolidated net profit attributable to the owners of the Parent company (€/000)	172,905	134,442
Average number of shares in circulation	106,766,319	106,973,877
Number of potential shares for stock option plans (*)	1,152,091	1,031,352
Average number of shares (diluted)	107,918,410	108,005,229
Diluted earnings per share (€)	1.602	1.245

(*) 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.

30. Information on financial assets and liabilities

Financial assets and liabilities, broken down by the categories identified by IFRS 7, are summarized in the following table:

(€/000)	At fair value through profit and loss – Initially	At fair value through profit and loss – Subsequently	*Financial assets at 31/12/2018* Measured at amortized cost	At fair value through the Comprehensive income statement	*Financial liabilities at 31/12/2018* Measured at amortized cost	Total
Trade receivables	-	-	270,364	-	-	270,364
Other current assets	-	-	5,825	-	-	5,825
Other financial assets	2,112	-	207	-	-	2,319
Trade payables	-	-	-	-	(177,782)	(177,782)
Bank payables	-	-	-	-	(20,877)	(20,877)
Current interest-bearing financial payables	-	-	-	-	(151,917)	(151,917)
Other current liabilities	-	-	-	-	(71,062)	(71,062)
Non-current interest-bearing financial payables	-	-	-	-	(232,158)	(232,158)
Other non-current assets	-	-	-	-	(39,521)	(39,521)
Total	2,112	-	276,396	-	(693,317)	(414,809)

(€/000)	At fair value through profit and loss – Initially	At fair value through profit and loss – Subsequently	*Financial assets at 31/12/2017* Measured at amortized cost	At fair value through the Comprehensive income statement	*Financial liabilities at 31/12/2017* Measured at amortized cost	Total
Trade receivables	-	-	236,761	-	-	236,761
Other current assets	-	-	4,111	-	-	4,111
Other financial assets	1,138	-	7	-	-	1,145
Trade payables	-	-	-	-	(142,975)	(142,975)
Bank payables	-	-	-	-	(8,487)	(8,487)
Current interest-bearing financial payables	-	-	-	-	(166,465)	(166,465)
Other current liabilities	-	-	-	-	(52,595)	(52,595)
Non-current interest-bearing financial payables	-	-	-	-	(243,060)	(243,060)
Other non-current assets	-	-	-	-	(50,397)	(50,397)
Total	1,138	-	240,879	-	(663,979)	(421,962)

The 2018 consolidated income statement does include any profits or losses deriving from the fair value adjustment (profits of €107k in 2017 on plain vanilla forward contracts) of derivative financial instruments that, although arranged for hedging purposes, failed to meet all the requirements of international accounting standards for recognition as hedges.

The financial assets measured at amortized cost generated revenues and costs. The revenues comprised exchange gains of €4,063k (€4,907k in 2017). Costs, on the other hand, comprised losses on receivables of €2,144k (€1,653k in 2017), classified in the income statement as other operating costs, and exchange losses of €3,997k (€5,687k in 2017).

The financial liabilities measured at amortized cost also generated costs and revenues in the income statement. Revenues refer to exchange rate gains €3,525k (€6,948k in 2017), while costs refer to currency exchange losses for €5,280k (€9,825k in 2017) 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. Ancillary charges of €125k (€164k in 2017) were charged to the 2018 income statement.

Financial assets and liabilities measured at amortized cost generated respectively interest income of €1,202k (€1,324k in 2017) and interest expense of €6,693k (€5,162k in 2017); in addition, general and administrative expenses include commission amounts and bank charges of €1,470k (€1,338k in 2017).

31. Information on financial risks

The Group 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, Singapore, India, South Korea, Denmark, Sweden, 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 2018 the total amount of cash flows directly exposed to exchange risks corresponded to approximately 11% of Group sales (approximately 11% also in 2017). The main exchange rates to which the Group is exposed are:

- Euro/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;
- Euro/CAD in relation to sales in Canadian dollars of valves and directional controls on the Canadian market to customers external to the Group;
- Euro/AUD in relation to sales in Australian dollars of very high pressure systems in Australia through one of the Group's distribution companies;
- Euro/GBP in relation to sales in pounds sterling of hydraulic components, hoses and fittings in the UK market to third parties and, to a lesser extent, to the Group's distribution companies;
- USD/Euro in relation to euro sales of high pressure pumps, directional controls and valves in North America by the Group's distribution companies;
- RON/Euro 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/Euro, Indian rupee/Euro, 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 2018 the commercial cash flows directly exposed to exchange risks were equivalent to approximately 27% of Group purchases (27% also in 2017) and mainly related to intercompany transactions and the USD/euro, Renminbi/Euro, Indian Rupee/Euro, USD/Renminbi, GBP/Euro, AUD/Euro, South Korean Won/Euro, Romanian Leu/Euro, Euro/USD, Rand/Euro and Chilean Peso/Euro exchange rates. Current Group policy regarding purchases in foreign currency other than that used locally 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 2018 with €19.0m 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, €5.1m of intercompany loans were disbursed and €0.5m collected during 2018 in currencies other than those utilized by the debtor companies. At 31 December 2018, loans granted in currencies other than those utilized by the debtor companies total €18.5m, up by €8.2m since 31 December 2017, of which €3.7m was due to the consolidation of the GS Hydro Group in 2018. Once again in 2018, the Group made the strategic decision not to hedge these exposures.

The nature and structure of the exposure to exchange risk and the related hedging policies adopted by the Group were substantially unchanged in 2018.

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 €5,425k at 31 December 2018 (€4,627k at 31 December 2017).

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 arrange hedges, in view of the short average duration of the existing loans (around 3 years). As more fully described in Note 16, at 31 December 2018 loans at fixed rates of interest totaled €13,033k.

At 31 December 2018, liquidity of €3.2m 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 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, totaling €1,389k (€1,350k in 2017). 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 2018 and 2017 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 2018 and 2017). 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 2018 the Loans and Receivables booked under financial assets for the purposes of IFRS 7 totaled €276,189k (€240,879k at 31 December 2017), and they include €13,289k related to written down receivables (€7,885k at 31 December 2017); on the residual amount payments overdue by less than three months were €52,285k (€44,470k at 31 December 2017), while those overdue beyond three months totaled €20,456k (€13,123k at 31 December 2017). 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 2018 the top customer in terms of sales accounted for about 1% (about 2% in 2017), while the top 15 customers accounted for about 10% of total sales (about 11% in 2017). The concentration is similar at sector level, since the top customer accounts for about 1% of the sales of the Water Jetting Sector and about 2% for the Hydraulic Sector, while the top 15 customers account for 10% of the sales of the Water Jetting Sector and 16% 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 16.

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. Liquid funds at 31 December 2018 totaled €118.1m. These funds, combined with the significant cash generation from operations that the Group has proved able to achieve in 2018 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 30% of total Group purchase costs of raw materials, semi-finished products and finished products in 2018 (28% in 2017). The main metals utilized by the Group include brass, aluminum, steel, stainless steel, cast iron, mild steel, copper 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 2018, 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 26% of costs for the purchase of raw materials, semi-finished products and finished products in 2018 (19% in 2017). The metals utilized are primarily brass, stainless steel, aluminum 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 2018 covered 74% of projected brass consumption in 2019 and the entire projected aluminum consumption for 2019 and part of 2020 (32% coverage of projected brass consumption and 47% coverage of projected aluminum consumption in the following year at 31 December 2017). The entire projected brass consumption in 2019 and part of 2020 is covered, if the stocks on hand at 31 December 2018 are considered in addition to the agreements signed;
- the cost of metals in the Hydraulic Sector constituted around 31% of purchase costs for raw materials, semi-finished products and finished products in 2018 (32% in 2017). The metals utilized are primarily steel, aluminum, mild steel and cast iron. The prices of these commodities, with the exception of aluminum, 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 aluminum, 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.

32. Notes to the cash flow statement

Property, plant and equipment

In 2018, the Group purchased buildings, plant and machinery totaling €73,342k (€55,538k in 2017). This investment involved payments of €71,595k, including the purchase of assets for subsequent rental and considering the dynamics of the payables incurred for this reason (€51,041k in 2017).

Cash and cash equivalents

This item can be broken down as follows:

	31/12/2018 (€/000)	31/12/2017 (€/000)
Cash and cash equivalents from the statement of financial position	118,140	144,938
Bank payables (current account overdrafts and advances subject to collection)	(21,404)	(8,955)
Cash and cash equivalents from the cash flow statement	96,736	135,983

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 2018 and 2017 we invite you to refer to the "Cash Flow" section of the Report on operations.

33. Commitments

At 31 December 2018 the Group has commitments to purchase raw materials totaling €452k (€230k at 31 December 2017).

Furthermore, the Group also has commitments to purchase tangible assets totaling €4,017k (€5,853k at 31 December 2017).

The Group has signed rental and hire purchase agreements primarily regarding buildings, machinery, cars and computers. The total outlay in 2018 was €15,893k (€14,851k in 2017). At 31 December 2018, the following commitments were outstanding:

	(€/000)
Due within 1 year	16,202
Due from 1 to 2 years	12,810
Due from 2 to 5 years	17,686
Due beyond 5 years	9,510
Total	56,208

34. 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 2018 and 2017 are shown below:

	2018					
(€/000)	Consolidated Total	Non-consolidated subsidiaries	Associates	Other related parties	Total related parties	% incidence on F.S. caption
Net sales	1,279,167	2,419	-	1,173	3,592	0.3%
Cost of sales	805,295	1,698	-	11,710	13,408	1.7%
Other revenues	19,665	10	-	-	10	0.1%
Distribution costs	117,660	36	-	857	893	0.8%
G&A expenses	135,898	-	-	1,542	1,542	1.1%

	2017					
(€/000)	Consolidated Total	Non-consolidated subsidiaries	Associates	Other related parties	Total related parties	% incidence on F.S. caption
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%

The effects on the consolidated statement of financial position at 31 December 2018 and 2017 are described below:

	31 December 2018					
(€/000)	Consolidated Total	Non-consolidated subsidiaries	Associates	Other related parties	Total related parties	% incidence on F.S. caption
Trade receivables	270,364	3,026	-	644	3,670	1.4%
Other financial assets	2,319	202	-	-	202	8.7%
Trade payables	177,782	92	-	1,040	1,132	0.6%

	31 December 2017					
(€/000)	Consolidated Total	Non-consolidated subsidiaries	Associates	Other related parties	Total related parties	% incidence on F.S. caption
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%

Relations with non fully-consolidated subsidiaries

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

(€/000)	Receivables		Revenues	
	31/12/2018	31/12/2017	2018	2017
Interpump Hydraulics Perù	1,012	1,003	386	298
General Pump China Inc.	641	264	902	649
Interpump Hydraulics Russia	566	190	1,141	190
Innovativ Gummi Tech S.r.l.	457	-	-	-
FGA S.r.l.	350	174	-	-
Total subsidiaries	*3,026*	*1,631*	*2,429*	*1,137*

(€/000)	Payables		Costs	
	31/12/2018	31/12/2017	2018	2017
General Pump China Inc.	46	54	688	629
FGA S.r.l.	46	-	601	4
Innovativ Gummi Tech S.r.l.	-	-	334	-
MDM Saldature S.r.l.*	-	107	-	138
Interpump Hydraulics Russia	-	21	-	125
Interpump Hydraulics Perù	-	27	111	136
Total subsidiaries	*92*	*209*	*1,734*	*1,032*

*= absorbed by Tekno Tubi S.r.l. on 1 January 2018

(€/000)	Loans		Financial income	
	31/12/2018	31/12/2017	2018	2017
FGA S.r.l.	200	-	-	-
Inoxpa Poland Sp ZOO	2	2	-	-
Total subsidiaries	*202*	*2*	*-*	*-*

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 €4,572k (€4,761k in 2017), and consultancy services provided by entities connected with directors and statutory auditors of the Group for €113k (€331k in 2017). Costs for rentals were recorded under the cost of sales in the amount of €3,181k (€3,404k in 2017), under distribution costs in the amount of €397k (€667k in 2017) and under general and administrative expenses in the amount of €994k (€690k in 2017). Consultancy costs were allocated to distribution costs in the amount of €98k (€60k in 2017) and to general and administrative expenses in the amount of €15k (€271k in 2017). Revenues from sales in 2018 included revenues from sales to companies owned by Group shareholders or directors totaling €1,173k (€1,418k in 2017). In addition the cost of sales includes purchases from companies controlled by minority shareholders or Group company directors totaling €8,119k (€7,073k in 2017).

Further to the signing of building rental contracts with other related parties, at 31 December 2018 the Group also has commitments of €15,488k (€13,630k at 31 December 2017).

