Interim Board of Directors' Report
for Q4 2018

Interpump Group S.p.A. and subsidiaries

Contents

This document can be accessed 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

Group Structure

as at 31/12/2018

all holdings 100% unless otherwise specified

Interpump Group SpA

WATER-JETTING | **HYDRAULICS**

WATER-JETTING

- 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)

HYDRAULICS

- 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

Interim Board of Directors' Report

Directors' remarks on performance in 2018

PERFORMANCE INDICATORS

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. These measures refer only to performance in the period illustrated in this Interim Board of Directors' Report and the comparative periods and not to expected performance and must not be taken to replace the indicators required by the reference accounting standards (IFRS). Finally, the alternative measures are processed with continuity and using uniform definition and representation for all the periods for which financial information is included in this Intermediate Board of Directors' 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, writedowns 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	(66,749)	(56,427)
Consolidated net profit for the year	**173,177**	**135,723**
% on net sales	*13.5%*	*12.5%*
Pertaining to:		
Parent company's shareholders	172,220	134,442
Subsidiaries' minority shareholders	957	1,281
Consolidated profit for the year	**173,177**	**135,723**
EBITDA	**288,519**	**248,648**
% on net sales	*22.6%*	*22.9%*
Shareholders' equity	868,218	764,729
Net debt	287,339	273,542
Payables for the acquisition of investments	44,527	46,815
Capital employed	1,200,084	1,085,086
ROCE	**19.7%**	**18.3%**
ROE	**19.9%**	**17.7%**
Basic earnings per share	**1.613**	**1.257**

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). The like-for-like comparison is positively influenced by the fact that the Inoxpa Group (Water Jetting Sector) was only consolidated for eleven months in 2017, having been acquired on 3 February, while it is consolidated for twelve months in 2018. The Group did not eliminate the Inoxpa Group data for January 2018 from the like-for-like consolidation, given the negligible impact of the data for just one month on the consolidation; in addition, that work would have involved considerable effort and cost, which would not have been justified by the more accurate information. 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 period.
Analyzing the geographical areas, Europe including Italy grew by 19.3%, North America by 10.4%, the Far East and Oceania by 24.5% and the Rest of the World by 22.6%. At unchanged perimeter, analysis by geographical area shows 10.5% growth 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%. In this regard, the GS Hydro Group was consolidated for the first time in 2018 following its acquisition from court-supervised administration. The companies concerned are being restructured by the Interpump Group and, accordingly, they partially dilute the EBITDA percentage. EBITDA at unchanged perimeter was 23.6% of sales, with an improvement in profitability of 0.7 percentage points that confirms the ongoing optimisation efforts made by the Group.

Net profit for 2018 was €173.2m (€135.7m in 2017) reflecting an increase of 27.6%. The consolidation of GS Hydro in 2018 generated badwill of €11.4m, classified under financial income and equivalent to the difference between the fair value of the net assets acquired and the price paid.

As mentioned, the GS Hydro Group (Hydraulics Sector), world leader in the design and production of piping systems for the industrial, naval and offshore sectors, was consolidated in 2018. GS-Hydro has revolutionised the piping sector by inventing technology for the assembly of seemless pipes. 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. Total consolidated sales of the GS Hydro Group in 2017 were €61m. The total agreed price for the acquisition is €9m. The net financial position at 31 December 2017 showed net cash of €2.5m.

Mariotti & Pecini S.r.l. (Water Jetting Sector) has been consolidated for the full year, compared with seven months previously given its purchase in early June 2017; similarly, Fluid System '80 S.r.l. (Hydraulic Sector) was purchased in October 2017 and was therefore only consolidated for three months in the prior year. In addition, Ricci Engineering S.r.l. was purchased in early August 2018 and has been consolidated for 5 months.
Fluinox Procesos S.L.U., based in Valencia (Spain), was purchased on 11 December 2018. This company designs, manufactures and installs components and systems for the cosmetics, food processing, pharmaceuticals and chemicals industries, and has specific experience in the

processing of pastes and powders, integrating perfectly with the skills and product range of Inoxpa relating to the conveyance 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 balance sheet has been consolidated at 31 December 2018, while the income statement will be consolidated from 1 January 2019.

NET SALES

Net sales in 2018 totalled €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%
Same, 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 totalled €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.

Same-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 totalled €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). Same-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 totalled €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 optimisation 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 include those 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 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 period was 27.8% (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 29.2%.

Net profit for 2018 was €173.2m (€135.7m in 2017), with an increase of 27.6%; 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 1,613 in 2018, reflecting growth of 28.3%.

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 period. ROCE was 19.7% (18.3% in 2017). ROE was 19.9% (17.7% in 2017).

CASH FLOW

The change in net financial indebtedness 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	(7)	-
Adjusted opening net financial position	**(273,549)**	**(257,263)**
Cash flow from operations	210,209	172,365
Cash flow generated (absorbed) by the management of commercial working capital	(55,189)	(32,964)
Cash flow generated (absorbed) by other current assets and liabilities	(6,229)	2,156
Investment in tangible fixed assets	(65,255)	(45,139)
Proceeds from the sale of tangible fixed assets	1,208	871
Investment in other intangible assets	(4,138)	(3,544)
Received financial income	602	534
Other	977	(727)
Free cash flow	***82,185***	***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	(54,184)	-
Receipts from the disposal of assets held for sale	785	2,714
Proceeds from the sale of treasury shares to beneficiaries of stock options	539	3,376
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 period end	**(287,339)**	**(273,542)**

Net liquidity generated by operating activities totalled €210.2m (€172.4m in 2017), reflecting an increase of 22.0%. 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 totalling €44.5m (€50.3m at 31 December 2017). Of this amount, €3.5m relates to the acquisition of equity investments (€4.6m at 31 December 2017), while €41.0m relates to contractual agreements for the acquisition of residual interests in subsidiaries (€45.7m at 31 December 2017).

CAPITAL EXPENDITURE

Expenditure on property, plant and equipment totalled €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 totalled €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.

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 10 of the Interim Consolidated Financial statements at 31 December 2018.

CHANGES IN THE GROUP STRUCTURE IN 2018

Intensive efforts were made throughout 2018 to rationalise and optimise the structure of the Group following the recent acquisitions. Apart from the acquisition of the GS Hydro Group, as described at the beginning of this report, the other operations that altered the Group's corporate structure were the absorption in Portugal of STA Portoguesa Maquinas Para Industria Alim by Inoxpa Solution Portugal (both wholly owned), the merger in Russia between Starinox and Inoxrus, with the incorporation of a new company (LTD Inoxpa), the mergers in India between Walvoil Fluid Power (India) and HC Hydraulics Technology (both wholly owned) and between Candriga Vision Process Equipment PVT Ltd and Inoxpa India Private Ltd, the absorption in France of SCI Suali by Inoxpa Solution France (both wholly owned) and, lastly, the absorption in Italy of Fluid System 80 S.r.l. by Hydroven S.r.l.

