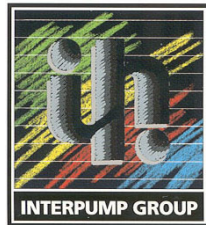


Interim Board of Directors' Report for Q4 2017



Interpump Group S.p.A. and subsidiaries

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This document is available on the Internet at:

www.interpumpgroup.it

Interpump Group S.p.A.

Registered office in S. Ilario d'Enza (Reggio Emilia), Via Enrico Fermi, 25

Paid-up Share Capital: EUR 56,617,232.88

Reggio Emilia Companies Register - Tax Code 11666900151

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

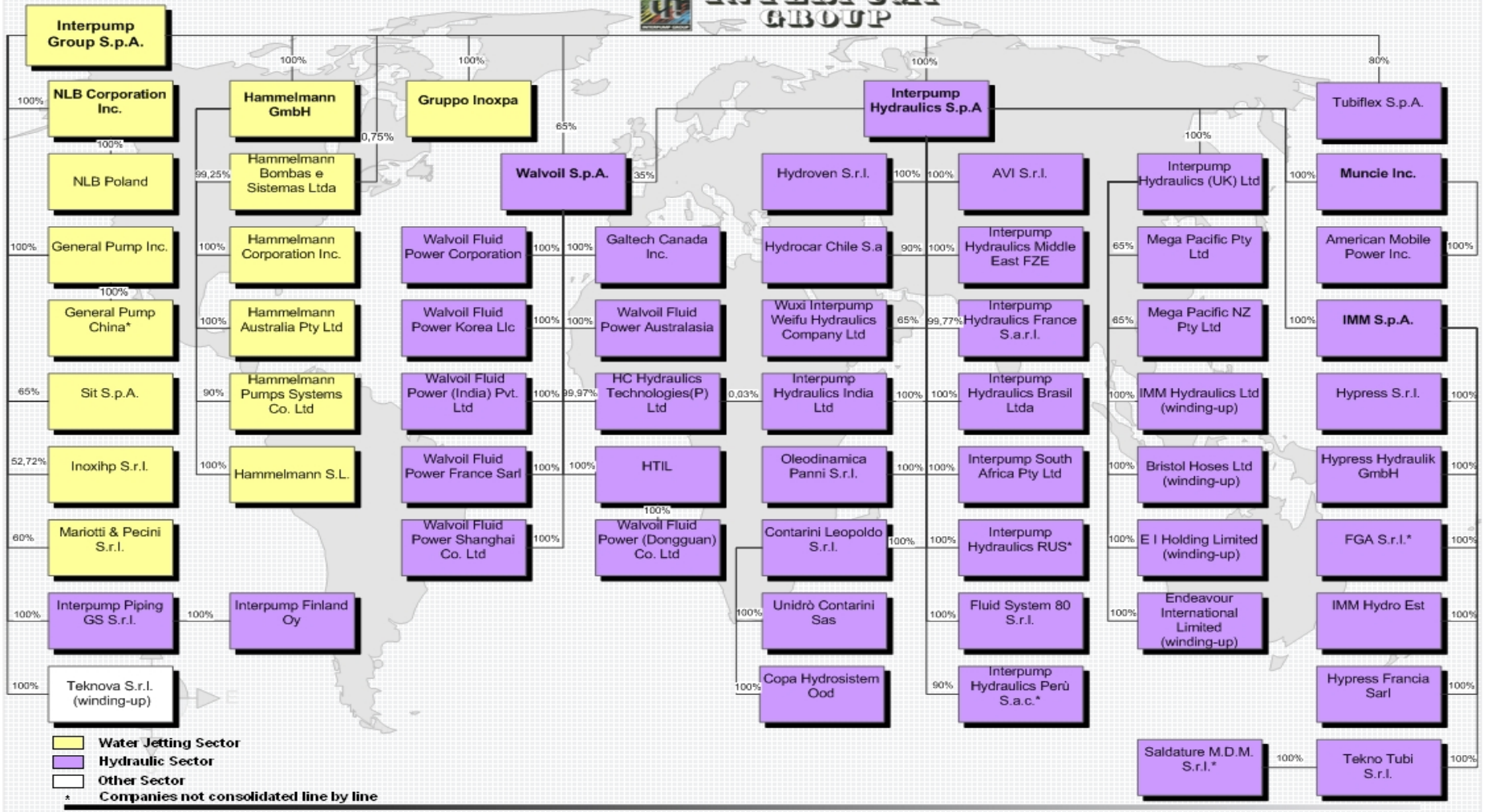
Alessandra Tronconi
Statutory auditor

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*

Organizational chart as at 31/12/2017



Interim Board of Directors' Report

**Directors' remarks on performance
in 2017**

PERFORMANCE INDICATORS

The Group monitors operations using various performance indicators that may not be comparable with similar parameters adopted by other groups. The Group's management believes that these indicators measure performance on a comparable basis, with reference to normalized operational factors, thus facilitating the identification of operating trends and the formation of decisions concerning future spending, resources allocation, and other operating matters.

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:** Loans obtained plus Bank borrowing less Liquid funds and cash equivalents;
- **Capital expenditure (CAPEX):** the sum of investment in property, plant and equipment and intangible assets, net of divestments;
- **Return on capital employed (ROCE):** EBIT / Capital employed;
- **Return on equity (ROE):** Net profit / Shareholders' equity.

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

The cash flow statement was prepared using the indirect method.

Consolidated income statements for the year

(€000)	<i>2017</i>	<i>2016</i>
Net sales	1,086,547	922,818
Cost of sales	(672,548)	(584,816)
Gross industrial margin	413,999	338,002
<i>% on net sales</i>	<i>38.1%</i>	<i>36.6%</i>
Other operating revenues	16,744	14,372
Distribution costs	(102,726)	(86,425)
General and administrative expenses	(124,534)	(108,973)
Other operating costs	(4,571)	(3,443)
EBIT	198,912	153,533
<i>% on net sales</i>	<i>18.3%</i>	<i>16.6%</i>
Financial income	14,684	7,862
Financial charges	(21,424)	(12,862)
Equity method contributiona	(22)	(40)
Profit for the period before taxes	192,150	148,493
Income taxes	(56,600)	(54,020)
Consolidated net profit for the period	135,550	94,473
<i>% on net sales</i>	<i>12.5%</i>	<i>10.2%</i>
Pertaining to:		
Parent company's shareholders	134,270	93,850
Subsidiaries' minority shareholders	1,280	623
Consolidated net profit for the period	135,550	94,473
EBITDA	248,648	198,502
<i>% on net sales</i>	<i>22.9%</i>	<i>21.5%</i>
Shareholders' equity	764,560	677,538
Net debt	273,542	257,263
Payables for the acquisition of investments	50,266	42,761
Capital employed	1,088,368	977,562
ROCE	18.3%	15.7%
ROE	17.7%	13.9%
Basic earnings per share	1.255	0.884

SIGNIFICANT EVENTS DURING THE YEAR

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

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

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

Net profit for 2017 was €135.6m (€94.5m in 2016) reflecting an increase of 43.5%.

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

The range of products in the food, cosmetics and pharmaceutical industry was further expanded and supplemented by the acquisition of Mariotti & Pecini S.r.l. on 12 June 2017. This company, based in the province of Florence, is a leader in the design and production of homogenizers and agitators used in the chemical, pharmaceutical, cosmetics and food processing industries, and for environmental technologies. The synergies with the Inoxpa group, in particular, will expand opportunities for the sale of Mariotti & Pecini products in many different foreign markets. The components developed by Mariotti & Pecini are also suitable for special applications with constraints imposed by pressure, temperature or hazardous liquids; thanks to the Magna-Safe® magnetic drive technology they can be used in production processes that require the fluids processed to be completely isolated from the external environment. Mariotti & Pecini reported net sales for 2016 of €8.1m, with EBITDA of €2.7m (33% of sales). The price paid for 60% of the company was €5.3m plus 150,000 treasury shares in Interpump Group S.p.A. On the closing date for the transaction the net financial position of the company was €2.8m. The founding partners retain their roles in the company and mutual put & call options have been agreed with them for acquisition of the residual 40% stake in the company starting from 2020.

Also, in January 2017, acting through the UK branch of the IMM Group, Interpump acquired 100% of Bristol Hose Ltd, specialised in sales and services in the hydraulic lines and fittings sector and based in Bristol. Bristol Hose operates with 2 sales warehouses and 9 mobile workshops for on-site assistance and repairs. The mobile units operate around the clock and can

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

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

On 29 December 2017 a binding contract was signed for the acquisition of the international activities of the Finnish group GS-Hydro, world leader in the design and construction of piping systems in the industrial, marine and offshore sectors. GS-Hydro revolutionised the piping sector by inventing a solution for pipes assembly without welding. This fast and clean technology not only reduces the environmental impact of the operations, it also guarantees higher technical characteristics and greater ease of use, so it is particularly suitable for continuous or extreme application conditions. The agreement involves the acquisition of the group's subsidiaries in the UK, Spain, Austria, Germany, Denmark, Benelux, Poland, Sweden, the US, China, South Korea, Singapore and Brazil, and also the manufacturing business of the Finnish parent GS-Hydro Oy, including patents and international certifications. Total consolidated sales in the foregoing perimeter of companies is expected to be around €60m for 2017, with EBITDA in the region of €4m. The total price agreed for the acquisitions is €m. The net financial position at the end of November showed cash assets of €3m. Closing of the single acquisitions in each country is planned to occur before the end of February 2018. The selling company, which has been held by private equity funds since 2000, is currently undergoing insolvency proceedings that do not involve the subsidiary companies to be acquired, which are operating normally and are globally profitable.

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

NET SALES

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

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

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

PROFITABILITY

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

Like for like distribution costs rose by 4.4% with respect to 2016, but their incidence on sales fell by 0.4 percentage points.