35. Events occurring after the close of the year

Via Muncie Power Products Inc., a subsidiary, Interpump Group acquired control over HYDRA DYNE TECH, based in Ontario, Canada, on 1 March 2019. This company manufactures and markets hydraulic rotary manifolds, valves and cylinders. These products are designed and customized to meet the needs of several of the most important OEMs in the farm machinery, earth-moving and forestry sectors. The rotary components, for which Hydra Dyne Tech is a recognized specialist, represent a significant extension to the range of hydraulic components offered by Interpump. Hydra Dyne Tech ended its financial year on 31 August 2018 with sales of 35.8 million and an EBITDA of 6.1 million; the net financial position was 7.2 million (amounts expressed in CAD). The price agreed for a 75% interest was €15.2m. The parties also agreed put and call options for the transfer of the minority interest from 2023.

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 application

   of the administrative and accounting procedures for the formation of the consolidated financial statements during 2018.

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 2018, which show consolidated total assets of €1,651,365k, consolidated net profit of €173,862k and consolidated shareholders' equity of €868,905k:
   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 Parent 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), 19 March 2019

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 Decree no. 58/1998 and art. 2429 of the Italian civil code

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

Introduction

The Board of Statutory Auditors of Interpump Group S.p.A. (hereinafter also referred to as “IPG” or the “Company”) is required, pursuant to art. 153 of Decree no. 58/1998 (hereinafter also referred to as the “TUF”) and art. 2429, para. 2 of the Italian civil code, to report to the Shareholders’ Meeting called to approve the financial statements on the supervisory activities carried out during the year in the fulfillment of our duties, in part in our role as the Audit Committee, as well as on any omissions or inappropriate conduct that we identified, and on the results of the year. We are also required to make proposals regarding the financial statements, their approval and other matters for which we are responsible.

During the year ended 31 December 2018, and subsequently to date, the Board of Statutory Auditors has carried out the supervisory activities required by law, taking account of the rules of conduct established by the Italian Accounting Profession, the CONSOB instructions on the audit of companies, and the provisions of art. 19 of Decree no. 39/ 2010.

The financial statements of IPG were prepared in accordance with the IAS/IFRS international accounting and financial reporting standards issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, and with the CONSOB instructions implementing art. 9, para. 3, of Decree no. 38/2005.

The financial statements were prepared in compliance with the law and are accompanied by the documents specified by the Italian civil code and the TUF. Moreover, in accordance with legal requirements, the Company has also presented consolidated financial statements and the consolidated statement of non-financial information for 2018.

We obtained the information needed to carry out our assigned supervisory activities by attending the meetings of the Board of Directors and the established Board Committees, as well as by interviewing the management of the Company and the Group, gathering information from the competent corporate functions, and performing 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 at the Shareholders’ Meeting held on 28 April 2017: its members are Fabrizio Fagnola (Chair), Alessandra Tronconi (Serving Auditor), Federica Menichetti (Serving Auditor), and Roberta Senni and Federico Quaiotti (Alternate Auditors). The Board will remain in office for three years and will lapse on the date of the Shareholders’ Meeting called to approve the 2019 financial statements.

The appointments were made from the two lists submitted, one by the majority shareholder and one by a number of institutional investors representing non-controlling interests, in compliance with the law, applicable regulations and the corporate bylaws. The Chair of the Board of Statutory Auditors and one Alternate Auditor were drawn from the minority list.

The composition of the Board of Statutory Auditors complies with the gender balance criterion specified in art. 148 of Decree 58/1998 (TUF).

The Board of Statutory Auditors checked that the independence requirements placed upon its members were satisfied both upon appointment and, subsequently, during 2018. This check was carried out in accordance with the criteria specified in the Standards of Conduct for the Boards of Statutory Auditors of Listed Companies, issued by the Italian Accounting Profession in April 2018, and in the Code of Corporate Governance.

The outcome of these checks was communicated to the Board of Directors pursuant to art. 144-*(9)*, para. 1-*(3)*, of CONSOB Regulation no. 11971, and article 8.C.1 of the Code of Corporate Governance.

Supervisory and control activities of the Board of Statutory Auditors

Supervision of compliance with the law and the bylaws

In the performance of its duties, the Board of Statutory Auditors has carried out the supervisory activities required by art. 2403 of the Italian civil code, art. 149 of Decree no. 58/1998, art. 19 of Decree no. 39/2010, and the CONSOB recommendations on company audits and the activities of the Board of Statutory Auditors, while also making reference to the provisions of the Code of Corporate Governance and the Standards of Conduct for Boards of Statutory Auditors issued by the Italian Accounting Profession - 2018 edition.

In the context of our duties we have therefore:

- attended the meetings of the Shareholders and the Board of Directors, supervising their compliance with the bylaws, current legislation and the regulations governing the operation of corporate bodies and compliance with the principles of proper administration;
- monitored, to the extent of our responsibilities, the adequacy of the organizational structure of the Company and compliance with the principles of proper administration, by means of direct observation, collection of information from the managers of certain business functions, and meetings with the Independent Auditors as part of the reciprocal exchange of data and significant information;
- assessed and monitored the adequacy of the internal control system and the administrative and accounting system, and the reliability of the latter in terms of representing operating events correctly, by means of the information provided by the managers of the respective functions, examination of the corporate documents and analysis of the results of the work carried out by the Independent Auditors;
- held 9 meetings during the year, each with a duration of more than 2 hours and 30 minutes, and attended all the meetings of the Board of Directors and the Board Committees (Control and Risks Committee, Related-Party Transactions Committee, Remuneration Committee and Appointments Committee);
- supervised the adequacy of the reciprocal flow of information between IPG and its subsidiaries pursuant to art. 114, para. 2, of Decree no. 58/1998, which is assured by the instructions issued by the management of the Company to the various Group companies;
- monitored compliance with the "Market Abuse", "Investor Protection" and "Internal Dealing" rules, with special reference to the treatment of inside information and the procedures for the dissemination of communications and information to the public. In addition, we monitored the changes made to the procedure adopted by the Company for the management of inside and significant information, having regard for Consob Guidelines no. 1/2017;
- monitored acceptance by the IPG Group of the obligations deriving from Regulation (EU) 2016/679 on the protection of personal data.

The Board of Statutory Auditors also:

- obtained adequate information from the Directors about the activities undertaken and the operations of greatest economic, financial and capital significance performed by the Company and its subsidiaries pursuant to art. 150, para. 1, TUF. In this regard, both jointly and individually, we paid special attention to ensuring that the operations authorized and carried out were performed in compliance with the law and with the bylaws, and were not imprudent or subject to undue risk, in contrast with resolutions adopted at the Shareholders'

Meeting, in potential conflict of interest, or capable of jeopardizing the integrity of net equity;

- held meetings with the representatives of the Independent Auditors pursuant to art. 150, para. 3, TUF, from which no significant data and/or information emerged that should be mentioned in this Report;
- exchanged information with the boards of statutory auditors of the companies directly or indirectly controlled by IPG S.p.A. pursuant to art. 151, paras. 1 and 2, TUF;
- supervised the 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)* TUF 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 of the practical implementation of the corporate governance rules, the proper application of the appraisal criteria and procedures adopted by the Board of Directors to confirm the independence of the Directors.

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 completed by all members of the Board of Directors.

We further confirm that:

- we issued our opinion pursuant to art. 2389 of the Italian civil code, having regard for the conclusions of the Remuneration Committee concerning the proposal made for the remuneration of directors with special duties;
- we expressed the favorable opinion specifically required by the Code of Corporate Governance, art. 7, criterion 7.C.1, in relation to the proposed remuneration of the manager in charge of the Internal Audit function.

Supervision of the adequacy of the administrative-accounting system and the legal audit of the accounts

Pursuant to art. 19 of Decree no. 39/2010 (consolidated legal auditing law), the Board of Statutory Auditors, in our role as the "Internal Control and Audit Committee", is required to supervise:

- the financial reporting process;
- the efficacy of the internal control and risk management system;
- the legal audit of the annual and consolidated financial statements;
- the independence of the Independent Auditors, particularly with regard to the provision of non-auditing services.

We performed our work in collaboration with the Control and Risks Committee, in order to coordinate the respective duties and avoid the overlap of activities.

Financial reporting process

We supervised the presence of rules and procedures governing the preparation and dissemination of financial information. In this regard, 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 reporting process at a consolidated level. The post of Chief Reporting Officer is held by Carlo Banci.

The Chief Reporting Officer makes use of support from the Internal Audit function to check the operation of the administrative and accounting procedures via the testing of controls.

We confirm that we have received adequate information on the work to monitor the corporate processes with an administrative-accounting impact, in the framework of the internal control system, that was carried out both during the year, in relation to the interim financial reports, and at the time of closing 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 no. 262/2005. In particular, we took account of the 2018 Risk Assessment and the half-yearly update of test activities pursuant to Law no. 262/2005.

The adequacy of the administrative-reporting system was also assessed via the acquisition of information from the managers of the respective functions and analysis of the results of the work carried out by the Independent Auditors.

No particular issues or impediments emerged to prevent the release of certification by the Chief reporting officer and the Chief executive officer concerning the adequacy of the administrative and accounting procedures for the preparation of the separate financial statements of IPG S.p.A. and the consolidated financial statements for 2018.

We supervised compliance with the rules concerning the preparation and publication of the Interim Financial Report and the Interim Board of Directors' Reports, their format and the proper application of accounting standards, partly by reference to information obtained from the Independent Auditors.

Furthermore, we acknowledge that:

- the Independent Auditors responsible for legal audit of the accounts have explained their checks to us and did not highlight any matters during our periodic meetings;
- we supervised the audit of the annual and consolidated accounts, obtaining information from and holding discussions with the Independent Auditors, which also covered the innovations introduced with regard to their auditors' report from the audit of the 2017 financial statements.

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, the main accounting policies applied by IPG were also illustrated. We also acknowledge that the Independent Auditors EY S.p.A. have issued their opinions on the consolidated financial statements and the separate financial statements today (29 March 2019), and have also issued today the Supplementary Report for the Board of Statutory Auditors required by art. 11 of Regulation (EU) 2014/537.

We have supervised the independence of the Independent Auditors EY S.p.A., checking the nature and extent of any services rendered other than the audit of IPG and subsidiaries, and have obtained explicit confirmation from the Independent Auditors that their independence requirements have been met. The declaration regarding independence is included, pursuant to art. 11, para. 2, letter a), of Regulation (EU) 2014/537, in the above-mentioned Supplementary Report.

In detail, the fees paid by the IPG Group to the Independent Auditors and companies belonging to their network were as follows in 2018:

Audit work:	Euro 1,076 thousand
Certification of the consolidated non-financial statement:	Euro 48 thousand
Total:	Euro 1,124 thousand

The changes to the scope of the audit in 2018 resulted in the payment of additional fees, given the first-time consolidation of companies acquired by the Group during the year. In the light of the matters presented above, the Board of Statutory Auditors deems that independence requirements place on EY S.p.A. are satisfied.

Supervision of the adequacy of the system of internal control and the organizational structure.

We have assessed and supervised the adequacy of the internal controls and the efficacy of the internal control and risk management systems. We confirm that we have checked the most significant activities performed by the internal control and risk management system, taken as a whole, by attending the meetings of the Control and Risks Committee and the Related-Party Transactions Committee together with:

- the Director in charge of the internal control and risk management system;
- the Internal Audit/Internal Audit, Risk & Compliance function;
- the Chief reporting officer;
- the Supervisory 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 activities 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 recommended and the checks on their implementation;
- periodic updates on the changes in the risk management process, the results 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 objectives reached.

We acknowledge and agree with the update of the risk management policy for the IPG Group. We also examined, on a half-yearly basis, the periodic reports on the activities carried out by the Supervisory Body and the related activity plan and 2018 budget. Similarly, we acknowledge the work on compliance with Decree no. 231/2001 and the plan of activities for 2018, examining and agreeing the proposed update to the Organization and Management Model pursuant to Decree no. 231/2001.

Further to our activity during the year, as illustrated in detail above, we agreed with the positive assessment expressed by the Control and Risks Committee regarding the adequacy of the Internal control and risks management system.

Supervision of compliance with the principles of proper administration

Based on the information obtained and the analyses conducted, our supervisory activities confirm that the transactions of greatest financial and economic significance performed by the Company, or via directly-held subsidiaries, are those described below and illustrated in detail in the Board of directors' report.

