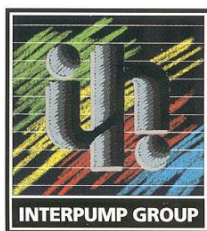


Annual financial report at 31 December 2019



PROVISIONAL ENGLISH VERSION

For the Independent Auditors' report, please refer to the original Italian document.

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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*

2019 Board of Directors' Report

Financial Highlights of the Interpump Group

	<u>31/12/2019</u>	<u>31/12/2018</u>	<u>31/12/2017</u>	<u>31/12/2016</u>	<u>31/12/2015</u>
	(€/000)	(€/000)	(€/000)	(€/000)	(€/000)
Consolidated net revenues	1,368,618	1,279,167	1,086,547	922,818	894,928
Foreign sales	84%	83%	82%	83%	85%
EBITDA	317,890	288,519	248,648	198,502	180,258
EBITDA %	23.2%	22.6%	22.9%	21.5%	20.1%
EBIT (Operating profit)	247,214	236,549	198,912	153,533	136,896
EBIT %	18.1%	18.5%	18.3%	16.6%	15.3%
Consolidated net profit	180,602	173,862	135,723	94,473	118,306
Free cash flow	124,824	82,183	93,552	89,947	85,246
Net debt ^(c)	425,100	331,866	323,808	300,024	278,196
Consolidated shareholders' equity	1,055,074	868,905	764,729	677,538	622,628
Indebtedness/EBITDA	1.17	1.15	1.30	1.51	1.54
Net capital expenditure (Capex)	73,654	68,185	47,812	36,527	28,863
Average headcount	6,921	6,472	5,750	5,016	4,830
ROE	17.1%	20.0%	17.7%	13.9%	19.0%
ROCE	16.7%	19.7%	18.3%	15.7%	15.2%
EPS - EUR	1.699	1.619	1.257	0.884	1.101
Dividend per share - EUR	0.250*	0.220	0.210	0.200	0.190

ROE: Consolidated net profit / Consolidated shareholders' equity

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

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

* = to be authorized at the Shareholders' Meeting

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

(b) Continuing operations.

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

	<u>31/12/2014</u>	<u>31/12/2013</u>	<u>31/12/2012^(a)</u>	<u>31/12/2011^(b)</u>	<u>31/12/2010</u>
	(€/000)	(€/000)	(€/000)	(€/000)	(€/000)
Consolidated net revenues	671,999	556,513	527,176	471,619	424,925
Foreign sales	86%	86%	86%	84%	80%
EBITDA	136,106	105,173	105,876	94,614	74,100
EBITDA %	20.3%	18.9%	20.1%	20.1%	17.4%
EBIT (Operating profit)	104,367	79,334	84,049	75,650	54,689
EBIT %	15.5%	14.3%	15.9%	16.0%	12.9%
Consolidated net profit	57,742	44,087	53,226	42,585	27,381
Free cash flow	38,290	34,282	38,598	28,800	56,997
Net debt ^(c)	226,044	121,384	102,552	145,975	147,759
Consolidated shareholders' equity	466,550	432,949	396,876	315,160	291,459
Indebtedness/EBITDA	1.66	1.15	0.97	1.54	1.99
Net capital expenditure (Capex)	34,142	29,278	15,839	12,153	8,478
Average headcount	3,575	2,998	2,685	2,436	2,492
ROE	12.4%	10.2%	13.4%	13.5%	9.4%
ROCE	15.1%	14.3%	16.8%	16.4%	12.5%
EPS - EUR	0.541	0.413	0.556	0.439	0.284
Dividend per share - EUR	0.180	0.170	0.170	0.120	0.110

KEY EVENTS OF 2019

Sales reached €1,368.6m, up by 7.0% compared to 2018 (+2.8% at unchanged perimeter, +1.4% also net of exchange differences). A breakdown by business sector shows a 6.9% sales increase in the Hydraulic Sector (+1.9% at unchanged perimeter, +0.8% also net of exchange differences) compared with 2018; Water Jetting Sector sales were up by 7.2% (+4.5% at unchanged perimeter, +2.5% also net of exchange differences). In geographical terms, growth in Europe including Italy was 3.6%, **with 14.2% in North America**, 9.0% in the Far East and Oceania, **and 4.8% in the Rest of the World**. The geographical breakdown at unchanged perimeter shows growth of 1.4% in Europe (including Italy), **4.9% in North America**, **6.7% in the Far East and Oceania**, and **0.3% in the Rest of the World**.

EBITDA reached €317.9m, equivalent to 23.2% of sales. In 2018, EBITDA was €288.5m (22.6% of sales). Accordingly, EBITDA rose by 10.2%. IFRS 16 came into force on 1 January 2019, involving the recognition of rentals in the same way as finance leases and, hence, recognizing the liability for total rental payments (discounted) over the contractual period and booking the right of use in the same amount under fixed assets. The right-of-use asset is depreciated over the contractual term, while the rental payments are recognized as a reduction of the debt and no longer in the income statement, in which they now appear as depreciation. Had the 2018 accounting policies been applied, 2019 EBITDA would have been €302.4m (22.1% of sales).

Net profit for 2019 totaled €180.6m (€173.9m in 2018). Notably, the results for 2018 included one-time financial income of €11.4m on the recognition of badwill. Adjusting for this non-recurring item, net profit was 11.2% higher than in 2018.

Via Muncie Power Products Inc., a subsidiary, Interpump acquired 75% of Hydra Dyne Tech. based in Ontario, Canada, on 1 March 2019. This company manufactures and markets hydraulic cylinders, valves and rotary manifolds. These products are designed and customized to meet the needs of several of the most important OEMs in the farm machinery, earth-moving and forestry sectors. The rotary manifolds, for which Hydra Dyne Tech is a recognized specialist, represent a significant extension to the range of hydraulic components offered by Interpump. Hydra Dyne Tech ended its financial year on 31 August 2018 with sales of CAD 35.8m and EBITDA of CAD 6.1m, while the net financial position was CAD 7.2m. The price agreed for the 75% interest was €15.1m. The parties also agreed put and call options for the transfer of the minority interest from 2023. Hydra Dyne was consolidated for ten months in 2019 (Hydraulic Sector).

The entire equity interest in Reggiana Riduttori was acquired on 15 October 2019. This Italian company based in San Polo d'Enza (RE) has 9 foreign branches (Australia, Brazil, Canada, China, France, India, the Netherlands, the Slovak Republic and the USA). Reggiana Riduttori is a world leader in the design and manufacture of power transmission systems: planetary gears, ratiomotors and drive wheels. The principal sectors of application are: industrial, agro-forestry, handling, lifting, marine/offshore, mining, green-wind. The operation radically extends activities in the transmission sector, where Interpump is already world leader in the production of power take-offs (PTO) for mobile hydraulic systems. The consolidated sales of Reggiana Riduttori totaled €88m in 2018, with an EBITDA of €17.2m (20% of sales). In exchange for 100% of the share capital of Reggiana Riduttori, Interpump Group assigned 3,800,000 treasury shares at a price of € 28.74 each, together with a cash payment of €15.8m. The total price paid reflects the agreed enterprise value of €125m. Reggiana Riduttori was consolidated for three months in 2019 (Hydraulic Sector).

On 27 December 2019, Interpump Group signed a binding agreement to purchase control over Transtecno, a company operating in the design, production and commercialization of gears and ratiomotors. This company based in Anzola Emilia (Bologna) has branches in China, the Netherlands, Spain, the USA and Mexico. Transtecno makes a medium-low power range of products that are used in a multitude of sectors, with specific lines designed for poultry farming, car wash systems and renewable energy (biomass boilers and solar panels). The modular design approach facilitates the optimization of distribution, reducing the need for burdensome inventories and simplifying the work of distributors. Transtecno generated consolidated sales of €45m in 2018, with an EBITDA of €8.7m. Turnover in 2019 is expected to be higher, with a positive net financial position (NFP) of at least €2m. These results make Transtecno, together with Reggiana Riduttori, one of the most profitable and solid in the Italian gear industry. The closing took place on 14 January 2020 with the acquisition of 60% of Transtecno. The price, including the NFP, was €22m plus 488,533 Interpump shares already owned by the Group. Put and call options, exercisable in two and four years, were agreed in relation to the remaining 40% interest. Transtecno will be consolidated from 1 January 2020.

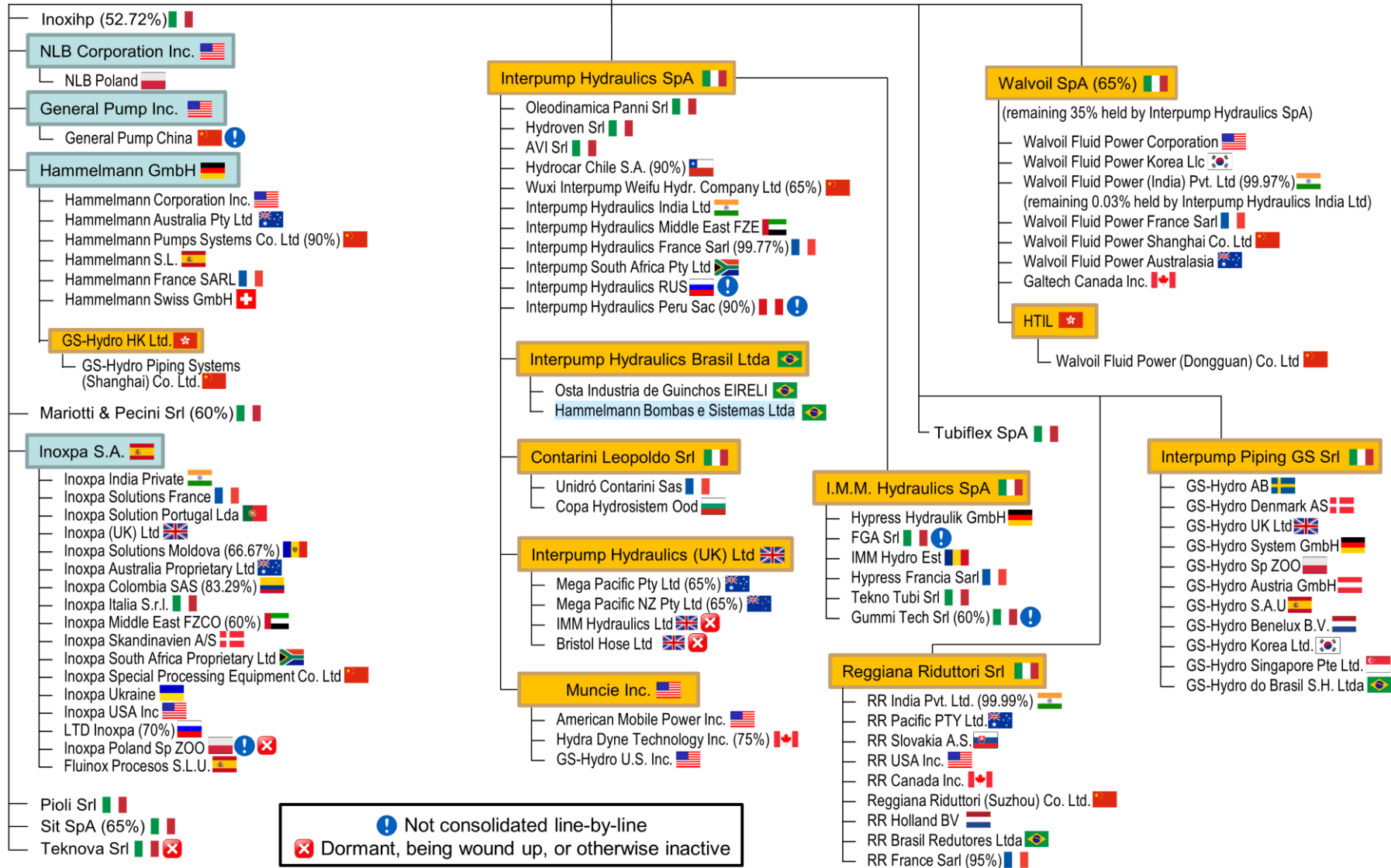
Group Structure



as at 31/12/2019

all holdings 100% unless otherwise specified

WATER-JETTING HYDRAULICS



ALTERNATIVE PERFORMANCE MEASURES

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

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

- **Earnings/(Losses) before interest and tax (EBIT):** Net sales plus Other operating income less Operating costs (Cost of sales, Distribution costs, General and administrative expenses, and Other operating costs);
- **Earnings/(Losses) before interest, tax, depreciation and amortization (EBITDA):** EBIT plus depreciation, amortization, 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 area (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

(€/000)	<u>2019</u>	<u>2018</u>
Net sales	1,368,618	1,279,167
Cost of sales	(866,701)	(805,295)
Gross industrial margin	501,917	473,872
<i>% on net sales</i>	<i>36.7%</i>	<i>37.0%</i>
Other operating revenues	20,115	19,665
Distribution costs	(124,323)	(117,660)
General and administrative expenses	(145,556)	(135,898)
Other operating costs	(4,939)	(3,430)
EBIT	247,214	236,549
<i>% on net sales</i>	<i>18.1%</i>	<i>18.5%</i>
Financial income	15,062	11,427
Financial expenses	(18,038)	(19,212)
Badwill	-	11,369
Equity method contribution	(8)	(207)
Profit for the year before taxes	244,230	239,926
Income taxes	(63,628)	(66,064)
Consolidated net profit for the year	180,602	173,862
<i>% on net sales</i>	<i>13.2%</i>	<i>13.6%</i>
Pertaining to:		
Parent company's shareholders	179,170	172,905
Subsidiaries' minority shareholders	1,432	957
Consolidated profit for the year	180,602	173,862
EBITDA	317,890	288,519
<i>% on net sales</i>	<i>23.2%</i>	<i>22.6%</i>
Shareholders' equity	1,055,074	868,905
Net debt	370,814	287,339
Payables for the acquisition of investments	54,286	44,527
Capital employed	1,480,174	1,200,771
ROCE	16.7%	19.7%
ROE	17.1%	20.0%
Basic earnings per share	1.699	1.619

NET SALES

Net sales in 2019 totaled €1,368.6m, up by 7.0% from €1,279.2m in 2018 (+2.8% at unchanged perimeter and +1.4% net also of exchange differences).

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

(€/000)	<u>Italy</u>	<u>Rest of Europe</u>	<u>North America</u>	<u>Far East and Oceania</u>	<u>Rest of the World</u>	<u>Total</u>
<i>2019</i>						
Hydraulic Sector	179,158	323,390	225,427	87,348	86,924	902,247
Water Jetting Sector	<u>41,897</u>	<u>163,579</u>	<u>145,602</u>	<u>69,446</u>	<u>45,847</u>	<u>466,371</u>
Total	<u>221,055</u>	<u>486,969</u>	<u>371,029</u>	<u>156,794</u>	<u>132,771</u>	<u>1,368,618</u>
<i>2018</i>						
Hydraulic Sector	169,162	317,148	184,519	83,358	90,109	844,296
Water Jetting Sector	<u>43,085</u>	<u>154,248</u>	<u>140,371</u>	<u>60,533</u>	<u>36,634</u>	<u>434,871</u>
Total	<u>212,247</u>	<u>471,396</u>	<u>324,890</u>	<u>143,891</u>	<u>126,743</u>	<u>1,279,167</u>
2019/2018 percentage changes						
Hydraulic Sector	+5.9%	+2.0%	+22.2%	+4.8%	-3.5%	+6.9%
Water Jetting Sector	-2.8%	+6.0%	+3.7%	+14.7%	+25.1%	+7.2%
Total	+4.1%	+3.3%	+14.2%	+9.0%	+4.8%	+7.0%
2019/2018 at unchanged perimeter (%)						
Hydraulic Sector	+4.5%	-0.1%	+6.7%	+0.8%	-4.5%	+1.9%
Water Jetting Sector	-6.8%	+3.5%	+2.6%	+14.7%	+12.3%	+4.5%
Total	+2.2%	+1.1%	+4.9%	+6.7%	+0.3%	+2.8%

PROFITABILITY

The cost of sales accounted for 63.3% of turnover (63.0% in 2018). Production costs totaled €357.8m (€335.8m in 2018, which however did not include the costs of Fluinox for twelve months, Hydra Dyne for ten months, Pioli for nine months, Ricci Engineering for seven months or Reggiana Riduttori for three months), accounting for 26.1% of sales (26.3% in 2018). The purchase cost of raw materials and components sourced on the market, including changes in inventories, was €508.9m (€469.5m in 2018, which however did not include the costs of Fluinox for twelve months, Hydra Dyne for ten months, Pioli for nine months, Ricci Engineering for seven months or Reggiana Riduttori for three months). The incidence of purchase costs, including changes in inventories, was 37.2% compared to 36.7% in 2018.

At unchanged perimeter, distribution costs rose by 2.7% with respect to 2018, while their incidence on sales was unchanged.

General and administrative expenses rose by 3.2% at unchanged perimeter with respect to 2018, while their incidence on sales was 0.1 percentage points higher.

Payroll costs totaled €319.8m (€297.2m in 2018, which however did not include the costs of Fluinox for twelve months, Hydra Dyne for ten months, Pioli for nine months, Ricci Engineering for seven months or Reggiana Riduttori for three months). At unchanged perimeter, payroll costs rose by 3.1% due to an increase of 171 in the average headcount and a 0.4% rise in

the per capita cost. The total number of Group employees in 2019 averaged 6,921 (6,642 at unchanged perimeter) compared to 6,472 persons in 2018. The increase in average headcount in 2019, net of the personnel of the newly acquired companies, breaks down as follows: plus 125 in Europe, plus 53 in the US and minus 7 in the Rest of the World.

EBITDA totaled €317.9m (23.2% of sales) compared with €288.5m in 2018, which represented 22.6% of sales, reflecting a 10.2% increase. At unchanged perimeter, EBITDA was 23.5% of sales, with an improvement in profitability of 0.9 percentage points. The following table shows EBITDA by business sector:

	<i>2019</i>	<i>% on</i>	<i>2018</i>	<i>% on</i>	<i>Increase/</i>
	<i>€/000</i>	<i>total</i>	<i>€/000</i>	<i>total</i>	<i>Decrease</i>
		<i>sales*</i>		<i>sales*</i>	
Hydraulic Sector	187,168	20.7%	171,002	20.2%	+9.5%
Water Jetting Sector	<u>130,722</u>	27.9%	<u>117,517</u>	26.9%	+11.2%
Total	<u>317,890</u>	23.2%	<u>288,519</u>	22.6%	+10.2%

* = Total sales also include sales to other Group companies, while the sales analyzed previously are exclusively those external to the group (see Note 4 to the Annual Financial Report at 31 December 2019). For comparability, the percentage is calculated on total sales, rather than the net sales shown earlier.

As already mentioned, IFRS 16 came into force on 1 January 2019, involving the recognition of rentals in the same way as finance leases. Had the 2018 accounting policies been applied, 2019 EBITDA would have been €302.4m (22.1% of sales, 22.3% at unchanged perimeter).

EBIT was not influenced much by this change in policy, amounting to €247.2m (18.1% of sales) compared with €236.5m in 2018 (18.5% of sales), reflecting an increase of 4.5%.

The tax rate for the year was 26.1% (28.9% in 2018, net of the effect of the badwill recognized as financial income).

Net profit was €180.6m in 2019 (€162.5m in 2018, net of the effect of the badwill recognized), up by 11.1%. Basic earnings per share rose from EUR 1.513 in 2018, net of the effect of the badwill recognized, to EUR 1.699 in 2019, reflecting growth of 12.3%.

CASH FLOW

The change in net debt breaks down as follows:

	2019 <u>€/000</u>	2018 <u>€/000</u>
Opening net financial position	(287,339)	(273,542)
Adjustment: effect of IFRS 16 on the initial net financial position	(68,509)	-
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	<u>(355,848)</u>	<u>(273,549)</u>
Cash flow from operations	233,063	209,753
Principal portion of leasing installments paid (IFRS 16)	(15,324)	-
Cash flow generated (absorbed) by the management of commercial working capital	(31,812)	(55,085)
Cash flow generated (absorbed) by other current assets and liabilities	11,271	(5,829)
Investment in tangible fixed assets	(72,517)	(65,174)
Proceeds from the sale of tangible fixed assets	1,936	1,127
Investment in other intangible assets	(3,073)	(4,138)
Received financial income	850	602
Other	<u>430</u>	<u>927</u>
Free cash flow	<u>124,824</u>	<u>82,183</u>
Acquisition of investments, including received debt and net of treasury shares assigned	(38,969)	(21,079)
Dividends paid	(23,876)	(23,115)
Outlays for the purchase of treasury shares	(78,993)	(54,183)
Receipts from the disposal of assets held for sale	-	785
Proceeds from the sale of treasury shares to beneficiaries of stock options	3,823	540
Principal portion of leasing installments paid (IFRS 16)	15,324	-
Principal portion of new leasing contracts arranged (IFRS 16)	(16,420)	-
Remeasurement and early close-out of leasing contracts (IFRS 16)	247	-
Loans (granted by)/repaid to non-consolidated subsidiaries	(494)	(200)
Change in other financial assets	<u>(126)</u>	<u>(13)</u>
Net cash generated (used)	<u>(14,660)</u>	<u>(15,082)</u>
Exchange differences	<u>(306)</u>	<u>1,292</u>
Closing net financial position	<u>(370,814)</u>	<u>(287,339)</u>

Adoption of IFRS 16 has involved recognizing a payable equal to the discounted contractual commitment for rental payments of €68.5m at 1 January 2019.

Net liquidity generated by operating activities totaled €233.1m (€209.8m in 2018), reflecting an increase of 11.1%. Free cash flow was €124.8m (€82.2m in 2018), up by 51.9%.

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

	31/12/2019	31/12/2018	01/01/2018
	€/000	€/000	€/000
Cash and cash equivalents	233,784	118,140	144,938
Bank payables (advances and STC amounts)	(22,076)	(21,404)	(8,955)
Interest-bearing financial payables (current portion)	(195,110)	(151,917)	(166,465)
Interest-bearing financial payables (non-current portion)	<u>(387,412)</u>	<u>(232,158)</u>	<u>(243,060)</u>
Total	<u>(370,814)</u>	<u>(287,339)</u>	<u>(273,542)</u>

The Group also has contractual commitments for the purchase of residual shareholdings in subsidiaries totaling €54.3m (€44.5m at 31 December 2018). Of this amount, €19.5m relates to the acquisition of equity investments (€3.5m at 31 December 2018), while €34.8m relates to contractual agreements for the acquisition of residual interests in subsidiaries (€41.0m at 31 December 2018).

GROUP STATEMENT OF FINANCIAL POSITION

Capital employed rose from €1,200.8m at 31 December 2018 to €1,480.2m at 31 December 2019, mainly due to the acquisitions of Hydra Dyne and Reggiana Riduttori and the recognition of usage rights as a result of applying IFRS 16. ROCE was 16.7% (19.7% in 2018). ROE was 17.1% (18.9% in 2018, net of the effect of the badwill recognized).

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

	31/12/2019	%	31/12/2018	%
	€/000		€/000	
Trade receivables	284,842		270,364	
Net inventories	408,443		366,480	
Other current assets	33,414		35,527	
Trade payables	(157,413)		(177,782)	
Short-term tax payables	(14,965)		(19,204)	
Short-term portion for provisions for risks and charges	(4,055)		(3,807)	
Other short-term liabilities	<u>(67,747)</u>		<u>(63,618)</u>	
Net working capital	<u>482,519</u>	32.6	<u>407,960</u>	34.0
Net intangible and tangible fixed assets	516,885		390,219	
Goodwill	508,670		434,699	
Other financial fixed assets	4,226		2,319	
Other non-current assets	38,419		33,617	
Liabilities for employee benefits	(21,402)		(19,377)	
Medium/long-term portion for provisions for risks and charges	(3,057)		(3,161)	
Other medium/long-term liabilities	<u>(46,086)</u>		<u>(45,505)</u>	
Total net fixed assets	<u>997,655</u>	67.4	<u>792,811</u>	66.0
Total capital employed	<u>1,480,174</u>	100	<u>1,200,771</u>	100

	31/12/2019 (€/000)	%	31/12/2018 (€/000)	%
<i>Financed by:</i>				
Group shareholders' equity	1,049,399		863,944	
Minority interests	<u>5,735</u>		<u>4,961</u>	
Total shareholders' equity	<u>1,055,074</u>	71.3	<u>868,905</u>	72.4
Cash and cash equivalents	(233,784)		(118,140)	
Bank payables	22,076		21,404	
Short-term interest-bearing financial payables	195,110		151,917	
Short-term payable for purchase of investments	<u>22,483</u>		<u>8,679</u>	
Total short term financial payables (cash)	<u>5,885</u>	0.4	<u>63,860</u>	5.3
Medium/long-term interest-bearing financial payables	387,412		232,158	
Medium/long-term payable for the acquisition of equity investments	<u>31,803</u>		<u>35,848</u>	
Total medium/long-term financial payables	<u>419,215</u>	28.3	<u>268,006</u>	22.3
Total sources of financing	<u>1,480,174</u>	100	<u>1,200,771</u>	100

Interpump Group's equity structure is balanced, with a leverage index of 0.40 (0.38 at 31 December 2018). The leverage index is calculated as the ratio between the short and medium/long-term financial payables and shareholders' equity inclusive of minority interests.

CAPITAL EXPENDITURE

Expenditure on property, plant and equipment totaled €127.6m, of which €26.8m via the acquisition of equity investments (€80.9m in 2018, of which €7.5m via the acquisition of equity investments). Certain companies in the Water Jetting Sector classify machinery manufactured and rented to customers as part of property, plant and equipment (€6.3m at 31 December 2019 and €7.9m at 31 December 2018).

Moreover, the adoption of IFRS 16 caused an increase in the starting balance of fixed assets in the amount of €68.2m due to the recognition of the right of use of leased assets. The situation is broken down in the following table.

€/000	2019	2018
Increases for the purchase of fixed assets used in the production process	78,104	64,859
Increases for machinery rented to customers	6,278	7,912
Finance leasing increases	<u>8,472</u>	<u>571</u>
	92,854	73,342
Increases on recognition of the right to use new leased assets (IFRS 16)	7,949	-
Increases through the acquisition of equity investments	<u>26,844</u>	<u>7,520</u>
Total increases in the period	<u>127,647</u>	<u>80,862</u>
Initial effect of IFRS 16	68,163	-

The increases in 2019 include €26.7m following the construction of new buildings and/or the purchase of or takeover of financial leases on property that was previously rented (€7.1m in 2018).

The difference with respect to the expenditure recorded in the cash flow statement is due to the timing of payments.

Increases in intangible assets totaled €5.8m, of which €2.6m through the acquisition of equity investments (€4.7m in 2018, including €0.6m via the acquisition of equity investments). The increase in 2019 includes €2.1m on the purchase price allocation to the Hydra Dyne brand, while the difference mainly relates to investment in the development of new products.

RESEARCH AND DEVELOPMENT

The Group considers research and development activities as one of the main factors of success and a source of competitive advantage on international markets. In 2019 the Group made significant investments, aimed at placing new product ranges on the market, at optimizing and customizing existing products, and at developing new technological and circuit solutions. In particular, the design and development of new high pressure pumps and related accessories for the Water Jetting Sector is carried out by the parent company Interpump Group S.p.A. In 2019, 12 new projects were completed concerning new pump versions, mechanical components for high and very high pressure pumps, and applications for the food processing industry; in addition, work commenced on 6 new projects. Development activities concerning new very high pressure pumps and systems for the Water Jetting sector are instead carried out by Hammelmann and Inoxihp. In 2019 Hammelmann completed 5 new projects for new families of very high pressure pumps, systems and several new projects related to accessories (two of which relating to the food processing sector), while Inoxihp developed a new compact type of high pressure, pump with very high throughput that is competitive with centrifuge solutions.

R&D activities in the Hydraulic Sector are also carried out by Walvoil, Interpump Hydraulics and IMM. 2019 saw the development of new power take-offs, valves and electro-valves, servo controls and other hydraulic components and the continued development of new technologies applied to the manufacturer of hoses, fittings and other components of higher quality and performance levels than currently available. Again in the Hydraulic sector, the newly-acquired Reggiana Riduttori expanded its range of gears in the agriculture/forestry sectors during 2019 and also developed new ancillary components for them (safety braking devices).

Group strategy over the next few years is to continue with high levels of expenditure in the area of research and development in order to assure renewed impetus to structured growth. Research costs have been capitalized in accordance with their multi-annual usefulness. Product development costs capitalized in 2019 amounted to €1,774k (€2,136k in 2018), while the costs for design personnel charged to the income statement totaled €22,818k (€20,055k in 2018).

SUSTAINABILITY

In the context of its production activities and having regard for the specific characteristics of each country in which it operates, the Group strives to build a sustainable economy that will generate benefits over the long term. The Group dedicates particular attention to the various aspects of social responsibility, as this plays an important role in the context of conducting business in a manner that safeguards the environment.

In carrying out its activities, the Interpump Group draws inspiration from the 10 principles issued by the United Nations Global Compact (UNGC) on human rights, employment, the environment and the fight against corruption.

The Group has implemented various initiatives in this context. Specifically, the Interpump Group has adopted the policies and Models outlined briefly below.

Policies

The Code of Ethics, adopted by all Group companies based on the social and cultural realities in each country, sets down principles of conduct and guidelines for sustainability (Environmental, Social & Governance), as well as the “whistle-blowing policy”, which governs the processes of reporting and managing possible improper or unlawful conduct. Top management has also deemed it appropriate to formalize Group policies with reference to the non-financial aspects of the greatest significance for IPG, taking into account the marked diversification of the companies/production sites and their independence. For further details, see the Global Competence Program described in the next heading.

Organization and management model

Given the corporate structure of the Interpump Group, composed of multiple companies, some small, working in different countries with diversified areas of business, as well as the dynamics of the Group, not least in terms of perimeter, it is not yet deemed appropriate to define a centralized model for the management of sustainability-related topics, which are currently addressed in each socio-cultural context.

Interpump Group S.p.A. has adopted an Organization and Management Model in compliance with Decree 231/01 (“231 Model”). Together with the Code of Ethics, this constitutes an additional valid instrument for promoting awareness among all collaborators, both within and external to the Company. Specifically, the 231 Model and the Code of Ethics lay down the foundations and values that guide collaborators in performance of their activities, encouraging them to behave in a proper and transparent manner consistent with the ethical-social values established by the Group in pursuit of its corporate objects and that, in any event, prevents the risk of committing the offenses envisaged in Decree 231/2001. The 231 Model has also been implemented, after using the same methodology to assess the risk of committing the offenses identified in the Model, by those Italian subsidiaries that, considering their size and organizational complexity, have relatively greater exposure to the offenses considered in Decree 231/2001.

Interpump Group has decided to implement a Global Compliance Program, with the dual objectives of, on the one hand, extending the principles of conduct and rules of behavior envisaged in the 231 Model to the foreign companies and the Italian companies within the Group that do not need to adopt that Model and, on the other, to achieve ever greater levels of compliance with all applicable regulations and legislation, by applying the spirit of legality and ethical conduct to their business activities. The Global Compliance Program defines a model for the organization and management of activities in line with International Best Practices, to prevent misconduct in the following areas: environment, social, personnel, human rights, and the fight against both active and passive corruption. The Global Compliance Program comprises guidelines that define the principles and rules of conduct to be followed, in order to organize and manage companies in a manner that complies with the applicable regulations and respects the concepts of legality and ethical conduct in the performance of business activities.

The GCP takes account of international best practices, the ten principles issued by the United Nations Global Compact (UNGC); the OECD Convention on combating the bribery of Foreign

Public Officials in international business transactions; the UN Convention against corruption and ILO Convention 138.

Several Group companies have adopted and implemented quality management systems certified in compliance with international standard EN ISO 9001; some facilities are certified to UNI ISO/TS 16949:2009. In addition, several companies have adopted and implemented environmental management systems certified in compliance with international standard EN ISO 14001:2004 – in certain cases the system update process has been launched to comply with the new requirements of standard 14001:2015 – and safety management systems certified in compliance with international standard ISO 45001.

Interpump's top management recognizes, as an essential principle, respect for the laws and regulations in force in the countries of operation of the Group companies, where they are required to comply with the laws and regulations in question without exceptions.

The Board of Directors is responsible for the strategic leadership of Corporate Social Responsibility matters within the Interpump Group, with investigative assistance from the Control and Risks Committee, while the General Product Managers are responsible for the operational implementation of individual initiatives.

Specific initiatives promoted by individual Group companies during 2019 included, in the social area: the continuation of internships/apprenticeships (work experience for school students, professional internships, curricula internships for university students), other collaboration with schools and universities and the donation of IT equipment; in the environmental area: further efforts to save energy, lower water consumption and reduce the generation of waste - including the reduction of CO2 emissions - via industrial restructuring projects (linked to Industry 4.0), the installation of PV plants, the implementation of plastic-free policies and the application of job bicycle policies for travel between home and work.

EXPOSURE TO RISKS, UNCERTAINTIES AND FINANCIAL RISK FACTORS

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

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

(a) Market risks

(i) Exchange rate risk

The Group has subsidiaries in 32 countries and converts financial statements in 25 currencies other than the euro. Accordingly, the Group is primarily exposed to the risk deriving from translation of the financial statements of the companies in question.

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

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

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

In relation to financial exposures, €10.0m of intercompany loans were disbursed and €1.5m collected during 2019 in currencies other than those utilized by the debtor companies. At 31 December 2019 loans granted in currencies other than those used by the debtor companies total €27.0m, up by €8.5m since 31 December 2018. Once again in 2019, the Group made the strategic decision not to hedge these exposures.

(ii) Interest rate risk

Interest rate risk derives from medium/long-term loans granted at floating rates. It is currently Group policy not to arrange hedges, in view of the short average duration of the existing loans (around 4 years).

(b) Credit risk

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

(c) Liquidity risk

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

(d) Price and cash flow risk

The Group is subject to constant changes in metal prices, especially brass, aluminum, steel, stainless steel and cast iron. Group policy is to hedge this risk where possible by

way of medium-term commitments with suppliers, or by means of stocking policies when prices are low, or by entering into agreements with customers to transfer the risk to them.

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

CORPORATE GOVERNANCE

In relation to corporate governance, Interpump Group's model is based on the provisions of the Code of Corporate Governance promoted by Borsa Italiana S.p.A., published in July 2018, to which Interpump Group has adhered. This report can be found in the Corporate Governance section of the website www.interpumpgroup.it.

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

Name	Company issuer	Number of shares held at the end of the prior year	Number of shares purchased/ subscribed	Number of shares sold	Number of shares held at the end of the year
<i>Fulvio Montipò</i>					
Held directly	Interpump Group S.p.A.	635,233	-	-	635,233
<i>Paolo Marinsek</i>					
Held directly	Interpump Group S.p.A.	60,000	20,000	(14,000)	66,000

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

Gruppo IPG Holding S.p.A., domiciled in Milan, held around 23.335% of Interpump Group S.p.A. at 31 December 2019, resulting in the fact that it controls the Group even though it does not perform activities of management and coordination. The resolution of the Interpump Group S.p.A. Board of Directors of 12 June 2008 acknowledges that “Interpump Group S.p.A.” is not subject to the management or coordination of the shareholder “Gruppo IPG Holding S.p.A.” because:

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

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

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

Giovanni Tamburi, non-executive director of Interpump Group S.p.A., is the Chairman and Chief Executive Officer of Tamburi Investment Partners S.p.A., a company that held 67,348 shares at 31 December 2019, representing 23.64% of Gruppo IPG Holding S.p.A. and Fulvio Montipò, Chairman and Chief Executive Officer of Interpump Group S.p.A., held 97,521 shares at 31 December 2019, representing 34.23% of Gruppo IPG Holding S.p.A., which in turn held a total of 25,406,799 shares in Interpump Group S.p.A. In addition, Gruppo IPG Holding S.p.A. held 29.89% of its own treasury shares. The remaining 12.24% of the capital was held by the Montipò family at 31 December 2019.

STOCK OPTION PLANS

With the aim of motivating Group management and promoting participation in the goal of value creation for shareholders, there are currently two stock option plans in existence, one approved at the Shareholders' Meeting of 28 April 2016 (**2016/2018** plan) and one approved at the Shareholders' Meeting of 30 April 2019 (**2019/2021** plan).

The “**2013/2015** Interpump Incentive Plan” closed during 2019 following exercise of the remaining 60,000 options, including 20,000 by Paolo Marinsek.

The Shareholders' Meeting held on 28 April 2016 approved the adoption of a new incentive plan called the “Interpump **2016/2018** Incentive Plan”. The plan, which is based on the free assignment of options that grant the beneficiaries the right, on the achievement of specified objectives, to (i) purchase or subscribe the Company's shares up to the maximum number of 2,500,000 or, (ii) at the discretion of the Board of Directors, receive the payment of a differential equivalent to any increase in the market value of the Company's ordinary shares. Beneficiaries of the plan can be employees or directors of the Company and/or its subsidiaries, identified among persons having significant roles or functions. The exercise price has been established at EUR 12.8845 per share, which was their market value on the plan approval date. The options can be exercised between 30 June 2019 and 31 December 2022. The next meeting of the Board of Directors, held on 12 May 2016, set a figure of 2,500,000 for the number of options to be assigned, divided by the total number of options in each tranche (625,000 for the first tranche, 875,000 for the second tranche and 1,000,000 for the third tranche) and established the terms for the exercise of the options, which are connected to the achievement of specific accounting parameters and the performance of Interpump Group stock. The same Board meeting also assigned 1,620,000 options, exercisable subject to the conditions described above, and granted mandates to the Chairman and the Deputy Chairman of Interpump Group, acting separately, to identify the beneficiaries of a further 880,000 options. On 6 and 29 July 2016, 13 December 2016 and 9 November 2017 a total of 531,800 options were assigned to other beneficiaries identified within the Interpump Group. The options canceled in 2019 totaled 15,000.

