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2001
Annual Report

INTERPUMP GROUP

Letter to Shareholders

Dear Shareholders,

The performance for 2001 confirms the solidity and competitive strength of the Interpump Group, that, from the year of its stock exchange listing (1996) **has more than doubled its revenue and almost tripled its net profit, reflecting a rate of compound annual growth of 23%**. These major results in terms of growth and development of the Interpump Group were achieved thanks to the competitive strength of the organization and also to the diversification of operations in relation to different business sectors and different geographical areas.

The main developments and events of 2001 were as follows:

- the Cleaning sector, that, with 45% of net consolidated revenue for the year, constitutes the main activity for the Group, recorded an increase in net revenue of 8.5%. The achievement of these excellent results confirms the appropriateness of Group operations in the sector - especially when viewed within the context of an unfavourable macroeconomic situation - and strengthens Group commitment to continue investing in this sector. Significant investments were made during 2001 in the research and development of new products and in increasing production capacity, the benefits of which will be reflected in the accounts of future years. Specifically, investments made during the year led to the launch of a new multi-function machine designed to operate as a conventional vacuum cleaner, a wet vac with water filtration, a hot-water, cold-water or steam carpet cleaner and as an air humidifier. Furthermore, research projects have been completed for two new models of floor sweeper, a floor cleaner, and two new models of high-pressure washers, as well as a variety of new accessories for professional high-pressure washers. Investments made during 2001 also include the 12.7 million euro spent on industrial buildings. These investments will allow further rationalization of production activities leading to improvements in terms of company efficiency and output. The investment plan will be completed in 2002, a year in which further investments for approximately 6.3 million euro are expected for the completion of the work begun in 2001 and the construction of another industrial building. The benefits from these investments will begin to emerge in 2002, becoming even more apparent in 2003.
- The Hydraulic Sector, which accounts for 30% of Group net revenues, recorded an increase in sales of 0.7%, despite difficulties on the North American market, where the Interpump Group, the second American manufacturer of power take-offs for industrial vehicles, managed to contain the downturn in turnover to 6.6% in a market that recorded a far greater drop in sales of industrial vehicles. In contrast, the Hydraulic Sector grew by 6.3% in Europe, with Hydrocar and P.Z.B.. In Italy, in the month of July last, the Group acquired control of Hydroven, a company in which the Group previously held 36%, thus strengthening its competitive position in the sector. The Group has also continued developing manufacturing synergies, on the one hand among the various companies based in Italy, and, on the other, between Europe and the United States.

- The Industrial Sector, which accounts for 25% of consolidated net revenues, recorded a drop of 2.9%, due to both the fall-off in the American market - the main outlet for high-pressure pumps (partially offset by the growth in other Countries), and to the drop in sales of electric motors. During the course of the year two new lines of high-pressure pumps were launched, which have gone to bolster the already wide range of products, as well as a number of new models of accessories.

With respect to 2000, net revenues grew by 3.5% to **426.1 million euro**, and **EBITDA** rose by almost 2% to **81.3 million euro**, equivalent to 19.1% of sales. Net profit grew by around 13% to reach 21.4 million euro (19.0 million euro in 2000). Earnings per share adjusted to take into account goodwill amortization was 0.401 euro with respect to the 0.366 euro of 2000 and therefore up by 9.6%. **Cash flow** generated in 2001 was **47.3 million euro**, substantially in line with 2000. The marked capacity to generate liquidity displayed by the company has made it possible to maintain the level of indebtedness substantially unchanged (176.4 million euro at 31/12/2001) compared to the previous year, despite the 24.3 million euro of capital expenditure which includes the investments in the Cleaning Sector as described above, the acquisition of investments for 6.8 million euro, dividends for 8.9 million euro, and purchase of treasury stock for 1.9 million euro.

The **dividend** that the Board of Directors intends to propose for approval of the Shareholders' Meeting is **0.10 euro**, representing an increase of 15% with respect to the amount distributed in 2000. The dividend will be payable as from 9 May, with registration date of 6 May. This dividend is equivalent to 2.5% of the average value of the share during the first two months of 2002.

Results for the 2001 financial statements provide further confirmation of the dynamic nature and soundness of the Interpump Group, which, apart from achieving excellent results in terms of profitability, has also consolidated its standing as an industrial organization with an elevated capacity to generate liquidity. Since 1996, the first year of Stock Market listing, Interpump Group has generated **accumulated operating cash flow of 211 million euro**, of which 45%, or **94 million euro** has been returned to Shareholders in the form of dividends and purchases of treasury stock. The Group's growth has been made possible, apart from internal development, also thanks to the 11 equity investments made, which called for capital expenditure of 168 million euro. It should be stressed that the development of the Group during the year confirmed the high levels of profitability in relation to invested capital (**ROCE** unchanged at **20.3%**) while significantly improving **ROE** (return on equity), which rose from 11.4% to **20%**. The Group's excellent profitability and cash flow generation, plus its capacity to create value with the acquisition and incorporation of companies, constitute the basis for its historic development and the strategy underpinning plans for future growth. In January 2002 a five-year loan for 60 million euro was taken out to support the acquisitions strategy to which the Group maintains its commitment.

RESEARCH AND DEVELOPMENT

Interpump Group invests constantly in the research and development of products and innovative technical solutions, with the aim of maintaining and strengthening its presence in the business sectors in which it is active. The Group is equipped with an R&D structure able to offer its

customers an efficient service for the design and production of customized products and user applications, constantly increasing for the various product lines.

During 2001, Interpump Engineering, incorporated in 1999 to handle an important development programme of new products and to accelerate the relative market launches, completed a series of projects regarding new lines of high-pressure pumps and professional cleaning appliances, as described in greater detail above.

Group strategy over coming years will focus on continuing with significant levels of capital expenditure in research and development in order to provide further impetus to internal growth.

CORPORATE GOVERNANCE

In consideration of the requirements of information transparency and Corporate Governance, Interpump Group has been admitted to the high standard mid-capital STAR segment of the Italian stock exchange from the beginning of April 2001. The Group Internet website www.interpumpgroup.it provides access to the report on Corporate Governance, together with the most recent annual financial statements approved by the Shareholders' Meeting, the quarterly statements, and the latest press releases.

PLANS FOR STOCK OPTIONS AND PURCHASE OF TREASURY STOCK

The stock option plans, aimed at aligning the interests of management and Shareholders, are an additional component in the strategy to create value. The company currently has two stock option plans linked to the arrival at target quotations of the shares on the stock market, and/or to operating targets. Moreover, the company is also currently engaged in a buyback plan for the purchase of treasury stock represented by up to 10% of shares issued.

The Shareholders' Meeting convened to approve the financial statements in April 2002 will also be asked to approve a further stock option plan regarding a maximum of 4,000,000 shares that can be assigned from 2003 to 2006.

EVENTS OCCURRING AFTER THE CLOSE OF THE YEAR

Among events that occurred after the end of the year we refer you to the **acquisition** of the business of the **Gansow Group** in Germany, which took place on 1 March 2002. The Gansow Group is one of the leading European manufacturers of professional floor scrubbers and floor sweepers, with a factory near Dortmund and eight after-sales and service branches throughout Germany.

For the Interpump Group, the acquisition of Gansow business in Germany constitutes a major step towards the consolidation of its position as a world leader in the cleaning sector, and will allow more effective penetration throughout Germany (the primary European market), and significant

growth in the Floor Care segment, one of the most promising areas of business in which the Interpump Group is engaged. The full effects of this acquisition can be expected to become evident starting from 2003, and still more in subsequent years, with the rationalization of commercial and manufacturing synergies of the various Floor Care companies in the Interpump Group.

STRATEGY FOR FUTURE YEARS

In the 5 years since its stock market listing, Interpump Group has more than doubled its turnover, doubled EBITDA and almost tripled net profit. These excellent results are largely due to the success of a cogently pursued strategy of internal and external growth through targeted investments. Armed by the knowledge of its fiercely competitive stance, Interpump Group is embarking on a renewed phase of expansion, pursuing the goals of management efficiency and selectivity in the choice of acquisitions, which are the foundation of the strategy for growth and value-creation for Shareholders.

Milan, 12 March 2002

Sergio Erede

Chairman Interpump Group S.p.A.

**Interpump Group Board of Directors' Report
as at 31 December 2001**

Group Directors' Report as at 31 December 2001

1 Financial highlights of the Interpump Group

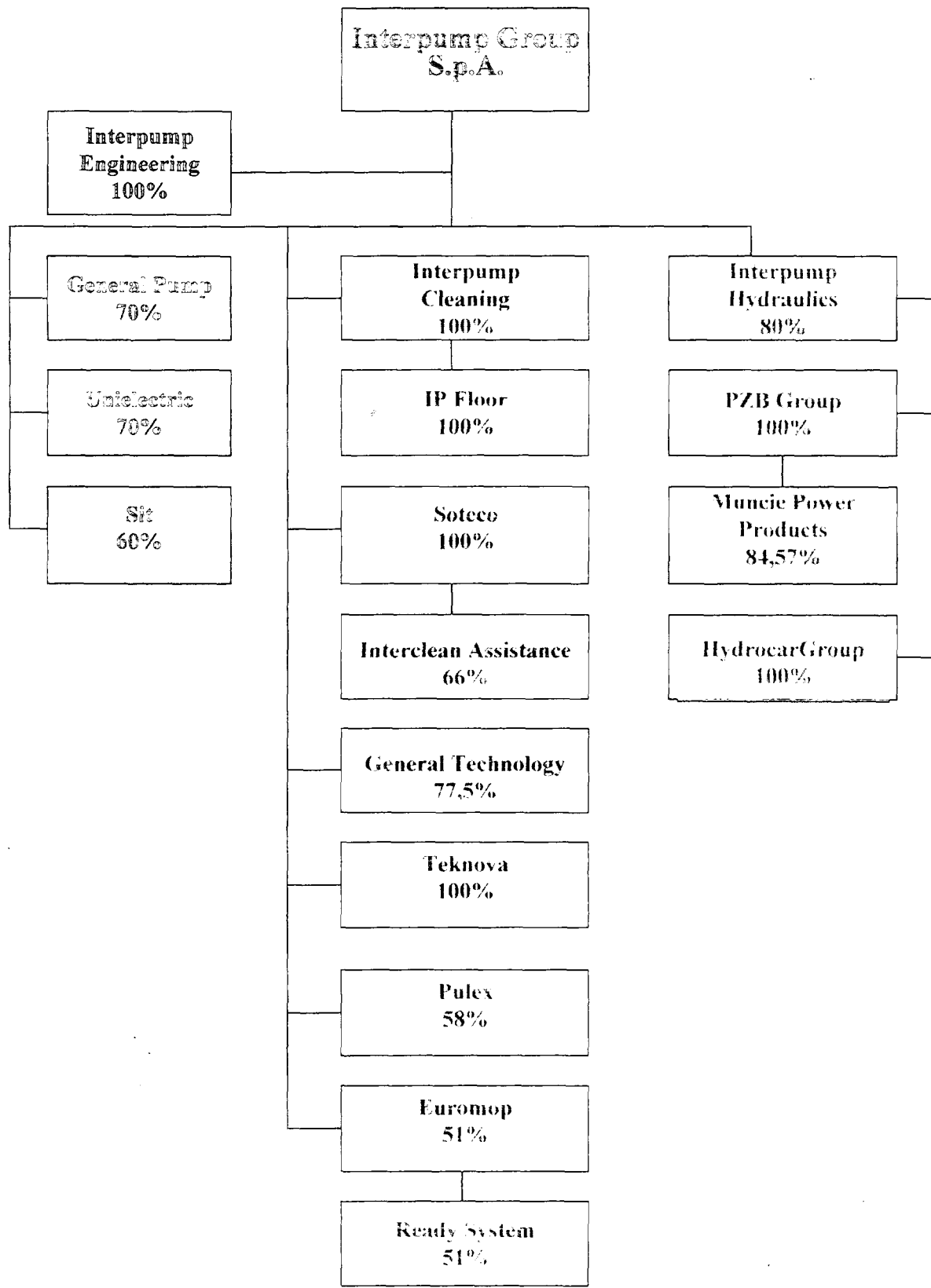
| | <u>31/12/2001</u> | <u>31/12/2000</u> | <u>31/12/1999</u> | <u>31/12/1998</u> | <u>31/12/1997</u> | <u>31/12/1996</u> |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | €/000 | €/000 | €/000 | €/000 | €/000 | €/000 |
| Net consolidated revenues | 426,075 | 411,673 | 319,256 | 283,430 | 221,320 | 199,578 |
| Foreign sales | 72% | 72% | 69% | 68% | 66% | 68% |
| EBITDA (Earnings before interest, tax, depreciation and amortization) | 81,314 | 79,811 | 64,878 | 61,119 | 46,834 | 40,732 |
| EBITDA % | 19.1% | 19.4% | 20.3% | 21.6% | 21.2% | 20.4% |
| Consolidated operating profit | 67,552 | 67,156 | 55,062 | 52,358 | 40,483 | 35,544 |
| Operating profit % | 15.9% | 16.3% | 17.2% | 18.5% | 18.3% | 17.8% |
| Consolidated net profit | 21,433 | 19,016 | 22,152 | 16,581 | 13,827 | 7,623 |
| Cash flow from operations | 47,322 | 47,876 | 44,936 | 38,438 | 31,213 | 22,538 |
| Net financial indebtedness | 176,429 | 177,087 | 160,171 | 83,889 | 38,824 | 43,023 |
| Consolidated shareholders' equity | 182,782 | 162,007 | 177,105 | 157,135 | 143,739 | 133,123 |
| Debt/Equity ratio | 0.97 | 1.09 | 0.90 | 0.53 | 0.27 | 0.32 |
| Financial indebtedness adjusted by treasury stock | 150,703 | 153,221 | 139,292 | 67,871 | 38,824 | 43,023 |
| Adjusted debt/equity ratio | 0.82 | 0.95 | 0.79 | 0.43 | 0.27 | 0.32 |
| Net investments for the year in tangible and intangible fixed assets | 24,280 | 18,714 | 11,371 | 9,894 | 10,471 | 19,365 |
| Average number of employees | 2,213 | 2,198 | 2,105 | 1,604 | 1,286 | 1,089 |
| ROE: (Net profit + amortisation of goodwill + Minority interests)/Consolidated shareholders' equity | 20.0% | 20.4% | 18.4% | 17.9% | 16.8% | 11.4% |
| ROCE: Operating profit/(Consolidated shareholders' equity + Financial indebtedness - Treasury stock) | 20.3% | 21.3% | 17.4% | 23.3% | 22.2% | 20.2% |
| Average number of outstanding shares | 76,712,704 | 76,711,053 | 77,060,933 | 78,817,107 | 81,400,000 | 81,400,000 |
| EPS: (Earnings per share adjusted for goodwill amortisation) - € | 0.401 | 0.366 | 0.389 | 0.293 | 0.234 | 0.152 |
| Dividend per share - € | 0.100 | 0.087 | 0.516* | 0.070 | 0.057 | 0.031 |

* of which 0.439 extraordinary

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

The performance for 2001 confirms the solidity and competitive strength of the Interpump Group, that, from the year of its stock exchange listing (1996), has more than doubled its turnover, doubled its gross operating profit (EBITDA) and almost tripled its net profit. In the year 2001 net revenues reached 426.1 million euro with an increase of 3.5% compared to the previous year, EBITDA grew by 1.9% to 81.4 million euro and net profit increased by 12.7% to 21.4 million euro. Despite the difficult international economic situation, the Interpump Group has managed to achieve and in certain cases even surpass (for example in terms of net profit) its own objectives. A contribution to these important results was provided by the diversification into different sectors of activity and geographical areas of the Interpump Group, as more specifically detailed in the continuation of this report.

The Group's structure at 31/12/2001 was the following (the percentages indicate the stake held):



Industrial Sector Cleaning Sector Hydraulic Sector

As in the past, throughout 2001 the Group continued its course of development and growth; key operations in the year were:

- strengthening of the Hydraulic Sector with the acquisition of a controlling shareholding in Hydroven, the distributor of power take-offs and other hydraulic components in which the previous stake was 36%. Hydroven is a specialist in the design of custom-made hydraulic power units and circuits;
- the acquisition of minority stakes in Interpump Engineering (20%), General Technology (7.5%) and Soteco (3%), in a framework of optimisation of corporate structure in accordance with the requirements of previous contractual commitments.

Profitability

2001 was characterised by positive development of Group business and continued integration of the acquisitions made during previous years. The following section contains an overview of the reclassified income statement included in the supplementary statements of the notes, comparing also the 2001 results on an equal consolidation area basis with 2000:

| | <u>2001</u> | % | 2001 with the same consolidation area as 2000 | % | <u>2000</u> | % |
|---|------------------|-------|---|-------|------------------|-------|
| | €/000 | | €/000 | | €/000 | |
| Net consolidated revenues | 426,075 | 100.0 | 414,847 | 100.0 | 411,673 | 100.0 |
| Purchases, net of changes in inventories | <u>(192,744)</u> | | <u>(188,109)</u> | | <u>(189,091)</u> | |
| Gross industrial margin | 233,331 | 54.8 | 226,738 | 54.7 | 222,582 | 54.1 |
| Personnel expenses | <u>(77,394)</u> | | <u>(75,856)</u> | | <u>(74,845)</u> | |
| Other operating costs | <u>(74,623)</u> | | <u>(71,906)</u> | | <u>(67,926)</u> | |
| Gross operating profit | 81,314 | 19.1 | 78,976 | 19.0 | 79,811 | 19.4 |
| Operating depreciation and amortization | <u>(13,762)</u> | | <u>(13,607)</u> | | <u>(12,655)</u> | |
| Consolidated operating profit | <u>67,552</u> | 15.9 | <u>65,369</u> | 15.8 | <u>67,156</u> | 16.3 |

Consolidated net revenues increased by 3.5% (+0.8% on an equal consolidation basis). These figures are discussed in detail in the breakdown by sectors. The gross industrial margin was 54.8%, reflecting an increase of 0.7% with respect to 2000 thanks to the application of systematic policies of purchase cost reduction.

Against a background of a 3.5% increase in per capita costs, the trend of personnel costs was limited, on an equal consolidation basis, to 1.3% thanks to careful and timely management of the Group's human resources.

During the course of the year 2001 the Group made greater investments in its own commercial activities in order to strengthen its presence on the major reference markets. Commercial investment was the main reason behind the increase of 5.8% of other operating costs on an equal consolidation basis.

Gross operating profit (EBITDA) grew by almost 2%, up from the 79.8 million euro of 2000 to 81.3 million euro. On an equal consolidation basis EBITDA fell by 1%, largely as a result of the previously mentioned commercial investments. In terms of incidence on net revenues, gross operating profit amounted to 19.1% (19.4% in 2000).

Operating amortisation/depreciation increased due to the amortisation of increased research expenses of Interpump Engineering and the substantial investments made in the past year, especially concerning reorganization of the hydraulic sector aimed at boosting production efficiency, the effect of which will become fully apparent during the course of next year.

Operating profit increased by 0.6% against 2000, totalling 67.6 million euro or 15.9% of net revenues (67.2 million euro in 2000).

The incidence of financial expenses on turnover rose from the 2.2% of 2000 to 2.5% in 2001, largely because of the increase in the average interest rate for exchange rate hedging operations. The coverage ratio (EBITDA/net financial costs) is 7.7 times. This figure, considered together with a marked capacity to generate liquidity, allows the Group to pursue its acquisition strategy freely.

Net profit increased by 12.7% reaching 21.4 million euro, thanks also to the lower tax burden due to the revaluation of plant carried out by several Group companies, as described in detail in the explanatory note.

4 *Interpump Group Activities*

The Interpump Group lays claim to the position of the world's largest manufacturer of professional high-pressure plunger pumps and power take-offs, and is also among world leaders in the market of professional cleaning machines and high pressure washers for the domestic sector.

The overall share of export sales of the Interpump Group in 2001 was approximately 72%. The most important export markets for the Group are the United States, Germany and France.

4.1 *Business sectors*

The main business areas of the Interpump Group can be identified as follows on the basis of final product destinations:

- a "Cleaning Sector", covering cold and hot water high-pressure washers, wet/dry vacuum cleaners, floor sweepers, floor scrubbers, steam cleaning appliances, professional cleaning service trolleys and window cleaning equipment.

High-pressure washers are appliances powered by an electric motor or combustion engine which, through the application of a plunger pump, deliver a jet of water at very high-pressure. These appliances are utilised for washing industrial and agricultural equipment, vehicles, boats, animal stalls and any other washable surface, and for home or DIY use.

Like the high-pressure washers, the numerous models in the range of wet/dry vacuum cleaners, floor sweepers and floor scrubbers are utilized in the industrial and professional cleaning sector.

- b "Hydraulic Sector" covering power take-offs and hydraulic pumps.

The hydraulic pumps and power take-offs are mainly utilised to equip industrial vehicles.

- c “Industrial Sector”, including high and very high-pressure plunger pumps and other components including electric motors and windings.

High-pressure plunger pumps constitute the core component of our range of high-pressure washers. These pumps are also utilised for a broad range of industrial applications including car wash installations, forced lubrication systems for machine tools, inverse osmosis systems for water desalination plants, and equipment for cutting solid materials.

4.2 *Performance by sector*

The above mentioned Group business sectors are identified as "primary sectors" (see International Accounting Principle no. 14), while the geographical sectors are defined as "secondary" (see heading 4.3). Appendix A at the end of the consolidated financial statements contains information for the individual primary business sectors.

The following section contains an overview of data relative to the Group's external revenues, broken down by sector:

| | <u>31/12/2001</u> | <u>31/12/2000</u> | Increase/ Decrease | 31/12/2001 (On an equal consolidation basis as at 31/12/2000) | Increase/ Decrease |
|-------------------|-------------------|-------------------|-----------------------|--|-----------------------|
| | €/000 | €/000 | | €/000 | |
| Cleaning Sector | 190,727 | 175,756 | +8.5% | 183,155 | +4.2% |
| Hydraulic Sector | 127,419 | 126,561 | +0.7% | 123,843 | -2.1% |
| Industrial Sector | 104,286 | 107,454 | -2.9% | 104,286 | -2.9% |
| Other revenues | <u>3,643</u> | <u>1,902</u> | n.s. | <u>3,563</u> | n.s. |
| Total | <u>426,075</u> | <u>411,673</u> | +3.5% | <u>414,847</u> | +0.8% |

The above table gives rise to the following observations regarding the trend of each business sector.

Cleaning Sector

Net revenues of the Cleaning Sector totalled 190.7 million euro (175.8 million euro in 2000) and account for 45% of Group consolidated net revenue. The sector therefore expanded by 8.5% thanks also to the new acquisition of Pulex (the income statement for which was not consolidated in 2000) and Ready System, which was consolidated only for six months in 2000. On an equal consolidation basis, the sector grew by 4.2%. Particularly significant growth was achieved in the field of vacuum cleaners and floor sweepers. Achieving this important result strengthens the Group's commitment to continue investing in this sector. Considerable investments were made during the year both in research and development of new products and in increasing production capacity. These initiatives can be expected to yield fruit in future years. In particular, an innovative new product has been launched in the form of a multifunction appliance

that operates as a dry vacuum, a wet vacuum with water filtration, a hot water / cold water / steam carpet cleaner, and an air humidifier. Furthermore, research projects have been completed for two new models of floor sweeper, a floor scrubber, and two new models of high-pressure washers, as well as a variety of new high-pressure washer accessories.

Operating profit for this sector totalled 12.7% of net revenues (against 13.6% in 2000). In absolute value the sector achieved profit of 24.2 million euro, some 1.3% higher than the 23.8 million euro of 2000.

Hydraulic Sector

Consolidated net revenues of the Hydraulic Sector totalled 127.4 million euro (up slightly on the 126.6 million euro of 2000), accounting for 30% of Group consolidated net revenues. The Hydraulic Sector recorded an increase in sales of 0.7%, despite difficulties on the North American market, where the Interpump Group, the second American manufacturer of power take-offs for industrial vehicles, managed to contain the downturn to 6.6% in a market that recorded a far greater drop in industrial vehicle sales. In Italy last July the Group acquired control of Hydroven, a company in which we previously held a 36% stake, thus strengthening our competitive stance in the sector. The Group has also continued developing manufacturing synergies, on the one hand with a number of Italian companies and, on the other, in Europe and in the United States. More specifically, attention may be drawn to the Bologna plant, suitably expanded in 2000, which has begun to produce several components also for the North American market.

Operating profit for the sector accounted for 16.2% of net revenue (against 16.4% in 2000). In absolute terms operating profit totalled 20.6 million euro, substantially in line with the previous year (20.8 million euro).

Industrial Sector

The Group's net external revenues for the Industrial Sector amounted to 104.3 million euro (107.5 million euro in 2000), corresponding to 24% of Group consolidated net revenues. The Industrial Sector recorded a drop of 2.9%, due to both the fall-off on the North American market, the main destination of high-pressure pumps, partially compensated by growth in other Countries, and by the drop in sales of electric motors. During the course of the year two new lines of high-pressure pumps were launched, extending the already wide range of products, plus several new models of accessories.

Operating profit for the sector in terms of percentage of net revenues was 16.3% (17% in 2000). In absolute terms operating profit amounted to 19.4 million euro (20.7 million euro in 2000).

This section contains information referring to the geographical sectors classified as secondary in the light of the definition provided by the above-mentioned International Accounting Standard.

Net revenues according to geographical sectors, identified on the basis of customer location, can be broken down as follows:

| | <u>2001</u> €/000 | <u>%</u> | <u>2000</u> | <u>%</u> | <u>Growth</u> |
|--|----------------------|------------|----------------|------------|---------------|
| Italy | 119,152 | 28 | 115,825 | 28 | +2.9% |
| Rest of Europe | 132,299 | 31 | 127,206 | 31 | +4.0% |
| North America | 126,897 | 30 | 131,150 | 32 | -3.2% |
| Pacific Area (Far East and Oceania) | 22,654 | 5 | 21,820 | 5 | +3.8% |
| Rest of the World | <u>25,073</u> | <u>6</u> | <u>15,672</u> | <u>4</u> | +60.0% |
| Total | <u>426,075</u> | <u>100</u> | <u>411,673</u> | <u>100</u> | +3.5% |

2001 was characterised by a massive expansion of emerging countries totalling 60%. The Group considers that these emerging markets offer major important potential in relation to the medium-long term outlook for growth. On a European level the Group grew overall by 3.5%, more than compensating for the drop on the North American market, which was limited to 3.2%, thanks to the strong competitive positions enjoyed by the Interpump Group on the market .

The Group is strategically managed in a uniform manner on a worldwide level, with all the production facilities concentrated in North Italy, with the exception of Muncie Power Products Inc. in the US. The other foreign consolidated companies are formed by the following trade companies:

| | |
|---|--|
| General Pump Companies Inc. | distributor of high-pressure pumps for the North American market |
| P.Z.B. France S.a.r.l. and Hydrocar France S.a.r.l. | distributors of power take-offs and related products for the French market |
| Interpump Hydraulics Asia Pte Ltd | distributor of power take-offs and related products for the Asian market |
| Interclean Assistance SA | distributor of cleaning appliances for the French market |

Data by geographical sectors on the basis of the location of activities are as follows:

| | <u>31/12/2001</u> | <u>31/12/2000</u> | Increases in the year of tangible and intangible fixed assets | |
|---------------------|-------------------|-------------------|---|---------------|
| | | | <u>2001</u> | <u>2000</u> |
| | €/000 | €/000 | €/000 | €/000 |
| Italy | 420,771 | 428,882 | 25,371 | 15,360 |
| Rest of Europe (EU) | 9,461 | 8,673 | 46 | 87 |
| North America | 68,849 | 68,747 | 1,798 | 3,234 |
| Asia Pacific | <u>521</u> | <u>653</u> | <u>1</u> | <u>33</u> |
| Total | <u>499,602</u> | <u>506,955</u> | <u>27,216</u> | <u>18,714</u> |

5 *Research and development*

The Interpump Groups invests constantly in research and development of new products and innovative technical solutions in order to maintain and strengthen its presence in all of its business sectors. The Group is equipped with R&D structures able to offer its customers an efficient service also in terms of the design and manufacture of custom-built products and for specifically requested applications.

Together with commitments in the development and integration of the existing product range, the Group's research capabilities have promoted the growth of new synergic activities or other activities in which the Group is able to leverage its industrial expertise and commercial strengths.

1999 saw the constitution of a Research Centre (Interpump Engineering S.r.l.) aimed at centralizing the design and development of new products. The intention is that of bringing together in a single body the strengths that the Group possesses in the sector, without depriving individual companies of the resources needed for their specific local activities. As mentioned in the comment relative to business sectors, 2001 saw the presentation of a new multifunction appliance that operates as a conventional vacuum cleaner, a wet vac with water filtration, hot water/cold water/steam carpet cleaner and an air humidifier. Furthermore, research projects have been completed for two new models of floor sweeper, a floor scubber, and two new models of high-pressure washers, as well as a variety of new accessories for the high-pressure washers. During the course of the year two new lines of high-pressure pumps were launched, which have gone to bolster the already wide range of products, as well as a number of new models of accessories. Group strategy over the next few years will be focused on continuing to make substantial investments in research and development with the aim of providing further impetus for internal growth. Research costs sustained through Interpump Engineering were capitalized in accordance with their multi-annual usefulness.

6 *Investments*

The productive activities of the Interpump Group are structured with the aim of optimizing product quality, competitiveness in production costs, manufacturing

efficiency and flexibility, concentrating within the Group the highest added value production phases and the most critical processes in terms of quality.