In particular, as in prior years, the operations of Interpump Group S.p.A. consisted in ordinary industrial activities, the strategic and operational coordination of the Group, the drive to optimize the Group's cash flows, and the search for and selection of new equity investments that can help to accelerate the growth of the Group. Completion of the acquisitions of the GS Hydro Group, Ricci Engineering S.r.l. and Fluinox Procesos S.L.U. during 2018 was consistent with this external growth strategy.

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 that should be reported to the supervisory authorities or mentioned in this Report;
- we have not received any complaints pursuant to art. 2408 of the Italian civil code, nor have we received petitions from third parties;
- we have not identified any transactions with third parties, within the Group and/or with related parties that were atypical or unusual in terms of their content, type, size, or timing.

Supervision of the implementation of corporate governance rules

We have assessed the application of the rules of corporate governance set down in the Code of Corporate Governance adopted by IPG, and the related degree of compliance, principally by analyzing the Report on Corporate Governance and the Ownership Structure and comparing its content with the results of our general supervisory activities. In particular, we considered the degree of compliance by IPG with the requirement to inform the market, in the report on corporate governance, on its application of the Code, having regard for the provisions of art. 123-*(2)* TUF.

The Board of Statutory Auditors believes that the Report on Corporate Governance has been prepared in accordance with the instructions accompanying the Regulations for Markets Organized and Managed by Borsa Italiana.

Additional supervisory activity in relation to the separate financial statements, the consolidated financial statements and the consolidated statement of non-financial information

With regard to the separate financial statements at 31 December 2018, the consolidated financial statements at that date and the related 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 laws governing the preparation and content of the separate financial statements, the consolidated financial statements and the Board of Directors' report, as well as the formats adopted for the accounting schedules, confirming proper application of the accounting standards and policies described in the notes to the financial statements and 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 schedules;
- the financial statements reflect the events and information that came to our attention in the performance of our supervisory duties and the exercise of our powers of monitoring and inspection;
- to our knowledge, during preparation of the financial statements the Directors did not make

any exceptions to the law, as would be allowed under certain circumstances pursuant to art. 2423, para. 5, 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 art. 154-*(2)* of Decree no. 58/1998 (TUF);
- the Board of Directors' Report complies with the relevant legal requirements and is consistent with the data and results reflected in the financial statements; it makes the necessary disclosures about the significant activities and transactions that were drawn to our attention during the year, about the principal risks faced by the Company and its subsidiaries, about intercompany and related-party transactions, and about the alignment of the organization with the principles of corporate governance, consistent with the Code of Corporate Governance for listed companies;
- pursuant to the terms of art. 123-*(3)* of Decree no. 58/1998 (TUF), the Shareholders' Meeting will receive the Remuneration report that we have examined, agreeing its format in a joint meeting held with the Remuneration Committee.

In relation to the Consolidated statement of non-financial information, in conformity with the provisions of Decree no. 254 dated 30 December 2016 we monitored compliance with the requirements of the Decree and CONSOB resolution no. 20267 dated 18/01/2018 regarding preparation of the statement, obtaining the certification dated 29 March 2019 issued by the designated independent auditing firm, EY S.p.A. This activity did not reveal any matters that should be mentioned in this report.

Proposal to the Shareholders' Meeting

The Board of Statutory Auditors expresses an opinion in favor of approving the financial statements at 31 December 2018 and raises no objections about the resolution proposed by the Board of Directors, as presented in the Board of Directors' Report.

S. Ilario d'Enza, 29 March 2019

The Board of Statutory Auditors

____
Fabrizio Fagnola

____
Alessandra Tronconi

____
Federica Menichetti

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

Tel: +39 051 278311
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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 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 2018, and the consolidated income statement, the comprehensive consolidated income statement, the statement of changes in consolidated shareholder's equity and the consolidated cash flow 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 2018, 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 Euro 2.525.000,00 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

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Key Audit Matter	Audit Response
Business combinations	
During the financial year 2018, the Group completed the acquisition of GS Hydro Group, acquiring the control of 14 entities and the manufacturing activities of the parent company GS-Hydro Oy, as well as the total share capital of Ricci Engineering S.r.l., Fluinox Procesos S.L.U. and its sister company Montajes Fluinox S.L.U.. 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. 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. The financial statement disclosures related to business combinations are included in note 3.1 "Accounting standards" and note 5 "Business combinations".	The audit procedures performed to address this key audit matter include, among others: • the analysis of the signed acquisition agreements in order to understand the key terms and conditions; • the assessment of the accounting for such transactions; • the assessment of the estimated fair values of the assets acquired and liabilities assumed at the acquisition date; • the assessment of the valuation assumptions such as long-term growth rates and discount rates underlying Management's estimate of the present value of the exercise price for the purchase options on minority interests. Lastly, we evaluated the adequacy of the disclosures provided in the notes to the financial statements in relation to business combination transactions.

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Key audit matters	Audit Response
Valuation of goodwill	
Goodwill as of December 31, 2018 amounts to Euro 437,7 million, allocated to the Cash Generating Units ("CGUs") related to the Water Sector, for Euro 208,2 million, and to the Oil Sector for Euro 226,5 million. 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's business plan, the determination of the normalized future cash flows underlying the estimated terminal value, as well as the determination of long-term growth rates and discount rates applied to the forecasted future cash flows. 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. The financial statements disclosures related to goodwill are included in note 3.1 "Accounting standards" and note 12 "Goodwill".	The audit procedures performed to address this key audit matter include, among others: • the assessment of the process and key controls implemented by the Group regarding the assessment of goodwill; • the assessment of the CGUs' perimeter and the allocation of the carrying values of the assets and liabilities to the individual CGUs; • the assessment of forecasted future cash flows; • the assessment of the consistency of the forecasted future cash flows of each CGU with the Group's business plan for the period 2019-2023; • the assessment of the accuracy of forecasted measures as compared to actual data from previous years; • the assessment of the long-term growth rates and discount rates. In performing our audit procedures, we also involved our valuation specialists who independently performed a 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. Lastly, we evaluated the adequacy of the disclosures provided in the notes to the financial statements in relation to the valuation of goodwill.

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 consolidated 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 consolidated 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 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 consolidated 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 Director's Report and of the Report on Corporate Governance and Ownership Structure of Interpump Group as at 31 December 2018, 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 Director's 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 2018 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 Director's 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 2018 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 has 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, 29 March 2019

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.

Separate Financial Statements at 31 December 2018

Contents

2018 Board of Directors' Report of 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 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 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 Cash 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. The acquisitions of the GS Hydro Group, Ricci Engineering S.r.l. and Fluinox Procesos S.L.U. during 2018 were consistent with this external growth strategy. A more complete discussion of these operations is given in the “2018 Board of Directors’ Report” accompanying the Consolidated Annual Financial Report at 31 December 2018.

1 Profitability

Interpump Group S.p.A. booked net revenues of €103.6m (€100.1m in 2017), reflecting growth of 3.5%. 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 62.0% of turnover (59.8% in 2017). Production costs, which totaled €35.6m (€32.7m in 2017) accounted for 34.4% of sales (32.7% in 2017). The purchase costs of raw materials and components sourced on the market, including changes in inventories, totaled €28.7m equivalent to 27.7% of sales (€27.1m in 2017).

Distribution costs totaled €6.1m (€5.9m in 2017) with an unchanged incidence on sales with respect to 2017.

General and administrative expenses amounted to €17.4m (€16.9m in 2017) and their incidence on sales fell by 0.1 percentage points.

Total payroll costs were €28.1m (€27.0m in 2017) with an average of 472 employees (454 employees in 2017). The per capita cost is essentially identical to that of the prior year (-0.1%).

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

	2018 (€/000)	*% on sales*	*2017 (€/000)*	*% on sales*
Ordinary profit before financial charges	95,048		88,398	
Dividends	(77,192)		(69,605)	
Impairment losses on investments	17		-	
Operating profit (EBIT)	***17,873***	***17.3%***	***18,793***	***18.8%***
Amortization, depreciation and write-downs	4,752		4,686	
Gross operating profit (EBITDA)	***22,625***	***21.8%***	***23,479***	***23.5%***

EBIT totaled €17.9m or 17.3% of sales, compared with €18.8m in 2017 (18.8% of sales), reflecting a decrease in the incidence on sales of 1.5 percentage points.

EBITDA was €22.6m or 21.8% of sales, compared with the €23.5m in 2017, which was 23.5% of sales, reflecting a decrease of 1.7 percentage points.

The year closed at 31 December 2018 with a net profit of €87.9m (€80.4m in 2017). The increase was due to the different amount of dividends received from subsidiaries, which totaled €77.1m in 2018 and €69.6m in 2017 (+€7.5m).

The effective tax rate for the year, net of dividends, was 30.3% compared with 30.2% in 2017.

2 Statement of financial position

The following statement of financial position is classified in terms of the sources and applications of funds.

	31/12/2018 (€/000)	*%*	*31/12/2017 (€/000)*	*%*
Trade receivables	16,885		14,297	
Net inventories	23,929		20,910	
Other current assets	50,279		35,464	
Trade payables	(15,767)		(13,050)	
Short-term tax payables	(441)		(856)	
Short-term portion for provisions for risks and charges	-		-	
Other short-term liabilities	(6,707)		(6,207)	
Net working capital	**68,178**	**9.7**	**50,558**	**7.3**
Net intangible and tangible fixed assets	30,345		28,482	
Goodwill	34,043		34,043	
Equity investments	460,364		460,491	
Other financial fixed assets	113,610		122,370	
Other non-current assets	2,607		2,885	
Liabilities for employee benefits	(5,043)		(5,230)	
Medium/long-term portion for provisions for risks and charges	(60)		(17)	
Other medium/long-term liabilities	(987)		(776)	
Total net fixed assets	**634,879**	**90.3**	**642,248**	**92.7**
Total capital employed	**703,057**	**100.0**	**692,806**	**100.0**
Financed by:				
Total shareholders' equity	**395,150**	**56.2**	**379,800**	**54.8**
Cash and cash equivalents	(12,897)		(22,669)	
Bank payables	487		341	
Short-term interest-bearing financial payables	129,834		122,618	
Short-term payables for acquisition of investments	1,369		2,110	
Total short-term financial payables (cash on hand)	**118,793**	**16.9**	**102,400**	**14.8**
Total medium/long-term financial payables	**189,114**	**26.9**	**210,606**	**30.4**
Total sources of financing	**703,057**	**100.0**	**692,806**	**100.0**

The format of the reclassified statement of financial position makes it possible to appreciate the financial strength of the Company, highlighting its ability to maintain financial equilibrium over the long term.

3 Capital expenditure

Capital expenditure on tangible fixed assets was 5.8 million euro (4.1 million euro in 2017) and 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 assets amounted to €0.8m (€0.6m in 2017), mostly due to the capitalization of development costs.

4 Loans

Net financial indebtedness as at 31 December 2018 was 306.5 million euro (310.9 million euro at 31/12/2017). Changes in the year are listed in the table below:

	2018 (€/000)	2017 (€/000)
Opening net financial position	**(310,896)**	**(287,749)**
Cash flow from operations	15,802	15,194
Liquidity generated (absorbed) by operating capital	(3,464)	(501)
Liquidity generated (absorbed) by other current assets and liabilities	461	(353)
Net investment in tangible and intangible fixed assets	(6,033)	(4,627)
Received financial income	1,617	2,065
Other	(157)	(23)
Free cash flow	*8,226*	*11,755*
Proceeds (payments) from the disposal (purchase) of investments	416	(96,630)
Purchase of treasury shares	(54,183)	-
Proceeds from sales of treasury shares for stock options	540	3,376
Dividends received from subsidiaries	58,425	71,924
Dividends paid	(22,532)	(21,356)
Change in other financial assets	29	22
Reimbursement (Disbursement) of loans from (to) subsidiaries	13,437	7,762
Net cash generated (used)	*4,358*	*(23,147)*
Net financial position at end of year	**(306,538)**	**(310,896)**

The net financial position breaks down as follows:

	31/12/2018 (€/000)	31/12/2017 (€/000)	01/01/2017 (€/000)
Cash and cash equivalents	12,897	22,669	87,956
Bank payables	(487)	(341)	(433)
Interest-bearing financial payables (current portion)	(129,834)	(122,618)	(92,673)
Interest-bearing financial payables (non-current portion)	(189,114)	(210,606)	(282,599)
Total	**(306,538)**	**(310,896)**	**(287,749)**