In addition, the residual 33.75% interest in Suministros Tecnicos Y Alimentarios S.L., an Inoxpa Group company, was acquired on 21 February 2018. The consideration for this transaction was 62,069 listed shares in Interpump Group S.p.A. The investment, held at 100%, was absorbed by Inoxpa S.A.U on 29 May 2018.

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, in 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.

As mentioned in the section on “Key events of 2018”, the entire equity interests in Fluinox Procesos S.L.U. and Montajes Fluinox S.L.U., a complementary company, were acquired on 11 December 2018.

KEY EVENTS AFTER THE CLOSE OF 2018

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

Directors' remarks on performance in Q4 2018

Q4 consolidated income statements

(€/000)	*2018*	*2017*
Net sales	**325,591**	**267,848**
Cost of sales	(208,247)	(167,429)
Gross industrial margin	**117,344**	**100,419**
% on net sales	*36.0%*	*37.5%*
Other operating revenues	5,180	4,926
Distribution costs	(30,764)	(26,621)
General and administrative expenses	(35,997)	(32,287)
Other operating costs	(1,327)	(2,368)
EBIT	**54,436**	**44,069**
% on net sales	*16.7%*	*16.5%*
Financial income	3,829	3,560
Financial expenses	(6,896)	(4,109)
Badwill	(538)	305
Equity method contribution	18	164
Profit for the period before taxes	**50,849**	**43,989**
Income taxes	(14,940)	(7,401)
Consolidated profit for the period	**35,909**	**36,588**
% on net sales	*11.0%*	*13.7%*
Pertaining to:		
Parent company's shareholders	35,637	36,272
Subsidiaries' minority shareholders	272	316
Consolidated profit for the period	**35,909**	**36,588**
EBITDA	**68,749**	**56,750**
% on net sales	*21.1%*	*21.2%*
Shareholders' equity	868,218	764,729
Net debt	287,339	273,542
Payables for the acquisition of investments	44,527	46,815
Capital employed	1,200,084	1,085,086
Unannualized ROCE	**4.5%**	**4.1%**
Unannualized ROE	**4.1%**	**4.8%**
Basic earnings per share	**0.336**	**0.338**

The scope of consolidation in Q4 2018 includes the GS Hydro Group and Ricci Engineering S.r.l., which were not present in Q4 2017.

NET SALES

Net sales in Q4 2018 totalled €325.6m, up by 21.6% on the €267.8m of Q4 2017 (+15.7 % at unchanged perimeter and +15.5% also net of exchange differences).

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

(€/000)	Italy	Rest of Europe	North America	Far East and Oceania	Rest of the World	Total
Q4 2018						
Hydraulic Sector	42,341	79,982	47,659	21,318	22,932	214,232
Water Jetting Sector	12,753	37,028	34,261	14,490	12,827	111,359
Total	55,094	117,010	81,920	35,808	35,759	325,591
Q4 2017						
Hydraulic Sector	38,198	60,417	38,781	14,939	18,101	170,436
Water Jetting Sector	9,441	36,923	30,280	12,363	8,405	97,412
Total	47,639	97,340	69,061	27,302	26,506	267,848
2018/2017 percentage changes						
Hydraulic Sector	+10.8%	+32.4%	+22.9%	+42.7%	+26.7%	+25.7%
Water Jetting Sector	+35.1%	+0.3%	+13.1%	+17.2%	+52.6%	+14.3%
Total	+15.6%	+20.2%	+18.6%	+31.2%	+34.9%	+21.6%
Same, at unchanged perimeter (%)						
Hydraulic Sector	+10.7%	+15.2%	+19.5%	+21.5%	+25.8%	+16.8%
Water Jetting Sector	+28.0%	+0.2%	+13.1%	+17.2%	+52.6%	+13.6%
Total	+14.2%	+9.5%	+16.7%	+19.6%	+34.3%	+15.7%

PROFITABILITY

The cost of sales accounted for 64.0% of turnover (62.5% in Q4 2017). Production costs, which totalled €88.6 million (€72.8 million in Q4 2017, which however did not include the costs of acquiring the GS Hydro Group and Ricci Engineering), accounted for 27.2% of sales (27.2% also in 2017). The purchase cost of raw materials and components sourced on the market, including changes in inventories, was €119.6m (€94.6m in the equivalent period of 2017, which however did not include the costs of acquiring the GS Hydro Group and Ricci Engineering). The incidence of purchase costs, including changes in inventories, was 36.7%, compared to 35.3% in the fourth quarter of 2017.

At unchanged perimeter, distribution costs rose by 9.1% with respect to Q4 2017, but their incidence on sales fell by 0.5 percentage points.

Same-perimeter general and administrative expenses rose by 5.7% with respect to Q4 2017, but their incidence on sales fell by 1.1 percentage points.

EBITDA totalled €68.7m (21.1% of sales) compared with €56.8m in Q4 2017, which represented 21.2% of sales, reflecting a 21.1% increase. At unchanged perimeter, EBITDA stood at 21.9%, with an improvement of 0.7 percentage points.

The following table shows EBITDA by business sector:

	Q4 2018 €/000	*% on total sales**	*Q4 2017 €/000*	*% on total sales**	*Increase/ Decrease*
Hydraulic Sector	41,149	19.2%	32,125	18.8%	+28.1%
Water Jetting Sector	27,600	24.5%	24,625	25.2%	+12.1%
Total	***68,749***	***21.1%***	***56,750***	***21.2%***	***+21.1%***

* = Total sales include those 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 was €54.4m (16.7% of sales) compared with €44.1m in Q4 2017 (16.5% of sales), reflecting an increase of 23.5%.

Q4 closed with a consolidated net profit of €35.9m (€36.6m in Q4 2017); notably, the net profit for Q4 2017 benefited by €5.7m from the change in the deferred taxes of the Group companies resident in the US, following a change in the tax rates that will apply in future years.

Basic earnings per share were EUR 0.336 compared with EUR 0.338 in Q4 2017, which was also influenced by the change in the deferred taxes of the US companies.