During 2001 it proved necessary to invest in new industrial buildings, as specified below, for a total of 12.7 million euro. These investments will allow a rationalization of the production activities, that in certain cases are dispersed in a number of different buildings, allowing operations to be concentrated and making for a general improvement in efficiency. The investment plan will be completed in 2002, when further investments for approximately 6.3 million euro are planned for the completion of the work begun in 2001 and the construction of another industrial building. The benefits from these investments will begin to show in 2002 and, to a greater extent, in 2003.

Acquisitions during 2001 included Hydroven S.r.l., as described in greater detail in the remarks on Group structure, and various minority shareholdings in companies already controlled by the Group. These acquisitions globally resulted in an increase of indebtedness of 6.8 million euro.

Moreover, during 2001 the policy of purchasing treasury shares was pursued, generating expenditure of 1.9 million euro, to be added to the 23.9 million euro already invested in own shares in previous years.

This latest purchase means that as at 31 December 2001 the Group portfolio contains 6,154,000 treasury shares equivalent to 7.48% of capital stock.

Operations for the transition to the euro were concluded in the scheduled time. This activity was almost entirely conducted using internal resources. The costs sustained totalled 200,000 euro, entirely disbursed in 2001.

7 *Financing*

During the course of the year the loan of 15.5 million euro was renewed at the Euribor rate +0.3 points from Banco di Napoli. Also, in early 2002 a medium-long term credit line of 60 million euro was obtained at Euribor +0.65 points from a pool of banks headed by Banca Popolare di Verona – Banco S. Geminiano e S. Prospero. This loan is repayable in three instalments falling due in January 2006, 2007 and 2008. In December 2001 the first instalment of the original pool loan of 103.3 million euro was repaid, for a total of 34.4 million euro.

Net financial indebtedness as at 31 December 2001 totalled 176.4 million euro (177.1 million euro as at 31 December 2000). Changes during the year are shown in the following chart:

| | <u>2001</u> | <u>2000</u> |
|---|------------------|------------------|
| | €/000 | €/000 |
| Opening indebtedness | (177,087) | (160,171) |
| Exchange rate differences on opening indebtedness | (910) | (1,666) |
| Cash flow from operations | 47,322 | 47,876 |
| Decrease (increase) in working capital | (3,683) | 11,413 |
| Investment in tangible fixed assets and suspended costs in intangible fixed assets | (27,216) | (18,714) |
| Proceeds from sales of fixed assets | 2,936 | 548 |
| Increase in capital by stock option | 444 | 77 |
| Ordinary dividends paid out | (8,904) | (6,456) |
| Increase in indebtedness due to the acquisition of investments | (6,792) | (11,765) |
| Purchase of treasury stock | (1,860) | (2,988) |
| Special dividend paid out | - | (33,766) |
| Other changes | <u>(679)</u> | <u>(1,475)</u> |
| Closing indebtedness | <u>(176,429)</u> | <u>(177,087)</u> |

The exchange rate difference on the opening net cash position concerns loans of U.S. subsidiaries.

8 *Relations with non-consolidated subsidiaries and associates.*

Relations with non-consolidated subsidiaries and associates are as follows (amounts shown in €/000):

| | <u>Receivables</u> | | <u>Revenues</u> | |
|-----------------------------------|--------------------|-------------------|-------------------|-------------------|
| | <u>31/12/2001</u> | <u>31/12/2000</u> | <u>31/12/2001</u> | <u>31/12/2000</u> |
| Non-consolidated subsidiaries: | | | | |
| Portotecnica S.A. | 241 | 128 | 1,007 | 887 |
| Hydrocar Chile S.A. | 94 | 202 | 443 | 336 |
| Aspiradores Industriales S.L. | 406 | 224 | 937 | 1,185 |
| Soteco Benelux | 210 | 256 | 720 | 770 |
| Western Floor India | 30 | 33 | 111 | 118 |
| P.Z.B. Hydraulik (in liquidation) | 87 | - | - | - |
| Shanghai Floor Cina | - | <u>23</u> | - | - |
| <i>Total</i> | <u>1,068</u> | <u>866</u> | <u>3,218</u> | <u>3,296</u> |
| Associates: | | | | |
| Mecmarket.com S.p.A. | - | 10 | - | 10 |
| Transferoil S.p.A. | - | 43 | - | 50 |
| PZB Australia | 343 | 177 | 1,167 | 1,032 |
| Hydroven S.r.l. | - | 269 | - | 693 |
| PZB Asia (in liquidation) | <u>73</u> | <u>74</u> | - | - |
| <i>Total</i> | <u>416</u> | <u>573</u> | <u>1,167</u> | <u>1,785</u> |

| | Payables | | Costs | |
|--------------------------------|-------------------|-------------------|-------------------|-------------------|
| | <u>31/12/2001</u> | <u>31/12/2000</u> | <u>31/12/2001</u> | <u>31/12/2000</u> |
| Non-consolidated subsidiaries: | | | | |
| Portotecnica S.A. | - | - | - | 6 |
| Hydrocar Chile S.A. | 6 | 2 | 6 | 2 |
| Aspiradores Industriales S.I. | 22 | 15 | 77 | 55 |
| Soteco Benelux | - | - | - | 1 |
| Shanghai Floor Cina | <u>2</u> | <u>-</u> | <u>-</u> | <u>18</u> |
| <i>Total</i> | <u>30</u> | <u>17</u> | <u>83</u> | <u>82</u> |

| | | | | |
|---------------------------|------------|------------|--------------|------------|
| Associates: | | | | |
| Transferoil S.p.A. | 144 | 73 | 1,037 | 734 |
| PZB Australia | - | - | - | 2 |
| Hydroven S.r.l. | - | 73 | - | 109 |
| PZB Asia (in liquidation) | <u>1</u> | <u>2</u> | <u>-</u> | <u>-</u> |
| <i>Total</i> | <u>145</u> | <u>148</u> | <u>1,037</u> | <u>845</u> |

| | Financing | | Interest income | |
|---------------------------|-------------------|-------------------|-------------------|-------------------|
| | <u>31/12/2001</u> | <u>31/12/2000</u> | <u>31/12/2001</u> | <u>31/12/2000</u> |
| Associates: | | | | |
| PZB Australia | - | 34 | - | 12 |
| PZB Asia (in liquidation) | <u>84</u> | <u>104</u> | <u>-</u> | <u>-</u> |
| <i>Total</i> | <u>84</u> | <u>138</u> | <u>-</u> | <u>12</u> |

9 Corporate Governance

The Interpump Group was admitted to the STAR (high standard mid-capital index) segment of the Italian stock market as of 1 April 2001, reflecting the observance of transparency requirements and corporate structure that have been imposed in the company since 28 June 2000, when the Board of Directors resolved to adhere in full to the Code of Corporate Governance promoted by Italian stock exchange authority Borsa Italiana S.p.A..

As of 28 June 2001, the Board of Directors elected Mr Pierleone Ottolenghi. On 11 December 2001, the Board of Directors appointed Mr Giuseppe Bava as general operational manager of the Parent Company. On 1 March 2001 Mr Giovanni Scarlini resigned from his position as Director and Group General Manager.

The current composition of the Board of Directors is as follows:

| <u>Name</u> | <u>Position</u> |
|----------------------|--|
| Sergio Erede | Chairman (1) |
| Giovanni Cavallini | Deputy Chairman and Executive Director (2) |
| Fulvio Montipò | Executive Director (2) |
| Pierleone Ottolenghi | Independent Director |
| Francesco Loredan | Non-executive director |
| Paolo Pome' | Non-executive director |

- (1) powers of company representation as per clause 17 of the articles of
- (2) powers relative to ordinary business with a limitation of the amount beyond which the decision must be referred to the Board of Directors.
- (3) powers relative to the supervision of the internal control system.

Mr Marco Reboa and Mr Paolo Pomè sit on the Internal control committee. Sergio Erede, Giovanni Cavallini and Francesco Loredan are members of the top management remuneration committee.

The following section shows the number of shares held by company directors and statutory auditors:

| <u>Name</u> | <u>Company in which held</u> | <u>Number of shares held at end of previous year</u> | <u>Number of shares Subscribed/ purchased</u> | <u>Number of shares sold</u> | <u>Number of shares held at end of current year</u> |
|------------------------|------------------------------|--|---|------------------------------|---|
| Mr Sergio Erede: | | | | | |
| Held directly | Interpump Group S.p.A. | 720,000 | - | - | 720,000 |
| Mr Giovanni Cavallini: | | | | | |
| Held directly | Interpump Group S.p.A. | 1,279,000 | 206,500 | (271,500) | 1,214,000 |
| Mr Giovanni Cavallini: | | | | | |
| Held directly | MecMarket. Com S.p.A. | 8,925 | - | (1,444) | 7,481 |
| Mr Fulvio Montipò: | | | | | |
| Held directly | Interpump Group S.p.A. | 1,463,000 | 58,000 | - | 1,521,000 |
| Held by spouse | Group S.p.A. | 32,500 | - | - | 32,500 |
| Held directly | MecMarket. Com S.p.A. | 7,140 | - | (1,154) | 5,986 |

Furthermore, with reference to the shareholdings in limited liability companies controlled by Interpump Group S.p.A., Mr Fulvio Montipò reports the following situation (amounts expressed in €):

| | Nominal value of shares held at 31 December 2000 | Increase in value for conversion of the share capital in € | Nominal value of share sold in the year | Nominal value of shares held at 31 December 2001 |
|--|--|--|---|--|
| <i>Interpump Engineering S.r.l.</i> | | | | |
| Held directly | 15,494 | - | (15,494) | - |
| <i>General Technology S.r.l.</i> | | | | |
| Held directly | 69,721 | 479 | - | 70,200 |
| Held via a company in which Mr Montipò has the majority shareholding | 77,469 | 425 | (15,494) | 62,400 |

The Shareholders' Meeting on 24 April 2001 established the remuneration for each director for 2001, in the maximum amount of 25,800 euro, and the global maximum remuneration due to the members of the Board of Directors invested with special powers in the amount of 1,032,900 euro; the Meeting also resolved to determine in the same measure, adjusted on a pro rata temporis basis, the remuneration to assign to the members of the Board of Directors for the period between 1 January 2002 and the date of approval by the Shareholders' Meeting of the Financial Statements for 2001, except for possible adjustment at the time of determination of remuneration for the whole of 2002.

The same Shareholders' Meeting authorised the signing of the non-competition agreement between the company and Mr Fulvio Montipò, given the imminent expiry of the agreement entered into in 1996, in relation to a payment of no less than 1,084,600 euro and no higher than 3,770,100 euro, said amount being construed as in addition to the maximum global remuneration amounts specified in the previous paragraph.

The meeting of the Board of Directors that was held on the same date resolved to divide remuneration for directors vested with special powers as follows: to the Chairman, Mr Sergio Erede 51,600 euro, to the Deputy Chairman and Executive Director Mr Giovanni Cavallini 800,500 euro and to the Executive Director Mr Fulvio Montipò 103,300 euro.

10 *Stock option plans*

With the aim of motivating Group management, promoting the goal of value creation for shareholders, two stock option plans were approved by the Shareholders' Meetings of 12 February 1998 and 20 December 1999.

The stock option plan approved in 1998, involves the possibility of assigning Group management up to a maximum of 1,000,000 options in three tranches by the use of treasury stock or by means of share capital increases reserved for some directors and employees of Group companies, with payment of a minimum premium of € 2.07, subsequently fixed at € 2.07 by the Board of Directors. The assignment is the responsibility of the Board of Directors, further to verification of the joint fulfilment of the following two parameters:

- arrival, for at least 30 consecutive exchange days, at the Interpump Group share quotation of € 3.46 (1st tranche), € 3.98 (2nd tranche) and € 4.54 (3rd tranche); at the time of the resolution the share was quoted at € 2.58;
- compliance with several profit and equity parameters of the consolidated financial statements and individual goals of the intended beneficiaries.

To date a total of 929,000 shares have been assigned, thus concluding the scheduled assignments envisaged by the plan. During the course of 2001 a total of 334,000 shares were assigned relative to the third and final tranche.

The current situation is as follows:

| | Price per share for the exercise of options | Period for exercising | Number of rights assigned | Number of shares subscribed |
|------------------------------------|---|-----------------------|------------------------------|-----------------------------------|
| Group Parent Company Directors: | | | | |
| □ Giovanni Cavallini | € 2.58 | 11.07.1999-31.12.2002 | 150,000 | 150,000 |
| □ Fulvio Montipò | € 2.58 | 11.07.1999-31.12.2002 | 150,000 | 125,000 |
| Other beneficiaries | € 2.58 | 11.07.1999-31.12.2002 | <u>629,000</u> | <u>584,500</u> |
| Total | | | <u>929,000</u> | <u>859,500</u> |

Stock options were exercised in 2001 in relation to 143,500 shares, and in February 2002 in relation to 136,000 options. As at 31 December 2001 company share capital was thus composed of 82,265,500 shares with a nominal value of € 0.52.

The Shareholders' Meeting of 20 December 1999 approved a second stock option plan that involves the assignment of a maximum of 1,700,000 shares in three tranches (years 2000, 2001 and 2002), subject to the arrival of share prices at previously decided stock market quotations, the fulfilment of specific objectives in the financial statements, and/or the achievement of various personal targets.

The Extraordinary Shareholders' Meeting of 20 December 1999 resolved a subscribed share capital increase in one or more stages, with the consequent issue of ordinary shares to be offered to employees of Interpump Group S.p.A. and its subsidiaries, said recipients to be identified by the Board of Directors, by means of the issue of a maximum number of 1,700,000 ordinary shares of a nominal value of € 0.52, for a total amount of 884,000 euro.

The Meeting further resolved to offer the newly issued shares at a subscription price equal to their nominal value. The Meeting of the Board of Directors held on 20 December 1999 resolved to set the maximum number of options to be assigned in relation to the first tranche at 340,000, and to set the total number of options attributable to Mr Giovanni Cavallini (Deputy Chairman and Executive Director) at 1,000,000, of which 200,000 in relation to the first tranche, 300,000 for the second tranche, and 500,000 for the third tranche. Finally, the Board resolved to establish the number of 330,000 options in total that can be assigned to Mr Fulvio Montipò (Executive Director) of which 66,000 for the first tranche, 99,000 for the second tranche, and 165,000 for the third tranche. The meeting of the Board of Directors of 4 December 2000 set the maximum number of options assignable in relation to the

second tranche of the new plan at 510,000, including the options already assigned to Giovanni Cavallini and Fulvio Montipò. The stock options can be exercised starting, respectively for each tranche, as from 1 February 2001, 2002 and 2003 and, in any event, before 31 December 2004. In relation to the first tranche, further to the assignments and subscriptions of February 2001 and February 2002, the situation is as follows:

| | Price per share for the exercise of options | Period for exercising | Number of rights assigned | Number of shares subscribed |
|---|---|-----------------------|---------------------------------|-----------------------------------|
| Group Parent Company Directors: | | | | |
| <input type="checkbox"/> Giovanni Cavallini | € 0.52 | 01.02.2001-31.12.2004 | 200,000 | 200,000 |
| <input type="checkbox"/> Fulvio Montipò | € 0.52 | 01.02.2001-31.12.2004 | 66,000 | 66,000 |
| Other beneficiaries | € 0.52 | 01.02.2001-31.12.2004 | <u>18,000</u> | <u>18,000</u> |
| Total | | | <u>284,000</u> | <u>284,000</u> |

Execution of the second stock option plan involved an increase in share capital of approximately 74,000 euro as at 31/12/2001, with remaining options exercised in February 2002. In relation to the second tranche, this will be assigned before the end of May 2002.

The Shareholders' Meeting convened to approve the financial statements in April 2002 will also be asked to approve another stock option plan that involves the allocation of a maximum of 4,000,000 options, to be assigned over the next 4 years with an exercise price equal to the current market value at the time of assignment, and with an exercising period of 5 years. The proposal made to the Meeting also involves the utilization of treasury stock rather than newly issued shares. The conditions for assignment will be linked to the arrival of the share value at pre-established stock market quotations and/or the achievement of specific personal targets.

11 *Operations with related parties*

Transactions with related parties regard the leasing of facilities owned by companies controlled by current shareholders and directors of Group companies for the amount of 1,284,000 euro, and legal consultancy services provided by the practice in which the Chairman works, for a total of 150,000 euro.

Further commercial transactions also took place with companies whose shareholders are also shareholders or directors of consolidated companies. These operations concerned sales for 636,000 euro and purchases for 5,869,000 euro. The consolidated balance sheet as at 31/12/2001 shows residual receivables from such companies for 167,000 euro and payables for 1,385,000 euro.

The transactions mentioned above were carried out at normal market conditions.

Also entered into the accounts are non-interest bearing loans from minority shareholders of subsidiaries for 267,000 euro.

During the course of the year the final 20% of Interpump Engineering shares was purchased from Fulvio Montipò, shareholder and director of the Group parent

company. The price of 73,000 euro was established on the basis of an independent professional appraisal. Purchases also included an additional 7.5% of General Technology for 814,000 euro from a company controlled by Fulvio Montipò, on the basis of existing contractual agreements.

12 *The companies in the Group*

As at 31 December 2001 the Interpump Group is composed of a structure headed by Interpump Group S.p.A., which holds an direct and indirect controlling stakes in the capital of 25 companies working in three business sectors (Industrial, Cleaning and Hydraulic).

The Parent company, with registered offices in Sant'Ilario d'Enza, produces high and very-high-pressure plunger pumps for the Industrial Sector, and high-pressure washers for the Cleaning Sector.

The principal data of consolidated subsidiaries are summarised in the following table, while data for the Parent company can be found in the enclosed financial statements.

Relations with non-consolidated subsidiaries and associates, and also relations with related parties, are conducted at normal market conditions and have been described in analytical detail in the above text.

| Company | Share Capital (€000) | Controlling interest | Registered Office | Main activity | Sales €/millions 31/12/2001 | Sales €/millions 31/12/2000 | Average number of employees 31/12/2001 | Average number of employees 31/12/2000 |
|--------------------------------------|-------------------------|-------------------------|--------------------------|---|-----------------------------------|-----------------------------------|---|---|
| Interpump Cleaning S.p.A. | 5,165 | 100% | Vaiano Cremasco (CR) | High-pressure washers (Cleaning Sector) | 92.6 | 76.7 | 366 | 388 |
| Unielec S.p.A. | 1,456 | 70% | Sant'Illario d'Enza (RE) | Windings and electric motors (Industrial Sector) | 46.2 | 45.2 | 186 | 186 |
| Soteco S.p.A. | 140 | 100% | Castelverde (CR) | Vacuum cleaners and liquid vacuum cleaners (Cleaning Sector) | 38.1 | 38.6 | 280 | 280 |
| Sit S.p.A. | 105 | 60% | Sant'Illario d'Enza (RE) | Sheet metal drawing, blanking, and pressing (Industrial Sector) | 3.7 | 3.5 | 22 | 22 |
| Teknova S.r.l. | 362 | 100% | Casalgrande (RE) | Industrial floor sweepers (Cleaning Sector) | 11.2 | 9.8 | 61 | 55 |
| General Technology S.r.l. | 780 | 77.5% | Reggio Emilia | Steam cleaning appliances (Cleaning Sector) | 3.7 | 6.3 | 34 | 34 |
| Oleodinamica Pederzani e Zint S.p.A. | 3,120 | 80% | Calderara di Reno (BO) | Hydraulic pumps and power take-offs (Hydraulic sector) | 21.4 | 18.6 | 125 | 125 |
| P.Z.B. France S.r.l. | 32 | 80% | Peltre-Metz | Sales of hydraulic pumps and power take-offs (Hydraulic sector) | 2.2 | 2.0 | 7 | 7 |
| General Pump Companies Inc. | 1,854 | 70% | Minneapolis - USA | High-pressure pumps distributor (Industrial Sector) | 39.9 | 41.6 | 96 | 96 |
| Interpump Hydraulics S.p.A. | 2,632 | 80% | Nonantola (MO) | Holding company of the Hydraulics Sector | 1.8 | 1.6 | 10 | 10 |
| Hydrocar S.r.l. | 104 | 80% | Nonantola (MO) | Hydraulic pumps and power take-offs (Hydraulic sector) | 30.9 | 29.6 | 97 | 99 |
| Hydrometal S.r.l. | 130 | 80% | Sorbara di Bomporto (MO) | Sales of complementary products for industrial vehicles, hydraulic pumps and power take-offs (Hydraulic Sector) | 9.0 | 9.3 | 27 | 33 |
| Hydroven S.r.l. | 200 | 40.80% | Tezze sul Brenta (VI) | Sales of complementary products for industrial vehicles, hydraulic pumps and power take-offs (Hydraulic Sector) | 4.2 | * | 16 | 16 |
| A.V.I. S.r.l. | 10 | 40.80% | Varedo (MI) | Sales of complementary products for industrial vehicles, hydraulic pumps and power take-offs (Hydraulic Sector) | 4.3 | 3.8 | 8 | 8 |
| Hydrocar France S.r.l. | 100 | 79.97% | Brie Comte Robert | Sales of hydraulic pumps and power take-offs (Hydraulic sector) | 3.6 | 3.9 | 12 | 11 |
| Hydrocar Roma S.r.l. | 10 | 56% | Modena | Sales of hydraulic pumps and power take-offs (Hydraulic sector) | 1.9 | 1.8 | 2 | 2 |
| Hydrocar Asia Pte Ltd | 96 | 56% | Singapore | Sales of hydraulic pumps and power take-offs (Hydraulic sector) | 0.8 | 1.2 | 4 | 4 |
| Interpump Engineering S.r.l. | 76 | 100% | Reggio Emilia | Research and development | 2.0 | 2.1 | 18 | 11 |
| Muncie Power Products Inc. | 847 | 67.66% | Muncie - USA | Hydraulic pumps and power take-offs (Hydraulic Sector) | 59.8 | 64.1 | 236 | 236 |
| IP Floor S.p.A. | 952 | 100% | Portogruaro (VE) | Floor scrubbers (Cleaning Sector) | 11.9 | 12.1 | 64 | 64 |
| Interclean Assistance S.A. | 457 | 66% | Epone - France | Sales of cleaning appliances (Cleaning Sector) | 13.3 | 11.5 | 46 | 46 |
| Euronop S.p.A. | 103 | 51% | Villa del Conte (PD) | Trolleys for cleaning (Cleaning Sector) | 15.4 | 15.8 | 86 | 86 |
| Ready System S.r.l. | 250 | 26.01% | Saccolongo (PD) | Trolleys for cleaning (Cleaning Sector) | 5.2 | 2.3 | 26 | 26 |
| Pulex S.r.l. | 15 | 58% | Brescia | Window cleaning equipment (Cleaning Sector) | 6.4 | (a) | 32 | 32 |

*=income statement not consolidated

** = 6 months

(a) = income statement has not been consolidated. Sales totalled €/millions 6.2

Since the close of the year the current business of the Group has proceeded, generating, in the initial months, growth of turnover with respect to the equivalent period in 2001.

As mentioned earlier, in January 2002 a loan was taken out for 60 million euro to finance the acquisitions strategy that the Group intends to pursue.

Also, February 2002 saw the exercising of stock options relative to the third tranche of the first stock option plan and the second tranche of the second plan. The subscription led to an increase in share capital totalling 278,000 euro and in the share premium reserve of 280,900 euro.

We also draw your attention to the tax inspection that was carried out at the Group Parent company, as detailed in the supplementary notes.

Considering the short time span that has passed since 31 December 2001, also in the light of the limited time covered by the order book, we are not currently in possession of sufficient information to be able to make forecasts regarding the trend in 2002. There are however, no events suggesting that the Group cannot continue along the positive growth trend of recent years.

On 1 March 2002, the Interpump Group acquired several assets from the Gansow Group in Germany. The Gansow Group is one of the leading European manufacturers of professional floor scrubbers and floor sweepers, with a factory near Dortmund and eight after-sales and service branches throughout Germany. As of January 2002 The Gansow Group has been in receivership due to a serious cash-flow deficit that arose in the second half of 2001. In 2000, the date of the most recent approved financial statements, consolidated turnover of the Gansow Group amounted to approximately 40 million euro. The range of products, the trade mark, and the service network in Germany present high levels of potential synergy with the Interpump Group Cleaning Sector. The investment made by Interpump for the purchase of fixed assets, patents, inventories and goodwill totalled 3.7 million euro.

For the Interpump Group, the acquisition of Gansow business in Germany constitutes a major step towards the consolidation of its position as a world leader in the cleaning sector, and will allow more effective penetration throughout Germany (the primary European market), and significant growth in the Floor Care segment, one of the most promising areas of business in which the Interpump Group is engaged. The full effects of this acquisition can be expected to become evident starting from 2003, and still more in subsequent years, with the rationalization of commercial and manufacturing synergies of the various Floor Care companies in the Interpump Group.

Milan, 12 March 2002

The Board of Directors

Sergio Erede

Giovanni Cavallini

Fulvio Montipò

Francesco Loredan

Pierleone Ottolenghi

Paolo Pomè

Marco Reboa

**Consolidated Financial Statements
at 31 December 2001
of Interpump Group S.p.A. and subsidiaries**

CONSOLIDATED BALANCE SHEETS

ASSETS

| <i>(amounts expressed in €/000)</i> | 31/12/2001 | 31/12/2000 |
|--|------------|------------|
| Fixed assets | | |
| <i>Intangible fixed assets</i> | | |
| Start-up and capital costs | 357 | 500 |
| Costs of research, development and advertising | 2,734 | 1,684 |
| Industrial patents and intellectual property rights | 230 | 146 |
| Concessions, licenses, trademarks and similar rights | 670 | 536 |
| Goodwill | 140,238 | 146,565 |
| Assets in progress and advances | 19 | 17 |
| Other intangible assets | 2,701 | 2,918 |
| <i>Total</i> | 146,949 | 152,366 |
| <i>Tangible fixed assets</i> | | |
| Land and buildings | 38,151 | 39,042 |
| Plant and machinery | 22,253 | 21,963 |
| Industrial and commercial equipment | 8,237 | 8,078 |
| Other assets | 6,423 | 6,309 |
| Assets in progress and advances | 13,719 | 1,327 |
| <i>Total</i> | 88,783 | 76,719 |
| <i>Financial fixed assets</i> | | |
| Investments in: | | |
| Subsidiaries | 1,236 | 1,045 |
| Associated companies | 6,072 | 7,133 |
| Other companies | 508 | 514 |
| <i>Total investments</i> | 7,816 | 8,692 |
| Receivables: | | |
| From associated companies | | |
| Due within one year | 84 | 138 |
| Due from others | | |
| Due within one year | 230 | 1,126 |
| Due after one year | 2,662 | 697 |
| <i>Total financial receivables</i> | 2,976 | 1,961 |
| Treasury stock | | |
| (for a total nominal value of € 3,200,080 in 2001) | 25,726 | 23,866 |
| <i>Total financial fixed assets</i> | 36,518 | 34,519 |
| <i>Total fixed assets</i> | 272,250 | 263,604 |

CONSOLIDATED BALANCE SHEETS

| <i>(amounts expressed in €/000)</i> | <u>31/12/2001</u> | <u>31/12/2000</u> |
|---|-------------------|-------------------|
| Assets forming part of working capital | | |
| <i>Inventories</i> | | |
| Raw materials and supplies | 32,872 | 36,108 |
| Work in progress and semi-finished products | 17,943 | 18,249 |
| Finished products and goods | 37,508 | 33,121 |
| Advances | 14 | 5 |
| <i>Total</i> | <u>88,337</u> | <u>87,483</u> |
| <i>Receivables</i> | | |
| Trade receivables | | |
| Due within one year | 88,887 | 86,167 |
| Due after one year | 22 | 104 |
| Non-consolidated subsidiaries | | |
| Due within one year | 1,068 | 866 |
| Associated companies | | |
| Due within one year | 416 | 573 |
| Due from others | | |
| Due within one year | 10,176 | 5,571 |
| Due after one year | 5,016 | 3,102 |
| <i>Total</i> | <u>105,585</u> | <u>96,383</u> |
| <i>Financial assets other than fixed assets</i> | | |
| Other securities | - | 30 |
| <i>Cash on hand</i> | | |
| Bank and postal accounts | 22,861 | 48,653 |
| Cheques on hand | 273 | 12 |
| Cash | 47 | 78 |
| <i>Total</i> | <u>23,181</u> | <u>48,743</u> |
| <i>Total assets forming part of working capital</i> | <u>217,103</u> | <u>232,639</u> |
| <i>Accrued income and prepayments</i> | | |
| Due within one year | 2,232 | 2,327 |
| Due after one year | 8,017 | 8,385 |
| <i>Total</i> | <u>10,249</u> | <u>10,712</u> |
| <i>Total assets</i> | <u>499,602</u> | <u>506,955</u> |