At 31 December 2019 the situation of the plan was as follows:

Number of rights assigned	2,151,800
Number of rights canceled	(45,000)
Number of shares purchased	<u>(268,750)</u>
Total number of options not yet exercised at 31/12/2019	<u>1,838,050</u>

The beneficiaries of the options were:

	Price per share for the exercise of options	Vesting period	Number of rights assigned, start of year	Number of rights expired in the year	Number of rights canceled in the year	Number of options exercisable at year end
<u>Directors of the Parent Company</u>						
<input type="checkbox"/> Fulvio Montipò	€ 12.8845	01.07.2019-31.12.2022	1,620,000	-	-	1,620,000
<input type="checkbox"/> Paolo Marinsek	€ 12.8845	01.07.2019-31.12.2022	65,000	-	-	65,000
Other beneficiaries (employees)	€ 12.8845	01.07.2019-31.12.2022	436,800	(268,750)	(15,000)	153,050
Total			2,121,800	(268,750)	(15,000)	1,838,050

The Shareholders' Meeting held on 30 April 2019 approved a new stock option plan entitled "2019/2021 Interpump Incentive Plan", which calls for the allocation of no more than 2,500,000 options having an exercise price of EUR 28.4952 and, for options assigned after 30 April 2020, at the official price established by Borsa Italiana on the day before the date of assignment. In its meeting of 27 June 2019, the Board of Directors assigned 1,800,000 options to Chairman and Chief Executive Officer Fulvio Montipò; subsequently 418,500 options were assigned to other beneficiaries, including Deputy Chairman Paolo Marinsek, who was assigned 65,000 options. Overall, a total of 2,218,500 options were therefore assigned. The options can be exercised from 30 June 2022 to 31 December 2025. The options canceled in 2019 totaled 30,000.

RELATIONS WITH GROUP COMPANIES AND TRANSACTIONS WITH RELATED PARTIES

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

Information on relations with related parties, including the information required by Consob communication of 28 July 2006, is given in Note 33 to the Annual Financial Report.

The Board of Directors of Interpump Group S.p.A. has approved the Procedure for Transactions with Related Parties, in application of the new legislation issued to transpose the relevant European Council Directive and the related Consob Regulation. Further information is provided in the report on corporate governance and the ownership structure, which can be found in the Corporate Governance section of the website www.interpumpgroup.it.

TREASURY SHARES

At 31 December 2019 the Parent company held 2,224,739 shares, representing 2.043% of capital, acquired at an average unit cost of EUR 24.43046.

RECONCILIATION WITH THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

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

	Shareholders' equity at 31/12/2019	Net profit for 2019	Shareholders' equity at 31/12/2018
Parent Company's financial statements	<u>457,900</u>	<u>60,151</u>	<u>395,150</u>
Difference between the book value of consolidated investments and their valuation according to the net equity method	593,366	118,519	471,221
Greater book value of a building owned by the Parent Company	182	(4)	186
Elimination of Parent Company's intercompany profits	<u>(2,109)</u>	<u>504</u>	<u>(2,613)</u>
Total consolidation adjustments	<u>591,439</u>	<u>119,019</u>	<u>468,794</u>
Consolidated shareholders' equity and net profit attributable to the owners of the Parent Company	<u>1,049,339</u>	<u>179,170</u>	<u>863,944</u>

GROUP COMPANIES

At 31 December 2019 the Interpump Group is led by Interpump Group S.p.A., which holds direct and indirect controlling interests in 103 companies (4 of which are dormant and/or in liquidation) operating in two business segments (known as the Hydraulic Sector and the Water Jetting Sector).

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

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

<u>Companies consolidated line by line</u>	<u>Share capital (€/000)</u>	<u>% held at 31/12/19</u>	<u>Head office</u>	<u>Main activity</u>	<u>Sales €/million 31/12/2019</u>	<u>Sales €/million 31/12/2018</u>	<u>Average number of employees 2019</u>	<u>Average number of employees 2018</u>
General Pump Inc.	1,854	100.00%	Minneapolis - USA	Distributor of high pressure pumps (Water Jetting Sector)	53.8	50.5	64	64
Hammelmann GmbH	25	100.00%	Oelde - Germany	High pressure systems and pumps (Water Jetting Sector)	116.8	108.9	374	363
Hammelmann Australia Pty Ltd	472	100.00%	Melbourne - Australia	Sale of high pressure systems and pumps (Water Jetting Sector)	12.1	10.6	24	23
Hammelmann Corporation Inc.	39	100.00%	Miamisburg - USA	Sale of high pressure systems and pumps (Water Jetting Sector)	20.3	22.3	29	27
Hammelmann S. L.	500	100.00%	Zaragoza - Spain	Sale of high pressure systems and pumps (Water Jetting Sector)	4.2	3.3	6	6
Hammelmann Pumps Systems Co Ltd	871	90.00%	Tianjin - China	Sale of high pressure systems and pumps (Water Jetting Sector)	16.9	13.4	22	21
Hammelmann Bombas e Sistemas Ltda	1,515	100.00%	San Paolo - Brazil	Sale of high pressure systems and pumps (Water Jetting Sector)	0.6	1.1	6	7
Hammelmann France	50	100.00%	Etrichè – France	Sale of high pressure systems and pumps (Water Jetting Sector)	3.5 a)	-	3	-
Hammelmann Swiss GmbH	89	100.00%	Dudingén - Switzerland	Sale of high pressure systems and pumps (Water Jetting Sector)	1.4 b)	-	2	-
Inoxihp S.r.l.	119	52.72%	Nova Milanese (MI)	Production and sale of very high pressure systems and pumps (Water Jetting Sector)	10.5	10.6	37	36
NLB Corporation Inc.	12	100.00%	Detroit - USA	Production and sale of very high pressure systems and pumps (Water Jetting Sector)	85.6	77.6	218	216
NLB Poland Corp. Sp. Z.o.o.	1	100.00%	Warsaw – Poland	Sale of high pressure systems and pumps (Water Jetting Sector)	1.6	1.4	2	2
Inoxpa S.A.	23,000	100.00%	Banyoles – Spain	Production and sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	46.2	46.4	177	175
Inoxpa India Private Ltd	6,779	100.00%	Pune - India	Production and sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	13.2	14.5	100	102
Inoxpa Solutions France	2,071	100.00%	Gleize – France	Production and sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	10.4	11.7	20	19
Improved Solutions Unipessoal Ltda (Portugal)	760	100.00%	Vale de Cambra – Portugal	Production and sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	5.8	5.8	38	32
Inoxpa (UK) Ltd	1,942	100.00%	Eastbourne – United Kingdom	Sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	1.1	0.9	5	5

<u>Companies consolidated line by line</u>	<u>Share capital (€/000)</u>	<u>% held at 31/12/19</u>	<u>Head office</u>	<u>Main activity</u>	<u>Sales €/million 31/12/2019</u>	<u>Sales €/million 31/12/2018</u>	<u>Average number of employees 2019</u>	<u>Average number of employees 2018</u>
Inoxpa Solutions Moldova	317	66.67%	Chisinau – Moldova	Sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	1.7	1.6	32	34
Inoxpa Australia Proprietary Ltd	584	100.00%	Capalaba – Australia	Sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	1.1	1.0	3	3
Inoxpa Colombia SAS	133	83.29%	Bogotá - Colombia	Sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	4.5	2.9	15	13
Inoxpa Italia S.r.l.	100	100.00%	Mirano (VE)	Sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	-	-	8	8
Inoxpa Middle East FZE	253	60.00%	Dubai – United Arab Emirates	Sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	0.2	0.9	3	3
Inoxpa Skandinavien A/S	134	100.00%	Horsens – Denmark	Sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	1.9	1.7	6	6
Inoxpa South Africa Proprietary Ltd	104	100.00%	Gauteng – South Africa	Sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	4.9	3.4	14	14
Inoxpa Special Processing Equipment Co. Ltd	1,647	100.00%	Jianxing – China	Sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	1.4	1.7	5	5
Inoxpa Ukraine	113	100.00%	Kiev – Ukraine	Sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	0.7	0.7	5	4
Inoxpa USA Inc.	1,426	100.00%	Santa Rosa – USA	Sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	2.3	1.8	4	3
Inxorus	-	-	Saint Petersburg – Russia	Sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	-	-	-	2
Starinox	-	-	Moscow – Russia	Sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	-	1.7	-	12
INOXPA LTD	1,435	70.00%	Podolsk - Russia	Sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	9.0	6.7	56	41
Fluinox Procesos S.L.U.	3	100.00%	Foios - Spain	Sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	10.4	- c)	65	-
Mariotti & Pecini S.r.l.	100	60.00%	Sesto Fiorentino (FI)	Production and sale of machinery for the food, chemical, cosmetics and pharmaceutical industry (Water Jetting Sector)	7.4	7.8	12	13
Ricci Engineering S.r.l.	-	-	Orvieto (TR)	Design, manufacture and installation of plant for the beer- and wine-making industry (Water Jetting Sector)	- d)	1.0	1	2
Pioli S.r.l	10	100.00%	Reggio Emilia	Galvanic treatment of metals (Water Jetting Sector)	1.8 e)	-	23	-
SIT S.p.A.	105	65.00%	S.Illario d'Enza (RE)	Sheet metal drawing, blanking, and pressing (Water Jetting Sector)	4.2	4.7	22	22
Interpump Hydraulics S.p.A.	2,632	100.00%	Calderara di Reno (BO)	Production and sale of power take-offs and hydraulic pumps (Hydraulic Sector)	89.7	88.0	299	289

<u>Companies consolidated line by line</u>	<u>Share capital (€/000)</u>	<u>% held at 31/12/19</u>	<u>Head office</u>	<u>Main activity</u>	<u>Sales €/million 31/12/2019</u>	<u>Sales €/million 31/12/2018</u>	<u>Average number of employees 2019</u>	<u>Average number of employees 2018</u>
AVI S.r.l.	10	100.00%	Varedo (MB)	Sale of ancillary products for ind. vehicles, hydraulic pumps and power take-offs (Hydraulic Sector)	5.9	5.9	13	13
Contarini Leopoldo S.r.l.	47	100.00%	Lugo (RA)	Production and sale of hydraulic cylinders (Hydraulic Sector)	25.9	26.1	112	112
Unidro Contarini S.a.s.	8	100.00%	Barby - France	Production and sale of hydraulic cylinders (Hydraulic Sector)	4.9	4.5	13	12
Copa Hydrosystem Ood	3	100.00%	Troyan - Bulgaria	Production and sale of hydraulic cylinders (Hydraulic Sector)	9.8	8.6	176	145
Hydrocar Chile S.A.	129	90.00%	Santiago - Chile	Sale of hydraulic pumps and power take-offs (Hydraulic Sector)	9.0	8.6	53	55
Hydroven S.r.l.	200	100.00%	Tezze sul Brenta (VI)	Sale of ancillary products for ind. vehicles, hydraulic pumps and power take-offs (Hydraulic Sector)	25.3	23.2	55	51
Interpump Hydraulics Brasil Ltda	14,576	100.00%	Caxia do Sul - Brazil	Production and sale of power take-offs, hydraulic pumps and cylinders (Hydraulic Sector)	9.5	9.1	116	106
Interpump Hydraulics France S.a.r.l.	76	99.77%	Ennery - France	Sale of hydraulic pumps and power take-offs (Hydraulic Sector)	5.1	4.9	15	14
Interpump Hydraulics India Private Ltd	682	100.00%	Hosur - India	Production and sale of power take-offs and hydraulic pumps (Hydraulic Sector)	17.7	22.8	115	106
Interpump Hydraulics Middle East FZE	326	100.00%	Dubai - United Arab Emirates	Sale of ancillary products for ind. vehicles, hydraulic pumps and power takeoffs (Hydraulic Sector)	1.6	1.4	3	4
Interpump South Africa Pty Ltd	-	100.00%	Johannesburg - South Africa	Production and sale of hydraulic cylinders (Hydraulic Sector)	5.8	5.9	37	35
Interpump Hydraulics (UK) Ltd.	13	100.00%	Kidderminster – United Kingdom	Sale of hydraulic pumps and power take-offs (Hydraulic Sector)	16.5	17.4	86	88
Mega Pacific Pty Ltd	335	65.00%	Newcastle – Australia	Sale of hydraulic products (Hydraulic Sector)	13.0	14.2	41	41
Mega Pacific NZ Pty Ltd	557	65.00%	Mount Maunganui – New Zealand	Sale of hydraulic products (Hydraulic Sector)	2.4	2.7	10	11
Muncie Power Prod. Inc.	784	100.00%	Muncie - USA	Power take-offs and hydraulic pumps (Hydraulic Sector)	109.2	100.7	404	371
American Mobile Power Inc.	3,410	100.00%	Fairmount - USA	Production and sale of hydraulic oil tanks (Hydraulic Sector)	14.1	12.2	87	72
Hydra Dyne Technology Inc.	80	75.00%	Ingersoll - Canada	Production and sale of hydraulic cylinders, valves and rotary manifolds (Hydraulic Sector)	21.2	f) -	120	-
Oleodinamica Panni S.r.l.	2,000	100.00%	Tezze sul Brenta (VI)	Production and sale of hydraulic cylinders (Hydraulic Sector)	60.1	57.3	247	241
Wuxi Interpump Weifu Hydraulics Company Ltd	2,095	65.00%	Wuxi - China	Production and sale of hydraulic pumps and power take-offs (Hydraulic Sector)	16.7	18.1	57	77

<u>Companies consolidated line by line</u>	<u>Share capital (€/000)</u>	<u>% held at 31/12/19</u>	<u>Head office</u>	<u>Main activity</u>	<u>Sales €/million 31/12/2019</u>	<u>Sales €/million 31/12/2018</u>	<u>Average number of employees 2019</u>	<u>Average number of employees 2018</u>
IMM Hydraulics S.p.A.	520	100.00%	Atessa (Switzerland)	Production and sale of hydraulic hoses and fittings (Hydraulic Sector)	62.2	62.6	326	281
Hypress France S.a.r.l.	162	100.00%	Strasbourg - France	Sale of hydraulic hoses and fittings (Hydraulic Sector)	3.0	2.8	8	8
Interpump Fluid Solutions Germany Gmbh	52	100.00%	Meinerzhagen - Germany	Sale of hydraulic hoses and fittings (Hydraulic Sector)	6.4	7.1	20	20
Hypress S.r.l.	-	-	Atessa (Switzerland)	Production and sale of hydraulic hoses and fittings (Hydraulic Sector)	- g)	-	-	2
IMM Hydro Est	3,155	100.00%	Catcau Cluj Napoca - Romania	Production and sale of hydraulic hoses and fittings (Hydraulic Sector)	12.0	13.5	186	188
Tekno Tubi S.r.l.	100	100.00%	Terre del Reno (FE)	Production and sale of rigid and flexible hydraulic lines (Hydraulic Sector)	15.3	15.6	85	84
Tubiflex S.p.A.	515	100.00%	Orbassano (TO)	Production and sale of flexible hoses (Hydraulic Sector)	24.0	22.6	146	144
Walvoil S.p.A.	7,692	100.00%	Reggio Emilia	Production and sale of hydraulic valves and directional controls (Hydraulic Sector)	248.4	250.5	1,210	1,147
Walvoil Fluid Power Corp.	137	100.00%	Tulsa - USA	Sale of hydraulic valves and directional controls (Hydraulic Sector)	56.6	59.2	68	68
Walvoil Fluid Power Shanghai Co. Ltd	1,872	100.00%	Shanghai - China	Sale of hydraulic valves and directional controls (Hydraulic Sector)	-	-	-	1
Walvoil Fluid Power (India) Pvt Ltd	4,803	100.00%	Bangalore - India	Production and sale of hydraulic valves and directional controls (Hydraulic Sector)	35.7	33.6	295	277
Walvoil Fluid Power Korea Llc	453	100.00%	Pyeongtaek – South Korea	Production and sale of hydraulic valves and directional controls (Hydraulic Sector)	11.9	13.0	49	48
Walvoil Fluid Power France S.a.r.l.	10	100.00%	Vritz - France	Agent for the sale of hydraulic valves and directional controls (Hydraulic Sector)	-	-	4	4
Walvoil Fluid Power Australasia	7	100.00%	Melbourne - Australia	Agent for the sale of hydraulic valves and directional controls (Hydraulic Sector)	-	-	1	1
Galtech Canada Inc.	76	100.00%	Terrebonne Quebec - Canada	Sale of hydraulic valves and directional controls (Hydraulic Sector)	4.9	4.2	17	15
HC Hydraulic Technologies (P) Ltd	-	-	Bangalore - India	Sale of hydraulic valves and directional controls (Hydraulic Sector)	-	2.9	-	24
HTIL	98	100.00%	Hong Kong	Subholding (Hydraulic Sector)	-	-	-	-
Walvoil Fluid Power Dongguan Co. Ltd	3,720	100.00%	Dongguan - China	Production and sale of hydraulic valves and directional controls (Hydraulic Sector)	17.0	18.2	114	107
Reggiana Riduttori S.r.l.	6,000	100.00%	S. Polo d'Enza (RE)	Production and sale of power transmission systems: planetary gears, ratiomotors and drive wheels.	15.0 h)	-	44	-

<u>Companies consolidated line by line</u>	<u>Share capital (€/000)</u>	<u>% held at 31/12/19</u>	<u>Head office</u>	<u>Main activity</u>	<u>Sales €/million 31/12/2019</u>	<u>Sales €/million 31/12/2018</u>	<u>Average number of employees 2019</u>	<u>Average number of employees 2018</u>
RR USA Inc.	1	100.00%	Boothwin (USA)	Sale of power transmission systems: planetary gears, ratiomotors and drive wheels.	6.7 h)	-	6	-
RR Canada Inc.	1	100.00%	Vaughan (Canada)	Sale of power transmission systems: planetary gears, ratiomotors and drive wheels.	0.9 h)	-	1	-
RR Holland BV	19	100.00%	Oosterhout (Netherlands)	Sale of power transmission systems: planetary gears, ratiomotors and drive wheels.	2.2 h)	-	4	-
RR France S.a r.l.	400	95.00%	Thouare sur Loire (France)	Sale of power transmission systems: planetary gears, ratiomotors and drive wheels.	0.9 h)	-	2	-
RR Slovakia A.S.	340	100.00%	Zvolen (Slovakia)	Production and sale of power transmission systems: planetary gears, ratiomotors and drive wheels.	0.2 h)	-	7	-
RR Brasil Redutores Ltda	169	100.00%	San Paolo (Brazil)	Sale of power transmission systems: planetary gears, ratiomotors and drive wheels.	0.2 h)	-	2	-
RR Pacific Pty	-	100.00%	Victoria (Australia)	Sale of power transmission systems: planetary gears, ratiomotors and drive wheels.	0.4 h)	-	2	-
RR India Pvt. Ltd	52	99.99%	New Delhi (India)	Sale of power transmission systems: planetary gears, ratiomotors and drive wheels.	- h)	-	1	-
Reggiana Riduttori (Suzhou) Co. Ltd	200	100.00%	Suzhou (China)	Sale of power transmission systems: planetary gears, ratiomotors and drive wheels.	-	-	1	-
Interpump Piping GS S.r.l.	10	100.00%	Reggio Emilia	Piping holding company (Hydraulic Sector)	-	-	-	-
GS-Hydro Singapore Pte Ltd	624	100.00%	Singapore	Design, production and sale of piping systems (Hydraulic Sector)	1.4	1.1	3	3
GS-Hydro Korea Ltd.	1,892	100.00%	Busan - South Korea	Design, production and sale of piping systems (Hydraulic Sector)	4.9	3.9	29	28
GS-Hydro Denmark AS	67	100.00%	Kolding - Denmark	Design, production and sale of piping systems (Hydraulic Sector)	4.6	3.2	13	12
GS-Hydro Piping Systems (Shanghai) Co. Ltd.	2,760	100.00%	Shanghai (China)	Design, production and sale of piping systems (Hydraulic Sector)	4.9	4.3	45	50
GS-Hydro Benelux B.V.	18	100.00%	Barendrecht - Netherlands	Design, production and sale of piping systems (Hydraulic Sector)	5.1	4.0	13	16
GS-Hydro Austria GmbH	40	100.00%	Pashing - Austria	Design, production and sale of piping systems (Hydraulic Sector)	7.2	7.0	23	21
GS-Hydro Sp Z O O (Poland)	1,095	100.00%	Gdynia - Poland	Design, production and sale of piping systems (Hydraulic Sector)	4.0	3.7	32	30
GS-Hydro S.A.U (Spain)	90	100.00%	Las Rozas - Spain	Design, production and sale of piping systems (Hydraulic Sector)	10.6	14.6	117	181
GS-Hydro U.S. Inc.	9,903	100.00%	Huston - USA	Design, production and sale of piping systems (Hydraulic Sector)	6.1	4.1	22	22

<u>Companies consolidated line by line</u>	Share capital (€/000)	% held at 31/12/19	Head office	Main activity	Sales €/million 31/12/2019	Sales €/million 31/12/2018	Average number of employees 2019	Average number of employees 2018
GS-Hydro do Brasil Sistemas Hidraulicos Ltda	252	100.00%	Rio de Janeiro (Brazil)	Design, production and sale of piping systems (Hydraulic Sector)	1.7	1.0	9	10
GS-Hydro System GmbH (Germany)	179	100.00%	Witten - Germany	Design, production and sale of piping systems (Hydraulic Sector)	-	-	1	1
GS- Hydro UK Ltd	5,095	100.00%	Aberdeen - United Kingdom	Design, production and sale of piping systems (Hydraulic Sector)	14.6	12.9	74	70
GS-Hydro Ab (Sweden)	20	100.00%	Kista - Sweden	Design, production and sale of piping systems (Hydraulic Sector)	2.1	1.7	7	7
GS-Hydro Hong Kong Ltd	1	100.00%	Hong Kong	Design, production and sale of piping systems (Hydraulic Sector)	0.9	1.4	-	-
Osta Industria de Guinchos EIRELI	314	100.00%	Caxia do Sul - Brazil	Production and sale of winches with applications in the industrial sector (Hydraulic Sector)	-	i)	-	-
IMM Hydraulics Ltd	-	100.00%	Kidderminster - UK	Dormant (Hydraulic Sector)	-	-	-	-
Bristol Hose Ltd	-	100.00%	Bristol - UK	Dormant (Hydraulic Sector)	-	-	-	-
Teknova S.r.l.	28	100.00%	Reggio Emilia	Dormant and in liquidation (Water Jetting Sector)	-	-	-	-
<u>Companies not consolidated line by line</u>								
General Pump China	111	100%	Ningbo – China	Marketing of components (Water Jetting Sector)				
Interpump Hydraulics Peru	318	90%	Lima - Peru	Sale of hydraulic pumps and power take-offs (Hydraulic Sector)				
Interpump Hydraulics Rus	172	100%	Moscow – Russia	Sale of hydraulic pumps and power take-offs (Hydraulic Sector)				
Inoxpa Poland Sp ZOO	12	100%	Arkonska - Poland	Inoperative (Water Jetting Sector)				
FGA S.r.l.	10	100%	Fossacesia (CH)	Surface treatments (Hydraulic Sector)				
Gummi Tech S.r.l.	25	60%	Monteprandone (AP)	Production and sale of rubber mixtures (Hydraulic Sector)				

a) = Company formed on 30 January 2019

b) = Company formed on 22 March 2019

c) = No sales in 2018 as acquired in December 2018

d) = Absorbed by Interpump Group S.p.a. on 1 April 2019; sales for 5 months in 2018

e) = Sales for 9 months in 2019

f) = Sales for 10 months in 2019

g) = Absorbed by IMM Hydraulics S.p.a. on 1 January 2019

h) = Sales for 3 months in 2019

i) = Purchased in December 2019

EVENTS OCCURRING AFTER THE END OF THE YEAR AND BUSINESS OUTLOOK

No atypical or unusual transactions have been carried out subsequent to 31 December 2019 that would call for changes to these consolidated financial statements.

Considering the short time span since 31 December 2019 and in light of the short period of time historically covered by the order portfolio, we do not yet have sufficient information to make a reliable forecast of trends in 2020, for which positive results are anyway predicted in terms of sales and profitability. The Group confirms the strategy of growth by acquisitions, which supplements the steady organic growth achieved. During the three-year period from 31 December 2019 to 31 December 2022, the Group expects:

- 1) robust overall growth in sales (about 33% higher);
- 2) the maintenance of excellent profitability, with EBITDA of around 22% of sales (taking account of likely temporary dilutions due to acquisitions);
- 3) the maintenance of prudent financial leverage (total debt of 1-1.5 times EBITDA).

With reference to the COVID-19 epidemic that broke out in China, where it is currently being brought under control, the Group - which is not present in the Wuhan area - has only felt a modest direct impact because the situation is restricted, almost entirely, to the Chinese market. The productive and commercial capacity in China was relaunched in early March, with hopes for rapid recovery. The very recent situation in Italy, expected to extend to the rest of Europe, is undoubtedly problematic and the outcome is currently difficult to foresee. Despite this, our Italian plants continue to work under near normal conditions, although everyone has adopted a series of prudent behavioral measures to contain the risk of contagion, consistent with the recommendations made by the authorities.

FURTHER INFORMATION

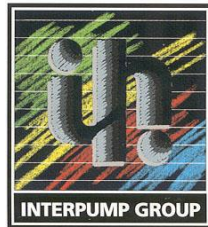
Pursuant to the regulatory requirements for listing that concern subsidiaries formed in or subject to the laws of non-EU states, Hydra Dyne Technology Inc. and RR USA Inc. have been included since 31 December 2018 among the companies of significant importance to the consolidated financial statements, following their inclusion in the audit plan, even though they have not individually exceeded the limits established in art. 151 of the Issuers' Regulation.

The Interpump Group is extremely active in making acquisitions, also of small and medium size companies, which is why it is composed of a large number of companies, including small enterprises, and has a direct presence in 32 countries. This generally means that the audit plan must be added to each year with companies that, although they do not individually exceed the limits set down in art. 151 of the Issuers' Regulation, must anyway be included in order to comply with the cumulative limits prescribed in the same article.

Sant'Ilario d'Enza (RE), 16 March 2020

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

Consolidated Financial Statements at 31/12/2019



Interpump Group S.p.A. and subsidiaries

Consolidated statement of financial position

(€/000)	<u>Notes</u>	<u>31/12/2019</u>	<u>31/12/2018</u>
ASSETS			
Current assets			
Cash and cash equivalents	6	233,784	118,140
Trade receivables	7, 29	284,842	270,364
Inventories	8	408,443	366,480
Tax receivables		24,337	24,596
Other current assets	9, 29	9,077	10,931
Total current assets		<u>960,483</u>	<u>790,511</u>
Non-current assets			
Property, plant and equipment	10	484,358	355,488
Goodwill	11	508,670	434,699
Other intangible assets	12	32,527	34,731
Other financial assets	13, 29	4,226	2,319
Tax receivables		1,590	1,664
Deferred tax assets	14	34,679	29,776
Other non-current assets		2,150	2,177
Total non-current assets		<u>1,068,200</u>	<u>860,854</u>
Total assets		<u>2,028,683</u>	<u>1,651,365</u>

(€/000)	<u>Notes</u>	<u>31/12/2019</u>	<u>31/12/2018</u>
LIABILITIES			
Current liabilities			
Trade payables	7, 29	157,413	177,782
Bank payables	15, 29	22,076	21,404
Interest-bearing financial payables (current portion)	15, 29	195,110	151,917
Tax payables		14,965	19,204
Other current liabilities	16, 29	90,230	72,297
Provisions for risks and charges	17	4,055	3,807
Total current liabilities		483,849	446,411
Non-current liabilities			
Interest-bearing financial payables	15, 29	387,412	232,158
Liabilities for employee benefits	18	21,402	19,377
Deferred tax liabilities	14	42,154	41,832
Tax payables		125	70
Other non-current liabilities	19, 29	35,610	39,451
Provisions for risks and charges	17	3,057	3,161
Total non-current liabilities		489,760	336,049
Total liabilities		973,609	782,460
SHAREHOLDERS' EQUITY			
Share capital	20	55,460	54,842
Legal reserve	21	11,323	11,323
Share premium reserve	20, 21	96,733	71,229
Reserve from remeasurement of defined benefit plans	21	(7,358)	(5,965)
Translation reserve	21	7,735	3,142
Other reserves	21	885,446	729,373
Group shareholders' equity		1,049,339	863,944
Minority interests	22	5,735	4,961
Total shareholders' equity		1,055,074	868,905
Total shareholders' equity and liabilities		2,028,683	1,651,365

Consolidated income statements

(€/000)	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Net sales		1,368,618	1,279,167
Cost of sales	24	(866,701)	(805,295)
Gross industrial margin		501,917	473,872
Other net revenues	23	20,115	19,665
Distribution costs	24	(124,323)	(117,660)
General and administrative expenses	24, 25	(145,556)	(135,898)
Other operating costs	24	(4,939)	(3,430)
Ordinary profit before financial expenses		247,214	236,549
Financial income	26	15,062	11,427
Financial expenses	26	(18,038)	(19,212)
Badwill		-	11,369
Equity method contribution		(8)	(207)
Profit for the year before taxes		244,230	239,926
Income taxes	27	(63,628)	(66,064)
Consolidated net profit for the year		180,602	173,862
Pertaining to:			
Parent company's shareholders		179,170	172,905
Subsidiaries' minority shareholders		1,432	957
Consolidated profit for the year		180,602	173,862
Basic earnings per share	28	1.699	1.619
Diluted earnings per share	28	1.683	1.602

Comprehensive consolidated income statements for the year

(€/000)	<u>2019</u>	<u>2018</u>
Consolidated profit for the year (A)	180,602	173,862
<i>Profits (Losses) arising from the translation to euro of the financial statements of foreign companies</i>	4,687	5,454
<i>Profits (Losses) of companies carried at equity</i>	5	(30)
<i>Related taxes</i>	-	-
Total other comprehensive profit (loss) that will be subsequently reclassified to consolidated profit, net of tax effect (B)	<u>4,692</u>	<u>5,424</u>
Other comprehensive profit (loss) that will not be subsequently reclassified to consolidated profit		
<i>Profit (loss) deriving from the restatement of defined benefit plans</i>	(1,840)	(304)
<i>Related taxes</i>	442	72
Total other comprehensive profit (loss) that will not be subsequently reclassified to consolidated profit, net of tax effect (C)	<u>(1,398)</u>	<u>(232)</u>
Comprehensive consolidated profit for the year (A) + (B) + (C)	<u>183,896</u>	<u>179,054</u>
Pertaining to:		
Parent company's shareholders	182,370	178,279
Subsidiaries' minority shareholders	<u>1,526</u>	<u>775</u>
Comprehensive consolidated profit for the year	<u>183,896</u>	<u>179,054</u>

Consolidated cash flow statement

(€/000)

	<u>2019</u>	<u>2018</u>
Cash flow from operating activities		
Pretax profit	244,230	239,926
Adjustments for non-cash items:		
Capital losses (gains) from the sale of fixed assets	(2,774)	(4,474)
Amortization and depreciation, loss and reinstatement of assets	69,284	50,469
Costs recognized in the income statement related to stock options that do not involve monetary outflows for the Group	2,585	1,881
Loss (profit) from equity investments	8	207
Net change in risk provisions and provisions for employee benefits	(806)	(718)
Outlays for tangible fixed assets destined for hire	(6,278)	(7,912)
Proceeds from the sale of fixed assets granted for hire	7,793	9,335
Net financial charges	2,976	(3,584)
	317,018	285,130
(Increase) decrease in trade receivables and other current assets	16,976	(33,413)
(Increase) decrease in inventories	5,270	(62,868)
Increase (decrease) in trade payables and other current liabilities	(42,788)	35,367
Interest paid	(5,507)	(4,324)
Currency exchange gains	331	(1,475)
Taxes paid	(78,779)	(69,578)
Net cash from operating activities	212,521	148,839
Cash flows from investing activities		
Outlay for the acquisition of equity investments, net of cash received and net of divested treasury stock	(24,719)	(19,045)
Capital expenditure on property, plant and equipment	(72,517)	(63,683)
Proceeds from the sale of tangible fixed assets	1,936	1,127
Proceeds from the disposal of assets held for sale	-	785
Increase in intangible assets	(3,073)	(4,138)
Received financial income	850	602
Other	413	1,114
Net liquidity used in investing activities	(97,110)	(83,238)
Cash flows from financing activities		
Disbursal (repayment) of loans	115,398	(25,384)
Dividends paid	(23,876)	(23,115)
Outlays for purchase of treasury shares	(78,993)	(54,183)
Proceeds from the sale of treasury shares to beneficiaries of stock options	3,823	540
Loans repaid (granted) by/to non-consolidated subsidiaries	(494)	(200)
Change in other financial assets	(126)	(13)
Payment of finance leasing installments (principal portion)	(16,739)	(3,131)
Net liquidity generated (used by) financing activities	(1,007)	(105,486)
Net increase (decrease) in cash and cash equivalents	114,404	(39,885)

(€/000)	<u>2019</u>	<u>2018</u>
Net increase (decrease) in cash and cash equivalents	114,404	(39,885)
Exchange differences on translation of liquidity of non-EU companies	602	645
Effect of IFRS 16 on opening cash and cash equivalents	(34)	-
Opening cash and cash equivalents of companies consolidated line by line for the first time	-	(7)
Cash and cash equivalents at beginning of year	<u>96,736</u>	<u>135,983</u>
Cash and cash equivalents at end of year	<u>211,708</u>	<u>96,736</u>

For reconciliation of cash and cash equivalents refer to Note 31.

Statement of changes in consolidated shareholders' equity

	Share capital	Legal reserve	Share premium reserve	Reserve from remeasurement of defined benefit plans	Translation reserve	Other reserves	Group shareholders' equity	Minority interests	Total
<i>Balances at 1 January 2018</i>	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)	-	(54,183)	-	-	1,042	(54,183)	-	(54,183)
Sale of treasury shares to the beneficiaries of stock options	47	-	540	-	-	(47)	540	-	540
Assignment of treasury shares as payment for equity investments	32	-	1,763	-	-	(32)	1,763	-	1,763
Purchase of residual interests in subsidiaries	-	-	-	-	-	(869)	(869)	(894)	(1,763)
Inoxpa Russia merger operation	-	-	-	-	-	(100)	(100)	100	-
Dividends paid	-	-	-	-	-	(22,532)	(22,532)	(584)	(23,116)
Comprehensive profit (loss) for 2018	-	-	-	(243)	5,617	172,905	178,279	775	179,054
<i>Balances at 31 December 2018</i>	54,842	11,323	71,229	(5,965)	3,142	729,373	863,944	4,961	868,905
Recognition in the income statement of the fair value of stock options assigned and exercisable	-	-	2,585	-	-	-	2,585	-	2,585
Purchase of treasury stock	(1,529)	-	(77,464)	-	-	-	(78,993)	-	(78,993)
Sale of treasury shares to the beneficiaries of stock options	171	-	3,652	-	-	-	3,823	-	3,823
Assignment of treasury shares as payment for equity investments	1,976	-	96,731	-	-	-	98,707	-	98,707
Minority interest in Reggiana Riduttori	-	-	-	-	-	-	-	175	175
Purchase of residual interests in subsidiaries	-	-	-	-	-	103	103	(153)	(50)
Dividends paid	-	-	-	-	-	(23,200)	(23,200)	(675)	(23,875)
Dividends declared attributable to minority interests	-	-	-	-	-	-	-	(99)	(99)
Comprehensive profit (loss) for 2019	-	-	-	(1,393)	4,593	179,170	182,370	1,526	183,896
<i>Balances at 31 December 2019</i>	55,460	11,323	96,733	(7,358)	7,735	885,446	1,049,339	5,735	1,055,074

Notes to the annual financial report

1. General information

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

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

The consolidated financial statements at 31 December 2019 were approved by the Board of Directors on this day (16 March 2020).