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 2019, 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), 13 February 2019

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 executive 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, 13 February 2019

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

Financial statements and notes

Consolidated statement of financial position

(€/000)	*Notes*	*31/12/2018*	*31/12/2017*
ASSETS			
Current assets			
Cash and cash equivalents		118,140	144,938
Trade receivables		270,364	236,761
Inventories	4	366,480	291,701
Tax receivables		24,521	15,410
Other current assets		10,929	8,302
Total current assets		**790,434**	**697,112**
Non-current assets			
Property, plant and equipment	5	355,488	321,833
Goodwill*	1	434,699	425,991
Other intangible assets		34,731	38,096
Other financial assets		2,319	1,145
Tax receivables		1,664	1,770
Deferred tax assets		28,596	24,909
Other non-current assets		2,177	2,582
Total non-current assets		**859,674**	**816,326**
Assets held for sale		-	785
Total assets		***1,650,108***	***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		177,783	142,975
Payables to banks		21,404	8,955
Interest-bearing financial payables (current portion)		151,917	166,465
Tax payables		18,907	18,541
Other current liabilities		72,294	54,038
Provisions for risks and charges		3,807	3,610
Total current liabilities		**446,112**	**394,584**
Non-current liabilities			
Interest-bearing financial payables		232,158	243,060
Liabilities for employee benefits		19,379	20,044
Deferred tax liabilities		41,559	41,504
Other non-current liabilities*		39,521	46,946
Provisions for risks and charges		3,161	3,156
Total non-current liabilities		**335,778**	**354,710**
Liabilities held for sale		-	200
Total liabilities		**781,890**	**749,494**
SHAREHOLDERS' EQUITY	6		
Share capital		54,842	55,805
Legal reserve		11,323	11,323
Share premium reserve		72,190	121,228
Reserve from remeasurement of defined benefit plans		(5,965)	(5,722)
Translation reserve		3,142	(2,475)
Other reserves		727,725	579,006
Group shareholders' equity		**863,257**	**759,165**
Minority interests		4,961	5,564
Total shareholders' equity		**868,218**	**764,729**
Total shareholders' equity and liabilities		***1,650,108***	***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		(805,295)	(672,548)
Gross industrial margin		**473,872**	**413,999**
Other net 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)
Ordinary profit before financial expenses		**236,549**	**198,912**
Financial income	7	11,427	14,379
Financial expenses	7	(19,212)	(21,424)
Badwill		11,369	305
Adjustment of the value of investments at equity		(207)	(22)
Profit for the year before taxes		**239,926**	**192,150**
Income taxes		(66,749)	(56,427)
Consolidated profit for the year		**173,177**	**135,723**
Pertaining to:			
Parent company's shareholders		172,220	134,442
Subsidiaries' minority shareholders		957	1,281
Consolidated profit for the year		**173,177**	**135,723**
Basic earnings per share	8	1.613	1.257
Diluted earnings per share	8	1.596	1.245

Comprehensive consolidated income statements

(€/000)	***2018***	***2017***
Consolidated profit for the year (A)	**173,177**	**135,723**
Other comprehensive profit (loss) that will be subsequently reclassified to consolidated profit		
Accounting for exchange risk hedging derivatives recorded in accordance with the cash flow hedging method:		
- Profit (Loss) on derivative financial instruments for the period	-	-
- Minus: Adjustment for reclassification of profits (losses) to the income statement	-	33
- Minus: Adjustment for fair value recognition of reserves in the prior period	-	-
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 profit (loss) that will be subsequently reclassified in consolidated profit for the period, 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 remeasurement of defined benefit plans	*(304)*	*(927)*
Related taxes	*72*	*219*
Total other comprehensive profit (loss) that will not be subsequently reclassified to consolidated profit (C)	**(232)**	**(708)**
Comprehensive consolidated profit for the year (A) + (B) + (C)	**178,369**	**98,726**
Pertaining to:		
Parent company's shareholders	177,594	97,794
Subsidiaries' minority shareholders	775	932
Comprehensive consolidated profit for the year	**178,369**	**98,726**

Q4 consolidated income statements

(€/000)		***2018***	***2017***
Net sales		**325,591**	**267,848**
Cost of sales		(208,247)	(167,429)
Gross industrial margin		**117,344**	**100,419**
Other net revenues		5,180	4,926
Distribution costs		(30,764)	(26,621)
General and administrative expenses		(35,997)	(32,287)
Other operating costs		(1,327)	(2,368)
Ordinary profit before financial expenses		**54,436**	**44,069**
Financial income	7	3,829	3,560
Financial expenses	7	(6,896)	(4,109)
Badwill		(538)	305
Equity method contribution		18	164
Profit for the period before taxes		**50,849**	**43,989**
Income taxes		(14,940)	(7,401)
Consolidated net profit for the period		**35,909**	**36,588**
Pertaining to:			
Parent company's shareholders		35,637	36,272
Subsidiaries' minority shareholders		272	316
Consolidated profit for the period		**35,909**	**36,588**
Basic earnings per share	8	0.336	0.338
Diluted earnings per share	8	0.333	0.334

Comprehensive consolidated income statements for Q4

(€/000)	*2018*	*2017*
Consolidated profit for Q4 (A)	**35,909**	**36,588**
Other comprehensive profit (loss) that will be subsequently reclassified to consolidated profit		
Profits (Losses) arising from the translation to euro of the financial statements of foreign companies	*4,732*	*(3,891)*
Profits (Losses) of companies carried at equity	*(13)*	*4*
Related taxes	*-*	*-*
Total other profit (loss) that will be subsequently reclassified in consolidated profit for the period, net of tax effect (B)	**4,719**	**(3,887)**
Other comprehensive profit (loss) that will not be subsequently reclassified to consolidated profit		
Profit (Loss) deriving from the remeasurement of defined benefit plans	*(304)*	*(927)*
Related taxes	*72*	*219*
Total other comprehensive profit (loss) that will not be subsequently reclassified to consolidated profit (C)	**(232)**	**(708)**
Comprehensive consolidated profit for Q4 (A) + (B) + (C)	**40,396**	**31,993**
Pertaining to:		
Parent company's shareholders	40,149	31,659
Subsidiaries' minority shareholders	247	334
Comprehensive consolidated profit for the period	**40,396**	**31,993**