CONSOLIDATED BALANCE SHEETS

LIABILITIES

| <i>(amounts expressed in €/000)</i> | 31/12/2001 | 31/12/2000 |
|---|----------------|----------------|
| <i>Shareholders' equity</i> | | |
| Share Capital | 42,778 | 42,630 |
| Share premium reserve | 29,488 | 29,192 |
| Legal reserve | 8,687 | 8,687 |
| Statutory reserves | 528 | 1,034 |
| Other reserves and profits (losses) brought forward | 29,424 | 18,409 |
| Reserve for treasury stock held | 25,726 | 23,866 |
| Reserve for translation differences | 1,930 | 1,163 |
| Profit (Loss) for the period | 21,433 | 19,016 |
| <i>Total shareholders' equity for the Group</i> | <i>159,994</i> | <i>143,997</i> |
| Minority interests | 17,002 | 12,975 |
| Minority profits | 5,786 | 5,035 |
| <i>Minority shareholders' equity</i> | <i>22,788</i> | <i>18,010</i> |
| <i>Total shareholders' equity</i> | <i>182,782</i> | <i>162,007</i> |
| <i>Provisions for risks and charges</i> | | |
| Retirement benefits and similar rights | 649 | 574 |
| Taxation | 5,778 | 5,284 |
| Other | 2,216 | 2,405 |
| <i>Total</i> | <i>8,643</i> | <i>8,263</i> |
| <i>Staff severance indemnities</i> | <i>13,379</i> | <i>12,156</i> |
| <i>Payables</i> | | |
| Payables to banks | | |
| Due within one year | 94,377 | 99,351 |
| Due after one year | 89,846 | 121,894 |
| Payables to other financial institutions | | |
| Due within one year | 1,985 | 948 |
| Due after one year | 11,856 | 2,016 |
| Advances | | |
| Due within one year | 317 | 465 |
| Trade payables | | |
| Due within one year | 68,593 | 66,424 |
| Due after one year | 49 | 8 |
| Securities issued | | |
| Due within one year | 183 | 166 |
| Due after one year | 90 | 250 |
| Payables to non-consolidated subsidiaries | | |
| Due within one year | 30 | 17 |
| Payables to associates | | |
| Due within one year | 145 | 148 |

CONSOLIDATED BALANCE SHEETS

| <i>(amounts expressed in €/000)</i> | <u>31/12/2001</u> | <u>31/12/2000</u> |
|---|-------------------|-------------------|
| Taxes payable | | |
| Due within one year | 9,477 | 10,505 |
| Due after one year | 4,775 | 7,163 |
| Social security charges payable | | |
| Due within one year | 3,504 | 3,339 |
| Other payables | | |
| Due within one year | 7,269 | 9,215 |
| Due after one year | 433 | 516 |
| <i>Total</i> | <u>292,929</u> | <u>322,425</u> |
| <i>Accrued expenses and deferred income</i> | | |
| Accrued expenses and deferred income | 1,869 | 2,104 |
| <i>Total</i> | <u>1,869</u> | <u>2,104</u> |
| <i>Total liabilities</i> | <u>499,602</u> | <u>506,955</u> |
| Memorandum accounts | | |
| Security pledges | 8,831 | 8,831 |
| Surety granted to non-consolidated subsidiaries | 299 | 290 |
| Surety granted to others | 14,464 | 13,832 |
| Other memorandum accounts | 32,152 | 21,471 |
| <i>Total memorandum accounts</i> | <u>55,746</u> | <u>44,424</u> |

CONSOLIDATED INCOME STATEMENTS

| <i>(amounts expressed in €'000)</i> | <i>31/12/2001</i> | <i>31/12/2000</i> |
|---|-------------------|-------------------|
| <i>Sales and other revenues</i> | | |
| Revenues from the sale of goods and services | 425,293 | 410,712 |
| Change in inventories of work in progress, semi-finished and finished products | 1,316 | 998 |
| Increase on internal work capitalised under fixed assets | 2,117 | 331 |
| Other revenues and income | 2,512 | 2,246 |
| <i>Total sales and other revenues</i> | <i>431,238</i> | <i>414,287</i> |
| <i>Cost of production</i> | | |
| Raw materials, consumables and supplies | 192,317 | 192,008 |
| Services | 65,502 | 60,413 |
| Use of third-party assets | 3,929 | 3,586 |
| Personnel: | | |
| Wages and salaries | 59,452 | 56,814 |
| Social security charges | 15,816 | 15,135 |
| Staff severance indemnities | 2,953 | 2,655 |
| Other costs | 372 | 429 |
| Amortisation, depreciation and write-downs: | | |
| Amortisation of intangible assets | 11,403 | 12,081 |
| Depreciation of tangible fixed assets | 12,011 | 11,494 |
| Write downs of receivables included under assets forming part of working capital | 2,255 | 828 |
| Changes in inventory of raw materials, consumables and supplies | 3,555 | (574) |
| Allocation to risk provisions | 89 | 69 |
| Other provisions | 105 | 49 |
| Sundry operating costs | 3,483 | 3,064 |
| <i>Total</i> | <i>373,242</i> | <i>358,051</i> |
| <i>Difference between sales and other revenues and the cost of production</i> | <i>57,996</i> | <i>56,236</i> |
| <i>Financial income and expense</i> | | |
| Income from associated investments | | |
| Other income | 1 | 17 |
| <i>Total</i> | <i>1</i> | <i>17</i> |
| <i>Other financial income</i> | | |
| From receivables included under fixed assets | | |
| Other | 81 | 40 |
| <i>Total</i> | <i>81</i> | <i>40</i> |

CONSOLIDATED INCOME STATEMENTS

| <i>(amounts expressed in €/000)</i> | 31/12/2001 | 31/12/2000 |
|---|------------|------------|
| From securities included under fixed assets that do not constitute equity investments | 1 | 9 |
| From securities entered under assets forming part of working capital that do not constitute equity investments | - | 17 |
| Financial income other than the above | | |
| Interest and commission from associated companies | - | 12 |
| Interest and commission from other parties and other income | 3,165 | 2,810 |
| Total other financial income | 3,247 | 2,888 |
| <i>Interest and other financial charges</i> | | |
| Interest and commission to other parties and other charges | 15,561 | 14,248 |
| Total financial income (expenses) | (12,313) | (11,343) |
| <i>Adjustments to financial assets value</i> | | |
| Revaluations: | | |
| Of investments | 536 | 414 |
| Write-downs: | | |
| Of investments | 1,206 | 123 |
| Of financial assets other than equity investments | 537 | - |
| Total adjustments | (1,207) | 291 |
| <i>Extraordinary income and expenses</i> | | |
| Income | 1,322 | 424 |
| Charges | 1,490 | 616 |
| Total extraordinary items | (168) | (192) |
| Profit for the period before taxes | 44,308 | 44,992 |
| Income taxes for the period | | |
| Current taxes | (20,879) | (20,379) |
| Deferred taxes | 3,790 | (562) |
| Total income taxes for the period | (17,089) | (20,941) |
| Net profit for the period before minority interests | 27,219 | 24,051 |
| Minority (profit) loss for the period | (5,786) | (5,035) |
| Profit (loss) for the period | 21,433 | 19,016 |

1 Introduction

The consolidated financial statements as at 31 December 2001 have been drawn up in thousands of euro, on the basis of the financial statements of companies included in the scope of consolidation as drawn up by their respective administrative bodies. These financial statements have been drawn up partly in euro and partly in Italian Lire. The companies that have prepared their financial statements in Lire have also annexed their balance sheet and income statement in thousands of euro, and it was these latter documents that were used for the purposes of consolidation.

In relation to the business of the Interpump Group and its structure we invite you to refer to the Board of Director's Report.

Pursuant to the provisions of law, the consolidated financial statements have been audited. The Audit Report is attached to the financial statements.

2 Principles and consolidation basis

The following main consolidation criteria were adopted:

- the carrying value of consolidated shareholdings is set off against the relative shareholder's equity, the assets and liabilities resulting from subsidiaries' financial statements are entered into the consolidated financial statements and the shareholders' equity of the companies is eliminated, according to the line-by-line consolidation method;
- the reserves of companies in which stakes were held as at 31 December 2001, existing on the date on which they were acquired, were set off against the value of investments, while the identity of reserves accumulated after acquisition has been maintained;
- the difference between the book value and the portion of shareholder's equity determined with reference to the situation on the date of acquisition of the holding, is treated as follows:
 - if positive, the difference is allocated to the individual asset and liability items to which it relates; any remaining amount is allocated to goodwill and amortised according to the straight-line method in a period deemed to reflect its future useful life in an appropriate manner. In the absence of future useful life, any remaining amount is deducted from the consolidation reserve;
 - if negative, it is credited to the consolidation reserve;
- significant transactions conducted among consolidated companies, i.e. relative receivables, payables, costs and revenues, have been eliminated in the consolidation process. Dividends distributed among Group companies and, if significant, unrealised gains deriving from intergroup transactions are also eliminated;

- items recorded in the financial statements of individual member companies in order to obtain fiscal benefits not otherwise accessible, have been eliminated in the consolidation process, taking into consideration the relative fiscal effects;
- portions of shareholders equity and results relative to consolidated subsidiaries' minority interests are shown under the related items of the financial statements;
- tangible fixed assets that are subject to financial leasing contracts, if significant, are entered in the consolidated financial statements on the basis of the so-called financial method recommended by International Accounting Standards (IAS);
- financial statements of non-EU based companies have been translated into euro at the exchange rate in force at the end of the period, while the income statements have been converted in accordance with the average exchange rate for the period. Foreign exchange differences arising from changes that have occurred between the exchange rate as at the date of the considered financial statements with respect to the one used for the previous ones and arising from the translation of income statement amounts relating to the subsidiary defined at the average exchange rate for the period, and therefore different from the rate used to translate the year-end balance sheet, are credited or debited to a specific equity reserve called "Reserve for translation differences" as per document no. 17 of the Accounting Principles issued by the National Councils of Certified Public Accountants (Italian accountancy body);
- the substitute tax relative to the sale of the investments in Portotecnica S.p.A., Officine Meccaniche Faip S.r.l. and Sirio S.r.l. to Interpump Cleaning S.p.A., entered entirely in the income statement of the Parent Company's financial statements as at 31 December 1999, is listed as a pre-payment in the consolidated financial statements and will be charged to the income statement over a period of 10 years, in line with the fiscal benefit stemming from the deductibility of the amortisation of the merger deficit of the above three companies into Interpump Cleaning S.p.A.;
- in the accounts of several consolidated companies plant and machinery have been revalued in accordance with Law 342/2000. The credit balances resulting from these revaluations have been entered, to offset the greater value attributed to the revaluated assets, net of substitute tax, in special reserves of shareholders' equity in the financial statements of the individual consolidated companies. On this count it should be noted that these revaluations did not concern the majority of fixed assets and have not been carried out in a systematic and uniform manner within the companies included in the scope of consolidation. The revaluations carried out represent a scarcely significant sum compared to the maximum level of entitlement and concern assets equivalent to a negligible percentage of the tangible fixed assets. For these reasons, the above-mentioned revaluations have been eliminated from the consolidated accounts. The elimination makes it possible to maintain uniformity of application of accounting principles, allows comparison of the consolidated financial statements over time, and is in compliance with international accounting principles (I.A.S.).

The consolidation basis at 31 December 2001 includes the Parent Company and the following subsidiaries:

| <u>Company</u> | <u>Registered Office</u> | <u>Share</u> | | |
|---------------------------------------|--------------------------|--|---|---|
| | | <u>capital</u> <u>at 31/12/01</u> <u>€/000</u> | <u>Percentage</u> <u>of possession</u> <u>at 31/12/01</u> | <u>Shareholding</u> <u>at 31/12/01</u> |
| Interpump Cleaning S.p.A. | Vaiano Cremasco (CR) | 5,165 | 100.00% | 100.00% |
| Unieletric S.p.A. | S. Ilario d'Enza (RE) | 1,456 | 70.00% | 70.00% |
| Interpump Engineering S.r.l. | Reggio Emilia | 76 | 100.00% | 100.00% |
| IP Floor S.p.A. (1) | Portogruaro (VE) | 952 | 100.00% | 100.00% |
| Interclean Assistance S.A. (2) | Epone - France | 457 | 66.00% | 66.00% |
| Soteco S.p.A. | Castelverde (CR) | 140 | 100.00% | 100.00% |
| General Pump Inc. | Minneapolis - USA | 1,854 | 70.00% | 70.00% |
| Teknova S.r.l. | Casalgrande (RE) | 362 | 100.00% | 100.00% |
| General Technology S.r.l. | Reggio Emilia | 780 | 77.50% | 77.50% |
| Muncie Power Prod. Inc. (3) | Muncie - USA | 847 | 84.57% | 67.66% |
| SIT S.p.A. | S. Ilario d'Enza (RE) | 105 | 60.00% | 60.00% |
| Interpump Hydraulics S.p.A. | Nonantola (MO) | 2,632 | 80.00% | 80.00% |
| PZB S.p.A. (4) | Calderara di Reno (BO) | 3,120 | 100.00% | 80.00% |
| Euromop S.p.A. | Villa del Conte (PD) | 103 | 51.00% | 51.00% |
| Ready System S.r.l. (5) | Saccolongo (PD) | 250 | 51.00% | 26.01% |
| PZB France S.a.r.l. (3) | Peltre - France | 32 | 100.00% | 80.00% |
| Hydrocar S.r.l. (4) | Nonantola (MO) | 104 | 100.00% | 80.00% |
| Hydrometal S.r.l. (6) | Sorbara di Bomporto (MO) | 130 | 100.00% | 80.00% |
| Hydroven S.r.l. (6) | Tezze sul Brenta (VI) | 200 | 51.00% | 40.80% |
| AVI S.r.l. (4) | Varedo (MI) | 10 | 51.00% | 40.80% |
| Hydrocar France S.a.r.l. (4) | Brie Comte Robert France | 100 | 99.96% | 79.97% |
| Hydrocar Roma S.r.l. (4) | Modena | 10 | 70.00% | 56.00% |
| Interpump Hydraulics Asia Pte Ltd (4) | Singapore | 96 | 70.00% | 56.00% |
| Pulex Srl | Brescia | 15 | 58.00% | 58.00% |

- (1) = controlled by Interpump Cleaning S.p.A.
(2) = controlled by Soteco S.p.A.
(3) = controlled by P.Z.B S.p.A.
(4) = controlled by Interpump Hydraulics S.p.A.
(5) = controlled by Euromop S.p.A.
(6) = controlled by Hydrocar S.r.l.

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

The share capital of the companies outside the EU was converted into euro at the historical exchange rate at the time of acquisition.

The following changes have been made to the consolidation basis of the consolidated financial statements at 31/12/2000:

- the income statement of Pulex S.r.l. was consolidated for the entire year, whereas in 2000 only the balance sheet was consolidated because the company was acquired towards the end of the year;

- the income statement of Ready System S.r.l., acquired in July 2000, was consolidated for the entire year, while in 2000 it was consolidated only for six months;
- Hydroven S.r.l., control of which was acquired in July 2001, was consolidated for just six months;
- PZB Hydraulik, which was placed in liquidation on 01/01/2001, has been omitted from the consolidation basis; the relative company structure was taken over by holding company PZB S.p.A..

The main items in the financial statements relative to the newly consolidated companies included in the consolidated financial statements, are indicated in the explanations of single items given in the supplementary note.

3 Reconciliation between the Parent Company's and the Group's net profit and shareholders' equity

The connection between the Parent Company's and the Group's net profit and shareholders' equity is as follows (amounts expressed in €/000):

| | Shareholders' equity at 31/12/2001 | Net profit at 31/12/2001 | Shareholders' equity at 31/12/2000 | Net profit at 31/12/2000 |
|--|--|-----------------------------|--|-----------------------------|
| Parent Company's financial statements | 129,485 | 9,548 | 117,834 | 6,691 |
| Difference between the book value of consolidated investments and their valuation according to the net equity method | 41,571 | 7,239 | 33,563 | 11,095 |
| Elimination of capital gains on the sale of investments to Interpump Cleaning S.p.A. | (16,496) | 2,325 | (18,821) | 2,325 |
| Prepayment of related substitute tax | 8,333 | (1,190) | 9,523 | (1,190) |
| Greater book value of a building owned by the Parent Company | 350 | (12) | 362 | (12) |
| Valuation adjustment of investments in Parent Company associated companies according to the equity method | 362 | (89) | 451 | (316) |
| Elimination of Parent Company plant revaluation | (4,770) | 3,538 | - | - |
| Elimination of Parent Company intergroup income | (727) | (92) | (635) | 321 |
| Elimination of items of a fiscal nature appearing in the Parent Company financial statements | <u>1,886</u> | <u>166</u> | <u>1,720</u> | <u>102</u> |
| Total consolidation adjustments | <u>30,509</u> | <u>11,885</u> | <u>26,163</u> | <u>12,325</u> |
| Shareholders' equity and profit of the Group | <u>159,994</u> | <u>21,433</u> | <u>143,997</u> | <u>19,016</u> |

4 Bases of preparation, accounting principles and valuation criteria

The accounting principles and the valuation criteria used in preparing the consolidated financial statements for the year closed on 31 December 2001 are those indicated by current legislation, interpreted and integrated by the accounting principles stated by the "Consigli Nazionali dei Dottori Commercialisti e dei Ragionieri" (National Councils of Certified Public Accountants) and, when not sufficient, by those established by the International Accounting Standards Committee (I.A.S.C.). In order to provide complete and detailed information, we have also provided the following additional statements that form an integral part of this note:

- cash flow statement;
- statement of changes in consolidated shareholders' equity;
- reclassified consolidated balance sheet;
- reclassified consolidated income statement.

The accounting principles adopted, the most important of which are illustrated here below, are identical to those utilised for the consolidated financial statements as at 31 December 2000, presented here for the sake of comparison.

The amounts are expressed in thousands of euro unless otherwise indicated.

Intangible assets

Intangible fixed assets are recorded at cost and are shown net of accumulated amortisation, calculated on a straight-line basis and with reference to their estimated residual useful life.

In particular, the amortisation rates applied were as follows:

- The goodwill arising upon the acquisition of the Interpump Group by Interpump Group S.p.A. represents the greater value that was paid when the Interpump Group was acquired after considering the current value of the assets and liabilities subject of acquisition, basically in line with their book value in the companies' financial statements, and justified with the income-generating capacity, growth potential and competitive position of the Interpump Group.

The goodwill arising upon the acquisition of additional shares in the consolidated companies is a result of the acquisition of the Interpump Group and are therefore treated with the same method. Goodwill as a result of acquisition of the Interpump Group is amortised over 20 years, a period deemed to adequately reflect its economic usefulness on the basis of market observation and of expectations concerning corporate longevity and development which led this greater value to be acknowledged when the Interpump Group, active in a sector in which no rapid or sudden changes in technology or production are foreseen, was acquired. This consideration led us to assume that the Interpump Group will be able to maintain, over the long term, the competitive positions it has attained. The adopted amortisation period, in line with considerations made and valuations carried out at the time the Interpump Group was acquired, complies with the period indicated in the Accounting Principles established by the National Councils of Certified Public

Accountants and by the International Accounting Standards and is supported by an independent expert's opinion.

The goodwill arising upon the acquisition of the other companies has been treated in line with the goodwill of the Interpump Group (amortised in twenty years) as the businesses are homogeneous and complementary, except for:

- the goodwill arising at the time of the acquisition of assets and liabilities of Floor, recorded in the statutory financial statements of IP Floor S.p.A., which is amortised in ten years, a period considered to represent its future usefulness.
- the goodwill arising at the time of acquisition of O.L.A.M. S.p.A. and R.I.M.O.B. S.r.l. by Oleodinamica Pederzani e Zini S.p.A. and of TO.ME. S.r.l. by O.L.A.M. S.p.A. (all these companies are now incorporated in Oleodinamica Pederzani e Zini S.p.A.), which is amortised in 5 years, a period considered to represent its future usefulness, in relation to the business of these companies.
- the goodwill arising at the time of the acquisition of assets and liabilities of Vetrix, recorded in the statutory financial statements of Euromop S.p.A., which is amortised in ten years, a period considered to represent its future usefulness.
- the goodwill arising at the time of the acquisition of Hydroven S.r.l., which is amortised in ten years, a period considered to represent its future usefulness.
- The costs of research and development referring to the major innovative process begun with the establishment of the Research Centre (Interpump Engineering S.r.l.) are capitalised and amortised in the estimated period of useful life of the products to which they refer. On the contrary, the costs of research and development relating to product customisation and the routine work of the engineering departments are ascribed to the income statement when they exist.
- All other intangible fixed assets are amortised in 5 years with the exception of patents, which are amortised in 3 years, and leasehold improvements, which are amortised on the basis of the duration of the relative leasing contracts.

If at any time during the amortisation period such capitalised costs are no longer deemed to retain any future utility, they will be included among extraordinary charges in the income statement.

Tangible fixed assets

These are recorded at purchase cost or production cost and increased by revaluations carried out in compliance with the various monetary revaluation laws or stemming from the allocation of consolidation differences. They are shown net of accumulated depreciation which is systematically calculated on a straight-line basis according to the following rates:

| | |
|------------------------|---------|
| ■ Buildings | 3%-4% |
| ■ Plant and machinery | 10%-25% |
| ■ Industrial equipment | 15%-30% |
| ■ Other assets | 12%-30% |

Said rates are deemed adequate to reflect the remaining useful life of the assets they relate to. For assets purchased during the financial period, rates were reduced by 50% since these assets were used in the production process, on average, only for half the period.

Some Group companies calculated accelerated depreciation in their financial statements, in order to exploit the related fiscal benefits granted by current legislation; said accelerated depreciation was eliminated in the consolidated financial statements, taking the related fiscal effect into account.

Assets with a unit value of less than one million Lire were completely depreciated in the year in which they were purchased, in consideration of their limited relevance.

Pursuant to art. 10 no. 72 of 19 March 1983, we point out that no monetary or economic revaluations other than those mentioned above were carried out nor were there any departures from what is set out in art. 2423 and art. 2423 bis of the Italian Civil Code.

Assets purchased with financial leasing agreements, if of significance, were recorded as established by International Accounting Standards in compliance with the financial method, by which the original value of the asset is capitalised and offset by the relevant principal amount, while depreciation calculated on the basis of the estimated future useful life of the asset is entered into the income statement. With regard to leasing instalments for the period, the principal is subtracted from liability while interest on leasing instalments is charged to the income statement. The fiscal effects of this procedure are recorded in the deferred taxation provision.

Tangible fixed assets under construction are valued at cost and are depreciated starting from the financial year in which they become operational.

Maintenance and repair costs are charged to the income statement relating to the period in which they were incurred, or capitalised if they increase the value or the useful life of assets.

If, at the close of the year, the value determined by the above method is permanently higher than the economic value of the asset, its value is adjusted by means of a specific write-down. When the conditions for said write-down cease to exist, the original value is fully or partially restored.

Investments

Investments in non-consolidated subsidiary companies and in associates are valued according to the equity method, with the exception of investments in companies in liquidation, which are valued at their presumed liquidation value, and the investment in Shanghai Floor Cleaning Machines Co. Ltd which has been prudentially written

down to take into account the predicted losses to be incurred in relation to the penetration of the Chinese market.

Investments in other companies are valued according to the cost of acquisition or subscription. Should permanent losses in value arise at the close of the year in comparison to the value determined according to the above method, the investments will be written down. If, at a later date, the conditions for such write-downs cease to exist, the original value will be fully or partially restored.

Dividends and the relative tax credits are recorded at the time they are deliberated by the Shareholders' Meeting.

Treasury stock

Treasury stock is valued at cost and adjusted, when necessary, to reflect any permanent losses of value. Treasury stock is classified under non-current financial assets, because no transfers are foreseen in the short term.

As prescribed by current legislation, a corresponding reserve of the same amount has been created within consolidated shareholders' equity.

Securities

Securities are valued at the lower of acquisition cost and their corresponding market value.

Inventories

Inventories are valued at the lower of purchase or production cost and their correspondent market value.

The average cost method, inclusive of accessory charges and weighted with the value of opening inventory balances, was applied in determining the cost of raw materials.

In the case of goods produced internally, the cost of production includes the cost of raw materials, external work carried out, utilities, directly related labour costs as well as general production and industrial costs in an amount reasonably attributable to such products. *Financial charges and general overhead expenses are excluded.* Moreover, in the case of semi-finished products and work in progress, production cost is determined on the basis of the work process stage they have reached.

For raw materials and work in progress, market value reflects the presumed net realisable value of the corresponding finished products, less the cost of their completion. For finished products it is equal to the presumed net realisable value.

Should any of the materials in inventory become obsolete or turn over slowly, and the difference in value is significant, they would be correspondingly written-down on the basis of how much they are used or of their presumed realisable value. Should the reasons for such write-downs cease to exist, their original value would be fully or partially restored.

Receivables

Accounts receivable are recorded at their presumed realisable value, by means of a specific bad debt provision which includes the amounts that are deducted directly from said accounts receivable.

The specific portion of the bad debt provision is determined, on the basis of an analysis of the individual accounts receivable that are in doubt; whereas the generic portion is determined on the basis of the historical incidence of losses on receivables. The generic portion is determined to provide for possible losses on accounts receivable recorded in the financial statements, that have not yet occurred, but that might occur in the future.

Accruals and deferrals

These are calculated according to the principles of accrual accounting by which costs and revenues must be recorded with reference to the period they relate to.

Foreign exchange transactions

Foreign exchange transactions are entered into the accounts on the basis of the exchange rates effective on the date the related transactions were carried out. Receivables and payables are evaluated at the exchange rate effective at the end of the period, with the relevant difference in exchange rate attributed to financial charges and income.

Forward currency contracts, covering financial receivables from consolidated companies in foreign currency, are evaluated at the exchange rate at the specified date, taking account of transaction discounts or premiums. The profit or loss deriving from the conversion of receivables at the exchange rate at the specified date, net of discounts, is ascribed to the financial items of the income statement.

Interest rate hedging operations

Hedging contracts taken out to protect against loan interest rate risks are valued at cost. Any greater or lesser interest payable with respect to the amounts specified on the original loan contract are calculated in accordance with the competence principle.

Provisions for risks and charges

Provisions for risks and charges collect sure or estimated allocations, determined on the basis of reasonable estimates of situations that might generate contingent liabilities.

In particular, this item includes the provision for client agents indemnities, established to provide for indemnities due when contractual relationships with agents are terminated, the foreign exchange risk provision, the provision for other risks and charges and the deferred taxation provisions.

The provision for other risks and charges includes sums allocated in respect of potential liabilities, better described in the comments relating to that item.

Staff severance indemnities

Staff severance indemnities reflect liabilities towards all employees for severance indemnities accrued in accordance with current legislation and national collective labour contracts.

Payables

These are recorded at their nominal value, which is deemed to adequately reflect their redemption value.

Capital grants

Capital grants towards tangible fixed assets are included under the accrued expenses and deferred income item at the time it becomes certain they will be assigned; said contributions are credited to the income statement gradually over the useful life of the asset by subtracting them from depreciation; if the grant refers to an asset for which the depreciation process has already begun, then the past portion, to be offset against allocations in respect of depreciation already carried out, is included among extraordinary income items for the period.

Taxes

Taxes for the period are determined on the basis of a realistic forecast of taxes to be paid, pursuant to current fiscal legislation, and are shown under the "taxes payable" item, net of advances and withholding taxes. No allocations were made in respect of taxes payable in the event of reserves suspended from taxation, as shown in the financial statements of individual Group companies, are distributed, since their distribution is not foreseen.

Prepaid taxes (deferred tax assets) and deferred tax liabilities are a result of temporary differences between the values entered in the financial statements of the consolidated companies and the corresponding fiscal values, besides consolidation adjustments, and are calculated on the basis of the rates assumed to be applicable to the period in which the differences will reverse, according to the procedure known as the "liability method".

Deferred tax assets, mostly relating to funds recorded in the financial statements with allocations for which conditions for fiscal deductibility have not yet matured, are recorded among amounts receivable from others once their reasonable recovery has been determined.

Costs and revenues

These are recorded in the statements on the basis of the principles of prudence and accrual accounting. Revenues and proceeds, costs and charges are recorded net of returned goods, commercial discounts, rebates and bonuses, as well as net of taxes that are directly linked to the sale of products and services rendered.

5 Information regarding balance sheet and income statement items

BALANCE SHEET

Intangible assets

The composition and changes for intangible assets are illustrated in attachment B.

Start-up and capital costs are made up mainly by costs sustained for the Interpump Cleaning merger, already described above, and for share capital increases of the consolidated companies.

Research and development costs are almost entirely referred (€/000 2,658) to the costs sustained by the Research Centre in connection with major new product launches. With reference to products placed on the market in 2001, described in detail in the Directors' Report, depreciation of the relative costs is executed over a period of five years, as for products launched in 2000.

Industrial patents are composed of costs for the purchase of patents connected with the production process and the allocation of the consolidation difference relative to Interpump Engineering for 49 €/000 net of amortisation.

Costs incurred for concessions, licenses, trade marks and similar rights are composed mainly of the purchase cost of software licenses.

Other intangible assets include costs leasehold improvements relative to a US subsidiary, totalling €/000 1,406.