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

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

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

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

* = Total sales include sales to other Group companies, while the sales analysed previously are exclusively those external to the Group (see Note 2 in the explanatory notes). For comparability, the percentage is calculated on total sales, rather than the net sales shown earlier.

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

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

The tax rate for the period was 29.5% (36.4% in 2016). The decrease compared to 2016 is mainly due to lower net deferred taxes in the amount of €5.9m further to the US tax reform bill, which reduced the tax rate for future years, and to the reduction of the corporate income tax (IRES) rate in Italy from 27.5% to 24%.

Net profit for the 2017 reporting period was €135.6m (€94.5m in 2016), reflecting an increase of 43.5%. Basic earnings per share rose from the EUR 0.884 of 2016 to EUR 1.255 in 2017, reflecting growth of 42.0%.

Capital employed increased from €977.6m at 31 December 2016 to €1,088.4m at 31 December 2017, essentially due to new acquisitions. ROCE stood at 18.3% (15.7% in 2016). ROE was 17.7% (13.9% in 2016).

CASH FLOW

The change in net financial indebtedness breaks down as follows:

	2017 <u>€/000</u>	2016 <u>€/000</u>
Opening net financial position	(257,263)	(254,987)
Adjustment: opening net cash position of companies not consolidated line by line at the end of the prior period ^(a)	<u>-</u>	<u>160</u>
Adjusted opening net financial position	(257,263)	(254,827)
Cash flow from operations	173,132	137,995
Cash flow generated (absorbed) by the management of commercial working capital	(32,964)	(5,121)
Cash flow generated (absorbed) by other current assets and liabilities	1,464	(7,061)
Expenditure in tangible fixed assets	(45,137)	(34,071)
Proceeds from the sale of tangible fixed assets	871	566
Investment in other intangible fixed assets	(3,544)	(3,022)
Received financial income	534	496
Other	<u>(804)</u>	<u>165</u>
Free cash flow	93,552	89,947
Acquisition of investments, including received debt and net of treasury shares assigned	(89,144)	(39,552)
Proceeds from the sale of lines of business	-	861
Dividends paid	(22,310)	(21,138)
Outlays for the purchase of treasury shares	-	(43,308)
Receipts from the disposal of assets held for sale	2,714	-
Proceeds from the sale of treasury shares to beneficiaries of stock options	3,376	9,490
Change in other financial assets	<u>83</u>	<u>(53)</u>
Net cash generated (used)	(11,729)	(3,753)
Exchange differences	<u>(4,550)</u>	<u>1,317</u>
Net financial position at period end	<u>(273,542)</u>	<u>(257,263)</u>

^(a) = 2016: Interpump Hydraulics (UK).

Net liquidity generated by operating activities totalled €173.1m (€138.0m in 2016), reflecting an increase of 25.5%. Free cash flow was €93.6m (€89.9m in 2016) resulting in growth of 4.0%.

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

	31/12/2017 <u>€000</u>	31/12/2016 <u>€000</u>	01/01/2016 <u>€000</u>
Cash and cash equivalents	144,938	197,891	135,130
Bank payables (advances and STC amounts)	(8,955)	(2,396)	(5,735)
Interest-bearing financial payables (current portion)	(165,136)	(124,784)	(83,833)
Interest-bearing financial payables (non-current portion)	<u>(244,389)</u>	<u>(327,974)</u>	<u>(300,549)</u>
Total	<u>(273,542)</u>	<u>(257,263)</u>	<u>(254,987)</u>

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

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

CAPITAL EXPENDITURE

Expenditure on property, plant and equipment totalled €75.7m, of which €20.1m via the acquisition of equity investments (54.8m in 2016, of which €8.9m via the acquisition of equity investments). Certain companies in the Water Jetting Sector classify machinery manufactured and rented to customers as part of property, plant and equipment (€6.5m at 31 December 2017 and €10.8m at 31 December 2016). Net of these latter amounts, capital expenditure in the strictest sense stood at €49.0m in 2017 (€35.1m in 2016) and mainly refers to the normal renewal and modernisation of plant, machinery and equipment, with the exception of €3.5m in 2017 (€6.1m in 2016) related to the construction of new production facilities or their expansion. The difference with respect to the expenditure recorded in the cash flow statement is due to the timing of payments.

Increases in intangible assets totalled €16.3m, of which €12.6m from the acquisition of equity investments (€3.2m in 2016) and refer mainly to allocation of the Inoxpa acquisition excess cost attributable to the trademark (€1.9m) and to expenditure for the development of new products.

INTERCOMPANY AND RELATED PARTY TRANSACTIONS

With regard to transactions entered into with related parties, including intercompany transactions, these cannot be defined as either atypical or unusual, as they are 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 transactions carried out with related parties is given in Note 9 of the Consolidated Financial statements at 31 December 2017.

CHANGES IN THE GROUP STRUCTURE IN THE 2017 REPORTING PERIOD

In addition to the acquisition of the Inoxpa Group, Mariotti & Pecini, Bristol Hose, and Fluid System 80, as described in full in the first section of this report, the other operations that altered the Group's corporate structure were the absorption in the US of Hydrocontrol Inc. by Walvoil Fluid Power Corp., the absorption of Dyna Flux S.r.l. by IMM Hydraulics S.p.A., the absorption in Spain of Inoxpa Grup S.L.U. and Suali S.L.U. by Inoxpa S.A., the concentration of the UK businesses of IMM Hydraulics UK, E.I. Holdings Ltd, Endeavour Ltd and Bristol Hose Ltd in Interpump Hydraulics UK Ltd.

Rationalisation of the Group structure following the recent acquisitions is proceeding in China, India, France, Portugal and Russia.

EVENTS OCCURRING AFTER THE CLOSE OF THE YEAR

No atypical or unusual transactions were carried out subsequent to 31 December 2017 such that would call for changes to the consolidated financial statements at that date.

**Directors' remarks on performance
for Q4 2017**

Q4 consolidated income statements

(€000)	<i>2017</i>	<i>2016</i>
Net sales	267,848	229,796
Cost of sales	(167,429)	(146,607)
Gross industrial margin	100,419	83,189
<i>% on net sales</i>	<i>37.5%</i>	<i>36.2%</i>
Other operating revenues	4,926	3,818
Distribution costs	(26,621)	(23,017)
General and administrative expenses	(32,287)	(28,311)
Other operating costs	(2,368)	(1,187)
EBIT	44,069	34,492
<i>% on net sales</i>	<i>16.5%</i>	<i>15.0%</i>
Financial income	3,865	2,705
Financial charges	(4,109)	(2,802)
Equity method contribution	164	(44)
Profit for the period before taxes	43,989	34,351
Income taxes	(7,574)	(13,429)
Consolidated net profit for the period	36,415	20,922
<i>% on net sales</i>	<i>13.6%</i>	<i>9.1%</i>
Pertaining to:		
Parent company's shareholders	36,100	20,845
Subsidiaries' minority shareholders	315	77
Consolidated net profit for the period	36,415	20,922
EBITDA	56,750	46,904
<i>% on net sales</i>	<i>21.2%</i>	<i>20.4%</i>
Shareholders' equity	764,560	677,538
Net debt	273,542	257,263
Payables for the acquisition of investments	50,266	42,761
Capital employed	1,088,368	977,562
Unannualized ROCE	4.0%	3.5%
Unannualized ROE	4.8%	3.1%
Basic earnings per share	0.337	0.196

The scope of consolidation in Q4 2017 includes the Inoxpa Group, Bristol Hose, Mariotti & Pecini, and Fluid System '80, which were not present in Q4 2016.

NET SALES

Net sales in Q4 2017 totalled €267.8m, up by 16.6% on the €229.8m of Q4 2016 (+7.7% at unchanged perimeter, +11.4% also net of exchange differences).

The following table gives a breakdown of net sales in Q4 by business sector and geographical area:

(€000)	<u>Italy</u>	<u>Rest of Europe</u>	<u>North America</u>	<u>Far East and Oceania</u>	<u>Rest of the World</u>	<u>Total</u>
<i>Q4 2017</i>						
Hydraulic Sector	38,198	60,417	38,781	14,939	18,101	170,436
Water Jetting Sector	<u>9,441</u>	<u>36,923</u>	<u>30,280</u>	<u>12,363</u>	<u>8,405</u>	<u>97,412</u>
Total	<u>47,639</u>	<u>97,340</u>	<u>69,061</u>	<u>27,302</u>	<u>26,506</u>	<u>267,848</u>
<i>Q4 2016</i>						
Hydraulic Sector	33,258	48,596	35,050	14,970	18,693	150,567
Water Jetting Sector	<u>8,512</u>	<u>22,164</u>	<u>29,704</u>	<u>12,894</u>	<u>5,955</u>	<u>79,229</u>
Total	<u>41,770</u>	<u>70,760</u>	<u>64,754</u>	<u>27,864</u>	<u>24,648</u>	<u>229,796</u>
2017/2016 percentage changes						
Hydraulic Sector	+14.9%	+24.3%	+10.6%	-0.2%	-3.2%	+13.2%
Water Jetting Sector	+10.9%	+66.6%	+1.9%	-4.1%	+41.1%	+22.9%
Total	+14.1%	+37.6%	+6.7%	-2.0%	+7.5%	+16.6%
2017/2016 like for like percentage changes						
Hydraulic Sector	+12.7%	+23.2%	+10.6%	-2.1%	-3.2%	+12.2%
Water Jetting Sector	-20.5%	+15.4%	-0.2%	-12.7%	-12.5%	-1.0%
Total	+6.0%	+20.8%	+5.7%	-7.0%	-5.4%	+7.7%

PROFITABILITY

The cost of sales accounted for 62.5% of turnover (63.8% in Q4 2016), representing an improvement of 1.3 percentage points. Production costs, which totalled €72.8m (€63.9m in Q4 2016, which however did not include the production costs of the Inoxpa Group, Bristol Hose, Mariotti & Pecini, and Fluid System '80), accounted for 27.2% of sales (27.8% in the equivalent period of 2016) with an improvement of 0.6 percentage points. The purchase cost of raw materials and components sourced on the market, including changes in inventories, was €4.6m (€2.7m in the equivalent period of 2016, which however did not include the purchasing costs of the Inoxpa Group, Bristol Hose, Mariotti & Pecini, and Fluid System '80). The incidence of purchase costs, including changes in inventories, was 35.3 %, compared to 36.0% in the fourth quarter of 2016. On a like for like basis, the incidence of cost of sales on sales fell by 0.3 percentage points.