2. Scope of consolidation

The 2019 consolidation basis includes the Parent Company and the following subsidiaries consolidated on a line-by-line basis (with the information required on the basis of Consob communication DEM/6064293 of 28/07/2006):

<i>Company</i>	<i>Head office</i>	<i>Share capital €/000</i>	<i>Shareholders' equity €/000</i>	<i>Profit for 2019 €/000</i>	<i>% held at 31/12/2019</i>
General Pump Inc.	Minneapolis (USA)	1,854	18,178	5,995	100.00%
Hammelmann GmbH	Oelde (Germany)	25	135,311	26,696	100.00%
Hammelmann Australia Pty Ltd (1)	Melbourne (Australia)	472	5,642	1,114	100.00%
Hammelmann Corporation Inc (1)	Miamisburg (USA)	39	11,799	4,273	100.00%
Hammelmann S. L. (1)	Zaragoza (Spain)	500	1,878	901	100.00%
Hammelmann Pumps Systems Co Ltd (1)	Tianjin (China)	871	11,416	3,287	90.00%
Hammelmann Bombas e Sistemas Ltda (13)	San Paolo (Brazil)	1,515	183	(286)	100.00%
Hammelmann France S.a.r.l. (1)	Etrichè (France)	50	292	242	100.00%
Hammelmann Swiss GmbH (1)	Dudingen (Switzerland)	89	182	88	100.00%
Inoxihp S.r.l.	Nova Milanese (MI)	119	6,758	2,458	52.72%
NLB Corporation Inc.	Detroit (USA)	12	97,837	9,621	100.00%
NLB Poland Corp. Sp. Z.o.o. (2)	Warsaw (Poland)	1	(1,176)	(374)	100.00%
Inoxpa S.A.	Banyoles (Spain)	23,000	52,389	10,278	100.00%
Inoxpa India Private Ltd (3)	Pune (India)	6,779	11,691	1,590	100.00%
Inoxpa Solutions France (3)	Gleize (France)	2,071	3,884	1,320	100.00%
Improved Solutions Unipessoal Ltda (Portugal)	Vale de Cambra (Portugal)	760	2,462	455	100.00%
Inoxpa (UK) Ltd (3)	Eastbourne (UK)	1,942	137	(1)	100.00%
Inoxpa Solutions Moldova (3)	Chisinau (Moldova)	317	583	49	66.67%
Inoxpa Australia Proprietary Ltd (3)	Capalaba (Australia)	584	211	45	100.00%
Inoxpa Colombia SAS (3)	Bogotá (Colombia)	133	823	388	83.29%
Inoxpa Italia S.r.l. (3)	Mirano (VE)	100	459	66	100.00%
Inoxpa Middle East FZCO (3)	Dubai (UAE)	253	255	(72)	60.00%
Inoxpa Skandinavien A/S (3)	Horsens (Denmark)	134	751	204	100.00%
Inoxpa South Africa Proprietary Ltd (3)	Gauteng (South Africa)	104	1,103	569	100.00%
Inoxpa Special Processing Equipment Co. Ltd (3)	Jianxing (China)	1,647	1,126	104	100.00%

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<i>Company</i>	<i>Head office</i>	<i>Share capital</i>	<i>Shareholders' equity</i>	<i>Profit for 2019</i>	<i>% held at 31/12/2019</i>
		<i>€/000</i>	<i>€/000</i>	<i>€/000</i>	
Inoxpa Ukraine (3)	Kiev (Ukraine)	113	336	60	100.00%
Inoxpa USA Inc (3)	Santa Rosa (USA)	1,426	1,240	184	100.00%
INOXPA LTD (Russia) (3)	Podolsk (Russia)	1,435	3,758	888	70.00%
Fluinox Procesos S.L.U (3)	Foios (Spain)	3	5,360	1,570	100.00%
Mariotti & Pecini S.r.l.	Sesto Fiorentino (FI)	100	2,672	1,445	60.00%
Pioli S.r.l.	Reggio Emilia	10	1,516	246	100.00%
SIT S.p.A.	S. Ilario d'Enza (RE)	105	1,332	35	65.00%
Teknova S.r.l. (in liquidation)	Reggio Emilia	28	17	(6)	100.00%
Interpump Hydraulics S.p.A.	Calderara di Reno (BO)	2,632	200,662	26,196	100.00%
AVI S.r.l. (4)	Varedo (MB)	10	1,179	426	100.00%
Contarini Leopoldo S.r.l. (4)	Lugo (RA)	47	8,807	2,889	100.00%
Unidro Contarini S.a.s. (5)	Barby (France)	8	2,673	587	100.00%
Copa Hydrosystem Ood (5)	Troyan (Bulgaria)	3	7,506	978	100.00%
Hydrocar Chile S.A. (4)	Santiago (Chile)	129	5,042	485	90.00%
Hydroven S.r.l. (4)	Tezze sul Brenta (VI)	200	6,822	2,506	100.00%
Interpump Hydraulics Brasil Ltda (4)	Caxia do Sul (Brazil)	14,576	7,835	(713)	100.00%
Interpump Hydraulics France S.a.r.l. (4)	Ennery (France)	76	1,515	419	99.77%
Interpump Hydraulics India Private Ltd (4)	Hosur (India)	682	13,918	1,623	100.00%
Interpump Hydraulics Middle East FZE (4)	Dubai (UAE)	326	(110)	(76)	100.00%
Interpump South Africa Pty Ltd (4)	Johannesburg (South Africa)	-	2,459	253	100.00%
Interpump Hydraulics (UK) Ltd. (4)	Kidderminster (United Kingdom)	13	14,501	1,537	100.00%
Mega Pacific Pty Ltd (6)	Newcastle (Australia)	335	5,908	1,577	65.00%
Mega Pacific NZ Pty Ltd (6)	Mount Maunganui (New Zealand)	557	1,846	375	65.00%
Muncie Power Prod. Inc. (4)	Muncie (USA)	784	94,483	17,260	100.00%
American Mobile Power Inc. (7)	Fairmount (USA)	3,410	7,073	2,355	100.00%
Hydra Dyne Tech Inc (7)	Ingersoll (Canada)	80	8,702	1,462	75.00%
Oleodinamica Panni S.r.l. (4)	Tezze sul Brenta (VI)	2,000	26,930	7,813	100.00%
Wuxi Interpump Weifu Hydraulics Comp. Ltd (4)	Wuxi (China)	2,095	7,600	1,822	65.00%
IMM Hydraulics S.p.A. (4)	Atessa (Switzerland)	520	44,402	5,876	100.00%
Hypress France S.a.r.l. (8)	Strasbourg (France)	162	1,937	321	100.00%
Interpump Fluid Solutions Germany GmbH (8)	Meinerzhagen (Germany)	52	1,297	(183)	100.00%
IMM Hydro Est (8)	Catcau Cluj Napoca (Romania)	3,155	9,428	885	100.00%
Tekno Tubi S.r.l. (8)	Terre del Reno (FE)	100	6,791	1,323	100.00%
Tubiflex S.p.A.	Orbassano (TO)	515	13,927	3,732	100.00%
Walvoil S.p.A.	Reggio Emilia	7,692	170,626	38,858	100.00%
Walvoil Fluid Power Corp. (9)	Tulsa (USA)	137	20,523	5,969	100.00%
Walvoil Fluid Power Shanghai Co. Ltd (9)	Shanghai (China)	1,872	2,452	(1)	100.00%
Walvoil Fluid Power (India) Pvt. Ltd. (9)	Bangalore (India)	4,803	24,158	3,450	100.00%
Walvoil Fluid Power Korea Llc. (9)	Pyeongtaek (South Korea)	453	5,268	1,195	100.00%
Walvoil Fluid Power France S.a.r.l. (9)	Vritz (France)	10	67	15	100.00%
Walvoil Fluid Power Australasia (9)	Melbourne (Australia)	7	130	7	100.00%
Galtech Canada Inc. (9)	Terrebonne, Quebec (Canada)	76	2,224	607	100.00%
HTIL (9)	Hong Kong	98	4,397	(5)	100.00%
Walvoil Fluid Power (Dongguan) Co., Ltd (10)	Dongguan (China)	3,720	13,893	3,057	100.00%
Reggiana Riduttori S.r.l.	S. Polo d'Enza (RE)	6,000	60,468	1,162	100.00%
RR USA Inc.(14)	Boothwyn (USA)	1	14,690	59	100.00%
RR Canada Inc.(14)	Vaughan (Canada)	1	2,904	90	100.00%

<i>Company</i>	<i>Head office</i>	<i>Share capital</i>	<i>Shareholders' equity</i>	<i>Profit for 2019</i>	<i>% held at 31/12/2019</i>
		<i>€/000</i>	<i>€/000</i>	<i>€/000</i>	
RR Holland BV (14)	Oosterhout (Netherlands)	19	3,195	(19)	100.00%
RR France Sa.r.l.(14)	Thouare sur Loire (France)	400	473	40	95.00%
RR Slovakia A.S. (14)	Zvolen (Slovakia)	340	1,151	(53)	100.00%
RR Brasil Redutores Ltda (14)	San Paolo (Brazil)	169	(1,686)	27	100.00%
RR Pacific Pty Ltd (14)	Victoria (Australia)	-	(132)	(17)	100.00%
RR India Pvt. Ltd (14)	New Delhi (India)	52	1	(20)	99.99%
Reggiana Riduttori (Suzhou) Co. Ltd (14)	Suzhou (China)	200	109	(90)	100.00%
Interpump Piping GS S.r.l.	Reggio Emilia	10	898	752	100.00%
GS-Hydro Singapore Pte Ltd (11)	Singapore	624	671	265	100.00%
GS-Hydro Korea Ltd. (11)	Busan (South Korea)	1,892	3,315	676	100.00%
GS-Hydro Denmark AS (11)	Kolding (Denmark)	67	594	43	100.00%
GS-Hydro Piping Systems (Shanghai) Co. Ltd. (12)	Shanghai (China)	2,760	4,249	454	100.00%
GS-Hydro Benelux B.V. (11)	Barendrecht (Netherlands)	18	2,535	192	100.00%
GS-Hydro Austria GmbH (11)	Pashing (Austria)	40	1,134	213	100.00%
GS-Hydro Sp Z O O (Poland) (11)	Gdynia (Poland)	1,095	910	(21)	100.00%
GS-Hydro S.A.U (Spain) (11)	Las Rozas (Spain)	90	1,405	(459)	100.00%
GS-Hydro U.S. Inc. (7)	Houston (USA)	9,903	1,224	270	100.00%
GS-Hydro do Brasil Sistemas Hidraulicos Ltda (11)	Rio de Janeiro (Brazil)	252	1,585	338	100.00%
GS-Hydro System GmbH (Germany) (11)	Witten (Germany)	179	(404)	26	100.00%
GS- Hydro UK Ltd (11)	Aberdeen (United Kingdom)	5,095	2,280	508	100.00%
GS-Hydro Ab (Sweden) (11)	Kista (Sweden)	20	77	(78)	100.00%
GS-Hydro Hong Kong Ltd (1)	Hong Kong	1	978	98	100.00%
Osta Industria de Guinchos EIRELI	Caxia do Sul (Brazil)	314	7	-	100.00%
IMM Hydraulics Ltd (dormant) (6)	Kidderminster (United Kingdom)	-	-	-	100.00%
Bristol Hose Ltd (dormant) (6)	Bristol (United Kingdom)	-	-	-	100.00%

(1) = controlled by Hammelmann GmbH

(2) = controlled by NLB Corporation Inc.

(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 Prod. Inc

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

(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

(13) = controlled by Interpump Hydraulics Brasil Ltda

(14) = controlled by Reggiana Riduttori S.r.l.

The financial statements of the Reggiana Riduttori Group, Hydra Dyne (Hydraulic Sector) and Pioli S.r.l. (Water Jetting Sector) have been consolidated for the first time, as has the income statement of Fluinox (Water Jetting Sector). The statement of financial position of the latter company was consolidated at 31 December 2018, since it was acquired close to that date.

The minority shareholder of Inoxihp S.r.l. is entitled to dispose of its holdings starting from the approval of the 2025 financial statements up to the 2035 financial statements, on the basis of the average results of the company in the last two financial statements for the years ended before the exercise of the option. Likewise, the minority shareholder of Mega Pacific Pty Ltd and of Mega Pacific NZ Pty Ltd is entitled and required to sell its shares within 90 days of 29 July 2021, based on the results of the last financial statements published before 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 2019 up to approval of the financial statements at 31 December 2021, on the basis of the results reported in

the latest financial statements prior to exercise of the option. The minority shareholder of Inoxpa Solution Moldova is entitled to dispose of its holdings from October 2020, based on the most recent statement of financial position of that company. The minority shareholder of Hydra Dyne has the right and obligation to sell its stakes starting from the approval date of the 2023 financial statements based on the average of the results for the two years preceding the year of the option.

In compliance with the requirements of IFRS 10 and IFRS 3, Inoxihp, Mega Pacific Australia, Mega Pacific New Zealand, Mariotti & Pecini, Inoxpa Solution Moldova and Hydra Dyne 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 company's business plan. 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.

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

3. Accounting standards adopted

3.1 Reference accounting standards

The annual financial report at 31 December 2019 was drafted in compliance with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and approved by the European Union. “IFRS” also means the International Accounting Standards (“IAS”) currently in force and all the interpretative documents issued by the IFRS Interpretation Committee, previously denominated International Financial Reporting Interpretations Committee (“IFRIC”) and still earlier known as the Standing Interpretations Committee (“SIC”).

The consolidated financial statements are presented in thousands of euro. The financial statements are prepared using the cost method, with the exception of financial instruments, which are measured at fair value.

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

Notably, discretionary measurements and significant accounting estimates concern the recoverable value of non-financial assets calculated as the greater amount between the fair value minus the cost of sale and the value in use. The value in use calculation is based on a cash flow actualization model. The recoverable value is highly dependent on the discount rate used for cash flow actualization, as are the expected future cash flows and the growth rate applied. The key assumptions used to determine the recoverable value for the two cash flow generating units, including a sensitivity analysis, are described in Note 11 to the Consolidated Financial Statements at 31 December 2019.

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

3.1.1 Accounting standards, amendments and interpretations in force from 1 January 2019 and adopted by the Group

As from 2019 the Group has applied the following new accounting standards, amendments and interpretations, reviewed by IASB:

- *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 lease is a contract that grants the right of use of an 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, despite excluding leasing contracts for assets of modest value (such as computers) and short term contracts (i.e. less than 12 months). When a lease is recognized, the liability represented by the present value of the future lease installments and the asset that the entity is entitled to use must also be recorded, with separate recognition of the related borrowing costs and depreciation. The liability may be remeasured (e.g. to reflect a change in the contractual terms or a change in the indices to which the payment of the leasing installments is linked) and the resulting change must adjust the underlying asset. The Group has elected to recognize the effect of redetermining the value of shareholders’ equity at 1 January 2019 on a modified retrospective basis, without restating the prior years presented for comparative purposes. In addition, the Group has applied the exceptions allowed by the standard in relation to those leasing contracts expiring within 12 months of the first-time adoption date that do not contain a purchase option, which have been booked to the income statement on a straight-line basis, and those for which the underlying asset is of low value.

The effects of applying IFRS 16 on the opening balances of the consolidated financial statements of Interpump Group are as follows:

	<i>Euro/000</i>
Tangible fixed assets (right-of-use recognition)	68,163
Other current assets (elimination of prepaid leasing installments)	<u>(98)</u>
Total assets	<u>68,065</u>
Recognition of installments payable	68,475
Accrued interest expense	34
Suppliers (elimination of invoices to be received for deferred leasing installments)	(105)
Other current liabilities (elimination of current leasing installments)	(48)
Other non-current liabilities (elimination of non-current leasing installments)	<u>(291)</u>
Total liabilities	<u>68,065</u>

The transition to IFRS 16 has introduced several elements of professional judgment that required the definition of certain accounting policies and the use of assumptions and estimates in relation to the lease term and the definition of the incremental borrowing rate. The main policies in question are outlined below:

- The Group has decided to not apply IFRS 16 to contracts containing a lease with an intangible underlying asset.
- *Lease term*: the Group has analyzed all its lease contracts, defining the lease term for each one, this parameter being an expression of the "non-cancellable" period, together with the effects of any extension or early termination options, the exercise of which was deemed to be reasonably certain. Specifically, for property this assessment considered the facts and circumstances of each asset. With regard to the other asset categories, primarily company cars and equipment, the Group generally deemed the exercise of extension or early termination clauses to be improbable in consideration of the customary practices adopted.
- Definition of the incremental borrowing rate: Since most leasing contracts entered into lack an implicit rate of interest, the Group has applied series of marginal borrowing rates at the date of initial application that take account of the residual durations in similar economic environments.

The data for 2019 includes the following effects of adopting the new accounting standard:

- Increase in capital employed by €71,130k;
- Increase in net financial position by €72,441k;
- Elimination of rental and hire costs totaling €15,505k;
- Increase in depreciation by €14,721k;
- Increase in other revenues by €8k;
- Increase in financial expenses by €2,108k.
- *IFRIC 23 – “Uncertainty over Income Tax Treatments”*. On 7 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 disclosure 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”. Application of the new interpretation did not result in adjustments to the equity balances. An entity must define whether to consider each uncertain tax treatment separately or combined with other (one or more) uncertain tax treatments. The decision should be based on which approach provides better predictions of the resolution of the uncertainty. At the time of adoption of the interpretation the Group did not experience any impact on its consolidated financial statements.

- *Amendments to IFRS 9 – “Prepayment Features with Negative Compensation”*. IASB published an *Amendment to IFRS 9* on 12 October 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. Application of the new amendment did not result in adjustments to the Group's equity balances.
- *Annual improvements — 2015-2017 cycle* – On 12 December 2017 IASB published several amendments to IAS 12 (*Income Taxes*) clarifying that the impact related to taxes on income deriving from dividends (or distribution of profit) should be recognized in profit and loss, regardless of the way in which the tax arises, to IAS 23 (*Borrowing Costs*) clarifying that an entity should treat any borrowing originally carried out for the development of an asset as part of general borrowings when the asset in question is ready for its intended use or for sale, to IFRS 3 (*Business Combinations*), clarifying that an entity must remeasure previously held interests in a business combination once it obtains control of the business in question, and to IFRS 11 (*Joint Arrangements*) whereby a company does not remeasure previously held interests in a business combination when it obtains joint control of the business. The Group has not recorded any impact on its consolidated financial statements as a result of the above changes.
- *Amendments to IAS 19 – “Plan Amendment, Curtailment or Settlement”*. On 7 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 Group has not recorded any impact on its consolidated financial statements as a result of these changes because in the reference period it did not book any changes, reductions or settlements of the plans.

3.1.2 Accounting standards, amendments and interpretations taking effect as from 1 January 2019 but not relevant for the Group

- *Amendments to IAS 28 – “Long-term interests in associates and joint ventures”*. On 12 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.

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

- *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.
- *Amendments to IFRS 3 - “Business Combinations”.* IASB published these amendments on 22 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 on 31 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.
- *Amendments to references to the Conceptual Framework in IFRS Standards.* The IASB published this amendment on 29 March 2018 with the aim of improving both the definitions of “asset” and “liability” and the process for their measurement, elimination and presentation. The document also clarifies a number of important concepts, such as identification of the recipients of financial statements and the objectives they seek to achieve, and discusses application of the concepts of prudence and uncertainty when evaluating financial disclosures. The amendments will take effect from 1 January 2020. Early adoption is however permitted.
- *Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform.* The IASB published these amendments on 26 September 2019 so that companies can make useful financial disclosures during the period of uncertainty caused by the gradual elimination of certain interest-rate parameters, such as the interbank offered rates (IBORs); they amend certain requirements for the recognition of hedges in order to mitigate potential effects deriving from uncertainties linked to the IBOR reform. The amendments also require companies to make additional disclosures to investors about any hedging relationships that are directly affected by those uncertainties. The amendments will take effect from 1 January 2020. Early adoption is however permitted.

3.2 Consolidation principles

(i) Subsidiaries

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

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

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

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

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

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

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

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

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

The fair value of any contingent consideration payable is recognized by the purchaser at the acquisition date. Changes in the fair value of contingent consideration classified as an asset or a liability, as a financial instrument governed by IFRS 9 Financial instruments: recognition and measurement, are recognized in the income statement or in the statement of other comprehensive income. Any contingent consideration not falling within the scope of IFRS 9 is measured in accordance with the appropriate IFRS. If the contingent consideration is classified in equity, its value is not remeasured and the effect of subsequent settlement is also recognized in equity.

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

For the purposes of consolidation of subsidiaries, the method of global integration is adopted, i.e. assuming the entire amount of equity assets and liabilities and all the costs and revenues irrespective of the percentage of control. The accounting value of consolidated equity investments is therefore eliminated against the related interest in their shareholders' equity. The portions of shareholders' equity and profits of minority interests are shown respectively in a specific caption under shareholders' equity and on a separate line of the consolidated income statement. When the losses ascribable to minority shareholders in a consolidated

subsidiary exceed the minority interests, the excess and all further losses attributable to minority shareholders are ascribed to the Parent Company's shareholders, with the exception of the part for which the minority shareholders have a binding obligation to cover the loss with additional expenditure and are capable of doing so. If the subsidiary subsequently makes a profit, such profits are attributable to the Parent Company shareholders up to the amount of the losses of the minority shareholders that were previously covered.

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

(ii) Associates

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

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

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

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

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

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

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

(iii) Investments in other companies

Investments in other companies constituting financial assets held for sale are measured at their fair value, if this can be established, and the gains and losses deriving from the change

in fair value are recognized directly in equity until investments are divested or have suffered a value impairment; at that time, the overall gains or losses previously recognized in equity are recognized in the income statement for the year. Investments in other companies for which the fair value is not available are recorded at cost after deducting any impairment losses.

(iv) Transactions eliminated in the consolidation process

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

3.3 Business sector information

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

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

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

3.4 Treatment of foreign currency transactions

(i) Foreign currency transactions

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

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

Assets and liabilities of companies residing in countries other than EU countries, including adjustments deriving from the consolidation process relative to goodwill and adjustments to fair value generated by the acquisition of a foreign company outside the EU, are translated at the exchange rates in force on the reporting date. Revenues and costs of the same companies

are translated at the average exchange rate in force in the year, which approximates the exchange rates in force on the dates on which the individual transactions were carried out. Foreign exchange differences arising from translation are allocated to a specific equity reserve designated Translation Reserve. At the time of disposal of a foreign economic entity, accumulated exchange differences reported in the Translation Reserve will be recognized in the income statement.

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

	2019		2018	
	averages	At 31 December 2019	averages	At 31 December 2018
Danish Krone	7.466	7.472	7.453	7.467
Swedish Krona	10.589	10.447	10.258	10.255
UAE Dirham	4.111	4.126	4.337	4.205
Australian Dollar	1.611	1.600	1.580	1.622
Canadian Dollar	1.485	1.460	1.529	1.561
Hong Kong Dollar	8.772	8.747	9.256	8.968
New Zealand dollar	1.700	1.665	1.706	1.706
Singapore Dollar	1.527	1.511	1.593	1.559
US Dollar	1.119	1.123	1.180	1.145
Swiss Franc	1.112	1.085	-	-
Ukrainian Hryvnia	28.922	26.720	32.109	31.736
Moldovan Leu	19.646	19.299	19.835	19.542
Romanian Leu	4.745	4.783	4.654	4.664
Bulgarian Lev	1.956	1.956	1.956	1.956
New Peruvian Sol	3.736	3.726	3.879	3.863
Chilean Peso	786.893	844.860	756.941	794.370
Columbian Peso	3,674.521	3,688.660	3,486.741	3,721.810
South African Rand	16.176	15.777	15.619	16.459
Brazilian Real	4.413	4.516	4.308	4.444
Russian Ruble	72.455	69.956	74.042	79.715
Indian Rupee	78.836	80.187	80.733	79.730
UK Pound	0.878	0.851	0.885	0.895
South Korean Won	1,305.317	1,296.280	1,299.071	1,277.930
Chinese Yuan	7.735	7.821	7.808	7.875
Polish Zloty	4.298	4.257	4.261	4.301

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

3.5 Non-current assets held for sale and discontinued operations

Non-current assets held for sale and any assets and liabilities pertaining to lines of business destined for sale are measured at the lower of their book value at the time these items were classified as held for sale, and their fair value, net of the costs of sale. Any impairments

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

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

3.6 Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

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

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

(iv) Leasing

Leased assets are recognized as right-of-use assets and, accordingly, their fair value or, if lower, the present value of the related lease installments, is reported among property, plant and equipment from the start date of the leasing contract. The corresponding liability to the lessor is classified among the financial payables. Subsequently, these assets are depreciated and measured in the same way as for directly-owned property, plant and equipment.

(v) Leasehold improvements

Any leasehold improvements with the same characteristics as fixed assets are capitalized in the asset category to which they relate and depreciated over their useful lives or, if shorter, over the residual life of the lease.

3.7 Goodwill

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

Goodwill is recorded at cost, net of impairment losses.

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

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

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

3.8 Other intangible assets

(i) Research and development costs

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

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

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

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

(ii) Loan ancillary costs

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

(iii) Other intangible assets

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

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

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

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

(iv) Subsequent costs

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

(v) Amortization/depreciation

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

- Patents and trademarks	5-15 years
- Development costs	5 years
- Granting of software and other licenses	3-5 years

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

3.9 Impairment of assets

The book values of assets, with the exception of inventories (see section 3.14), financial assets regulated by IFRS 9, deferred tax assets (see section 3.18), and non-current assets held for sale regulated by IFRS 5, are subject to measurement at the reporting date in order to identify the existence of possible indicators of impairment. If the valuation process identifies the presence of such indicators, the presumed recoverable value of the asset is calculated using the methods indicated in the following point (i).

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

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

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

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

(i) Calculation of presumed impairment loss

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

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

(ii) Reinstatement of impairment losses

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

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

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

Impairment related to goodwill can never be reinstated.

3.10 Equity investments

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

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

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

3.11 Cash and cash equivalents

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

3.12 Financial assets (Trade receivables, Other financial assets and Other assets)

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

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

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

may irrevocably elect to classify its equity investments as capital instruments recognized at fair value through other comprehensive income (FVOCI), in view of the strategic nature of the investments concerned. Such classification is determined individually for each instrument. The profits and losses deriving from these financial assets are never reclassified to the income statement. Capital instruments measured at FVOCI are not subjected to impairment testing.

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

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

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

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

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

3.13 Derivative financial instruments

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

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

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

The methods used to recognize derivative financial instruments depend on whether or not the conditions and requirements of IFRS 9 are fulfilled. Specifically:

(i) Cash flow hedges

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

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

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

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

3.14 Inventories

Inventories are measured at the lower of purchase cost or their estimated realizable value. Cost is determined on a weighted-average basis and includes all costs incurred to purchase the materials and transform them into their state and condition at the reporting date. The cost of semi-finished goods and finished products includes a portion of indirect costs determined on the basis of normal production capacity. Write down provisions are calculated for materials,

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

3.15 Share capital and treasury shares

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

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

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

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

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

Current financial liabilities include the short-term portions of the interest-bearing financial payables, bank and lease payables and other financial liabilities.

3.17 Liabilities for employee benefits

(i) Defined contribution plans

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

(ii) Defined benefit plans

Defined benefits for employees disbursed on termination of their employment with the Group or thereafter, and which include severance indemnity of Italian companies, are calculated separately for each plan, using actuarial techniques to estimate the amount employees have accrued in the year and in previous years. The resulting benefit is discounted to present value

and recorded net of the fair value of any relative assets. The discount rate on the reporting date is calculated as required by IAS 19 with reference to the market yield of high quality corporate bonds. Only the securities of corporate issuers with an "AA" rating are considered, on the assumption that this class identifies a high rating level in the context of "Investment Grade" (IG) securities, with the exclusion, therefore, of higher risk securities. Considering that IAS 19 makes no explicit reference to a specific product sector, we opted for a composite market curve that summarizes the market conditions existing at the date of valuation of the securities issued by companies operating in various sectors including utilities, telecommunications, finance, banking and industrial. At 31 December 2019, the above rate curve for "AA" securities used for actuarial valuation purposes indicates lower expected yields for all maturities with respect to the same curve at 31 December 2018, which was used for the previous actuarial valuation. This is attributable to the uncertainties about the European economy that characterized 2019. Fears about the final Brexit outcome and the slowdown of GDP in the principal European countries have caused corporate yields to contract. Activity in the manufacturing and industrial sector has declined steadily in Germany and Italy, while stagnation in the financial sector is causing operators to expect lower interest rates. During 2019, yields on the majority of the IG corporate sector were negative, resulting in the launch of a new corporate sector purchase program (CSPP) by the ECB in September 2019. The calculation is performed on an annual basis by an independent actuary using the projected unit credit method.

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

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

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

(iii) Stock options

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

No costs are recognized for rights that do not vest, except in the case of rights whose assignment is dependent on market conditions or a non-vesting condition. These are treated as

if vested, regardless of whether or not the market conditions or other non-vesting conditions have been satisfied, without prejudice to the fact that all other performance and/or service conditions must still be satisfied. If the plan conditions are amended, the minimum cost recognized is that which would have been incurred without the plan amendment. A cost is also recognized for each amendment that increases the total fair value of the payment plan, or that is in any case favorable for employees; this cost is measured with reference to the amendment date.

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

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

3.18 Income taxes

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

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

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

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

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

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

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

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

3.19 Provisions for risks and charges

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

(i) Product warranty provision

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

(ii) Restructuring provision

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

(iii) Onerous contracts

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

3.20 Revenues

(i) Revenues from the sale of goods and services

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

(ii) State grants

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

recorded in the income statement systematically in the same periods in which the relative costs are incurred.

3.21 Costs

(ii) Lease installments

The principal portion of lease installments is deducted from the financial payable, while the interest portion is charged to the income statement.

(ii) Financial income and charges

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

4. Business sector information

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

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

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

The Group is composed of the following business sectors:

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

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

range of applications depending on the type. Front-end and underbody cylinders (single acting) are utilized mainly on industrial vehicles in the construction sector, while double acting cylinders are utilized in a range of applications: earthmoving machinery, agricultural machinery, cranes and truck cranes, waste compactors, etc. Hydraulic lines and fittings are used in a vast range of hydraulic equipment and are also employed in very high pressure water systems. Gears facilitate the mechanical transmission of energy, with applications in various industrial sectors including agriculture, materials handling, mining, heavy industry, marine & offshore, aerial platforms, forestry and sugar production.

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

	Hydraulic		Water Jetting		Elimination entries		Interpump Group	
	2019	2018	2019	2018	2019	2018	2019	2018
Net sales external to the Group	902,247	844,296	466,371	434,871	-	-	1,368,618	1,279,167
Sales between sectors	894	784	2,537	2,654	(3,431)	(3,438)	-	-
Total net sales	903,141	845,080	468,908	437,525	(3,431)	(3,438)	1,368,618	1,279,167
Cost of sales	(616,570)	(569,599)	(253,555)	(239,143)	3,424	3,447	866,701	(805,295)
Gross industrial margin	286,571	275,481	215,353	198,382	(7)	9	501,917	473,872
<i>% on net sales</i>	<i>31.7%</i>	<i>32.6%</i>	<i>45.9%</i>	<i>45.3%</i>			<i>36.7%</i>	<i>37.0%</i>
Other net revenues	14,225	13,477	6,762	7,036	(872)	(848)	20,115	19,665
Distribution costs	(69,911)	(67,248)	(54,792)	(50,705)	380	293	(124,323)	(117,660)
General and administrative expenses	(88,216)	(83,159)	(57,839)	(53,285)	499	546	(145,556)	(135,898)
Other operating costs	(3,873)	(2,188)	(1,066)	(1,242)	-	-	(4,939)	(3,430)
Ordinary profit before financial expenses	138,796	136,363	104,418	100,186	-	-	247,214	236,549
<i>% on net sales</i>	<i>15.4%</i>	<i>16.1%</i>	<i>22.3%</i>	<i>22.9%</i>			<i>18.1%</i>	<i>18.5%</i>
Financial income	9,713	6,367	6,877	6,669	(1,528)	(1,609)	15,062	11,427
Financial expenses	(9,595)	(12,620)	(9,971)	(8,201)	1,528	1,609	(18,038)	(19,212)
Dividends	-	-	15,001	16,200	(15,001)	(16,200)	-	-
Badwill	-	11,369	-	-	-	-	-	11,369
Equity method contribution	(111)	(116)	103	(91)	-	-	(8)	(207)
Profit for the year before taxes	138,803	141,363	120,428	114,763	(15,001)	(16,200)	244,230	239,926
Income taxes	(36,255)	(38,225)	(27,373)	(27,839)	-	-	(63,628)	(66,064)
Consolidated profit for the year	102,548	103,138	93,055	86,924	(15,001)	(16,200)	180,602	173,862
Pertaining to:								
Parent company's shareholders	101,764	102,581	92,407	86,524	(15,001)	(16,200)	179,170	172,905
Subsidiaries' minority shareholders	784	557	648	400	-	-	1,432	957
Consolidated profit for the year	102,548	103,138	93,055	86,924	(15,001)	(16,200)	180,602	173,862
Further information required by IFRS 8								
Amortization, depreciation and write-downs	47,548	33,705	21,736	16,764	-	-	69,284	50,469
Other non-monetary costs	3,227	3,952	2,756	3,651	-	-	5,983	7,603

Financial position
(Amounts shown in €/000)

	Hydraulic		Water Jetting		Elimination entries		Interpump Group	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Assets of the sector (A)	1,203,237	974,751	738,412	707,393	(146,750)	(148,919)	1,794,899	1,533,225
Cash and cash equivalents							233,784	118,140
Total assets							2,028,683	1,651,365
Liabilities of the sector (B)	356,475	374,973	105,000	106,400	(146,750)	(148,919)	314,725	332,454
Debts for the payment of investments							54,286	44,527
Bank payables							22,076	21,404
Interest-bearing financial payables							582,522	384,075
Total liabilities							973,609	782,460
Total assets, net (A-B)	846,762	599,778	633,412	600,993	-	-	1,480,174	1,200,771
Further information required by IFRS 8								
Investments carried at equity	1,050	1,127	272	167	-	-	1,322	1,294
Non-current assets other than financial assets and deferred tax assets	670,210	495,067	359,085	333,692	-	-	1,029,295	828,759

At unchanged perimeter, the Hydraulic Sector and the Water Jetting Sector are compared as follows:

	Hydraulic Sector		Water Jetting Sector	
	2019	2018	2019	2018
Net sales external to the Group	860,591	844,296	454,314	434,871
Sales between sectors	894	784	2,129	2,654
Total net sales	861,485	845,080	456,443	437,525
Cost of sales	(548,016)	(569,599)	(246,312)	(239,143)
Gross industrial margin	277,469	275,481	210,131	198,382
<i>% on net sales</i>	32.2%	32.6%	46.0%	45.3%
Other net revenues	13,633	13,477	6,593	7,036
Distribution costs	(67,666)	(67,248)	(53,592)	(50,705)
General and administrative expenses	(84,693)	(83,159)	(56,112)	(53,285)
Other operating costs	(3,873)	(2,188)	(1,048)	(1,242)
Ordinary profit before financial expenses	134,870	136,363	105,972	100,186
<i>% on net sales</i>	15.7%	16.1%	23.2%	22.9%
Financial income	9,446	6,367	6,879	6,669
Financial expenses	(8,613)	(12,620)	(9,944)	(8,201)
Dividends	-	-	15,001	16,200
Badwill	-	11,369	-	-
Equity method contribution	(111)	(116)	103	(91)
Profit for the year before taxes	135,592	141,363	118,011	114,763
Income taxes	(35,299)	(38,225)	(26,778)	(27,839)
Consolidated profit for the year	100,293	103,138	91,233	86,924
Pertaining to:				
Parent company's shareholders	99,511	102,581	90,585	86,524
Subsidiaries' minority shareholders	782	557	648	400
Consolidated profit for the year	100,293	103,138	91,233	86,924

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

€/000	Hydraulic		Water Jetting		Total	
	2019	2018	2019	2018	2019	2018
Cash flows from:						
Operating activities	126,472	81,737	86,049	67,102	212,521	148,839
Investing activities	(55,047)	(59,368)	(42,063)	(23,870)	(97,110)	(83,238)
Financing activities	(43,404)	(41,737)	42,397	(63,749)	(1,007)	(105,486)
Total	<u>28,021</u>	<u>(19,368)</u>	<u>86,383</u>	<u>(20,517)</u>	<u>114,404</u>	<u>(39,885)</u>

The investing activities of the Hydraulic Sector included €16,347k associated with the acquisition of equity investments (€8,320k in 2018). The investing activities of the Water Jetting Sector included €26,505k associated with the acquisition of equity investments (€10,725k in 2018).

The cash flows deriving from the financing activities of the Hydraulic Sector included the payment of dividends to Water Jetting Sector companies totaling €15,001k (€16,200k in 2018), as well as net repayments of intercompany loans amounting to €3,260k (€16,894k in 2018). Moreover, the cash flows deriving from the financing activities of the Water Jetting Sector in 2019 included proceeds from the sale of treasury shares to the beneficiaries of stock options

totaling €3,823k (€539k in 2018), outlays for the purchase of treasury shares amounting to €78,993k (€54,184k in 2018) and the payment of dividends of €23,324k (€22,591k in 2018).

Geographical sectors

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

A breakdown of sales by geographical area is provided below:

	2019		2018		Growth
	(€/000)	%	(€/000)	%	
Italy	221,055	16	212,247	17	+4.1%
Rest of Europe	486,969	36	471,396	37	+3.3%
North America	371,029	27	324,890	25	+14.2%
Far East and Oceania	156,794	11	143,891	11	+9.0%
Rest of the World	<u>132,771</u>	<u>10</u>	<u>126,743</u>	<u>10</u>	+4.8%
Total	<u>1,368,618</u>	<u>100</u>	<u>1,279,167</u>	<u>100</u>	+7.0%

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

	31/12/2019	31/12/2018
	(€/000)	(€/000)
Italy	654,866	519,506
Rest of Europe	183,573	173,269
North America	137,804	93,725
Far East and Oceania	16,173	11,092
Rest of the World	<u>36,879</u>	<u>31,167</u>
Total	<u>1,029,295</u>	<u>828,759</u>

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

5. Business combinations

Reggiana Riduttori Group

The Reggiana Riduttori Group (Hydraulic Sector) was consolidated for the first time in 2019. This group is a world leader in the design and manufacture of power transmission systems: planetary gears, ratiomotors and drive wheels. The principal sectors of application are: industrial, agro-forestry, handling, lifting, marine/offshore, mining, green-wind.