Goodwill concerns the difference between the book value of investments and the portion of shareholders' equity determined with reference to the situation as at the date of acquisition. This item underwent the following changes (amounts shown in €/000):

| <u>Company:</u> | <u>Balance as at</u> <u>31/12/2000</u> | <u>Increases</u> <u>of 2001</u> | <u>Depreciation</u> <u>2001</u> | <u>Balance as at</u> <u>31/12/2001</u> |
|-----------------------------|---|------------------------------------|------------------------------------|---|
| Interpump Group S.p.A. | 40,377 | - | (2,619) | 37,758 |
| Soteco S.p.A. | 25,292 | 1,012 | (1,530) | 24,774 |
| Interpump Cleaning S.p.A. | 23,261 | - | (1,481) | 21,780 |
| Euromop S.p.A. | 11,509 | - | (633) | 10,876 |
| General Technology S.r.l. | 7,566 | 629 | (481) | 7,714 |
| Interpump Hydraulics S.p.A. | 8,236 | - | (599) | 7,637 |
| Muncie Power Products Inc. | 7,736 | - | (413) | 7,323 |
| Unielectric S.p.A. | 5,972 | - | (387) | 5,585 |
| General Pump Companies Inc. | 5,093 | - | (291) | 4,802 |
| Teknova S.r.l. | 3,979 | - | (230) | 3,749 |

| <i>Company:</i> | Balance as at <u>31/12/2000</u> | Increases in 2001 | Depreciation 2001 | Balance as at <u>31/12/2001</u> |
|---|------------------------------------|----------------------|----------------------|------------------------------------|
| S.I.T. S.p.A. | 1,073 | - | (69) | 1,004 |
| Pulex S.r.l. | 2,839 | 327 | (159) | 3,007 |
| IP Floor S.p.A. | 2,461 | - | (308) | 2,153 |
| Hydroven S.r.l. | - | 1,053 | (57) | 996 |
| Ready System S.r.l. | 895 | - | (47) | 848 |
| Interclean Assistance S.A. | 245 | - | (13) | 232 |
| Acquisition of ex Nitor company branch | <u>31</u> | <u>-</u> | <u>(31)</u> | <u>-</u> |
| <i>Total</i> | <u>146,565</u> | <u>3,021</u> | <u>(9,348)</u> | <u>140,238</u> |

Increases of the year 2001 refer to:

- goodwill of the newly consolidated Hydroven S.r.l., control of which was acquired in July 2001;
- purchase of a further 3% of Soteco S.p.A., thus achieving full control;
- acquisition of a further 7.5% of General Technology S.r.l., of which we now hold a total stake of 77.5%;
- to balance the price, defined contractually, for the acquisition of Pulex S.r.l..

Goodwill allocated to Interpump Hydraulics S.p.A. includes all goodwill amounts paid for the acquisition of companies forming part of P.Z.B. Group and Hydrocar Group.

The goodwill entered into the consolidated accounts includes the amount entered in the financial statements of the Parent Company for a total of €/000 37,677, referred to the Parent Company complex.

Tangible fixed assets

The composition and entries for this item are illustrated in attachment C.

For a description of the main investments made during the year we invite you to refer to the relevant paragraph in the Board of Directors' Report.

We draw your attention to the fact that, compared with 2000, tangible fixed assets increased due to the acquisition of Hydroven S.r.l., the initial tangible assets of which are shown in the "change in consolidation basis" column in the above-mentioned attachment C.

Moreover, the heading buildings includes the greater portion of the consolidation difference arising in 1997 from the acquisition of the PZB Group, allocated to buildings for €/000 6,928, on the basis of an independent survey that declares a higher value of the buildings than that entered into the consolidated accounts. This amount was subsequently amortised for €/000 883.

As described in the section relative to the consolidation principles, plant and machinery in the financial statements of several consolidated companies (Interpump Group S.p.A., PZB S.p.A., Soteco S.p.A. and Unielectric S.p.A.) has been revalued in compliance with the provisions of law 342/2000. Credit balances resulting from these revaluations, carried out for a total of €/000 17,292, have been entered, to offset the greater value attributed to the revaluated assets, net of substitute tax, in special reserves of shareholders' equity in the financial statements of the individual consolidated companies. As an effect of the revaluations, the amortisation/depreciation of the four companies involved is 4,483 €/000 higher and has resulted in a considerable reduction in taxation. The above-mentioned revaluations have been eliminated from the consolidated accounts. Consequently, the consolidated income statement for 2001 benefits from recognition of deferred taxation receivable, corresponding to the future benefit foreseeable on the depreciation of the revalued assets, net of the charge to the income statement of substitute tax on the revaluation, and the deferred taxes relative to the elimination of depreciation calculated in the year on said revaluation, for 3,589 €/000 (3,274 €/000 net of the minority interests portion).

The effect of financial leasing contracts, accounted for according to the so-called financial method, on the tangible fixed assets item can be summarised as follows:

| | <u>31/12/2001</u> | <u>31/12/2000</u> |
|-------------------------------------|-------------------|-------------------|
| | €/000 | €/000 |
| Industrial buildings | 8,134 | 5,870 |
| Plant and machinery | 939 | 1,220 |
| Industrial and commercial equipment | - | 9 |
| Other fixed assets | - | 9 |
| Assets under construction | <u>12,190</u> | - |
| <i>Total</i> | <u>21,263</u> | <u>7,108</u> |

Assets under construction refer to partially completed buildings.

Mortgages and liens burdening tangible fixed assets are indicated under the item "amounts payable to banks".

Financial fixed assets

Financial fixed assets are made up as follows:

| | <u>31/12/2001</u> | <u>31/12/2000</u> |
|----------------|-------------------|-------------------|
| | €/000 | €/000 |
| Investments | 7,816 | 8,692 |
| Receivables | 2,976 | 1,961 |
| Treasury stock | <u>25,726</u> | <u>23,866</u> |
| Total | <u>36,518</u> | <u>34,519</u> |

Investments can be broken down as follows (amounts expressed in €/000):

| | | <u>31/12/2001</u> | % owned | <u>31/12/2000</u> | % owned |
|--|-----|-------------------|---------|-------------------|---------|
| <i>Investments in subsidiaries:</i> | | | | | |
| Portotecnica S.A. | (1) | 701 | 100.00% | 685 | 100.00% |
| P.Z.B. Hydraulik – Komponent Vertries Gmbh (in liquidation)* | (7) | - | 100.00% | - | 100.00% |
| Hydrocar Chile S.A. | (3) | 367 | 60.00% | 238 | 60.00% |
| Aspiradores Industriales Soteco S.L. | (2) | - | 51.00% | - | 51.00% |
| Shanghai Floor Cleaning Machines Co. Ltd | (4) | - | 95.66% | - | 95.66% |
| Soteco Benelux BVBA S.p.r.l. | (2) | 63 | 100.00% | 22 | 100.00% |
| Western Floor Private Ltd | (4) | 100 | 51.00% | 100 | 51.00% |
| Euromop Brasil Holding Ltda | (6) | <u>5</u> | 100.00% | - | - |
| <i>Total investments in subsidiaries</i> | | <u>1,236</u> | | <u>1,045</u> | |
| <i>Investments in associates:</i> | | | | | |
| Transferoil S.p.A. | (5) | 5,171 | 49.00% | 5,260 | 49.00% |
| P.Z.B. Australia Pty Ltd | (7) | 901 | 50.00% | 731 | 50.00% |
| PZB Asia Pte Ltd (in liquidation) | (7) | - | 50.00% | - | 50.00% |
| Hydroven S.r.l. ** | (8) | - | - | 878 | 36.11% |
| MecMarket.com S.p.A. | (5) | - | 30.95% | <u>264</u> | 42.70% |
| <i>Total investments in associates</i> | | <u>6,072</u> | | <u>7,133</u> | |
| <i>Investments in other companies:</i> | | | | | |
| Metalprint S.r.l. | (5) | 483 | 19.00% | 483 | 19.00% |
| Six S.r.l. | (5) | 6 | 19.00% | 6 | 19.00% |
| Others | | <u>19</u> | n.s | <u>25</u> | n.s |
| <i>Total investments in other companies</i> | | <u>508</u> | | <u>514</u> | |
| <i>Total investments</i> | | <u>7,816</u> | | <u>8,692</u> | |

*= Fully consolidated in 2000

**= Fully consolidated in 2001

(1) = controlled by Interpump Cleaning S.p.A.

(2) = controlled by Soteco S.p.A.

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

(4) = controlled by IP Floor S.p.A.

(5) = owned by Interpump Group S.p.A.

(6) = owned by Euromop S.p.A.

(7) = owned by P.Z.B. S.p.A.

(8) = owned by Hydrocar S.r.l.

2001 saw the incorporation of Euromop Brasil Holding Ltda, registered offices in Brazil, of which Euromop has a 99% share (the remaining 1% is held by Soteco

S.p.A.). The scope of this company is to set up a local joint venture to facilitate penetration on the South American market.

The investment in Shanghai Floor Cleaning Machines has been prudentially written down in previous years in consideration of the losses expected to be incurred in penetrating the Chinese market; this investment is entered with a value of zero. The investment in Aspiradores Soteco is valued at zero and has a provision for €/000 19, registered in the provisions for risks and charges, formed with the counter-item "investment write-downs" to take account of the valuation with the equity method, which includes elimination of inventory bound profits for the portion relating to the year. During 2001 the provision was reduced by 55 €/000 for profits of the company.

The investments in P.Z.B. Asia Pte Ltd and PZB Hydraulik – Komponent Vertriebs GmbH have been entered at zero under assets. These two companies are in liquidation. Among provisions for risks and charges there is a provision of 218 €/000, constituted to take account of presumed liquidation losses.

The investment in MecMarket is entered at zero under assets. The relative changes throughout the year were as follows:

| | €/000 |
|--|----------------|
| Book value as at 31/12/2000: | 274 |
| Disposal of shares | (43) |
| Capital gain arising from renunciation of share option | 835 |
| Write-downs of investments | <u>(1,066)</u> |
| Book value as at 31/12/2001 | <u>-</u> |

Furthermore, a provision of 150 €/000 has been constituted to take account of presumed potential liabilities. The company closed the 2001 financial year with a loss of €/000 1,884. The capital gain arising from the waiver of share options refers to the higher value of the investment resulting from the subscription of share capital increases with premium by third party shareholders further to the waiver by Interpump Group S.p.A.. The capital gain recorded in the first six months to adapt the valuation of the investment to the equity method, was classified among extraordinary income. The write-down of the investment and allocation to the provision for a total of 1,206 €/000 were classified under adjustments of financial assets.

The valuation of the investment in P.Z.B. Australia Pty Ltd was made in accordance with an internal financial statement as at 31 December 2001, because this company closes its financial year on a different date with respect to the closure of the Group Parent company financial year.

Changes in investments in subsidiaries and associates were as follows (amounts expressed in €/000):

| | Balance as at 31 December <u>2000</u> | Change in consolidation basis | Profit (loss) | Amor- tisation of goodwill | Elimination of dividends | Balance as at 31 December <u>2001</u> |
|--|---|-------------------------------------|------------------|----------------------------------|-----------------------------|---|
| <i>Investments in subsidiaries:</i> | | | | | | |
| Portotecnica S.A. | 685 | - | 16 | - | - | 701 |
| P.Z.B. Hydraulik Komponent Vertries Gmbh | - | - | - | - | - | - |
| Hydrocar Chile S.A. | 238 | - | 187 | - | (58) | 367 |
| Aspiradores Industriales Soteco S.L | - | - | - | - | - | - |
| Shanghai Floor Cleaning Machines Co. Ltd | - | - | - | - | - | - |
| Soteco Benelux BVBA | 22 | - | 41 | - | - | 63 |
| Western Floor Private Ltd | 100 | - | - | - | - | 100 |
| Euromop Brasil Holding Ltda | = | 5 | = | = | = | 5 |
| <i>Total investments in subsidiaries</i> | <u>1,045</u> | <u>5</u> | <u>244</u> | = | <u>(58)</u> | <u>1,236</u> |
| <i>Investments in associates:</i> | | | | | | |
| Transfer Oil S.p.A. | 5,260 | - | 297 | (239) | (147) | 5,171 |
| PZB Australia Pty Ltd | 731 | - | 170 | - | - | 901 |
| PZB Asia Pte Ltd | - | - | - | - | - | - |
| Hydroven S.r.l. | 878 | (878) | - | - | - | - |
| MecMarket.com S.p.A. | <u>264</u> | <u>(43)</u> | <u>(221)</u> | = | = | = |
| <i>Total investments in associates</i> | <u>7,133</u> | <u>(921)</u> | <u>246</u> | <u>(239)</u> | <u>(147)</u> | <u>6,072</u> |

Hydroven S.r.l. was consolidated in full for six months as at 31/12/2001, since control of this company was acquired in July 2001.

The goodwill of Transfer Oil S.p.A., equal to €/000 3,448 at 31 December 2001, is amortised in 20 years in line with amortisation period for the Interpump Group, together with which it was acquired. This goodwill is included in the value of the investment.

The following information is provided pursuant to the provisions of Art. 39 of Legislative Decree D.L. 127/91:

| | <u>Registered Offices</u> | <u>Share Capital</u> |
|---|---------------------------|----------------------|
| <i>Subsidiaries:</i> | | |
| Portotecnica S.A. | Barcelona (Spain) | 60,200 € |
| Hydrocar Chile S.A. | Santiago (Chile) | 20,000,000 Pesos |
| Aspiradores Industriales Soteco S.L. | Barcelona (Spain) | 65,000 € |
| Soteco Benelux BVBA | Burcht (Belgium) | 20,000 € |
| Western Floor Private Ltd | New Delhi (India) | 10,000,000 Rupees |
| Shanghai Floor Cleaning Machines Co. Ltd | Shanghai (China) | 1,000,000 \$ US |

| | <u>Registered Offices</u> | <u>Share Capital</u> |
|--------------------------|---------------------------|------------------------|
| Associated companies: | | |
| Transfer Oil S.p.A. | Colorno (PR) | 1,000,000 € |
| P.Z.B. Australia Pty Ltd | NSW (Australia) | 500,000 \$ Australian. |
| P.Z.B. Asia Pte Ltd | Hilvien House (Singapore) | 25,000 \$ Singapore |
| MecMarket.com S.p.A. | Bologna | 149,905 € |

During 2001 costs of 537 €/000 were sustained in relation to accessory charges for the acquisition of an investment. Since negotiations failed to reach a successful conclusion, this amount has been charged to the income statement among write-downs of financial assets that do not constitute investments, utilising the direct method.

Receivables

Financial receivables include an interest-free loan granted to P.Z.B. Asia Pte Ltd for €/000 84 with a renewable annual due date.

Financial receivables from others are mainly relative to prepayments on the staff severance tax for liability a total of €/000 560 (this amount having remained substantially unchanged during the year), life insurance policies for the employees of a US subsidiary for €/000 1,892 (equivalent to \$/000 1,667), which increased by €/000 1,256 due to a reclassification, and to a loan of €/000 232 granted to our shareholding SCI Europa at a rate of 5%, which remained unchanged with respect to 2000.

Treasury stock

Treasury stock was purchased by the holding company, the total amount corresponding, as at 31 December 2001, to 7.48% of the share capital (6,154,000 shares). The mean book value per share is € 4,18, substantially in line with the market value.

Concerning their possible use for the stock option plans envisaging their transfer to the Group's management at the price of € 2.58 or € 0.52, at the moment there is no provision for their use, preferring to use shares of new emission as provided for by art. 2.441, par. 8 of the Italian Civil Code and by the above-mentioned deliberations of the shareholders' meetings. There is therefore no write-down in this connection.

Assets forming part of working capital

An analysis of working capital is included in the reclassified balance sheet shown in the supplementary statements.

The analysis of the transactions involving net working capital is as follows:

| | <u>€/000</u> |
|--|----------------------|
| Net working capital at 31 December 2000 | 93,315 |
| Exchange rate difference | 1,850 |
| Reclassification of long term portion of substitute tax debt | (2,381) |
| Change to consolidation basis | 1,843 |
| Increase in net working capital during the year | <u>3,683</u> |
| <i>Net working capital at 31 December 2001</i> | <u><u>98,310</u></u> |

The increase in net working capital during the year is mainly due to the reduction of tax debts for 3,742 €/000, resulting from the tax savings discussed later on in this report.

Inventories

The closing inventory was composed as follows:

| | <u>31/12/2001</u> | <u>31/12/2000</u> |
|---|----------------------|----------------------|
| | €/000 | €/000 |
| Raw materials and supplies | 32,872 | 36,108 |
| Work in progress and semi-finished products | 17,943 | 18,249 |
| Finished products and goods | 37,508 | 33,121 |
| Advances | <u>14</u> | <u>5</u> |
| <i>Total</i> | <u><u>88,337</u></u> | <u><u>87,483</u></u> |

To make a fair comparison it is necessary to take account of the change in the consolidation basis. The opening inventories of the new consolidated company amounted to €/000 1,734 and during the year currency conversion gains were registered for €/000 1,411. Therefore, on an equal consolidation basis there has been a reduction in inventory of €/000 2,291.

Inventories as at 31 December 2001 are net of a write-down provision of €/000 3,588, created to take account of obsolete and slow moving material.

Changes in the provision are as follows:

| | <u>€/000</u> |
|-----------------------------------|---------------------|
| Provision as at 31/12/2000 | 2,487 |
| Allocation for the year | 1,140 |
| Utilisation for losses | (66) |
| Exchange rate difference | <u>27</u> |
| <i>Provision as at 31/12/2001</i> | <u><u>3,588</u></u> |

Receivables

The receivables of the assets forming part of working capital can be analysed as follows:

Trade receivables

Trade receivables are made up as follows:

| | <u>31/12/2001</u> | <u>31/12/2000</u> |
|------------------------------|-------------------|-------------------|
| | €/000 | €/000 |
| Trade receivables | 92,230 | 88,626 |
| Bad debt provision | <u>(3,321)</u> | <u>(2,355)</u> |
| <i>Net trade receivables</i> | <u>88,909</u> | <u>86,271</u> |

The opening balance of trade receivables of companies consolidated for the first time in 2001 totalled €/000 3,003 prior to the date of consolidation, and positive exchange rate differences occurred for a total of €/000 689. Therefore, on an equal consolidation basis there has been a reduction in trade receivables equivalent to €/000 1,054.

Changes in value adjustments can be summarised as follows:

| | Tax deductible <u>provisions</u> €/000 | Taxed <u>provisions</u> €/000 | <u>Total</u> €/000 |
|-------------------------------|--|-------------------------------------|-----------------------|
| Opening balance | 964 | 1,391 | 2,355 |
| Allocation for the year | 1,295 | 960 | 2,255 |
| Utilisation for losses | (1,168) | (165) | (1,333) |
| Exchange rate difference | 1 | 10 | 11 |
| Change to consolidation basis | <u>23</u> | <u>10</u> | <u>33</u> |
| <i>Closing balance</i> | <u>1,115</u> | <u>2,206</u> | <u>3,321</u> |

There are no receivables falling due after more than 5 years.

Breakdown of receivables by currency:

| | |
|-------------------|------------|
| US Dollars | 14,388,500 |
| GB Sterling | 7,255 |
| Yen | 5,911,507 |
| Singapore Dollars | 175 |

Amounts receivable from and payable to Group companies

Amounts receivable from Group companies, originating in relations of a commercial nature governed by normal market conditions, are given in the Board of Directors' Report.

Accounts receivable from others

This item can be broken down as follows:

| | <u>31/12/2001</u> | <u>31/12/2000</u> |
|---|-------------------|-------------------|
| | €/000 | €/000 |
| Receivables from the Inland Revenue for income taxation | 3,928 | 1,598 |
| Other receivables from the Inland Revenue for taxes | 76 | 296 |
| Prepayments to suppliers | 265 | 241 |
| Receivables from social security institutions | 68 | 147 |
| Guarantee deposits receivable | 231 | 321 |
| Debit balance suppliers | 92 | 40 |
| Other third party receivables | 657 | 550 |
| Receivables from the Inland Revenue for VAT | 2,529 | 3,652 |
| Deferred tax assets | <u>7,346</u> | <u>1,828</u> |
| <i>Total receivables from others</i> | <u>15,192</u> | <u>8,673</u> |

Receivables for deferred tax assets refer, in the amount of 5,071 €/000, to prepaid taxes registered further to the elimination of the revaluation of plant, as described in the paragraph on tangible fixed assets, net of deferred taxes relative to the elimination of depreciation on said revaluation. The remaining amount of these assets is relative to the taxed provisions (inventory write-down provision, bad debts provision) entered in the financial statements of the consolidated companies, for the portion for which there is reasonable certainty of their potential for recovery.

Receivables from others with due date beyond 5 years total €/000 40.

This item includes \$/000 514.

Cash

We refer you to the cash-flow statement for details of changes in this item.

Accrued income and prepayments

This item can be broken down as follows:

| | <u>31/12/2001</u> | <u>31/12/2000</u> |
|--|-------------------|-------------------|
| | €/000 | €/000 |
| Prepayment of the substitute tax on capital gains on the sale of investments | 8,333 | 9,523 |
| Deferred expenses on leasing instalments | 218 | 344 |
| Prepayment on non-competition agreement | 887 | - |
| Deferred expenses on insurance | 137 | 138 |
| Deferred expenses on advertising costs | 32 | 32 |

| | <u>31/12/2001</u> | <u>31/12/2000</u> |
|--|-------------------|-------------------|
| | €/000 | €/000 |
| Deferred expenses for maintenance and technical service fees | 110 | 67 |
| Deferred expenses on trade fairs | 53 | 37 |
| Other accrued income and deferred expenses | <u>479</u> | <u>571</u> |
| <i>Total accrued income and prepayments</i> | <u>10,249</u> | <u>10,712</u> |

The prepayment for the non-competition agreement refers to the portion that is not of economic competence, paid during the year of the amount assigned for this purpose and commented in the Board of Directors' Report.

Among other accrued income and prepayments are prepaid leasing instalments, for the amount of €/000 94, that will be charged to profit and loss account beyond 5 years.

The deferred expense of substitute tax has already been commented on in the paragraph on the principles of consolidation. This amount is ascribed to the income statement in ten years, starting from 1999; therefore €/000 2,383 will be charged to profit and loss account beyond 5 years.

Shareholders' equity

The summary of changes that occurred in consolidated shareholders' equity accounts, with the connections with the contents of the consolidated financial statements at 31 December 1999 and 2000, is shown in the statement of changes in consolidated shareholders' equity included with the supplementary statements.

Share Capital

Group Parent Company share capital is fully paid up and amounted, at 31 December 2001, to €/000 42,778 divided into 82,265,500 ordinary shares with a unit price of € 0.52.

During the year, various rights of option were exercised in execution of the stock option plan, leading to a capital increase of €/000 148 and an increase in the share-premium reserve of €/000 296.

In relation to the stock option plans, we refer your attention to the Board of Directors' Report.

The special Shareholders' Meeting of 12 February 1998 approved the increase by payment of share capital from ITL 81,400 million (€/000 42,040) up to a maximum of ITL 82,400 million (€/000 42,556), by issuing a maximum of 1,000,000 ordinary shares. At 31 December 2001 205,500 shares of the 929,000 allocated, still remained to be subscribed. In February 2002 a total of 136,000 shares were subscribed; therefore there remain 69,500 shares to be subscribed, with expiry up to 31 December 2002. The special Shareholders' Meeting of 20 December 1999 approved the increase

of capital by payment for a maximum of €/000 884 by issuing 1,700,000 ordinary shares of nominal value € 0,52. These shares will be offered at a price equal to their nominal value to employees of Interpump Group S.p.A. and its subsidiaries. At 31 December 2001 a total of 142,000 shares were subscribed relative to the first tranche. In February 2002 a further 142,000 shares were subscribed, thus closing the first tranche, which included options for 284,000 shares. The foregoing share capital increase will be performed in execution of the stock option plan until the end of 2004.

Share-premium reserve

The reserve was increased by €/000 296 in relation to capital increases after exercising stock options.

Statutory reserves

These are reserves of the subsidiaries formed since their acquisition by Interpump Group S.p.A. at the time of designating the year's profits, net of the dividends they subsequently paid.

Minority shareholders' equity

This is the portion of consolidated shareholders' equity pertaining to minority shareholders of the consolidated subsidiaries. Changes in minority shareholders' interests can be broken down as follows (amounts shown in €/000):

| | Balance as at 31/12/2000 | Opening minority interests of the acquired companies in 2001 | Difference in exchange | Dividends to minority interests | Stakes acquired by the Group | Profit for the year relative to minority interests | Balance as at 31/12/2001 |
|--|--------------------------------|--|------------------------------|---------------------------------------|---------------------------------------|---|--------------------------------|
| Sit S.p.A. | 487 | - | - | (112) | - | 98 | 473 |
| Unielectric S.p.A. | 2,556 | - | - | - | - | 388 | 2,944 |
| Soteco S.p.A. | 181 | - | - | - | (181) | - | - |
| General Technology S.r.l. | 1,201 | - | - | (713) | (184) | 19 | 323 |
| General Pump Companies Inc. | 1,445 | - | 84 | - | - | 338 | 1,867 |
| Interpump Hydraulics Group | 7,799 | 1,262 | 296 | (868) | - | 2,802 | 11,291 |
| Interclean Assistance SA | 752 | - | - | - | - | 35 | 787 |
| Euromop S.p.A. | 2,689 | - | - | (384) | - | 1,602 | 3,907 |
| Ready System S.r.l. | 461 | - | - | - | - | 179 | 640 |
| Pulex S.r.l. | 486 | - | - | (195) | - | 349 | 640 |
| Interpump Engineering S.r.l. | 13 | - | - | - | (13) | - | - |
| Portions of intergroup profits bound in inventory | (60) | - | - | - | - | (24) | (84) |
| <i>Total</i> | <u>18,010</u> | <u>1,262</u> | <u>380</u> | <u>(2,272)</u> | <u>(378)</u> | <u>5,786</u> | <u>22,788</u> |

Provisions for risks and charges

This item can be broken down as follows (amounts shown in thousands of euro):

| | Balance as at <u>31/12/2000</u> | Exchange rate differences | Increases | Decreases | Reclassifications | Change in consolidation basis | Balance as at <u>31/12/2001</u> |
|---|---------------------------------------|---------------------------------|---------------------|-----------------------|--------------------|-------------------------------------|---------------------------------------|
| Retirement benefits | 184 | - | - | (1) | - | - | 183 |
| Provision for Agents' leaving indemnity | 390 | - | 107 | (31) | - | - | 466 |
| Deferred taxes | 5,284 | 50 | 1,119 | (717) | - | 42 | 5,778 |
| Provision for industrial renovation | 154 | - | - | (154) | - | - | - |
| Product warranty provision | 325 | 14 | 86 | (59) | - | 1 | 367 |
| Provision for other contingent liabilities | 1,697 | 7 | 221 | (531) | - | 68 | 1,462 |
| Provision for Group investment risks | <u>229</u> | - | <u>213</u> | <u>(24)</u> | <u>(31)</u> | - | <u>387</u> |
| Total provisions | <u>8,263</u> | <u>71</u> | <u>1,746</u> | <u>(1,517)</u> | <u>(31)</u> | <u>111</u> | <u>8,643</u> |

Retirement benefits

Retirement benefits refer to the indemnity at the end of the mandate of directors of subsidiaries, allocated prior to acquisition by the Group.

Taxation

This provision includes allocations for deferred tax liabilities determined to take account of the tax effects of the consolidation adjustments mainly concerning the elimination of intergroup profits, the elimination of accelerated depreciation, and accounting for financial leasing contracts according to the so-called financial method. The provision also brings together allocations for deferred taxes payable relative to the payment awarded for the non-competition undertaking to a director, as illustrated in the Board of Directors' Report. This amount was accounted in accordance with its temporal competence, while in fiscal terms it is deductible by cash and hence entirely in the year 2001.

With regard to the tax situation we draw your attention to the fact that the years up to 1995 are defined for the purposes of income taxes, while all years up to 1996 are defined for the purposes of VAT.

We also inform you that the offices of the Parent Company were subjected to an inspection by the Tax Authorities. The results of the inspection, published in an official report that is still awaiting analysis by the competent financial administration department, suggest minor irregularities in terms of inventory differences, and a more substantial question regarding differences of interpretation of current legislation concerning large capital amounts, mainly with reference to the write-down of investments performed by the Parent Company in financial years that remain to be closed. We consider, also in accordance with the opinions of our tax consultants, that the operations of the company are correct and fully in line with the requirements of law. We are therefore confident that the company is unlikely to be faced with any significant liabilities on this count so no financial provisions have been made to cover this eventuality. In particular, with regard to the write-downs of investments, the inspection report is based solely on a recent ministerial resolution that is in conflict

with the consolidated interpretation of art. 2426 par. 2 of Civil Law, and that has been the subject of unanimous and concerted criticism from tax experts.

Others

The Group investment risk provision refers to Aspiradores Industriales Soteco, P.Z.B. Asia, P.Z.B. Hydraulik Komponent, and MecMarket and is commented on under investments.

The provision for other contingent liabilities refers to various situations of litigation or potential liabilities or undertakings estimated to be in existence among Group companies.

Staff severance indemnities

This item was affected by the following changes:

| | <u>31/12/2001</u> | <u>31/12/2000</u> |
|---------------------------------|-------------------|-------------------|
| | €/000 | €/000 |
| Opening balance | 12,156 | 10,753 |
| Portion accrued during the year | 2,953 | 2,705 |
| Payments | (1,947) | (1,613) |
| Change to consolidation basis | <u>217</u> | <u>311</u> |
| <i>Closing balance</i> | <u>13,379</u> | <u>12,156</u> |

Payables

Accounts payable to banks

Accounts payable to banks are as follows:

| | <u>31/12/2001</u> | <u>31/12/2000</u> |
|--|-------------------|-------------------|
| | €/000 | €/000 |
| Current portion of medium/long term financing | 61,560 | 69,658 |
| Current account overdrafts and advances | <u>32,817</u> | <u>29,693</u> |
| <i>Total accounts payable to banks due within one year</i> | <u>94,377</u> | <u>99,351</u> |
| Medium/long-term financing net of current portion | <u>89,846</u> | <u>121,894</u> |
| <i>Total accounts payable to banks due after one year</i> | <u>89,846</u> | <u>121,894</u> |
| <i>Total accounts payable to banks</i> | <u>184,223</u> | <u>221,245</u> |
| <i>Of which payable to banks due after five years</i> | <u>6,754</u> | <u>10,458</u> |

Current account overdrafts and advances include €/000 8,893 of debts in US dollars relative to the debts of the two US subsidiaries (€/000 6,989) and to hedge for exchange rate risks on sales in dollars (€/000 1,904).