At 31 December 2018 all loan covenants are 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	
	31/12/2018	31/12/2017	2018	2017
Subsidiaries:				
General Pump Inc.	3,262	3,013	20,074	20,122
NLB Corporation Inc.	372	11	2,350	1,410
Interpump Hydraulics India Ltd	1,349	409	1,764	943
General Pump China Inc.	635	264	839	595
Muncie Power Inc.	92	15	345	380
Interpump Hydraulics S.p.A.	398	494	130	74
Hammelmann Bombas e Sistemas Ltda	50	46	100	115
AVI S.r.l.	14	12	52	41
Interpump Hydraulics Middle East FZE	5	2	10	4
Hammelmann S. L.	7	2	58	89
IMM Hydraulics S.p.A.	240	150	333	175
Hammelmann GmbH	10,013	84	109	107
Inoxihp S.r.l.	64	13	97	49
Walvoil S.p.A.	22	61	8	8
Hydroven S.r.l.	2	10	11	7
Interpump South Africa Pty Ltd	1	-	1	2
Interpump Hydraulics (UK) Ltd	-	5	4	7
Unidro Contarini Sarl	1	-	6	6
Tubiflex S.p.A.	-	-	3	3
Tekno Tubi S.r.l.	10	11	2	2
Teknova S.r.l. (in liquidation)	12	12	-	-
Contarini Leopoldo S.r.l.	2	9	-	-
Oleodinamica Panni S.r.l.	2	8	-	-
Walvoil Fluid Power Korea Llc	-	1	4	1
SIT S.p.A.	-	-	4	1
Hydrocar Chile S.A.	-	-	7	6
Inoxpa S.A.	10,011	3	80	23
Inoxpa South Africa	12	11	32	30
Inoxpa Colombia Sas	1	-	54	82
Improved Solutions Unipessoal Ltda	2	-	6	-
Inoxpa Solutions Moldova	32	-	32	-
Inoxpa Ltd	8	-	83	-
Inoxpa Skandinavien A/S	-	-	1	-
Mariotti & Pecini S.r.l.	3	-	27	2
Interpump Piping GS S.r.l.	35	-	10	-
GS-Hydro Singapore Pte Ltd	1	-	2	-
GS-Hydro Korea Ltd	59	-	58	-
GS-Hydro Denmark AS	6	-	20	-
	Receivables		Revenues	

	31/12/2018	31/12/2017	2018	2017
Subsidiaries:				
GS-Hydro Piping Systems Co. Ltd	52	-	51	-
GS-Hydro Benelux B.V.	25	-	31	-
GS-Hydro Austria GmbH	15	-	56	-
GS-Hydro Sp Z O O	9	-	34	-
GS-Hydro S.A.U	105	-	104	-
GS-Hydro U.S. Inc.	16	-	23	-
GS-Hydro do Brasil Sistemas Hidraulicos Ltda	1	-	9	-
GS-Hydro System GmbH	1	-	5	-
GS- Hydro UK Ltd	97	-	91	-
GS-Hydro Ab	4	-	14	-
GS-Hydro Hong Kong Ltd	1	-	-	-
Total	*27,049*	*4,646*	*27,134*	*24,284*

In addition to the trade receivables component, the amounts receivable from Interpump Hydraulics S.p.A., Teknova S.r.l., IMM Hydraulics S.p.A., Tekno Tubi S.r.l., Inoxpa S.A., Interpump Piping GS S.r.l., GS-Hydro Benelux B.V., GS-Hydro UK Ltd and Walvoil S.p.A. include the uncollected part of financial income, amounting, respectively, to €334k, €12k, €49k, €9k, €4k, €23k, €5k, €4k and €0 (€420k, €12k, €23k, €9k, €0, €0, €0, €0 and €14k in 2017). The amounts receivable from Hammelmann GmbH and Inoxpa S.A., both €10,000k, relate to the dividends declared by them. All other receivables refer to relations of a commercial nature governed at arm's length conditions.

	Payables		Costs	
	31/12/2018	31/12/2017	2018	2017
Subsidiaries:				
SIT S.p.A.	114	59	488	329
Hammelmann GmbH	-	-	72	161
Interpump Hydraulics S.p.A.	553	486	275	176
General Pump Inc.	8	-	38	32
IMM Hydraulics S.p.A.	173	39	309	75
NLB Corporation Inc.	-	17	-	2
General Pump China Inc.	-	-	67	37
Inoxihp S.r.l.	-	1	-	1
Hydroven S.r.l.	11	3	73	43
Walvoil S.p.A.	12	2	40	30
Inoxpa S.A.	10	-	21	6
Inoxpa Solution Moldova	-	-	15	-
Interpump Piping GS S.r.l.	16	-	-	-
Total subsidiaries	*897*	*607*	*1,398*	*892*

The amount payable to Interpump Hydraulics S.p.A. includes €411k relating, for both 2018 and 2017, to the inclusion in the Italian domestic tax group, said option having expired in 2016 and not renewed. The payable to Interpump Piping GS S.r.l. that arose in 2018 includes €16k derives from inclusion in the Italian tax group. 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	
	31/12/2018	31/12/2017	2018	2017
Subsidiaries:				
Interpump Hydraulics S.p.A.	106,590	136,590	1,255	1,360
Walvoil S.p.A.	-	6,000	11	85
IMM Hydraulics S.p.A.	20,500	10,500	154	93
Tekno Tubi S.r.l.	3,540	3,540	35	38
Inoxpa S.A.	1,763	-	15	-
Interpump Piping GS S.r.l.	9,000	-	90	-
GS-Hydro Benelux B.V.	1,000	-	8	-
GS- Hydro UK Ltd	500	-	4	-
Total	142,893	156,630	1,572	1,576

The intercompany loans outstanding at 31 December 2018 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):

	2018	2017
Interpump Hydraulics S.p.A.	-	25,000
Hammelmann GmbH	27,000	25,000
NLB Corporation Inc.	7,592	2,635
General Pump Inc.	5,138	5,416
Walvoil S.p.A.	13,000	6,500
Tubiflex S.p.A.	3,200	4,000
Inoxpa S.A.	20,000	-
Mariotti & Pecini S.r.l.	735	-
Inoxihp S.r.l.	527	1,054
Total	77,192	69,605

At 31 December 2018, uncollected dividends comprise €10,000k declared by Inoxpa S.A. and €10,000k declared by Hammelmann GmbH.

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 €671k (€666k in 2017) and other costs of €15k (€15k in 2017); during 2018, the Company did not receive any consultancy services from entities connected with the directors and statutory auditors of the Parent company (€172k in 2017). The leasing costs are classified among the cost of sales, €504k (€500k in 2017), and general and administrative costs of €167k (€166k in 2017).
At 31 December 2018 the Company had commitments of €1,333k (€2,004k in 2017) 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 program 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 arrange 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 business, which includes frequent acquisitions, it is Company policy to have access to 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, aluminum, 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.

Pursuant to art. 5, para. 3.b), of 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 2018 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

Six new projects were completed in 2018, 3 of which concerning new pump versions and mechanical components for high and very high pressure pumps, and 3 relating to applications for the food processing industry; in addition, work commenced on 10 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 totaling €655k were capitalized in 2018, since they will benefit future years, while an amount of €261k was charged to the income statement.

At 31 December 2018 the Company held 3,413,489 shares, representing 3.135% of capital, acquired at an average unit cost of EUR 21.0343.

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 “2018 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 prepares 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

Considering the short time since 31 December 2018, 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 87,931,504, we propose:

- assigning a dividend of EUR 0.22 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), 19 March 2019

For the Board of Directors

Fulvio Montipò

Chairman and Chief Executive Officer

Separate financial statements at 31 December 2018 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: € 56,617,232.88
Reggio Emilia Court - Company Register no. 117217
Tax code 11666900151
VAT number 01682900350

Statement of financial position

Euro	***Notes***	***31/12/2018***	***31/12/2017***
ASSETS			
Current assets			
Cash and cash equivalents	3	12,897,125	22,668,746
Trade receivables	4, 19	16,884,883	14,296,932
Dividends receivable		20,000,000	-
Inventories	5	23,929,241	20,909,603
Tax receivables		674,127	922,012
Current financial assets	11, 19	29,283,175	34,260,000
Other current assets	6, 19	321,598	283,388
Total current assets		**103,990,149**	**93,340,681**
Non-current assets			
Property, plant and equipment	7	27,289,962	24,806,309
Goodwill	8	34,043,360	34,043,360
Other intangible assets	9	3,054,964	3,675,742
Investments in subsidiaries	10	460,363,638	460,491,140
Other financial assets	11, 19	113,610,341	122,370,340
Tax receivables		1,060,185	1,088,656
Deferred tax assets	12	1,537,279	1,786,774
Other non-current assets		9,143	9,674
Total non-current assets		**640,968,872**	**648,271,995**
Total assets		***744,959,021***	***741,612,676***

Euro	***Notes***	***31/12/2018***	***31/12/2017***
LIABILITIES			
Current liabilities			
Trade payables	4, 19	15,766,395	13,049,930
Bank payables		487,283	340,825
Interest-bearing financial payables (current portion)	13, 19	129,834,000	122,618,592
Tax payables		441,181	856,268
Other current liabilities	15	8,076,348	8,317,491
Total current liabilities		**154,605,207**	**145,183,106**
Non-current liabilities			
Interest-bearing financial payables	13, 19	189,113,881	210,606,054
Liabilities for employee benefits	16	5,043,694	5,230,106
Deferred tax liabilities	12	986,796	775,669
Provisions for risks and charges	15	59,637	17,362
Total non-current liabilities		**195,204,008**	**216,629,191**
Total liabilities		**349,809,215**	**361,812,297**
SHAREHOLDERS' EQUITY			
Share capital	17	54,842,219	55,805,122
Legal reserve	18	11,323,447	11,323,447
Share premium reserve	17	70,390,032	120,389,782
Reserve for restatement of defined benefit plans		(2,010,624)	(1,960,165)
Other reserves	18	260,604,732	194,242,193
Total shareholders' equity		**395,149,806**	**379,800,379**
Total shareholders' equity and liabilities		***744,959,021***	***741,612,676***

Income statement

Euro	***Notes***	***2018***	***2017***
Net sales	21	**103,597,412**	**100,083,466**
Cost of sales	23	(64,262,879)	(59,873,846)
Gross industrial margin		**39,334,533**	**40,209,620**
Other net revenues	22	2,109,542	1,471,134
Distribution costs	23	(6,096,938)	(5,888,720)
General and administrative expenses	23	(17,398,873)	(16,876,555)
Impairment losses on assets	9, 10	(17,253)	-
Other operating costs	23	(75,420)	(122,013)
Dividends		77,192,081	69,604,844
Ordinary profit before financial expenses		**95,047,672**	**88,398,310**
Financial income	24	2,055,626	1,676,500
Financial expenses	24	(2,366,720)	(3,165,327)
Profit for the year before taxes		**94,736,578**	**86,909,483**
Income taxes	25	(6,805,074)	(6,498,086)
Net profit for the year		**87,931,504**	**80,411,397**
Basic earnings per share	26	0.824	0.752
Diluted earnings per share	26	0.815	0.745

Comprehensive income statements

(€/000)	***2018***	***2017***
Net profit (A)	**87,932**	**80,411**
Other comprehensive profit (loss) that will be subsequently reclassified in profit for the year		
Accounting for exchange risk hedges using the cash flow hedge method:		
- Profit (Loss) on derivative financial instruments	-	-
- Minus: Adjustment for reclassification of profits (losses) to the income statement	-	33
- Minus: Adjustment for recognition of fair value to reserves in the prior year	-	-
Total	-	*33*
Related taxes	-	*(9)*
Total other profit (loss) that will be subsequently reclassified to profit for the year, net of tax effect (B)	**0**	**24**
Other profit (loss) that will not be subsequently reclassified to profit for the year		
Profit (Loss) deriving from the restatement of defined benefit plans	*(66)*	*(204)*
Related taxes	*15*	*49*
Total other comprehensive profit (loss) that will not be subsequently reclassified to profit for the year, net of tax effect (C)	**(51)**	**(155)**
Comprehensive net profit (A) + (B) + (C)	**87,881**	**80,280**

Cash flow statement

(€/000)	2018	2017
Cash flow from operating activities		
Pretax profit	94,737	86,909
Adjustments for non-cash items:		
Capital gains from the sale of fixed assets	(37)	(7)
Amortization and depreciation of tangible and intangible fixed assets	4,709	4,683
Costs ascribed to the income statement relative to stock options, that do not involve monetary outflows for the Group	1,532	1,531
Impairment losses (writebacks) on assets	17	-
Net change in risk funds and allocations to provisions for employee benefits	(181)	(659)
Dividends ascribed in the income statement	(77,192)	(69,605)
Net financial charges	311	1,489
	23,896	24,341
(Increase) decrease in trade receivables and other current assets	(2,615)	1,927
(Increase) decrease in inventories	(3,019)	(1,918)
Increase (decrease) in trade payables and other current liabilities	2,631	(863)
Taxes paid	(6,496)	(6,153)
Interest paid	(1,902)	(2,285)
Currency exchange gains	304	(709)
Net cash from operating activities	**12,799**	**14,340**
Cash flows from investing activities		
Outlay for the acquisition of equity investments net of treasury stock assigned	416	(96,630)
Outlays for purchase of treasury shares	(54,183)	-
Proceeds from sales of treasury shares for stock options	540	3,376
Capital expenditure on property, plant and equipment	(5,288)	(4,075)
Proceeds from the sale of tangible fixed assets	38	10
Increase in intangible fixed assets	(783)	(562)
Received financial income	1,617	2,065
Other	29	22
Net liquidity generated (used) by investing activities	**(57,614)**	**(95,794)**

(€/000)	**2018**	**2017**
Cash flows from financing activities		
Dividends received from subsidiaries	58,425	71,924
Dividends paid	(22,532)	(21,356)
(Disbursal) Repayment of intercompany loans	13,437	7,762
Disbursals (repayments) of loans	(14,386)	(41,922)
Payment of finance leasing installments (principal portion)	(47)	(149)
Net liquidity generated (used by) financing activities	**34,897**	**16,259**
Net increase (decrease) of cash and cash equivalents	**(9,918)**	**(65,195)**
Cash and cash equivalents at beginning of year	**22,328**	**87,523**
Cash and cash equivalents at end of year	**12,410**	**22,328**

For reconciliation of cash and cash equivalents refer to Note 27.