Like for like distribution costs rose by 2.6% with respect to Q4 2016, while their incidence on sales fell by 0.5 percentage points.

On a like for like basis, general and administrative expenses rose by 3.4% with respect to Q4 2016, while their incidence on sales fell by 0.5 percentage points.

EBITDA amounted to €56.8m (21.2% of sales), compared with €46.9m in Q4 2016 (20.4% of sales). This represents growth of 21.0% and an improvement in profitability of 0.8 percentage points. Like for like, EBITDA grew by 10.1% (+15.7% also net of exchange differences).

The following table shows EBITDA by business sector:

	<i>Q4 2017</i>	<i>% on</i>	<i>Q4 2016</i>	<i>% on</i>	<i>Increase/ Decrease</i>
	<i>€/000</i>	<i>total</i>	<i>€/000</i>	<i>total</i>	
		<i>sales*</i>		<i>sales*</i>	
Hydraulic Sector	32,125	18.8%	27,545	18.3%	+16.6%
Water Jetting Sector	24,626	25.2%	19,361	24.3%	+27.2%
Other Revenues Sector	(1)	n.s.	(2)	n.s.	n.s.
Total	<u>56,750</u>	21.2%	<u>46,904</u>	20.4%	+21.0%

* = Total sales include sales to other Group companies, while the sales analysed previously are exclusively those external to the Group (see Note 2 in the explanatory notes). For comparability, the percentage is calculated on total sales, rather than the net sales shown earlier.

EBIT stood at €44.1m (16.5% of sales) compared to €34.5m in Q4 2016 (15.0% of sales), reflecting an increase of 27.8%.

Q4 closed with consolidated net profit of €36.4m (€20.9m in Q4 2016), reflecting a rise of 74.1%. Note that Q4 2017 benefited from lower net deferred taxes in the amount of €5.9m, following the US tax reform bill.

Basic earnings per share were EUR 0.337 (EUR 0.196 in Q4 2016), reflecting a 71.9% increase.

BUSINESS OUTLOOK

Considering the short span of time covered by the Group's order portfolio, it is impractical to formulate reliable forecasts concerning performance in 2018, for which positive results are predicted in terms of both sales and profitability. The Group will continue to devote special attention to controlling costs and to finance management in order to maximise the generation of free cash flow to be allocated to internal and external growth and to the remuneration of shareholders.

Sant'Ilario d'Enza (RE), 14 February 2018

For the Board of Directors
Fulvio Montipò
Chairman and Chief Executive Officer

Pursuant to the terms of section 2 article 154-(2) of the Italian Consolidated Finance Act, the manager in charge of preparing the company's accounting documents, Carlo Banci, declares that the accounting disclosures in this document correspond to the documentary evidence, the company books and the accounting entries.

Sant'Ilario d'Enza (RE), 14 February 2018

Carlo Banci
Manager in charge of preparing
the company's accounting documents

Financial statements and notes

Consolidated balance sheet

(€000)	<u>Notes</u>	<u>31/12/2017</u>	<u>31/12/2016</u>
ASSETS			
Current assets			
Cash and cash equivalents		144,938	197,891
Trade receivables		236,761	200,018
Inventories	4	291,701	257,545
Tax receivables		15,290	11,140
Other current assets		8,301	7,686
Total current assets		<u>696,991</u>	<u>674,280</u>
Non-current assets			
Property, plant and equipment	5	321,833	300,921
Goodwill	1	428,418	390,708
Other intangible assets		38,096	30,039
Other financial assets		1,145	790
Tax receivables		1,704	1,740
Deferred tax assets		24,953	24,108
Other non-current assets		2,582	1,654
Total non-current assets		<u>818,731</u>	<u>749,960</u>
Assets held for sale		785	-
Total assets		<u>1,516,507</u>	<u>1,424,240</u>

(€000)	<u>Notes</u>	<u>31/12/2017</u>	<u>31/12/2016</u>
LIABILITIES			
Current liabilities			
Trade payables		142,975	109,004
Payables to banks		8,955	2,396
Interest-bearing financial payables (current portion)		165,136	124,784
Derivative financial instruments		-	36
Tax payables		18,291	18,126
Other current liabilities		54,038	49,772
Provisions for risks and charges		3,610	3,620
Total current liabilities		393,005	307,738
Non-current liabilities			
Interest-bearing financial payables		244,389	327,974
Liabilities for employee benefits		20,044	19,311
Deferred tax liabilities		40,756	47,755
Other non-current liabilities		50,397	41,058
Provisions for risks and charges		3,156	2,866
Total non-current liabilities		358,742	438,964
Liabilities held for sale		200	-
Total liabilities		751,947	746,702
SHAREHOLDERS' EQUITY			
	6		
Share capital		55,805	55,431
Legal reserve		11,323	11,323
Share premium reserve		121,228	112,386
Reserve for the measurement of hedging derivatives at fair value		-	(24)
Reserve for restatement of defined benefit plans		(5,722)	(5,022)
Translation reserve		(2,485)	33,497
Other reserves		578,909	466,153
Group shareholders' equity		759,058	673,744
Minority interests		5,502	3,794
Total shareholders' equity		764,560	677,538
Total shareholders' equity and liabilities		1,516,507	1,424,240

Consolidated income statements for the year

(€000)	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Net sales		1,086,547	922,818
Cost of sales		<u>(672,548)</u>	<u>(584,816)</u>
Gross industrial margin		413,999	338,002
Other net revenues		16,744	14,372
Distribution costs		(102,726)	(86,425)
General and administrative expenses		(124,534)	(108,973)
Other operating costs		<u>(4,571)</u>	<u>(3,443)</u>
Ordinary profit before financial expenses		198,912	153,533
Financial income	7	14,684	7,862
Financial charges	7	(21,424)	(12,862)
Adjustment of the value of investments carried at equity		<u>(22)</u>	<u>(40)</u>
Profit for the period before taxes		192,150	148,493
Income taxes		<u>(56,600)</u>	<u>(54,020)</u>
Consolidated net profit for the period		135,550	94,473
Pertaining to:			
Parent company's shareholders		134,270	93,850
Subsidiaries' minority shareholders		<u>1,280</u>	<u>623</u>
Consolidated net profit for the period		135,550	94,473
Basic earnings per share	8	1.255	0.884
Diluted earnings per share	8	1.243	0.880

Comprehensive consolidated income statements for the year

(€000)	<u>2017</u>	<u>2016</u>
Consolidated profit for the period (A)	135,550	94,473
Other comprehensive profit (loss) that will be subsequently reclassified in consolidated profit for the period		
<i>Accounting for interest rate hedging derivatives recorded in accordance with the cash flow hedging method:</i>		
- Profit (Loss) on derivative financial instruments for the period	-	-
- Minus: Adjustment for reclassification of profits (losses) to the income statement	-	-
- Minus: Adjustment for fair value recognition of reserves in the prior period	=	=
<i>Total</i>		
<i>Accounting of exchange risk hedging derivatives recorded in accordance with the cash flow hedging method:</i>		
- Profit (Loss) on derivative financial instruments for the period	-	(33)
- Minus: Adjustment for reclassification of profits (losses) to the income statement	-	19
- Minus: Adjustment for fair value recognition of reserves in the prior period	<u>33</u>	=
<i>Total</i>	<u>33</u>	<u>(14)</u>
<i>Profits (Losses) arising from the translation to euro of the financial statements of foreign companies</i>	<i>(36,316)</i>	<i>10,664</i>
<i>Profits (Losses) of companies carried at equity</i>	<i>(2)</i>	<i>(5)</i>
<i>Related taxes</i>	<u><i>(9)</i></u>	<u><i>3</i></u>
Total other profit (loss) that will be subsequently reclassified in consolidated profit for the period, net of the tax effect (B)	<u>(36,294)</u>	<u>10,648</u>
Other comprehensive profit (loss) that will not be subsequently reclassified in consolidated profit for the period		
<i>Profit (Loss) deriving from the restatement of defined benefit plans</i>	<i>(927)</i>	<i>(1,803)</i>
<i>Related taxes</i>	<u><i>219</i></u>	<u><i>262</i></u>
Total other comprehensive profit (loss) that will not be subsequently reclassified in consolidated profit for the period (C)	<u>(708)</u>	<u>(1,541)</u>
Comprehensive consolidated profit for the period (A) + (B) + (C)	<u>98,548</u>	<u>103,580</u>
Pertaining to:		
Parent company's shareholders	97,612	103,115
Subsidiaries' minority shareholders	<u>936</u>	<u>465</u>
Comprehensive consolidated profit for the period	<u>98,548</u>	<u>103,580</u>

Q4 consolidated income statements

(€000)		<u>2017</u>	<u>2016</u>
Net sales		267,848	229,796
Cost of sales		(167,429)	(146,607)
Gross industrial margin		100,419	83,189
Other net revenues		4,926	3,818
Distribution costs		(26,621)	(23,017)
General and administrative expenses		(32,287)	(28,311)
Other operating costs		(2,368)	(1,187)
Ordinary profit before financial expenses		44,069	34,492
Financial income	7	3,865	2,705
Financial charges	7	(4,109)	(2,802)
Adjustment of investments carried at equity		164	(44)
Profit for the period before taxes		43,989	34,351
Income taxes		(7,574)	(13,429)
Consolidated net profit for the period		<u>36,415</u>	<u>20,922</u>
Pertaining to:			
Parent company's shareholders		36,100	20,845
Subsidiaries' minority shareholders		315	77
Consolidated net profit for the period		<u>36,415</u>	<u>20,922</u>
Basic earnings per share	8	0.337	0.196
Diluted earnings per share	8	0.333	0.194