Consolidated cash flow statement for the year

(€/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, losses 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 provisions for risks and employee benefits	(824)	(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
Financial expenses (Income), net	(3,584)	6,740
	285,024	**246,380**
(Increase) decrease in trade receivables and other current assets	(31,787)	(29,522)
(Increase) decrease in inventories	(62,868)	(32,603)
Increase (decrease) in trade payables and other current liabilities	33,236	31,317
Interest paid	(4,324)	(3,331)
Currency exchange gains	(1,475)	(3,370)
Taxes paid	(69,016)	(67,314)
Net cash from operating activities	**148,790**	**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	(63,764)	(44,533)
Proceeds from the sale of tangible fixed assets	1,208	871
Proceeds from the disposal of assets held for sale	785	2,714
Capital expenditure on intangible assets	(4,138)	(3,544)
Received financial income	602	534
Other	1,167	(531)
Net liquidity used in investing activities	**(83,185)**	**(122,818)**
Cash flows from financing activities		
Disbursals (repayments) of loans	(25,386)	(52,681)
Dividends paid	(23,115)	(22,310)
Outlays for purchase of treasury shares	(54,184)	-
Proceeds from the sale of treasury shares to beneficiaries of stock options	539	3,376
Disbursals (repayments) of loans from (to) shareholders	-	(50)
Loans repaid (granted) by/to non-consolidated subsidiaries	(200)	-
Change in other financial assets	(13)	83
Payment of finance leasing installments (principal portion)	(3,131)	(2,207)
Net liquidity generated (used by) financing activities	**(105,490)**	**(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)**
Exchange differences on translation of liquidity of non-EU companies	645	(4,462)
Opening cash and equivalents of companies consolidated for the first time using the line-by-line method	(7)	-
Cash and cash equivalents at beginning of period	135,983	195,495
Cash and cash equivalents at end of period	**96,736**	**135,983**

Cash and cash equivalents can be broken down as follows:

	31/12/2018 €/000	31/12/2017 €/000
Cash and cash equivalents from the balance sheet	118,140	144,938
Payables to banks (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

Statement of changes in consolidated shareholders' equity

	Share capital	*Legal reserve*	*Share premium reserve*	*Reserve for valuation of hedging derivatives at fair value*	*Reserve from remeasure-ment of defined benefit plans*	*Translation reserve*	*Other reserves*	*Group share-holders' 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 to pay 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 stock	(1,042)	-	(53,142)	-	-	-	-	(54,184)	-	(54,184)
Sale of treasury shares to the beneficiaries of stock options	47	-	492	-	-	-	-	539	-	539
Assignment of treasury shares to pay for equity investments	32	-	1,731	-	-	-	-	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	172,220	177,594	775	178,369
Balances at 31 December 2018	*54,842*	*11,323*	*72,190*	-	*(5,965)*	*3,142*	*727,725*	*863,257*	*4,961*	*868,218*

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, France, Portugal, China, India, 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 2018 were approved by the Board of Directors on this day (13 February 2019).

Basis of preparation

The consolidated financial statements at 31 December 2018 were drawn up in compliance with the international accounting standards (IAS/IFRS) endorsed by the European Union for interim financial statements (IAS 34). 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. Therefore, the interim consolidated financial statements at 31 December should be consulted together with the annual consolidated financial statements for the year ended 31 December 2017.

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 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 carried at *fair value*.

Accounting standards

The accounting standards adopted for preparation of the condensed interim consolidated financial statements are consistent with those used to prepare the consolidated financial statements at 31 December 2017, except for the adoption of the new standards and amendments in force from 1 January 2018. The Group did not opt for early adoption of any new standard, interpretation, or amendment issued but not yet in force. The Group has applied IFRS 15 *Revenue from contracts with customers* and IFRS 9 *Financial instruments* for the first time, without any effect on the interim consolidated financial statements at 31 December 2018.

a) *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 cash settlement to a payment of capital. The amendments to *IFRS 2*, which affect the Interpump Group to some extent, did not result in adjustments to the balances reflected in the 2018 economic and financial position.
- *IFRS 9 – "Financial instruments"*. On 12 November 2009 IASB published the following standard, which was subsequently amended on 28 October 2010 and again in mid-December 2011. The standard constitutes the first part of a process in stages aimed at replacing IAS 39 and introduces new criteria for the classification and measurement of financial assets and liabilities, and for derecognition of financial assets from the financial statements. The new standard is designed to simplify interpretation of financial statements and understanding of the amounts, the times and the uncertainty of the cash flows, by replacing the different categories of financial instruments provided for by IAS39. In fact, all financial assets are initially recognized at fair value, adjusted by the transaction costs, if the instrument is not recognized at fair value through profit and loss (FVTPL). However, trade receivables that do not have a significant financial component are initially measured at their transaction price, as defined by the new IFRS 15 - Revenue from contracts with customers. Debt instruments are measured on the basis of the contractual cash flows and the business model on the basis of which the instrument is held. If the instrument envisages cash flows exclusively for the payment of interest and the capital portion, it is recognized in compliance with the amortized cost method, while if, in addition to the foregoing cash flows, it involves the exchange of financial assets, it is measured at fair value in Other Comprehensive Income, with subsequent reclassification in the income statement (FVOCI). Finally, there exists an express option for recognition at fair value (FVO). Likewise, all equity instruments are initially measured at *FVTPL*, but the entity has an irrevocable option on each instrument for recognition at *FVTOCI*. All the other classifications and measurement rules contained in IAS39 have been included in the new standard IFRS 9. With regard to impairment, the IAS39 model based on losses sustained has been replaced by the ECL model (Expected Credit Loss). Finally, several new aspects are introduced in relation to Hedge Accounting, with the facility to perform a prospective efficacy and qualitative test, measuring the components of risk autonomously, if they can be identified. Application of the new standard has had a very limited effect on the Group.
- *IFRS 15 – "Revenue from contracts with customers*". The new standard replaces the previous IAS11 – "Construction contracts", IAS18 – "Revenue", IFRIC13 – "Customer loyalty contracts", IFRIC15 – "Agreements for the Construction of Real Estate", IFRIC18 – "Transfers of Assets from Customers", SIC31 – "Barter Transactions Involving Advertising Services" 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.

b) *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*").