Statement of changes in shareholders' equity

	Share capital	*Legal reserve*	*Share premium reserve*	*Reserve from remeasurement of defined benefit plans*	*Reserve from measurement of hedging derivatives at fair value*	*Other reserves*	*Total shareholders' equity*
Balances at 1 January 2017	*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*
Balances at 31 December 2017	*55,805*	*11,323*	*120,390*	*(1,960)*	-	*194,242*	*379,800*
Distribution of the dividend	-	-	-	-	-	(22,532)	*(22,532)*
Recognition in the income statement of the fair value of stock options granted to and exercisable by employees of Interpump Group S.p.A.	-	-	1,532	-	-	-	*1,532*
Fair value measurement of the stock options granted to and exercisable by employees of subsidiaries	-	-	349	-	-	-	*349*
Purchase of treasury shares	(1,042)		(54,183)			1,042	*(54,183)*
Sale of treasury shares to the beneficiaries of stock options	47	-	540	-	-	(47)	*540*
Sale of treasury shares for the acquisition of equity investments	32	-	1,763	-	-	(32)	*1,763*
Comprehensive net profit for the year	-	-	-	(51)	-	87,932	*87,881*
Balances at 31 December 2018	*54,842*	*11,323*	*70,391*	*(2,011)*	-	*260,605*	*395,150*

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), that is listed on the Milan Stock Exchange.

The Company manufactures and markets high and very high pressure plunger pumps, and has direct and indirect controlling interests in 93 companies. Interpump Group S.p.A. has production facilities in Sant'Ilario d'Enza (RE). For information on the Group's operations, refer to the "Board of Directors' Report" attached to the Consolidated Financial Report.

The financial statements at 31 December 2018, prepared on a going concern basis, were approved by the Board of Directors at the meeting held on 19 March 2019.

2. Accounting standards adopted

2.1 Reference accounting standards

The separate financial statements at 31 December 2018 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 statement of financial position and the income statement are presented in euro, while the other schedules and notes are presented in thousands of euro. The financial statements are prepared using 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 comprehensive analysis of the Group's economic results, see the "Board of Director's Report" attached to the 2018 Consolidated Financial Report.

The cash flow statement was prepared using the indirect method.

2.1.1 Accounting standards, amendments and interpretations in force from 1 January 2018 and adopted by the Company

As from 2018 the Company has applied the following new accounting standards, amendments and interpretations, reviewed by IASB:

- *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 amendments to *IFRS 2,* some of which affect the Company, did not result in any adjustments to economic or financial balances in 2018.
- *IFRS 9 – "Financial instruments"*. The new standard replaces IAS 39 - "Financial instruments: recognition and measurement", bringing together all three aspects addressed when accounting for financial instruments: classification and measurement, impairment and hedge accounting.
  Application of the classification and measurement requirements of IFRS 9 has not had a significant impact on the economic and financial position and cash flows of the Company. The loans granted and trade receivables are held by the Company for collection on the contractual due dates. The cash flows generated comprise solely collections of principal and interest. Given the characteristics of these contractual cash flows, the Company has concluded that they satisfy the criteria for measurement at amortized cost in accordance with IFRS 9.
  Interpump Group S.p.A. has decided to apply the simplified approach with regard to the impairment of financial instruments, and to recognize expected losses on trade receivables with reference to their residual duration. Accordingly, a provision matrix has been defined for the recognition of losses based on the historical experience of the Company, as adjusted to take account of specific expectations regarding debtors and the economic environment. This has resulted in the grouping of customers into clusters considering a number of different factors and variables, such as geographical area, product category and credit rating. Within this simplified model, an analytical approach has been adopted with regard to those trade receivables deemed by management to be individually significant, and for which more detailed information was available about the increased credit risk. Application of the new impairment model has not had a significant impact on the economic and financial position and cash flows of the Company.
  Lastly, with regard to the recognition of hedging instruments (hedge accounting), the Company did not enter into any hedging arrangements during 2018 and, therefore, the adoption of IFRS 9 has not had any impact on the economic and financial position and cash flows of the Company.
- *IFRS 15 – "Revenue from contracts with customers*". The new standard replaces the previous IAS 11 – "Construction contracts", IAS 18 – "Revenue", IFRIC 13 – "Customer loyalty contracts", IFRIC 15 – "Agreements for the Construction of Real Estate", IFRIC 18 – "Transfers of Assets from Customers", SIC 31 – "Barter Transactions involving Advertising Services" and is applicable to all revenues from contracts with customers, unless the contracts are included within the scope of other standards. The new standard introduces a new model for recognition of revenues deriving from contracts with customers based on five steps: (i) identification of the

contract with the customer; (ii) identification of the contractual performance obligations to be transferred to the customer in exchange for the transaction price; (iii) determination of the transaction price; (iv) allocation of the transaction price to the individual performance obligations; (v) recognition of the revenue when the associated performance obligation is fulfilled. IFRS 15 requires recognition of revenues for an amount that reflects the consideration to which the entity considers it is entitled in exchange for the transfer of goods or services to a customer. The standard requires the exercise of a judgment by the entity, that takes account of all the facts and significant circumstances in the application of each step to the model to contracts with its customers. The standard also specifies recognition of the incremental costs linked to obtaining a contact and the costs directly linked to fulfillment of a contract. Application of the new standard, using the modified retrospective method, did not have a significant impact on the economic and financial position and cash flows for 2018 that would have made restatement necessary. The Company manufactures and markets high and very high pressure plunger pumps and high pressure homogenizers, and contracts concerning the sale of goods generally include a single obligation. The Company has concluded that revenues from the sale of goods are recognized at the exact moment in which control of the asset is transferred to the customer, which generally coincides with delivery of the goods. The adoption of IFRS 15 thus had no impact the revenues recognition times, because the revenues occur at a specific moment.

2.1.2 Accounting standards, amendments and interpretations in force from 1 January 2018, but not relevant for the Company

- *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"* 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 main amendments we bring your attention to IFRIC 22, which provides guidance on the use of exchange rates in transactions in which the foreign currency considerations are paid or received in advance.
- *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").

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

- *IFRS 16 – "Leasing"*. On 13 January 2016, IASB published the new standard that replaces IAS 17. IFRS 16 is applicable from 1 January 2019. 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 contacts concerning an asset of small value (such as computers) and short term contracts (i.e. less than 12 months). The liability for the future lease installments and the asset that the entity is entitled to use must be recognized when the leasing contract is signed, with separate recognition of the related borrowing costs and depreciation. The liability can be subject to re-measurement (e.g. to reflect a change in the contractual terms or a change in the indices to which the payment of the leasing installments 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 using the modified retrospective method, while early application is allowed together with IFRS 15. The Company has almost completed 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 Company will apply the exceptions allowed by the standard in relation to those leasing contracts that expire within 12 months of the first-time adoption date and those for assets of low value. At 31 December 2018, the Company had commitments for rentals of €1,587k, including €811k due in 2019, as indicated in Note 28. The leasing and rental costs charged to the 2018 income statement totaled €886k.
- *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 IFRS 9* 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 standard came into force on 1 January 2019.
- *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 amendments took effect from 1 January 2019.
- *IFRS annual improvements cycle 2015-2017*. 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 amendments took effect from 1 January 2019. Early adoption was however permitted. The Company is currently assessing the impact of adoption on the 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 took effect from 1 January 2019.
- *Amendments to IFRS 3 - "Definition of Business"*. IASB published these amendments in October 2018 in order to help determine if a transaction represents the acquisition of a business or a group of activities that does not satisfy the definition of a business pursuant to IFRS 3. The amendments will take effect from 1 January 2020. Early application is permitted.
- *Amendments to IAS 1 and IAS 8 - "Definition of Material"*. IASB published these amendments in November 2018 in order to clarify the definition of "material", with a view to helping companies determine if a disclosure should be made in the financial statements. The amendments will take effect from 1 January 2020. Early adoption is however permitted.

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 currency transactions are translated to euro using the exchange rates in force on the date of the transaction. Monetary assets and liabilities are translated at the exchange rate in force on the reporting 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 historical cost and stated 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 labor 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;
- those costs are measurable in a reliable manner;
- and 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 valued 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 2.15.

(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 2.13), financial assets regulated by IFRS 9, deferred tax assets (see section 2.17), and non-current assets held for sale regulated by IFRS 5, are subject to measurement at the reporting 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 reporting 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 Financial assets (Trade receivables, Other financial assets and Other assets)

Depending on the circumstances, financial assets are measured as follows at the time of initial recognition: amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit and loss (FVPL). Again at the time of initial recognition, financial assets are classified with reference to the characteristics of the related contractual cash flows and the business model used by the Company for their management. With the exclusion of trade receivables that do not contain a significant financing component, the Company initially measures financial assets at their fair value, including transaction costs in the case of those not measured at fair value through profit and loss. Trade receivables that do not have a significant financial component are measured at their transaction price, as defined in accordance with IFRS 15.

Financial assets are measured at amortized cost if the objective of the underlying business model is to hold them for the purpose of collecting cash flows, and the related contractual terms envisage the receipt of cash flows on predetermined dates that solely comprise payments of principal and interest on the outstanding principal. Financial assets measured at amortized cost are subsequently measured using the effective interest method and are subject to impairment adjustments. Profits and losses are recognized in the income statement when assets are derecognized, modified or remeasured.

Financial assets are measured at fair value through other comprehensive income (FVOCI) if the objective of the underlying business model is satisfied by the collection of contractual cash flows or by the sale of the financial assets, and the related contractual terms envisage the receipt of cash flows on predetermined dates that solely comprise payments of principal and interest on the outstanding principal. For assets represented by debt instruments measured at fair value though other comprehensive income (OCI), the related interest income, exchange differences and impairment losses and writebacks are measured with reference to the amortized cost method and recognized in the income statement. The remaining changes in fair value are recognized in OCI. Upon derecognition, the cumulative change in fair value recognized in OCI is reclassified to the income statement. Upon initial recognition, the Company may irrevocably elect to classify its equity investments as capital instruments recognized at fair value through other comprehensive income (FVOCI), in view of the strategic nature of the investments concerned.

Such classification is determined individually for each instrument. The profits and losses deriving from these financial assets are never reclassified to the income statement. Capital instruments measured at FVOCI are not subjected to impairment testing.

If an asset is not measured in one of the above two ways, it must be measured at fair value through profit and loss (FVPL). This category therefore comprises both assets held for trading and assets designated on initial recognition as financial assets measured at fair value through profit and loss, as well as the financial assets that must be measured at fair value.

In compliance with IFRS 9, commencing from 1 January 2018, the Company has adopted a new impairment model for financial assets measured at amortized cost or at fair value through other comprehensive income (FVOCI), except for capital instruments and assets deriving from contracts with customers. This new model is based on determining the expected credit loss (ECL), which replaced the incurred loss model previously envisaged in IAS 39.