Medium/long-term financing includes two bank pool loans, one for €/000 68,861, of which €/000 34,431 classified in the current portion, and the other for €/000 30,987, of which €/000 5,165 classified in the current portion. We also draw your attention to the fact that a total of €/000 39,596 was repaid in December 2001.

The medium/long-term bank pool loan of €/000 68,861 was granted at the Euribor rate plus 0.30 by a pool of banks headed by Banca Popolare di Verona-Banco S. Geminiano e S. Prospero. Said loan is not backed by security. The loan is repayable in two residual fixed instalments falling due in December 2002 and December 2003.

The loan of €/000 30,987 is linked to the Euribor rate plus + 0.30 and was granted by a pool of banks headed by Banca Popolare di Verona-Banco S.Geminiano e S.Prospiero, coordinated by Gestielle Merchant Bank. This debt is not backed by security and is repayable in six residual annual fixed instalments as of December 2002.

The other loans taken together total €/000 51,558, of which €/000 21,964 due within one year. These loans were all granted at standard market conditions. The foregoing loans are secured by property mortgages for €/000 8,831. Of the above loans, €/000 10,661 are in US Dollars and refer to the financing of the two US subsidiaries.

Accounts payable to other financial institutions

This item is composed as follows:

| | <u>31/12/2001</u> | <u>31/12/2000</u> |
|--|-------------------|-------------------|
| | €/000 | €/000 |
| Amounts payable to subsidiaries' shareholders not bearing interest | 267 | 375 |
| Current portion of financial leasing payables | <u>1,718</u> | <u>573</u> |
| <i>Portion due within one year</i> | <u>1,985</u> | <u>948</u> |
| <i>Medium/long-term portion of financial leasing payables</i> | <u>11,856</u> | <u>2,016</u> |
| <i>Total accounts payable to other financial institutions</i> | <u>13,841</u> | <u>2,964</u> |
| <i>Of which payable to other financial institutions due after five years</i> | <u>4,661</u> | = |

The accounts payable to subsidiaries' shareholders not bearing interest originate in contract agreements made at the time of acquiring the companies in question.

The increase in financial leasing payables is a consequence of the significant investments made in industrial buildings during the course of the year, which are discussed in the Board of Directors' Report.

Accounts payable to suppliers

For the purposes of the correct comparison between the account items, it must be remembered that the opening trade payables of companies that were consolidated for the first time in 2001 amount to €/000 2,630. Furthermore, exchange rate differences have emerged such as to increase the balance by €/000 139. On an equal consolidation basis, the balance therefore fell by €/000 559.

Payables in foreign currencies as at 31 December 2001 can be broken down as follows:

| | |
|--------------------|-----------|
| US Dollars | 1,684,560 |
| Swiss Francs | 29,119 |
| Pounds Sterling | 25,300 |
| Norwegian Crowns | 32,649 |
| Swedish Crowns | 3,298 |
| Australian Dollars | 1,030 |
| Canadian Dollars | 461 |
| Singapore Dollars | 143 |

Securities issued

The securities in question concern "Sabatini" financing of two subsidiaries.

Taxes payable

This item can be broken down as follows:

| | <u>31/12/2001</u> | <u>31/12/2000</u> |
|--|-------------------|-------------------|
| | €/000 | €/000 |
| Substitute tax | 9,359 | 9,522 |
| Inland revenue for IRPEG (corporate tax) | 1,344 | 4,417 |
| Inland revenue for IRAP (regional tax) | 496 | 1,192 |
| Inland revenue for VAT | 279 | 112 |
| Inland revenue for IRPEF (employee income tax) | 1,764 | 1,594 |
| Others | <u>1,010</u> | <u>831</u> |
| <i>Total tax payables</i> | <u>14,252</u> | <u>17,668</u> |

Substitute tax refers to the capital gains made by the Parent Company further to the sale of several investments to the subsidiary Interpump Cleaning S.p.A. and the substitute tax on the revaluation of plant executed by several consolidated companies, described in greater detail in the comment to tangible fixed assets.

Payables due to the Inland Revenue for income tax are net of prepayments and withholding taxes.

Other payables

The item other payables can be broken down as follows:

| | <u>31/12/2001</u> | <u>31/12/2000</u> |
|---|-------------------|-------------------|
| | €/000 | €/000 |
| Accounts payable to employees for salaries | 3,050 | 2,878 |
| Accounts payable to employees in respect of staff severance indemnities | 212 | 50 |
| Holidays accrued but not taken | 1,734 | 1,663 |
| Other payables to personnel | 547 | 660 |
| Customer credit balance | 214 | 198 |
| Accounts payable to agents | 68 | 73 |
| Directors' remuneration | 70 | 38 |
| Statutory auditors' remuneration | 161 | 132 |
| Other payables | 1,130 | 1,001 |
| Payables related to the acquisition of investments | | |
| of which portion due within one year | 258 | 2,522 |
| of which portion due after one year | <u>258</u> | <u>516</u> |
| <i>Total other payables</i> | <u>7,702</u> | <u>9,731</u> |

Accrued expenses and deferred income

Breakdown:

| | <u>31/12/2001</u> | <u>31/12/2000</u> |
|---|-------------------|-------------------|
| | €/000 | €/000 |
| Accrued expenses for interest payable | 1,273 | 1,197 |
| Insurance policies | 17 | 14 |
| State capital grants | 122 | 172 |
| Others | <u>457</u> | <u>721</u> |
| <i>Total accrued expenses and deferred income</i> | <u>1,869</u> | <u>2,104</u> |

MEMORANDUM ACCOUNTS

Memorandum accounts can be broken down as follows:

| | <u>31/12/2001</u> | <u>31/12/2000</u> |
|---|-------------------|-------------------|
| | €/000 | €/000 |
| Security pledges | 8,831 | 8,831 |
| Guarantees obtained in respect of VAT refunds | 12,992 | 12,360 |
| Guarantees issued by third parties in favour of the sellers of investments | 258 | 258 |
| Guarantees issued to third parties to cover the sale of investments | 1,214 | 1,214 |
| Guarantees granted in favour of non-consolidated subsidiaries | 299 | 290 |
| Forward purchase commitments for raw materials | 4,350 | 2,758 |
| Commitments for forward currency contracts | 21,447 | 17,034 |
| Commitments to purchase fixed assets | 5,214 | 1,327 |
| Other minor commitments | <u>1,141</u> | <u>352</u> |
| <i>Total</i> | <u>55,746</u> | <u>44,424</u> |

With regard to security pledges given we refer you to the details in the section regarding accounts payable to banks.

We also draw your attention to the following commitments for the purchase of minority shares of investments already controlled, on the basis of the results achieved by the companies concerned:

| Company | Percentage to acquire | Time frame |
|-----------------------------|--------------------------|--|
| General Technology S.r.l. | 22.5% | Approval of financial statements for 2001/2002/2003 |
| General Pump Companies Inc. | 30% | Approval of 2001 financial statements |
| Interclean Assistance | 34% | Approval of 2001 financial statements |
| Pulex S.r.l. | 42% | Approval of financial statements for 2002/2003/2004 |
| Interpump Hydraulics S.p.A. | 20% | Approval of financial statements for 2002/2003 |
| Sit S.p.A. | 5% | Approval of 2003 financial statements |
| Muncie Power Products Inc. | 15.43% | Approval of 2005 financial statements |

INCOME STATEMENT

Before passing on to analyse the single items, please note that the remarks on the general performance of costs and revenues are, in accordance with par. 1 of art. 2428 of the Italian Civil Code, given in the Board of Directors' Report.

In addition, the analytical explanation of the positive and negative income components in the Income Statement and the previous remarks on the items of the balance sheet make it possible to limit the following comments to the main items only.

Sales and other revenues

Revenues from the sale of goods and services

This item can be broken down as follows:

| By geographical area | <u>31/12/2001</u> | <u>%</u> | <u>31/12/2000</u> | <u>%</u> | <u>% growth</u> |
|----------------------|-------------------|------------|-------------------|------------|-----------------|
| | €/000 | | €/000 | | |
| Italy | 118,771 | 28 | 115,477 | 28 | +2.9 |
| Rest of Europe | 132,162 | 31 | 126,969 | 31 | +4.1 |
| North America | 126,647 | 30 | 130,785 | 32 | -3.2 |
| Pacific Area | 22,640 | 5 | 21,809 | 5 | +3.8 |
| Rest of the World | <u>25,073</u> | <u>6</u> | <u>15,672</u> | <u>4</u> | +60.0 |
| <i>Total</i> | <u>425,293</u> | <u>100</u> | <u>410,712</u> | <u>100</u> | +3.6 |

| By business sector | <u>31/12/2001</u> | <u>%</u> | <u>31/12/2000</u> | <u>%</u> | <u>% growth</u> |
|--------------------|-------------------|------------|-------------------|------------|-----------------|
| | €/000 | | €/000 | | |
| Cleaning sector | 190,727 | 45 | 175,756 | 43 | +8.5 |
| Hydraulic sector | 127,419 | 30 | 126,561 | 31 | +0.7 |
| Industrial sector | 106,016 | 25 | 107,454 | 26 | -1.3 |
| Other revenues | <u>1,131</u> | <u>=</u> | <u>941</u> | <u>=</u> | n.s. |
| <i>Total</i> | <u>425,293</u> | <u>100</u> | <u>410,712</u> | <u>100</u> | +3.6 |

Revenues from the sale of goods and services increased by 3.6%. The amount relative to 2000 includes revenues of 6 months generated by Ready System S.r.l., classified in the Cleaning Sector; the income statement of that company was consolidated for the full 12 months in 2001. Moreover, unlike 2000, 2001 includes revenues from Pulex S.r.l., whose income statement was consolidated for 12 months, and revenues from Hydroven S.r.l., whose income statement was consolidated for six months in 2001. The Board of Directors' Report contains a comparison on an equal consolidation basis, together with other revenues and income and a comment on the situation of the various business sectors.

Other revenues and income

Other revenues and income are basically composed of miscellaneous charges to suppliers, charges for packing, rent receivable, capital gains from the sale of fixed assets relating to routine administration, non-operating profits of a recurring nature.

Cost of production

Costs for raw materials, consumables and supplies

Totalling €/000 192,317. On an equal consolidation basis with 2000, raw material costs were €/000 189,921.

Costs for provision of services

These costs are detailed as follows (amounts shown in €/000):

| | <u>31/12/2001</u> | <u>31/12/2000</u> |
|---|-------------------|-------------------|
| | €/000 | €/000 |
| Electricity, water, gas | 3,046 | 2,691 |
| Telephone | 1,316 | 1,248 |
| Outsourcing | 20,603 | 20,259 |
| Expenses related to stock market listing | 401 | 275 |
| Consultancy | 2,394 | 1,855 |
| Price lists and catalogues | 402 | 526 |
| Interim work | 2,771 | 1,962 |
| Miscellaneous services | 1,536 | 2,099 |
| Maintenance and repairs | 3,448 | 3,080 |
| Transport | 4,604 | 4,632 |
| Commissions | 5,623 | 4,985 |
| Travel expenses | 1,948 | 2,913 |
| Advertising, trade fairs and exhibitions | 3,436 | 2,606 |
| Directors' remuneration | 3,469 | 2,589 |
| Board of Statutory auditors' remuneration | 293 | 261 |
| Insurance policies | 2,964 | 3,047 |
| Sundry industrial costs | 2,426 | 1,245 |
| Miscellaneous costs | <u>4,822</u> | <u>4,140</u> |
| <i>Total costs for services</i> | <u>65,502</u> | <u>60,413</u> |

On an equal consolidation basis with 2000, costs for the provision of services were €/000 63,113, reflecting an increase of 4.4%. During the course of 2001, the Group invested more in its own commercial activities in order to strengthen its presence on

the major reference markets. The commercial investment was the main reason for the increase in service costs.

We draw your attention to the fact that the amount of remuneration payable to Directors and the Board of Auditors of the holding company Interpump Group S.p.A. for the performance of their functions also in other companies included in the consolidation area, was respectively €/000 387 and €/000 64, as illustrated by the detailed analysis given in the supplementary note of the Parent Company.

Personnel costs

The cost of labour, inclusive of capitalised research costs, was €/000 78,593 in the year ending 31 December 2001 (€/000 77,055 on an equal consolidation basis) and €/000 75,033 as at 31 December 2000, with an increase of 2.7% on an equal consolidation basis, due to an increase of the mean per-capita cost, as explained in full in the Board of Directors' Report.

We further inform you that the cost of labour of companies consolidated for the first time in 2001, considering the partial consolidation of 2000 of Ready System S.r.l., amounted to €/000 1,538.

The average number of employees, taking into account dates of hiring and dates of departure, was as shown in the following table:

| | <u>Average employment</u> <u>2001</u> | <u>Average employment</u> <u>2000</u> |
|--------------------------------|--|--|
| Executives | 51 | 49 |
| White collar | 674 | 661 |
| Blue collar | <u>1,488</u> | <u>1,487</u> |
| <i>Total average workforce</i> | <u>2,213</u> | <u>2,198</u> |

On an equal consolidation basis, the average number fell by 46.

The average per-capita cost, taking into account the period of consolidation of newly consolidated companies, totalled €/000 35.3. The per-capita cost of labour on an equal consolidation basis increased by 3.5% with respect to 2000, when it was calculated at €/000 34.1.

Sundry operating costs

This item can be broken down as follows:

| | <u>31/12/2001</u> €/000 | <u>31/12/2000</u> €/000 |
|-----------------------------------|----------------------------|----------------------------|
| Gifts | 327 | 145 |
| Entertainment expenses | 141 | 210 |
| Association dues and scholarships | 246 | 194 |
| I.C.I. property tax | 333 | 326 |

| | <u>31/12/2001</u> | <u>31/12/2000</u> |
|--|-------------------|-------------------|
| | €/000 | €/000 |
| Property tax (USA) | 417 | 239 |
| Other taxes | 224 | 203 |
| Capital losses from the sale of fixed assets | 63 | 34 |
| Bad debts | 24 | 84 |
| Other losses | 231 | 159 |
| Other minor costs | <u>1,477</u> | <u>1,470</u> |
| <i>Total</i> | <u>3,483</u> | <u>3,064</u> |

On an equal consolidation basis with 2000, this item would have totalled €/000 3,417.

Financial income and expense

Financial income

Financial income refers principally to interest receivable on bank current accounts for €/000 1,494 (€/000 1,449 in 2000) and exchange rate gains for €/000 1,441 (€/000 992 in 2000).

Exchange rate gains are mainly related to the conversion of loans granted to the US subsidiaries at the forward covering exchange rate.

Interest and other financial charges

This item can be broken down as follows:

| | <u>31/12/2001</u> | <u>31/12/2000</u> |
|--|-------------------|-------------------|
| | €/000 | €/000 |
| Interest expense on amounts payable to banks in short term | 1,117 | 2,692 |
| Interest expense on medium/long-term financing | 10,700 | 8,007 |
| Interest expense re. Sabatini law | 24 | 11 |
| Interest expense in respect of leasing | 240 | 156 |
| Financial discounts granted to clients | 1,798 | 2,266 |
| Fees and expenses for guarantees | 83 | 148 |
| Foreign exchange losses | 1,230 | 883 |
| Others | <u>369</u> | <u>85</u> |
| <i>Total interest and other financial charges</i> | <u>15,561</u> | <u>14,248</u> |

The increase in interest payable, despite the substantial stability of indebtedness, is mainly due to the increase in the average interest rate for exchange rate risk hedging operations and to the fact that in April 2000 a special dividend of €/000 33,766 was

distributed; therefore, this amount has been subject to accrued financial charges for 8 months in 2000 and 12 months in 2001.

Foreign exchange losses mainly relate to differences between the exchange rate of recording the invoices for goods sold and the exchange rate applicable to the payback of coverage financing. Consequently, an equal amount, but of opposite sign, was included among sales revenues which, as per fiscal legislation, are recorded at the exchange rate of the day the invoice is issued. Accordingly, this cover produces no losses.

Adjustments made to financial assets values

This item gathers the adjustments in value of the investments in non-consolidated subsidiaries and in associates with the shareholders' equity method and the write-down of financial assets that do not constitute investments. The reader is therefore referred to the comment on financial fixed assets for details.

Extraordinary income and charges

This item can be broken down as follows:

| | <u>31/12/2001</u> | <u>31/12/2000</u> |
|---|-------------------|-------------------|
| <i>Income:</i> | €/000 | €/000 |
| Capital gains from stock option waivers | 835 | - |
| Recovery of taxes for prior financial periods | 57 | 93 |
| Other extraordinary income | <u>430</u> | <u>331</u> |
| Total extraordinary income | <u>1,322</u> | <u>424</u> |

| | <u>31/12/2001</u> | <u>31/12/2000</u> |
|--|-------------------|-------------------|
| <i>Charges:</i> | €/000 | €/000 |
| Capital losses on disposals | 16 | - |
| Leaving incentives | 705 | 312 |
| Allocation for other potential liabilities | 227 | 164 |
| Other extraordinary charges | <u>542</u> | <u>140</u> |
| Total extraordinary charges | <u>1,490</u> | <u>616</u> |

For information on capital gains arising from waivers of stock option entitlements, we invite you to consult the comment on investments. Other extraordinary income refers mainly to insurance refunds, which are offset in the costs listed under other extraordinary expenses for €/000 197 and deposit of provisions no longer necessary.

Leaving incentives for €/000 394 regard the costs for a mobility agreement for the personnel of a subsidiary.

The provision for other potential liabilities mainly concerns risks related to previous years, although arising only in 2001 in association with a non-consolidated subsidiary.

Taxes

The tax burden of the year benefited from the revaluation of plant owned by several consolidated companies, the accounting method of which and the effects on the consolidated accounts have been amply illustrated in the comment on tangible fixed assets. Furthermore, the Group has benefited from the facilitations provided by the so-called Tremonti law on investments, with respect to the previously discussed investments in industrial buildings.

Later events

Following 31 December 2001 no events occurred of sufficient significance to make the current consolidated equity-financial situation substantially different from the situation described by the consolidated balance sheet of that date, or such as to call for modifications or additional notes to accompany the consolidated financial statements.

We invite you to refer to the Board of Directors' Report for information on events occurring after 31 December 2001.

Supplementary statements

Consolidated Cash Flow Statements

Statement changes in consolidated shareholders' equity accounts

Reclassified consolidated balance sheets

Reclassified consolidated income statements

CONSOLIDATED CASH FLOW STATEMENTS

| <i>(amounts shown in €/000)</i> | <i>31/12/2001</i> | <i>31/12/2000</i> |
|--|-------------------|-------------------|
| Net profit for the period | 21,433 | 19,016 |
| Minority profits | 5,786 | 5,035 |
| Non cash items: | | |
| Amortisation and depreciation of intangible and tangible fixed assets | 23,414 | 23,575 |
| Changes in staff severance indemnities | 1,006 | 1,042 |
| Changes in provision for deferred taxation, net of deferred tax assets | (3,903) | 355 |
| Losses (profits) of non-consolidated equity investments | 1,207 | (291) |
| Losses (gains) from sales of fixed assets | (1,069) | (230) |
| Exchange rate (profit) loss on intergroup financing and receivables | (189) | - |
| Change in other provisions | (363) | (626) |
| <i>Cash flow from operations</i> | <i>47,322</i> | <i>47,876</i> |
| Cash flow obtained (used) through (in) net operating working capital | (3,683) | 11,413 |
| <i>Operating cash flow generated</i> | <i>43,639</i> | <i>59,289</i> |
| <i>Investing activities</i> | | |
| Increase in tangible fixed assets | (24,389) | (15,762) |
| Increase in intangible fixed assets | (2,827) | (2,952) |
| Acquisition of investments, net | (3,793) | (11,445) |
| Change in payables related to the acquisition of equity investments | (2,522) | (745) |
| Acquisition of treasury stock | (1,860) | (2,988) |
| Proceeds from sales of fixed assets | 2,936 | 548 |
| Other changes | 607 | (1,082) |
| <i>Total cash flow used in investing activities</i> | <i>(31,846)</i> | <i>(34,426)</i> |
| <i>Financing activities</i> | | |
| Increase in (repayment of) medium/long-term borrowings | (30,381) | 25,234 |
| Repayment of shareholders' financing | (253) | (1,453) |
| Collection (increase) of (in) medium/long-term financial receivables | (772) | (116) |
| Increase in share capital | 444 | 77 |
| Dividends collected from investments valued at equity method | 147 | 255 |
| Dividends paid | (8,904) | (40,222) |
| <i>Total cash flow obtained through (used in) financing activities</i> | <i>(39,719)</i> | <i>(16,225)</i> |
| Total cash flow generated (used) | <u>(27,926)</u> | <u>8,638</u> |

CONSOLIDATED CASH FLOW STATEMENTS

| <i>(amounts shown in €/000)</i> | 31/12/2001 | 31/12/2000 |
|--|-----------------|---------------|
| Net cash and cash equivalents at the beginning of the period | 17,883 | 8,288 |
| Adjustment: | | |
| Opening net cash and cash equivalents (debt) of companies not consolidated in prior period | (477) | 1,801 |
| Net cash and cash equivalents at the beginning of the year | 17,406 | 10,089 |
| Cash flow generated (used) | (27,926) | 8,638 |
| Exchange differences | (389) | (844) |
| <i>Net cash and cash equivalents at the end of the period</i> | <u>(10,909)</u> | <u>17,883</u> |

Net cash and cash equivalents can be broken down as follows:

| | | |
|--|-----------------|---------------|
| Cash on hand and securities | 23,181 | 48,773 |
| Payables to banks due within one year | (94,377) | (99,351) |
| Adjustments: current portion of medium term borrowings | 61,560 | 69,658 |
| Accrued interest | (1,273) | (1,197) |
| <i>Net cash and cash equivalents</i> | <u>(10,909)</u> | <u>17,883</u> |

STATEMENT OF CHANGES IN THE GROUP SHAREHOLDERS' EQUITY ACCOUNTS

(amounts shown in €/000)

| | Share capital | Legal reserve | Share premium reserve | Reserve for treasury stock in portfolio | Reserve from currency translation | Others reserves and profit carried forward | Profit for the year | Total |
|--|---------------|---------------|-----------------------|---|-----------------------------------|--|---------------------|----------|
| <i>Balances as at 31 December 1999</i> | 42,324 | 8,511 | 63,945 | 20,878 | 324 | 5,631 | 22,152 | 163,765 |
| Distribution of special dividend | - | - | (33,766) | - | - | - | - | (33,766) |
| Distribution of ordinary dividend | - | - | - | - | - | 16,219 | (5,933) | (5,933) |
| Allocation of remaining profits 1999 | - | - | (961) | 2,988 | - | (2,027) | - | (16,219) |
| Increase of reserve for treasury stock held | - | - | (88) | - | - | (88) | - | - |
| Resolution of shareholders' meeting on 20/03/2000 | - | 176 | (88) | - | - | - | - | - |
| Exchange differences on the translation of foreign companies' financial statements | - | - | - | - | 838 | - | - | 838 |
| Increase in capital underwritten on 21/04/2000 for stock options | 15 | - | 62 | - | - | - | - | 77 |
| Conversion of capital into euro as per resolution of shareholders' meeting of 15/09/2000 | 291 | - | - | - | - | (291) | - | - |
| Profit for the year 2000 | = | = | = | = | = | = | 19,016 | 19,016 |
| <i>Balances as at 31 December 2000</i> | 42,630 | 8,687 | 29,192 | 23,866 | 1,162 | 19,444 | 19,016 | 143,997 |
| Increase in capital underwritten on 28/02/2001 for stock options | 73 | - | - | - | - | - | - | 73 |
| Distribution of dividends | - | - | - | - | - | - | (6,648) | (6,648) |
| Allocation of remaining profits 2000 | - | - | - | - | - | 12,368 | (12,368) | - |
| Increase in capital underwritten on 20/07/2001 for stock options | 74 | - | 292 | - | - | - | - | 366 |
| Increase in capital underwritten on 20/10/2001 for stock options | 1 | - | 4 | - | - | - | - | 5 |
| Exchange differences on the translation of foreign companies' financial statements | - | - | - | - | 768 | - | - | 768 |
| Increase in treasury stock reserve | - | - | - | 1,860 | - | (1,860) | - | - |
| Profit for the year 2001 | = | = | = | = | = | = | 21,433 | 21,433 |
| <i>Balances as at 31 December 2001</i> | 42,778 | 8,687 | 29,488 | 25,726 | 1,930 | 29,952 | 21,433 | 159,994 |

RECLASSIFIED CONSOLIDATED BALANCE SHEETS

| <i>(amounts shown in €/000)</i> | <i>31/12/2001</i> | | <i>31/12/2000</i> | |
|---|-------------------|--------|-------------------|--------|
| Trade receivables | 90,371 | | 87,606 | |
| Inventories | 88,337 | | 87,483 | |
| Prepayment and accrued income within one year | 2,232 | | 2,327 | |
| Other receivables, net of deferred tax assets | 7,043 | | 4,359 | |
| Trade payables | (68,768) | | (66,551) | |
| Tax payables within one year | (9,477) | | (10,505) | |
| Other current payables net of payables to purchase investments | (10,832) | | (10,497) | |
| Accrued expenses, net of interest charges | <u>(596)</u> | | <u>(907)</u> | |
| <i>Net operating working capital</i> | <u>98,310</u> | 27.4% | <u>93,315</u> | 27.5% |
| | | | | |
| Tangible fixed assets | 88,783 | | 76,719 | |
| Goodwill | 140,238 | | 146,565 | |
| Treasury stock | 25,726 | | 23,866 | |
| Financial fixed assets | 10,792 | | 10,653 | |
| Other non current assets | 22,899 | | 18,604 | |
| Provisions | (8,643) | | (8,263) | |
| Staff severance indemnities | (13,379) | | (12,156) | |
| Payables for acquisition of investments | (516) | | (3,038) | |
| Other non current liabilities | <u>(4,999)</u> | | <u>(7,171)</u> | |
| <i>Total net fixed assets</i> | <u>260,901</u> | 72.6% | <u>245,779</u> | 72.5% |
| | | | | |
| <i>Total capital employed</i> | <u>359,211</u> | 100.0% | <u>339,094</u> | 100.0% |
| | | | | |
| <i>Financed by:</i> | | | | |
| | | | | |
| Share Capital | 42,778 | | 42,630 | |
| Retained earnings | 95,783 | | 82,351 | |
| Profit for the period | 21,433 | | 19,016 | |
| Total shareholders' equity for the Group | <u>159,994</u> | | <u>143,997</u> | |
| Minority interests | 22,788 | | 18,010 | |
| <i>Total consolidated shareholders' equity</i> | <u>182,782</u> | 50.9% | <u>162,007</u> | 47.8% |
| | | | | |
| Cash on hand | (23,181) | | (48,773) | |
| Payables to banks within one year | 32,817 | | 29,693 | |
| Current portion of medium/long term financing | 63,728 | | 70,810 | |
| Accrued interests | <u>1,273</u> | | <u>1,197</u> | |
| Total short-term financial indebtedness (liquidity) | <u>74,637</u> | | <u>52,927</u> | |
| Medium/long-term financing | <u>101,792</u> | | <u>124,160</u> | |
| <i>Total net indebtedness</i> | <u>176,429</u> | 49.1% | <u>177,087</u> | 52.2% |
| | | | | |
| <i>Total sources of financing</i> | <u>359,211</u> | 100.0% | <u>339,094</u> | 100.0% |

RECLASSIFIED CONSOLIDATED INCOME STATEMENTS

| <i>(amounts shown in €'000)</i> | <u>31/12/2001</u> | | <u>31/12/2000</u> | |
|--|-------------------|--------|-------------------|--------|
| Net consolidated revenues | 426,075 | 100.0% | 411,673 | 100.0% |
| Purchases, net of changes in inventories | <u>(192,744)</u> | | <u>(189,091)</u> | |
| <i>Gross industrial margin</i> | <u>233,331</u> | 54.8% | <u>222,582</u> | 54.1% |
| Personnel expenses | (77,394) | | (74,845) | |
| Other operating costs | <u>(74,623)</u> | | <u>(67,926)</u> | |
| <i>Gross operating profit</i> | <u>81,314</u> | 19.1% | <u>79,811</u> | 19.4% |
| Operating depreciation and amortisation | <u>(13,762)</u> | | <u>(12,655)</u> | |
| <i>Operating profit</i> | <u>67,552</u> | 15.9% | <u>67,156</u> | 16.3% |
| Amortisation of goodwill | (9,348) | | (9,046) | |
| Amortisation of acquisition and listing costs | - | | (1,666) | |
| Amortisation of the consolidation difference allocated to buildings | (208) | | (208) | |
| Financial income (charges), net | (10,515) | | (9,077) | |
| Financial discounts granted to clients | (1,798) | | (2,266) | |
| Adjustment of value of investments according to the equity method and adjustments of financial assets | (1,207) | | 291 | |
| Extraordinary income (charges), net | <u>(168)</u> | | <u>(192)</u> | |
| <i>Profit for the year before taxes and minority interests</i> | <u>44,308</u> | | <u>44,992</u> | |
| Income taxes | <u>(17,089)</u> | | <u>(20,941)</u> | |
| <i>Net profit before minority interests</i> | <u>27,219</u> | | <u>24,051</u> | |
| Minority interests | <u>(5,786)</u> | | <u>(5,035)</u> | |
| <i>Consolidated net profit for the period</i> | <u>21,433</u> | | <u>19,016</u> | |

Interpump Group business sector information
(amounts shown in £'000)

| | Industrial | | Cleaning | | Hydraulic | | Other | | Elimination entries | | Interpump |
|---|----------------|----------------|----------------|----------------|----------------|----------------|--------------|--------------|---------------------|-----------------|----------------|
| | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 | 2001 |
| Net revenues outside the Group | 104,286 | 107,454 | 190,727 | 175,756 | 127,419 | 126,561 | 3,643 | 1,902 | - | - | - |
| Sales between sectors | 14,779 | 13,817 | 171 | 154 | - | - | - | - | (14,950) | (13,971) | - |
| Total net revenues | 119,065 | 121,271 | 190,898 | 175,910 | 127,419 | 126,561 | 3,643 | 1,902 | (14,950) | (13,971) | 426,075 |
| Sector operating profit | 19,359 | 20,658 | 24,160 | 23,842 | 20,588 | 20,754 | 3,445 | 1,902 | | | 67,552 |
| % of net revenue | 16.3% | 17.0% | 12.7% | 13.6% | 16.2% | 16.4% | | | | | 15.9% |
| Profit from investments valued according to the net equity method | (492) | (61) | (785) | (59) | 70 | 411 | | | | | (1,207) |
| Amortisation of the consolidation difference allocated to buildings | - | - | - | - | (208) | (208) | | | | | (208) |
| Amortisation of goodwill | (2,423) | (2,425) | (5,856) | (5,608) | (1,069) | (1,013) | | | | | (9,348) |
| Profit by sector | 16,444 | 18,172 | 17,519 | 18,175 | 19,381 | 19,944 | 3,445 | 1,902 | | | 56,789 |
| Net financial charges | | | | | | | | | | | (12,313) |
| Other non-operative items | | | | | | | | | | | (168) |
| Pre-tax profit | | | | | | | | | | | 44,308 |
| Income taxes | | | | | | | | | | | (17,089) |
| Minority interests | | | | | | | | | | | (5,786) |
| Net profit | | | | | | | | | | | 21,433 |

Further Information
(amounts shown in €000)

| | Industrial | | Cleaning | | Hydraulic | | Other | | Elimination entries | | Interpump |
|------------------------------|------------|---------|----------|---------|-----------|---------|-------|------|---------------------|---------|----------------|
| | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 | 2001 | 2000 | 2001 |
| Assets by sector | | | | | | | | | | | |
| Cash and cash equivalents | 118,791 | 121,359 | 220,177 | 208,764 | 115,535 | 107,134 | | | (3,808) | (2,941) | 450,695 |
| Treasury stock | | | | | | | | | | | 23,181 |
| | | | | | | | | | | | <u>25,726</u> |
| Total assets | | | | | | | | | | | <u>499,602</u> |
| Liabilities by sector | | | | | | | | | | | |
| Loans | 35,097 | 38,528 | 59,578 | 56,379 | 26,128 | 26,645 | | | (3,593) | (2,464) | 117,210 |
| | | | | | | | | | | | <u>199,610</u> |
| Total liabilities | | | | | | | | | | | <u>316,820</u> |

**OTHER INFORMATION RELATING
TO THE YEAR**

| | | | | | | |
|-------------------------------|-------|-------|--------|--------|-------|-------|
| Investments in fixed assets | 4,705 | 4,593 | 18,636 | 3,637 | 3,876 | 7,532 |
| Amortisation and depreciation | 6,653 | 6,090 | 11,268 | 10,773 | 5,446 | 5,046 |
| Other non-monetary costs | 327 | 357 | 663 | 617 | (39) | 68 |

Criteria used for sector information

The criteria used to break down revenues, costs, assets and liabilities are set down below

The value of components and products transferred between sectors is generally the actual sales price between Group companies, which is equivalent to the price offered to best clients. Only the Parent Company operates in two sectors: Industrial and Cleaning. In this case, the transfer values correspond to the best customer sale price.