c) *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 grants the right 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). On the date of recognition of the leasing contract also the liability for the leasing installments and the asset that the entity is entitled to use must be booked, with separate recording of the financial expenses and amortization amounts concerning the asset. The liability can be subject to 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 instalments is linked) and the resulting change must be recognized on the underlying asset. Finally, from the standpoint of the lessor the accounting model is substantially unchanged with respect to the provisions of the current IAS17. The standard must be applied with the modified retrospective method, while early application is simultaneously allowed for IFRS15. The Group has started to perform an analysis of the potential impacts that application of the new standard may have on the economic and financial situation and on the information given in the financial statements. The Group is making a detailed assessment of the effects of adopting the new standard. At 31 December 2017, the Group had commitments for rentals of €49,907k, including €13,424k due in 2018, as indicated in Note 34 to the latest approved Annual Report.
- *IFRS 17 – "Insurance contracts"*. On 18 May 2017, IASB published a new standard to replace IFRS 4, which was issued in 2004. The new standard seeks to improve the understanding of investors and others about the risk exposure, profitability and financial position of insurers. IFRS 17 is applicable from 1 January 2021, although early adoption is permitted.
- *IFRIC 23 – "Uncertainty over Income Tax Treatments*". On 8 June 2017 IASB published interpretation IFRIC 23, which clarifies the application of the requirements for recognition and measurement in IAS 12 – "Income taxes" in the case of uncertainty concerning income tax treatment. Specifically, the interpretation concerns: (i) the case wherein an entity considers uncertain tax treatments independently, (ii) the assumptions that an entity makes in relation to taxation authorities' examinations, (iii) how an entity determines its taxable profit (or tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and (iv) the way in which an entity deals with changes in facts and circumstances. The Interpretation does not add any new information requirements, although it underscores the existing requirements of IAS 1 concerning information on judgments, information on assumptions made and other estimates and information concerning tax assets and liabilities given in IAS 12 "Income taxes". The interpretation is applicable to annual reporting periods starting from 1 January 2019 or successively, and it offers a choice between two transition methods: (i) retroactive application using IAS 8 – "Accounting policies, changes in accounting estimates and errors", only if application is possible without the use of hindsight, or (ii) retroactive application with cumulative effect of the initial demand recognized as an adjustment of the components of equity at the date of the initial demand and without adjusting the comparative information. The date of the initial demand is the start of the annual reference period in which an entity applies this Interpretation for the first time. The Group is currently

assessing the implementation and impact of adoption of the interpretation on the consolidated 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 amendment will take effect as from 1 January 2019. The Group is currently assessing the impact of adoption of the interpretation on the consolidated financial statements.
- *Amendments to IAS 28 – "Long-term interests in associates and joint ventures"*. In October 2017, IASB issued *Amendments to IAS 28*, clarifying the way in which the entities should use IFRS 9 to represent long-term interests in associates or joint ventures to which the equity method is not applied. The amendment will take effect as from 1 January 2019. The Group is currently assessing the impact of adoption on the consolidated Group financial statements.
- *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 Combination)* clarifying that an entity must remeasure previously held interests in a business combination once it obtains control of the business in question, and to IFRS 11 *(Joint Arrangements)* whereby a company does not remeasure previously held interests in a business combination when it obtains joint control of the business. The changes will take effect as from 1 January 2019. Early adoption of the changes is however permitted. The Group is currently assessing the impact of adoption on the consolidated Group financial statements.
- *Amendments to IAS 19 – "Plan Amendment, Curtailment or Settlement"*. In February 2018 IASB issued *Amendments to IAS 19* which specifies the way in which entities must determine pension expenses when changes are made to a given pension plan. IAS 19 "Employee Benefits" specifies the way in which an entity should recognize a defined benefits pension plan. When a change is made to a plan – adjustment, curtailment or settlement – IAS 19 requires a company to remeasure its net defined benefit asset or liability. The amendments require a company to use the assumptions updated by this remeasurement to determine the current service cost and the net interest for remainder of the reference period after the plan has been amended. The amendments will take effect from 1 January 2019. The Group is currently assessing the impact of adoption on the consolidated Group financial statements.
- *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.

Notes to the consolidated financial statements at 31 December 2018

1. Scope of consolidation and goodwill

The perimeter of consolidation at 31 December 2018 includes the Parent company and the following subsidiaries:

Company	*Head office*	*Share capital €/000*	*Sector*	*% held at 31/12/18*
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 Corp. Sp. Z.o.o. (2)	Warsaw (Poland)	1	Water Jetting	100.00%
Inoxpa S.A.	Banyoles (Spain)	23,000	Water Jetting	100.00%
Inoxpa India Private Ltd (3)	Pune (India)	6,779	Water Jetting	100.00%
Inoxpa Solutions France (3)	Gleize (France)	2,071	Water Jetting	100.00%
Inoxpa Solution Portugal Lda (3)	Vale de Cambra (Portugal)	760	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%
LTDA Inoxpa (3)	Moscow (Russia)	1,435	Water Jetting	70.00%
Fluinox Procesos S.L.U. (3)	Valencia (Spain)	3	Water Jetting	100.00%
Montajes Fluinox S.L.U. (3)	Valencia (Spain)	4	Water Jetting	100.00%
Mariotti & Pecini S.r.l.	Sesto Fiorentino (FI)	100	Water Jetting	60.00%
Ricci Engineering S.r.l.	Orvieto (TR)	10	Water Jetting	100.00%
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. (5)	Varedo (MB)	10	Hydraulic	100.00%
Contarini Leopoldo S.r.l. (4)	Lugo (RA)	47	Hydraulic	100.00%
Unidro Contarini S.a.s. (5)	Barby (France)	8	Hydraulic	100.00%
Copa Hydrosystem Ood (5)	Troyan (Bulgaria)	3	Hydraulic	100.00%
Hydrocar Chile S.A. (4)	Santiago (Chile)	129	Hydraulic	90.00%
Hydroven S.r.l. (4)	Tezze sul Brenta (VI)	200	Hydraulic	100.00%
Interpump Hydraulics Brasil Ltda (4)	Caxia do Sul (Brazil)	13,996	Hydraulic	100.00%
Interpump Hydraulics France S.a.r.l. (4)	Ennery (France)	76	Hydraulic	99.77%
Interpump Hydraulics India Private Ltd (4)	Hosur (India)	682	Hydraulic	100.00%
Interpump Hydraulics Middle East FZE (4)	Dubai (UAE)	326	Hydraulic	100.00%