Comprehensive consolidated income statements for Q4

(€000)	<u>2017</u>	<u>2016</u>
Consolidated profit of the fourth quarter (A)	36,415	20,922
Other comprehensive profit (loss) that will be subsequently reclassified in consolidated profit for the period		
<i>Accounting for interest rate hedging derivatives recorded in accordance with the cash flow hedging method:</i>		
- Profit (Loss) on derivative financial instruments for the period	-	-
- Minus: Adjustment for reclassification of profits (losses) to the income statement	-	-
- Minus: Adjustment for fair value recognition of reserves in the prior period	=	=
<i>Total</i>	-	-
<i>Accounting of exchange risk hedging derivatives recorded in accordance with the cash flow hedging method:</i>		
- Profit (Loss) on derivative financial instruments for the period	-	(32)
- Minus: Adjustment for reclassification of profits (losses) to the income statement	-	-
- Minus: Adjustment for fair value recognition of reserves in the prior period	=	-
<i>Total</i>	-	(32)
<i>Profits (Losses) arising from the translation to euro of the financial statements of foreign companies</i>	(3,896)	15,349
<i>Profits (Losses) of companies carried at equity</i>	4	22
<i>Related taxes</i>	-	9
Total other profit (loss) that will be subsequently reclassified in consolidated profit for the period, net of the tax effect (B)	<u>(3,892)</u>	<u>15,348</u>
Other comprehensive profit (loss) that will not be subsequently reclassified in consolidated profit for the period		
<i>Profit (Loss) deriving from the restatement of defined benefit plans</i>	(927)	(1,731)
<i>Related taxes</i>	219	242
Total other comprehensive profit (loss) that will not be subsequently reclassified in consolidated profit for the period (C)	<u>(708)</u>	<u>(1,489)</u>
Comprehensive consolidated profit for Q4 (A) + (B) + (C)	<u>31,815</u>	<u>34,781</u>
Pertaining to:		
Parent company's shareholders	31,477	34,649
Subsidiaries' minority shareholders	338	132
Comprehensive consolidated profit for the period	<u>31,815</u>	<u>34,781</u>

Consolidated cash flow statement for the year

(€000)

	<u>2017</u>	<u>2016</u>
Cash flow from operating activities		
Pretax profit	192,150	148,493
Adjustments for non-cash items:		
Capital losses (Capital gains) from the sale of fixed assets	(3,257)	(2,099)
Capital losses (Capital gains) from the sale of business divisions and equity investments	-	(61)
Amortization, depreciation and impairment losses	47,792	44,044
Costs ascribed to the income statement relative to stock options that do not involve monetary outflows for the Group	1,781	1,733
Loss (Profit) from investments	22	40
Net change in risk funds and allocations for employee benefits	(377)	(1,298)
Outlays for tangible fixed assets destined for hire	(6,508)	(10,784)
Proceeds from the sale of fixed assets granted for hire	7,966	6,494
Financial expenses (Income), net	6,740	5,000
	<u>246,309</u>	<u>191,562</u>
(Increase) decrease in trade receivables and other current assets	(29,558)	(4,614)
(Increase) decrease in inventories	(32,603)	(5,753)
Increase (decrease) in trade payables and other current liabilities	30,661	(1,815)
Interest paid	(3,331)	(4,450)
Currency exchange gains realised	(3,370)	(653)
Taxes paid	(66,476)	(48,464)
Net cash from operating activities	<u>141,632</u>	<u>125,813</u>
Cash flows from investing activities		
Outlay for the acquisition of investments, net of received cash and including treasury shares assigned	(82,014)	(41,302)
Disposal of lines of business including transferred cash	-	861
Capital expenditure on property, plant and equipment	(44,533)	(31,954)
Proceeds from the sale of tangible fixed assets	871	566
Receipts from the disposal of assets held for sale	2,714	-
Capital expenditure on intangible fixed assets	(3,544)	(3,022)
Received financial income	534	496
Other	(608)	149
Net liquidity used in investing activities	<u>(126,580)</u>	<u>(74,206)</u>
Cash flows of financing activity		
Disbursals (repayments) of loans	(52,681)	66,464
Dividends paid	(22,310)	(21,138)
Outlays for purchase of treasury shares	-	(43,308)
Sale of treasury shares for the acquisition of equity investments	3,685	5,516
Proceeds from the sale of treasury shares to beneficiaries of stock options	3,376	9,490
Disbursals (repayments) of loans from (to) shareholders	(50)	(7)
Change in other financial assets	83	(53)
Payment of financial leasing installments (principal portion)	(2,205)	(3,992)
Net liquidity generated (used by) financing activities	<u>(70,102)</u>	<u>12,972</u>
Net increase (decrease) of cash and cash equivalents	<u>(55,050)</u>	<u>64,579</u>

(€000)	<u>2017</u>	<u>2016</u>
Net increase (decrease) of cash and cash equivalents	(55,050)	64,579
Exchange differences from conversion of cash of companies in areas outside the EU	(4,462)	1,361
Opening cash and equivalents of companies consolidated for the first time using the line-by-line method	-	160
Cash and cash equivalents at beginning of period	195,495	129,395
Cash and cash equivalents at end of period	<u>135,983</u>	<u>195,495</u>
Cash and cash equivalents can be broken down as follows:		
	31/12/2017	31/12/2016
	€000	€000
Cash and cash equivalents from the balance sheet	144,938	197,891
Payables to banks (current account overdrafts and advances subject to collection)	<u>(8,955)</u>	<u>(2,396)</u>
Cash and cash equivalents from the cash flow statement	<u>135,983</u>	<u>195,495</u>

Statement of changes in consolidated shareholders' equity

	Share capital	Legal reserve	Share premium reserve	Reserve for valuation of hedging derivatives at fair value	Reserve for restatement of defined benefit plans	Translation reserve	Other reserves	Group shareholders' equity	Minority interests	Total
<i>Balances at 1 January 2016</i>	56,032	11,323	138,955	(13)	(3,501)	22,657	391,704	617,157	5,471	622,628
Recognition in the income statement of the fair value of stock options assigned and exercisable	-	-	1,733	-	-	-	-	1,733	-	1,733
Purchase of treasury shares	(1,772)	-	(43,308)	-	-	-	1,772	(43,308)	-	(43,308)
Sale of treasury shares to the beneficiaries of stock options	937	-	9,490	-	-	-	(937)	9,490	-	9,490
Sale of treasury shares for payment of equity investments	234	-	5,516	-	-	-	(234)	5,516	-	5,516
Purchase of residual interests in subsidiaries	-	-	-	-	-	43	52	95	(1,040)	(945)
Dividends paid	-	-	-	-	-	-	(20,054)	(20,054)	(1,102)	(21,156)
Comprehensive Profit (loss) for 2016	-	-	-	(11)	(1,521)	10,797	93,850	103,115	465	103,580
<i>Balances at 31 December 2016</i>	<i>55,431</i>	<i>11,323</i>	<i>112,386</i>	<i>(24)</i>	<i>(5,022)</i>	<i>33,497</i>	<i>466,153</i>	<i>673,744</i>	<i>3,794</i>	<i>677,538</i>
Recognition in the income statement of the fair value of stock options assigned and exercisable	-	-	1,781	-	-	-	-	1,781	-	1,781
Sale of treasury shares to the beneficiaries of stock options	296	-	3,376	-	-	-	(296)	3,376	-	3,376
Sale of treasury shares for payment of equity investments	78	-	3,685	-	-	-	(78)	3,685	-	3,685
Purchase of Inoxpa Group	-	-	-	-	-	-	-	-	2,300	2,300
Purchase of residual interests in subsidiaries	-	-	-	-	-	-	216	216	(602)	(386)
Dividends paid	-	-	-	-	-	-	(21,356)	(21,356)	(926)	(22,282)
Comprehensive Profit (loss) for 2017	-	-	-	24	(700)	(35,982)	134,270	97,612	936	98,548
<i>Balances at 31 December 2017</i>	<i>55,805</i>	<i>11,323</i>	<i>121,228</i>	<i>-</i>	<i>(5,722)</i>	<i>(2,485)</i>	<i>578,909</i>	<i>759,058</i>	<i>5,502</i>	<i>764,560</i>

Notes to the consolidated financial statements

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, power take-offs, hydraulic cylinders, valves and directional controls, hydraulic hoses and fittings and other hydraulic products. The Group has production facilities in Italy, the US, Germany, China, India, France, Portugal, Brazil, Bulgaria, Romania and South Korea.

Sales are not affected by any significant degree of seasonality.

The consolidated financial statements include Interpump Group S.p.A. and its directly or indirectly controlled subsidiaries (hereinafter "the Group").

The consolidated financial statements at 31 December 2017 were approved by the Board of Directors on this day (14 February 2018).

Basis of preparation

The interim board of directors' report at 31 December 2017 was drawn up in compliance with the international accounting standards (IAS/IFRS) adopted by the European Union for interim financial statements. The tables were prepared in compliance with IAS 1, while the notes were prepared in condensed form in application of the faculty provided by IAS 34 and therefore they do not include all the information required for annual financial statements drafted in compliance with IFRS standards. The interim board of directors' report at 31 December 2017 should therefore be consulted together with the consolidated annual financial statements for the year ending 31 December 2016.