The complete list of companies acquired is shown below:

<u>Company</u>	<u>Head office</u>	<u>% held</u>	<u>Sector</u>
Reggiana Riduttori S.r.l.	S. Polo d'Enza (RE)	100.00%	Hydraulic
RR International S.r.l.	S. Polo d'Enza (RE)	100.00%	Hydraulic
RR USA Inc.(1)	Boothwyn (USA)	100.00%	Hydraulic
RR Canada Inc.(1)	Vaughan (Canada)	100.00%	Hydraulic
RR Holland BV (3)	Oosterhout (Netherlands)	100.00%	Hydraulic
RR France Sa.r.l.(2)	Thouare sur Loire (France)	95.00%	Hydraulic
RR Slovakia A.S. (1)	Zvolen (Slovakia)	100.00%	Hydraulic
RR Brasil Redutores Ltda (2)	San Paolo (Brazil)	100.00%	Hydraulic
RR Pacific Pty Ltd (1)	Victoria (Australia)	100.00%	Hydraulic
RR India Pvt. Ltd (1)	New Delhi (India)	99.99%	Hydraulic

(1) = controlled by Reggiana Riduttori S.r.l.

(2) = controlled by RR International S.r.l.

(3) = 95.24% controlled by RR International S.r.l.; the residual interest was acquired on 23 December 2019

The preliminary contract for the acquisition of the entire equity interest in Reggiana Riduttori was signed on 23 September 2019, while the closing took place on 15 October 2019. Solely for accounting purposes, 1 October 2019 was designated as the acquisition date, there being no significant differences between then and the actual acquisition date.

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

€/000	Amounts <u>acquired</u>	Adjustments <u>to fair value</u>	Carrying values in the <u>acquiring company</u>
Cash and cash equivalents	19,277	-	19,277
Trade receivables	18,904	-	18,904
Inventories	39,428	-	39,428
Tax receivables	1,616	-	1,616
Other current assets	476	-	476
Property, plant and equipment	19,097	-	19,097
Other intangible assets	421	-	421
Other financial assets	31	-	31
Deferred tax assets	3,570	-	3,570
Other non-current assets	52	-	52
Trade payables	(13,750)	-	(13,750)
Bank payables	(1,262)	-	(1,262)
Bank payables - loans (current portion)	(1,440)	-	(1,440)
Leasing payables (current portion)	(6)	-	(6)
Derivative instruments	(81)	-	(81)
Tax payables	(1,834)	-	(1,834)
Other current liabilities	(2,971)	-	(2,971)
Provisions for risks and charges (current portion)	(50)	-	(50)
Bank payables - loans (medium-/long-term portion)	(150)	-	(150)
Leasing payables (non-current portion)	(8,834)	-	(8,834)
Employee benefits (severance indemnity provision)	(928)	-	(928)
Deferred tax liabilities	(879)	-	(879)
Provision for risks (non-current portion)	(16)	-	(16)
Other non-current liabilities	(1)	-	(1)
Minority interests	(175)	-	(175)
Net assets acquired			<u>70,486</u>
Goodwill related to the acquisition			<u>59,617</u>
Total net assets acquired			<u>130,103</u>
Total amount paid in cash			15,788
Amount paid by assigning shares			98,707
Total amount payable			<u>15,608</u>
Total acquisition cost (A)			<u>130,103</u>
Net financial position acquired (B)			(7,576)
Total amount paid in cash			15,788
Amount paid by assigning shares			98,707
Price adjustment payable			<u>15,608</u>
Total change in the net financial position including change in debt for the acquisition of investments			122,527
Capital employed (A) - (B)			<u>122,527</u>

The financial statements of the Reggiana Riduttori Group's subsidiaries outside the Eurozone were translated using the exchange rates in force on 30 September 2019.

The fair value of the assets and liabilities acquired was determined provisionally at 31 December 2019, as envisaged in IFRS 3.

The transaction was recognized in accordance with the acquisition method.

Hydra Dyne Technology Inc.

A binding agreement to acquire control over Hydra Dyne Tech, based in Ontario, Canada, was signed on 25 February 2019.

This company, which manufactures and markets hydraulic cylinders, valves and rotary manifolds, own the patented LocSeal™ technology, which represents an important technical innovation. These products are designed and customized to meet the needs of several of the most important OEMs in the farm machinery, earth-moving and forestry sectors.

The operation envisaged the initial acquisition of a 75% interest, with put and call options for the transfer of the minority interest from 2023.

Solely for accounting purposes, 1 March 2019 was designated as the acquisition date, there being no significant differences between then and the actual acquisition date.

On initial consolidation, the assets and liabilities of Hydra Dyne were as follows:

€/000	Amounts <u>acquired</u>	Adjustments <u>to fair value</u>	Carrying values in the <u>acquiring company</u>
Cash and cash equivalents	74	-	74
Trade receivables	2,638	-	2,638
Inventories	5,365	-	5,365
Tax receivables	134	-	134
Other current assets	76	-	76
Property, plant and equipment	7,291	-	7,291
Other intangible assets	35	2,137	2,172
Deferred tax assets	1,000	-	1000
Trade payables	(2,867)	-	(2,867)
Bank payables	(796)	-	(796)
Bank payables - loans (current portion)	(330)	-	(330)
Leasing payables (current portion)	(899)	-	(899)
Tax payables	(994)	-	(994)
Other current liabilities	(640)	-	(640)
Bank payables - loans (non-current portion)	(705)	-	(705)
Leasing payables (non-current portion)	(1,741)	-	(1,741)
Deferred tax liabilities	(530)	(534)	(1,064)
Other non-current liabilities	<u>(418)</u>	<u>-</u>	<u>(418)</u>
Net assets acquired	<u>6,693</u>	<u>1,603</u>	8,296
Goodwill related to the acquisition			<u>10,749</u>
Total net assets acquired			<u>19,045</u>
Total amount paid in cash			15,180
Amount due in medium/long-term			<u>3,865</u>
Total acquisition cost (A)			<u>19,045</u>
Net financial position acquired (B)			4,397
Total amount paid in cash			15,180
Payables related to the acquisition of investments			<u>3,865</u>
Total change in the net financial position including change in debt for the acquisition of investments			<u>23,442</u>
Capital employed (A) + (B)			23,442

The amounts have been translated into Canadian Dollars in the financial statements at the exchange rate of 1 Euro = 1.5042 CAD.

The fair value of the trademark included under other intangible assets was measured by independent professionals.

Pioli S.r.l.

On 20 December 2018, a preliminary agreement was signed for the acquisition of 100% of Pioli S.r.l. and RW S.r.l., These companies are both active in the galvanic treatment of metals, offering synergies with the activities of the Group. The closing for the transfer of the quotas was held on 12 April 2019.

Solely for accounting purposes, 1 April 2019 was designated as the acquisition date, there being no significant differences between then and the actual acquisition date.

On initial consolidation, the assets and liabilities of Pioli and RW were as follows:

€/000	Amounts acquired	Adjustments to fair value	Carrying values in the acquiring company
Cash and cash equivalents	960	-	960
Trade receivables	620	-	620
Inventories	64	-	64
Other current assets	14	-	14
Property, plant and equipment	306	-	306
Other financial fixed assets	2	-	2
Deferred tax assets	30	-	30
Trade payables	(141)	-	(141)
Bank payables	(1)	-	(1)
Bank payables - loans (current portion)	(72)	-	(72)
Tax payables	(101)	-	(101)
Other current liabilities	(193)	-	(193)
Leasing payables (non-current portion)	(29)	-	(29)
Liabilities for employee benefits	<u>(195)</u>	-	<u>(195)</u>
Net assets acquired	<u>1,264</u>		1,264
Goodwill related to the acquisition			<u>1,736</u>
Total net assets acquired			<u>3,000</u>
Total amount paid in cash			3,000
Amount due in medium/long-term			=
Total acquisition cost (A)			<u>3,000</u>
Net financial position acquired (B)			(858)
Total amount paid in cash			<u>3,000</u>
Total change in the net financial position including change in debt for the acquisition of investments			<u>2,142</u>
Capital employed (A) + (B)			2,142

6. Cash and cash equivalents

	31/12/2019 (€/000)	31/12/2018 (€/000)
Cash	102	130
Bank deposits	232,994	117,330
Other liquid funds	<u>688</u>	<u>680</u>
Total	<u>233,784</u>	<u>118,140</u>

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

	Amounts in €/000	Amount in original currency
Euro	170,565	170,565
US Dollar	33,721	37,899
Chinese Renminbi	13,215	103,350
Indian Rupee	5,002	401,035
UK Sterling	2,364	2,011
Australian Dollar	1,732	2,772
Brazilian Real	1,346	6,077
Korean Won	1,255	1,627,012
Canadian Dollars	1,038	1,515
South African Rand	659	10,400
Colombian Peso	430	1,583,492
Danish Krone	380	2,838
Polish Zloty	337	1,436
New Zealand Dollar	287	478
Singapore Dollar	285	430
Chilean Peso	241	203,266
Bulgarian Lev	223	435
Russian Ruble	189	13,243
UAE Dirham	149	616
Ukrainian Hryvnia	149	3,979
Other minor currencies	<u>217</u>	n.a.
Total	<u>233,784</u>	

At 31 December 2019, bank deposits include deposits and restricted accounts with a total notional balance of €4.8m at an average fixed interest rate of 2.37%.

Investment of the Group's liquidity made it possible to achieve an average yield of 0.27% in 2019 (0.32% in 2018).

7. Trade receivables

	31/12/2019 <u>(€/000)</u>	31/12/2018 <u>(€/000)</u>
Trade receivables, gross	299,019	283,653
Bad debt provision	<u>(14,177)</u>	<u>(13,289)</u>
Trade receivables, net	<u>284,842</u>	<u>270,364</u>

Changes in the bad debt provision were as follows:

	2019 <u>(€/000)</u>	2018 <u>(€/000)</u>
Opening balances	13,289	7,885
Exchange rate difference	19	(44)
Change in consolidation basis	960	4,750
Reclassifications	-	2
Provisions in the year	1,449	2,020
Decreases in the year due to surpluses	(651)	(507)
Utilizations in the year	<u>(889)</u>	<u>(817)</u>
Closing balance	<u>14,177</u>	<u>13,289</u>

Provisions in the year are booked under other operating costs.

At 31 December 2019, receivables due beyond 12 months total €74k, while trade payables are all due within 12 months.

8. Inventories

	31/12/2019 <u>(€/000)</u>	31/12/2018 <u>(€/000)</u>
Raw materials and components	124,877	123,382
Semi-finished products	122,178	112,630
Finished products	<u>161,388</u>	<u>130,468</u>
Total inventories	<u>408,443</u>	<u>366,480</u>

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

	2019 <u>(€/000)</u>	2018 <u>(€/000)</u>
Opening balances	36,888	32,848
Exchange rate difference	128	57
Change in consolidation basis	3,081	3,102
Reclassifications	-	-
Provisions for the year	2,886	3,843
Utilizations in the year	(3,239)	(2,962)
Reversal of provisions due to surpluses	<u>(939)</u>	<u>-</u>
Closing balance	<u>38,805</u>	<u>36,888</u>

9. Other current assets

	31/12/2019 <u>(€/000)</u>	31/12/2018 <u>(€/000)</u>
Accrued income and prepayments	5,117	5,106
Other receivables	2,869	4,440
Other current assets	<u>1,091</u>	<u>1,385</u>
Total other current assets	<u>9,077</u>	<u>10,931</u>

10. Property, plant and equipment

	<i>Land and buildings</i> <u>(€/000)</u>	<i>Plant and machinery</i> <u>(€/000)</u>	<i>Equipment</i> <u>(€/000)</u>	<i>Other assets</i> <u>(€/000)</u>	<i>Total</i> <u>(€/000)</u>
At 31 December 2017					
Cost	180,437	352,956	98,519	87,571	719,483
Accumulated depreciation	<u>(43,737)</u>	<u>(216,095)</u>	<u>(82,931)</u>	<u>(54,887)</u>	<u>(397,650)</u>
Net carrying amount	<u>136,700</u>	<u>136,861</u>	<u>15,588</u>	<u>32,684</u>	<u>321,833</u>
Changes in 2018					
Opening net carrying amount	136,700	136,861	15,588	32,684	321,833
Exchange differences	(97)	187	128	769	987
Change in consolidation basis	2,239	4,774	238	269	7,520
Additions	8,097	45,099	9,648	10,498	73,342
Disposals	(253)	(1,033)	(74)	(4,526)	(5,886)
Reclassifications	(152)	240	(27)	(62)	(1)
Capitalized depreciation	-	(10)	(2)	-	(12)
Write-downs	-	(9)	-	-	(9)
Depreciation	<u>(4,097)</u>	<u>(25,479)</u>	<u>(5,939)</u>	<u>(6,771)</u>	<u>(42,286)</u>
Closing net carrying amount	<u>142,437</u>	<u>160,630</u>	<u>19,560</u>	<u>32,861</u>	<u>355,488</u>
At 31 December 2018					
Cost	192,149	406,994	109,072	91,261	799,476
Accumulated depreciation	<u>(49,712)</u>	<u>(246,364)</u>	<u>(89,512)</u>	<u>(58,400)</u>	<u>(443,988)</u>
Net carrying amount	<u>142,437</u>	<u>160,630</u>	<u>19,560</u>	<u>32,861</u>	<u>355,488</u>
Changes in 2019					
Opening net carrying amount	142,437	160,630	19,560	32,861	355,488
Exchange differences	838	205	233	481	1,757
First-time application of IFRS 16	64,878	84	92	3,109	68,163
Change in consolidation basis	11,784	7,918	6,164	978	26,844
Additions	19,702	46,834	9,151	8,695	84,382
Recognition of right-to-use assets	13,095	349	270	2,707	16,421
Disposals	(1,205)	(2,098)	(138)	(3,622)	(7,063)
Early close-out of right-to-use assets	(431)	-	(12)	(145)	(588)
Remeasurement of right-to-use assets	351	-	-	(2)	349
Reclassifications	(132)	688	65	104	725
Capitalized depreciation	(80)	(7)	(3)	(2)	(92)
Write-downs	-	-	(12)	-	(12)
Depreciation	<u>(17,665)</u>	<u>(27,908)</u>	<u>(8,093)</u>	<u>(8,350)</u>	<u>(62,016)</u>
Closing net carrying amount	<u>233,572</u>	<u>186,695</u>	<u>27,277</u>	<u>36,814</u>	<u>484,358</u>

At 31 December 2019

Cost	300,501	478,477	141,263	101,244	1,021,485
Accumulated depreciation	<u>(66,929)</u>	<u>(291,782)</u>	<u>(113,986)</u>	<u>(64,430)</u>	<u>(537,127)</u>
Net carrying amount	<u>233,572</u>	<u>186,695</u>	<u>27,277</u>	<u>36,814</u>	<u>484,358</u>

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

	<u>Land and buildings</u> (€/000)	<u>Plant and machinery</u> (€/000)	<u>Equipment</u> (€/000)	<u>Other assets</u> (€/000)	<u>Total</u> (€/000)
At 1 January 2018	1,222	9,003	489	68	10,782
At 31 December 2018	2,866	13,890	654	170	17,580
At 31 December 2019	8,646	12,017	598	166	21,427

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

	<u>Land and buildings</u> (€/000)	<u>Plant and machinery</u> (€/000)	<u>Equipment</u> (€/000)	<u>Other assets</u> (€/000)	<u>Total</u> (€/000)
At 1 January 2018	15,484	11,711	184	683	28,062
At 31 December 2018	13,597	9,349	270	775	23,991

From 1 January 2019, the IFRS no longer distinguish between finance leases and operating leases (rentals and hire). The net carrying amount of leased assets at 31 December 2019 is analyzed below:

	<u>Land and buildings</u> (€/000)	<u>Plant and machinery</u> (€/000)	<u>Equipment</u> (€/000)	<u>Other assets</u> (€/000)	<u>Total</u> (€/000)
At 31 December 2019	87,308	6,803	3,439	4,675	102,225

Depreciation of €50,205k was charged to the cost of sales (€37,134k in 2018), €5,369k to distribution costs (€1,120k in 2018) and €6,442k for general and administrative costs (€4,032k in 2018).

At 31 December 2019 the Group has contractual commitments for the purchase of tangible fixed assets totaling €6,637k (€4,017k at 31 December 2018).

11. Goodwill

Changes in goodwill in 2019 were as follows:

<u>Company:</u>	<u>Balance at 31/12/2018</u>	<u>Increases (Decreases) in the year</u>	<u>Changes due to foreign exchange differences</u>	<u>Balance at 31/12/2019</u>
Water Jetting Sector	208,208	1,736	759	210,703
Hydraulic Sector	<u>226,491</u>	<u>70,661</u>	<u>815</u>	<u>297,967</u>
<i>Total goodwill</i>	<u>434,699</u>	<u>72,397</u>	<u>1,574</u>	<u>508,670</u>

The increases in 2019 refer to:

- €59,617k on the acquisition of the Reggiana Riduttori Group (Hydraulic Sector);
- €10,749k on the acquisition of Hydra Dyne (Hydraulic Sector);
- €1,736k on the acquisition of Pioli S.r.l. (Water Jetting Sector);
- €214k on the acquisition of Osta Industria de Guinchos EIRELI (Hydraulic Sector);
- €81k on the acquisition of Fluinox Procesos (Water Jetting Sector).

The impairment test was conducted using the Discounted Cash Flow method (DCF) net of taxation. Expected cash flows utilized in the calculation of DCF were determined on the basis of 5-year business plans that take account of the various reference scenarios and on the basis of growth forecasts in the various markets. In particular, the Group considers that the sales policies adopted in prior years, aimed at improving the degree of integration between its production and distribution networks and consolidating the growth of several important outlet markets for the Group, will make it possible to boost sales by around 4% for both the “Water Jetting Sector” CGU and the “Hydraulic Sector” CGU. A perpetual growth rate of 1% was applied for periods after 2024 for the “Hydraulic Sector” CGU, while a perpetual growth rate of 1.5% was applied for the “Water Jetting Sector” CGU due to the sustainability through time of the competitive advantages of the individual CGUs. The projected cash flows determined in this manner were reduced by a discount factor in order to take account of the risk that future plans could become impracticable. The weighted average cost of capital (WACC) after tax was measured for the various CGUs as follows:

CGU	WACC
Water Jetting Sector	4.63%
Hydraulic Sector	5.53%
Weighted average cost of capital	5.06%

The WACC utilized in 2018 was 6.28%. In addition, a sensitivity analysis was carried out in compliance with the requirements of the joint document issued by Banca d'Italia, Consob, and ISVAP on 3 March 2010. Reducing the expected cash flows of each CGU by 10% would not have resulted in the need to write down goodwill, and nor would increasing the cost of capital utilized by 50 basis points to actualize the expected flows. Moreover, as an additional positive element supporting the recoverability of goodwill, Interpump Group's stock market capitalization is far higher than the Group's Shareholders' equity throughout 2019.

12. Other intangible assets

	<i>Product development costs</i>	<i>Patents trademarks and industrial rights</i>	<i>Other intangible assets</i>	<i>Total</i>
	<u>(€/000)</u>	<u>(€/000)</u>	<u>(€/000)</u>	<u>(€/000)</u>
At 31 December 2017				
Cost	32,311	67,192	14,638	114,141
Accumulated amortization	<u>(25,411)</u>	<u>(38,886)</u>	<u>(11,748)</u>	<u>(76,045)</u>
Net carrying amount	<u>6,900</u>	<u>28,306</u>	<u>2,890</u>	<u>38,096</u>

	<i>Product development costs</i>	<i>Patents trademarks and industrial rights</i>	<i>Other intangible assets</i>	<i>Total</i>
	<u>(€/000)</u>	<u>(€/000)</u>	<u>(€/000)</u>	<u>(€/000)</u>
Changes in 2018				
Opening net carrying amount	6,900	28,306	2,890	38,096
Exchange differences	17	55	18	90
Change in consolidation basis	164	304	102	570
Increases	2,136	641	1,392	4,169
Decreases	-	(2)	(11)	(13)
Reclassifications	(148)	(47)	196	1
Write-downs	(35)	(10)	-	(45)
Capitalized amortization	-	-	(8)	(8)
Amortization	<u>(1,894)</u>	<u>(4,767)</u>	<u>(1,468)</u>	<u>(8,129)</u>
Closing net carrying amount	<u>7,140</u>	<u>24,480</u>	<u>3,111</u>	<u>34,731</u>
At 31 December 2018				
Cost	35,179	63,979	21,226	120,384
Accumulated amortization	<u>(28,039)</u>	<u>(39,499)</u>	<u>(18,115)</u>	<u>(85,653)</u>
Net carrying amount	<u>7,140</u>	<u>24,480</u>	<u>3,111</u>	<u>34,731</u>
Changes in 2019				
Opening net carrying amount	7,140	24,480	3,111	34,731
Exchange differences	7	44	25	76
Change in consolidation basis	-	2,152	453	2,605
Increases	1,774	372	1,043	3,189
Decreases	-	(11)	(3)	(14)
Reclassifications	(734)	(3)	(57)	(794)
Write-downs	(2)	(3)	(13)	(18)
Capitalized amortization	-	-	(10)	(10)
Amortization	<u>(1,219)</u>	<u>(4,479)</u>	<u>(1,540)</u>	<u>(7,238)</u>
Closing net carrying amount	<u>6,966</u>	<u>22,552</u>	<u>3,009</u>	<u>32,527</u>
At 31 December 2019				
Cost	36,273	66,620	22,295	124,888
Accumulated amortization	<u>(29,307)</u>	<u>(43,768)</u>	<u>(19,286)</u>	<u>(92,361)</u>
Net carrying amount	<u>6,966</u>	<u>22,552</u>	<u>3,009</u>	<u>32,527</u>

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

	<i>Product development costs</i>	<i>Patents trademarks and industrial rights</i>	<i>Other intangible assets</i>	<i>Total</i>
	<u>(€/000)</u>	<u>(€/000)</u>	<u>(€/000)</u>	<u>(€/000)</u>
At 1 January 2018	4,368	4	611	4,983
At 31 December 2018	3,354	20	920	4,294
At 31 December 2019	3,940	17	51	4,008

Amortization was charged in full to general and administrative costs.

Product development costs consist mainly of capitalized internal costs.

13. Other financial assets

This item comprises:

	31/12/2019 <u>(€/000)</u>	31/12/2018 <u>(€/000)</u>
Investments in non-consolidated subsidiaries	1,289	1,294
Assets servicing employee benefits	704	603
Loans to non-consolidated subsidiaries	1,931	202
Other loan receivables	5	5
Other financial assets	<u>297</u>	<u>215</u>
Total	<u>4,226</u>	<u>2,319</u>

The following changes were recorded:

	2019 <u>(€/000)</u>	2018 <u>(€/000)</u>
Opening balance	2,319	1,145
Exchange differences	23	(37)
Change in consolidation basis	33	238
Reclassifications	1,250	(55)
Increases for the year	692	1,253
Change in fair value	8	(11)
Decreases for the year	<u>(99)</u>	<u>(214)</u>
Closing balance	<u>4,226</u>	<u>2,319</u>

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

Company	31/12/2019 <u>(€/000)</u>	% held	31/12/2018 <u>(€/000)</u>	% held
Innovativ Gummi Tech S.r.l.	751	60%	892	60%
General Pump China	272	100%	167	100%
FGA S.r.l.	5	100%	126	100%
Interpump Hydraulics Rus	261	100%	109	100%
Inoxpa Poland Sp ZOO (in liquidation)	-	100%	-	100%
Interpump Hydraulics Perù S.a.c.	-	90%	-	90%
<i>Total non-consolidated subsidiaries</i>	<u>1,289</u>		<u>1,294</u>	

Innovativ Gummi Tech S.r.l., General Pump China, FGA S.r.l., Interpump Hydraulics RUS, Inoxpa Poland Sp ZOO and Interpump Hydraulics Perù S.a.c. are all subsidiaries, but they have not been consolidated in 2019 in view of their limited size.

A 60% interest in Innovativ Gummi Tech S.r.l., based in Monteprandone (AP) and active in the production and sale of rubber mixtures, was acquired during 2018 with a view to it becoming a strategic supplier to IMM Hydraulics S.p.A. The turnover of the company increased significantly during 2019, with sales rising by about 65%.

The value of the investment in Interpump Hydraulics Perù, a distribution company based in Lima incorporated at the end of 2015 with the aim of strengthening the Group's direct presence in South America, has been reduced to zero and a provision for risks of €123k has been created to cover the losses incurred during the start-up stage and the adverse performance of the South American economy during 2019.

In relation to financial instruments recorded at fair value in the statement of financial position (assets servicing employee benefits and other financial assets), international accounting standards require that said values be classified on the basis of a hierarchy of levels that reflects the significance of the inputs utilized to establish the fair value and subdivided on the basis of the recurrence in their measurement. International accounting standards identify the following levels:

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

The following table shows the financial instruments measured at fair value at 31 December 2019, broken down by level:

(€/000)	Level 1	Level 2	Level 3	Total
Other financial assets available for sale	860	-	141	1,001
Total assets	860	-	141	1,001

No transfers between levels were carried out in 2019.

All fair value measurements shown in the above table are to be considered as recurrent; the Group did not perform any non-recurrent fair value measurements in 2019.

14. Deferred tax assets and liabilities

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

	<u>Deferred tax assets</u>		<u>Deferred tax liabilities</u>	
	2019	2018	2019	2018
	(€/000)	(€/000)	(€/000)	(€/000)
At 31 December of the previous year	29,776	24,909	41,832	41,504
Exchange differences	108	31	290	570
Change in consolidation basis	4,600	1,777	1,943	331
Recognized in the income statement	(273)	3,009	(1,911)	(586)
Reclassifications	29	(22)	-	13
Recognized directly in equity	<u>439</u>	<u>72</u>	<u>-</u>	<u>-</u>
At 31 December of the current year	<u>34,679</u>	<u>29,776</u>	<u>42,154</u>	<u>41,832</u>

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

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

	<u>Deferred tax assets</u>		<u>Deferred tax liabilities</u>	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
	<u>(€/000)</u>	<u>(€/000)</u>	<u>(€/000)</u>	<u>(€/000)</u>
Property, plant and equipment	6,828	5,529	27,756	27,477
Intangible assets	993	217	13,099	12,826
Equity investments	416	359	307	554
Inventories	16,853	15,798	487	51
Receivables	1,560	1,108	6	6
Intercompany dividends receivable	-	-	60	240
Liabilities for employee benefits	1,906	1,293	118	82
Provisions for risks and charges	1,666	1,487	-	82
Losses to be carried forward	2,336	2,262	-	-
Other	<u>2,121</u>	<u>1,723</u>	<u>321</u>	<u>514</u>
Total	<u>34,679</u>	<u>29,776</u>	<u>42,154</u>	<u>41,832</u>

No deferred tax liabilities were recorded for reserves qualifying for tax relief as they are not expected to be distributed (see note 21).

15. Interest-bearing financial payables and bank payables

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

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

At 31 December 2019 all financial covenants are amply complied with.

	31/12/2019	31/12/2018
	<u>(€/000)</u>	<u>(€/000)</u>
<i>Current</i>		
Bank payables	<u>22,076</u>	<u>21,404</u>
Bank loans	177,515	150,508
Leasing (only finance leases at 31/12/2018)	17,491	1,326
Other financial payables	<u>104</u>	<u>83</u>
Total current interest bearing financial payables	<u>195,110</u>	<u>151,917</u>
<i>Non-current</i>		
Bank loans	314,159	222,818
Leasing (only finance leases at 31/12/2018)	72,500	8,503
Other financial payables	<u>753</u>	<u>837</u>
Total non-current interest bearing financial payables	<u>387,412</u>	<u>232,158</u>

At 31 December 2019, fixed-rate loans amounted to €/000 5,917, while the remainder were at floating rates.

Bank payables and loans include €34,853k in currencies other than the euro, mainly comprising Indian rupees, Australian dollars, Polish zlotys and Canadian dollars relating to foreign subsidiaries. Amounts in currencies other than the euro are as follows:

(€/000)	Bank payables	Current interest-bearing financial payables	Non-current interest-bearing financial payables	Total
Indian Rupee	18	678	3,122	3,818
Australian Dollar	2	522	1,946	2,470
Polish Zloty	-	183	309	492
Canadian Dollar	5	601	1,808	2,414
Russian Ruble	3	51	216	270
Chilean Peso	-	177	169	346
Brazilian Real	63	235	544	842
New Zealand Dollar	-	86	206	292
US Dollar	320	3,837	12,577	16,734
UK Pound	-	825	2,686	3,511
Swiss Franc	-	53	123	176
Chinese Renminbi	9	486	1,290	1,785
Bulgarian Lev	-	8	2	10
Romanian Leu	-	14	-	14
UAE Dirham	-	67	54	121
Korean Won	-	84	273	357
Danish Krone	-	142	326	468
Ukrainian Hryvnia	-	7	42	49
Moldovan Leu	-	4	1	5
Columbian Peso	-	14	15	29
Singapore Dollar	-	8	-	8
Swedish Krona	-	110	82	192
South African Rand	-	222	228	450
Total	<u>420</u>	<u>8,414</u>	<u>26,019</u>	<u>34,853</u>

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

	31/12/2019 %	31/12/2018 %
Bank loans	Euribor+0.82 (average spread)	Euribor+0.81 (average spread)
Finance leases	3.1	3.0

Breakdown of lease payables at 31 December:

(€/000)	31 December 2019				31 December 2018			
	Within the year	Between one and five years	Beyond five years	Total	Within the year	Between one and five years	Beyond five years	Total
Outstanding installments on leasing contracts	19,921	54,190	25,357	99,468	1,606	5,162	4,306	11,074
Interest	<u>(2,430)</u>	<u>(5,379)</u>	<u>(1,668)</u>	<u>(9,477)</u>	<u>(280)</u>	<u>(740)</u>	<u>(225)</u>	<u>(1,245)</u>
Present value of lease payables	<u>17,491</u>	<u>48,811</u>	<u>23,689</u>	<u>89,991</u>	<u>1,326</u>	<u>4,422</u>	<u>4,081</u>	<u>9,829</u>

At 31 December 2019 the Group is party to several leasing contracts for industrial buildings, plant and machinery, the carrying amount of which, totaling €102,225k (€23,991k at 31 December 2018), is classified under Property, plant and equipment (Note 10). The increase during the year was mainly due to the application of IFRS 16 (leased assets of €68,163k recognized on the first-time adoption of IFRS 16).

Non-current financial payables have the following due dates:

	31/12/2019 (€/000)	31/12/2018 (€/000)
Within 2 years	122,104	138,105
From 2 to 5 years	237,111	88,905
Beyond 5 years	<u>28,197</u>	<u>5,148</u>
Total	<u>387,412</u>	<u>232,158</u>

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

	31/12/2019 (€/000)	31/12/2018 (€/000)
Export- and Italian portfolio advances	99,979	89,669
Current account overdrafts	5,286	6,536
Medium/long-term loans	<u>180,950</u>	<u>170,000</u>
Total	<u>286,215</u>	<u>266,205</u>

16. Other current liabilities

	31/12/2019 (€/000)	31/12/2018 (€/000)
Payables related to the acquisition of investments	22,483	8,679
Other short-term payables	65,574	60,631
Government grants	1,142	1,752
Other	<u>1,031</u>	<u>1,235</u>
Total	<u>90,230</u>	<u>72,297</u>

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

17. Provisions for risks and charges

Changes were as follows:

(€/000)	Product warranty provision	Agents' termination indemnity provision	Provision for returns on sales	Provision for risks on investments	Other	Total
Balance at 31/12/2018	3,571	902	403	255	1,837	6,968
Exchange rate difference	19	-	3	7	5	34
Increase in the year	1,120	40	13	-	232	1,405
Surplus released to the income statement	(198)	-	-	-	(25)	(223)
Change in the scope consolidation basis	16	-	-	-	50	66
Reclassifications	-	1	-	(9)	(1)	(9)
Utilizations in the year	<u>(909)</u>	<u>(69)</u>	-	-	<u>(151)</u>	<u>(1,129)</u>
Balance at 31/12/2019	<u>3,619</u>	<u>874</u>	<u>419</u>	<u>253</u>	<u>1,947</u>	<u>7,112</u>

The balance of other provisions at 31 December 2019 refers to various disputes or estimated liabilities in group companies.

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

	31/12/2019	31/12/2018
	<u>(€/000)</u>	<u>(€/000)</u>
Current	4,055	3,807
Non-current	<u>3,057</u>	<u>3,161</u>
Total	<u>7,112</u>	<u>6,968</u>

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

18. Liabilities for employee benefits

Liabilities for defined benefit plans

The following movements were recorded in liabilities:

	2019	2018
	<u>(€/000)</u>	<u>(€/000)</u>
Liabilities at 1 January	19,377	20,044
Amount charged to the income statement in the year	479	372
Reclassifications to other current liabilities	(58)	(134)
Recognition in equity of actuarial results	1,840	302
Change in consolidation basis	1,123	109
Payments	<u>(1,359)</u>	<u>(1,316)</u>
Liabilities at 31 December	<u>21,402</u>	<u>19,377</u>

The following items were recognized in the income statement:

	2019	2018
	<u>(€/000)</u>	<u>(€/000)</u>
Current service cost	513	421
Financial expenses (Income)	(34)	(49)
Past service cost	-	-
Total recognized in the income statement	<u>479</u>	<u>372</u>

Items recognized in the income statement were booked as follows:

	2019	2018
	<u>(€/000)</u>	<u>(€/000)</u>
Cost of sales	281	208
Distribution costs	118	107
General and administrative expenses	114	106
Financial expenses (Income)	<u>(34)</u>	<u>(49)</u>
Total	<u>479</u>	<u>372</u>

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

	Unit of measurement	2019	2018
Discount rate	%	0.75	1.50
Expected increase in rate of remuneration*	%	2.77	2.77
Percentage of employees expected to resign (turnover)**	%	4.21	3.77
Annual cost-of-living increase	%	1.50	1.50
Average period of employment	Years	13.30	13.26

* = restricted to companies with less than 50 employees.

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

19. Other non-current liabilities

	2019 (€/000)	2018 (€/000)
Payables related to the acquisition of investments	31,803	35,848
Long-term employee benefits	3,217	3,169
Other	590	434
Total	<u>35,610</u>	<u>39,451</u>

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

	2019 (€/000)	2018 (€/000)
Liabilities at 1 January	39,451	46,946
Exchange rate difference	(168)	(688)
Change in consolidation basis	127	468
Amount charged to the income statement in the year	626	1,185
Reclassifications to other current liabilities	(5,742)	(6,050)
Change in fair value	(1,752)	-
Increase in medium/long-term debts	4,963	764
Payments	<u>(1,895)</u>	<u>(3,174)</u>
Liabilities at 31 December	<u>35,610</u>	<u>39,451</u>

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

20. Share capital

The share capital at 31 December 2019 comprises 108,879,294 ordinary shares with a unit par value of €0.52 totaling EUR 56,617,232.88. However, the share capital recorded in the financial statements amounts to €55,460k, 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 2019 Interpump S.p.A. holds 2,224,739 treasury shares in the portfolio corresponding to 2.043% of share capital, acquired at an average unit cost of EUR 24.430.

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

	<u>Number</u>
<i>Balance at 31/12/2017</i>	1,561,752
2018 purchases	2,003,806
Sale of shares to finance subsidiaries' purchases	(62,069)
Sale of shares for the exercise of stock options	<u>(90,000)</u>
<i>Balance at 31/12/2018</i>	3,413,489
2019 purchases	2,940,000
Sale of shares as payment for the acquisition of Reggiana Riduttori	(3,800,000)
Sale of shares for the exercise of stock options	<u>(328,750)</u>
<i>Balance at 31/12/2019</i>	<u>2,224,739</u>

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

	2019	2018
	<u>Number of shares</u>	<u>Number of shares</u>
Ordinary shares in existence at 1 January	108,879,294	108,879,294
Treasury shares held	<u>(3,413,489)</u>	<u>(1,561,752)</u>
Shares in circulation at 1 January	105,465,805	107,317,542
Treasury shares purchased	(2,940,000)	(2,003,806)
Treasury shares sold	<u>4,128,750</u>	<u>152,069</u>
Total shares in circulation at 31 December	<u>106,654,555</u>	<u>105,465,805</u>

The aims identified by the Group in the management of capital are the creation of value for all shareholders and supporting development of the group, both through internal means and by means of targeted acquisitions. The Group therefore intends to maintain an adequate level of capitalization, which simultaneously makes it possible to generate a satisfactory economic return for shareholders and to guarantee economically effective access to external sources of borrowing. The Group constantly monitors the evolution of the debt to equity ratio and the generation of cash through its industrial operations. In order to attain the aforementioned goals, the Group constantly monitors the cash flows generated by the business sectors in which it operates, both through improvement or maintenance of profitability, and careful management of working capital and of other expenditure. Capital is construed as both the value contributed by Interpump Group shareholders (share capital and share premium reserve, totaling €152,193k at 31 December 2019 and €126,071k at 31 December 2018), and the value generated by Group operations (other reserves and legal reserve, including profit for the year, totaling €896,769k at 31 December 2019 and €740,696k at 31 December 2018, excluding the translation reserve and the reserve for the restatement of defined benefit plans).