Company	*Head office*	*Share capital €/000*	*Sector*	*% held at 31/12/18*
Interpump South Africa Pty Ltd (4)	Johannesburg (South Africa)	-	Hydraulic	100.00%
Interpump Hydraulics (UK) Ltd. (4)	Kidderminster (United Kingdom)	13	Hydraulic	100.00%
Mega Pacific Pty Ltd (6)	Newcastle (Australia)	335	Hydraulic	65.00%
Mega Pacific NZ Pty Ltd (6)	Mount Maunganui (New Zealand)	557	Hydraulic	65.00%
Muncie Power Prod. Inc. (5)	Muncie (USA)	784	Hydraulic	100.00%
American Mobile Power Inc. (7)	Fairmount (USA)	3,410	Hydraulic	100.00%
Oleodinamica Panni S.r.l. (4)	Tezze sul Brenta (VI)	2,000	Hydraulic	100.00%
Wuxi Interpump Weifu Hydraulics Company Ltd (4)	Wuxi (China)	2,095	Hydraulic	65.00%
IMM Hydraulics S.p.A. (4)	Atessa (Switzerland)	520	Hydraulic	100.00%
Hypress France S.a.r.l. (8)	Strasbourg (France)	162	Hydraulic	100.00%
Hypress Hydraulik GmbH (8)	Meinerzhagen (Germany)	52	Hydraulic	100.00%
Hypress S.r.l. (8)	Atessa (Switzerland)	50	Hydraulic	100.00%
IMM Hydro Est (8)	Catcau Cluj Napoca (Romania)	3,155	Hydraulic	100.00%
Tekno Tubi S.r.l. (8)	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. (9)	Tulsa (USA)	137	Hydraulic	100.00%
Walvoil Fluid Power Shanghai Co. Ltd (9)	Shanghai (China)	1,872	Hydraulic	100.00%
Walvoil Fluid Power Pvt Ltd (9)	Bangalore (India)	4,803	Hydraulic	100.00%
Walvoil Fluid Power Korea (9)	Pyeongtaek (South Korea)	453	Hydraulic	100.00%
Walvoil Fluid Power France S.a.r.l. (9)	Vritz (France)	10	Hydraulic	100.00%
Walvoil Fluid Power Australasia (9)	Melbourne (Australia)	7	Hydraulic	100.00%
Galtech Canada Inc. (9)	Terrebonne, Quebec (Canada)	76	Hydraulic	100.00%
HTIL (9)	Hong Kong	98	Hydraulic	100.00%
Walvoil Fluid Power (Dongguan) Co., Ltd (11)	Dongguan (China)	3,720	Hydraulic	100.00%
Interpump Piping GS S.r.l.	Reggio Emilia	10	Hydraulic	100.00%
GS Hydro S.A. U. (11)	Las Rozas – Madrid (Spain)	90	Hydraulic	100.00%
GS Hydro UK Ltd (11)	Sunderland (UK)	5,095	Hydraulic	100.00%
GS Hydro Austria GmbH (11)	Pasching (Austria)	40	Hydraulic	100.00%
GS Hydro System GmbH (11)	Witten (Germany)	179	Hydraulic	100.00%
GS Hydro do Brasil Sistemas Hydraulics Ltda (11)	Rio de Janeiro (Brazil)	252	Hydraulic	100.00%
GS Hydro Denmark AbS (11)	Kolding (Denmark)	67	Hydraulic	100.00%
GS Hydro US, Inc (11)	Houston (USA)	9,903	Hydraulic	100.00%
GS Hydro Benelux B.V. (11)	Barendrecht (Netherlands)	18	Hydraulic	100.00%
GS Hydro Hong Kong Ltd (1)	Hong Kong	1	Hydraulic	100.00%
GS Hydro Piping Systems (Shanghai) Co. Ltd (12)	Shanghai (China)	2,760	Hydraulic	100.00%
GS Hydro Korea Ltd (11)	Busan (South Korea)	1,892	Hydraulic	100.00%
GS Hydro SP Z.o.o. (11)	Gydnia (Poland)	1,095	Hydraulic	100.00%
GS Hydro AB (11)	Kista (Sweden)	20	Hydraulic	100.00%
GS Hydro Singapore PTE Ltd (11)	Singapore	624	Hydraulic	100.00%
IMM Hydraulics Ltd (dormant) (6)	Kidderminster (United Kingdom)	-	Hydraulic	100.00%
E.I. Holdings Ltd (in liquidation) (6)	Bath (United Kingdom)	-	Hydraulic	100.00%
Endeavour International Ltd (in liquidation) (6)	Bath (United Kingdom)	-	Hydraulic	100.00%

Company	*Head office*	*Share capital €/000*	*Sector*	*% held at 31/12/18*
Bristol Hose Ltd (dormant) (6)	Bristol (United Kingdom)	-	Hydraulic	100.00%
Teknova S.r.l. (in liquidation)	Reggio Emilia	28	Water Jetting	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 S.p.A.
(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.

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

The companies of the GS Hydro Group (Hydraulic Sector) were consolidated for the entire year in 2018, for the first time, while Ricci Engineering S.r.l. (Water Jetting Sector) was consolidated for five months, since it was acquired on 2 August. The balance sheets of Fluinox Procesos S.L.U. and Montajes Fluinox S.L.U. have also been consolidated.

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 shareholders of Tubiflex S.p.A. are entitled and required to dispose of their 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 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 balance sheet of that company.

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

Changes in goodwill in 2018 were as follows:

Company:	Balance at 31/12/2017	Increases (Decreases) in the period	Changes due to 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 goodwill of the Water Jetting Sector at 31 December 2017 was changed in 2018, as required by IFRS 3, following adjustment of the *put option* of a subsidiary consequent to revision of the business plan that gave rise to the valuation at 31 December 2017. Since it was still less than twelve months 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 increase in the goodwill of the Water Jetting Sector was due to the acquisition of Fluinox, €7,196k, and Ricci Engineering, €183k.

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 pressure washers. These pumps are also utilized 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 and asphalt, removing 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. 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. The Group also designs and makes piping systems in the industrial, naval and offshore sectors.

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

	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 period before taxes	**141,363**	**107,594**	**114,763**	**120,056**	**(16,200)**	**(35,500)**	**239,926**	**192,150**
Income taxes	(38,225)	(34,737)	(28,524)	(21,690)	-	-	(66,749)	(56,427)
Consolidated profit for the period	**103,138**	**72,857**	**86,239**	**98,366**	**(16,200)**	**(35,500)**	**173,177**	**135,723**
Pertaining to:								
Parent company's shareholders	102,581	72,150	85,839	97,792	(16,200)	(35,500)	172,220	134,442
Subsidiaries' minority shareholders	557	707	400	574	-	-	957	1,281
Consolidated profit for the period	**103,138**	**72,857**	**86,239**	**98,366**	**(16,200)**	**(35,500)**	**173,177**	**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