Allocated operating costs include:

- purchases net of changes in inventories;
- personnel costs;
- external manufacturing expenses;
- amortisation and depreciation;
- other operating costs.

Amortisation of goodwill and the consolidation differences allocated to buildings was included in the sector result after operating profit, in line with the reclassified consolidated income statement.

Also profits of non-consolidated subsidiaries and associates were assigned to sectors after operating profit.

For the Group Parent company, which is active in two business sectors, the allocation of costs was performed with the following criteria:

- purchase, labour and outsourcing costs were allocated on a specific basis determined with reference to the bills of materials of the products making up the two business areas;
- amortisation and depreciation were allocated on the basis of production hours referred to each sector, taking into consideration several plants where production is focused on a single sector;
- energy consumption and other industrial costs were allocated on the basis of hours of production referring to each sector;
- sales commissions, sales transport, and commercial wages were allocated on the basis of sales revenues;
- costs for trade fairs and exhibitions, and for R&D salaries were divided into equal parts between the sectors, because these amounts are indiscriminately referred to both sectors; consequently, the allocation criteria adopted is deemed to be the most appropriate;
- other operating costs were allocated in proportion to net revenues.

Assets and liabilities allocated to individual sectors include all the assets and liabilities except for the financial items specified in the statement.

Goodwill and the consolidation difference allocated to buildings were attributed to the sectors in accordance with the portions effectively paid in relation to each sector.

For the Group Parent company, which operates in more than one sector, assets and liabilities were uniformly allocated to the criteria followed for the allocation of the revenues and costs that generated them, specifically:

- trade receivables were allocated on the basis of sales revenues, there being no significant differences in terms of collection days between the various sectors;
- for the same reason, trade payables were allocated on the basis of the purchase cost net of changes in inventory, costs for processing carried out by third parties, energy consumption and other external industrial costs;
- inventories were allocated on the basis of the incidence of direct and indirect production costs;
- tangible fixed assets were allocated specifically with regard to plants dedicated in production in a single sector and on the basis of production hours referred to each sector in the case of plants accommodating production processes concerning more than one sector. It should be emphasized that because of the existence of different production lines not relative to a single sector, but rather that can be used in alternative for several different sectors depending on the level of market demand, the attribution of tangible fixed assets and the relative depreciation is variable in each year in accordance with the production levels of each sector;
- goodwill was assigned to the sectors according to sales revenues of the various sectors at the time of the acquisition that generated the goodwill amount;
- payables to personnel and staff severance indemnity were allocated in line with the criteria followed for the allocation of personnel costs.

The shareholding in MecMarket.Com S.p.A. was divided in equal parts between the sectors, because the business of this company concerns all Group sectors. The other shareholdings valued with the equity method in the consolidated financial statements are divided by sector as described below:

| <u>Industrial sector</u> | <u>Cleaning sector</u> | <u>Hydraulic sector</u> |
|--------------------------|--|---|
| Transfer Oil S.p.A. | Soteco Benelux BVBA S.p.r.l. Portotecnica S.A. Western Floor Private Ltd Aspiradores Industriales Shanghai Floor Cleaning Euromop Brasil Holding Ltda | Hydrocar Chile S.A. PZB Australia Pty Ltd PZB Hydraulik Komponent PZB Asia Pte Ltd |

Attachment B

Intangible assets
(amounts expressed in €/000)

| | Opening value | Exchange differences | Increases | Decreases | Reclassifications | Change in the consolidation basis | Closing value |
|--|---------------|----------------------|-----------|-----------|-------------------|-----------------------------------|---------------|
| Start-up and capital costs | | | | | | | |
| Cost | 2,147 | - | 37 | 6 | (1,240) | - | 938 |
| Accumulated amortisation | 1,647 | - | 175 | 1 | (1,240) | - | 581 |
| Net Value | 500 | - | (138) | 5 | - | - | 357 |
| Research, development and advertising costs | | | | | | | |
| Cost | 2,177 | - | 1,865 | - | - | - | 4,042 |
| Accumulated amortisation | 493 | - | 815 | - | - | - | 1,308 |
| Net Value | 1,684 | - | 1,050 | - | - | - | 2,734 |
| Industrial patents and intellectual property rights | | | | | | | |
| Cost | 517 | 3 | 161 | - | (16) | - | 665 |
| Accumulated amortisation | 371 | 1 | 82 | - | (19) | - | 435 |
| Net Value | 146 | 2 | 79 | - | 3 | - | 236 |
| Concessions, licences, trade marks and similar rights | | | | | | | |
| Cost | 1,369 | 1 | 500 | - | (86) | - | 1,784 |
| Accumulated amortisation | 833 | - | 364 | - | (83) | - | 1,114 |
| Net Value | 536 | 1 | 136 | - | (3) | - | 670 |
| Goodwill | | | | | | | |
| Cost | 177,489 | - | 3,021 | - | - | - | 180,510 |
| Accumulated amortisation | 30,924 | - | 9,348 | - | - | - | 40,272 |
| Net Value | 146,565 | - | (6,327) | - | - | - | 140,238 |
| Assets under construction and advances | | | | | | | |
| Cost | 17 | - | 2 | - | - | - | 19 |
| Net Value | 17 | - | 2 | - | - | - | 19 |
| Other investments | | | | | | | |
| Cost | 11,640 | 102 | 323 | 1 | (6,569) | - | 5,495 |
| Accumulated amortisation | 8,722 | 23 | 619 | 1 | (6,569) | - | 2,794 |
| Net Value | 2,918 | 79 | (296) | - | - | - | 2,701 |
| Total Intangible fixed assets | | | | | | | |
| Cost | 195,356 | 106 | 5,909 | 7 | (7,911) | - | 193,455 |
| Accumulated amortisation | 42,990 | 24 | 11,403 | 2 | (7,911) | - | 46,504 |
| Net Value | 152,366 | 82 | (5,494) | 5 | - | - | 146,944 |

Attachment C

Tangible fixed assets (amounts expressed in €/000)

| | Opening value | Exchange differences | Increases | Decreases | Reclassifications | Change in the consolidation basis | Closing value |
|---|---------------|----------------------|---------------|--------------|-------------------|-----------------------------------|---------------|
| Land and buildings | | | | | | | |
| Cost | 43,709 | 242 | 1,834 | 2,500 | 6,929 | 1,267 | 51,481 |
| Revaluations | 10,558 | - | - | - | (6,928) | - | 3,630 |
| Accumulated depreciation | 13,074 | 121 | 1,598 | 60 | 676 | - | 15,409 |
| Accumulated depreciation of revaluation | 2,151 | - | 75 | - | (675) | - | 1,551 |
| Net Value | <u>39,042</u> | <u>121</u> | <u>161</u> | <u>2,440</u> | <u>-</u> | <u>1,267</u> | <u>38,151</u> |
| Plant and machinery | | | | | | | |
| Cost | 55,401 | 456 | 4,157 | 548 | 603 | 69 | 60,138 |
| Accumulated depreciation | 33,438 | 183 | 4,729 | 498 | 4 | 29 | 37,885 |
| Net Value | <u>21,963</u> | <u>273</u> | <u>(572)</u> | <u>50</u> | <u>599</u> | <u>40</u> | <u>22,253</u> |
| Industrial and commercial equipment | | | | | | | |
| Cost | 34,463 | 266 | 3,148 | 343 | (1) | 331 | 37,864 |
| Accumulated depreciation | 26,385 | 159 | 3,282 | 335 | (6) | 142 | 29,627 |
| Net Value | <u>8,078</u> | <u>107</u> | <u>(134)</u> | <u>8</u> | <u>5</u> | <u>189</u> | <u>8,237</u> |
| Other assets | | | | | | | |
| Cost | 17,949 | 324 | 2,260 | 1,332 | (77) | 401 | 19,525 |
| Accumulated depreciation | 11,640 | 194 | 2,327 | 1,134 | (97) | 172 | 13,102 |
| Net Value | <u>6,309</u> | <u>130</u> | <u>(67)</u> | <u>198</u> | <u>20</u> | <u>229</u> | <u>6,423</u> |
| Assets under construction and advances | | | | | | | |
| Cost | 1,327 | 27 | 13,809 | 820 | (624) | - | 13,719 |
| Net Value | <u>1,327</u> | <u>27</u> | <u>13,809</u> | <u>820</u> | <u>(624)</u> | <u>-</u> | <u>13,719</u> |
| Total tangible fixed assets | | | | | | | |
| Cost | 152,849 | 1,315 | 25,208 | 5,543 | 6,830 | 2,068 | 182,727 |
| Revaluations | 10,558 | - | - | - | (6,928) | - | 3,630 |
| Accumulated depreciation | 84,537 | 657 | 11,936 | 2,027 | 577 | 343 | 96,023 |
| Accumulated depreciation of revaluation | 2,151 | - | 75 | - | (675) | - | 1,551 |
| Net Value | <u>76,719</u> | <u>658</u> | <u>13,197</u> | <u>3,516</u> | <u>-</u> | <u>1,725</u> | <u>88,783</u> |

Report of the Board of Statutory Auditors on the consolidated financial statements at 31 December 2001 of the Interpump Group.

Shareholders,

The consolidated financial statements of Interpump Group S.p.A. for the year 2001 that are placed at your disposal show a profit, net of amounts owing to minority shareholders, of 21,433,000 euro.

They have been communicated to us within the terms of the law, together with the board of directors' report and are drawn up in conformity with the requirements of Legislative Decree D. Lgs 9-4-1991 no. 127.

The checks also made by KPMG S.p.A., appointed for the audit, have led us to ascertain that the values given in the financial statements tally with the accounts of the Parent Company, the financial statements for the year of the Subsidiaries and the information these latter have formally communicated.

These financial statements, transmitted by the Subsidiaries to the Parent Company for the purposes of drawing up the consolidated financial statements, drawn up by their relevant company organs, have been examined by the bodies appointed to check the single companies and by the independent auditing company within the framework of the procedures followed for auditing the consolidated financial statements. These financial statements have therefore not been checked by the Board of Auditors.

The determination of the consolidation basis, the choice of the principles of consolidation of the investments and of the procedures used for this purpose meet the requirements of Legislative Decree D. Lgs. 9-4-1991 no. 127. The formation of the consolidated financial statements is therefore to be considered technically correct and in conformity with the specific regulations.

The board of directors' report appropriately illustrates the economic and financial situation, performance throughout 2001 and developments since the close of the year of the companies that are subject to consolidation.

The examination we carried out showed they are consistent with the consolidated financial statements.

Sant'Ilario d'Enza, 25 March 2002

Statutory Auditors

Enrico Cervellera

Maurizio Salom

Antonio Zini

KPMG Assurance

KPMG S.p.A.
Via Passarotti, 6
I-40128 BOLOGNA BO

Telephone +39 (051) 6311975
Telefax +39 (051) 6311912

(Translation from the Italian original which remains the definitive version)

Report of the auditors in accordance with article 156 of legislative decree no. 58 of 24 February 1998

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

- 1 We have audited the consolidated financial statements of Interpump Group S.p.A. and subsidiary companies (Interpump Group) as at and for the year ended 31 December 2001. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
- 2 We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Reference should be made to the report dated 22 March 2001 for our opinion on the prior year consolidated figures which are presented for comparative purposes as required by law.

- 3 In our opinion, the consolidated financial statements of Interpump Group as at and for the year ended 31 December 2001 comply with the Italian regulations governing their preparation; therefore they are clearly stated and give a true and fair view of the financial position and results of the group.

Bologna, 18 March 2002

KPMG S.p.A.

(Signed on the original)

Franco Garilli
Director



KPMG S.p.A. is a member of KPMG International.

Milan Ancona Bari Bergamo Bologna Bolzano
Brescia Catania Como Florence Foggia Genova Lecce
Naples Novara Padua Palermo Parma Perugia
Pescara Rome Turin Treviso Trieste Udine Varese Verona

Società per azioni
Capitale sociale Euro 4.385.923,85 i.v.
Registro Imprese Milano N. 276823
R.E.A. Milano N. 512967
Cod. Fisc. e IVA 00709600158
Sede legale: Via Vittor Pisani, 25 - 20124 Milano MI

**Report of the Board of Directors
of Interpump Group S.p.A.
at 31 December 2001**

INTERPUMP GROUP S.p.A.

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

Via E. Fermi, 25

Fully paid up share capital: € 42,848,780

Reggio Emilia Court - Company Register no. 117217

Tax code number 11666900151

VAT number 01682900350

Board of Directors' Report for the year closed at 31 December 2001

The year to 31 December 2001 closed with a net profit of 9.5 million euro (2000: 6.7 million euro) and was characterised, like previous years, by normal industrial operations, the drive to optimise the Group's financial flows, and the activity of research and selection of investments with the aim of accelerating the expansion of the Group, despite the presence of a negative international economic cycle. Since 1996, the year in which the Group was first listed on the Stock Exchange, a total of ten acquisitions have been successfully concluded.

During 2001 plant and machinery were revalued in compliance with the provisions of law 342/2000. As an effect of the revaluations amortisation/depreciation was increased by 2.4 million euro. Consequently, for the purposes of correct comparison with year 2000 data, it should be considered that the operating profit of 2001 was reduced by 2.4 million euro to take into account said revaluation, and that the net profit was reduced by 1.4 million euro, net of tax savings for a total of 1 million euro. We invite our readers to refer to the supplementary note for more detailed information.

Again for the purposes of fair comparison, we point out that in 2001 dividends were collected from subsidiaries for a total of 10.5 million euro, net of tax credit (5.9 million euro in 2000).

1 Profitability

For the remarks given here, we refer to the reclassified financial statements included in the supplementary statements.

Interpump Group S.p.A. generated net revenues of 61.7 million euro (2000: 66.3 million euro).

An analysis, by sector and by geographical area of revenues for sales and the supply of services, omitting all other sources of revenues, is given in the commentary of this item in the supplementary note.

Specifically, the Industrial Sector showed turnover of 44.9 million euro, up by 0.7% with respect to the previous year (44.6 million euro).

The Cleaning Sector achieved turnover of 14.9 million euro, falling 22.8% against sales in 2000 (19.3 million euro).

The gross industrial margin was 3.3 percentage points higher than in 2000; this was mainly thanks to a different sales mix that saw a shift towards the industrial sector, which enjoys higher margins than the cleaning sector.

Gross operating profit (EBITDA) was 1.1 percentage points higher than in 2000: the lower incidence on sales with respect to the gross industrial margin is basically due to the fall in sales which has prevented the absorption of fixed overheads in line with 2000.

Personnel costs are down 2.7% against 2000. The average number of employees for the year fell by eight. The per-capita cost however, rose by 0.6%.

Other operating costs increased by 1.7% due to a rise in the level of directors' remuneration for the reasons set down in the supplementary note in the commentary on this item.

Operating profit for the year totalled 15.5 million euro, influenced by the amortisations of the revaluation illustrated previously; net of this item, which was not present in 2000, operating profit would have amounted to 17.8 million euro (equivalent to 28.9% of net revenues), which would have been 0.4 percentage points higher than the same parameter in 2000 due to the matters described above.

Non-operating components of revenue include:

- amortisation of goodwill for 2.6 million euro, which refers to the amortisation of merger deficits originating in previous years;
- accelerated depreciation made with the sole aim of obtaining the relative tax benefits;
- dividends received from investments and the relative tax credits;
- net financial charges, which were more than 2 million euro in 2001 because of the rise in the average rate of interest for exchange rate risk coverage operations;
- the write-downs of investments described in the supplementary note.
- the extraordinary charges described in the supplementary note.

2 Capital expenditure

Capital expenditure in tangible fixed assets (1.8 million euro) is related to the normal renewal and modernisation of plant and equipment.

Capital expenditures totalling 4.9 million euro were made in the year to purchase investments, as described in greater detail in the supplementary note and as commented from a strategic and administrative standpoint in the Board of Directors' Report accompanying the Group's consolidated financial statements.

Also of note during 2000 was the purchase of treasury stock for an outlay of 1.9 million euro.

3 Financing

Net financial indebtedness as at 31 December 2001 amounted to 85.8 million euro, after having granted loans to subsidiaries in previous years for a total of 48.6 million euro, net of reimbursements received. The following table provides a confirmation of the company's ability to generate liquidity:

| | <u>2001</u> | <u>2000</u> |
|--|-----------------|-----------------|
| | €/000 | €/000 |
| <i>Opening indebtedness</i> | (97,843) | (69,215) |
| Cash flow from operations | 12,518 | 13,091 |
| Decrease (increase) in net working capital | (5,267) | 5,771 |
| Investments in tangible fixed assets and suspended costs in intangible fixed assets net of disposals | (2,661) | (3,404) |
| Dividends paid | (6,648) | (39,699) |
| Increase in capital for stock option | 444 | 77 |
| Other changes | (836) | 82 |
| Net acquisitions of investments | (4,893) | (10,916) |
| Purchase of treasury stock | (1,860) | (2,988) |
| Dividends received | 10,631 | 6,134 |
| Reimbursement of financing issued to subsidiaries | <u>10,567</u> | <u>3,224</u> |
| <i>Net indebtedness end of year</i> | <u>(85,848)</u> | <u>(97,843)</u> |

4 Relations with subsidiaries and associates

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

| | Receivables | | Revenues | |
|------------------------------|-------------------|-------------------|-------------------|-------------------|
| | <u>31/12/2001</u> | <u>31/12/2000</u> | <u>31/12/2001</u> | <u>31/12/2000</u> |
| Subsidiaries: | | | | |
| Euromop S.p.A. | 25 | 41 | - | - |
| Soteco S.p.A. | 56 | 89 | 10 | 31 |
| Interpump Cleaning S.p.A. | 2,581 | 2,346 | 7,239 | 6,725 |
| IP Floor S.p.A. | 1 | 107 | - | 88 |
| Interpump Hydraulics S.p.A. | 9 | - | - | - |
| PZB S.p.A. | 383 | 482 | - | - |
| Hydrocar S.r.l. | 31 | - | 2 | - |
| Unielectric S.p.A. | 44 | 54 | 100 | 86 |
| Interpump Engineering S.r.l. | 3 | 15 | 10 | 20 |
| Interclean Assistance S.A. | - | - | 366 | 275 |
| General Pump Inc. | 341 | 806 | 13,161 | 13,389 |
| Teknova S.r.l. | 15 | 9 | - | - |
| General Technology S.r.l. | 1 | 31 | 16 | 72 |
| Muncie Inc. | 37 | - | 57 | 53 |
| SIT S.p.A. | - | - | 3 | 3 |
| Hydrocar Roma S.r.l. | - | 1 | 2 | 3 |
| Hydrocar Asia | - | - | 20 | 8 |
| Ready System S.r.l. | 6 | - | - | - |
| Pulex S.r.l. | 6 | - | - | - |
| Western Floor India | - | - | 3 | 2 |
| <i>Total</i> | <u>3,539</u> | <u>3,981</u> | <u>20,989</u> | <u>20,755</u> |

| | Receivables | | Revenues | |
|-------------------------|-------------|------------|------------|------------|
| | 31/12/2001 | 31/12/2000 | 31/12/2001 | 31/12/2000 |
| Associates: | | | | |
| Transferoil S.p.A. | - | 43 | - | 36 |
| MacMarket.Com S.p.A. | - | 10 | - | 10 |
| <i>Total associates</i> | <u>-</u> | <u>53</u> | <u>-</u> | <u>46</u> |

| | Payables | | Costs | |
|------------------------------|------------|--------------|--------------|--------------|
| | 31/12/2001 | 31/12/2000 | 31/12/2001 | 31/12/2000 |
| Subsidiaries: | | | | |
| Soteco S.p.A. | 8 | 1 | - | 2 |
| Interpump Cleaning S.p.A. | 68 | 88 | 302 | 252 |
| IP Floor S.p.A. | 2 | - | 1 | 1 |
| PZB S.p.A. | - | 9 | - | - |
| Unielectric S.p.A. | 348 | 581 | 1,756 | 2,363 |
| Interpump Engineering S.r.l. | 96 | 315 | 5 | 6 |
| General Pump Inc. | - | 118 | 51 | 182 |
| Teknova S.r.l. | 1 | - | 1 | 1 |
| General Technology S.r.l. | 32 | - | 86 | 103 |
| SIT S.p.A. | 170 | 143 | 375 | 447 |
| <i>Total subsidiaries</i> | <u>725</u> | <u>1,255</u> | <u>2,577</u> | <u>3,357</u> |

| | | | | |
|---------------------------|-----------|-----------|------------|------------|
| Associates: | | | | |
| <i>Transferoil S.p.A.</i> | 35 | 68 | 190 | 239 |
| MacMarket.Com S.p.A. | - | - | 1 | - |
| <i>Total associates</i> | <u>35</u> | <u>68</u> | <u>191</u> | <u>239</u> |

All the above relations are of a business nature and governed at normal market conditions, with the exception of accounts receivable from PZB S.p.A., which mainly include receivables for interest on loans granted.

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

| | Financing | | Interest income | |
|-----------------------------|---------------|---------------|-----------------|--------------|
| | 31/12/2001 | 31/12/2000 | 31/12/2001 | 31/12/2000 |
| Subsidiaries: | | | | |
| Euromop S.p.A. | 516 | 1,549 | 54 | 73 |
| Soteco S.p.A. | 816 | 816 | 44 | 43 |
| Interpump Cleaning S.p.A. | 17,250 | 18,954 | - | - |
| Interpump Hydraulics S.p.A. | 13,960 | 13,960 | - | 6 |
| PZB S.p.A. | 7,444 | 14,977 | 821 | 864 |
| Hydrocar S.r.l. | 85 | 85 | 30 | - |
| Unielectric S.p.A. | 622 | 875 | - | - |
| General Pump Inc. | 2,250 | 4,253 | 216 | 349 |
| Muncie Power Products Inc. | 5,614 | 5,066 | 370 | 407 |
| <i>Total</i> | <u>48,557</u> | <u>60,535</u> | <u>1,535</u> | <u>1,742</u> |

Interest received from Hydrocar S.r.l. refers to a loan of 1,291 thousand euro, granted in 2001 for the purchase of Hydroven shares, which was reimbursed at the end of the year.

These loans are governed by normal market conditions except as indicated below.

Loans to companies in which stakes are held have been distributed at the following conditions:

- Oleodinamica Pederzani and Zini S.p.A.: Euribor +1;
- Soteco S.p.A.: Euribor +0.75;
- Euromop S.p.A.: Euribor +0.5;
- General Pump Companies Inc.: 8.25%; the loan totals 2,000,000 USD;
- Muncie Power Products Inc.: Libor + 1.25%; the loan is for 5,000,000 USD;

The loans granted to Interpump Hydraulics S.p.A., Hydrocar S.r.l., Unielectric S.p.A. and Interpump Cleaning S.p.A. are all interest free.

Loans due after one year are composed of financing to Interpump Hydraulics S.p.A. and Hydrocar S.r.l. for 14 million euro, financing to Interpump Cleaning S.p.A. for 17.2 million euro, financing to PZB S.p.A. for 7.4 million euro, and part of the financing granted to Muncie Power Products Inc for 3.4 million euro.

Loans bearing no interest derive from contractual agreements between shareholders at the time of acquisition of the company by Interpump Group S.p.A. (loans to Unielectric S.p.A., Interpump Hydraulics S.p.A. and Hydrocar S.r.l.), and from agreements with the 100% controlled Interpump Cleaning S.p.A. for the relevant loan.

During 2001 Interpump Group S.p.A. implemented a cash-pooling procedure with several subsidiaries in order to improve the efficiency of treasury management. Year end balances and accrued interest payable were as follows:

| | Debit | Interest |
|---------------------------|-------------------|-------------------|
| | <u>31/12/2001</u> | <u>31/12/2001</u> |
| | €/000 | €/000 |
| Subsidiaries: | | |
| Soteco S.p.A. | 1,071 | 21 |
| IP Floor S.p.A. | 180 | 4 |
| General Technology S.r.l. | <u>1,149</u> | <u>26</u> |
| <i>Total</i> | <u>2,400</u> | <u>51</u> |

The financial charges due to subsidiaries for €/000 326 include €/000 275 of cash discounts granted to several Group companies.

During the year there were no operations with related parties with the exception of those already discussed in the comment on Directors' remuneration in the supplementary note and expenses of 150 thousand euro for legal consultancy of the law practice in which the company Chairman works.

5 Further information

1999 saw the creation of a Research Centre (Interpump Engineering S.r.l.) designed to centralize the design and development of new products under a single body, without depriving individual companies from the resources they need for the independent development of their specific local operations. In 2001 Interpump Engineering supported the launch, in completion of the existing range, of two new families of high-pressure pumps which serve to extend the already very wide range of products; also several new models of accessories were presented.

Group strategy over the next few years will be focused on making significant investments in research and development with the aim of providing renewed impetus to internal growth.

In payment for the operations performed, the Interpump Engineering S.r.l. subsidiary charged 827 thousand euro, capitalized among intangible fixed assets.

In addition, as at 31 December 2001 the company held 6,154,000 treasury shares corresponding, on that date, to 7.48% of the capital stock. The shares were acquired during the course of the year and in previous years at an average unit cost of € 4.18.

Moreover, there were no disposals of treasury stock and the company does not possess shares or stakes in parent companies.