Treasury shares purchased

The amount of treasury shares held by Interpump Group is recorded in an equity provision. The Group acquired 2,940,000 treasury shares in 2019 for €78,993k, at an average price of €26.8685 (the Group purchased 2,003,806 treasury shares in 2018 for €54,183k, at an average price of €27.0405).

Treasury shares sold

In the framework of the execution of stock option plans, a total of 328,750 options have been exercised resulting in the collection of €3,823k (90,000 options were exercised for €540k in 2018). In addition, 3,800,000 treasury shares were assigned in 2019 on the acquisition of the Reggiana Riduttori Group (62,069 treasury shares assigned in 2018 to pay for acquisitions).

Stock options

The fair value of the 2013/2015, the 2016/2018 and, solely for 2019, the 2019/2021 stock option plans has been recognized in the 2018 and 2019 financial statements in compliance with IFRS 2. Costs of €2,585k (€1,881k in 2018) relating to the stock option plans were therefore recognized in the 2019 income statement, with a matching entry under the share premium reserve. Said costs represent the portion for the year of the value of the options assigned to employees and directors, established at the allocation date, corresponding to the value of the services rendered by the latter in addition to normal remuneration.

Items recognized in the income statement were booked as follows:

	2019 <u>(€/000)</u>	2018 <u>(€/000)</u>
Cost of sales	-	-
Distribution costs	43	55
General and administrative expenses	<u>2,542</u>	<u>1,826</u>
Total	<u>2,585</u>	<u>1,881</u>

Changes in the share premium reserve were as follows:

	2019 <u>€/000</u>	2018 <u>€/000</u>
Share premium reserve at 1 January	71,229	121,228
Increase due to income statement recognition of the fair value of stock options granted	2,585	1,881
Increase for the disposal of treasury shares further to payment for acquisitions of subsidiaries	96,731	1,763
Increase for the disposal of treasury shares further to the exercise of stock options	3,652	540
Utilization to cover purchase of treasury shares	<u>(77,464)</u>	<u>(54,183)</u>
Share premium reserve at 31 December	<u>96,733</u>	<u>71,229</u>

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

The changes in options in 2019 and 2018 were as follows:

	2019	2018
	<u>Number of options</u>	<u>Number of options</u>
Options assigned at 1 January	60,000	150,000
Options granted in the year	-	-
Options exercised in the year	(60,000)	(90,000)
Options canceled in the year	<u>-</u>	<u>-</u>
Total options assigned at 31 December	<u><u>-</u></u>	<u><u>60,000</u></u>

The Shareholders' Meeting held on 28 April 2016 approved the adoption of a new incentive plan called the “*Interpump 2016/2018 Incentive Plan*”. The plan, which is based on the free assignment of options that grant the beneficiaries the right, on the achievement of specified objectives, to (i) purchase or subscribe the Company’s shares up to the maximum number of 2,500,000 or, (ii) at the discretion of the Board of Directors, receive the payment of a differential equivalent to any increase in the market value of the Company’s ordinary shares. Beneficiaries of the plan can be employees or directors of the Company and/or its subsidiaries, identified among persons having significant roles or functions. The exercise price has been established at EUR 12.8845 per share, equivalent to the market value at the time of the decision of the Board of Directors to submit the Plan to the Shareholders’ Meeting. The options can be exercised between 30 June 2019 and 31 December 2022. The next meeting of the Board of Directors, held on 12 May 2016, set a figure of 2,500,000 for the number of options to be assigned, divided by the total number of options in each tranche (625,000 for the first tranche, 875,000 for the second tranche and 1,000,000 for the third tranche) and established the terms for the exercise of the options, which are connected to the achievement of specific accounting parameters and the performance of Interpump Group stock. The same Board meeting assigned 1,620,000 options to the Chairman, exercisable subject to the conditions described above, and granted mandates to the Chairman and the Deputy Chairman of Interpump Group, acting separately, to identify the beneficiaries of a further 880,000 options. On 6 and 29 July 2016, 13 December 2016 and 9 November 2017 a total of 531,800 options were assigned to other beneficiaries identified within the Interpump Group. The options canceled in 2019 totaled 15,000.

The changes in options in 2019 and 2018 were as follows:

	2019	2018
	<u>Number of options</u>	<u>Number of options</u>
Options assigned at 1 January	2,121,800	2,121,800
Options granted in the year	-	-
Options exercised in the year	(268,750)	-
Options canceled in the year	<u>(15,000)</u>	<u>-</u>
Total options assigned at 31 December	<u><u>1,838,050</u></u>	<u><u>2,121,800</u></u>

The Shareholders' Meeting held on 30 April 2019 approved a new stock option plan entitled “2019/2021 Interpump Incentive Plan”, which calls for the allocation of no more than 2,500,000 options having an exercise price of EUR 28.4952 and, for options assigned after 30 April 2020, at the official price established by Borsa Italiana on the day before the date of assignment. In its meeting of 27 June 2019, the Board of Directors assigned 1,800,000 options to Chairman and Chief Executive Officer Fulvio Montipò; subsequently 418,500 options were assigned to other beneficiaries, including Deputy Chairman Paolo Marinsek, who was assigned 65,000 options.

Overall, a total of 2,218,500 options were therefore assigned. The options can be exercised from 30 June 2022 to 31 December 2025. The options canceled in 2019 totaled 30,000.

The changes in options during 2019 were as follows:

	2019 <u>Number of options</u>
Number of rights assigned at 1 January	2,218,500
Number of rights assigned	-
Number of shares purchased	-
Number of rights canceled	<u>(30,000)</u>
Total number of options not yet exercised at 31 December	<u>2,188,500</u>

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

2013/2015 Plan

First assignment

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

Second assignment

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

2016/2018 Plan

<i>First assignment</i>	Unit of measurement	
Number of shares assigned	no.	1,620,000
Grant date		12 May 2016
Exercise price		12.8845
<i>Vesting date</i>		1 July 2019
Fair value per option at the grant date	EUR	2.4585
Expected volatility (expressed as the weighted average of the volatility values utilized in construction of the binomial lattice model)	%	30
Expected average duration of the plan life	years	6.583
Expected dividends (compared with share value)	%	2.50
Risk-free interest rate (calculated using a linear interpolation of Euro Swap rates at 12 May 2016)	%	From 0.11 to 0.22
<i>Second assignment</i>	Unit of measurement	
Number of shares assigned	no.	483,800
Grant date		6 July 2016
Exercise price		12.8845
<i>Vesting date</i>		1 July 2019
Fair value per option at the grant date	EUR	3.0520
Expected volatility (expressed as the weighted average of the volatility values utilized in construction of the binomial lattice model)	%	30
Expected average duration of the plan life	years	6.417
Expected dividends (compared with share value)	%	2.50
Risk-free interest rate (calculated using a linear interpolation of Euro Swap rates at 6 July 2016)	%	From -0.094 to -0.004
<i>Third assignment</i>	Unit of measurement	
Number of shares assigned	no.	30,000
Grant date		29 July 2016
Exercise price		12.8845
<i>Vesting date</i>		1 July 2019
Fair value per option at the grant date	EUR	3.7130
Expected volatility (expressed as the weighted average of the volatility values utilized in construction of the binomial lattice model)	%	30
Expected average duration of the plan life	years	6.417
Expected dividends (compared with share value)	%	2.50
Risk-free interest rate (calculated using a linear interpolation of Euro Swap rates at 29 July 2016)	%	From -0.082 to -0.002

2016/2018 Plan

<i>Fourth assignment</i>	Unit of measurement	
Number of shares assigned	no.	6,000
Grant date		13 December 2016
Exercise price		12.8845
<i>Vesting date</i>		1 July 2019
Fair value per option at the grant date	EUR	4.33130
Expected volatility (expressed as the weighted average of the volatility value used in construction of the binomial lattice model)	%	30
Expected average duration of the plan life	years	6
Expected dividends (compared with share value)	%	2.50
Risk-free interest rate (calculated using a linear interpolation of Euro Swap rates at 13 December 2016)	%	0.264

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

2019/2021 Plan

<i>First assignment</i>	Unit of measurement	
Number of shares assigned	no.	2,218,500
Grant date		28 June 2019
Exercise price		28.4952
<i>Vesting date</i>		1 July 2022
Fair value per option at the grant date	EUR	4.562
Expected volatility (expressed as the weighted average of the volatility values used in construction of the binomial lattice model)	%	30
Expected average duration of the plan life	years	4.76
Expected dividends (compared with share value)	%	1.00
Risk-free interest rate (calculated using a linear interpolation of Euro Swap rates at 28 June 2019)	%	-0.0182

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

21. Reserves

Translation reserve

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

Reserve from remeasurement of defined benefit plans

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

Classification of net equity depending on possibility of utilization

(amounts in €/000)	Amount	Possibility of utilization	Available portion	Tax payable in the event of distribution	Summary of utilizations over the past three years	
					to cover losses	for other reasons
Share capital	56,617	B	-	-	-	-
Nominal value of treasury shares in portfolio	<u>(1,157)</u>					
Total share capital	<u>55,460</u>					
Capital reserves						
From Parent Company's financial statements:						
Legal reserve	6,860	B	-	-	-	-
Share premium reserve	<u>41,425</u>	A,B,C	<u>41,425</u>	-	-	7,790
Total from Parent Company's financial statements	48,285		<u>41,425</u>			
Consolidation entries	<u>36</u>					
Total from consolidated financial statements	<u>48,321</u>					
Profit reserves						
From Parent Company's financial statements:						
Legal reserve	4,463	B	-	-	-	-
Share premium reserve	55,088	A,B,C	52,665	1,232	-	-
Extraordinary reserve	234,833	A,B,C	232,433	-	-	-
Reserve for share capital reduction	1,157	-	-	-	-	-
First Time Adoption Reserve	(66)	-	-	-	-	-
Merger surplus	863	A,B,C	698	-	-	-
Reserve for restatement of defined benefit plans	(2,334)	-	-	-	-	-
Profit for the year	<u>60,151</u>	A,B,C	<u>60,151</u>	-	-	-
Total from Parent Company's financial statements	354,155		<u>345,947</u>			
Consolidation entries	<u>591,403</u>					
Total from consolidated financial statements	<u>945,558</u>					
Reserve for treasury shares held	54,351	-	-	-	-	133,177
Treasury shares	<u>(54,351)</u>					
Non-distributable portion*			<u>(3,404)</u>			
Remaining distributable portion			<u>383,968</u>			

A: for capital increase

B: for coverage of losses

C: for distribution to shareholders

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

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

On the basis of Italian tax legislation the reserves and profits are freely distributable and do not attract tax even in the case of distribution, on the condition that the reserves and residual profits exceed the negative components of income ascribed exclusively in the tax return; otherwise, distributed reserves and profits would be subject to tax in the measure in which the residual reserves and profits were lower than the negative components of income that have been ascribed exclusively to the tax return. At 31 December 2019, this condition has been complied with in full, hence no taxes were payable in the event of distribution of the Parent company's entire profits for the year and the entirety of available reserves, beyond the taxes already indicated in the prior statement.

Breakdown of components recorded directly in equity

	2019			2018		
	<u>Pre-tax amount</u>	<u>Taxation</u>	<u>Amount net of taxes</u>	<u>Pre-tax amount</u>	<u>Taxation</u>	<u>Amount net of taxes</u>
(amounts in €/000)						
Profit (Loss) arising from translation of financial statements of foreign companies	4,687	-	4,687	5,454	-	5,454
Profit (Loss) of companies carried at equity	5	-	5	(30)	-	(30)
Actuarial Profits (Losses) associated with restatement of defined benefit plans	<u>(1,840)</u>	<u>442</u>	<u>(1,398)</u>	<u>(304)</u>	<u>72</u>	<u>(232)</u>
Total	<u>2,852</u>	<u>442</u>	<u>3,294</u>	<u>5,120</u>	<u>72</u>	<u>5,192</u>

22. Minority shareholders' equity

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

23. Other net revenues

	2019 (€/000)	2018 (€/000)
Reimbursement of expenses	9,002	8,268
Income from the sale of waste and scrap	3,992	4,575
Release of surplus provisions and allocations	874	741
Income from rent/royalties	338	325
Capital gains from the sale of property, plant and equipment	832	545
Refunds from insurance	225	640
Other	<u>4,852</u>	<u>4,571</u>
Total	<u>20,115</u>	<u>19,665</u>

The Other caption includes operating grants received by the Group. Pursuant to Decree 34/2019 (the Growth Decree), the grants, subsidies, contributions and aid (in cash and/or in kind), not of a general nature and not representing consideration, remuneration or compensation for losses, received by the Group from the Public Administrations during 2019 are listed below:

- grant of €230k from Gestore Servizi Energetici S.p.A. (GSE) for the generation of PV electricity;
- grant of €97k from the Abruzzo Region for industrial research and experimental development projects;
- grant of €55k from Cassa per i servizi energetici e ambientali (CSEA) in the context of relief for businesses that are heavy consumers of electricity;
- grant of 53k from Gestore Servizi Energetici S.p.A. (GSE) for the generation of electricity from renewable sources.

24. Costs by nature

	2019 (€/000)	2018 (€/000)
Raw materials and components	508,871	469,486
Personnel and temporary staff	344,529	321,656
Services	136,068	129,308
Amortization / depreciation (Notes 10 and 12)	69,254	50,415
Directors' and statutory auditors' remuneration	9,156	7,833
Hire purchase and leasing charges	3,794	18,963
Provisions / impairment of tangible and intangible fixed assets (Notes 10, 12 and 18)	1,422	1,555
Other operating costs	<u>68,425</u>	<u>63,067</u>
Total cost of sales, distribution costs, general and administrative expenses, other operating costs and impairment losses on intangible and tangible fixed assets	<u>1,141,519</u>	<u>1,062,283</u>

In accordance with the requirements of article 149-(12) of the Issuers' Regulation as amended by Consob Resolution no. 15915 of 3 May 2007 published in the Official Journal of the Italian Republic no. 111 of 15 May 2007 (S.O. no. 115), the remuneration amounts for 2019 are listed below for services rendered to the Group by the independent auditors and the entities belonging to the network of the independent auditors:

- assignments for auditing of the parent company €127k;
- assignments for auditing of subsidiaries €1,054k;
- limited examination of the Parent company's non-financial statements €60k.

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

25. Directors' and statutory auditors' remuneration

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

	2019 <u>(€/000)</u>	2018 <u>(€/000)</u>
Parent Company	5,501	4,042
Statutory auditors	<u>168</u>	<u>172</u>
Total remuneration	<u>5,669</u>	<u>4,214</u>

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

26. Financial income and expenses

	2019 <u>€/000</u>	2018 <u>€/000</u>
<u>Financial income</u>		
Interest income from liquid funds	321	465
Interest income from other assets	312	160
Financial income to adjust estimated debt for commitment to purchase residual interests in subsidiaries	5,240	1,021
Foreign exchange gains	8,840	9,689
Earnings from valuation of derivative financial instruments	80	-
TFR financial income	36	49
Other financial income	<u>233</u>	<u>43</u>
Total financial income	<u>15,062</u>	<u>11,427</u>

	2019	2018
	<u>€/000</u>	<u>€/000</u>
<u>Financial expenses</u>		
Interest expense on loans	2,317	2,635
Interest expense on lease agreements (including IFRS 16 in 2019)	2,455	345
Interest expense on put options	599	697
Financial charges to adjust estimated debt for commitment to purchase residual interests in subsidiaries	3,488	2,755
Foreign exchange losses	8,541	11,239
Other financial charges	<u>638</u>	<u>1,541</u>
Total financial expenses	<u>18,038</u>	<u>19,212</u>
Total financial expenses (income), net	<u>2,976</u>	<u>7,785</u>

The interest expense on put options relates to the release of the discounting effect on payables for the purchase of equity investments. Adjustments of the estimated liability for the purchase of residual interests in subsidiaries may result in financial charges due to an increase in the liability, if the actual performance of the companies concerned is better than initially expected, or if the related put options are exercised later than initially expected. Conversely, financial income may be recognized following a decrease in the liability, if the actual performance of the companies concerned is worse than initially expected, or if the related put options are exercised earlier than initially expected.

27. Income taxes

The effective tax rate for the year was 26.1% (27.5% in 2018).

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

	2019	2018
	<u>(€/000)</u>	<u>(€/000)</u>
Current taxes	(65,384)	(69,361)
Current taxes for prior financial years	119	(298)
Deferred taxes	<u>1,637</u>	<u>3,595</u>
Total taxes	<u>(63,628)</u>	<u>(66,064)</u>

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

	2019	2018
	<u>(€/000)</u>	<u>(€/000)</u>
Deferred tax assets generated in the year	3,950	4,751
Deferred tax liabilities generated in the year	(2,436)	(2,820)
Deferred tax assets transferred to the income statement	(4,601)	(2,793)
Deferred tax liabilities recognized in the income statement	4,347	3,406
Deferred tax assets resulting from change in rate	(60)	-
Deferred tax liabilities resulting from change in rate	-	-
Derecognized deferred tax assets	(29)	-
Deferred taxes not calculated in previous years	<u>466</u>	<u>1,051</u>
Total deferred taxes	<u>1,637</u>	<u>3,595</u>

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

	2019	2018
	<u>(€/000)</u>	<u>(€/000)</u>
<u>IRES/National tax</u>		
Profit before taxes from the income statement	<u>244,230</u>	<u>239,926</u>
Theoretical taxes at the Italian rate (24.0%)	58,615	57,582
Effect of different rates applicable to foreign subsidiaries	(4,283)	(3,572)
Tax on dividends from consolidated companies	2,082	2,500
Higher (Lower) taxes resulting from the measurement of investments at equity	2	50
Higher tax for non-deductible stock option costs	62	84
Lower taxes due to IRAP deduction relating to expenses for employees and similar for the year	(255)	(204)
Lower taxes due to IRAP deduction on interest expenses in the year	(68)	(49)
Lower taxes due to super and hyper depreciation	(2,470)	-
Higher taxes due to not recognizing deferred tax assets on current year tax losses	509	527
Lower taxes due to not recognizing deferred tax assets on prior year tax losses	(446)	(1,054)
Taxes relating to previous years (current plus deferred)	(1,083)	(114)
Higher (Lower) taxes on financial expenses relative to discounting of debts for the purchase of investments and related adjustments	(158)	426
Higher (Lower) taxes on other financial charges	-	349
Lower taxes due to non-taxability of income deriving from badwill	-	(2,729)
Effect of scheduled change in the tax rate of Indian companies from 2020	60	-
Higher (Lower) taxes for non-taxable revenues and non-deductible costs	<u>(1,076)</u>	<u>254</u>
<i>Total IRES/National tax</i>	<u>51,491</u>	<u>54,050</u>
<u>IRAP/Local income taxes</u>		
Profit before taxes from the income statement	<u>244,230</u>	<u>239,926</u>
Theoretical taxes at the Italian rate (3.9%)	9,525	9,357
Effect of different rates applicable to foreign subsidiaries and for holding companies	1,650	1,943
Higher taxes for non-deductible payroll costs	449	620
Higher taxes for non-deductible directors' emoluments	343	280
Higher taxes due to non-deductible financial expenses	196	215
Higher taxes due to measuring investments at equity	-	7
Lower taxes due to non-taxability of income deriving from badwill	-	(445)
Taxes relating to previous years (current plus deferred)	154	(238)
Higher (Lower) taxes for non-taxable revenues and non-deductible costs	<u>(180)</u>	<u>275</u>
<i>Total IRAP/Local income taxes</i>	<u>12,137</u>	<u>12,014</u>
<i>Total income taxes recognized in the income statement</i>	<u>63,628</u>	<u>66,064</u>

Interpump Group S.p.A. entered in 2018 a domestic tax consolidation regime together with Interpump Piping S.r.l.

28. Earnings per share

Basic earnings per share

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

	<u>2019</u>	<u>2018</u>
Consolidated net profit attributable to the owners of the Parent company (€/000)	179,170	172,905
Average number of shares in circulation	105,452,384	106,766,319
Basic earnings per share (€)	<u>1.699</u>	<u>1.619</u>

Diluted earnings per share

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

	<u>2019</u>	<u>2018</u>
Consolidated net profit attributable to the owners of the Parent company (€/000)	<u>179,170</u>	<u>172,905</u>
Average number of shares in circulation	105,452,384	106,766,319
Number of potential shares for stock option plans (*)	<u>983,990</u>	<u>1,152,091</u>
Average number of shares (diluted)	<u>106,436,374</u>	<u>107,918,410</u>
Diluted earnings per share (€)	<u>1.683</u>	<u>1.602</u>

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

29. Information on financial assets and liabilities

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

(€/000)	<i>Financial assets at 31/12/2019</i>			<i>Financial liabilities at 31/12/2019</i>		Total
	At fair value through profit and loss		Measured at amortized cost	At fair value through the Comprehensive income statement	Measured at amortized cost	
	Initially	Subsequently				
Trade receivables	-	-	284,842	-	-	284,842
Other current assets	-	-	3,957	-	-	3,957
Other financial assets	2,290	-	1,936	-	-	4,226
Trade payables	-	-	-	-	(157,413)	(157,413)
Bank payables	-	-	-	-	(21,611)	(21,611)
Current interest-bearing financial payables	-	-	-	-	(195,110)	(195,110)
Other current liabilities	-	-	-	-	(89,199)	(89,199)
Non-current interest-bearing financial payables	-	-	-	-	(387,412)	(387,412)
Other non-current financial assets	-	-	-	-	(35,610)	(35,610)
Total	2,290	-	290,735	-	(886,355)	(593,330)

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

The 2019 consolidated income statement includes fair value profits on derivative financial instruments of €80k that, although arranged for hedging purposes, failed to meet all the requirements of international accounting standards for recognition as hedges (none in the 2018 income statement). This income was recognized following the acquisition of the Reggiana Riduttori Group.

The financial assets measured at amortized cost generated revenues and costs. Revenues comprise exchange gains of €2,966k (€4,063k in 2018). Costs, on the other hand, comprise losses on receivables of €1,607k (€2,144k in 2018), classified in the income statement as other operating costs, and exchange losses of €2,688k (€3,997k in 2018).

The financial liabilities measured at amortized cost also generated costs and revenues in the income statement. Revenues comprise exchange gains of €4,429k (€3,525k in 2018), while costs refer to exchange losses of €4,459k (€5,280k in 2018) and the portion of ancillary charges initially incurred to obtain the loans and subsequently expensed over the duration of the loan in

accordance with the financial method. Ancillary charges of €82k (€125k in 2018) were charged to the 2019 income statement.

Financial assets and liabilities measured at amortized cost generated respectively interest income of €5,552k (€1,202k in 2018) and interest expense of €9,316k (€6,693k in 2018); in addition, general and administrative expenses include commission amounts and bank charges of €1,720k (€1,470k in 2018).

30. Information on financial risks

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

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

The Group is not exposed to significant risk concentrations.

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

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

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

Exchange risk

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

- Some of the Group's subsidiaries are located in countries outside the Eurozone, notably in the USA, Canada, Brazil, Chile, Peru, Australia, New Zealand, China, Hong Kong, Singapore, India, South Korea, Denmark, Sweden, Poland, Romania, Moldova, Bulgaria, Ukraine, UK, UAE, Russia, Colombia and South Africa. Since the Group's functional currency is the euro, the income statements of these companies are translated into euro at the average exchange rate of the year. Changes in exchange rates can impact on the corresponding value of revenues, costs and economic result in euro.
- The assets and liabilities of consolidated companies whose account currency is different from the euro can assume different equivalent euro values depending on the rates of exchange. As provided for by the reference accounting standards, the effects of changes in the exchange rate are recognized directly in equity in the Translation reserve. The Group monitors the main exposures to translation risk; at the date of the financial statements no hedges have been arranged in relation to these exposures.
- Wherever Group companies generate revenues in currencies other than the currencies in which the respective costs are denominated, exchange rate fluctuations can impact on the relative companies' operating profit.

In 2019 the total amount of cash flows directly exposed to exchange risks corresponded to approximately 11% of Group sales (approximately 11% also in 2018). The main exchange rates to which the Group is exposed are:

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

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

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

In 2019 the commercial cash flows directly exposed to exchange risks were equivalent to approximately 29% of Group purchases (27% in 2018) and mainly related to intercompany transactions and the USD/Euro, Renminbi/Euro, GBP/Euro, Indian Rupee/Euro, USD/Renminbi, Euro/USD, CAD/USD, Korean Won/Euro, Romanian Leu/Euro, AUD/Euro, Rand/Euro and Chilean Peso/Euro exchange rates. Current Group policy regarding purchases in currencies other than those used locally does not envisage systematic hedges. The decision to refrain from systematic hedging is due to the large number of transactions, usually between Group companies, that occur constantly throughout the year and that can therefore be considered to be recurrent in terms of amount and also of the frequency with which they take place. However, the Group monitors this phenomenon constantly both in relation to exchange rate trends and also the evolution of business.

- Again in relation to commercial activities, Group companies may be obliged to hold trade receivables or payables denominated in currencies other than the account currency of the holding entity. Fluctuations in exchange rates can therefore result in the realization or assessment of positive or negative exchange differences.

- In relation to financial exposure, wherever the monetary outflows/inflows are denominated in a currency other than the account currency utilized by the creditor/debtor company, fluctuation of the exchange rates can impact negatively on the net profits of said companies. In relation to financial exposures, €10.0m of intercompany loans were disbursed and €1.5m collected during 2019 in currencies other than those utilized by the debtor companies. At 31 December 2019 loans granted in currencies other than those used by the debtor companies total €27.0m, up by €8.5m since 31 December 2018. Once again in 2019, the Group made the strategic decision not to hedge these exposures.

The nature and structure of the exposure to exchange risk and the related hedging policies adopted by the Group were substantially unchanged in 2019.

Exchange risk sensitivity analysis

The potential loss deriving from the change in the fair value of financial assets and liabilities caused by a hypothetical and sudden increase in the value of the euro of 10% with respect to the main foreign currencies would be approximately €5,940k at 31 December 2019 (€5,425k at 31 December 2018).

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

Interest rate risk

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

It is currently Group policy not to arrange hedges, in view of the short average duration of the existing loans (around 3 years). As more fully described in Note 16, loans at fixed rates of interest total €5,917k at 31 December 2019.

At 31 December 2019, liquidity of €5.5m is held in the form of unrestricted deposits at fixed interest rates, while the remainder is held at floating rates consistent with the Group's financial payables and bank debt.

Sensitivity analysis related to interest rate risk

The effects on the Group of a hypothetical and immediate upward variation in interest rates of 50 basis points would be higher financial expenses, net of the increase in financial income, totaling €1,850k (€1,389k in 2018). It is reasonable to assume that a 50 basis points decrease in interest rates would produce an equivalent effect, although this time in terms of lower financial expenses. The sensitivity analysis did not take account of loans in relation to which hedges have been taken out, those at fixed interest rates and liquidity invested at fixed rates. It is reasonable to assume that the fluctuation in interest rates could produce an opposite economic effect on the derivative financial instruments of an amount that is identical to the change in the underlying hedged transactions thereby effectively offsetting the fluctuation.

Credit risk

The maximum theoretical credit risk exposure of the Group at 31 December 2019 and 2018 is represented by the carrying value of the financial assets recorded in the financial statements.

However, the Group has never suffered any significant bad debts (0.1% of sales in 2019 compared with 0.2% in 2018). This is because Group companies generally grant extended payment terms only to their long-term customers of known solvency and reliability. In contrast, after having passed an initial credit rating analysis, new customers are required to make payments in advance or to open a letter of credit for amounts due.

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

At 31 December 2019 the Loans and Receivables booked under financial assets for the purposes of IFRS 7 total €290,735k (€276,396k at 31 December 2018), and include €14,177k related to written down receivables (€13,289k at 31 December 2018); on the residual amount, payments overdue by less than three months total €53,346k (€52,285k at 31 December 2018), while those overdue beyond three months total €24,871k (€20,456k at 31 December 2018). The increases were mainly due to the change in consolidation basis.

The Group is not exposed to any significant concentrations of sales. In fact, in 2019 the top customer in terms of sales accounted for about 2% (1% in 2018), while the top 15 customers accounted for about 12% of total sales (about 10% in 2018). The concentration is similar on the sector level because the top customer in terms of sales accounts for around 1% for the Water Jetting Sector and around 2% for the Hydraulic Sector, while the top 15 customers absorb 11% for the Water Jetting Sector and 19% for the Hydraulic Sector.

Liquidity risk

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

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

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

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

The maturity characteristics of interest bearing financial debts and bank debts are described in Note 15.

Management considers that the currently available funds and lines of credit, in addition to resources that will be generated by operating and financing activities will allow the Group to meet requirements deriving from investing activities, management of working capital and repayment of debts at the natural due date, in addition to ensuring the pursuit of a strategy of growth also by means of targeted acquisitions able to create value for shareholders. Liquid

funds at 31 December 2019 total €233.8m. These funds, combined with the significant cash generation from operations that the Group has proved able to achieve in 2019 and in prior years, are definitely factors that make it possible to reduce the Group's exposure to liquidity risk. The decision to maintain a high level of liquidity was taken in order to pick up on any acquisition opportunities that may arise and to minimize the liquidity risk due to possible periods of uncertainty of the macroeconomic context that may emerge in the future.

Price risk

The Group is exposed to risks deriving from fluctuations in the prices of metals that can impact on economic results and profit margins. Specifically, the incidence of costs for the purchase of metals was 29% of total Group purchase costs of raw materials, semi-finished products and finished products in 2019 (30% in 2018). The main metals utilized by the Group include brass, aluminum, steel, stainless steel, cast iron, mild steel, copper and, to a lesser extent, copper and sheet metal. The average prices of the raw materials used by the Group were broadly stable in 2019. The Group sectors feature differing levels of propensity towards the risk of fluctuations in the prices of metals, notably:

- in the Water Jetting Sector the cost of metals constituted approximately 16% of costs for the purchase of raw materials, semi-finished products and finished products in 2019 (17% in 2018). The metals utilized are primarily brass, stainless steel, aluminum and copper. The policy is to leave the cost of storage of materials to vendors; this means that the risk is hedged by means of orders for periods and quantities made at fixed price. Agreements in place at 31 December 2019 cover 8% of projected brass consumption in 2020 and the entire projected aluminum consumption for 2020 and part of 2021 (74% coverage of projected brass consumption and more than 100% coverage of projected aluminum consumption in the following year, at 31 December 2018). The projected brass consumption in 2020 and part of 2021 is about 50% covered, if the stocks on hand at 31 December 2019 are considered in addition to the agreements signed, while the entire projected aluminum consumption is covered considering the stocks on hand;
- the cost of metals in the Hydraulic Sector constituted around 34% of purchase costs for raw materials, semi-finished products and finished products in 2019 (31% in 2018). The metals utilized are primarily steel, aluminum, mild steel and cast iron. The prices of these commodities, with the exception of aluminum, are not historically subject to significant fluctuations, so the Group considers that the accurate analysis of price trends is a sufficient strategy to mitigate price risk. In relation to aluminum, no hedging transactions are undertaken because of the limited incidence on purchase costs.

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

31. Notes to the cash flow statement

Property, plant and equipment

In 2019, the Group purchased buildings, plant and machinery totaling €84,382k (€73,342k in 2018). This investment involved payments of €78,795k, including the purchase of assets for subsequent rental and considering the dynamics of the payables incurred for this reason (€71,595k in 2018).

Cash and cash equivalents

This item can be broken down as follows:

	31/12/2019	31/12/2018
	<u>(€/000)</u>	<u>(€/000)</u>
Cash and cash equivalents from the statement of financial position	233,784	118,140
Bank payables (current account overdrafts and advances subject to collection)	<u>(22,076)</u>	<u>(21,404)</u>
Cash and cash equivalents from the cash flow statement	<u>211,708</u>	<u>96,736</u>

Net financial position and cash-flow statement

For the amount and detail of the main components of the net financial position and the changes that occurred in 2019 and 2018 we invite you to refer to the "Cash Flow" section of the Report on operations.

32. Commitments

At 31 December 2019 the Group has commitments to purchase raw materials totaling €1,105k (€452k at 31 December 2018).

Furthermore, the Group also has commitments to purchase tangible assets totaling €6,637k (€4,017k at 31 December 2018).

33. Transactions with related parties

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

The effects on the Group's consolidated income statements for 2019 and 2018 are shown below:

	2019					
	Consolidated	Non-consolidated	Associates	Other related parties	Total related parties	% incidence on F.S. caption
(€/000)	<u>Total</u>	<u>subsidiaries</u>	<u>Associates</u>	<u>parties</u>	<u>parties</u>	<u>caption</u>
Net sales	1,368,618	2,779	-	1,581	4,360	0.3%
Cost of sales	866,701	3,507	-	7,591	11,098	1.3%
Other revenues	20,115	9	-	-	9	0.0%
Distribution costs	124,323	38	-	793	831	0.7%
G&A expenses	145,556	-	-	610	610	0.4%
Financial expenses	18,038	-	-	376	376	2.1%

	2018					
	Consolidated	Non-consolidated	Associates	Other related parties	Total related parties	% incidence on F.S. caption
(€/000)	<u>Total</u>	<u>subsidiaries</u>				
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%

The effects on the consolidated statement of financial position at 31 December 2019 and 2018 are described below:

	31 December 2019					
	Consolidated	Non-consolidated	Associates	Other related parties	Total related parties	% incidence on F.S. caption
(€/000)	<u>Total</u>	<u>subsidiaries</u>				
Trade receivables	284,842	2,361	-	1,359	3,720	1.3%
Other financial assets	4,226	1,931	-	-	1,931	45.7%
Trade payables	157,413	53	-	1,127	1,180	0.7%
Interest-bearing financial payables (current and non-current portions)	582,522	-	-	26,461	26,461	4.5%

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

Relations with non fully-consolidated subsidiaries

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

(€/000)	Receivables		Revenues	
	31/12/2019	31/12/2018	2019	2018
Interpump Hydraulics Perù	1,183	1,012	549	386
Interpump Hydraulics Russia	695	566	1,619	1,141
General Pump China Inc.	261	641	620	902
FGA S.r.l.	220	350	-	-
Innovativ Gummi Tech S.r.l.	<u>2</u>	<u>457</u>	<u>-</u>	<u>-</u>
<i>Total subsidiaries</i>	<u>2,361</u>	<u>3,026</u>	<u>2,788</u>	<u>2,429</u>

(€/000)	Payables		Costs	
	<u>31/12/2019</u>	<u>31/12/2018</u>	<u>2019</u>	<u>2018</u>
FGA S.r.l.	20	46	638	601
General Pump China Inc.	32	46	628	688
Innovativ Gummi Tech S.r.l.	-	-	2,264	334
Interpump Hydraulics Perù	<u>1</u>	<u>-</u>	<u>15</u>	<u>111</u>
<i>Total subsidiaries</i>	<u>53</u>	<u>92</u>	<u>3,545</u>	<u>1,734</u>

(€/000)	Loans		Financial income	
	<u>31/12/2019</u>	<u>31/12/2018</u>	<u>2019</u>	<u>2018</u>
FGA S.r.l.	1,400	200	-	-
Innovative Gummi Tech S.r.l.	529	-	-	-
Inoxpa Poland Sp ZOO	<u>2</u>	<u>2</u>	=	=
<i>Total subsidiaries</i>	<u>1,931</u>	<u>202</u>	=	=

Relations with associates

The Group does not hold any associated companies.

Transactions with other related parties

Transactions with other related parties during 2018 included the rental of factories owned by companies controlled by the current shareholders and directors of Group companies totaling €4,572k. Following the adoption of IFRS 16, these costs have not been recognized in the income statement for 2019. The income statement includes consultancy provided by entities associated with Group directors and statutory auditors totaling €101k (€113k in 2018). The above consultancy costs were allocated to distribution costs, €70k (€98k in 2018), and to general and administrative expenses, €31k (€15k in 2018). Revenues from sales in 2019 included those made to companies owned by Group shareholders or directors totaling €1,581k (€1,173k in 2018). In addition, the cost of sales includes purchases from companies controlled by minority shareholders or Group company directors totaling €7,246k (€8,119k in 2018).

34. Events occurring after the close of the year

No significant events worthy of mention have taken place subsequent to 31 December 2019.

Annex 1

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

1. The undersigned, Fulvio Montipò and Carlo Banci, respectively Executive Director and Chief Reporting Officer of Interpump Group S.p.A., taking account also of the provisions of art. 154-(2), subsections 3 and 4 of legislative decree no. 58 of 24 February 1998, attest to:
 - adequacy in relation to the characteristics of the business and
 - effective applicationof the administrative and accounting procedures for the formation of the consolidated financial statements during 2019.

2. It is further attested that the consolidated financial statements of Interpump Group S.p.A. and its subsidiaries for the year ended 31 December 2019, which show consolidated total assets of €2,028,683k, consolidated net profit of €180,602k and consolidated shareholders' equity of €1,055,074k:
 - a) correspond to the results of the company books and accounting entries;
 - b) were prepared in compliance with the international accounting standards approved by the European Commission further to the enforcement of Ruling (CE) no. 1606/2002 of the European Parliament and the European Council of 19 July 2002, and the provisions issued in implementation of art. 9 of Italian legislative decree 38/2005 and the contents are suitable for providing a truthful and fair representation of the equity, economic and financial situation of the Parent company and the group of companies included in the scope of consolidation;
 - c) include the Board of Directors' Report, which contains a reliable analysis of performance and results and the situation of the issuer and the companies included in the consolidation together with a description of the main risks and uncertainties to which they are exposed.