Interpump Group business sector information
(Amounts shown in €/000)
<u>Q4</u>

	Hydraulic 2018	Hydraulic 2017	Water Jetting 2018	Water Jetting 2017	Elimination entries 2018	Elimination entries 2017	**Interpump Group** 2018	**Interpump Group** 2017
Net sales external to the Group	214,232	170,436	111,359	97,412	-	-	325,591	267,848
Sales between sectors	333	106	1,073	459	(1,406)	(565)	-	-
Total net sales	**214,565**	**170,542**	**112,432**	**97,871**	**(1,406)**	**(565)**	**325,591**	**267,848**
Cost of sales	(146,840)	(114,470)	(62,812)	(53,533)	1,405	574	(208,247)	(167,429)
Gross industrial margin	**67,725**	**56,072**	**49,620**	**44,338**	**(1)**	**9**	**117,344**	**100,419**
% on net sales	*31.6%*	*32.9%*	*44.1%*	*45.3%*			*36.0%*	*37.5%*
Other net revenues	3,450	2,918	2,044	2,097	(314)	(89)	5,180	4,926
Distribution costs	(17,502)	(14,529)	(13,411)	(12,162)	149	70	(30,764)	(26,621)
General and administrative expenses	(21,559)	(19,080)	(14,604)	(13,217)	166	10	(35,997)	(32,287)
Other operating costs	(777)	(1,631)	(550)	(737)	-	-	(1,327)	(2,368)
Ordinary profit before financial expenses	**31,337**	**23,750**	**23,099**	**20,319**	**-**	**-**	**54,436**	**44,069**
% on net sales	*14.6%*	*13.9%*	*20.5%*	*20.8%*			*16.7%*	*16.5%*
Financial income	1,604	1,389	2,615	2,571	(390)	(400)	3,829	3,560
Financial expenses	(5,059)	(2,762)	(2,227)	(1,747)	390	400	(6,896)	(4,109)
Badwill	(538)	305	-	-	-	-	(538)	305
Equity method contribution	60	152	(42)	12	-	-	18	164
Profit for the period before taxes	**27,404**	**22,834**	**23,445**	**21,155**	**-**	**-**	**50,849**	**43,989**
Income taxes	(8,243)	(6,923)	(6,697)	(478)	-	-	(14,940)	(7,401)
Consolidated profit for the period	**19,161**	**15,911**	**16,748**	**20,677**	**-**	**-**	**35,909**	**36,588**
Pertaining to:								
Parent company's shareholders	19,003	15,697	16,634	20,575	-	-	35,637	36,272
Subsidiaries' minority shareholders	158	214	114	102	-	-	272	316
Consolidated profit for the period	**19,161**	**15,911**	**16,748**	**20,677**	**-**	**-**	**35,909**	**36,588**

<u>Further information required by IFRS 8</u>

	Hydraulic 2018	Hydraulic 2017	Water Jetting 2018	Water Jetting 2017	Elimination entries 2018	Elimination entries 2017	Interpump Group 2018	Interpump Group 2017
Amortization, depreciation and write-downs	9,470	7,917	4,600	3,879	-	-	14,070	11,796
Other non-monetary costs	1,441	1,503	1,402	1,170	-	-	2,843	2,673

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
Sector assets*	**974,271**	**851,470**	**706,616**	**681,336**	**(148,919)**	**(164,306)**	**1,531,968**	**1,368,500**
Assets held for sale	-	-	-	785	-	-	-	785
Total sector assets (A)	**974,271**	**851,470**	**706,616**	**682,121**	**(148,919)**	**(164,306)**	**1,531,968**	**1,369,285**
Cash and cash equivalents							118,140	144,938
Total assets							**1,650,108**	**1,514,223**
Sector liabilities	**374,493**	**353,332**	**106,310**	**94,973**	**(148,919)**	**(164,306)**	**331,884**	**283,999**
Liabilities held for sale	-	-	-	200	-	-	-	200
Total sector liabilities (B)	**374,493**	**353,332**	**106,310**	**95,173**	**(148,919)**	**(164,306)**	**331,884**	**284,199**
Payables related to the acquisition of investments*							44,527	46,815
Payables to banks							21,404	8,955
Interest-bearing financial payables							384,075	409,525
Total liabilities							**781,890**	**749,494**
Total assets, net (A-B)	**599,778**	**498,138**	**600,306**	**586,948**	**-**	**-**	**1,200,084**	**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.

The full year and Q4 comparison of the Hydraulic Sector at unchanged perimeter is as follows:

	Year		Q4	
	2018	2017	2018	2017
Net sales external to the Group	781,569	690,914	199,148	170,436
Sales between sectors	784	382	333	106
Total net sales	**782,353**	**691,296**	**199,481**	**170,542**
Cost of sales	(522,850)	(456,551)	(136,016)	(114,470)
Gross industrial margin	**259,503**	**234,745**	**63,465**	**56,072**
% on net sales	*33.2%*	*34.0%*	*31.8%*	*32.9%*
Other net revenues	13,040	10,844	3,459	2,918
Distribution costs	(60,264)	(56,097)	(15,797)	(14,529)
General and administrative expenses	(74,861)	(73,486)	(19,605)	(19,080)
Other operating costs	(1,833)	(3,268)	(640)	(1,631)
Ordinary profit before financial expenses	**135,585**	**112,738**	**30,882**	**23,750**
% on net sales	*17.3%*	*16.3%*	*15.5%*	*13.9%*
Financial income	5,858	5,628	1,573	1,389
Financial expenses	(11,850)	(11,041)	(4,909)	(2,762)
Badwill	-	305	-	305
Equity method contribution	(116)	(36)	60	152
Profit for the period before taxes	**129,477**	**107,594**	**27,606**	**22,834**
Income taxes	(38,208)	(34,737)	(8,232)	(6,923)
Consolidated profit for the period	**91,269**	**72,857**	**19,374**	**15,911**
Pertaining to:				
Parent company's shareholders	90,712	72,150	19,216	15,697
Subsidiaries' minority shareholders	557	707	158	214
Consolidated profit for the period	**91,269**	**72,857**	**19,374**	**15,911**

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

€/000	Hydraulic		Water Jetting		Total	
	2018	2017	2018	2017	2018	2017
Cash flows from:						
Operating activities	81,685	82,139	67,105	59,418	148,790	141,557
Investing activities	(59,313)	(45,914)	(23,872)	(76,904)	(83,185)	(122,818)
Financing activities	(41,740)	(47,778)	(63,750)	(26,011)	(105,490)	(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 totalling €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 totalling €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).

3. Acquisition of investments

GS Hydro Group

The GS Hydro Group (Hydraulic Sector), world leader in the design and production of piping systems for the industrial, naval and offshore sectors, was consolidated for the first time in 2018. The operation was recorded using the acquisition method. The amounts stated in the following table have been changed with respect to those included in the interim report at 30 September 2018, following the identification of additional information with regard to the opening balances.

The assets and liabilities of the GS Hydro Group were as follows at the time of first consolidation:

€/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	954	-	954
Property, plant and equipment	4,958	-	4,958
Other intangible assets	395	-	395
Other financial assets	299	-	299
Deferred tax assets	1,587	-	1,587
Other non-current assets	434	-	434
Trade payables	(5,096)	-	(5,096)
Payables to banks - loans (current portion)	(581)	-	(581)
Leasing payables (current portion)	(46)	-	(46)
Tax payables	(950)	-	(950)
Other current liabilities	(3,770)	-	(3,770)
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	(194)	-	(194)
Provision for risks (non-current portion)	(30)	-	(30)
Other non-current liabilities	(466)	-	(466)
Net assets acquired	20,369	-	20,369
Badwill 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.