Preparation of an interim report in compliance with IAS 34 "Interim Financial Reporting" calls for judgments, estimates, and assumptions that have an effect on assets, liabilities, costs and revenues and on information regarding potential assets and liabilities at the report reference date. We draw your attention to the fact that estimates may differ from the effective results, the magnitude of which will only be known in the future.

The interim report is presented in thousands of euro. The Group adopts the cost of goods sold (GOGS) based income statement, and the cash flow statement with the indirect method. The financial statements are drafted according to the cost method, with the exception of financial instruments, which are measured at fair value.

Accounting standards

The accounting standards adopted are those described in the consolidated financial statements at 31 December 2016, with the exception of those adopted as from 1 January 2017 as described hereunder, and they were uniformly applied to all Group companies and all periods presented.

a) New accounting standards and amendments taking effect on 1 January 2017 and adopted by the Group

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

- *IFRS Annual Improvements Cycle 2012–2014* – On 25 September 2014 IASB issued a raft of amendments to IAS/IFRS standards. 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 amended standards, IFRS 5, in relation to which a clarification has been introduced concerning cases in which the method of disposal of an asset is changed from held for sale to held for distribution; IFRS 7, with a clarification to establish if and when a residual involvement in a transferred financial asset exists in the presence of an associated service contract, thus determining the required level of disclosure; IAS 19, which clarifies that the currency of securities used as a benchmark to estimate the discount rate, must be the same as the currency in which the benefits will be paid; and IAS 34 in which the meaning of "elsewhere" is clarified for the inclusion of information by cross-reference.
- *Amendments to IAS 12 – Income taxes*. The IASB has published certain amendments to the standard. The document entitled *Recognition of deferred tax assets for unrealised losses (Amendment to IAS 12)* seeks to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.
- *Amendments to IAS 7 - Statement of cash flows*. On 29 January 2016, IASB published an amendment to the standard entitled "*Disclosure initiative*" in order to improve the information provided about changes in financial liabilities.

b) New accounting standards and amendments effective from 1 January 2017 but not relevant for the Group:

- *IFRS Annual Improvements Cycle 2014–2016* - On 8 December 2016 IASB issued several minor changes to IFRS 12 (*Disclosure of interests in other entities*). The aim of the annual improvements is to address necessary matters related to inconsistencies found in IFRSs or for clarifications of terminology, which are not of an urgent nature but which reflect issues discussed by IASB during the project cycle.
- On 30 January 2014, IASB published IFRS 14 *Regulatory Deferral Accounts*, which is an interim standard related to the *Rate-regulated activities* project. IFRS 14 allows exclusively first-time adopters of IFRS to continue recognising amounts associated with rate regulation in compliance with the accounting policies previously adopted. In order to improve comparability with entities that are already applying the IFRS standards and that do not therefore disclose these amounts, the standard requires the rate regulation effect to be presented separately from other captions.

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

- *IFRS 2 – Share-based payments*. On 21 June 2016 IASB published amendments to the standard with a view to clarifying the accounting for certain operations involving share-based payments. The amendments will be applicable from 1 January 2018, although early adoption is allowed.
- *IFRS 9 – Financial instruments*. On 12 November 2009 IASB published the following standard, which was subsequently amended on 28 October 2010 in a further amendment in mid-December 2011. The new standard, which is applicable from 1 January 2018, constitutes the first part of a process in stages aimed at replacing IAS 39 and introduces new criteria for the classification and measurement of financial assets and liabilities, and for derecognition of financial assets from the financial statements. Specifically, the new standard uses a single approach to financial assets based on the methods of management of financial instruments and on the characteristics of the contractual cash

flows of financial assets in order to establish the measurement criterion, replacing the various rules contained in IAS 39. In contrast, for financial liabilities the main change concerns the accounting treatment for changes in the fair value of a financial liability designated as a financial liability measured at fair value in profit and loss, in the event wherein such changes are due to changes in the credit rating of the liabilities in question. In accordance with the new standard, such changes must be recorded in the comprehensive income statement and cannot thereafter be derecognised in profit and loss.

- *IFRS 15 – Recognition of revenue from contracts with customers.* On 28 May 2014 IASB and FASB jointly issued IFRS 15 designed to improve the disclosure of revenues and the global comparability of financial statements in order to harmonize the recognition of economically similar transactions. The standard is effective for IFRS users from reporting periods starting after 1 January 2017 (early adoption is permitted). On 12 April 2016, IASB published “*Clarification to IFRS 15*”, in order to clarify certain requirements and provide further simplifications that reduce costs and complexity for first-time adopters of the new standard.
- *IFRS Annual Improvements Cycle 2014–2016* – On 8 December 2016 IASB issued several minor changes to IFRS 1 (*First-Time Adoption of IFRS*), and IAS 28 (*Investments in Associates and Joint Ventures*), as well as an IFRIC interpretation (*Interpretation 22 Foreign Currency Transactions and Advance Consideration*). The aim of the annual improvements is to address necessary matters related to inconsistencies found in IFRSs or for clarifications of terminology, which are not of an urgent nature but which reflect issues discussed by IASB during the project cycle. Among the principal amendments, IFRIC 22 provides guidance on the use of exchange rates in transactions in which the foreign currency consideration is paid or received in advance. These amendments will be effective for reporting periods starting after 1 January 2018.
- *IFRS Annual Improvements Cycle 2015-2017* – On 12 December 2017 IASB published several amendments to IAS 12 (*Income Taxes*), IAS 23 (*Borrowing Costs*), IFRS 3 (*Business Combination*) and IFRS 11 (*Joint Arrangements*). The changes will take effect as from 1 January 2019. Early adoption of the changes is however permitted.
- *IFRS 16 – Leasing.* On 13 January 2016, IASB published the new standard that replaces IAS 17. The new standard will make the financial statements of companies even more comparable, by abolishing the distinction between "finance leases" and "operating leases" and by requiring companies to recognise the assets and liabilities associated with all types of leasing contracts in their financial statements. IFRS 16 is applicable from 1 January 2019. Early application is allowed for entities that also apply IFRS 15 "Revenue from contracts with customers".
- *Amendments to IAS 40 – Transfer of Investment Property.* On 8 December 2016, IASB published an amendment to IAS 40 to clarify when the change of use of investment property may be recognised.
- *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 Treatment.* On 8 June 2017 IASB published IFRIC 23 to clarify how to account for uncertainties in the treatment of certain phenomena for income tax purposes. The interpretation will take effect as from 1 January 2019.

At today's date the competent bodies of the European Union have yet to complete the approval process related to the new standards and amendments applicable to financial statements starting as from 1 January 2018, with the exception of IFRS 15 and 16.

From an analysis of the application of IFRS 15 (*Revenue recognition*) no significant effects emerged either on the consolidated level or in relation to individual companies; it follows that it will not be necessary to proceed with restatement of the 2017 data in 2018. With regard to the application of IFRS 16 (Leasing), the effects on payables before discounting are reported in note 34 to the consolidated financial statements at 31 December 2016. On the basis of analyses currently in progress, no significant effects on the economic and financial position are expected from the 2018 adoption of other applicable new standards and amendments.

Notes to the consolidated financial statements at 31 December 2017

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1. Perimeter of consolidation and goodwill

<i>Company</i>	<i>Head office</i>	<i>Share capital €/000</i>	<i>Sector</i>	<i>% stake at 31/12/17</i>
General Pump Inc.	Minneapolis (USA)	1,854	Water Jetting	100.00%
Hammelmann GmbH	Oelde (Germany)	25	Water Jetting	100.00%
Hammelmann Australia Pty Ltd (1)	Melbourne (Australia)	472	Water Jetting	100.00%
Hammelmann Corporation Inc (1)	Miamisburg (USA)	39	Water Jetting	100.00%
Hammelmann S. L. (1)	Zaragoza (Spain)	500	Water Jetting	100.00%
Hammelmann Pumps Systems Co Ltd (1)	Tianjin (China)	871	Water Jetting	90.00%
Hammelmann Bombas e Sistemas Ltda (1)	San Paolo (Brazil)	765	Water Jetting	100.00%
Inoxihp S.r.l.	Nova Milanese (MI)	119	Water Jetting	52.72%
NLB Corporation Inc.	Detroit (USA)	12	Water Jetting	100.00%
NLB Poland (2)	Warsaw (Poland)	1	Water Jetting	100.00%
Inoxpa S.A.	Banyoles (Spain)	23,000	Water Jetting	100.00%
Suministros Tecnicos Y Alimentarios S.L. (3)	Bilbao (Spain)	96	Water Jetting	66.25%
Inoxpa India Private Ltd (3)	Pune (India)	6,779	Water Jetting	100.00%
Candigra Vision Process Equipment PVT Ltd (4)	Maharashtra (India)	403	Water Jetting	99.98%
Inoxpa Solutions France (3)	Gleize (France)	1,451	Water Jetting	100.00%
Inoxpa Solution Portugal Lda (3)	Vale de Cambra (Portugal)	600	Water Jetting	100.00%
STA Portuguesa Maquinas Para Industria Alim. Lda (3)	Vale de Cambra (Portugal)	160	Water Jetting	100.00%
Inoxpa (UK) Ltd (3)	Eastbourne (UK)	1,942	Water Jetting	100.00%
Inoxpa Solutions Moldova (3)	Chisinau (Moldova)	317	Water Jetting	66.67%
Inoxpa Australia Pty. Ltd (3)	Capalaba (Australia)	584	Water Jetting	100.00%
Inoxpa Colombia SAS (3)	Bogotá (Colombia)	133	Water Jetting	83.29%
Inoxpa Italia S.r.l. (3)	Mirano (VE)	100	Water Jetting	100.00%
Inoxpa Middle East FZCO (3)	Dubai (UAE)	253	Water Jetting	60.00%
Inoxpa Skandinavien A/S (3)	Horsens (Denmark)	134	Water Jetting	100.00%
Inoxpa South Africa Proprietary Ltd (3)	Gauteng (South Africa)	104	Water Jetting	100.00%
Inoxpa Special Processing Equipment Co. Ltd (3)	Jianxing (China)	1,647	Water Jetting	100.00%
Inoxpa Ukraine (3)	Kiev (Ukraine)	113	Water Jetting	100.00%
Inoxpa USA Inc (3)	Santa Rosa (USA)	1,426	Water Jetting	100.00%
Inoxrus (3)	Saint Petersburg (Russia)	814	Water Jetting	100.00%
STARINOX (5)	Moscow (Russia)	1,242	Water Jetting	70.00%
SCI Suali (3)	Gleize (France)	503	Water Jetting	100.00%
Mariotti & Pecini S.r.l.	Sesto Fiorentino (FI)	100	Water Jetting	60.00%
SIT S.p.A.	S. Ilario d'Enza (RE)	105	Water Jetting	65.00%
Interpump Hydraulics S.p.A.	Calderara di Reno (BO)	2,632	Hydraulic	100.00%
AVI S.r.l. (6)	Varedo (MB)	10	Hydraulic	100.00%
Contarini Leopoldo S.r.l. (6)	Lugo (RA)	47	Hydraulic	100.00%
Unidro S.a.s. (7)	Barby (France)	8	Hydraulic	100.00%
Copa Hydrosystem Ood (7)	Troyan (Bulgaria)	3	Hydraulic	100.00%
Fluid System '80 S.r.l.(6)	Remanzacco (UD)	47	Hydraulic	100.00%
Hydrocar Chile S.A. (6)	Santiago (Chile)	129	Hydraulic	90.00%
Hydroven S.r.l. (6)	Tezze sul Brenta (VI)	200	Hydraulic	100.00%
Interpump Hydraulics Brasil Ltda (6)	Caxia do Sul (Brazil)	13,996	Hydraulic	100.00%
Interpump Hydraulics France S.a.r.l. (6)	Ennery (France)	76	Hydraulic	99.77%