Sant'Ilario d'Enza (RE), 16 March 2020

Fulvio Montipò
Chairman and
Chief Executive Officer

Carlo Banci
Chief Reporting
Officer

Report of the Statutory Auditors to the Shareholders' Meeting of Interpump Group S.p.A. pursuant to art. 153 of Decree no. 58/1998 and art. 2429 of the Italian civil code

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

Introduction

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

During the year ended 31 December 2019, and subsequently to date, the Board of Statutory Auditors has carried out the supervisory activities required by law, taking account of the rules of conduct established by the Italian Accounting Profession, the CONSOB instructions on the audit of companies, and the provisions of art. 19 of Decree no. 39/2010.

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

The financial statements were prepared in compliance with the law and are accompanied by the documents specified by the Italian civil code and the TUF. Moreover, in accordance with legal requirements, the Company has also presented consolidated financial statements and the consolidated statement of non-financial information for 2019.

We obtained the information needed to carry out our assigned supervisory activities by attending the meetings of the Board of Directors and the established Board Committees, as well as by interviewing the management of the Company and the Group, gathering information from the competent corporate functions, and performing additional monitoring activities.

Appointment and Independence of the Board of Statutory Auditors

The Board of Statutory Auditors in office at the date of this Report was appointed at the Shareholders' Meeting held on 28 April 2017: its members are Fabrizio Fagnola (Chair), Alessandra Tronconi (Serving Auditor), Federica Menichetti (Serving Auditor), and Roberta Senni and Federico Quaiotti (Alternate Auditors). The Board will remain in office for three years and will lapse on the date of the Shareholders' Meeting called to approve the 2019 financial statements.

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

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

The Board of Statutory Auditors checked that the independence requirements placed upon its members were satisfied both upon appointment and, subsequently, in 2018 and 2019. This check was carried out in accordance with the criteria specified in the Standards of Conduct for

the Boards of Statutory Auditors of Listed Companies, issued by the Italian Accounting Profession in April 2018, as supplemented in May 2019, and in the Code of Corporate Governance.

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

Supervisory and control activities of the Board of Statutory Auditors

Supervision of compliance with the law and the bylaws

In the performance of its duties, the Board of Statutory Auditors has carried out the supervisory activities required by art. 2403 of the Italian civil code, art. 149 of Decree no. 58/1998, art. 19 of Decree no. 39/2010, and the CONSOB recommendations on company audits and the activities of the Board of Statutory Auditors, while also making reference to the provisions of the Code of Corporate Governance and the Standards of Conduct for Boards of Statutory Auditors of Listed Companies issued by the Italian Accounting Profession - 2018 edition, as supplemented in May 2019.

In the context of our duties we have therefore:

- attended the meetings of the Shareholders and the Board of Directors, supervising their compliance with the bylaws, current legislation and the regulations governing the operation of corporate bodies and compliance with the principles of proper administration;
- monitored, to the extent of our responsibilities, the adequacy of the organizational structure of the Company and compliance with the principles of proper administration, by means of direct observation, collection of information from the managers of certain business functions, and meetings with the Independent Auditors as part of the reciprocal exchange of data and significant information;
- assessed and monitored the adequacy of the internal control system and the administrative and accounting system, and the reliability of the latter in terms of representing operating events correctly, by means of the information provided by the managers of the respective functions, examination of the corporate documents and analysis of the results of the work carried out by the Independent Auditors;
- held 8 meetings during the year, each with a duration of more than 2 hours and 45 minutes, and attended all the 11 meetings of the Board of Directors and the 11 meeting in total of the Board Committees (Control and Risks Committee, Related-Party Transactions Committee, Remuneration Committee and Appointments Committee);
- supervised the adequacy of the reciprocal flow of information between IPG and its subsidiaries pursuant to art. 114, para. 2, of Decree no. 58/1998, which is assured by the instructions issued by the management of the Company to the various Group companies;
- monitored compliance with the “Market Abuse”, “Investor Protection” and “Internal Dealing” rules, with special reference to the treatment of inside information and the procedures for the dissemination of communications and information to the public. In addition, we monitored the changes made to the procedure adopted by the Company for the management of inside and significant information, having regard for Consob Guidelines no. 1/2017.

The Board of Statutory Auditors also:

- obtained adequate information from the Directors about the activities undertaken and the operations of greatest economic, financial and capital significance performed by the Company and its subsidiaries pursuant to art. 150, para. 1, TUF. In this regard, both jointly and individually, we paid special attention to ensuring that the operations authorized and

carried out were performed in compliance with the law and with the bylaws, and were not imprudent or subject to undue risk, in contrast with resolutions adopted at the Shareholders' Meeting, in potential conflict of interest, or capable of jeopardizing the integrity of net equity;

- held meetings with the representatives of the Independent Auditors pursuant to art. 150, para. 3, TUF, from which no significant data and/or information emerged that should be mentioned in this Report;
- exchanged information with the boards of statutory auditors of the companies directly or indirectly controlled by IPG S.p.A. pursuant to art. 151, paras. 1 and 2, TUF;
- supervised the practical implementation of the rules of corporate governance set down in the Code of Corporate Governance to which the Company adheres, as adequately described in the Report on Corporate Governance and the Ownership Structure, in compliance with art. 124-(3) TUF and art. 89-(2) of the Issuers' Code;
- checked, in relation to the periodic assessment required pursuant to art. 3.C.5 of the Code of Corporate Governance, in the framework of our supervision of the practical implementation of the corporate governance rules, the proper application of the appraisal criteria and procedures adopted by the Board of Directors to confirm the independence of the Directors.

We agreed with the positive evaluation expressed by the Appointments Committee and adopted by the Board of Directors, as required by application criterion no. 1.C.1, letter g) of the Code of Corporate Governance, concerning the size and composition of the administrative body and its operation, and the size, composition and operation of the board committees. The assessment was carried out using specific measurement criteria resulting from the update of those adopted in the prior year, based on the results of a self-assessment questionnaire reviewed and modified in February 2020 by the Appointments Committee and completed by all members of the Board of Directors.

We further confirm that:

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

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

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

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

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

Financial reporting process

We supervised the presence of rules and procedures governing the preparation and dissemination of financial information. In this regard, the Report on corporate governance and the ownership structure illustrates the ways in which the Group has defined its Internal Control and Risks Management System in relation to the financial reporting process at a consolidated level. The post of Chief Reporting Officer is held by Carlo Banci.

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

We confirm that we have received adequate information on the work to monitor the corporate processes with an administrative-accounting impact, in the framework of the internal control system, that was carried out both during the year, in relation to the interim financial reports, and at the time of closing the accounts for preparation of the financial statements, in compliance with the monitoring and certification obligations to which IPG S.p.A. is subject pursuant to the provisions of Law no. 262/2005. In particular, we took account of the Risk Assessment and the half-yearly update of test activities pursuant to Law no. 262/2005.

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

No particular issues or impediments emerged to prevent the release of certification by the Chief reporting officer and the Chief executive officer concerning the adequacy of the administrative and accounting procedures for the preparation of the separate financial statements of IPG S.p.A. and the consolidated financial statements for 2019.

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

Furthermore, we acknowledge that:

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

In particular, we were informed of all the main stages of the auditing activity, including identification of the areas of risk, with a description of the applicable procedures adopted; moreover, the main accounting policies applied by IPG were also illustrated. We also acknowledge that the Independent Auditors EY S.p.A. have issued their opinions on the consolidated financial statements and the separate financial statements today (20 March 2020), and have also issued today the Supplementary Report for the Board of Statutory Auditors required by art. 11 of Regulation (EU) 2014/537.

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

In detail, the fees paid by the IPG Group to the Independent Auditors and companies belonging to their network were as follows in 2019:

Audit work	Euro 1,181 thousand
Certification of the consolidated non-financial statement	Euro 60 thousand
Total	Euro 1,241 thousand

The changes to the scope of the audit in 2019 resulted in the payment of additional fees, given the first-time consolidation of companies acquired by the Group during the year. In the light of the matters presented above, the Board of Statutory Auditors deems that independence requirements placed on EY S.p.A. are satisfied.

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

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

- the Director in charge of the internal control and risk management system;
- the Internal Audit/Internal Audit, Risk & Compliance function;
- the Chief reporting officer;
- the Supervisory Body;
- the information systems manager;
- the head of Investor Relations.

In the framework of this activity, in particular, we acknowledge that we have received and examined:

- the periodic reports on the activities performed, prepared by the Control and Risks Committee and by the Internal Audit/Internal Audit, Risk & Compliance Department;
- the reports prepared by the Internal Audit/Internal Audit, Risk & Compliance Department upon conclusion of the checking and monitoring activities, along with their findings, the actions recommended and the checks on their implementation;
- periodic updates on the evolution of the risk management process, the results of the monitoring and assessment activities performed by the Internal Audit/Internal Audit, Risk & Compliance functions and by the Group Risk Management & Corporate Finance function, and the objectives reached.

We acknowledge and agree with the update of the risk management policy for the IPG Group. We also examined, on a half-yearly basis, the periodic reports on the activities carried out by the Supervisory Body and the related activity plan and 2019 budget. Similarly, we acknowledge the work on compliance with Decree no. 231/2001 and the plan of activities for 2019, examining and agreeing with the proposed update to the Organization and Management Model pursuant to Decree no. 231/2001.

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

Supervision of compliance with the principles of proper administration

Based on the information obtained and the analyses conducted, our supervisory activities confirm that the transactions of greatest financial and economic significance performed by the

Company, or via directly-held subsidiaries, are those described below and illustrated in detail in the Board of directors' report.

In particular, as in prior years, the operations of Interpump Group S.p.A. consisted in ordinary industrial activities, the strategic and operational coordination of the Group, the drive to optimize the Group's cash flows, and the search for and selection of new equity investments aiming at accelerating the growth of the Group. Acquisitions carried out in 2019, in line with this external growth strategy, notably include: a 75% interest in the Canadian company Hydra Dyne Tech, and 100% of the Reggiana Riduttori group; additionally, at the end of December 2019 a binding agreement was signed for the purchase of the Italian company Transtecno, of which a 60% interest was acquired in January 2020.

Additionally, further to the activity of supervision and control performed in the year, we can attest to the fact that:

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

Supervision of the implementation of corporate governance rules

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

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

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

With regard to the separate financial statements at 31 December 2019, the consolidated financial statements at that date and the related Board of Directors' Report, we draw your attention to the following matters:

- by means of direct checks and information obtained from the Independent Auditors, we ascertained compliance with the laws governing the preparation and content of the separate financial statements, the consolidated financial statements and the Board of Directors' report, as well as the formats adopted for the accounting schedules, confirming proper application of the accounting standards and policies described in the notes to the financial statements and the Board of directors' report;
- in application of CONSOB Resolution no. 15519/2006, the effects of transactions with related parties are expressly indicated in the accounting schedules;
- the financial statements reflect the events and information that came to our attention in the performance of our supervisory duties and the exercise of our powers of monitoring and inspection;

- to our knowledge, during preparation of the financial statements the Directors did not make any exceptions to the law, as would be allowed under certain circumstances pursuant to art. 2423, para. 5, of the Italian civil code;
- the Chief executive officer and the Chief reporting officer have issued the certification, pursuant to art. 81-(3) of CONSOB Regulation no. 11971/1999 as amended, and art. 154-(2) of Decree no. 58/1998 (TUF);
- the Board of Directors' Report complies with the relevant legal requirements and is consistent with the data and results reflected in the financial statements; it makes the necessary disclosures about the significant activities and transactions that were drawn to our attention during the year, about the principal risks faced by the Company and its subsidiaries, about intercompany and related-party transactions, and about the alignment of the organization with the principles of corporate governance, consistent with the Code of Corporate Governance for listed companies;
- pursuant to the terms of art. 123-(3) of Decree no. 58/1998 (TUF), the Shareholders' Meeting will receive the Remuneration report that we have examined, agreeing its format in a joint meeting held with the Remuneration Committee.

In relation to the Consolidated statement of non-financial information, in conformity with the provisions of Decree no. 254 dated 30 December 2016 we monitored compliance with the requirements of the Decree and CONSOB resolution no. 20267 dated 18/01/2018 regarding preparation of the statement, obtaining the certification dated 20 March 2020 issued by the designated independent auditing firm, EY S.p.A. This activity did not reveal any matters that should be mentioned in this report.

Proposal to the Shareholders' Meeting

The Board of Statutory Auditors expresses an opinion in favor of approving the financial statements at 31 December 2019 and raises no objections about the resolution proposed by the Board of Directors, as presented in the Board of Directors' Report.

S. Ilario d'Enza, 20 March 2020

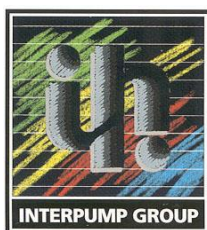
The Board of Statutory Auditors

Fabrizio Fagnola

Alessandra Tronconi

Federica Menichetti

Interpump Group S.p.A.
Separate Financial Statements
at 31 December 2019



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**2019 Board of Directors' Report
of Interpump Group S.p.A.**

ALTERNATIVE PERFORMANCE MEASURES

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

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

- **Earnings/(Losses) before interest and tax (EBIT):** Net sales plus Other operating income less Operating costs (Cost of sales, Distribution costs, General and administrative expenses, and Other operating costs);
- **Earnings/(Losses) before interest, tax, depreciation and amortization (EBITDA):** EBIT plus Depreciation, Amortization, 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 Company, defined as the difference between the Cash flow from operating activities and the Cash flow absorbed by investments in tangible and intangible fixed assets;
- **Capital employed:** calculated as the sum of Shareholders' equity and Net financial position, including Debts for the acquisition of equity investments.

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

The cash flow statement was prepared using the indirect method.

As in previous years, the operations of Interpump Group S.p.A. consisted, in addition to ordinary industrial activities, in the strategic and management coordination of the Group, in the drive to optimize its financial flows, and in research activities and the selection of equity investments to acquire with the aim of maximizing the Group's rate of growth. The acquisitions of the Reggiana Riduttori Group, Hydra Dyne Technology Inc. and Pioli S.r.l. during 2019 were consistent with this external growth strategy. A more complete discussion of these operations is given in the “Report on operations” accompanying the Consolidated Annual Financial Report at 31 December 2019.

The Company absorbed Ricci Engineering S.r.l., a subsidiary, during the year. The absorption was performed to exploit all possible manufacturing and commercial synergies thereby improving the efficiency of production systems and keeping a tighter rein on costs for additional gains in profitability.

1 Profitability

Interpump Group S.p.A. booked net revenues of €98.9m (€103.6m in 2018). An analysis by geographic area of the revenues from sales and services is given in the commentary on this item in the notes to the financial statements.

The cost of sales accounted for 61.6% of turnover (62.0% in 2018). Production costs, which totaled €32.1m (€35.6m in 2018) accounted for 32.5% of sales (34.4% in 2018). The purchase cost of raw materials and components sourced on the market, including changes in inventories, totaled €28.8m equivalent to 29.2% of sales (€28.7m in 2018).

Distribution costs totaled €6.3m (€6.1m in 2018), reflecting an increase in their incidence on sales by 0.5 percentage points compared to 2018.

General and administrative expenses amounted to €18.4m (€17.4m in 2018) and their incidence on sales rose by 1.8 percentage points.

Total payroll costs were €28.2m (€28.1m in 2018) with an average of 479 employees (472 employees in 2018). The per capita cost was slightly lower than in the prior year (-1.2%).

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

	<i>2019</i>	<i>% on</i>	<i>2018</i>	<i>% on</i>
	<u><i>(€/000)</i></u>	<u><i>sales</i></u>	<u><i>(€/000)</i></u>	<u><i>sales</i></u>
Ordinary profit before financial charges	65,350		95,048	
Dividends	(50,173)		(77,192)	
Impairment losses on investments	<u>6</u>		<u>17</u>	
Operating profit (EBIT)	<u>15,183</u>	15.4%	<u>17,873</u>	17.3%
Amortization, depreciation and write-downs	<u>4,898</u>		<u>4,752</u>	
Gross operating profit (EBITDA)	<u>20,081</u>	20.3%	<u>22,625</u>	21.8%

EBIT totaled €15.1m or 15.4% of sales, compared with €17.9m in 2018 (17.3% of sales), reflecting a decrease in the incidence on sales of 1.9 percentage points.

EBITDA was €20.1m or 20.3% of sales, compared with the €22.6m in 2018, which was 21.8% of sales, reflecting a decrease of 1.5 percentage points. IFRS 16 came into force on 1 January 2019, involving the recognition of rentals in the same way as finance leases and, hence,

recognizing the liability for total rental payments (discounted) over the contractual period and booking the right of use in the same amount under fixed assets. The right-of-use asset is depreciated over the contractual term, while the rental payments are recognized as a reduction of the debt and no longer in the income statement, in which they now appear as depreciation. Had the 2018 accounting policies been applied, 2019 EBITDA would have been €19.3m (19.5% of sales).

The year closed at 31 December 2019 with a net profit of €60.2m (€87.9m in 2018). Dividends from subsidiaries recognized in the income statement totaled €50.2m in 2019 and €77.2m in 2018.

The effective tax rate for the year, net of dividends, was 27.9% compared with 30.3% in 2018.

2 Statement of financial position

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

	31/12/2019 <u>(€/000)</u>	%	31/12/2018 <u>(€/000)</u>	%
Trade receivables	16,135		16,885	
Net inventories	23,810		23,929	
Other current assets	40,413		50,279	
Trade payables	(16,234)		(15,767)	
Short-term tax payables	(641)		(441)	
Short-term portion for provisions for risks and charges	-		-	
Other short-term liabilities	<u>(7,028)</u>		<u>(6,707)</u>	
Net working capital	<u>56,455</u>	6.8	<u>68,178</u>	9.7
Net intangible and tangible fixed assets	38,402		30,345	
Goodwill	34,112		34,043	
Equity investments	600,465		460,364	
Other financial fixed assets	107,624		113,610	
Other non-current assets	2,757		2,607	
Liabilities for employee benefits	(5,216)		(5,043)	
Medium/long-term portion for provisions for risks and charges	(66)		(60)	
Other medium/long-term liabilities	<u>(764)</u>		<u>(987)</u>	
Total net fixed assets	<u>777,314</u>	93.2	<u>634,879</u>	90.3
Total capital employed	<u>833,769</u>	100.0	<u>703,057</u>	100.0

	31/12/2019 (€/000)	%	31/12/2018 (€/000)	%
<i>Financed by:</i>				
Total shareholders' equity	<u>457,900</u>	54.9	<u>395,150</u>	56.2
Cash and cash equivalents	(95,371)		(12,897)	
Bank payables	388		487	
Short-term interest-bearing financial payables	150,841		129,834	
Short-term payables for acquisition of investments	<u>16,878</u>		<u>1,369</u>	
Total short-term financial payables (cash on hand)	<u>72,736</u>	8.7	<u>118,793</u>	16.9
Total medium/long-term financial payables	<u>303,133</u>	36.4	<u>189,114</u>	26.9
Total sources of financing	<u>833,769</u>	100.0	<u>703,057</u>	100.0

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

3 Capital expenditure

Capital expenditure on tangible fixed assets was 6.5 million euro (5.8 million euro in 2018) and related to the normal renewal and modernization of plant and equipment.

The difference with respect to the expenditure recorded in the cash flow statement is due to the dynamics of payments.

The increase in intangible assets by €1.1m (€0.8m in 2018) was almost entirely due to the capitalization of product development costs.

4 Loans

Net financial indebtedness at 31 December 2019 is €359.0m (€306.5m at 31/12/2018). The changes during the year are analyzed in the table below:

	2019 (€/000)	2018 (€/000)
Opening net financial position	(306,538)	(310,896)
Adjustment: Effect of IFRS 16 on the opening net financial position	(5,256)	-
Adjustment: Opening net financial position of absorbed companies	<u>407</u>	<u>-</u>
Adjusted opening net financial position	(311,387)	(310,896)
Cash flow from operations	13,792	15,802
Principal portion of leasing installments paid (IFRS 16)	(694)	-
Liquidity generated (absorbed) by operating capital	379	(3,464)
Liquidity generated (absorbed) by other current assets and liabilities	275	461
Net investment in tangible and intangible fixed assets	(5,799)	(6,033)
Received financial income	1,306	1,617
Other	<u>83</u>	<u>(157)</u>
<i>Free cash flow</i>	9,342	8,226
Proceeds (payments) from the disposal (purchase) of investments	(26,237)	416
Purchase of treasury shares	(78,993)	(54,183)
Proceeds from sales of treasury shares for stock options	3,823	540
Principal portion of leasing installments paid (IFRS 16)	694	-
Principal portion of new leasing contracts arranged (IFRS 16)	(311)	-
Remeasurement and early close-out of leasing contracts (IFRS 16)	4	-
Dividends received from subsidiaries	62,208	58,425
Dividends paid	(23,200)	(22,532)
Change in other financial assets	22	29
Reimbursement (Disbursement) of loans from (to) subsidiaries	<u>5,044</u>	<u>13,437</u>
<i>Net cash generated (used)</i>	<u>(47,604)</u>	<u>4,358</u>
Net financial position at end of year	<u>(358,991)</u>	<u>(306,538)</u>

Adoption of IFRS 16 has involved recognizing a payable equivalent to the discounted contractual commitment for rental payments of €5.3m at 1 January 2019.

The net financial position breaks down as follows:

	31/12/2019 (€/000)	31/12/2018 (€/000)	01/01/2018 (€/000)
Cash and cash equivalents	95,371	12,897	22,669
Bank payables	(388)	(487)	(341)
Interest-bearing financial payables (current portion)	(150,841)	(129,834)	(122,618)
Interest-bearing financial payables (non-current portion)	<u>(303,133)</u>	<u>(189,114)</u>	<u>(210,606)</u>
Total	<u>(358,991)</u>	<u>(306,538)</u>	<u>(310,896)</u>

At 31 December 2019 all the loan covenants had been amply complied with.

5 Relations with subsidiaries

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

	Trade receivables		Revenues	
	<u>31/12/2019</u>	<u>31/12/2018</u>	<u>2019</u>	<u>2018</u>
<i>Subsidiaries:</i>				
General Pump Companies Inc.	3,127	3,262	19,866	20,074
NLB Corporation Inc.	313	372	3,231	2,350
Interpump Hydraulics India Ltd	841	1,349	1,112	1,764
General Pump China Inc.	261	635	442	839
IMM Hydraulics S.p.A.	164	191	398	333
Muncie Power Inc.	98	92	371	345
Inoxpa Ltd	48	8	256	83
Hammelmann Bombas e Sistemas Ltda	38	50	150	100
Inoxpa S.A.	14	7	143	80
Interpump Hydraulics S.p.A.	98	64	141	130
Inoxpa Colombia Sas	18	1	118	54
GS-Hydro UK Ltd	44	93	96	91
GS-Hydro S.A.U	208	105	90	104
Inoxihp S.r.l.	57	64	86	97
Hammelmann GmbH	11	13	82	109
AVI S.r.l.	41	14	79	52
Hammelmann S. L.	12	7	64	58
GS-Hydro Austria GmbH	11	15	49	56
Interpump Hydraulics Brasil	47	-	47	-
GS-Hydro Piping Systems Co. Ltd	19	52	41	51
Inoxpa South Africa	18	12	39	32
GS-Hydro Korea Ltd	9	59	36	58
Mariotti & Pecini S.r.l.	29	3	32	27
GS-Hydro Sp Z O O	8	9	29	34
GS-Hydro U.S. Inc.	11	16	20	23
Interpump Hydraulics Middle East FZE	12	5	21	10
GS-Hydro Benelux B.V.	5	20	17	31
GS-Hydro Denmark AS	4	6	15	20
Inoxpa Solutions Moldova	14	32	14	32
GS-Hydro Ab	3	4	12	14
Interpump Piping GS S.r.l.	6	12	10	10
Walvoil S.p.A.	20	22	7	8
Inoxpa Solutions France Sas	-	-	7	-
Hydroven S.r.l.	5	2	7	11
Unidro Contarini Sarl	1	1	6	6
Walvoil Fluid Power Korea Llc	-	-	6	4
GS-Hydro do Brasil Sistemas Hidraulicos Ltda	5	1	5	9
SIT S.p.A.	-	-	4	4

	Trade receivables		Revenues	
	<u>31/12/2019</u>	<u>31/12/2018</u>	<u>2019</u>	<u>2018</u>
<i>Subsidiaries:</i>				
GS-Hydro System GmbH	-	1	3	5
Tubiflex S.p.A.	1	-	3	3
Inoxpa Skandinavien A/S	-	-	3	1
Hydrocar Chile S.A.	-	-	2	7
Tekno Tubi S.r.l.	1	1	2	2
GS-Hydro Singapore Pte Ltd	1	1	2	2
Improved Solutions Unipessoal Ltda	-	2	2	6
Pioli S.r.l.	-	-	1	-
Hydra Dyne Technology Inc.	2	-	-	-
Inoxpa Italia Srl	28	-	-	-
Interpump South Africa Pty Ltd	-	1	-	1
Interpump Hydraulics (UK) Ltd	-	-	-	4
Contarini Leopoldo S.r.l.	1	2	-	-
Oleodinamica Panni S.r.l.	2	2	-	-
GS-Hydro Hong Kong Ltd	-	1	-	-
<i>Total</i>	<u>5,656</u>	<u>6,609</u>	<u>27,167</u>	<u>27,134</u>

The Company also has a receivable from Interpump Piping GS S.r.l. of €22k (payable of €16k in 2018) following its inclusion in the domestic tax consolidation regime from 2018.

	Trade payables		Costs	
	<u>31/12/2019</u>	<u>31/12/2018</u>	<u>2019</u>	<u>2018</u>
<i>Subsidiaries:</i>				
IMM Hydraulics S.p.A.	222	173	356	309
SIT S.p.A.	102	114	291	488
General Pump Companies Inc.	-	8	242	38
Interpump Hydraulics S.p.A.	69	142	205	275
Inoxpa Solution Moldova	4	-	197	15
Hammelmann GmbH	-	-	75	72
Hydroven S.r.l.	18	11	65	73
Walvoil S.p.A.	-	12	48	40
Pioli S.r.l.	22	-	44	-
Inoxpa S.A.	18	10	43	21
General Pump China Inc.	-	-	41	67
GS-Hydro UK Ltd	12	-	39	-
Inoxpa Ltd	-	-	25	-
Interpump Hydraulics India Ltd	<u>28</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Total</i>	<u>495</u>	<u>470</u>	<u>1,671</u>	<u>1,398</u>

The amount payable by the Company to Interpump Hydraulics S.p.A. in both 2018 and 2019 includes €411k relating to its prior inclusion in the domestic tax consolidation regime. This option expired in 2016 and was not renewed.

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

	Loans granted		Interest income	
	<u>31/12/2019</u>	<u>31/12/2018</u>	<u>2019</u>	<u>2018</u>
<i>Subsidiaries:</i>				
Interpump Hydraulics S.p.A.	87,590	106,590	1,045	1,255
IMM Hydraulics S.p.A.	30,500	20,500	258	154
Interpump Piping GS S.r.l.	7,000	9,000	76	90
Hydra Dyne Technology Inc.	9,000	-	66	-
Muncie Power Inc.	-	-	42	-
Tekno Tubi S.r.l.	3,280	3,540	35	35
Inoxpa S.A.	-	1,763	7	15
GS-Hydro UK Ltd	500	500	5	4
GS-Hydro Benelux B.V.	-	1,000	1	8
Walvoil S.p.A.	-	-	-	11
<i>Total</i>	<u>137,870</u>	<u>142,893</u>	<u>1,535</u>	<u>1,572</u>

The intercompany loans outstanding at 31 December 2019 earn interest at Euribor (3 or 6 months) plus a spread between 80 and 100 basis points, except for the loan to Hydra Dyne Technology Inc., on which a fixed rate of 1.95% is applied. At 31 December, interest receivable amounts to €671k (€440k), as analyzed below:

	Interest receivable	
	<u>31/12/2019</u>	<u>31/12/2018</u>
<i>Subsidiaries:</i>		
Interpump Hydraulics S.p.A.	518	334
IMM Hydraulics S.p.A.	74	49
Hydra Dyne Technology Inc.	37	-
Interpump Piping GS S.r.l.	18	23
Teknova S.r.l. (in liquidation)	12	12
Tekno Tubi S.r.l.	9	9
GS-Hydro UK	3	4
Inoxpa S.A.	-	4
GS-Hydro Benelux B.V.	-	5
<i>Total</i>	<u>671</u>	<u>440</u>

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

	Dividends receivable		Dividends	
	<u>31/12/2019</u>	<u>31/12/2018</u>	<u>2019</u>	<u>2018</u>
<i>Subsidiaries:</i>				
Hammelmann GmbH	3,000	10,000	15,000	27,000
Walvoil S.p.A.	-	-	13,000	13,000
NLB Corporation Inc.	-	-	8,020	7,592
Inoxpa S.A.	5,000	10,000	5,000	20,000
General Pump Companies Inc.	-	-	5,401	5,138
Tubiflex S.p.A.	-	-	2,001	3,200
Mariotti & Pecini S.r.l.	-	-	960	735
Inoxihp S.r.l.	-	-	<u>791</u>	<u>527</u>
<i>Total</i>	<u>8,000</u>	<u>20,000</u>	<u>50,173</u>	<u>77,192</u>

6 Transactions with related parties

Transactions with other related parties during 2018 included the rental of factories owned by companies controlled by the current shareholders and directors of the Parent Company totaling €671k. Following the adoption of IFRS 16, these costs were not charged to the income statement in 2019, but the Company now reports interest-bearing financial payables totaling €4,514k and financial charges due to discounting the rentals payable to related parties amounting to €64k. In addition, the 2019 income statement again includes other costs of €15k.

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

7 Exposure to risks and uncertainties and Financial risk factors

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

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

(a) Market risks

(i) Exchange rate risk

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

(ii) Interest rate risk

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

(b) Credit risk

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

(c) Liquidity risk

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

(d) Price and cash flow risk

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

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

8 Environment, health and safety

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

Pursuant to art. 5, para. 3.b), of Decree 254/2016, the Company has prepared a consolidated non-financial statement, which is provided as a separate document with respect to this Annual Financial Report. The consolidated non-financial statement, prepared in compliance with GRI Standards and subjected to limited examination by EY S.p.A., is available on the Company's website.

9 Further information

Twelve new projects were completed in 2019, 7 of which concerning new pump versions and mechanical components for high and very high pressure pumps, and 5 relating to applications for the food processing industry; in addition, work commenced on 6 new projects. It is Company policy to continue to invest heavily in research and development in future years in order to add further impetus to organic growth. Product development costs totaling €872k were capitalized in 2019, since they will benefit future years, while an amount of €157k was charged to the income statement.

At 31 December 2019 the Company held 2,224,739 shares, representing 2.043% of capital, acquired at an average unit cost of EUR 24.430.

With regard to stock option plans and the shares in the Company and in subsidiaries held by directors, statutory auditors and general managers, you are invited to consult the “Board of Directors' Report”, which is attached to the Consolidated Annual Financial Report.

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

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

On 14 January 2020, the Company closed the acquisition of a 60% interest in Transtecno, a company operating in the design, production and commercialization of gears and ratiomotors. This company based in Anzola Emilia (Bologna) has branches in China, the Netherlands, Spain, the USA and Mexico. Transtecno makes a medium-low power range of products that are used in a multitude of sectors, with specific lines designed for poultry farming, car wash systems and renewable energy (biomass boilers and solar panels). The modular design approach facilitates the optimization of distribution, reducing the need for burdensome inventories and simplifying the work of distributors.

The price, including the net financial position, was €22m plus 488,533 Interpump shares already owned by the Company. Put and call options, exercisable in two and four years, were agreed in relation to the remaining 40% interest. For information about the operation, refer to the “Board of Directors' Report” attached to the Consolidated Annual Financial Report.

Considering the short time since 31 December 2019, and in the light of the short period of time historically covered by the order portfolio, we do not yet have enough information to make a reliable forecast of expected trends in the current year. No other events worthy of mention in this report have taken place, and the activities of the Company have proceeded smoothly.

With reference to the COVID-19 epidemic that broke out in China, where it is currently being brought under control, the Interpump Group - which is not present in the Wuhan area - has only felt a modest direct impact because the situation is restricted, almost entirely, to the Chinese market. The productive and commercial capacity in China was relaunched in early March, with hopes for rapid recovery. The very recent situation in Italy, expected to extend to the rest of Europe, is undoubtedly problematic and the outcome is currently difficult to foresee. Despite this, the Italian plants in the Group continue to work under near normal conditions, although everyone has adopted a series of prudent behavioral measures to contain the risk of contagion, consistent with the recommendations made by the authorities.

11 Proposal to the Shareholders' Meeting

The profit for the year was EUR 60,151,411. We propose:

- allocation of the net profit for the year to the Extraordinary Reserve, since the legal reserve has already reached the limit of one-fifth of the subscribed and fully paid up share capital;
- partial distribution of the Extraordinary Reserve by declaring a dividend of EUR 0.25 for each share in circulation including the right as per art. 2357-(3) subsection 2 of the Italian Civil Code. It should be noted that, for tax purposes, the provisions of the Ministerial Decree dated 26 April 2017 will be applied, since the entire dividend of Euro 0.25 per share is taxable in the hands of the recipient and is considered to have been drawn from profit reserves accumulated subsequent to the tax year in progress at 31 December 2007 and up to that in progress at 31 December 2016.

Sant'Ilario d'Enza (RE), 16 March 2020

For the Board of Directors

Fulvio Montipò

Chairman and Chief Executive Officer

**Separate financial statements at 31 December 2019
of Interpump Group S.p.A.**

INTERPUMP GROUP S.p.A.