Ricci Engineering S.r.l.

The allocation of the price paid for Ricci Engineering S.r.l. (Water Jetting Sector) on 2 August 2018 is shown below.

€/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
Intangible assets	4	-	4
Deferred tax assets	11	-	11
Other non-current assets	4	-	4
Trade payables	(130)	-	(130)
Payables to banks	(114)	-	(114)
Payables to banks - loans (current portion)	(43)	-	(43)
Tax payables	(31)	-	(31)
Other current liabilities	(182)	-	(182)
Payables to banks - loans (non-current portion)	(139)	-	(139)
Employee benefits (severance indemnity provision)	(18)	-	(18)
Net assets acquired	417	-	417
Goodwill related to the acquisition			183
Total net assets acquired (A)			**600**
Total amount paid in cash			500
Current payables			100
Total acquisition cost			**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

The allocation of the price paid for Fluinox and Montajes (Water Jetting Sector) on 11 December 2018 is shown below.

€/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
Intangible assets	171	-	171
Deferred tax assets	116	-	116
Other non-current assets	16	-	16
Trade payables	(800)	-	(800)
Payables to banks - loans (current portion)	(194)	-	(194)
Leasing payables (current portion)	(6)	-	(6)
Tax payables	(345)	-	(345)
Other current assets - advances from customers	(2,287)	-	(2,287)
Provisions for risks and charges (current portion)	(138)	-	(138)
Payables to banks - 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 (A)			**11,161**
Total amount paid in cash			11,161
Current payables			-
Total acquisition cost			**11,161**
Total amount paid in cash			11,161
Net liquidity acquired (B)			(2,512)
Total change in the net financial position including			**8,649**
Capital employed (A) + (B)			**8,649**

4. Inventories and detail of change in the inventories allowance

	31/12/2018 €/000	*31/12/2017* €/000
Inventories gross value	403,368	324,549
Allowance for inventories	(36,888)	(32,848)
Inventories	366,480	291,701

Changes in the allowance for inventories were as follows:

	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 period	3,758	2,423
Releases in the period to cover losses	(2,877)	(2,421)
Release of excess provisions in the period	-	-
Closing balance	36,888	32,848

5. Property, plant and equipment

Purchases and disposals

In 2018 Interpump Group acquired assets for €80,943k, of which €7,520k via the acquisition of equity investments (€75,671k in 2017, of which €20,133k via the acquisition of equity investments). Assets sold in 2018 had a net carrying amount of €5,967k (€5,578k in 2017). These disposals generated a net capital gain of €4,474k (€3,257k in 2017).

Contractual commitments

At 31 December 2018 the Group has contractual commitments for the purchase of tangible fixed assets totalling €3,934k (€5,853k at 31 December 2017).

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

Treasury shares purchased

The amount of the treasury shares held by Interpump Group S.p.A. is recorded in an equity reserve. In 2018 Interpump Group purchased 2,003,806 treasury shares for €54,184k (the Group did not purchase any treasury shares in 2017).

Treasury shares sold

In the framework of the exercise of stock options, a total of 90,000 options were exercised, resulting in proceeds of €539k (570,000 options were exercised for €3,376k in 2017). Moreover, 62,069 treasury shares were assigned on the acquisition of the residual 33.75% interest in Suministros Tecnicos Y Alimentarios S.L., an Inoxpa Group company (in 2017 a total of 150,000 treasury shares were assigned in payment for equity investments).

Dividends

An ordinary dividend (coupon clipping date of 21 May) of EUR 0.21 per share was distributed on 23 May 2018 (EUR 0.20 in 2017).

7. Financial income and expenses

The analysis is as follows:

	2018 €/000	2017 €/000
Financial income		
Interest income from liquid funds	465	363
Interest income from other assets	164	95
Financial income on adjustment of 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
Other financial income	88	84
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 expenses for adjustment of 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 breakdown for Q4 is as follows:

	2018 €/000	2017 €/000
Financial income		
Interest income	133	115
Interest income from other assets	46	51
Financial income to adjust debt estimate for commitment to purchase residual interests in subsidiaries	1,021	1,195
Foreign exchange gains	2,567	2,172
Other financial income	62	27
Total financial income	3,829	3,560
Financial expenses		
Interest expense on loans	766	823
Interest expense on put options	235	178
Financial expenses for adjustment of estimated debt for commitment to purchase residual interests in subsidiaries	2,622	986
Foreign exchange losses	2,037	2,109
Other financial charges	1,236	13
Total financial expenses	6,896	4,109
Total financial expenses (income), net	3,067	549

8. Earnings per share

Basic earnings per share

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

Year	2018	2017
Consolidated net profit for the period attributable to Parent company shareholders (€/000)	172,220	134,442
Average number of shares in circulation	106,766,319	106,973,877
Basic earnings per share for the period (€)	1.613	1.257

Q4	2018	2017
Consolidated net profit for the period attributable to Parent company shareholders (€/000)	35,637	36,272
Average number of shares in circulation	106,020,005	107,279,764
Basic earnings per share for the quarter (€)	0.336	0.338

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:

Year	2018	2017
Consolidated net profit for the period attributable to Parent company shareholders (€/000)	172,220	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
Earnings per diluted share for the period (€)	1.596	1.245

Q4	2018	2017
Consolidated net profit for the period attributable to Parent company shareholders (€/000)	35,637	36,272
Average number of shares in circulation	106,020,005	107,279,764
Number of potential shares for stock option plans (*)	1,102,564	1,196,693
Average number of shares (diluted)	107,122,569	108,476,457
Earnings per diluted share for the quarter (€)	0.333	0.334

(*) 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 (as the numerator), and the average value of the share in the period (as 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 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	177,873	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-consolidated subsidiaries

Relations with non-consolidated subsidiaries are as follows:

(€/000)	Receivables		Revenues	
	31/12/2018	31/12/2017	2018	2017
Interpump Hydraulics Perù	1,012	1,003	386	298
Interpump Hydraulics Russia	566	190	1,141	190
General Pump China Inc.	641	264	902	649
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
FGA S.r.l.	46	-	601	4
MDM Saldature S.r.l.	-	107	-	138
General Pump China Inc.	46	54	688	629
Interpump Hydraulics Rus	-	21	-	125
Innovativ Gummi Tech S.r.l.	-	-	334	-
Interpump Hydraulics Perù	-	27	111	136
Total subsidiaries	*92*	*209*	*1,734*	*1,032*

(€/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 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 €4,572k (€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 totalling €1,173k (€1,418k in 2017). In addition, the cost of sales includes purchases from companies controlled by minority shareholders or Group company directors totalling €8,119k (€7,073k in 2017).

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

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 2017.