The new standard envisages adoption of the following methodologies: the General deterioration method and the Simplified approach. The General deterioration method require financial instruments to be classified in three stages, depending on the extent of the deterioration in the credit quality between the date of initial recognition and the measurement date: (i) *Stage 1*: for assets that have not suffered a significant increase in credit risk since the moment of initial recognition or that have a low credit risk at the reference date, a provision must be recorded that reflects the 12-month ECL, by estimating the expected loss with reference to the default events considered possible over the following 12 months; (ii) *Stages 2 and 3*: for assets that, on the other hand, have suffered a significant increase in credit risk, the Company must record a provision equal to the loss expected over their entire residual lives, having regard for the possible probabilities of default that might emerge over the entire life of the instrument (Lifetime ECL).

For trade receivables, contract assets and amounts due under leasing contract, the “simplified approach” envisages that the loss must be recognized using a lifetime approach and, accordingly, “stage allocation” is not required. The standard establishes that the loss rates may be estimated by classes of customer that have the same loss paths. The standard does not define specific criteria for the segmentation of customers, leaving entities free to select the sampling subsets in a manner that ensures consistency with historical experience. Accordingly, depending on their customer base, each entity must create a provision matrix by grouping its customers into clusters considering a number of different factors and variables, such as geographical area, product category and credit rating. Expected losses are generally determined by multiplying: (i) the exposure to the counterpart, net of related guarantees (known as Exposure At Default, EAD); (ii) the probability that the counterpart will not meet its payment obligation (known as Probability of Default, PD); (iii) the estimate, in percentage terms, of the amount of the receivable that will be recovered upon default (known as Loss Given Default, LGD).

Within the simplified model, an analytical approach has been applied in relation to trade receivables deemed by management to be individually significant, and for which more detailed information is available about the significant increase in credit risk.

2.12 Derivative financial instruments

It is Company policy to avoid speculative derivative financial instruments; however, when derivative financial instruments fail to meet all the requirements for hedge accounting, any changes in their fair value are recognized in 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 method used to recognize derivative financial instruments depends on whether or not the conditions and requirements of IFRS 9 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 relative to the changes in the fair value of the derivative instrument are taken to the income statement immediately. Likewise, the gains and losses relative 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 or their estimated realizable 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 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.

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 Financial liabilities (Trade payables, Bank payables, Interest-bearing financial payables and Other liabilities)

On initial recognition, financial liabilities are measured at fair value through profit and loss and classified either as loans or as derivatives designated as hedging instruments. All financial liabilities are initially recognized at fair value, including directly-attributable transaction costs in the case of loans and payables. Following initial recognition, loans are measured at amortized cost using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated collections over the expected life of the financial instrument or the future payments to the gross carrying amount of the financial asset or the amortized cost of the financial liability. Profits and losses are recognized in the income statement when liabilities are settled, as well as via the amortization process. Amortization using the effective interest rate is classified among financial expenses in the income statement.

A financial liability is derecognized when the underlying obligation expires or when the obligation specified in the contract is settled, canceled or expires.

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 the interest-bearing financial payables, bank payables and other financial liabilities.

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 fulfills 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 on the reporting 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. At 31 December 2018, the above rate curve for "AA" securities indicates higher expected yields for maturities up to 20 years and lower yields thereafter with respect to the same curve at 29 December 2017, which was used for the previous actuarial valuation. This change is explained by the major uncertainties facing the Italian economy, which translate into a higher cost for the risk associated with corporate securities, resulting in higher expected rates over the short-medium term. The phenomenon is inverted for long-term rates (more than 20 years), which are now lower than those expected in 2017, due to the positive effect of the budget agreement reached between the European Commission and the Italian government. 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 reporting 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 fulfill 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.

2.20 Revenues

(i) Revenues from the sale of goods and services
Revenues deriving from contracts with customers are recognized on the basis of the following 5 steps: (i) identification of the contract with the customer; (ii) identification of the contractual performance obligations to be transferred to the customer in exchange for the transaction price; (iii) determination of the transaction price; (iv) allocation of the transaction price to the individual performance obligations; (v) recognition of the revenue when the associated performance obligation is fulfilled. Revenues are recognized at the amount of the consideration to which the Company considers it is entitled on satisfaction of the obligation, when the customer acquires control over the goods or services transferred. The Company has identified a single revenue stream from the sale of products and spare parts representing the obligations satisfied at a given point in time. Revenues from the sale of products are recognized when the significant risks and benefits associated with control over the goods are transferred to the purchaser. The change of control coincides with the transfer of ownership or possession of the goods to the purchaser and, therefore, generally occurs on shipment or on completion of the service.

(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 installments
Rental and operating leasing installments 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.

3. Cash and cash equivalents

	31/12/2018 (€/000)	31/12/2017 (€/000)
Cash	12	11
Bank deposits	12,885	22,658
Total	12,897	22,669

Bank accounts include €124k held in US dollars ($/000 142).

The Company continued its strategy of maintaining immediately available liquidity also in 2018, relinquishing the very modest yields that can be achieved only by accepting conditions of limited access.

4. Trade receivables

	31/12/2018 (€/000)	31/12/2017 (€/000)
Trade receivables, gross	17,331	14,677
Bad debt provision	(446)	(380)
Trade receivables, net	16,885	14,297

Changes in the bad debt provision were as follows:

	2018 (€/000)	2017 (€/000)
Opening balances	380	580
Provisions in the year	75	62
Releases in the year to cover losses	(9)	(262)
Closing balance	446	380

Provisions in the year are booked under other operating costs.

Receivables denominated in US dollars total €3,371k ($3,860k). At 31 December 2018 no receivables were hedged against the risk of exchange rate fluctuations.

No trade receivables or payables are due beyond twelve months.

5. Inventories

	31/12/2018 (€/000)	31/12/2017 (€/000)
Raw materials and components	8,994	8,168
Semi-finished products	10,776	10,155
Finished products	4,159	2,587
Total inventories	23,929	20,910

Inventories are stated net of an allowance for inventories totaling €2,373k (€2,373k also at 31 December 2017) allocated to cover materials considered to be obsolete and slow moving stock.

6. Other current assets

This item comprises:

	31/12/2018 (€/000)	31/12/2017 (€/000)
Other receivables	46	127
Accrued income and prepayments	276	156
Total	322	283

7. Property, plant and equipment

	Land and buildings (€/000)	*Plant and machinery* (€/000)	*Equipment* (€/000)	*Other assets* (€/000)	*Total* (€/000)
At 1 January 2017					
Cost	11,075	40,255	17,371	3,487	72,188
Accumulated depreciation	(4,430)	(25,389)	(15,397)	(3,009)	(48,225)
Allowance for impairment	-	(4)	(146)	-	(150)
Net carrying amount	6,645	14,862	1,828	478	23,813
Changes in 2017					
Opening net carrying amount	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	(142)	(1,994)	(791)	(184)	(3,111)
Closing net carrying amount	6,570	16,046	1,749	441	24,806
At 31 December 2017					
Cost	11,142	42,704	18,065	3,425	75,336
Accumulated depreciation	(4,572)	(26,654)	(16,170)	(2,984)	(50,380)
Allowance for impairment	-	(4)	(146)	-	(150)
Net carrying amount	6,570	16,046	1,749	441	24,806
Changes in 2018					
Opening net carrying amount	6,570	16,046	1,749	441	24,806
Increases	31	4,827	659	273	5,790
Disposals	-	(1)	-	-	(1)
Capitalized depreciation	-	(10)	(2)	-	(12)
Depreciation	(182)	(2,236)	(720)	(155)	(3,293)
Closing net book value	6,419	18,626	1,686	559	27,290
At 31 December 2018					
Cost	11,173	46,688	18,701	3,667	80,229
Accumulated depreciation	(4,754)	(28,058)	(16,869)	(3,108)	(52,789)
Allowance for impairment	-	(4)	(146)	-	(150)
Net book value	6,419	18,626	1,686	559	27,290

The cost of assets under construction, included in the net carrying amounts reported above, is as follows:

	Land and buildings (€/000)	*Plant and machinery* (€/000)	*Equipment* (€/000)	*Other assets* (€/000)	*Total* (€/000)
At 1 January 2017	-	1,244	465	-	1,709
At 31 December 2017	-	2,516	339	9	2,864
At 31 December 2018	-	2,921	280	21	3,222

The above net carrying amount includes the following amounts relating to finance leasing agreements:

	Land and buildings (€/000)	*Plant and machinery* (€/000)	*Equipment* (€/000)	*Other assets* (€/000)	*Total* (€/000)
At 1 January 2017	-	939	29	11	979
At 31 December 2017	-	208	-	-	208
At 31 December 2018	-	178	-	-	178

Depreciation of €3,079k was charged to the cost of sales (€2,866k in 2017) and €214k to general and administrative expenses (€245k in 2017).

At 31 December 2018 the Company had contractual commitments for the purchase of tangible assets totaling €2,549k (€5,108k at 31 December 2017).

8. Goodwill

Goodwill is represented by the merger deficit portions paid for this reason and arising from the merger operations. Goodwill amounts to €34,043k at 31 December 2018 and is unchanged with respect to the prior year. The value of goodwill is assigned 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 2023. 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 5.79%. The WACC was 4.17% at 31 December 2017. 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 11 in the Consolidated Financial Report at 31 December 2018.

9. Other intangible assets

	Product development expenses (€/000)	*Patents trademarks and industrial rights (€/000)*	*Other intangible assets (€/000)*	*Total (€/000)*
At 1 January 2017				
Cost	20,154	137	2,372	22,663
Accumulated amortization	(14,600)	(137)	(1,880)	(16,617)
Allowance for impairment	(1,369)	-	-	(1,369)
Net carrying amount	4,185	-	492	4,677
Changes in 2017				
Opening net carrying amount	4,185	-	492	4,677
Increases	510	-	68	578
Capitalized amortization	-	-	(7)	(7)
Amortization	(1,341)	-	(231)	(1,572)
Closing net carrying amount	3,354	-	322	3,676
At 31 December 2017				
Cost	20,664	137	2,440	23,241
Accumulated amortization	(15,941)	(137)	(2,118)	(18,196)
Allowance for impairment	(1,369)	-	-	(1,369)
Net carrying amount	3,354	-	322	3,676
Changes in 2018				
Opening net carrying amount	3,354	-	322	3,676
Increases	655	-	148	803
Capitalized amortization	-	-	(8)	(8)
Amortization	(1,195)	-	(221)	(1,416)
Closing net carrying amount	2,814	-	241	3,055
At 31 December 2018				
Cost	21,319	137	2,588	24,044
Accumulated amortization	(17,136)	(137)	(2,347)	(19,620)
Allowance for impairment	(1,369)	-	-	(1,369)
Net carrying amount	2,814	-	241	3,055

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.

Other intangible assets mainly relate to the cost of purchasing licenses and of developing management information software.

The cost of assets in progress, included in the net carrying amounts reported above, is as follows:

	Product development expenses (€/000)	*Other intangible assets* (€/000)	*Total* (€/000)
At 1 January 2017	1,760	-	1,760
At 31 December 2017	1,335	-	1,335
At 31 December 2018	1,164	-	1,164

Amortization of €1,416k (€1,572k in 2017) was booked entirely to general and administrative expenses.

10. Investments in subsidiaries

(€/000)	Balance at 31 December 2017	Increases due to assignment of stock options	Increases	Decreases	Impairment	Balance at 31 December 2018
Subsidiaries:						
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	-	-	1,365	-	7,923
Inoxihp S.r.l.	8,704	-	-	-	-	8,704
Interpump Piping GS S.r.l.	10	-	300	-	-	310
Teknova S.r.l. (in liquidation)	27	-	-	-	4	23
SIT S.p.A.	814	-	-	-	-	814
Hammelmann Bombas e Sistemas Ltda	13	-	-	-	13	-
Tubiflex S.p.A.	27,266	-	-	-	-	27,266
Ricci Engineering S.r.l.	-	-	606	-	-	606
Fair value of the stock options of the employees of subsidiaries	1,815	349	-	-	-	2,164
Total subsidiaries	*460,491*	*349*	*906*	*1,365*	*17*	*460,364*

On 2 August 2018, Interpump Group acquired a 100% interest in Ricci Engineering S.r.l., a start-up operating in the design, construction and installation of equipment for the brewery and wine-making industry. The Company mainly works in the promising business area of micro-breweries, which is a new and fast expanding market; in the space of a few years it achieved annual sales of around 2 million euro, with 2018 EBITDA of 11.3%. The price agreed was €0.6m.

On 7 November 2018, the Board of Directors of Interpump Group S.p.A. resolved to waive the shareholder loan of €300k granted to Interpump Piping GS S.r.l. by converting that amount into a payment on capital account.

The reduction of €1,365k relates to the capital portion of the dividend paid by Mariotti & Pecini S.r.l., which has been deducted from the value of the equity investment.