<i>Company</i>	<i>Head office</i>	<i>Share capital €/000</i>	<i>Sector</i>	<i>% stake at 31/12/17</i>
Interpump Hydraulics India Private Ltd (6)	Hosur (India)	682	Hydraulic	100.00%
Interpump Hydraulics Middle East FZCO (6)	Dubai (UAE)	326	Hydraulic	100.00%
Interpump South Africa Pty Ltd (6)	Johannesburg (South Africa)	-	Hydraulic	100.00%
Interpump Hydraulics (UK) Ltd. (6)	Kidderminster (United Kingdom)	13	Hydraulic	100.00%
Mega Pacific Pty Ltd (8)	Newcastle (Australia)	335	Hydraulic	65.00%
Mega Pacific NZ Pty Ltd (8)	Mount Maunganui (New Zealand)	557	Hydraulic	65.00%
Muncie Power Prod. Inc. (6)	Muncie (USA)	784	Hydraulic	100.00%
American Mobile Power Inc. (9)	Fairmount (USA)	3,410	Hydraulic	100.00%
Oleodinamica Panni S.r.l. (6)	Tezze sul Brenta (VI)	2,000	Hydraulic	100.00%
Wuxi Interpump Weifu Hydraulics Company Ltd (6)	Wuxi (China)	2,095	Hydraulic	65.00%
IMM Hydraulics S.p.A. (6)	Atessa (Switzerland)	520	Hydraulic	100.00%
Hypress France S.a.r.l. (10)	Strasbourg (France)	162	Hydraulic	100.00%
Hypress Hydraulik GmbH (10)	Meinerzhagen (Germany)	52	Hydraulic	100.00%
Hypress S.r.l. (10)	Atessa (Switzerland)	50	Hydraulic	100.00%
IMM Hydro Est (10)	Cateau Cluj Napoca (Romania)	3,155	Hydraulic	100.00%
Tekno Tubi S.r.l. (10)	Terre del Reno (FE)	100	Hydraulic	100.00%
Tubiflex S.p.A.	Orbassano (TO)	515	Hydraulic	80.00%
Walvoil S.p.A.	Reggio Emilia	7,692	Hydraulic	100.00%
Walvoil Fluid Power Corp. (11)	Tulsa (USA)	137	Hydraulic	100.00%
Walvoil Fluid Power Shanghai Co. Ltd (11)	Shanghai (China)	1,872	Hydraulic	100.00%
Walvoil Fluid Power Pvt Ltd (11)	Bangalore (India)	683	Hydraulic	100.00%
Walvoil Fluid Power Korea (11)	Pyeongtaek (South Korea)	453	Hydraulic	100.00%
Walvoil Fluid Power France S.a.r.l. (11)	Vritz (France)	10	Hydraulic	100.00%
Walvoil Fluid Power Australasia (11)	Melbourne (Australia)	7	Hydraulic	100.00%
Galtech Canada Inc. (11)	Terrebonne, Quebec (Canada)	76	Hydraulic	100.00%
HC Hydraulics Technologies (P) Ltd (11)	Bangalore (India)	4,120	Hydraulic	100.00%
HTIL (11)	Hong Kong	98	Hydraulic	100.00%
Walvoil Fluid Power Dongguan Co. Ltd (12)	Dongguan (China)	3,720	Hydraulic	100.00%
Interpump Piping GS S.r.l.	Reggio Emilia	10	Hydraulic	100.00%
IMM Hydraulics Ltd (in liquidation) (8)	Kidderminster (United Kingdom)	1	Hydraulic	100.00%
Bristol Hose Ltd (in liquidation) (8)	Bristol (United Kingdom)	18	Hydraulic	100.00%
E.I. Holdings Ltd (in liquidation) (8)	Bath (United Kingdom)	127	Hydraulic	100.00%
Endeavour International Ltd (in liquidation) (8)	Bath (United Kingdom)	69	Hydraulic	100.00%
Teknova S.r.l. (in liquidation)	Reggio Emilia	28	Other	100.00%

(1) = controlled by Hammelmann GmbH

(2) = controlled by NLB Corporation

(3) = controlled by Inoxpa S.A.

(4) = controlled by Inoxpa India Private Ltd

(5) = controlled by Inoxrus

(6) = controlled by Interpump Hydraulics S.p.A.

The other companies are controlled directly by Interpump Group S.p.A.

(7) = controlled by Contarini Leopoldo S.r.l.

(8) = controlled by Interpump Hydraulics (UK) Ltd.

(9) = controlled by Muncie Power Inc.

(10) = controlled by IMM Hydraulics Ltd

(11) = controlled by Walvoil S.p.A.

(12) = controlled by HTIL

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

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

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

Changes in goodwill were as follows in 2017:

	Balance at 31/12/2016	Increases (Decreases) in the period	Changes due to foreign exchange differences	Balance at 31/12/2017
Water Jetting Sector	160,621	46,040	(5,192)	201,469
Hydraulic Sector	<u>230,087</u>	<u>1,043</u>	<u>(4,181)</u>	<u>226,949</u>
<i>Total goodwill</i>	<u>390,708</u>	<u>47,083</u>	<u>(9,373)</u>	<u>428,418</u>

The 2017 increases in the Water Jetting Sector refer to the acquisition of the Inoxpa Group and Mariotti & Pecini, while increases in the Hydraulic Sector refer to the acquisition of Bristol Hose and the adjustment of the price paid for Tekno Tubi.

2. 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 values of components or products transferred between sectors are the effective sales price between Group companies, which correspond to the selling prices applied to the best customers.

Sector information includes directly attributable costs and costs allocated on the basis of reasonable estimates. The holding costs, i.e. remuneration of directors and statutory auditors

of the parent company and functions of the Group's financial management, control and internal auditing department, and also consultancy costs and other related costs were booked to the sectors on the basis of sales.

Business sectors

The Group is composed of the following business sectors:

Water Jetting Sector. This sector is mainly composed of high and very high-pressure pumps and pumping systems used in a wide range of industrial sectors for the conveyance of fluids. High pressure plunger pumps are the main component of professional high-pressure cleaners. These pumps are also used for a broad range of industrial applications including car wash installations, forced lubrication systems for machine tools, and inverse osmosis systems for water desalination plants. Very high-pressure pumps and systems are used for cleaning surfaces, ships, various types of pipes, 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, valves and directional controls, 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 fitted mainly on industrial vehicles in the building construction sector, while double acting cylinders, valves and directional controls are employed in several applications: earth-moving machinery, agricultural machinery, cranes and truck cranes, waste compactors, etc. The hydraulic hoses and fittings are designed for use in a broad range of hydraulic systems and also for very high-pressure water systems.