With regard to the stock option plans, the composition and offices of the Board of Directors, and the shares of the company and the subsidiaries held by directors, auditors, and general managers, we invite you to consult the Board of Directors' Report provided with the consolidated financial statements.

6 Events occurring since the close of the year

On 10 January 2002 Interpump Group S.p.A. and Banca Popolare di Verona – Banco S. Geminiano e S. Prospero signed a medium/long-term pool financing agreement for a total of 60 million euro. The loan is granted at the Euribor rate +0.65 and is repayable in three fixed instalments due in January 2006, January 2007 and January 2008.

For information on events occurring after 31 December 2001, readers are referred to the Board of Directors' Report accompanying the consolidated financial statements.

7 Business outlook

On the basis of the situation throughout the initial months of the year, the company forecasts satisfactory results for 2002.

Management continues to focus the maximum attention on cost curbing, both by means of careful controls and through intensive exploitation of synergies existing among group member companies. Even greater attention than in the past will also be addressed to new applications for our high-pressure pumps to ensure that we are always in a position to respond adequately to the latest market demands.

8 Proposals for the Shareholders' Meeting

We suggest that the net profit for the year, in the amount of € 9,548,036, should be designated as follows:

- a dividend of € 0.10 for each share in circulation, inclusive of the right as per art. 2357-ter par. 2 of the Italian Civil Code, and composed with profits that confer entitlement to a full tax credit for the recipients;
- the remainder to the Extraordinary Reserve, since the legal reserve has now reached the amount of one fifth of the fully paid up and subscribed share capital.

Milan, 12 March 2002

The Board of Directors

Sergio Erede

Giovanni Cavallini

Fulvio Montipò

Francesco Loredan

Pierleone Ottolenghi

Paolo Pomè

Marco Reboa

**Financial Statements of Interpump Group S.p.A.
for the year ending 31 December 2001**

INTERPUMP GROUP S.p.A.
Registered Office: S. Ilario d'Enza (RE)
Via E. Fermi, 25
Fully paid up share capital: € 42,848,780
Reggio Emilia Court - Company Register no. 117217
Tax code number 11666900151
VAT number 01682900350

BALANCE SHEETS

ASSETS

| <i>(amounts in euro)</i> | <u>31/12/2001</u> | <u>31/12/2000</u> |
|--|--------------------|--------------------|
| Fixed assets | | |
| <i>Intangible fixed assets</i> | | |
| Start-up and expansion costs | 701 | 8,599 |
| Research, development and advertising costs | 1,206,399 | 727,094 |
| Industrial patents and intellectual property rights | 25,698 | 38,785 |
| Concessions, licenses, trademarks and similar rights | 227,525 | 241,532 |
| Goodwill | 37,677,147 | 40,262,770 |
| Other | 175,984 | 329,696 |
| <i>Total</i> | <u>39,313,454</u> | <u>41,608,476</u> |
| <i>Tangible fixed assets</i> | | |
| Land and buildings | 7,995,000 | 8,353,946 |
| Plant and machinery | 10,926,155 | 2,827,774 |
| Industrial and commercial equipment | 385,297 | 320,800 |
| Other assets | 379,826 | 438,569 |
| Assets under construction and advances | 55,087 | 287,214 |
| <i>Total</i> | <u>19,741,365</u> | <u>12,228,303</u> |
| <i>Financial fixed assets</i> | | |
| Investments in: | | |
| Subsidiaries | 77,196,515 | 77,995,007 |
| Associated companies | 4,809,152 | 5,072,837 |
| Other companies | 488,862 | 488,862 |
| <i>Total investments</i> | <u>82,494,529</u> | <u>83,556,706</u> |
| Receivables: | | |
| From subsidiaries | | |
| Due within one year | 6,443,361 | 12,643,875 |
| Due after one year | 42,113,740 | 47,891,565 |
| From others | | |
| Due within one year | 197,256 | 357,368 |
| <i>Total financial receivables</i> | <u>48,754,357</u> | <u>60,892,808</u> |
| Treasury stock | | |
| (for a total nominal value of € 3,200,080 in 2001) | 25,726,447 | 23,865,797 |
| <i>Total financial fixed assets</i> | <u>156,975,333</u> | <u>168,315,311</u> |
| <i>Total fixed assets</i> | <u>216,030,152</u> | <u>222,152,090</u> |

BALANCE SHEETS

| <i>(amounts in euro)</i> | <i>31/12/2001</i> | <i>31/12/2000</i> |
|---|--------------------|--------------------|
| Assets forming part of working capital | | |
| <i>Inventories</i> | | |
| Raw materials and supplies | 4,351,273 | 6,404,841 |
| Work in progress and semi-finished products | 5,631,301 | 5,199,790 |
| Finished products and goods | 2,412,675 | 2,536,571 |
| Advances | - | 4,801 |
| <i>Total</i> | <i>12,395,249</i> | <i>14,146,003</i> |
| <i>Receivables</i> | | |
| Trade receivables | | |
| Due within one year | 4,612,862 | 5,613,310 |
| From subsidiaries | | |
| Due within one year | 3,538,746 | 3,980,614 |
| From associates | | |
| Due within one year | - | 53,712 |
| From others | | |
| Due within one year | 1,792,500 | 198,150 |
| Due after one year | 682,435 | 488,394 |
| <i>Total</i> | <i>10,626,543</i> | <i>10,334,180</i> |
| <i>Cash</i> | | |
| Bank and postal accounts | 5,304,258 | 22,146,922 |
| Cash | 195,288 | 9,015 |
| <i>Total</i> | <i>5,499,546</i> | <i>22,155,937</i> |
| <i>Total assets forming part of working capital</i> | <i>28,521,338</i> | <i>46,636,120</i> |
| <i>Accrued income and prepayments</i> | | |
| Other accrued income and prepayments | | |
| Due within one year | 378,833 | 22,276 |
| Due after one year | 531,570 | - |
| <i>Total accrued income and prepayments</i> | <i>910,403</i> | <i>22,276</i> |
| <i>Total assets</i> | <i>245,461,893</i> | <i>268,810,486</i> |

BALANCE SHEETS

LIABILITIES

| <i>(amounts in euro)</i> | <u>31/12/2001</u> | <u>31/12/2000</u> |
|--|--------------------|--------------------|
| <i>Shareholders' equity</i> | | |
| Share Capital | 42,778,060 | 42,629,600 |
| Share-premium reserve | 29,487,653 | 29,191,716 |
| Revaluation reserve | 8,307,534 | - |
| Legal reserve | 8,686,805 | 8,686,805 |
| Reserve for treasury stock held | 25,726,447 | 23,865,797 |
| Extraordinary reserve | 4,950,400 | 6,768,034 |
| Profit (loss) for the period | 9,548,036 | 6,691,078 |
| <i>Total shareholders' equity</i> | <u>129,484,935</u> | <u>117,833,030</u> |
| <i>Provision for risks and charges</i> | | |
| Taxation | 319,293 | - |
| Other | 149,773 | 224,142 |
| <i>Total</i> | <u>469,066</u> | <u>224,142</u> |
| <i>Staff severance indemnities</i> | | |
| | <u>3,549,805</u> | <u>3,269,953</u> |
| <i>Payables</i> | | |
| Accounts payable to banks | | |
| Due within one year | 38,669,847 | 49,977,439 |
| Due after one year | 49,981,117 | 69,028,037 |
| Advances | | |
| Due within one year | 21,048 | 39,070 |
| Accounts payable to suppliers | | |
| Due within one year | 7,548,154 | 8,437,600 |
| Payable to subsidiaries | | |
| Due within one year | 3,124,788 | 1,254,546 |
| Payable to associates | | |
| Due within one year | 34,557 | 67,599 |
| Taxes payable | | |
| Due within one year | 4,821,730 | 5,416,160 |
| Due after one year | 4,761,250 | 7,141,875 |
| Social security charges payable | | |
| Due within one year | 653,535 | 659,204 |
| Other payables | | |
| Due within one year | 1,610,381 | 3,950,367 |
| Due after one year | 433,653 | 516,456 |
| <i>Total payables</i> | <u>111,660,060</u> | <u>146,488,353</u> |
| <i>Accruals and deferrals</i> | | |
| Other accruals and deferrals | 298,027 | 995,008 |
| <i>Total accruals and deferrals</i> | <u>298,027</u> | <u>995,008</u> |
| <i>Total liabilities</i> | <u>245,461,893</u> | <u>268,810,486</u> |

BALANCE SHEETS

| <i>(amounts in euro)</i> | 31/12/2001 | 31/12/2000 |
|----------------------------------|-------------------|-------------------|
| Memorandum accounts | | |
| Sureties | 1,566,414 | 1,566,414 |
| Other memorandum accounts | 8,471,352 | 10,492,482 |
| <i>Total memorandum accounts</i> | <u>10,037,766</u> | <u>12,058,896</u> |

INCOME STATEMENTS

| <i>(amounts in euro)</i> | <u>31/12/2001</u> | <u>31/12/2000</u> |
|--|-------------------|-------------------|
| Sales and other revenues | | |
| Revenues from the sale of goods and services | 61,343,618 | 65,925,609 |
| Changes in inventories of work in progress semi-finished and finished products | 307,617 | (398,577) |
| Increase on internal work capitalised under fixed assets | 11,650 | 12,782 |
| Other revenues and income | 391,741 | 342,674 |
| <i>Total</i> | <u>62,054,626</u> | <u>65,882,488</u> |
| Cost of production | | |
| Raw materials, consumables and supplies | 17,756,911 | 21,212,177 |
| Services | 9,504,907 | 9,030,260 |
| Use of third-party assets | 27,538 | 14,162 |
| Personnel: | | |
| Wages and salaries | 8,378,458 | 8,622,686 |
| Social security charges | 2,900,912 | 2,974,824 |
| Staff severance indemnities | 690,757 | 701,929 |
| Amortisation, depreciation and write-downs | | |
| Amortisation of intangible assets | 3,190,379 | 4,555,005 |
| Depreciation of tangible fixed assets | 4,548,607 | 1,868,555 |
| Write-down of receivables included under assets forming part of working capital | 38,433 | 70,103 |
| Change raw materials, consumables and supplies inventory | 2,053,569 | 1,510,747 |
| Sundry operating expenses | 513,826 | 801,729 |
| <i>Total</i> | <u>49,604,297</u> | <u>51,362,177</u> |
| <i>Difference between sales and other revenues and the cost of production</i> | <u>12,450,329</u> | <u>14,520,311</u> |
| Financial income and charges | | |
| Income from investments: | | |
| Dividends from subsidiaries | 10,483,676 | 5,879,067 |
| Dividends from associates | 147,000 | 254,800 |
| Reduction in the value of investments for distribution of profits obtained before the acquisition | - | (828,213) |
| Tax credit on dividends | 6,243,396 | 3,602,420 |
| | <u>16,874,072</u> | <u>8,908,074</u> |
| <i>Other income:</i> | | |
| Other companies partly owned | - | 17,496 |

INCOME STATEMENTS

| <i>(amounts in euro)</i> | <u>31/12/2001</u> | <u>31/12/2000</u> |
|--|--------------------|--------------------|
| <i>Other financial income</i> | | |
| From receivables included under fixed assets: | | |
| Subsidiaries | 1,534,929 | 1,741,535 |
| Other companies partly owned | 702 | 7,503 |
| | <u>1,535,631</u> | <u>1,749,038</u> |
| <i>Financial income other than the above</i> | | |
| Interest from other parties and other income | <u>1,636,987</u> | <u>1,423,195</u> |
| <i>Interest and other financial charges</i> | | |
| Interest payable to subsidiaries | (326,410) | - |
| Interest and fee expenses payable to others and sundry charges | (7,995,075) | (6,496,118) |
| <i>Total financial income (charges)</i> | <u>11,725,205</u> | <u>5,601,685</u> |
| <i>Adjustments made to financial assets values</i> | | |
| Write-downs | | |
| Of investments | (5,288,032) | (5,660,448) |
| Of financial assets other than investments | (537,200) | - |
| <i>Total adjustments</i> | <u>(5,825,232)</u> | <u>(5,660,448)</u> |
| <i>Extraordinary income and charges</i> | | |
| Income | 220,813 | - |
| Charges | (197,541) | (224,650) |
| <i>Total extraordinary items</i> | <u>23,272</u> | <u>(224,650)</u> |
| <i>Profit for the period before taxes</i> | <u>18,373,574</u> | <u>14,236,898</u> |
| Income taxes for the period | <u>(8,825,538)</u> | <u>(7,545,820)</u> |
| <i>Net profit for the period</i> | <u>9,548,036</u> | <u>6,691,078</u> |

1 Introduction and nature of the business

As at 31 December 2001 the structure of the Interpump Group was as shown in the Board of Directors' Report published together with the consolidated financial statements.

Interpump Group S.p.A. operates on its own account in the manufacture and sale of high and very high-pressure plunger pumps and various pump components, and high-pressure washers for professional users and for the domestic sector.

The business is organised in two sectors:

- Industrial Sector: including high and very high-pressure plunger pumps and ceramic plungers - components of strategic importance; these pumps are the core component of professional high-pressure washers and, in addition, they are utilized for a wide range of industrial applications including forced lubrication of machine tools, reverse osmosis plants for water desalination, and solid materials cutting equipment.
- Cleaning Sector: includes high-pressure washers for professional applications, in which they are used for washing of industrial and agricultural equipment, vehicles, boats, animal stalls, etc. and portable high-pressure washers for the domestic and DIY sector.

We refer you to the Board of Directors' Report supplied with the consolidated accounts for an analysis of Group business and the nature of operations.

In accordance with Legislative Decree D.Lgs. 24 February 1998, no. 58, the financial statements have been audited. The Audit Report has been attached to the financial statements.

Pursuant to art. 25 of Decree Law D.L.127/91, and in consideration of the item of investments in subsidiaries, the Group's consolidated financial statements have been drawn up and presented at the same time as the financial statements of the Parent Company. The reader should refer to this for more comprehensive information on the Group.

2 Accounting principles and valuation criteria

The financial statements of Interpump Group S.p.A. were drawn up in accordance with the provisions of current legislation, interpreted and integrated by the accounting principles stated by the "Consigli Nazionali dei Dottori Commercialisti e dei Ragionieri" (National Councils of Certified Public Accountants) and, when not sufficient, by those established by the International Accounting Standards Committee (I.A.S.C.), with the approval of the Board of Statutory Auditors when required. In order to provide complete and detailed information, the cash flow statement, the statement of changes in shareholders' equity, the reclassified balance sheet and income statement included in the Supplementary Statements are shown. The financial statements as at 31 December 2001 were drafted in euro, while the Board of Directors' Report and the supplementary note are drafted in thousands of euro.

The accounting principles adopted, of which the most important are outlined below, do not differ from those used in preparing the financial statements as at 31 December 2000, presented for the sake of comparison.

The layouts of the balance sheet and income statement are as set down by the Italian Civil Code. In the grouping "Income from investments" two items have been added (reduction in the value of investments for distribution of profits prior to acquisition, tax credit on dividends) in relation to the provisions of the law for greater clarity, as permitted by art. 2423 Ter par. 2 of the Civil Code.

Intangible fixed assets

These are recorded at cost and are shown net of accumulated amortisation, calculated on a straight-line basis and with reference to their estimated remaining useful life.

In particular, the amortisation rates applied were the following:

- Goodwill: represents the portion of the deficit arising from the mergers effected during previous financial periods and allocated to goodwill on the basis of an independent expert's opinion, which can be traced back to the greater value paid in this regard upon the acquisition of Interpump S.p.A. and the other companies incorporated. Goodwill is amortised over 20 years, a period deemed to adequately reflect its economic usefulness on the basis of market observation and of expectations concerning corporate longevity and development which led this greater value to be acknowledged when the Interpump Group, active in a sector in which no rapid or sudden changes in technology or production are foreseen, was acquired; this consideration led us to assume that the Interpump Group will be able to maintain, over the long-term, the competitive positions it has attained. The adopted amortisation period, in line with considerations made and valuations carried out at the time the Interpump Group was acquired, complies with the period indicated in the Accounting Principles established by the National Councils of Certified Public Accountants and by the International Accounting Standards.
- Research and development costs referred to the important innovative process that started with the creation of the Research Centre (Interpump Engineering S.r.l.), have been capitalised and amortised in the estimated period of useful life of the products to which they refer. On the contrary, the costs of research and development relating to product customisation and the routine work of the engineering departments are ascribed to the income statement when they arise.
- All other components of intangible fixed assets are amortised over a 5-year period, with the exception of patents which are amortised over 3 years.

If at any time during the amortisation period such capitalised costs are no longer deemed to retain any future utility, they will be included among extraordinary charges in the income statement.

Tangible fixed assets

These are recorded at their cost of acquisition or production and are increased by revaluations carried out in compliance with the various monetary revaluation laws or as allocations carried out in respect of deficit arising from mergers. They are shown net of accumulated depreciation which is systematically calculated on a straight-line basis according to the following rates:

| | |
|---|---------|
| <input type="checkbox"/> Real estate | 3% |
| <input type="checkbox"/> Plant and machinery | 10%-16% |
| <input type="checkbox"/> Industrial equipment | 25% |
| <input type="checkbox"/> Other assets | 12%-25% |

These rates are the ordinary ones established by fiscal regulations and are deemed adequate to reflect the remaining useful economic-technical life of the assets they relate to. For assets purchased during the financial period, rates were reduced by 50% since these assets were used in the production process, on average, only for half the period.

In 2001 plant and machinery was revalued in accordance with the provisions of law 342/2000. The value of the revaluated assets was not higher than the economic value, which was determined by an appraisal by an independent valuer. The revaluation was performed adjusting only the historic cost, and it led to a slight increase in the depreciation period, which is no longer than the economic-technical lifetime of the assets in question.

Also accelerated depreciation was entered, in the limits of deductibility permitted by fiscal law, in order to exploit the relative fiscal benefits allowed by statutory legislation. Such accelerated depreciation was deducted directly from the tangible fixed assets.

Assets with a unit value below ITL 1 million were completely depreciated in the year in which they were purchased in view of their limited relevance.

Pursuant to art. 10 no. 72 of 19 March 1983, we point out that no monetary or economic revaluations other than those mentioned above were carried out nor were there any departures from what is set out in art. 2423 and art. 2423 bis of the Italian Civil Code.

Tangible fixed assets in course of construction are valued at cost and depreciated starting from the financial year in which they enter into operation.

Maintenance and repair costs are charged to the income statement relating to the period in which they were incurred, or capitalised if they increase the value or the useful life of assets.

If, at the close of the year, the value determined by the above method is permanently higher than the economic value of the asset, its value is adjusted by means of a specific write-down. When the conditions for said write-down cease to exist, the original value is fully or partially restored.

Investments

Investments are valued according to the cost method. The cost is determined by the cost of purchase or subscription, increased by the allocation of a portion of the merger deficit made on the basis of an independent survey.

Should permanent losses in value arise at the close of the year in comparison to the value determined according to the above method, the investment will be accordingly written down in accordance with art. 2426 1st par. no. 3 of the Civil Code. If, at a later date, the reasons for such a write-down cease to exist, the original value will be fully or partially restored.

During the course of the year and in several previous years write-downs were carried out in application of tax regulations as per art. 2426 par. 2 of the Italian Civil Code, the effects of which on the financial statements are described in the commentary to the relative entry.

Dividends and the related tax credits are recorded at the time they are deliberated by the Shareholders' Meeting.

Dividends relating to the distribution of profits generated prior to the date of acquisition of the investments are ascribed in the income statement; the value of the investment in the company that distributed this dividend is correspondingly decreased, debited to the income statement in a specific item called "Reduction in value of investments due to distribution of profits prior to acquisition", included in the adjustment in the same grouping "Income from investments".

Treasury stock

These are valued at cost and, where necessary, adjusted for permanent losses in value. Treasury stock held as at 31 December 2001 is classified under financial fixed assets, because no transfer is planned in the short term.

Pursuant to current legislation, a "Reserve for treasury stock held" was established in the shareholders' equity item.

Inventories

Inventories are valued at the lower of purchase or production cost and their corresponding market value.

The average cost method, inclusive of accessory charges and weighted with the value of opening inventory balances, was applied in determining the cost of raw materials.

In the case of goods produced internally, the cost of production includes the cost of raw materials, external work carried out, utilities, directly related labour costs as well as general production and industrial costs in an amount reasonably attributable to such products. Financial charges and general overhead expenses are excluded. Moreover, in the case of semi-finished products and work in progress, production cost is determined on the basis of the work process stage they have reached.

For raw materials and work in progress, market value reflects the presumed net realisable value of the corresponding finished products, less the cost of their completion. For finished products it is equal to the presumed net realisable value.

Should some of the materials in inventory become obsolete or turn over slowly, and the difference in value is significant, they would be correspondingly written-down on the basis of how much they are used or of their presumed realisable value. Should the reasons for such write-downs cease to exist, their original value would be fully or partially restored.

Receivables

Accounts receivable are recorded at their presumed realisable value, by means of a specific bad debt provision which includes the amounts that are deducted directly from said amounts receivable.

The specific portion of the bad debt provision is determined, on the basis of an analysis of the individual accounts receivable that are in doubt; whereas the generic portion is determined on the basis of the historical incidence of losses on receivables. The generic portion is determined to provide for possible losses on accounts receivable, recorded in the financial statements, that have not yet occurred, but that might occur in the future.

Accruals and deferrals

These are calculated according to the principles of accrual accounting by which costs and revenues must be recorded with reference to the period they relate to.

Foreign exchange transactions

Foreign exchange transactions are entered into the accounts on the basis of the exchange rates effective on the date the related transactions were carried out; if a negative difference arises from the valuation of foreign currency receivables and payables at the exchange rate effective at the end of the period, as opposed to the accounting values, this difference is recorded in a specific provision under liabilities designated "Exchange rate fluctuation reserve" and charged to the income statement among interest and other financial charges. On the contrary, if the conversion difference gives rise to a positive balance in relation to the accounts, it is not ascribed to the income statement in order to obtain tax benefits that would otherwise not be possible.

Forward currency contracts, covering financial receivables from subsidiaries in foreign currency, are evaluated at the exchange rate at the specified date, taking account of transaction discounts or premiums. The profit or loss deriving from the conversion of receivables at the exchange rate at the specified date, net of discounts, is ascribed to the financial items of the income statement.

Interest rate hedging operations

Hedging contracts taken out to protect against loan interest rate risks are valued at cost. Any greater or lesser interest payable with respect to the amounts specified on the original financing contract is calculated in accordance with the competence principle.

Provisions for risks and charges

Provisions for risks and charges collect sure or estimated allocations, determined on the basis of reasonable estimates of situations that might generate contingent liabilities.

Staff severance indemnities

Staff severance indemnities reflect liabilities towards all employees for severance indemnities accrued in accordance with current legislation and collective labour contracts.

Payables

These are recorded at their nominal value, which is deemed to adequately reflect their redemption value.

Taxes

Taxes for the year are determined on the basis of a realistic forecast of taxes to be paid, pursuant to current fiscal legislation, and are shown under the item "taxes payable", net of the advances and withholding taxes.

Deferred tax assets, relating to funds recorded in the financial statements with allocations for which conditions for fiscal deductibility have not yet matured, are recorded among amounts receivable from others once their reasonable recovery has been determined.

Provisions are also made for deferred tax liabilities on the temporal differences between the civil law income and taxable income, which lead to an increase in taxable income in future years.

Costs and revenues

These are recorded in the statements on the basis of the principles of prudence and accrual accounting. Revenues and proceeds, costs and charges are recorded net of returned goods, commercial discounts, rebates and bonuses, as well as net of taxes that are directly linked to the sale of products and services offered.

BALANCE SHEET*Intangible fixed assets*

Changes in this item are illustrated in Attachment 1.

Research and development costs are composed of the capitalized costs charged by Interpump Engineering S.r.l. and referred to major new product launches, as described in greater detail in the Board of Directors' Report.

Costs incurred for concessions, licenses, trade marks and similar rights are mainly composed of the purchase cost of software licenses.

Goodwill represents the portions of the deficit, arising from the merger, paid under this name and originating in the merger operations of previous years and allocated to this item on the basis of an independent survey.

We draw your attention to the fact that no revaluations and/or write-downs have been carried out on intangible fixed assets.

Tangible fixed assets

The change in this item, with a separate specification of the revaluations made in application of special laws and when allocating a merger deficit, is illustrated in Attachment 2.

The year's capital expenditures are due to routine renewal and modernization of plant and machinery.

During the year plant and machinery was revalued in application of law 342/2000. The positive balance resulting from the revaluation of €/000 10,257 was entered, offsetting the higher value attributed to the revalued assets, net of substitute tax of €/000 1,949, in a dedicated reserve under shareholders' equity. Because of the revaluations, depreciation for the year was €/000 2,367 higher, resulting in a significant reduction in taxation. Due to the above mentioned revaluation net profit was reduced by €/000 1,414, net of the relative fiscal effect. The net revaluation reserve of €/000 8,308 is a provision suspended from taxation that can be utilized, without incurring additional taxes, only to cover business losses. No deferred taxes have been calculated in relation to this reserve because distribution is not envisaged.

During the course of the year and in previous years accelerated depreciation was applied in order to exploit the related fiscal benefits. Due to the previously illustrated revaluation of plant, the effect of undervaluation of tangible fixed assets as at 31 December 2000 for accelerated depreciation, equal to €/000 2,878, was absorbed in the amount of €/000 607. If only ordinary depreciation had been applied, considered to be representative of the useful life of the relative assets, the depreciation provision as at 31 December 2001 and depreciation for the year would have been lower, respectively, by €/000 2,705 and €/000 434. Consequently, shareholders' equity as at 31 December 2001 and net profit for 2001 would have been higher, respectively, by €/000 1,616 and €/000 259, after the theoretical fiscal effect, calculated at 40.25%.

Financial fixed assets

Investments

The composition of investments and relative changes are illustrated in Attachment 3.

As already discussed in the Board of Directors' Report provided with the consolidated financial statements, the following changes occurred during the year:

- acquisition of the remaining 20% of the subsidiary Interpump Engineering S.r.l., thus arriving at a position of 100% control;
- acquisition of a further 7.5% in the subsidiary General Technology S.r.l., thus arriving at a controlling stake of 77.5%;
- acquisition of a further 3% of the subsidiary Soteco S.p.A., thus arriving at a position of 100% control.
- contractually stipulated increase due to price adjustment for the acquisition of Pulex S.r.l.;
- increase in the cost of the investment in Interpump Cleaning S.p.A. due to the conversion to capital to cover losses of a portion of the interest-free loan granted in previous years;
- write-downs of investments described below.

In previous years, remaining write-downs were performed on investments at 31 December 2001, net of the sales made, for €/000 19,219 in application of the tax regulations.

In 2001 the value of the investments in Interpump Cleaning S.p.A., General Technology S.r.l. and Teknova S.r.l. was reduced by €/000 4,917 in accordance with art. 2426 par. 2 of the Italian Civil Code, with the criteria stipulated by fiscal regulations.

Shareholders' equity and profit for the year were therefore lower, respectively, by €/000 15,447 and €/000 3,147, net of the theoretical fiscal effect calculated at 36%, due to the fiscal interferences described above.

The investment in the associated company MecMarket.Com S.p.a. is entered at zero under equity assets, and showed the following changes during the year:

| | €/000 |
|------------------------------|--------------|
| Book value as at 31/12/2000: | 264 |
| Disposal of shares | (43) |
| Write-downs of investments | <u>(221)</u> |
| Book value as at 31/12/2001 | <u>==</u> |

Furthermore, a provision of 150 €/000 has been constituted to take into account presumed potential liabilities. MecMarket.Com S.p.a. closed the 2001 financial year

with a loss of €/000 1,884. The write-down of the investment and allocation to the provision for a total of 371 €/000 were classified among adjustments of financial assets.

It is further confirmed that no economic or monetary revaluation, except for the allocation of the merger deficit for €/000 24,357, has been applied on the investments forming parts of the company's assets as at 31 December 2001.

The following list shows individual investments in subsidiaries and associates at 31 December 2001 (amounts shown in €/000):

| | <u>Registered Office</u> | <u>Share capital</u> | <u>Shareholders' equity</u> | <u>% stake</u> | <u>Book value as at 31/12/2001</u> | <u>Value equity method as at 31/12/2001</u> | <u>Profit (loss) for the year as at 31/12/2001</u> |
|------------------------------|--------------------------|----------------------|-----------------------------|----------------|------------------------------------|---|--|
| <i>Subsidiaries:</i> | | | | | | | |
| Interpump Engineering S.r.l. | Reggio Emilia | 76 | 67 | 100% | 138 | 116 | 2 |
| Unielectric S.p.A. | S. Ilario d'Enza (RE) | 1,456 | 9,828 | 70% | 11,494 | 12,352 | 348 |
| General Pump Inc. | Minneapolis (USA) | 1,854 | 5,477 | 70% | 5,215 | 9,152 | 1,010 |
| General Technology S.r.l. | Reggio Emilia | 780 | 1,302 | 77.5% | 8,801 | 8,823 | 133 |
| Pulex Srl | Brescia | 15 | 1,452 | 58% | 2,487 | 3,869 | 854 |
| Euromop S.p.A. | Villa del Conte (PD) | 103 | 7,585 | 51% | 5,650 | 14,716 | 3,246 |
| Teknova S.r.l. | Casalgrande (RE) | 362 | 1,620 | 100% | 5,641 | 5,847 | 548 |
| SIT S.p.A. | S. Ilario d'Enza (RE) | 105 | 1,120 | 60% | 2,120 | 1,705 | 238 |
| Soteco S.p.A. | Castelverde (CR) | 140 | 5,236 | 100% | 28,782 | 31,881 | 4,472 |
| Interpump Cleaning S.p.A. | Vaiano Cremasco (CR) | 5,165 | 2,516 | 100% | 2,545 | 3,412 | (2,673) |
| Interpump Hydraulics S.p.A. | Nonantola (MO) | 2,632 | 7,994 | 80% | <u>4,323</u> | <u>26,835</u> | 3,126 |
| <i>Total subsidiaries</i> | | | | | <u>77,196</u> | <u>118,708</u> | |
| <i>Associates:</i> | | | | | | | |
| Transfer Oil S.p.A. | Colorno (PR) | 1,000 | 2,996 | 49% | 4,809 | 5,171 | 629 |
| MecMarket.Com S.p.A. | Bologna | 150 | 1,530 | 30.95% | - | - | (1,884) |
| <i>Total associates</i> | | | | | <u>4,809</u> | <u>5,171</u> | |
| <i>Total</i> | | | | | <u>82,005</u> | <u>123,879</u> | |

The share capital of General Pump Companies Inc. is converted at the historic acquisition exchange rate, while shareholders' equity is converted at the rate in force on 31 December 2001; profit for the year is converted at the average exchange rate for 2001, as required by the reference accounting principles.