The impairment of Teknova S.r.l. (in liquidation) and Hammelmann Bombas e Sistemas Ltda was due to alignment with the book value of their shareholders' equity, following losses for the 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 favor of the employees of its subsidiaries. The fair value of the stock options assigned to and exercisable by employees of subsidiaries of €349k 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 2018, compared with the related portion of equity pertaining to Interpump Group S.p.A.:

(€/000)	Share capital	Shareholders' equity	Profit (Loss)	% held	Carrying amount	% Shareholders' equity	Difference
Walvoil S.p.A.	7,692	152,087	40,152	65%	118,172	98,857	(19,315)
Walvoil Fluid Power India Pvt. Ltd.	4,803	20,886	3,495	-	14	25	11
NLB Corporation Inc.	12	94,444	8,284	100%	62,048	94,444	32,396
General Pump Companies Inc.	1,854	17,215	5,419	100%	8,903	17,215	8,312
Interpump Hydraulics S.p.A.	2,632	174,578	32,736	100%	104,258	174,578	70,320
Hammelmann GmbH	25	123,615	26,972	100%	26,032	123,615	97,583
Inoxpa S.A.	23,000	47,111	11,862	100%	93,127	47,111	(46,016)
Mariotti & Pecini S.r.l.	100	2,825	1,618	60%	7,923	1,695	(6,228)
Inoxihp S.r.l.	119	5,850	1,973	53%	8,704	3,084	(5,620)
Interpump Piping GS S.r.l.	10	146	(162)	100%	310	146	(164)
Teknova S.r.l. (in liquidation)	28	23	(7)	100%	23	23	-
SIT S.p.A.	105	1,361	173	65%	814	885	71
Hammelmann Bombas e Sistemas Ltda	765	(271)	(174)	1%	-	(2)	(2)
Tubiflex S.p.A.	515	12,238	3,345	100%	27,266	12,238	(15,028)
Ricci Engineering S.r.l.	10	536	119	100%	606	536	(70)

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 2023. 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.

11. 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	
	31/12/2018	31/12/2017	2018	2017
Subsidiaries:				
Interpump Hydraulics S.p.A.	106,590	136,590	1,255	1,360
Walvoil S.p.A.	-	6,000	11	85
IMM Hydraulics S.p.A.	20,500	10,500	154	93
Tekno Tubi S.r.l.	3,540	3,540	35	38
Inoxpa S.A.	1,763	-	15	-
Interpump Piping GS S.r.l.	9,000	-	90	-
GS-Hydro UK Ltd	500	-	4	-
GS-Hydro Benelux B.V.	1,000	-	8	-
Total	*142,893*	*156,630*	*1,572*	*1,576*

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, €29,283k are current, while the remaining €113,610k are to be considered non-current.

12. Deferred tax assets and liabilities

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

	Deferred tax assets		*Deferred tax liabilities*	
	2018 (€/000)	*2017* (€/000)	*2018* (€/000)	*2017* (€/000)
At 1 January	1,787	2,151	776	851
Recognized in the income statement	(265)	(404)	211	(75)
Recognized directly in equity	15	40	-	-
At 31 December	1,537	1,787	987	776

Deferred tax assets and liabilities may be classified in the following captions of the statement of financial position:

	31/12/2018 *Deferred tax assets* (€/000)	*31/12/2017* *Deferred tax assets* (€/000)	*31/12/2018* *Deferred tax liabilities* (€/000)	*31/12/2017* *Deferred tax liabilities* (€/000)
Property, plant and equipment	90	103	735	766
Intangible assets	-	13	-	-
Inventories	680	680	-	-
Receivables	45	54	-	-
Dividends receivable	-	-	240	-
Equity investments	318	318	10	10
Liabilities for employee benefits	(549)	(534)	-	-
Shareholders' equity:				
- liabilities for employee benefits	635	619	-	-
Other	318	534	2	-
Total	1,537	1,787	987	776

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 18).

13. 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 2018 all financial covenants are amply complied with.

Interest-bearing financial payables at 31 December 2018 include finance lease payables of €42k, which fall due during 2019 (€43k in installments).

Finance leasing contracts concern plant and machinery the carrying value of which, totaling €178k, has been included under the Property, plant and equipment caption (see Note 7).

Non-current financial payables have the following due dates:

	31/12/2018 (€/000)	31/12/2017 (€/000)
From 1 to 2 years	110,838	140,566
From 2 to 5 years	78,276	70,040
Beyond 5 years	-	-
Total	189,114	210,606

The average interest rate on loans in 2018 was approximately 0.49% (0.58% in 2017).

At 31/12/2018 all loans were at floating-rates.

The Company has the following lines of credit which were unused at year-end:

	31/12/2018 (€/000)	31/12/2017 (€/000)
Current account overdrafts and export advances	21,295	21,045
Medium/long-term loans	150,000	62,900
Total	171,295	83,945

14. Other current liabilities

This item comprises:

	31/12/2018 (€/000)	31/12/2017 (€/000)
Payables to personnel	3,249	2,916
Payables to social security institutions	1,609	1,525
Payables related to the acquisition of investments	1,369	2,110
Customer advances	808	762
Customer credit balances	369	353
Customers for credit notes to issue	-	6
Payables for remuneration of directors/auditors	562	548
Other	110	97
Total	8,076	8,317

15. Provisions for risks and charges

Provisions for risks and charges refer to the agents' termination indemnity provision in the amount of €60k, which rose by €43k in 2018 and is entirely classified in the non-current portion of the statement of financial position.

16. Liabilities for employee benefits

Liabilities for defined benefit plans

The following movements were recorded in liabilities:

	2018 (€/000)	2017 (€/000)
Liabilities at 1 January	5,230	5,424
Amount charged to the income statement in the year	(13)	(12)
Recognition in equity of actuarial results	66	204
Reclassifications	(16)	-
Payments	(224)	(386)
Liabilities at 31 December	5,043	5,230

The following items were recognized in the income statement:

	2018 (€/000)	2017 (€/000)
Current service cost	-	-
Financial Income / Expenses	(13)	(12)
Past service cost	-	-
Total recognized in the income statement	(13)	(12)

Refer to the "Board of Directors' Report" in chapter “1. Profitability” for a breakdown of labor costs.

The average number of employees broken down by category is as follows:

	2018	2017
Executives	12	12
Managers	15	15
White collar	95	94
Blue collar	321	314
Fixed-contract personnel	29	19
Total	472	454

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

	Unit of measurement	2018	2017
Discount rate	%	1.50	1.37
Percentage of employees expected to resign before retirement age (*turnover)**	%	4.49	3.71
Annual cost-of-living increase	%	1.50	1.50
Average period of employment	Years	15.95	15.82

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

17. Share capital

The share capital at 31 December 2018 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 €54,842k 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 2018 Interpump S.p.A. held 3,413,489 treasury shares in the portfolio corresponding to 3.135% of share capital, acquired at an average unit cost of EUR 21.0343.

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

	Number
Balance at 01/01/2017	*2,281,752*
2017 purchases	-
Sale of shares to finance subsidiaries' purchases	(150,000)
Sale of shares for the exercise of stock options	(570,000)
Balance at 31/12/2017	*1,561,752*
2018 purchases	2,003,806
Sale of shares to finance subsidiaries' purchases	(62,069)
Sale of shares for the exercise of stock options	(90,000)
Balance at 31/12/2018	*3,413,489*

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

	2018 Number of shares	2017 Number of shares
Ordinary shares in existence at 1 January	108,879,294	108,879,294
Treasury shares held	(1,561,752)	(2,281,752)
Shares in circulation at 1 January	107,317,542	106,597,542
Treasury shares purchased	(2,003,806)	-
Treasury shares sold	152,069	720,000
Total shares in circulation at 31 December	105,465,805	107,317,542

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 contributed by Interpump Group shareholders (share capital and share premium reserve, totaling €125,233k at 31 December 2018 and €176,195k at 31 December 2017), and the value generated by the Company in terms of the results of operations (other reserves and legal reserve, including profit for the year, totaling €271,928k at 31 December 2018 and €205,565k at 31 December 2017, excluding the reserve for the restatement of defined benefit plans).

Treasury shares purchased
The amount of the treasury shares held by Interpump Group S.p.A. is recorded in an equity reserve. The Company acquired 2,003,806 treasury shares in 2018 for €54,183k at an average price of EUR 27.0405 (the Company did not purchase any treasury shares in 2017).

Treasury shares sold
In the framework of the execution of stock option plans, a total of 90,000 options have been exercised resulting in the collection of €539k (570,000 options were exercised for €3,376k in 2017). In addition, 62,069 treasury shares were assigned in 2018 on acquisition of the residual 33.75% interest in Suministros Tecnicos Y Alimentarios S.L. (150,000 treasury shares assigned in 2017 as payment of acquisitions).

Stock options
The fair value of the 2013/2015 and 2016/2018 stock option plans was recorded in the 2018 and 2017 financial statements in compliance with IFRS 2. Costs of €1,532k (€1,531k in 2017) relating to the 2016/2018 stock option plan were therefore recognized in the 2018 income statement, with a matching entry to 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:

	2018 (€/000)	2017 (€/000)
Cost of sales	-	-
Distribution costs	26	26
General and administrative expenses	1,506	1,505
Total	1,532	1,531

Changes in the share premium reserve were as follows:

	2018 €/000	2017 €/000
Share premium reserve at 1 January	120,390	111,548
Increase due to income statement recognition of the fair value of stock options granted	1,532	1,531
Increase due to the recognition in equity of the fair value of stock options assigned to employees of subsidiaries	349	250
Increase for the disposal of treasury shares further to payment for acquisitions of subsidiaries	1,763	3,685
Increase for the disposal of treasury shares further to stock options exercised	540	3,376
Utilization to cover purchase of treasury shares	(54,183)	-
Share premium reserve at 31 December	70,391	120,390

The Shareholders' Meeting held on 30 April 2013 approved the adoption of an incentive plan denominated "*Interpump 2013/2015 Incentive Plan*", which is 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 2018 and 2017 were as follows:

	2018 Number of options	2017 Number of options
Options assigned at 1 January	150,000	700,000
Options granted in the year	-	-
Options exercised in the year	(90,000)	(550,000)
Options canceled in the year	-	-
Total options assigned at 31 December	60,000	150,000
Of which:		
- vested at 31 December	60,000	150,000
- not vested at 31 December	-	-
Total options assigned at 31 December	60,000	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 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 canceled in 2017 totaled 30,000.

The changes in options in 2018 and 2017 were as follows:

	2018 Number of options	2017 Number of options
Number of rights assigned at 1 January	2,121,800	2,139,800
Number of rights assigned	-	12,000
Number of shares purchased	-	-
Number of rights canceled	-	(30,000)
Total number of options not yet exercised at 31 December	2,121,800	2,121,800

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

2013/2015 Plan

First assignment	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 in construction of 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

Second assignment	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 in construction of 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

First assignment	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 in construction of 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

Second assignment	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 in construction of 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

Third assignment	Unit of measurement	
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 in construction of 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

Fourth assignment	Unit of measurement	
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 in construction of 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

Fifth assignment	Unit of measurement	
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 in construction of 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.

18. Reserves

Reserve from the remeasurement 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 utilizations over the past three years	
					to cover losses	for other reasons
Share capital						
Subscribed and fully paid-up share capital	56,617	B	-	-	-	-
Nominal value of treasury shares in portfolio	(1,775)	-	-	-	-	-
Total share capital	54,842					
Capital reserves						
Legal reserve	6,860	B	-	-	-	-
Share premium reserve	17,888	A,B,C	17,888	-	-	17,304
Total capital reserves	24,748		17,888			
Profit reserves						
Legal reserve	4,463	B	-	-	-	-
Share premium reserve	52,503	A,B,C	50,339	1,232	-	-
Extraordinary reserve	170,099	A,B,C	168,020	-	-	-
Reserve for share capital reduction	1,775	-	-	-	-	-
First Time Adoption Reserve	(64)	-	-	-	-	-
Merger surplus	863	A,B,C	698	-	-	-
Reserve from remeasurement of defined benefit plans	(2,011)	-	-	-	-	-
Profit for the year	87,932	A,B,C	87,932	-	-	-
Total profit reserves	315,560		306,989			
Reserve for treasury shares held	71,800	-	-	-	-	97,492
Treasury shares	(71,800)	-	-	-	-	-
Non-distributable portion*			(3,055)			
Remaining distributable portion			321,822			

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.