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

	Hydraulic		Water Jetting		Other		Elimination entries		Interpump Group	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Net sales external to the Group	690,914	596,811	395,633	326,007	-	-	-	-	1,086,547	922,818
Sales between sectors	382	272	1,735	1,347	-	-	(2,117)	(1,619)	-	-
Total net sales	691,296	597,083	397,368	327,354	-	-	(2,117)	(1,619)	1,086,547	922,818
Cost of sales	(456,551)	(399,594)	(218,129)	(186,850)	-	-	2,132	1,628	(672,548)	(584,816)
Gross industrial margin	234,745	197,489	179,239	140,504	-	-	15	9	413,999	338,002
<i>% on net sales</i>	<i>34.0%</i>	<i>33.1%</i>	<i>45.1%</i>	<i>42.9%</i>					<i>38.1%</i>	<i>36.6%</i>
Other net revenues	10,844	9,512	6,084	4,923	-	-	(184)	(63)	16,744	14,372
Distribution costs	(56,097)	(49,476)	(46,785)	(36,983)	-	-	156	34	(102,726)	(86,425)
General and administrative expenses	(73,486)	(69,730)	(51,056)	(39,244)	(5)	(19)	13	20	(124,534)	(108,973)
Other operating costs	(3,268)	(2,653)	(1,303)	(790)	-	-	-	-	(4,571)	(3,443)
Ordinary profit before financial expenses	112,738	85,142	86,179	68,410	(5)	(19)	-	-	198,912	153,533
<i>% on net sales</i>	<i>16.3%</i>	<i>14.3%</i>	<i>21.7%</i>	<i>20.9%</i>	<i>n.s.</i>	<i>n.s.</i>			<i>18.3%</i>	<i>16.6%</i>
Financial income	5,933	6,386	10,386	3,359	-	1	(1,635)	(1,884)	14,684	7,862
Financial charges	(11,041)	(9,125)	(12,018)	(5,621)	-	-	1,635	1,884	(21,424)	(12,862)
Dividends	-	-	35,500	29,201	-	-	(35,500)	(29,201)	-	-
Adjustment of investments carried at equity	(36)	(43)	14	3	-	-	-	-	(22)	(40)
Profit for the period before taxes	107,594	82,360	120,061	95,352	(5)	(18)	(35,500)	(29,201)	192,150	148,493
Income taxes	(34,737)	(31,504)	(21,863)	(22,542)	-	26	-	-	(56,600)	(54,020)
Consolidated profit for the period	72,857	50,856	98,198	72,810	(5)	8	(35,500)	(29,201)	135,550	94,473
Pertaining to:										
Parent company's shareholders	72,150	50,384	97,625	72,659	(5)	8	(35,500)	(29,201)	134,270	93,850
Subsidiaries' minority shareholders	707	472	573	151	-	-	-	-	1,280	623
Consolidated net profit for the period	72,857	50,856	98,198	72,810	(5)	8	(35,500)	(29,201)	135,550	94,473
Further information required by IFRS 8										
Amortization, depreciation and write-downs	31,158	29,909	16,634	14,135	-	-	-	-	47,792	44,044
Other non-monetary costs	2,853	2,822	3,287	1,936	-	-	-	-	6,140	4,758

Interpump Group business sector information
(Amounts shown in €000)

Q4

	Hydraulic		Water Jetting		Other		Elimination entries		Interpump Group	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Net sales external to the Group	170,436	150,567	97,412	79,229	-	-	-	-	267,848	229,796
Sales between sectors	106	71	459	468	-	-	(565)	(539)	-	-
Total net sales	170,542	150,638	97,871	79,697	-	-	(565)	(539)	267,848	229,796
Cost of sales	(114,470)	(101,795)	(53,533)	(45,354)	-	-	574	542	(167,429)	(146,607)
Gross industrial margin	56,072	48,843	44,338	34,343	-	-	9	3	100,419	83,189
<i>% on net sales</i>	<i>32.9%</i>	<i>32.4%</i>	<i>45.3%</i>	<i>43.1%</i>					<i>37.5%</i>	<i>36.2%</i>
Other net revenues	2,918	2,721	2,097	1,152	-	-	(89)	(55)	4,926	3,818
Distribution costs	(14,529)	(12,940)	(12,162)	(10,109)	-	-	70	32	(26,621)	(23,017)
General and administrative expenses	(19,080)	(18,339)	(13,216)	(9,990)	(1)	(2)	10	20	(32,287)	(28,311)
Other operating costs	(1,631)	(738)	(737)	(449)	-	-	-	-	(2,368)	(1,187)
Ordinary profit before financial expenses	23,750	19,547	20,320	14,947	(1)	(2)	-	-	44,069	34,492
<i>% on net sales</i>	<i>13.9%</i>	<i>13.0%</i>	<i>20.8%</i>	<i>18.8%</i>	<i>n.s.</i>	<i>n.s.</i>			<i>16.5%</i>	<i>15.0%</i>
Financial income	1,694	2,033	2,571	1,179	-	-	(400)	(507)	3,865	2,705
Financial charges	(2,762)	(2,094)	(1,747)	(1,215)	-	-	400	507	(4,109)	(2,802)
Adjustment of investments carried at equity	152	(15)	12	(29)	-	-	-	-	164	(44)
Profit for the period before taxes	22,834	19,471	21,156	14,882	(1)	(2)	-	-	43,989	34,351
Income taxes	(6,923)	(8,476)	(651)	(4,953)	-	-	-	-	(7,574)	(13,429)
Consolidated profit for the period	15,911	10,995	20,505	9,929	(1)	(2)	-	-	36,415	20,922
Pertaining to:										
Parent company's shareholders	15,697	10,939	20,404	9,908	(1)	(2)	-	-	36,100	20,845
Subsidiaries' minority shareholders	214	56	101	21	-	-	-	-	315	77
Consolidated net profit for the period	15,911	10,995	20,505	9,929	(1)	(2)	-	-	36,415	20,922
Further information required by IFRS 8										
Amortization, depreciation and write-downs	7,917	7,676	3,879	4,058	-	-	-	-	11,796	11,734
Other non-monetary costs	1,503	1,537	1,170	657	-	-	-	-	2,673	2,194

Financial position
(Amounts shown in €000)

	Hydraulic		Water Jetting		Other		Elimination entries		Interpump Group	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Assets by sector	851,437	812,397	683,104	587,459	549	549	(164,306)	(174,056)	1,370,784	1,226,349
Assets held for sale	-	-	785	-	-	-	-	-	785	-
Total assets of the sector (A)	851,437	812,397	683,889	587,459	549	549	(164,306)	(174,056)	1,371,569	1,226,349
Cash and cash equivalents									144,938	197,891
Total assets									1,516,507	1,424,240
Liabilities of the sector	353,299	341,131	93,447	81,148	561	564	(164,306)	(174,056)	283,001	248,787
Liabilities held for sale	-	-	200	-	-	-	-	-	200	-
Total liabilities of the sector (B)	353,299	341,131	93,647	81,148	561	564	(164,306)	(174,056)	283,201	248,787
Debts for the payment of investments									50,266	42,761
Payables to banks									8,955	2,396
Interest-bearing financial payables									409,525	452,758
Total liabilities									751,947	746,702
Total assets, net (A-B)	498,138	471,266	590,242	506,311	(12)	(15)	-	-	1,088,368	977,562
Further information required by IFRS 8										
Investments carried at equity	362	72	255	272	-	-	-	-	617	344
Non-current assets other than financial assets and deferred tax assets	468,950	466,820	323,683	258,242	-	-	-	-	792,633	725,062

The following is a comparison by sector on a like for like basis:

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

The following table contains a like for like comparison by sector in Q4:

	Hydraulic		Water Jetting	
	2017	2016	2017	2016
Net sales external to the Group	168,905	150,567	78,475	79,229
Sales between sectors	106	71	459	468
Total net sales	169,011	150,638	78,934	79,697
Cost of sales	(113,215)	(101,795)	(44,521)	(45,354)
Gross industrial margin	55,796	48,843	34,413	34,343
<i>% on net sales</i>	<i>33.0%</i>	<i>32.4%</i>	<i>43.6%</i>	<i>43.1%</i>
Other net revenues	2,916	2,721	1,289	1,152
Distribution costs	(14,477)	(12,940)	(9,204)	(10,109)
General and administrative expenses	(18,947)	(18,339)	(10,322)	(9,990)
Other operating costs	(1,622)	(738)	(697)	(449)
Ordinary profit before financial expenses	23,666	19,547	15,479	14,947
<i>% on net sales</i>	<i>14.0%</i>	<i>13.0%</i>	<i>19.6%</i>	<i>18.8%</i>
Financial income	1,384	2,033	2,206	1,179
Financial charges	(2,769)	(2,094)	(1,200)	(1,215)
Adjustment of investments carried at equity	(296)	(15)	12	(29)
Profit for the period before taxes	21,985	19,471	16,497	14,882
Income taxes	(6,833)	(8,476)	(218)	(4,953)
Consolidated profit for the period	15,152	10,995	16,279	9,929
Pertaining to:				
Parent company's shareholders	14,938	10,939	16,260	9,908
Subsidiaries' minority shareholders	214	56	19	21
Consolidated net profit for the period	15,152	10,995	16,279	9,929

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

€000	Sector		Sector		Sector		Total	
	Hydraulic		Water Jetting		Other			
	2017	2016	2017	2016	2017	2016	2017	2016
Cash flows from:								
Operating activities	82,141	84,682	59,499	41,129	(8)	2	141,632	125,813
Investing activities	(45,918)	(37,119)	(80,662)	(37,088)	-	1	(126,580)	(74,206)
Financing activities	(47,776)	(28,170)	(22,326)	41,142	-	-	(70,102)	12,972
Total	(11,553)	19,393	(43,489)	45,183	(8)	3	(55,050)	64,579

Hydraulic Sector investing activities in 2017 include €8,090k related to the acquisition of equity interests (€13,563k in 2016), while Water Jetting Sector investing activities include €73,924k (€27,739k for the acquisition of equity investments in 2016).

2017 financing activities included net repayments of intercompany loans from the Hydraulic Sector to the Water Jetting Sector in the amount of €8,648k (€10,243k in 2016) and payments of intercompany dividends from the Hydraulic Sector to the Water Jetting Sector in the amount of €35,500k (€29,201k in 2016). Moreover, cash flows from financing activities of the Water Jetting Sector in 2016 include the outlays for the purchase of treasury shares for €43,308k (no outlay in 2017) and proceeds from the sale of treasury shares to the beneficiaries of stock options totalling €9,490k (€3,376k in 2017). The financing activities of the Water Jetting Sector in 2017 include the value of the treasury shares assigned on the acquisition of equity investments totalling €3,685k (€5,516k in 2016) and the payment of dividends for €21,748k (€20,150k in 2016).

3. Acquisition of investments

For acquisitions of equity investments of the Inoxpa Group, Bristol Hose and Mariotti & Pecini, we invite you to refer to the information already given in the Interim Board of Directors' Report for Q2. The allocation of the price paid for Fluid System '80 S.r.l., on 3 October 2017, is shown below.