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

Via E. Fermi 25

Share Capital: € 56,617,232.88

Reggio Emilia Court - Company Register no. 117217

Tax code 11666900151

VAT number 01682900350

Statement of financial position

Euro	<u>Notes</u>	<u>31/12/2019</u>	<u>31/12/2018</u>
ASSETS			
Current assets			
Cash and cash equivalents	3	95,370,519	12,897,125
Trade receivables	4, 19	16,135,010	16,884,883
Dividends receivable		8,000,000	20,000,000
Inventories	5	23,810,452	23,929,241
Tax receivables		1,692,016	674,127
Current financial assets	11, 19	30,260,000	29,283,175
Other current assets	6, 19	460,581	321,598
Total current assets		<u>175,728,578</u>	<u>103,990,149</u>
Non-current assets			
Property, plant and equipment	7	34,998,202	27,289,962
Goodwill	8	34,112,024	34,043,360
Other intangible assets	9	3,403,808	3,054,964
Investments in subsidiaries	10	600,465,478	460,363,638
Other financial assets	11, 19	107,623,536	113,610,341
Tax receivables		1,046,267	1,060,185
Deferred tax assets	12	1,699,668	1,537,279
Other non-current assets		11,433	9,143
Total non-current assets		<u>783,360,416</u>	<u>640,968,872</u>
Total assets		<u>959,088,994</u>	<u>744,959,021</u>

Euro	<u>Notes</u>	<u>31/12/2019</u>	<u>31/12/2018</u>
LIABILITIES			
Current liabilities			
Trade payables	4, 19	16,234,015	15,766,395
Bank payables		387,831	487,283
Interest-bearing financial payables (current portion)	13, 19	150,840,754	129,834,000
Tax payables		640,632	441,181
Other current liabilities	14	23,906,457	8,076,348
Total current liabilities		<u>192,009,689</u>	<u>154,605,207</u>
Non-current liabilities			
Interest-bearing financial payables	13, 19	303,133,551	189,113,881
Liabilities for employee benefits	16	5,215,725	5,043,694
Deferred tax liabilities	12	764,240	986,796
Provisions for risks and charges	15	65,981	59,637
Total non-current liabilities		<u>309,179,497</u>	<u>195,204,008</u>
Total liabilities		<u>501,189,186</u>	<u>349,809,215</u>
SHAREHOLDERS' EQUITY			
Share capital	17	55,460,369	54,842,219
Legal reserve	18	11,323,447	11,323,447
Share premium reserve	17	96,512,347	70,390,032
Reserve from remeasurement of defined benefit plans		(2,334,070)	(2,010,624)
Other reserves	18	296,937,715	260,604,732
Total shareholders' equity		<u>457,899,808</u>	<u>395,149,806</u>
Total shareholders' equity and liabilities		<u>959,088,994</u>	<u>744,959,021</u>

Income statement

Euro	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Net sales	21	98,909,524	103,597,412
Cost of sales	23	(60,942,577)	(64,262,879)
Gross industrial margin		37,966,947	39,334,533
Other net revenues	22	2,097,069	2,109,542
Distribution costs	23	(6,392,029)	(6,096,938)
General and administrative expenses	23	(18,414,012)	(17,398,873)
Impairment losses on assets	9, 10	(17,312)	(17,253)
Other operating costs	23	(63,457)	(75,420)
Dividends		50,173,049	77,192,081
Ordinary profit before financial expenses		65,350,255	95,047,672
Financial income	24	1,903,564	2,055,626
Financial expenses	24	(2,046,051)	(2,366,720)
Profit for the year before taxes		65,207,768	94,736,578
Income taxes	25	(5,056,357)	(6,805,074)
Net profit for the year		60,151,411	87,931,504
Basic earnings per share	26	0.570	0.824
Diluted earnings per share	26	0.565	0.815

Comprehensive income statements

(€/000)	<u>2019</u>	<u>2018</u>
Net profit (A)	60,151	87,932
Other profit (loss) that will not be subsequently reclassified to profit for the year		
<i>Profit (Loss) deriving from the restatement of defined benefit plans</i>	<i>(425)</i>	<i>(66)</i>
<i>Related taxes</i>	<u><i>102</i></u>	<u><i>15</i></u>
Total other comprehensive profit (loss) that will not be subsequently reclassified to profit for the year, net of tax effect (B)	<u>(323)</u>	<u>(51)</u>
Comprehensive net profit (A) + (B)	<u>59,828</u>	<u>87,881</u>

Cash flow statement

(€/000)	<u>2019</u>	<u>2018</u>
Cash flow from operating activities		
Pretax profit	65,207	94,737
Profit before taxes earned by Ricci Engineering prior to absorption	114	-
Adjustments for non-cash items:		
Capital gains from the sale of fixed assets	(20)	(37)
Amortization, depreciation and write-downs of tangible and intangible fixed assets	4,892	4,709
Costs recognized in the income statement related to stock options that do not involve monetary outflows for the Company	2,325	1,532
Impairment losses (writebacks) on assets	6	17
Net change in risk funds and allocations to provisions for employee benefits	(228)	(181)
Dividends ascribed in the income statement	(50,173)	(77,192)
Net financial charges	142	311
	<u>22,037</u>	<u>23,896</u>
(Increase) decrease in trade receivables and other current assets	1,215	(2,615)
(Increase) decrease in inventories	172	(3,019)
Increase (decrease) in trade payables and other current liabilities	(733)	2,631
Taxes paid	(6,455)	(6,496)
Interest paid	(2,020)	(1,902)
Currency exchange gains	230	304
Net cash from operating activities	<u>14,446</u>	<u>12,799</u>
Cash flows from investing activities		
Outlay for the acquisition of equity investments net of treasury stock assigned	(26,237)	416
Outlays for purchase of treasury shares	(78,993)	(54,183)
Proceeds from sales of treasury shares for stock options	3,823	540
Capital expenditure on property, plant and equipment	(4,784)	(5,288)
Proceeds from the sale of tangible fixed assets	25	38
Increase in intangible assets	(1,040)	(783)
Received financial income	1,306	1,617
Other	11	29
Net liquidity generated (used) by investing activities	<u>(105,889)</u>	<u>(57,614)</u>

(€/000)	<u>2019</u>	<u>2018</u>
Cash flows from financing activities		
Dividends received from subsidiaries	62,208	58,425
Dividends paid	(23,200)	(22,532)
(Disbursal) Repayment of intercompany loans	5,044	13,437
Disbursals (repayments) of loans	130,137	(14,386)
Change in other financial assets	11	-
Payment of finance leasing installments (principal portion)	(736)	(47)
Net liquidity generated (used by) financing activities	<u>173,464</u>	<u>34,897</u>
Net increase (decrease) of cash and cash equivalents	<u>82,021</u>	<u>(9,918)</u>
Opening cash and cash equivalents of merged companies	552	-
Cash and cash equivalents at beginning of year	<u>12,410</u>	<u>22,328</u>
Cash and cash equivalents at end of year	<u>94,983</u>	<u>12,410</u>

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

Statement of changes in shareholders' equity

	Share capital	Legal reserve	Share premium reserve	Reserve from remeasurement of defined benefit plans	Other reserves	Total shareholders' equity
<i>Balances at 1 January 2018</i>	55,805	11,323	120,390	(1,960)	194,242	379,800
Distribution of the dividend	-	-	-	-	(22,532)	(22,532)
Recognition in the income statement of the fair value of stock options granted to and exercisable by employees of Interpump Group S.p.A.	-	-	1,532	-	-	1,532
Fair value measurement of the stock options granted to and exercisable by employees of subsidiaries	-	-	349	-	-	349
Purchase of treasury shares	(1,042)	-	(54,183)	-	1,042	(54,183)
Sale of treasury shares to the beneficiaries of stock options	47	-	540	-	(47)	540
Sale of treasury shares for the acquisition of equity investments	32	-	1,763	-	(32)	1,763
Comprehensive net profit for the year	-	-	-	(51)	87,932	87,881
<i>Balances at 31 December 2018</i>	54,842	11,323	70,391	(2,011)	260,605	395,150
Distribution of the dividend	-	-	-	-	(23,200)	(23,200)
Recognition in the income statement of the fair value of stock options granted to and exercisable by employees of Interpump Group S.p.A.	-	-	2,325	-	-	2,325
Fair value measurement of the stock options granted to and exercisable by employees of subsidiaries	-	-	260	-	-	260
Purchase of treasury shares	(1,529)	-	(78,993)	-	1,529	(78,993)
Sale of treasury shares to the beneficiaries of stock options	171	-	3,823	-	(171)	3,823
Sale of treasury shares for the acquisition of equity investments	1,976	-	98,707	-	(1,976)	98,707
Comprehensive net profit for the year	-	-	-	(323)	60,151	59,828
<i>Balances at 31 December 2019</i>	55,460	11,323	96,513	(2,334)	296,938	457,900

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

1. General information

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

The Company manufactures and markets high and very high pressure plunger pumps, and has direct and indirect controlling interests in 103 companies. Interpump Group S.p.A. has production facilities in Sant'Ilario d'Enza (RE). For information on the Group's operations, refer to the "Board of Directors' Report" attached to the Consolidated Financial Report.

The financial statements at 31 December 2019, prepared on a going concern basis, were approved by the Board of Directors at the meeting held on 16 March 2020.

2. Accounting standards adopted

2.1 Reference accounting standards

The financial statements at 31 December 2019 have been prepared in compliance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union. "IFRS" also means the International Accounting Standards ("IAS") currently in force and all the interpretative documents issued by the IFRS Interpretation Committee, previously denominated International Financial Reporting Interpretations Committee ("IFRIC") and still earlier known as the Standing Interpretations Committee ("SIC").

The statement of financial position and the income statement are presented in euro, while the other schedules and notes are presented in thousands of euro. The financial statements are prepared using the cost method, with the exception of financial instruments, which are measured at fair value.

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

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

The cash flow statement was prepared using the indirect method.

2.1.1 Accounting standards, amendments and interpretations in force from 1 January 2019 and adopted by the Company

As from 2019 the Company has applied the following new accounting standards, amendments and interpretations, reviewed by IASB:

- *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 new standard applies to all leasing contracts, with certain exceptions. A lease is a contract that grants the right of use of an 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, despite excluding leasing contracts for assets of modest value (such as computers) and short term contracts (i.e. less than 12 months). When a lease is recognized, the liability represented by the present value of the future lease installments and the asset that the entity is entitled to use must also be recorded, with separate recognition of the related borrowing costs and depreciation. The liability may be remeasured (e.g. to reflect a change in the contractual terms or a change in the indices to which the payment of the leasing installments is linked) and the resulting change must adjust the underlying asset. The Company has elected to recognize the effect of redetermining the value of shareholders’ equity at 1 January 2019 on a modified retrospective basis, without restating the prior years presented for comparative purposes. In addition, the Company has applied the exceptions allowed by the standard in relation to those leasing contracts expiring within 12 months of the first-time adoption date that do not contain a purchase option, which have been booked to the income statement on a straight-line basis, and those for which the underlying asset is of low value.

The effects of applying IFRS 16 on the opening balances of the financial statements of Interpump Group S.p.A. are as follows:

	€/000
Tangible fixed assets (right-of-use recognition)	<u>5,251</u>
Total assets	<u>5,251</u>
Recognition of installments payable	5,256
Other current liabilities (elimination of current leasing installments)	<u>(5)</u>
Total liabilities	<u>5,251</u>

The transition to IFRS 16 has introduced several elements of professional judgment that required the definition of certain accounting policies and the use of assumptions and estimates in relation to the lease term and the definition of the incremental borrowing rate.

Specifically:

- The Company has decided to not apply IFRS 16 to contracts containing a lease with an intangible underlying asset.
- *Lease term*: the Company has analyzed all its lease contracts, defining the lease term for each one, being an expression of the "non-cancellable" period, together with the effects of any extension or early termination options, the exercise of which was deemed to be reasonably certain. Specifically, for property this assessment considered the facts and circumstances of each asset. With regard to the other asset categories, primarily company cars, the Company generally deemed the exercise of extension or early termination clauses to be improbable in consideration of the customary practices adopted.
- *Incremental borrowing rate*: since most leasing contracts arranged lack an implicit rate of interest, the Company has applied a series of marginal borrowing rates at the date of initial application that take account of the residual durations in similar economic contexts.

The data for 2019 includes the following effects of adopting the new accounting standard:

- Increase in capital employed by €4,840k;
 - Increase in net financial position by €4,868k;
 - Elimination of rental and hire costs totaling €765k;
 - Increase in depreciation by €728k;
 - Increase in financial expenses by €65k.
- *IFRIC 23 – “Uncertainty over Income Tax Treatments”*. On 7 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 disclosure 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 entity must decide if each uncertain tax treatment is considered separately or together with other (one or more) uncertain tax treatments; the approach adopted must provide the best forecast for the outcome of the uncertainty. Application of the new interpretation did not result in adjustments to the equity balances of the Company.
 - *Amendments to IFRS 9 – “Prepayment Features with Negative Compensation”*. IASB published an *Amendment to IFRS 9* on 12 October 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. Application of the new amendment did not result in adjustments to the Company's equity balances.
 - *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) must be recognized in profit and loss, regardless of the way in which the tax arises, to IAS 23 (*Borrowing Costs*) clarifying that an entity must treat any borrowing originally carried out for the development of an asset as part of general borrowings when the asset in question is ready for its intended use or for sale, to IFRS 3 (*Business Combinations*), clarifying that an entity must remeasure previously held interests in a business combination once it obtains control of the business in question, and to IFRS 11 (*Joint Arrangements*) whereby a company must not remeasure previously held interests in a business combination when it obtains joint control of the business. The Company has not recorded any impact on its financial statements as a result of the above changes.

- *Amendments to IAS 19 – “Plan Amendment, Curtailment or Settlement”*. On 7 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 Company has not recorded any impact on its financial statements as a result of these changes because, in the reference period, it did not book any changes, curtailments or settlements of the plans.

2.1.2 Accounting standards, amendments and interpretations in force from 1 January 2019, but not relevant for the Company

- *Amendments to IAS 28 – “Long-term interests in associates and joint ventures”*. On 12 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.

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

- *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. Early application is permitted.
- *Amendments to IFRS 3 - “Business Combinations”*. IASB published these amendments on 22 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 on 31 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.

- *Amendments to references to the Conceptual Framework in IFRS Standards.* The IASB published this amendment on 29 March 2018 with the aim of improving both the definitions of "asset" and "liability" and the process for their measurement, elimination and presentation. The document also clarifies a number of important concepts, such as identification of the recipients of financial statements and the objectives they seek to achieve, and discusses application of the concepts of prudence and uncertainty when evaluating financial disclosures. The amendments will take effect from 1 January 2020. Early adoption is however permitted.
- *Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest Rate Benchmark Reform.* The IASB published these amendments on 26 September 2019 so that companies can make useful financial disclosures during the period of uncertainty caused by the gradual elimination of certain interest-rate parameters, such as the interbank offered rates (IBORs); they amend certain requirements for the recognition of hedges in order to mitigate potential effects deriving from uncertainties linked to the IBOR reform. The amendments also require companies to make additional disclosures to investors about any hedging relationships that are directly affected by those uncertainties. The amendments will take effect from 1 January 2020. Early adoption is however permitted.

2.2 Segment information

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

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

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

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

2.3 Treatment of foreign currency transactions

(i) Foreign exchange transactions

The functional and presentation currency adopted by Interpump Group S.p.A. is the euro. Foreign currency transactions are translated to euro using the exchange rates in force on the date of the transaction. Monetary assets and liabilities are translated at the exchange rate in force on the reporting date. Foreign exchange differences arising from the translation are recognized in the income statement. Non-monetary assets and liabilities measured at historical cost are

translated at the exchange rates in force on the date of the related transactions. Monetary assets and liabilities stated at fair value are translated to euro at the exchange rate in force on the date in respect of which the relative fair value was determined.

2.4 Non-current assets held for sale and discontinued operations

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

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

2.5 Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

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

(iv) Leases

Leased assets are recognized as right-of-use assets and, accordingly, their fair value or, if lower, the present value of the related lease installments, is reported among property, plant and equipment from the start date of the leasing contract. The corresponding liability to the lessor is classified among the financial payables. Subsequently, these assets are depreciated and measured in the same way as for directly-owned property, plant and equipment.

(v) Leasehold improvements

Any leasehold improvements with the same characteristics as fixed assets are capitalized in the asset category to which they relate and depreciated over their useful lives or, if shorter, over the residual life of the lease.

2.6 Goodwill

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

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

2.7 Other intangible assets

(i) Research and development costs

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

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

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

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

(ii) Loan ancillary costs

Loan ancillary costs are deducted from the nominal amount of the loan and treated as outlined in section 2.15.

(iii) Other intangible assets

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

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

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

(iv) Subsequent costs

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

(v) Amortization

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

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

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

2.8 Impairment of assets

The book values of assets, with the exception of inventories (see section 2.13), financial assets regulated by IFRS 9, deferred tax assets (see section 2.17), and non-current assets held for sale regulated by IFRS 5, are subject to measurement at the reporting date in order to identify the existence of possible indicators of impairment. If the valuation process identifies the presence of such indicators, the presumed recoverable value of the asset is calculated using the methods indicated in the following point (i).

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

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

(i) Calculation of estimated recoverable value

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

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

(ii) Reinstatement of impairment losses

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

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

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

Impairment related to goodwill can never be reinstated.

2.9 Equity investments

Investments in subsidiaries and associates are measured at cost.

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

2.10 Cash and cash equivalents

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

2.11 Financial assets (Trade receivables, Other financial assets and Other assets)

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

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

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

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

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

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

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

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

2.12 Derivative financial instruments

It is Company policy to avoid speculative derivative financial instruments; however, when derivative financial instruments fail to meet all the requirements for hedge accounting, any changes in their fair value are recognized in the income statement as financial charges and/or income. Derivative financial instruments are brought to account using hedge accounting methods when:

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

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

The method used to recognize derivative financial instruments depends on whether or not the conditions and requirements of IFRS 9 are fulfilled. Specifically:

(i) *Cash flow hedges*

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

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

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

2.13 Inventories

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

2.14 Share capital and Treasury shares

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

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

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

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

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

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

Current financial liabilities include the short-term portions of the interest-bearing financial payables, bank and lease payables and other financial liabilities.

2.16 Liabilities for employee benefits

(i) Defined contribution plans

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

(ii) *Defined benefit plans*

Defined benefit plans for employees - disbursed at the time of termination of the period of employment with the Company or thereafter - that include severance indemnity, are calculated separately for each plan, estimating the amount of the future benefit that the employees have accrued during the year and in previous years by means of actuarial techniques. The resulting benefit is discounted to present value and recorded net of the fair value of any relative assets. The discount rate at the reporting date is calculated as required by IAS 19 with reference to the market yields of high quality corporate bonds. Only the securities of corporate issuers with an "AA" rating are considered, on the assumption that this class identifies a high rating level in the context of "Investment Grade" securities, with the exclusion, therefore, of higher risk securities. Considering that IAS 19 makes no explicit reference to a specific product sector, we opted for a composite market curve that summarizes the market conditions existing at the date of valuation of the securities issued by companies operating in various sectors including utilities, telecommunications, finance, banking and industrial. At 31 December 2019, the above rate curve for "AA" securities used for actuarial valuation purposes indicates lower expected yields for all maturities with respect to the same curve at 31 December 2018, which was used for the previous actuarial valuation. This is attributable to the uncertainties about the European economy that characterized 2019. Fears about the final Brexit outcome and the slowdown of GDP in the principal European countries have caused corporate yields to contract. Activity in the manufacturing and industrial sector has declined steadily in Germany and Italy, while stagnation in the financial sector is causing operators to expect lower interest rates. During 2019, yields on the majority of the IG corporate sector were negative, resulting in the launch of a new corporate sector purchase program (CSPP) by the ECB in September 2019. The calculation is performed on an annual basis by an independent actuary using the projected unit credit method.

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

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

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

(iii) *Stock options*

On the basis of the stock option plan currently in existence, certain employees and directors are entitled to purchase the treasury shares of Interpump Group S.p.A. The options are measured at fair value, this being booked to the income statement as an addition to the cost of personnel and directors, with a matching entry in the share premium reserve. The fair value is measured at the grant date of the option and recorded in the income statement in the period that runs between said date and the date on which the options become exercisable (vesting period). The fair value of the option is determined using the applicable options measurement method (specifically, the

binomial lattice model), taking account the terms and conditions at which the options were granted.

The remuneration component deriving from stock option plans with Interpump Group S.p.A. shares as the underlying, in accordance with the matters envisaged by interpretation IFRIC 11, is recognized as a capital grant disbursed to subsidiaries wherein the beneficiaries of the stock option plans are employees and consequently recorded as an increase of the relative value of the shareholdings, with a matching entry recorded directly in equity.

2.17 Income taxes

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

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

Deferred taxes are calculated using the liability method on the temporary differences between the amount of assets and liabilities in the financial statements and the corresponding values recognized for tax purposes. Deferred taxes are calculated in accordance with the envisaged method of transfer of timing differences, using the tax rate in force at the reference date of years in which the timing differences arose.

Deferred tax assets are recognized exclusively in the event that it is probable that in future years sufficient taxable incomes will be generated for the realization of said deferred taxes.

2.18 Provisions for risks and charges

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

2.19 Revenues

(i) Revenues from the sale of goods and services

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

purchaser. The change of control coincides with the transfer of ownership or possession of the goods to the purchaser and, therefore, generally occurs on shipment or on completion of the service.

(ii) *Dividends*

Dividends are recognized in the income statement on the date they became payable, and are classified under ordinary earnings before interest and tax because they are considered to represent the ordinary holding activities performed by the Company.

2.20 Costs

(i) *Lease installments*

The principal portion of lease installments is deducted from the financial payable, while the interest portion is charged to the income statement.

(ii) *Financial income and expenses*

Financial income and charges are recorded on an accrual basis in accordance with the interest matured on the net value of the relative financial assets and liabilities, using the effective interest rate. Financial income and charges include foreign exchange gains and losses and the gains and losses on derivative instruments booked to the income statement.

3. Cash and cash equivalents

	31/12/2019	31/12/2018
	<u>(€/000)</u>	<u>(€/000)</u>
Cash	12	12
Bank deposits	<u>95,359</u>	<u>12,885</u>
Total	<u>95,371</u>	<u>12,897</u>

Bank deposits include €130k held in US dollars (\$146k).

The Company continued its strategy of maintaining immediately available liquidity also in 2019, relinquishing the very modest yields that can be achieved only by accepting conditions of limited access.

4. Trade receivables

	31/12/2019	31/12/2018
	<u>(€/000)</u>	<u>(€/000)</u>
Trade receivables, gross	16,641	17,331
Bad debt provision	<u>(506)</u>	<u>(446)</u>
Trade receivables, net	<u>16,135</u>	<u>16,885</u>

Changes in the bad debt provision were as follows:

	2019	2018
	<u>(€/000)</u>	<u>(€/000)</u>
Opening balance	446	380
Provisions in the year	70	75
Merger effect	50	-
Releases in the year to cover losses	<u>(60)</u>	<u>(9)</u>
Closing balance	<u>506</u>	<u>446</u>

Provisions in the year are booked under other operating costs.

Receivables denominated in US dollars total €2,742k (\$3,081k). At 31 December 2019 no receivables were hedged against the risk of exchange rate fluctuations.

No trade receivables or payables are due beyond twelve months.

5. Inventories

	31/12/2019	31/12/2018
	<u>(€/000)</u>	<u>(€/000)</u>
Raw materials and components	10,847	8,994
Semi-finished products	10,470	10,776
Finished products	<u>2,493</u>	<u>4,159</u>
Total inventories	<u>23,810</u>	<u>23,929</u>

Inventories are stated net of an allowance for inventories totaling €2,373k (€2,373k also at 31 December 2018) allocated to cover materials considered to be obsolete and slow moving stock.

6. Other current assets

This item comprises:

	31/12/2019	31/12/2018
	<u>(€/000)</u>	<u>(€/000)</u>
Other receivables	236	46
Accrued income and prepayments	<u>225</u>	<u>276</u>
Total	<u>461</u>	<u>322</u>

7. Property, plant and equipment

	<i>Land and buildings</i>	<i>Plant and machinery</i>	<i>Equipment</i>	<i>Other assets</i>	<i>Total</i>
	<u>(€/000)</u>	<u>(€/000)</u>	<u>(€/000)</u>	<u>(€/000)</u>	<u>(€/000)</u>
Cost	11,142	42,704	18,065	3,425	75,336
Accumulated depreciation	(4,572)	(26,654)	(16,170)	(2,984)	(50,380)
Allowance for impairment	<u>-</u>	<u>(4)</u>	<u>(146)</u>	<u>-</u>	<u>(150)</u>
Net carrying amount	<u>6,570</u>	<u>16,046</u>	<u>1,749</u>	<u>441</u>	<u>24,806</u>
Changes in 2018					
Opening net carrying amount	6,570	16,046	1,749	441	24,806
Increases	31	4,827	659	273	5,790
Disposals	-	(1)	-	-	(1)
Capitalized depreciation	-	(10)	(2)	-	(12)
Depreciation	<u>(182)</u>	<u>(2,236)</u>	<u>(720)</u>	<u>(155)</u>	<u>(3,293)</u>
Closing net carrying amount	<u>6,419</u>	<u>18,626</u>	<u>1,686</u>	<u>559</u>	<u>27,290</u>
At 31 December 2018					
Cost	11,173	46,688	18,701	3,667	80,229
Accumulated depreciation	(4,754)	(28,058)	(16,869)	(3,108)	(52,789)
Allowance for impairment	<u>-</u>	<u>(4)</u>	<u>(146)</u>	<u>-</u>	<u>(150)</u>
Net carrying amount	<u>6,419</u>	<u>18,626</u>	<u>1,686</u>	<u>559</u>	<u>27,290</u>
Changes in 2019					
Opening net carrying amount	6,419	18,626	1,686	559	27,290
Effect on opening balance of right-to-use assets (IFRS 16)	5,126	-	-	125	5,251
Merger effect	-	79	26	26	131
Additions	674	4,255	954	339	6,222
Recognition of right-to-use assets (IFRS 16)	-	-	-	311	311
Disposals	-	(3)	(1)	(1)	(5)
Write-downs	-	-	(12)	-	(12)
Early close-out (IFRS 16)	-	-	-	(4)	(4)
Capitalized depreciation	(80)	(7)	(3)	(2)	(92)
Depreciation	<u>(748)</u>	<u>(2,336)</u>	<u>(737)</u>	<u>(273)</u>	<u>(4,094)</u>
Closing net carrying amount	<u>11,391</u>	<u>20,614</u>	<u>1,913</u>	<u>1,080</u>	<u>34,998</u>
At 31 December 2019					
Cost	16,973	50,568	19,584	4,377	91,502
Accumulated depreciation	(5,582)	(29,950)	(17,525)	(3,297)	(56,354)
Allowance for impairment	<u>-</u>	<u>(4)</u>	<u>(146)</u>	<u>-</u>	<u>(150)</u>
Net carrying amount	<u>11,391</u>	<u>20,614</u>	<u>1,913</u>	<u>1,080</u>	<u>34,998</u>

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

	<i>Land and buildings</i> (€/000)	<i>Plant and machinery</i> (€/000)	<i>Equipment</i> (€/000)	<i>Other assets</i> (€/000)	<i>Total</i> (€/000)
At 1 January 2018	-	2,516	339	9	2,864
At 31 December 2018	-	2,921	280	21	3,222
At 31 December 2019	-	3,672	270	24	3,966

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

	<i>Land and buildings</i> (€/000)	<i>Plant and machinery</i> (€/000)	<i>Equipment</i> (€/000)	<i>Other assets</i> (€/000)	<i>Total</i> (€/000)
At 1 January 2018	-	208	-	-	208
At 31 December 2018	-	178	-	-	178

From 1 January 2019, the IFRS no longer distinguish between finance leases and operating leases (rentals and hire). The net carrying amount of leased assets at 31 December 2019 is analyzed below:

	<i>Land and buildings</i> (€/000)	<i>Plant and machinery</i> (€/000)	<i>Equipment</i> (€/000)	<i>Other assets</i> (€/000)	<i>Total</i> (€/000)
At 31 December 2019	4,486	154	-	345	4,985

Depreciation of €3,620k was charged to the cost of sales (€3,079k in 2018), €24k to distribution costs (€0 in 2018) and €450k for general and administrative costs (€214k in 2018).

At 31 December 2019 the Company had contractual commitments for the purchase of tangible assets totaling €2,173k (€2,549k at 31 December 2018).

8. Goodwill

Goodwill is represented by the merger deficit portions paid for this reason and arising from the merger operations. Goodwill at 31 December 2019 amounts to €34,112k (€34,043k at 31 December 2018). The value of goodwill is assigned to the sole CGU in which the Company is active.

The impairment test is carried out using the Discounted Cash Flow method (DCF) net of taxation. The projected cash flows used in the DCF calculation is determined on the basis of a 5-year business plan that takes account of the various reference scenarios and on the basis of growth forecasts in the various markets. A perpetual growth rate of 1.5% was used for periods after 2024. The projected cash flows determined in this manner were reduced by a discount factor in order to take account of the risk that future plans could become impracticable. The after tax weighted average cost of capital (WACC) was measured at 4.63%. The WACC was 5.79% at 31 December 2018. In addition, a sensitivity analysis was carried out in compliance with the requirements of the joint document issued by Banca d'Italia, Consob, and ISVAP on 3

March 2010. Even reducing the projected cash flows of the CGU by 10% would not have led to any impairment, and nor would an 0.5% increase in the cost of capital used to actualize the projected cash flows. For a complete and more detailed analysis of goodwill, refer to Note 11 in the Consolidated Financial Report at 31 December 2019.

9. Other intangible assets

	<i>Product development expenses (€/000)</i>	<i>Patents trademarks and industrial rights (€/000)</i>	<i>Other intangible assets (€/000)</i>	<i>Total (€/000)</i>
At 1 January 2018				
Cost	20,664	137	2,440	23,241
Accumulated amortization	(15,941)	(137)	(2,118)	(18,196)
Allowance for impairment	<u>(1,369)</u>	=	-	<u>(1,369)</u>
Net carrying amount	<u>3,354</u>	=	<u>322</u>	<u>3,676</u>
Changes in 2018				
Opening net carrying amount	3,354	-	322	3,676
Increases	655	-	148	803
Capitalized amortization	-	-	(8)	(8)
Amortization	<u>(1,195)</u>	=	<u>(221)</u>	<u>(1,416)</u>
Closing net carrying amount	<u>2,814</u>	=	<u>241</u>	<u>3,055</u>
At 31 December 2018				
Cost	21,319	137	2,588	24,044
Accumulated amortization	(17,136)	(137)	(2,347)	(19,620)
Allowance for impairment	<u>(1,369)</u>	=	-	<u>(1,369)</u>
Net carrying amount	<u>2,814</u>	=	<u>241</u>	<u>3,055</u>
Changes in 2019				
Opening net carrying amount	2,814	-	241	3,055
Merger effect	-	-	3	3
Increases	872	-	270	1,142
Capitalized amortization	-	-	(10)	(10)
Amortization	<u>(642)</u>	=	<u>(144)</u>	<u>(786)</u>
Closing net carrying amount	<u>3,044</u>	=	<u>360</u>	<u>3,404</u>
At 31 December 2019				
Cost	22,191	137	2,866	25,194
Accumulated amortization	(17,778)	(137)	(2,506)	(20,421)
Allowance for impairment	<u>(1,369)</u>	=	-	<u>(1,369)</u>
Net carrying amount	<u>3,044</u>	=	<u>360</u>	<u>3,404</u>

Product development costs refer to the cost of developing new products, which is capitalized when the criteria set down in IAS 38 are satisfied. The Company writes down any capitalized project costs that are no longer deemed to be recoverable.

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

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

	<i>Product development expenses (€/000)</i>	<i>Other intangible assets (€/000)</i>	<i>Total (€/000)</i>
At 1 January 2018	1,335	-	1,335
At 31 December 2018	1,164	-	1,164
At 31 December 2019	1,890	19	1,909

Amortization of €786k (€1,416k in 2018) was booked entirely to general and administrative expenses.

10. Investments in subsidiaries

(€/000)	Balance at 31 December 2018	Increase due to assignment of stock options	Increases	Merger effect	Impairment	Balance at 31 December 2019
<i>Subsidiaries:</i>						
Walvoil S.p.A.	118,172	-	-	-	-	118,172
Walvoil Fluid Power India Pvt. Ltd.	14	-	-	-	-	14
NLB Corporation Inc.	62,048	-	-	-	-	62,048
General Pump Companies Inc.	8,903	-	-	-	-	8,903
Interpump Hydraulics S.p.A.	104,258	-	-	-	-	104,258
Hammelmann GmbH	26,032	-	-	-	-	26,032
Inoxpa S.A.	93,127	-	-	-	-	93,127
Reggiana Riduttori S.r.l.	-	-	128,815	1,411	-	130,226
RR International S.r.l.	-	-	1,411	(1,411)	-	-
Mariotti & Pecini S.r.l.	7,923	-	-	-	-	7,923
Inoxihp S.r.l.	8,704	-	-	-	-	8,704
Interpump Piping GS S.r.l.	310	-	-	-	-	310
Teknova S.r.l. (in liquidation)	23	-	-	-	(6)	17
SIT S.p.A.	814	-	-	-	-	814
Tubiflex S.p.A.	27,266	-	7,219	-	-	34,485
Ricci Engineering S.r.l.	606	-	-	(606)	-	-
Pioli S.r.l.	-	-	2,706	302	-	3,008
RW S.r.l.	-	-	302	(302)	-	-
Fair value of the stock options of the employees of subsidiaries	<u>2,164</u>	<u>260</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,424</u>
<i>Total subsidiaries</i>	<u>460,364</u>	<u>260</u>	<u>140,453</u>	<u>(606)</u>	<u>(6)</u>	<u>600,465</u>

Ricci Engineering S.r.l., operating in the design, manufacture and installation for plant for the beer- and wine-making industry, was absorbed by Interpump Group S.p.A. On 1 April 2019.

In April 2019, Interpump Group S.p.A. acquired the entire equity interests in Pioli S.r.l. and RW S.r.l., a complementary company, based in Reggio Emilia and active in the galvanic treatment of metals. RW S.r.l. was absorbed by Pioli S.r.l. in July 2019.

Interpump Group sold its 0.31% interest in Hammelmann Bombas e Sistemas Ltda to Interpump Hydraulics Brasil Ltda on 30 September 2019, realizing a capital gain of €1k.

The entire equity interest in Reggiana Riduttori was acquired on 15 October 2019. This Italian company based in San Polo d'Enza (RE) has 9 foreign branches (Australia, Brazil, Canada, China, France, India, the Netherlands, the Slovak Republic and the USA). Reggiana Riduttori is a world leader in the design and manufacture of power transmission systems: planetary gears, ratiomotors and drive wheels. The principal sectors of application are: industrial, agro-forestry, handling, lifting, marine/offshore, mining, green-wind. The operation radically extends activities in the transmission sector, where Interpump is already world leader in the production of power take-offs (PTO) for mobile hydraulic systems. In exchange for 100% of the share capital of Reggiana Riduttori, Interpump Group S.p.A. assigned 3,800,000 treasury shares at a price of € 28.74 each, together with a cash payment of €15.8m. RR International S.r.l. was absorbed by Reggiana Riduttori S.r.l. on 30 December 2019.

The increase in the ownership of Tubiflex S.p.A. reflects the purchase of the residual 20% equity interest during the first half of 2019.

The impairment of Teknova S.r.l. (in liquidation) reflects alignment with the book value of its quotaholders' equity following the loss incurred during the year.

All the equity investments held by Interpump Group S.p.A., with the exception of the investment in Sit S.p.A., are considered financial fixed assets from the date of acquisition and, therefore, not held-for-sale instruments (as defined in IFRS 9).

Share-based payment agreements (stock option plans) that make equity instruments of the Parent company available to employees of its subsidiaries are recognized in accordance with IFRIC 11. The fair value of the stock options assigned to and exercisable by employees of subsidiaries of €260k has been added to the value of the investments, with the increase in the share premium reserve as a matching entry.

The following breakdown shows the cost of investments in subsidiaries at 31 December 2019, compared with the related portion of equity pertaining to Interpump Group S.p.A.:

(€/000)	Share capital	Shareholders' equity	Profit (Loss)	% held	Carrying amount	Shareholders' equity	% Difference
Walvoil S.p.A.	7,692	170,626	38,858	65%	118,172	110,907	(7,265)
Walvoil Fluid Power India Pvt. Ltd.	4,803	24,158	3,450	-	14	29	15
NLB Corporation Inc.	12	97,837	9,621	100%	62,048	97,837	35,789
General Pump Companies Inc.	1,854	18,178	5,995	100%	8,903	18,178	9,275
Interpump Hydraulics S.p.A.	2,632	200,662	26,196	100%	104,258	200,662	96,404
Hammelmann GmbH	25	135,311	26,696	100%	26,032	135,311	109,279
Inoxpa S.A.	23,000	52,389	10,278	100%	93,127	52,389	(40,738)
Reggiana Riduttori S.r.l.	6,000	60,952	1,162	100%	130,226	60,468	(69,758)
Mariotti & Pecini S.r.l.	100	2,672	1,445	60%	7,923	1,603	(6,320)
Inoxihp S.r.l.	119	6,758	2,458	53%	8,704	3,563	(5,141)
Interpump Piping GS S.r.l.	10	898	752	100%	310	898	588
Teknova S.r.l. (in liquidation)	28	17	(6)	100%	17	17	-
SIT S.p.A.	105	1,332	35	65%	814	866	52
Tubiflex S.p.A.	515	13,927	3,732	100%	34,485	13,927	(20,558)
Pioli S.r.l.	10	1,516	246	100%	3,008	1,516	(1,492)

As shown in the above table, for certain investments the carrying value booked to the financial statements of Interpump Group S.p.A. is higher than the corresponding portion of shareholders' equity held.

The Company therefore subjected the values of the investments to impairment testing by means of the Discounted Cash Flow method (DCF), net of taxation. The projected cash flows used in the DCF calculation were determined on the basis of a 5-year business plan that takes account of the various reference scenarios and on the basis of growth forecasts in the various markets. A perpetual growth rate of 1-1.5% was used for periods after 2024. The projected cash flows determined in this manner were reduced by a discount factor in order to take account of the risk that future plans could become impracticable. In addition, a sensitivity analysis was performed, reducing the projected cash flows of the single companies and increasing the cost of capital employed to actualize the prospective cash flows. No value impairment emerged in any of the cases examined. The negative differentials are solely related to investments acquired in recent years, for which the capital gains that emerged and the related goodwill are booked to the Group's consolidated financial statements.

11. Other financial assets

Other financial assets mostly comprise loans granted to subsidiaries.

The following table shows existing financial relations (amounts expressed in €/000):

	Loans granted		Interest income	
	<u>31/12/2019</u>	<u>31/12/2018</u>	<u>2019</u>	<u>2018</u>
<i>Subsidiaries:</i>				
Interpump Hydraulics S.p.A.	87,590	106,590	1,045	1,255
Walvoil S.p.A.	-	-	-	11
Muncie Power Inc.	-	-	42	-
IMM Hydraulics S.p.A.	30,500	20,500	258	154
Tekno Tubi S.r.l.	3,280	3,540	35	35
Inoxpa S.A.	-	1,763	7	15
Interpump Piping GS S.r.l.	7,000	9,000	76	90
GS-Hydro UK Ltd	500	500	5	4
GS-Hydro Benelux B.V.	-	1,000	1	8
Hydra Dyne Technology Inc.	<u>9,000</u>	<u>-</u>	<u>66</u>	<u>-</u>
<i>Total</i>	<u>137,870</u>	<u>142,893</u>	<u>1,535</u>	<u>1,572</u>

The intercompany loans outstanding at 31 December 2019 earn interest at Euribor (3 or 6 months) plus a spread between 80 and 100 basis points, except for the loan to Hydra Dyne Technology Inc., on which a fixed rate of 1.95% is applied.

In relation to the loans granted, €30,260k are current, while the remaining €107,610k are considered non-current.

12. Deferred tax assets and liabilities

The changes during the year in deferred tax assets and liabilities are analyzed below:

	<i>Deferred tax assets</i>		<i>Deferred tax liabilities</i>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	<u>(€/000)</u>	<u>(€/000)</u>	<u>(€/000)</u>	<u>(€/000)</u>
At 1 January	1,537	1,787	987	776
Recognized in the income statement	50	(265)	(223)	211
Merger effect	11	-	-	-
Recognized in equity reserves	<u>102</u>	<u>15</u>	<u>-</u>	<u>-</u>
At 31 December	<u>1,700</u>	<u>1,537</u>	<u>764</u>	<u>987</u>

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

	31/12/2019	31/12/2018	31/12/2019	31/12/2018
	<i>Deferred</i>	<i>Deferred</i>	<i>Deferred</i>	<i>Deferred</i>
	<i>tax assets</i>	<i>tax assets</i>	<i>tax</i>	<i>tax</i>
	<i>(€/000)</i>	<i>(€/000)</i>	<i>liabilities</i>	<i>liabilities</i>
	<i>(€/000)</i>	<i>(€/000)</i>	<i>(€/000)</i>	<i>(€/000)</i>
Property, plant and equipment	86	90	694	735
Inventories	680	680	-	-
Receivables	55	45	-	-
Dividends receivable	-	-	60	240
Equity investments	318	318	10	10
Liabilities for employee benefits	(577)	(549)	-	-
Shareholders' equity:				
- liabilities for employee benefits	737	635	-	-
Other	<u>401</u>	<u>318</u>	<u>-</u>	<u>2</u>
Total	<u>1,700</u>	<u>1,537</u>	<u>764</u>	<u>987</u>

Deferred taxes recognized directly in equity are related to remeasurement of liabilities for employee benefits (TFR) connected to the actuarial component.