Utilizations refer to dividends, purchases 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 utilizations of the reserve for treasury shares held refer to purchases of treasury shares, while the utilizations 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 2018, 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

	2018			2017		
(€/000)	Pre-tax amount	Taxation	Amount net of taxes	Pre-tax amount	Taxation	Amount net of taxes
Accounting for exchange risk hedges using the cash flow hedge method	-	-	-	33	(9)	24
Remeasurement of defined benefit plans	(66)	15	(51)	(204)	49	(155)
Total	**(66)**	**15**	**(51)**	**(171)**	**40**	**(131)**

19. Information on financial assets and liabilities

Financial assets and liabilities, broken down by the categories identified by IFRS 7, are summarized in the following tables:

			Financial assets at 31/12/2018		*Financial liabilities at 31/12/2018*	
(€/000)	At fair value through profit and loss Initially	At fair value through profit and loss Subsequently	Measured at amortized cost	At fair value through the Comprehensive income statement	Measured at amortized cost	Total
Trade receivables	-	-	16,885	-	-	16,885
Dividends receivable			20,000			20,000
Other current assets	-	-	46	-	-	46
Other current financial assets	-	-	29,283	-	-	29,283
Other non-current financial assets			113,610			113,610
Trade payables	-	-	-	-	(15,767)	(15,767)
Current interest-bearing financial payables	-	-	-	-	(130,321)	(130,321)
Payables for the acquisition of investments	-	-	-	-	(1,369)	(1,369)
Other current liabilities	-	-	-	-	(6,707)	(6,707)
Non-current interest-bearing financial payables	-	-	-	-	(189,114)	(189,114)
Total	-	-	179,824	-	(343,278)	(343,278)

(€/000)	At fair value through profit and loss – Initially	At fair value through profit and loss – Subsequently	*Financial assets at 31/12/2017* Measured at amortized cost	At fair value through the Comprehensive income statement	*Financial liabilities at 31/12/2017* Measured at amortized cost	Total
Trade receivables	-	-	14,297	-	-	14,297
Other current assets	-	-	127	-	-	127
Other current financial assets	-	-	34,260	-	-	34,260
Other non-current financial assets			122,370			122,370
Trade payables	-	-		-	(13,050)	(13,050)
Current interest-bearing financial payables	-	-		-	(122,959)	(122,959)
Payables for the acquisition of investments	-	-		-	(2,110)	(2,110)
Other current liabilities	-	-		-	(6,207)	(6,207)
Non-current interest-bearing financial payables	-	-		-	(210,606)	(210,606)
Total	-	-	171,054	-	(354,932)	(183,878)

The financial assets measured at amortized cost generated revenues and costs. The revenues comprised exchange gains of €322k (€45k in 2017). In contrast, the costs refer to exchange losses of €309k (€709k in 2017) and to bad debts for €75k (€62k in 2017) 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. Ancillary charges of €124k (€160k in 2017) were charged to the 2018 income statement.

Financial assets and liabilities measured at amortized cost generated interest income of €1,572k (€1,576k in 2017) and interest expense of €1,751k (€2,138k in 2017); in addition, general and administrative expenses include commission amounts and bank charges of €133k (€108k in 2017).

20. 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 2018 the total amount of cash flow exposed directly to exchange risks was approximately 23% of Company sales (also about 23% in 2017), none of which is hedged against the risk of exchange-rate fluctuations.
  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 2018 and 31 December 2017 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 2018 and 2017.

Exchange risk sensitivity analysis

The potential profit deriving from the change in the 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 €314k (potential profit of €276k in 2017).

Interest rate risk

It is currently Company policy not to arrange hedges, in view of the short average duration of the existing loans (around 3 years). At 31 December 2018 all liquid funds were subject to floating interest rates, as were all financial and bank debts. In addition, in 2018 and in prior years the Company granted loans to subsidiaries totaling €142.9m (€156.6m at 31 December 2017), 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 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 €817k (higher financial expenses of €771k in 2017). 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 2018 and 2017 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 solubility 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 2018, Loans and Receivables from financial activities total €179,824k (€171,054k at 31 December 2017), and include €446k for written down receivables (€380k at 31 December 2017); amounts overdue by less than three months are €4,575k (€2,259k at 31 December 2017), while those overdue beyond three months total €504k (€224k at 31 December 2017).

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 19% of total sales in 2018 (20% in 2017). The top customer outside the Group accounted for approximately 4% of sales in 2018 (4% in 2017) while, in total, the top 10 customers after the first intercompany customer accounted for 20% of sales (19% in 2017).

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 13.

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. Liquid funds at 31 December 2018 totaled €12.9m. These funds and the cash generated by the Company in 2018 are definitely factors that serve to reduce the exposure to 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 29% of the purchase cost of the Company’s raw materials, semi-finished products and finished products (30% in 2017). The main metals utilized by the Company include brass, aluminum, 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 2018 signed commitments were in place entirely covering 83% of projected 2019 consumption of brass (36% at 31 December 2017), the entire consumption of aluminum predicted for 2019 and, in part, for 2020 (49% at 31 December 2017), 37% of steel consumption (17% at 31 December 2017) and 59% of stainless steel consumption predicted for next year (60% at 31 December 2017). In addition, at 31 December 2018 stocks covered about 18% of forecast brass consumption of (45% at 31 December 2017), 24% of aluminum consumption (13% at 31 December 2017), 34% of steel consumption (31% at 31 December 2017) and 16% of stainless steel consumption (19% at 31 December 2017).

The Company's selling prices are generally reviewed on an annual basis.

21. Net sales

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

	2018 (€/000)	2017 (€/000)
Italy	19,470	19,721
Rest of Europe	31,832	30,787
Rest of the World	52,295	49,575
Total	103,597	100,083

Details of net sales in each invoicing currency are provided below:

	2018 (€/000)	2017 (€/000)
EUR	80,049	77,814
USD	23,544	22,262
GBP	4	7
Total	103,597	100,083

Sales in USD refer primarily to invoices issued to the US subsidiaries General Pump Inc. and NLB Corporation Inc.

22. Other net revenues

	2018 (€/000)	2017 (€/000)
Capital gains on the sale of tangible assets	38	9
Income from rent/royalties	299	161
Revenues from consultancy	10	-
Sale of scrap	169	152
Reimbursement of expenses	749	798
Other	845	351
Total	2,110	1,471

23. Costs by nature

	2018 (€/000)	2017 (€/000)
Raw materials and components	28,672	27,144
Personnel and temporary staff	29,509	28,109
Services	14,613	13,090
Amortization and depreciation of intangible and tangible fixed assets (notes 7 and 9)	4,709	4,683
Directors' and statutory auditors' remuneration	4,138	4,242
Hire purchase and leasing charges	855	847
Provisions and impairment of tangible and intangible fixed assets (notes 7, 9 and 15)	43	3
Other operating costs	5,295	4,643
Total cost of sales, distribution costs, general and administrative expenses, other operating costs and impairment losses on intangible and tangible fixed assets	87,834	82,761

The emoluments of the Directors and Statutory Auditors of Interpump Group S.p.A. in 2018 were, respectively, €4,033k 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.

24. Financial income and expenses

	2018 (€/000)	2017 (€/000)
Financial income		
Interest income from liquid funds	5	4
Interest income from financial assets (intercompany loans)	1,572	1,576
Other financial income	15	47
Foreign exchange gains	464	45
Earnings from valuation of derivative financial instruments	-	4
Total	2,056	1,676
Financial expenses		
Interest expense on loans	1,875	2,298
Other financial charges	183	20
Foreign exchange losses	309	847
Total	2,367	3,165

25. Income taxes

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

	2018 (€/000)	2017 (€/000)
IRES		
Profit before taxes from the income statement	94,737	86,909
Theoretical taxes at nominal rate (24%)	22,737	20,858
Lower taxes for non-taxable dividends	(17,001)	(15,377)
Higher taxes due to non-deductible write-downs of investments	17	-
Lower taxes due to IRAP deduction relating to expenses for employees and similar	(87)	(60)
Lower taxes due to IRAP deduction on interest expenses	(33)	(25)
Taxes for prior financial years	(85)	(57)
Other	68	41
Total IRES	5,616	5,380
IRAP/Local income taxes		
Profit before taxes from the income statement	94,737	86,909
Theoretical taxes at nominal rate (4.65%)	4,405	4,041
Lower taxes for non-taxable dividends	(3,589)	(3,237)
Higher taxes due to non-deductible write-downs of investments	1	-
Higher taxes for non-deductible payroll costs	128	76
Higher taxes for non-deductible directors' emoluments	173	179
Higher taxes due to non-deductible financial expenses	4	42
Taxes for prior financial years	44	(7)
Other	23	24
Total IRAP (Local income taxes)	1,189	1,118
Total income taxes recognized in the income statement	6,805	6,498

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

	2018 (€/000)	2017 (€/000)
Current taxes	(6,370)	(6,233)
Current taxes for prior financial years	41	64
Deferred taxes	(476)	(329)
Total taxes	(6,805)	(6,498)

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

	2018 (€/000)	2017 (€/000)
Deferred tax assets generated in the year	198	250
Deferred tax liabilities generated in the year	(241)	-
Deferred tax assets transferred to the income statement	(463)	(654)
Deferred tax liabilities recognized in the income statement	30	75
Total deferred taxes	(476)	(329)

26. 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:

	2018	2017
Profit for the year attributable to shareholders (€/000)	87,932	80,411
Average number of shares in circulation	106,766,319	106,973,877
Basic earnings per share for the year	0.824	0.752

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:

	2018	2017
Profit for the year attributable to shareholders (€/000)	87,932	80,411
Average number of shares in circulation	106,766,319	106,973,877
Number of potential shares for stock option plans (*)	1,152,091	1,031,352
Average number of shares (diluted)	107,918,410	108,005,229
Earnings per diluted share at 31 December (EUR)	0.815	0.745

(*) 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.

27. Notes to the cash flow statement

Property, plant and equipment
In 2018 the Company purchased property, plant and equipment totaling €5,790k (€4,116k in 2017). This expenditure involved the payment of €5,288k, inclusive of the payment of past debts for the same purpose and net of payables deferred to the following year (€4,075k in 2017).

Cash and cash equivalents

This item can be broken down as follows:

	31/12/2018 (€/000)	31/12/2017 (€/000)	01/01/2017 (€/000)
Cash and cash equivalents from the statement of financial position	12,897	22,669	87,956
Bank payables (for current account overdrafts and advances subject to collection and accrued interest payable)	(487)	(341)	(433)
Cash and cash equivalents from the cash flow statement	12,410	22,328	87,523

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 2018 and 2017 we invite you to refer to Section 4. "Loans" in the "Board of Directors' Report".

28. Commitments

The Company has commitments to purchase tangible assets totaling €2,549k (€5,108k at 31/12/2017).

Interpump Group S.p.A. has signed rental and hire purchase agreements mainly for warehouses, offices, and cars. The total outlay in 2018 was €886k (€912k in 2017). At 31/12/2018, the following commitments were outstanding:

	€/000
Due within 1 year	811
Due from 1 to 2 years	726
Due from 2 to 5 years	49
Due beyond 5 years	1
Total	1,587

29. 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 €671k (€666k in 2017) and other costs in the amount of €15k (€15k in 2017). The leasing costs are classified among the cost of sales, €504k (€500k in 2017), and general and administrative costs of €167k (€166k in 2017). During 2017, the Company incurred costs for consultancy services from entities connected with its directors and statutory auditors totaling €172k; by contrast, these costs were not incurred during 2018.

At 31 December 2018 the Company had commitments of €1,333k (€2,004k in 2017) 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.

30. Events occurring after the close of the year

With regard to Interpump Group S.p.A., no events occurred after 31 December 2018 that require mention in this report, while we invite you to refer to the "Board of Directors' Report" attached to the consolidated financial statements at 31 December 2018 with regard to events after the close of the year concerning the Group.

31. Proposal to the Shareholders' Meeting

In relation to the profit for the year of Euro 87,931,504, we propose:

- assigning a dividend of EUR 0.22 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 separate 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 2018.

2. We further confirm that the separate financial statements of Interpump Group S.p.A for the year ended 31 December 2018, showing total assets of €744,959k, net profit of €87,932k and shareholders' equity of €395,150k:
   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), 19 March 2019

Fulvio Montipò Chairman and Chief Executive Officer	Carlo Banci Chief Reporting Officer

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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 2018, and the income statement, the comprehensive income statement, the statement of changes in shareholder's equity and the cash flow 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 2018, 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 no 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 Director's Report and of the Report on Corporate Governance and Ownership Structure of Interpump Group S.p.A. as at 31 December 2018, 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 Director's 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 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 2018 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 Director's 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 2018 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 has 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, 29 March 2019

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.