Fluid System '80 S.r.l.

€000	Amounts acquired	Adjustments to fair value	Carrying values in the acquiring company
Cash and cash equivalents	238	-	238
Trade receivables	2,053	-	2,053
Inventories	690	-	690
Other current assets	279	-	279
Property, plant and equipment	36	-	36
Intangible fixed assets	4	-	4
Deferred tax assets	33	-	33
Other non-current assets	1	-	1
Trade payables	(1,596)	-	(1,596)
Financial payables to banks	(76)	-	(76)
Tax payables	(157)	-	(157)
Other current liabilities	(155)	-	(155)
Employee benefits (severance indemnity provision)	(149)	-	(149)
Net assets acquired	<u>1,201</u>	=	1,201
Negative goodwill related to the acquisition			<u>(305)</u>
Total net assets acquired (A)			<u>896</u>
Total amount paid			750
Medium/long-term payables			<u>146</u>
Total acquisition cost			<u>896</u>
Total amount paid in cash			750
Net liquidity acquired (B)			(162)
Medium/long-term payables			<u>146</u>
Total change in the net financial position including changes in debt for the acquisition of investments			<u>734</u>
Capital employed (A) + (B)			<u>734</u>

The negative goodwill was booked to financial income.

4. Inventories and detail changes in the Inventories allowance

	31/12/2017	31/12/2016
	€000	€000
Inventories gross value	324,549	286,141
Allowance for inventories	<u>(32,848)</u>	<u>(28,596)</u>
Inventories	<u>291,701</u>	<u>257,545</u>

Changes in the allowance for inventories were as follows:

	2017	2016
	€000	€000
Opening balances	28,596	27,154
Exchange rate difference	(915)	171
Change to consolidation basis	5,279	1,256
Provisions for the period	2,402	2,329
Reclassifications	(115)	-
Drawdowns in the period to cover losses	(2,399)	(2,314)
Drawdowns in the period due to surpluses	-	-
Closing balance	<u>32,848</u>	<u>28,596</u>

5. Property, plant and equipment

Purchases and disposals

In 2017 Interpump Group acquired assets for €75,671K, of which €20,133k through the acquisition of equity investments (€54,771k in 2016, of which €8,869k through the acquisition of equity investments). Assets were disposed of in 2017 for a net book value of €5,578k (€4,894k in 2016). Divested assets produced a net capital gain of €3,257k (€2,099k in 2016).

Contractual commitments

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

6. Shareholders' equity

Share capital

The share capital is composed of 108,879,294 ordinary shares with a unit face value of EUR 0.52 for a total amount of EUR 56,617,232.88. Conversely, share capital recorded in the financial statements amounts to EUR 55,805,000.00, because the nominal value of purchased treasury shares, net of those sold, has been deducted from share capital in compliance with the reference accounting standards. At 31 December 2017 Interpump Group S.p.A. held 1,561,752 treasury shares in the portfolio corresponding to 1.4344% of the share capital, acquired at an average unit cost of EUR 12.4967.

Treasury shares purchased

The amount of the treasury shares held by Interpump Group S.p.A. is recorded in an equity reserve. The Group did not acquire any treasury shares in 2017 (3,407,000 treasury shares were purchased in 2016 for €43,308k).

Treasury shares sold

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

Dividends

An ordinary dividend (coupon clipping date of 15 May) of EUR 0.20 per share was distributed on 17 May 2017 (EUR 0.19 in 2016).

7. Financial income and charges

The analysis is as follows:

	2017	2016
	€000	€000
<u>Financial income</u>		
Interest income from liquid funds	363	412
Interest income from other assets	81	65
Financial income for adjustment of estimated debt		
for commitments to purchase residual interests in subsidiaries	1,156	-
Foreign exchange gains	12,531	7,283
Earnings from valuation of derivative financial instruments	111	70
Negative goodwill of Fluid System '80	305	-
Other financial income	<u>137</u>	<u>32</u>
Total financial income	<u>14,684</u>	<u>7,862</u>
<u>Financial charges</u>		
Interest expense on loans	3,208	4,108
Interest expense on put options	629	610
Financial expenses for adjustment of estimated debt		
for commitment to purchase residual interests in subsidiaries	1,164	1,100
Tobin Tax	-	107
Foreign exchange losses	16,098	6,688
Losses from valuation of derivative financial instruments	-	27
Other financial charges	<u>325</u>	<u>222</u>
Total financial charges	<u>21,424</u>	<u>12,862</u>
Total financial charges, net	<u>6,740</u>	<u>5,000</u>

The breakdown for Q4 is as follows:

	2017	2016
	€000	€000
<u>Financial income</u>		
Interest income	115	133
Interest income from other assets	51	22
Financial income for adjustment of estimated debt for commitments to purchase residual interests in subsidiaries	1,156	-
Foreign exchange gains	2,172	2,546
Negative goodwill of Fluid System '80	305	-
Other financial income	<u>66</u>	<u>4</u>
Total financial income	<u>3,865</u>	<u>2,705</u>
<u>Financial charges</u>		
Interest expense on loans	758	957
Interest expense on put options	178	169
Foreign exchange losses	2,109	1,260
Financial expenses for adjustment of estimated debt for commitment to purchase residual interests in subsidiaries	986	316
Other financial charges	<u>78</u>	<u>100</u>
Total financial charges	<u>4,109</u>	<u>2,802</u>
Total financial charges, net	<u>244</u>	<u>97</u>

8. Earnings per share

Basic earnings per share

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

<i>Year</i>	<u>2017</u>	<u>2016</u>
Consolidated net profit for the period attributable to Parent company shareholders (€000)	<u>134,270</u>	<u>93,850</u>
Average number of shares in circulation	106,973,877	106,196,360
Basic earnings per share (€)	<u>1.255</u>	<u>0.884</u>
 <i>Q4</i>	 <u>2017</u>	 <u>2016</u>
Consolidated net profit for the period attributable to Parent company shareholders (€000)	<u>36,100</u>	<u>20,845</u>
Average number of shares in circulation	107,279,764	106,556,011
Basic earnings per share for the quarter (€)	<u>0.337</u>	<u>0.196</u>

Diluted earnings per share

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

<i>Year</i>	<u>2017</u>	<u>2016</u>
Consolidated net profit for the period attributable to Parent company shareholders (€000)	<u>134,270</u>	<u>93,850</u>
Average number of shares in circulation	106,973,877	106,196,360
Number of potential shares for stock option plans (*)	<u>1,031,352</u>	<u>419,088</u>
Average number of shares (diluted)	<u>108,005,229</u>	<u>106,615,448</u>
Diluted earnings per share (€)	<u>1.243</u>	<u>0.880</u>
<i>Q4</i>	<u>2017</u>	<u>2016</u>
Consolidated net profit for the period attributable to Parent company shareholders (€000)	<u>36,100</u>	<u>20,845</u>
Average number of shares in circulation	107,279,764	106,556,011
Number of potential shares for stock option plans (*)	<u>1,196,693</u>	<u>623,078</u>
Average number of shares (diluted)	<u>108,476,457</u>	<u>107,179,089</u>
Earnings per diluted share for the quarter (€)	<u>0.333</u>	<u>0.194</u>

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

9. Transactions with related parties

The Group has relations with unconsolidated subsidiaries and other related parties at arm's length conditions considered to be normal in the respective 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 from the interim consolidated financial statements and are not detailed in these notes.

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

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

2016

(€000)	Total	Non-consolidated subsidiaries	Associates	Other related parties	Total related parties	% incid. on caption in financial statements
Net sales	922,818	1,304	-	1,016	2,320	0.3%
Cost of sales	584,816	499	-	10,076	10,575	1.8%
Other revenues	14,372	64	-	23	87	0.6%
Distribution costs	86,425	54	-	643	697	0.8%
G&A expenses	108,973	-	-	1,582	1,582	1.5%

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

31 December 2017

(€000)	Total	Non-consolidated subsidiaries	Associates	Other related parties	Total related parties	% incid. on caption in financial statements
Trade receivables	236,761	1,631	-	949	2,580	1.1%
Other financial assets	1,145	2	-	-	2	0.2%
Trade payables	142,975	209	-	915	1,124	0.8%

31 December 2016

(€000)	Total	Non-consolidated subsidiaries	Associates	Other related parties	Total related parties	% incid. on caption in financial statements
Trade receivables	200,018	1,240	-	324	1,564	0.8%
Trade payables	109,004	19	-	310	329	0.3%

Relations with non-consolidated subsidiaries

Relations with non-consolidated subsidiaries are as follows:

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

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

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

Relations with associates

The Group does not hold investments in associated companies.

Transactions with other related parties

Transactions with other related parties regard the leasing of facilities owned by companies controlled by current shareholders and directors of Group companies for €4,761k (€4,319k in 2016), and consultancy services provided by entities connected with directors and statutory auditors of the Parent company for €331k (€84k in 2016). Rental costs were recorded under the cost of sales in the amount of €3,404k (€3,195k in 2016), under distribution costs in the amount of €667k (€335k in 2016) and under general and administrative expenses in the amount of €90k (€789k in 2016). Consultancy costs were allocated to distribution costs in the amount of €60k (€60k allocated to distribution costs also in 2016) and to general and administrative expenses in the amount of €71k (€24k in 2016). Revenues from sales at 31 December 2017 included revenues from sales to companies in which stakes are held by Group shareholders, directors and statutory auditors totalling €1,418k (€1,016k at 31 December 2016). In addition, the cost of sales includes purchases from subsidiaries by minority shareholders or Group company directors in the amount of €7,073k (€6,913k in 2016).

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

10. Disputes, Contingent liabilities and Contingent assets

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. There are no substantial changes to report in relation to the disputes or contingent liabilities in existence at 31 December 2016.