No deferred tax liabilities were recorded on provisions qualifying for tax relief due to the fact that distribution is not anticipated (see Note 18).

13. Interest-bearing financial payables and bank payables

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

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

At 31 December 2019 all financial covenants are amply complied with.

Interest-bearing financial payables at 31 December 2019 include lease payables of €4,868k in relation to rental and hiring contracts (IFRS 16), as analyzed below:

(€/000)	Within the year	Between one and five years	Beyond five years	Total
Payment of leasing installments	805	2,934	1,352	5,091
Interest	<u>(59)</u>	<u>(143)</u>	<u>(21)</u>	<u>(223)</u>
Current value of financial leasing payables	<u>746</u>	<u>2,791</u>	<u>1,331</u>	<u>4,868</u>

Non-current financial payables have the following due dates:

	31/12/2019 (€/000)	31/12/2018 (€/000)
From 1 to 2 years	100,922	110,838
From 2 to 5 years	200,880	78,276
Beyond 5 years	<u>1,331</u>	<u>-</u>
Total	<u>303,133</u>	<u>189,114</u>

The average interest rate on loans in 2019 was approximately 0.44% (0.49% in 2018).

All loans at 31 December 2019 are at floating rates.

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

	31/12/2019 (€/000)	31/12/2018 (€/000)
Current account overdrafts and export advances	21,295	21,295
Medium/long-term loans	<u>150,000</u>	<u>150,000</u>
Total	<u>171,295</u>	<u>171,295</u>

14. Other current liabilities

Other current liabilities are analyzed below:

	31/12/2019 (€/000)	31/12/2018 (€/000)
Payables to personnel	3,221	3,249
Payables to social security institutions	1,625	1,609
Payables related to the acquisition of investments	16,878	1,369
Customer advances	722	808
Customer credit balance	257	369
Customers for credit notes to issue	78	-
Payables for remuneration of directors/auditors	1,047	562
Other	<u>78</u>	<u>110</u>
Total	<u>23,906</u>	<u>8,076</u>

15. Provisions for risks and charges

Provisions for risks and charges refer to the agents' termination indemnity provision in the amount of €66k, which rose by €6k in 2019 and is entirely classified in the non-current portion of the statement of financial position.

16. Liabilities for employee benefits

Liabilities for defined benefit plans

The changes in these liabilities are analyzed below:

	2019 <u>(€/000)</u>	2018 <u>(€/000)</u>
Liabilities at 1 January	5,043	5,230
Amount charged to the income statement in the year	(9)	(13)
Recognition in equity of actuarial results	425	66
Reclassifications	(16)	(16)
Merger effect	7	-
Payments	<u>(234)</u>	<u>(224)</u>
Liabilities at 31 December	<u>5,216</u>	<u>5,043</u>

The following items were recognized in the income statement:

	2019 <u>(€/000)</u>	2018 <u>(€/000)</u>
Current service cost	-	-
Financial Income / Expenses	(9)	(13)
Past service cost	<u>-</u>	<u>-</u>
Total recognized in the income statement	<u>(9)</u>	<u>(13)</u>

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

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

	2019	2018
Executives	14	12
Managers	17	15
White collar	101	95
Blue collar	340	321
Fixed-contract personnel	<u>7</u>	<u>29</u>
Total	<u>479</u>	<u>472</u>

Liabilities for defined benefit plans (Severance indemnity - TFR) are determined using the following actuarial assumptions:

	Unit of measurement	2019	2018
Discount rate	%	0.75	1.50
Percentage of employees expected to resign before retirement age (<i>turnover</i>)*	%	4.75	4.49
Annual cost-of-living increase	%	1.50	1.50
Average period of employment	Years	16.20	15.95

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

17. Share capital

Share capital at 31 December 2019 comprises 108,879,294 ordinary shares with a unit par value of €0.52 totaling EUR 56,617,232.88. However, the share capital recorded in the financial statements amounts to €55,460k, 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 2019 Interpump S.p.A. holds 2,224,739 treasury shares in the portfolio corresponding to 2.043% of share capital, acquired at an average unit cost of EUR 24.430.

The changes in treasury shares over the past two years are analyzed below:

	<u>Number</u>
<i>Balance at 31/12/2017</i>	<i>1,561,752</i>
2018 purchases	2,003,806
Sale of shares to finance subsidiaries' purchases	(62,069)
Sale of shares for the exercise of stock options	<u>(90,000)</u>
<i>Balance at 31/12/2018</i>	<i>3,413,489</i>
2019 purchases	2,940,000
Sale of shares to pay for the acquisition of Reggiana Riduttori	(3,800,000)
Sale of shares for the exercise of stock options	<u>(328,750)</u>
<i>Balance at 31/12/2019</i>	<u><i>2,224,739</i></u>

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

	2019 <u>Number of shares</u>	2018 <u>Number of shares</u>
Ordinary shares in existence at 1 January	108,879,294	108,879,294
Treasury shares held	<u>(3,413,489)</u>	<u>(1,561,752)</u>
Shares in circulation at 1 January	105,465,805	107,317,542
Treasury shares purchased	(2,940,000)	(2,003,806)
Treasury shares sold	<u>4,128,750</u>	<u>152,069</u>
Total shares in circulation at 31 December	<u>106,654,555</u>	<u>105,465,805</u>

The aims identified by the Company in the management of capital are the creation of value for all shareholders and supporting development of the Group, both through internal means and by means of acquisitions. The Company therefore intends to maintain an adequate level of

capitalization, which simultaneously makes it possible to generate a satisfactory economic return for shareholders and guarantee economic access to external sources of finance. The Company constantly monitors the evolution of the level of debt in relation to shareholders' equity and the generation of cash through its industrial operations. In order to attain the aforementioned goals, the Company constantly monitors the cash flows generated by the business sectors in which it operates, both through improvement or maintenance of profitability, and through careful management of working capital and of other expenditure. Capital is construed as both the value contributed by the shareholders of Interpump Group S.p.A. (share capital and share premium reserve, totaling €151,973k at 31 December 2019 and €125,232k at 31 December 2018), and the value generated by the Company in terms of the results of operations (other reserves and legal reserve, including profit for the year, totaling €308,261k at 31 December 2019 and €271,928k at 31 December 2018, excluding the reserve for the restatement of defined benefit plans).

Treasury shares purchased

The amount of the treasury shares held by Interpump Group S.p.A. is recorded in an equity reserve. The Company acquired 2,940,000 treasury shares in 2019 for €78,993k, at an average price of €26.8685 (the Group purchased 2,003,806 treasury shares in 2018 for €54,183k, at an average price of €27.0405).

Treasury shares sold

In the framework of the execution of stock option plans, a total of 328,750 options have been exercised resulting in the collection of €3,823k (90,000 options were exercised for €540k in 2018). In addition, 3,800,000 treasury shares were assigned on the acquisition of the Reggiana Riduttori Group in 2019 (62,069 treasury shares were assigned in 2018 to pay for equity investments).

Stock options

The fair value of the 2016/2018 and, solely for 2019, the 2019/2021 stock option plans has been recognized in the 2018 and 2019 financial statements in compliance with IFRS 2. Costs of €2,325k (€1,532k in 2018) relating to the stock option plans were therefore recognized in the 2019 income statement, with a matching entry to the share premium reserve. Said costs represent the portion for the year of the value of the options assigned to employees and directors, established at the allocation date, corresponding to the value of the services rendered by the latter in addition to normal remuneration.

The income statement effects were booked as follows:

	2019 (€/000)	2018 (€/000)
Cost of sales	-	-
Distribution costs	24	26
General and administrative expenses	<u>2,301</u>	<u>1,506</u>
Total	<u>2,325</u>	<u>1,532</u>

Changes in the share premium reserve were as follows:

	2019	2018
	<u>€/000</u>	<u>€/000</u>
Share premium reserve at 1 January	70,391	120,390
Increase due to income statement recognition of the fair value of stock options granted	2,325	1,532
Increase due to the recognition in equity of the fair value of stock options assigned to employees of subsidiaries	260	349
Increase for the disposal of treasury shares further to payment for acquisitions of subsidiaries	98,707	1,763
Increase for the disposal of treasury shares further to stock options exercised	3,823	540
Utilization to cover purchase of treasury shares	<u>(78,993)</u>	<u>(54,183)</u>
Share premium reserve at 31 December	<u>96,513</u>	<u>70,391</u>

The Shareholders' Meeting held on 30 April 2013 approved the adoption of an incentive plan denominated the “2013/2015 Interpump Incentive Plan”, which is described in detail in the “Board of Directors' Report” accompanying the Consolidated Annual Financial Report. The exercise price was set at EUR 6.00 per share. The options can be exercised between 30 June 2016 and 31 December 2019.

The changes in options in 2019 and 2018 were as follows:

	2019	2018
	<u>Number of options</u>	<u>Number of options</u>
Options assigned at 1 January	60,000	150,000
Options granted in the year	-	-
Options exercised in the year	(60,000)	(90,000)
Options canceled in the year	-	-
Total options assigned at 31 December	<u>60,000</u>	<u>60,000</u>

The Shareholders' Meeting held on 28 April 2016 approved the adoption of a new incentive plan called the “Interpump 2016/2018 Incentive Plan”. The plan, which is based on the free assignment of options that grant the beneficiaries the right, on the achievement of specified objectives, to (i) purchase or subscribe the Company’s shares up to the maximum number of 2,500,000 or, (ii) at the discretion of the Board of Directors, receive the payment of a differential equivalent to any increase in the market value of the Company’s ordinary shares. Beneficiaries of the plan can be employees or directors of the Company and/or its subsidiaries, identified among persons having significant roles or functions. The exercise price has been established at EUR 12.8845 per share, equivalent to the market value at the time of the decision of the Board of Directors to submit the Plan to the Shareholders’ Meeting. The options can be exercised between 30 June 2019 and 31 December 2022. The next meeting of the Board of Directors, held on 12 May 2016, set a figure of 2,500,000 for the number of options to be assigned, divided by the total number of options in each tranche (625,000 for the first tranche, 875,000 for the second tranche and 1,000,000 for the third tranche) and established the terms for the exercise of the options, which are connected to the achievement of specific accounting parameters and the performance of Interpump Group stock. The same Board meeting assigned 1,620,000 options to the Chairman, exercisable subject to the conditions described above, and granted mandates to the Chairman and the Deputy Chairman of Interpump Group S.p.A., acting

separately, to identify the beneficiaries of a further 880,000 options. On 6 and 29 July 2016, 13 December 2016 and 9 November 2017 a total of 531,800 options were assigned to other beneficiaries identified within the Interpump Group. The options canceled in 2019 totaled 15,000.

The changes in options in 2019 and 2018 were as follows:

	2019	2018
	<u>Number of options</u>	<u>Number of options</u>
Options assigned at 1 January	2,121,800	2,121,800
Options granted in the year	-	-
Options exercised in the year	(268,750)	-
Options canceled in the year	<u>(15,000)</u>	<u>-</u>
Total options assigned at 31 December	<u>1,838,050</u>	<u>2,121,800</u>

The Shareholders' Meeting held on 30 April 2019 approved a new stock option plan, known as the "Interpump Incentive Plan 2019/2021", which envisages granting a maximum of 2,500,000 options at an exercise price of EUR 28.4952 each and, for options granted after 30 April 2020, at the official price quoted on the Italian Stock Exchange on the day prior to the grant date. In its meeting of 27 June 2019, the Board of Directors assigned 1,800,000 options to Chairman and Chief Executive Officer Fulvio Montipò; subsequently 418,500 options were assigned to other beneficiaries, including Deputy Chairman Paolo Marinsek, who was assigned 65,000 options. Overall, a total of 2,218,500 options were therefore assigned. The options can be exercised between 30 June 2022 and 31 December 2025. The options canceled in 2019 totaled 30,000.

The changes in options during 2019 were as follows:

	2019
	<u>Number of options</u>
Number of rights assigned at 1 January	2,218,500
Number of rights assigned	-
Number of shares purchased	-
Number of rights canceled	<u>(30,000)</u>
Total number of options not yet exercised at 31 December	<u>2,188,500</u>

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

2013/2015 Plan

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

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

2016/2018 Plan

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

2016/2018 Plan

<i>Second assignment</i>	Unit of measurement	
Number of shares assigned	no.	483,800
Grant date		6 July 2016
Exercise price		12.8845
<i>Vesting date</i>		1 July 2019
Fair value per option at the grant date	EUR	3.0520
Expected volatility (expressed as the weighted average of the volatility values utilized in construction of the binomial lattice model)	%	30
Expected average duration of the plan life	years	6.417
Expected dividends (compared with share value)	%	2.50
Risk-free interest rate (calculated using a linear interpolation of Euro Swap rates at 6 July 2016)	%	From -0.094 to -0.004
<i>Third assignment</i>	Unit of measurement	
Number of shares assigned	no.	30,000
Grant date		29 July 2016
Exercise price		12.8845
<i>Vesting date</i>		1 July 2019
Fair value per option at the grant date	EUR	3.7130
Expected volatility (expressed as the weighted average of the volatility values utilized in construction of the binomial lattice model)	%	30
Expected average duration of the plan life	years	6.417
Expected dividends (compared with share value)	%	2.50
Risk-free interest rate (calculated using a linear interpolation of Euro Swap rates at 29 July 2016)	%	From -0.082 to -0.002
<i>Fourth assignment</i>	Unit of measurement	
Number of shares assigned	no.	6,000
Grant date		13 December 2016
Exercise price		12.8845
<i>Vesting date</i>		1 July 2019
Fair value per option at the grant date	EUR	4.33130
Expected volatility (expressed as the weighted average of the volatility values utilized in construction of the binomial lattice model)	%	30
Expected average duration of the plan life	years	6
Expected dividends (compared with share value)	%	2.50
Risk-free interest rate (calculated using a linear interpolation of Euro Swap rates at 13 December 2016)	%	0.264

2016/2018 Plan

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

2019/2021 Plan

<i>First assignment</i>	Unit of measurement	
Number of shares assigned	no.	2,218,500
Grant date		28 June 2019
Exercise price		28.4952
<i>Vesting date</i>		1 July 2022
Fair value per option at the grant date	EUR	4.562
Expected volatility (expressed as the weighted average of the volatility values utilized in construction of the binomial lattice model)	%	30
Expected average duration of the plan life	years	4.76
Expected dividends (compared with share value)	%	1.00
Risk-free interest rate (calculated using a linear interpolation of Euro Swap rates at 28 June 2019)	%	-0.0182

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

18. Reserves

Reserve from remeasurement of defined benefit plans

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

Classification of net equity depending on possibility of utilization

(€/000)	Amount	Possibility of utilization	Available portion	Tax payable in the event of distribution	Summary of utilizations over the past three years	
					to cover losses	for other reasons
Share capital						
Subscribed and fully paid-up share capital	56,617	B	-	-	-	-
Nominal value of treasury shares in portfolio	(1,157)	-	-	-	-	-
Total share capital	<u>55,460</u>					
Capital reserves						
Legal reserve	6,860	B	-	-	-	-
Share premium reserve	41,425	A,B,C	41,425	-	-	7,790
Total capital reserves	<u>48,285</u>		<u>41,425</u>			
Profit reserves						
Legal reserve	4,463	B	-	-	-	-
Share premium reserve	55,088	A,B,C	52,665	1,232	-	-
Extraordinary reserve	234,833	A,B,C	232,433	-	-	-
Reserve for share capital reduction	1,157	-	-	-	-	-
First Time Adoption Reserve	(66)	-	-	-	-	-
Merger surplus	863	A,B,C	698	-	-	-
Reserve for restatement of defined benefit plans	(2,334)	-	-	-	-	-
Profit for the year	<u>60,151</u>	A,B,C	<u>60,151</u>	-	-	-
Total profit reserves	<u>354,155</u>		<u>345,947</u>			
Reserve for treasury shares held	54,351	-	-	-	-	133,177
Treasury shares	(54,351)	-	-	-	-	-
Non-distributable portion*			<u>(3,404)</u>			
Remaining distributable portion			<u>383,968</u>			

A: for capital increase

B: for coverage of losses

C: for distribution to shareholders

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

We draw your attention to the fact that €12,987k of the share premium reserve qualifies for tax relief in that it was fiscally formed from the revaluation reserve, Law 342/2000 and Law 266/2005.

Utilizations refer to dividends, purchases of treasury shares and reductions of reserves for other causes and do not include transfers between reserves. In particular, with reference to the changes that occurred in the past three years note that the utilizations of the reserve for treasury

shares held refer to purchases of treasury shares, while the utilizations from the share premium reserve refer to the sale of treasury shares at a price below their carrying value.

On the basis of tax legislation the reserves and profits are freely distributable and do not attract tax even in the case of distribution, on the condition that the reserves and residual profits exceed the negative components of income ascribed exclusively to the tax return; otherwise, distributed reserves and profits are subject to tax in the measure in which the residual reserves and profits are lower than the negative components of income that have been ascribed exclusively to the tax return. This condition is satisfied at 31 December 2019, hence no taxes would be payable in the event of distribution of the Company's entire profit for the year and all available reserves, beyond those already indicated in the prior statement.

Breakdown of components recorded directly in equity

(€/000)	2019			2018		
	Pre-tax amount	Taxation	Amount net of taxes	Pre-tax amount	Taxation	Amount net of taxes
Restatement of defined benefit plans	<u>(425)</u>	<u>102</u>	<u>(323)</u>	<u>(66)</u>	<u>15</u>	<u>(51)</u>
Total	<u>(425)</u>	<u>102</u>	<u>(323)</u>	<u>(66)</u>	<u>15</u>	<u>(51)</u>

19. Information on financial assets and liabilities

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

(€/000)	At fair value through profit and loss		<i>Financial assets at 31/12/2019</i>	At fair value through the Comprehensive income statement		Total
	Initially	Subsequently	Measured at amortized cost	Measured at amortized cost		
Trade receivables	-	-	16,135	-	-	16,135
Dividends receivable	-	-	8,000	-	-	8,000
Other current assets	-	-	235	-	-	235
Other current financial assets	-	-	30,260	-	-	30,260
Other non-current financial assets	-	-	107,624	-	-	107,624
Trade payables	-	-	-	-	(16,234)	(16,234)
Current interest-bearing financial payables	-	-	-	-	(151,229)	(151,229)
Payables for the acquisition of investments	-	-	-	-	(16,878)	(16,878)
Other current liabilities	-	-	-	-	(7,028)	(7,028)
Non-current interest-bearing financial payables	=	=	=	=	<u>(303,133)</u>	<u>(303,133)</u>
Total	=	=	<u>162,254</u>	=	<u>(494,502)</u>	<u>(332,248)</u>

(€/000)	At fair value through profit and loss		Financial assets at 31/12/2018	At fair value through the Comprehensive income statement	Financial liabilities at 31/12/2018	Total
	Initially	Subsequently	Measured at amortized cost	Measured at amortized cost		
Trade receivables	-	-	16,885	-	-	16,885
Dividends receivable			20,000			20,000
Other current assets	-	-	46	-	-	46
Other current financial assets	-	-	29,283	-	-	29,283
Other non-current financial assets			113,610			113,610
Trade payables	-	-	-	-	(15,767)	(15,767)
Current interest-bearing financial payables	-	-	-	-	(130,321)	(130,321)
Payables for the acquisition of investments	-	-	-	-	(1,369)	(1,369)
Other current liabilities	-	-	-	-	(6,707)	(6,707)
Non-current interest-bearing financial payables	=	=	=	=	(189,114)	(189,114)
Total	=	=	<u>179,824</u>	=	<u>(343,278)</u>	<u>(163,454)</u>

The financial assets measured at amortized cost generated revenues and costs. Revenues comprise exchange gains of €279k (€322k in 2018). Costs, on the other hand, refer to exchange losses of €109k (€309k in 2018) and to bad debts for €70k (€75k in 2018) classified under other operating costs.

Financial liabilities measured at amortized cost have generated costs relating to the portion of ancillary charges initially incurred to obtain the loans and subsequently expensed over the duration of the loan in accordance with the financial method. Ancillary charges of €82k (€124k in 2018) were charged to the 2019 income statement.

Financial assets and liabilities measured at amortized cost generated interest income of €1,535k (€1,572k in 2018), interest expense on bank deposits of €1,534k (€1,748k in 2018) and interest expense on leasing payables (IFRS 16) of €66k (€3k in 2018); in addition, general and administrative expenses include commission amounts and bank charges of €106k (€133k in 2018).

20. Information on financial risks

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

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

The Company is not exposed to significant concentrations of risk.

The Company constantly monitors the financial risks to which it is exposed in such a way as to make an advance assessment of potential negative effects and take appropriate actions to mitigate them.

The following section contains reference qualitative and quantitative indications regarding the uncertainty of these risks for Interpump Group S.p.A.

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

Exchange risk

The Company is exposed to risks arising from fluctuations in currency exchange rates, which may affect economic results. Specifically:

- for revenues denominated in currencies other than the currencies in which the respective costs are denominated, exchange rate fluctuations can impact on the Company's operating profit.

In 2019 the total amount of cash flow exposed directly to exchange risks was approximately 24% of Company sales (about 23% in 2018), none of which is hedged against the risk of exchange-rate fluctuations.

The exchange rates to which the Company is exposed are EUR/USD in relation to sales in dollars of high pressure pumps in North America through General Pump Companies Inc., which is sited in this important market, and in direct relation to an important US customer. The Company also bills in USD to its other US subsidiary, NLB Corporation Inc.

The Interpump Group has adopted a policy of hedging commercial transactions denominated in foreign currency in the framework of which the most effective derivative instruments for the achievement of the preset goals have been identified and the relative responsibilities, duties and system of delegations have been defined.

In relation to the dollar exposure on recurring sales in the American market, Company policy is not to hedge those foreign currency transactions, while in relation to non-recurring sales in the US market (in terms of their amount or frequency), it is Company policy to arrange hedges only when deemed appropriate.

- Again in relation to commercial activities, the Company may be in a position wherein it holds commercial receivables denominated in currencies other than the account currency. Fluctuations in exchange rates can therefore result in the realization or assessment of positive or negative exchange differences.
- In relation to financial exposure, wherever the monetary outflows are denominated in a currency other than the account currency, fluctuation of the exchange rates can impact the net profits of the Company negatively. At 31 December 2019 and 31 December 2018 the Company had no financial exposures in foreign currency.

The nature and structure of the exposure to exchange risk and the related hedging policies were substantially unchanged in 2019 and 2018.

Exchange risk sensitivity analysis

The potential profit deriving from the change in the fair value of financial assets and liabilities caused by a hypothetical and immediate increase in the value of the euro of 10% with respect to the US dollar would be about €261k (€314k in 2018).

Interest rate risk

It is currently Company policy not to arrange hedges, in view of the short average duration of the existing loans (around 3 years). At 31 December 2019 all liquid funds were subject to floating interest rates, as were all financial and bank debts. In addition, in 2019 and in prior years the Company granted loans to subsidiaries totaling €137.9m (€142.9m at 31 December 2018), mainly to finance the Group's process of expansion through acquisitions. As described in Note 5 to the “Report on operations” attached to the Annual Financial Report, all loans except that to Hydra Dyne Technology Inc. are granted at floating rates.

Sensitivity analysis related to interest rate risk

The effects of a hypothetical and immediate upward variation in interest rates of 50 basis points would subject Interpump Group S.p.A. to higher financial expenses, net of the increase in financial income, totaling €1,105k (€817k in 2018). It is reasonable to assume that a 50 basis points decrease in interest rates would produce an equivalent effect, although this time in terms of lower financial expenses.

Credit risk

The maximum theoretical credit risk exposure of the Company at 31 December 2019 and 2018 is represented by the accounting value of the financial assets recorded in the financial statements.

Historically the Company has not suffered any significant losses on receivables. This is because the Company generally allows extended payments only to its long-term customers, whose solvency and economic stability are known. In contrast, after having passed an initial credit rating analysis, new customers are required to make payments in advance or to open a letter of credit for amounts due.

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

At 31 December 2019, Loans and Receivables from financial activities total €162,254k (€179,824k at 31 December 2018), and include €506k for written down receivables (€446k at 31 December 2018); amounts overdue by less than three months are €2,802k (€4,575k at 31 December 2018), while those overdue beyond three months total €426k (€504k at 31 December 2018).

The Company is not exposed to any significant concentrations of sales. In fact, the top customer in terms of sales is part of the Interpump Group and accounted for about 20% of total sales in 2019 (19% in 2018). The top customer outside the Group accounted for approximately 3% of sales in 2019 (4% in 2018) while, in total, the top 10 customers after the first intercompany customer accounted for 20% of sales (20% also in 2018).

Liquidity risk

The liquidity risk can arise if it becomes impossible to obtain, at acceptable economic conditions, the financial resources needed for the Company's business operations. The two main factors that define the Company's liquidity situation are the resources generated by or used in business activities and investment, and the characteristics of expiry and renewal of debt or liquidity of financial investments and the relative market conditions.

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

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

The maturity characteristics of interest bearing financial debts and bank debts are described in Note 13. Management considers that the currently available funds and lines of credit, in addition to resources generated by operating and financing activities, will allow the Company to meet requirements deriving from investing activities, management of working capital and repayment of debts at their natural due dates, in addition to ensuring the pursuit of a strategy of growth, also by means of targeted acquisitions capable of creating value for shareholders. Liquid funds at 31 December 2019 totaled €95.4m. These funds and the cash generated by the Company in 2019 are definitely factors that serve to reduce the exposure to liquidity risk. The decision to maintain a high level of cash was adopted in order to minimize the liquidity risk, which is considered important given the current state of uncertainty of the economy, and to pick up on any acquisition opportunities that may arise.

Price risk

Interpump Group S.p.A. is exposed to risks deriving from price fluctuations of metals, which may affect economic results and profitability. Specifically, the purchase cost of metals accounted for about 35% of the purchase cost of the Company's raw materials, semi-finished products and finished products (29% in 2018). The main metals utilized by the Company include brass, aluminum, stainless steel and steel.

Company policy is to transfer the cost of stocking materials to suppliers; in this scenario the risk is hedged by means of orders for specific periods and quantities agreed at a fixed price; at 31 December 2019 signed commitments are in place covering 9% of projected 2020 consumption of brass (83% at 31 December 2018), the entire consumption of aluminum predicted for 2019 (over 100% at 31 December 2018), 55% of steel consumption (37% at 31 December 2018) and 50% of stainless steel consumption predicted for next year (59% at 31 December 2018). In addition, at 31 December 2019 stocks covered about 33% of forecast brass consumption (18% at 31 December 2018), the entire consumption of aluminum (24% at 31 December 2018), 69% of steel consumption (34% at 31 December 2018) and 24% of stainless steel consumption (16% at 31 December 2018).

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

21. Net sales

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

	2019 <u>(€/000)</u>	2018 <u>(€/000)</u>
Italy	18,618	19,470
Rest of Europe	30,795	31,832
Rest of the World	<u>49,497</u>	<u>52,295</u>
Total	<u>98,910</u>	<u>103,597</u>

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

	2019 <u>(€/000)</u>	2018 <u>(€/000)</u>
Euro	75,502	80,049
USD	23,408	23,544
GBP	<u>-</u>	<u>4</u>
Total	<u>98,910</u>	<u>103,597</u>

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

22. Other net revenues

	2019 <u>(€/000)</u>	2018 <u>(€/000)</u>
Capital gains on the sale of tangible assets	22	38
Income from rent/royalties	355	299
Revenues from consultancy	10	10
Sale of scrap	168	169
Reimbursement of expenses	755	749
Other	<u>787</u>	<u>845</u>
Total	<u>2,097</u>	<u>2,110</u>

23. Costs by nature

	2019 <u>(€/000)</u>	2018 <u>(€/000)</u>
Raw materials and components	28,840	28,672
Personnel and temporary staff	28,805	29,509
Services	12,655	14,613
Amortization and depreciation of intangible and tangible fixed assets (notes 7 and 9)	4,880	4,709
Directors' and statutory auditors' remuneration	5,598	4,138
Hire purchase and leasing charges	231	855
Provisions and impairment of tangible and intangible fixed assets (notes 7, 9 and 15)	18	43
Other operating costs	<u>4,797</u>	<u>5,295</u>
Total cost of sales, distribution costs, general and administrative expenses, other operating costs and impairment losses on intangible and tangible fixed assets	<u>85,824</u>	<u>87,834</u>

The emoluments of the Directors and Statutory Auditors of Interpump Group S.p.A. in 2019 were, respectively, €5,493k and €105k and they include remuneration resolved by the Shareholders' Meeting, the remuneration established by the Board of Directors for directors vested with special offices, including bonuses and the remunerative component deriving from stock option plans represented by the fair value of the options calculated at the time of their allocation, for the current portion.

24. Financial income and expenses

	2019 <u>(€/000)</u>	2018 <u>(€/000)</u>
<u>Financial income</u>		
Interest income from liquid funds	6	5
Interest income from financial assets (intercompany loans)	1,535	1,572
Other financial income	11	15
Foreign exchange gains	<u>352</u>	<u>464</u>
Total	<u>1,904</u>	<u>2,056</u>
<u>Financial expenses</u>		
Interest expense on bank loans	1,616	1,872
Interest expense on leasing payables (IFRS 16)	66	3
Other financial charges	255	183
Foreign exchange losses	<u>109</u>	<u>309</u>
Total	<u>2,046</u>	<u>2,367</u>

25. Income taxes

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

	2019	2018
	<u>(€/000)</u>	<u>(€/000)</u>
IRES		
Profit before taxes from the income statement	65,208	94,737
Theoretical taxes at nominal rate (24%)	15,650	22,737
Lower taxes for non-taxable dividends	(10,980)	(17,001)
Higher taxes due to non-deductible write-downs of investments	6	17
Lower taxes due to IRAP deduction relating to expenses for employees and similar	(71)	(87)
Lower taxes due to IRAP deduction on interest expenses	(24)	(33)
Lower taxes due to super and hyper depreciation	(444)	-
Taxes for prior financial years	(195)	(85)
Other	<u>116</u>	<u>68</u>
<i>Total IRES</i>	<u>4,058</u>	<u>5,616</u>
IRAP/Local income taxes		
Profit before taxes from the income statement	65,208	94,737
Theoretical taxes at nominal rate (4.65%)	3,032	4,405
Lower taxes for non-taxable dividends	(2,335)	(3,589)
Higher taxes due to non-deductible write-downs of investments	-	1
Higher taxes for non-deductible payroll costs	38	128
Higher taxes for non-deductible directors' emoluments	241	173
Higher taxes due to non-deductible financial expenses	5	4
Taxes for prior financial years	(10)	44
Other	<u>27</u>	<u>23</u>
<i>Total IRAP (Local income taxes)</i>	<u>998</u>	<u>1,189</u>
<i>Total income taxes recognized in the income statement</i>	<u>5,056</u>	<u>6,805</u>

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

	2019	2018
	<u>(€/000)</u>	<u>(€/000)</u>
Current taxes	(5,534)	(6,370)
Current taxes for prior financial years	205	41
Deferred taxes	<u>273</u>	<u>(476)</u>
Total taxes	<u>(5,056)</u>	<u>(6,805)</u>

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

	2019 <u>(€/000)</u>	2018 <u>(€/000)</u>
Deferred tax assets generated in the year	342	198
Deferred tax liabilities generated in the year	(3)	(241)
Deferred tax assets transferred to the income statement	(292)	(463)
Deferred tax liabilities recognized in the income statement	<u>226</u>	<u>30</u>
Total deferred taxes	<u>273</u>	<u>(476)</u>

26. Earnings per share

Basic earnings per share

Earnings per share are calculated on the basis of profit for the year divided by the weighted average number of ordinary shares during the year as follows:

	<u>2019</u>	<u>2018</u>
Profit for the year attributable to shareholders (€/000)	<u>60,151</u>	<u>87,932</u>
Average number of shares in circulation	105,452,384	106,766,319
Basic earnings per share for the year	<u>0.570</u>	<u>0.824</u>

Diluted earnings per share

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

	<u>2019</u>	<u>2018</u>
Profit for the year attributable to shareholders (€/000)	<u>60,151</u>	<u>87,932</u>
Average number of shares in circulation	105.452384	106,766,319
Number of potential shares for stock option plans (*)	<u>983,990</u>	<u>1,152,091</u>
Average number of shares (diluted)	<u>106,436,374</u>	<u>107,918,410</u>
Earnings per diluted share at 31 December (EUR)	<u>0.565</u>	<u>0.815</u>

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

27. Notes to the cash flow statement

Property, plant and equipment

In 2019 the Company purchased property, plant and equipment totaling €6,222k (€5,790k in 2018). This expenditure involved the payment of €4,784k, inclusive of the payment of past debts for the same purpose and net of payables deferred to the following year (€5,288k in 2018).

Cash and cash equivalents

This item can be broken down as follows:

	31/12/2019 <u>(€/000)</u>	31/12/2018 <u>(€/000)</u>	01/01/2018 <u>(€/000)</u>
Cash and cash equivalents from the statement of financial position	95,371	12,897	22,669
Bank payables (current account overdrafts and advances subject to collection and accrued interest payable)	<u>(388)</u>	<u>(487)</u>	<u>(341)</u>
Cash and cash equivalents from the cash flow statement	<u>94,983</u>	<u>12,410</u>	<u>22,328</u>

Net financial position and cash-flow statement

For the amount and details of the main components of the net financial position and the changes in 2019 and 2018, please see Section 4. "Loans" in the "Report on operations" accompanying the Annual Financial Report.

28. Commitments

The Company has commitments to purchase tangible assets totaling €2,173k (€2,549k at 31/12/2018).

29. Transactions with related parties

Transactions involving top management

Transactions with related parties by the Company during 2018, totaling €671k, included the rental of plants owned by companies controlled by the current shareholders and directors of the Parent Company. Following the adoption of IFRS 16, these costs were not charged to the income statement in 2019, but reported in the financial statements among the interest-bearing financial payables, €4,514k, and the financial charges due to the discounting of rentals payable, €64k. In addition, the 2019 income statement again includes other costs of €15k.

With regard to transactions with Group companies we invite you to refer to section 5 of the "Report on operations" accompanying the Annual Financial Report.

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

30. Events occurring after the close of the year

With regard to Interpump Group S.p.A., no events occurred after 31 December 2019 that require mention in this report, while we invite you to refer to the "Report on operations" accompanying the Consolidated Annual Financial Report at 31 December 2019 with regard to events after the close of the year concerning the Group.

31. Proposal to the Shareholders' Meeting

The profit for the year was EUR 60,151,411. We propose:

- allocation of the net profit for the year to the Extraordinary Reserve, since the legal reserve has already reached the limit of one-fifth of the subscribed and fully paid up share capital;

- partial distribution of the Extraordinary Reserve by declaring a dividend of EUR 0.25 for each share in circulation including the right as per art. 2357-(3) subsection 2 of the Italian Civil Code. It should be noted that, for tax purposes, the provisions of the Ministerial Decree dated 26 April 2017 will be applied, since the entire dividend of Euro 0.25 per share is taxable in the hands of the recipient and is considered to have been drawn from profit reserves accumulated subsequent to the tax year in progress at 31 December 2007 and up to that in progress at 31 December 2016.

Annex 1

Certification of the separate financial statements pursuant to art. 81-(3) of Consob regulation no. 11971 of 14 May 1999, as amended

1. The undersigned, Fulvio Montipò and Carlo Banci, respectively Executive Director and Chief Reporting Officer of Interpump Group S.p.A., taking account also of the provisions of art. 154-(2), subsections 3 and 4 of legislative decree no. 58 of 24 February 1998, attest to:
 - adequacy in relation to the characteristics of the business and
 - effective applicationof the administrative and accounting procedures for formation of the financial statements during 2019.

2. We further confirm that the separate financial statements of Interpump Group S.p.A for the year ended 31 December 2019, showing total assets of €959,089k, net profit of €60,151k and shareholders' equity of €457,900k:
 - a. correspond to the results of the company books and accounting entries;
 - b. were prepared in compliance with the international accounting standards approved by the European Commission further to the enforcement of Ruling (CE) no. 1606/2002 of the European Parliament and the European Council of 19 July 2002, and the provisions issued in implementation of art. 9 of Italian legislative decree 38/2005 and the contents are suitable for providing a truthful and fair representation of the equity, economic and financial situation of the Company;
 - c. include the Board of Directors' Report, which contains a reliable analysis of performance and results and the situation of the issuer together with a description of the main risks and uncertainties to which it is exposed.

Sant'Ilario d'Enza (RE), 16 March 2020

Fulvio Montipò
Chairman and
Chief Executive Officer

Carlo Banci
Chief Reporting
Officer