It was not deemed convenient to write-down investments for which the valuation according to the equity method was lower than the value recorded in the balance sheet, as there are not the requirements of the concept of a permanent loss in value, since these growing companies are expected to produce significant positive results in the future.

The percentages of possession of the other companies are as follows:

□ Metalprint S.r.l. 19.00%

□ Six S.r.l. 19.00%

During 2001 costs of 537 €/000 were sustained in relation to accessory charges for the acquisition of an investment. Since negotiations failed to reach a successful conclusion, this amount has been charged to the income statement under write-downs of financial assets other than investments, with the direct method.

Financial receivables

The composition of this item is as follows (amounts shown in €/000):

| | Balance <u>31/12/2001</u> | Balance <u>31/12/2000</u> |
|--|------------------------------|------------------------------|
| Financial receivables from subsidiaries (for details refer to the Board of Directors' Report) | <u>48,557</u> | <u>60,535</u> |
| <i>Receivables from other companies:</i> | | |
| Metalprint S.r.l. | - | 123 |
| Other financial receivables | <u>197</u> | <u>235</u> |
| <i>Other financial receivables</i> | <u>197</u> | <u>358</u> |

The other financial receivables are mainly composed of receivables from the Inland Revenue for the prepayment of IRPEF income tax paid on the staff severance indemnities, in compliance with the relevant regulations.

Treasury stock

As at 31 December 2001 treasury stock amounted to 7.48% of capital (6,154,000 shares). The average unit value is € 4.18.

With regard to the possible use of these shares for the stock option plan, which envisages their possible disposal to Group management for a unit price of € 2.58 or € 0.52, this possibility is not currently contemplated, since it is preferred to utilize newly issued shares in accordance with the provisions of art. 2441, par. 8 of the Italian Civil Code and the above-mentioned resolutions of the shareholders' meetings. Therefore, there has been no writing down in this connection.

Assets forming part of working capital

An analysis of the working capital is included in the reclassified balance sheet given in the supplementary statements.

Inventories

Inventories at year end are made up as follows:

| | <u>31/12/2001</u> | <u>31/12/2000</u> |
|---|-------------------|-------------------|
| | €/000 | €/000 |
| Raw materials and supplies | 4,351 | 6,405 |
| Work in progress and semi-finished products | 5,631 | 5,200 |
| Finished products and goods | 2,413 | 2,536 |
| Advances | = | <u>5</u> |
| <i>Total</i> | <u>12,395</u> | <u>14,146</u> |

The decrease is due to the pursuit of a policy of reducing stocks, the consumption of stocks of aluminium and brass which were increased last year over and above the normal level in order to exploit favourable market conditions, and the application of a more attentive purchasing cost restriction strategy.

We also point out that raw material inventories are quoted net of a write-down provision of €/000 155, which was allocated in previous years to account for materials considered to be obsolete.

Receivables

The receivables of the assets forming part of working capital can be analysed as follows:

Trade receivables

Trade receivables can be broken down as follows:

| | <u>31/12/2001</u> | <u>31/12/2000</u> |
|------------------------------|-------------------|-------------------|
| | €/000 | €/000 |
| Trade receivables | 4,972 | 5,953 |
| Bad debt provision | <u>(359)</u> | <u>(340)</u> |
| <i>Net trade receivables</i> | <u>4,613</u> | <u>5,613</u> |

Changes of value adjustments are as follows (amounts shown in €/000):

| | <u>Provisions ex art.71</u> | <u>Provisions taxed</u> | <u>Total</u> |
|---------------------------------------|-----------------------------|-------------------------|--------------|
| Balance as at 31 December 2000 | 65 | 275 | 340 |
| Allocation for the year | 38 | - | 38 |
| Utilisation for losses | <u>(19)</u> | = | <u>(19)</u> |
| <i>Balance as at 31 December 2001</i> | <u>84</u> | <u>275</u> | <u>359</u> |

There were no foreign currency receivables as at 31 December 2001.

Receivables from Group companies

An analysis of accounts receivable from Group companies appears in the Directors' Report attached to these financial statements. The balance includes receivables in foreign currency for €/000 30.

Accounts receivable from others

This item can be broken down as follows:

| | <u>31/12/2001</u> | <u>31/12/2000</u> |
|--|-------------------|-------------------|
| | €/000 | €/000 |
| Receivables from Inland Revenue for taxation | 1,768 | 305 |
| Receivables from Inland Revenue for VAT | 41 | 29 |
| Deferred tax assets | 358 | 249 |
| Accounts receivable from others | <u>308</u> | <u>103</u> |
| <i>Total receivables from others</i> | <u>2,475</u> | <u>686</u> |

The increase in receivables from the Inland Revenue for taxes refers almost entirely to the higher amount of advances paid in 2001.

Receivables for deferred tax assets refer mainly to future fiscal effects on provisions for which the necessary conditions for tax deduction have not yet arisen.

The accounts contain no receivables due after 5 years, with the exception of guarantee deposits totalling 16 thousand euro.

Cash

We invite readers to refer to the cash flow statement for details of changes in this item.

Prepayments and accrued income

The increase in this item, equal to €/000 888, refers mainly to the prepayment, for the non-competition agreement, of the portion that is not of economic competence although paid during the year and discussed in the Board of Directors' Report provided with the consolidated financial statements.

Shareholders' equity

The summary of the changes made in the shareholders' equity accounts is given in the statement of changes in shareholders' equity included in the supplementary statements.

As illustrated in the comments on the single items, entries have been made in the accounts in order to obtain tax benefits. The summary of the effects on shareholders' equity and on the year's profit, net of the relevant fiscal effects, is as follows (amounts expressed in €/000):

| | Shareholders' <u>equity</u> | Of which <u>net profit</u> |
|--|--------------------------------|-------------------------------|
| As per financial statements at 31/12/2001 | 129,485 | 9,548 |
| Effect of accelerated depreciation (see tangible fixed assets) | 1,616 | 259 |
| Effect of investment write-downs (see financial assets) | <u>15,447</u> | <u>3,147</u> |
| <i>Financial statements adjusted to reflect fiscal interferences</i> | <u>146,548</u> | <u>12,954</u> |

The effects of the above fiscal interferences have been eliminated from the consolidated financial statements.

The effect of accelerated depreciation differs from that presented in the supplementary notes to the consolidated financial statements in the reconciliation statement between Parent Company shareholders' equity and profit with the same parameters of the consolidated results, due to the absorption of back-dated accelerated depreciation due to the effect of the revaluation of plant illustrated above.

Share Capital

Share capital is fully paid up for a total, as at 31 December 2001, of €/000 42,778 divided into 82,265,500 ordinary shares of unit value € 0.52.

During the year share options were exercised in implementation of the stock option plan, involving an increase in share capital of €/000 148 and an increase of €/000 296 in the share-premium reserve.

With regard to the stock option plans we invite you to refer to the Board of Directors' Report presented together with the consolidated financial statements.

The special Shareholders Meeting of 12 February 1998 approved a share capital increase against payment for between Itl 81,400 million (€/000 42,040) and a maximum of Itl 82,400 million (€/000 42,556), by means of the issue of a maximum of 1,000,000 ordinary shares. At 31 December 2001 of the 929,000 shares assigned 205,500 were still awaiting subscription. In February 2002 a further 136,000 shares were subscribed, thus leaving a total of 69,500 shares to subscribe within 31 December 2002. The special Shareholders' Meeting of 20 December 1999 approved a share capital increase against payment for a maximum of €/000 884 by means of the issue of 1,700,000 ordinary shares with a nominal value of € 0,52. These shares will be offered at their nominal value to employees of Interpump Group S.p.A. and its subsidiaries. At 31 December 2001 a total of 142,000 shares were subscribed relative to the first tranche. In February 2002 a further 142,000 shares were subscribed, thus closing the first tranche, which included options for 284,000 shares. The foregoing

share capital increase will be performed in execution of the stock option plan until the end of 2004.

Share-premium reserve

The reserve was increased by €/000 296 in relation to capital increases further to the stock option exercise.

Revaluation reserve

The positive balance resulting from the revaluation of plant and machinery, performed in application of law 342/2000 and described above, for a total of €/000 10,257, was entered in 2001, net of substitute tax of €/000 1,949, in a specifically constituted shareholders' equity reserve. The net revaluation reserve of €/000 8,308 is a suspended tax provision that can be utilized, without payment of additional taxes, exclusively to cover business losses. Deferred taxes have not been calculated on this reserve because there are no plans to distribute it.

Provisions for risks and charges

Taxation

The provision brings together allocations for deferred taxes payable relative to the payment awarded for the non-competition undertaking to a director, as illustrated in the Board of Directors' Report presented together with the consolidated financial statements. This amount has been accounted in accordance with the temporal competence principle, while in fiscal terms it is deductible in cash and hence in the year 2001.

With regard to the tax situation we draw your attention to the fact that the years up to 1995 are settled for the purposes of direct taxes, while all years up to 1996 are settled for the purposes of VAT.

We also inform you that the offices of the Parent Company were subjected to an inspection by the Tax Authorities. The results of the inspection, published in an official report that is still awaiting analysis by the competent financial administration department, suggest minor irregularities in terms of inventory differences, and a more substantial question regarding differences of interpretation of current legislation concerning large capital amounts, mainly with reference to the write-down of equity investments performed by the Parent Company in financial years that remain to be closed. We consider, also in accordance with the opinions of our tax consultants, that the operations of the company are correct and fully in line with the requirements of law. We are therefore confident that the company is unlikely to be faced with any significant liabilities on this count so no financial provisions have been made to cover this eventuality. In particular, with regard to the write-downs of investments, the inspection report is based solely on a recent ministerial resolution that is in conflict with the consolidated interpretation of art. 2426 par. 2 of the Italian Civil Code, and that has been the subject of unanimous and concerted criticism from tax experts.

Provision for other risks and charges

This item incorporates the risks provision relative to the investment MecMarket.Com S.p.A., commented under the item investments.

Staff severance indemnities

This item was affected by the following changes:

| | <u>31/12/2001</u> | <u>31/12/2000</u> |
|---------------------------------|-------------------|-------------------|
| | €/000 | €/000 |
| Opening balance | 3,269 | 3,055 |
| Portion accrued during the year | 691 | 623 |
| Payments | <u>(410)</u> | <u>(409)</u> |
| <i>Closing balance</i> | <u>3,550</u> | <u>3,269</u> |

Payables

Accounts payable to banks

Medium/long-term financing includes a loan granted by a pool of banks for €/000 68,861, of which €/000 34,431 classified in the current portion. We draw your attention to the fact that an instalment of €/000 34,431 was repaid in December 2001.

The loan is linked to the Euribor rate plus + 0.30 points and was granted by a pool of banks headed by Banca Popolare di Verona-Banco S. Geminiano e S. Prospero. This loan is not backed by security. The residual loan is repayable in two fixed instalments falling due in December 2002 and December 2003.

Also during the year another loan was obtained for €/000 15,494, maturing in March 2003, linked to the Euribor rate + 0.30 points and not backed by collateral security.

Other amounts due to banks are composed of an IMI loan maturing in January 2003 and granted at a rate of 4.5%, with a residual debt of €/000 113, of which €/000 56 classified in the current portion. Also this loan is unsecured.

Accounts payable to suppliers

This item can be broken down as follows:

| | <u>31/12/2001</u> | <u>31/12/2000</u> |
|-------------------------|-------------------|-------------------|
| | €/000 | €/000 |
| Suppliers | 6,246 | 7,199 |
| Invoices to be received | <u>1,302</u> | <u>1,239</u> |
| <i>Total</i> | <u>7,548</u> | <u>8,438</u> |

There were no payables in foreign currency as at 31 December 2001.

Amounts payable to Group companies

The detail of the payables to Group companies is given in the Board of Directors' Report provided with these financial statements.

Taxes payable

Tax payables can be broken down as follows:

| | <u>31/12/2001</u> | <u>31/12/2000</u> |
|--|-------------------|-------------------|
| | €/000 | €/000 |
| Substitute tax on capital gains | 7,142 | 9,522 |
| Substitute tax on revaluation L .342/2000 | 1,949 | - |
| Inland revenue for IRPEG (corporate tax) | - | 2,556 |
| Inland revenue for IRAP (regional tax) | - | 5 |
| Inland revenue for IRPEF (employee income tax) | 492 | 474 |
| Other | - | <u>1</u> |
| <i>Total tax payables</i> | <u>9,583</u> | <u>12,558</u> |

Substitute tax on capital gains refers to the gains arising further to the disposal of investments in Officine Meccaniche Faip S.r.l., Portotecnica S.p.A. and Sirio S.r.l., to Interpump Cleaning S.p.A. Substitute tax on the revaluation of plant has already been discussed.

Other payables

Other payables are composed as follows:

| | <u>31/12/2001</u> | <u>31/12/2000</u> |
|--|-------------------|-------------------|
| | €/000 | €/000 |
| Accounts payable to employees for salaries | 500 | 437 |
| Holidays accrued but not taken | 333 | 340 |
| Other payables to personnel | 136 | 192 |
| Customer credit balance | 141 | 97 |
| Statutory auditors' remuneration | 87 | 87 |
| Other payables | 331 | 275 |
| Payables for acquisition of investments | <u>516</u> | <u>3,038</u> |
| <i>Total other payables</i> | <u>2,044</u> | <u>4,466</u> |

Payables for the acquisition of investments, which bear no interest, refer to the remainder to be paid for the acquirement of minority shareholdings in subsidiaries. Of this amount 258 €/000 is due in 2002 with the same amount payable in 2003.

Accrued expenses and deferred income

Accrued expenses are composed of interest matured on medium-term loans not yet charged; the significant reduction in this item with respect to 2000 is explained by the repayment of an instalment of the loan obtained from a pool of banks as described in the paragraph on amounts due to banks.

Memorandum accounts

Memorandum accounts can be broken down as follows:

| | <u>31/12/2001</u> €/000 | <u>31/12/2000</u> €/000 |
|---|----------------------------|----------------------------|
| Surety received from third parties to guarantee VAT refunds | - | 1,221 |
| Surety granted to third parties to guarantee our payment for the acquisition of investments | 258 | 258 |
| Commitments for forward currency contracts | 7,864 | 9,319 |
| Surety granted to third parties to guarantee disposals of investments | 1,214 | 1,214 |
| Commitments for forward purchases of raw materials | 655 | - |
| Other sureties | <u>47</u> | <u>47</u> |
| <i>Total</i> | <u>10,038</u> | <u>12,059</u> |

The surety granted to third parties to guarantee disposals of investments concerns the sale of PZB Group to our 80% owned subsidiary Interpump Hydraulics S.p.A. This guarantee was granted to minority shareholders of the company.

In relation to the commitments for the acquisition of minority shares in subsidiaries, we invite you to refer to the descriptions in the supplementary notes to the consolidated financial statements.

INCOME STATEMENT

Before passing on to analyse the single items, please note that the remarks on the general performance of costs and revenues are, in accordance with par. 1 of art. 2428 of the Italian Civil Code, given in the Board of Directors' Report. In addition, the analytical explanation of the positive and negative income components in the Income Statement and the previous remarks on the items of the balance sheet make it possible to limit the following comments to the main items only.

Sales and other revenues

Revenues from the sale of goods and services

This item can be broken down as follows:

| | <u>31/12/2001</u> | <u>%</u> | <u>31/12/2000</u> | <u>%</u> |
|------------------------------|-------------------|------------|-------------------|------------|
| | €/000 | | €/000 | |
| <i>By geographical area:</i> | | | | |
| Italy | 18,951 | 31 | 18,540 | 28 |
| Rest of Europe | 17,202 | 28 | 15,483 | 24 |
| Rest of the World | <u>25,191</u> | <u>41</u> | <u>31,903</u> | <u>48</u> |
| <i>Total</i> | <u>61,344</u> | <u>100</u> | <u>65,926</u> | <u>100</u> |
| <i>By business sector:</i> | | | | |
| Industrial sector | 44,946 | 73 | 44,646 | 68 |
| Cleaning sector | 14,910 | 24 | 19,252 | 29 |
| Other income and revenues | <u>1,488</u> | <u>3</u> | <u>2,028</u> | <u>3</u> |
| <i>Total</i> | <u>61,344</u> | <u>100</u> | <u>65,926</u> | <u>100</u> |

Other income and revenues include €/000 439 revenues for consultancy services for subsidiaries (€/000 560 in 2000).

For an illustration of the trend of revenues we invite you to consult the Board of Directors' Report.

Other revenues and income

Breakdown:

| | <u>31/12/2001</u> | <u>31/12/2000</u> |
|---|-------------------|-------------------|
| | €/000 | €/000 |
| Rent receivable | 177 | 161 |
| Capital gains from the sale of fixed assets | 28 | 1 |
| Contingent assets | 89 | 48 |
| Other | <u>98</u> | <u>133</u> |
| <i>Total</i> | <u>392</u> | <u>343</u> |

Cost of production

Costs for raw materials, consumables and supplies

This item totals €/000 17,757, down by 16.3% on 2000 thanks to the reduction in raw material prices and a policy of reducing stock levels, as discussed in the comment on the corresponding balance sheet entry.

Costs for provision of services

This item breaks down as follows:

| | <u>31/12/2001</u> | <u>31/12/2000</u> |
|--|-------------------|-------------------|
| | €/000 | €/000 |
| Outsourcing | 3,910 | 4,223 |
| Directors' Remuneration | 1,423 | 642 |
| Board of Statutory auditors' Remuneration | 87 | 87 |
| Consultancy | 600 | 487 |
| Commissions | 153 | 330 |
| Maintenance and repairs | 606 | 596 |
| Transport | 144 | 269 |
| Utilities consumption (power, water and gas) | 677 | 621 |
| Insurance policies | 159 | 174 |
| Expenses related to stock market listing | 385 | 275 |
| Travel expenses | 81 | 191 |
| Trade fairs and exhibitions | 122 | 175 |
| Telephone | 77 | 76 |
| Price lists and catalogues | 62 | 49 |
| Sundry industrial costs | 159 | 182 |
| Other service charges | <u>860</u> | <u>653</u> |
| <i>Total</i> | <u>9,505</u> | <u>9,030</u> |

The reduction in outsourcing is due to the fall in turnover; the incidence of this item on total sales remains unchanged.

In accordance with art. 32 of the Regulation implementing Decree Law D.L. 24February 1998 no. 58 governing the issuers of listed securities, the remuneration for directors and auditors is as follows (amounts given in €/000):

| | <u>Interpump</u> | <u>Subsidiaries</u> | <u>Total</u> |
|----------------------|---------------------|---------------------|--------------|
| | <u>Group S.p.A.</u> | <u>companies</u> | <u>€/000</u> |
| | €/000 | €/000 | €/000 |
| <i>Directors:</i> | | | |
| Sergio Erede | 52 | - | 52 |
| Giovanni Cavallini | 800 | 27 | 827 |
| Fulvio Montipò | 476 | 360 | 836 |
| Francesco Loredan | 26 | - | 26 |
| Paolo Pomè | 26 | - | 26 |
| Stefano Mazzotti | 4 | - | 4 |
| Pierleone Ottolenghi | 13 | - | 13 |
| Marco Reboa | <u>26</u> | - | <u>26</u> |
| <i>Total</i> | <u>1,423</u> | <u>387</u> | <u>1,810</u> |

| | <u>Interpump</u> <u>Group S.p.A.</u> €/000 | <u>Subsidiaries</u> <u>companies</u> €/000 | <u>Total</u> €/000 |
|----------------------------|--|--|-----------------------|
| <i>Statutory auditors:</i> | | | |
| Enrico Cervellera | 37 | - | 37 |
| Maurizio Salom | 25 | - | 25 |
| Antonio Zini | <u>25</u> | <u>64</u> | <u>89</u> |
| <i>Total</i> | <u>87</u> | <u>64</u> | <u>151</u> |

Fulvio Montipò also received €/000 1,085 (of which €/000 373 referred to 2001) in compliance with the non-competition agreement signed in 2001 and described in the Board of Directors' Report presented together with the consolidated financial statements. In 2001 Giovanni Cavallini received €/000 50 for a position of employment with subsidiary companies (€/000 47 in 2000); Fulvio Montipò also received €/000 64 for the same reason in 2001 (€/000 63 in 2000). Giuseppe Bava, the General Manager appointed on 1 December 2001, received a salary of 28 €/000.

Personnel costs

The cost of labour can be broken down as follows (amounts shown in €/000):

| | 31 December 2001 | | 31 December 2000 | |
|-------------------------------|--|----------------|--|----------------|
| | White collar and <u>executives</u> | Blue collar | White collar and <u>executives</u> | Blue collar |
| Salaries and wages | 2,667 | 5,711 | 2,631 | 5,991 |
| Social security contributions | 853 | 2,048 | 842 | 2,132 |
| Staff severance indemnities | <u>211</u> | <u>480</u> | <u>205</u> | <u>497</u> |
| <i>Total</i> | <u>3,731</u> | <u>8,239</u> | <u>3,678</u> | <u>8,620</u> |
| | <u>11,970</u> | | <u>12,298</u> | |

The average number of employees, taking into account recruitments and resignations, was as follows:

| | <u>Average staff numbers</u> <u>employed</u> | | <u>Per-capita cost (€/000)</u> | |
|--------------------------------|---|--------------|--------------------------------|------|
| | 2001 | 2000 | 2001 | 2000 |
| Executives and white collar | 70.0 | 70.0 | 53.3 | 52.5 |
| Blue collar | <u>282.0</u> | <u>290.0</u> | 29.2 | 29.7 |
| <i>Total</i> | <u>352.0</u> | <u>360.0</u> | 34.0 | 34.2 |

The cost of labour fell by 2.7% compared to 31 December 2000.

Other operating expenses

This item can be broken down as follows:

| | <u>31/12/2001</u> | <u>31/12/2000</u> |
|--|-------------------|-------------------|
| | €/000 | €/000 |
| I.C.I. property tax | 126 | 123 |
| Association dues | 52 | 51 |
| Other taxes | 40 | 37 |
| Entertainment expenses | 62 | 34 |
| Contingent liabilities | 44 | 31 |
| Capital losses from the sale of fixed assets | 6 | 2 |
| Other minor costs | <u>184</u> | <u>523</u> |
| <i>Total</i> | <u>514</u> | <u>801</u> |

Financial income and expenses

Income from investments

The analytical presentation in the Income Statement makes further details unnecessary.

The item "Reduction in value of investments for distribution of profits prior to acquisition", entered in the 2000 financial year, is equivalent to the portion of dividends relative to profits generated prior to acquisition of subsidiaries by Interpump Group S.p.A.; it follows that such dividends, in compliance with the reference accounting principles, have been carried forward to decrease the value of the investment.

Financial income from receivables included under fixed assets

This item totals €/000 1,536 against the €/000 1,750 of 2000, and is almost entirely related to interest receivable on loans granted to subsidiaries.

Other financial income

This item can be broken down as follows:

| | <u>31/12/2001</u> | <u>31/12/2000</u> |
|--------------------------|-------------------|-------------------|
| | €/000 | €/000 |
| Profit on exchange gains | 771 | 713 |
| Bank interest | 839 | 672 |
| Interest on tax rebates | 20 | 29 |
| Other | <u>7</u> | <u>8</u> |
| <i>Total</i> | <u>1,637</u> | <u>1,422</u> |

Exchange gains refer to the adjustment of loans in US dollars granted to the two US subsidiaries at the forward covering exchange rate.

Interest and other financial charges

Financial charges can be broken down as follows:

| | <u>31/12/2001</u> | <u>31/12/2000</u> |
|--|-------------------|-------------------|
| | €/000 | €/000 |
| Interest expense on medium/long-term financing | 6,104 | 4,438 |
| Interest expense on bank current accounts | 4 | 529 |
| Fees and expenses for guarantees | 85 | 79 |
| Foreign exchange losses | 535 | 21 |
| Other bank charges | <u>236</u> | <u>1</u> |
| <i>Subtotal</i> | <u>6.964</u> | <u>5.068</u> |
| Financial discounts granted to clients | <u>1,357</u> | <u>1,427</u> |
| <i>Total</i> | <u>8.321</u> | <u>6.495</u> |

The increase in interest payable, despite the fall in the level of indebtedness, is mainly due to the increase in the average interest rate for exchange risk hedging operations, and to the fact that an special dividend of €/000 33,766 was distributed in April 2000; interest therefore accrued on this amount over 8 months in 2000 and over 12 months in 2001.

Exchange losses are the result of the hedging of the exchange rate risk on loans in foreign currency granted to the US subsidiaries. These amounts partially offset the previously commented exchange gains.

Value adjustments to financial assets

This item covers write-downs of investments in Interpump Cleaning S.p.A., General Technology S.r.l. and Teknova S.r.l., for the portion applied in accordance with tax legislation, and the write-down of the investment in MecMarket.Com S.p.a., as described in the commentary on the investments item.

Finally, it also includes the item "Write-downs of financial assets other than investments", commented in the paragraph on financial assets.

Extraordinary income and charges

Extraordinary income includes the insurance indemnity of €/000 191, received in relation to the damage to the plant in via Brodolini at Campegine caused by meteorological events, while the item extraordinary charges includes the relative expenses, totalling €/000 197.

Income taxes for the period

Breakdown of income taxes:

| | <u>31/12/2001</u> | <u>31/12/2000</u> |
|-----------------------|-------------------|-------------------|
| | €/000 | €/000 |
| IRPEG (corporate tax) | 7,396 | 6,358 |
| IRAP (regional tax) | <u>1,219</u> | <u>1,281</u> |
| Total current taxes | <u>8,615</u> | <u>7,639</u> |
| Deferred taxes | <u>211</u> | <u>(5)</u> |
| <i>Total taxes</i> | <u>8,826</u> | <u>7,634</u> |

The tax burden for the year benefited from the revaluation of plant, the method of accounting and effects of which are illustrated in the comment on tangible fixed assets.

Later events

At the time of publication there were no events occurring after 31 December 2001 such as to make the situation of assets and liabilities substantially different from the situation emerging from the balance sheet of that date, or such as to call for modifications or additional notes to accompany the financial statements.

Readers are referred to the Board of Directors' Report for information on significant events occurring after the end of the year.

Statement of changes in intangible fixed assets and relative accumulated amortisation (amounts shown in €/000):

| | Historic cost | | | Accumulated amortisation | | | Net fixed 31 Decce |
|--|--------------------------------------|---------------------------------|--|--------------------------------------|------------------------------|--|-----------------------|
| | Balance as at 31 December 2000 | Increases during the year | Decreases and reclassifications for the year | Balance as at 31 December 2001 | Amortisation for the year | Decreases and reclassifications for the year | |
| Start-up and capital costs | 1,281 | - | (1,241) | 40 | 8 | (1,241) | 39 |
| Research, development and advertising costs | 909 | 826 | - | 1,735 | 347 | - | 529 |
| Intellectual property rights | 100 | - | (36) | 64 | 13 | (37) | 38 |
| Concessions, licenses and trade marks | 416 | 69 | (67) | 418 | 83 | (68) | 190 |
| Goodwill | 51,712 | - | - | 51,712 | 2,586 | - | 14,035 |
| Other assets | 7,338 | - | (6,569) | 769 | 153 | (6,567) | 594 |
| Total | 61,756 | 895 | (7,913) | 54,738 | 3,190 | (7,913) | 15,426 |

Statement of changes in tangible fixed assets and related accumulated depreciation (amounts shown in €/000):

| | <u>Opening value</u> | <u>Increases</u> | <u>Decreases</u> | <u>Reclassifications</u> | <u>Closing</u> |
|---|----------------------|------------------|------------------|--------------------------|----------------|
| | 11,624 | 32 | - | - | 11,656 |
| Cost | 699 | - | - | - | 699 |
| Revaluations | 3,737 | 370 | - | - | 4,107 |
| Accumulated depreciation | 232 | 21 | - | - | 253 |
| Accumulated depreciation of revaluation | 8,354 | (359) | - | - | 7,995 |
| Net Value | | | | | |
| Cost | 13,957 | 1,040 | 258 | 361 | 15,616 |
| Revaluation | - | 10,257 | - | - | 10,257 |
| Accumulated depreciation | 11,129 | 1,193 | 258 | - | 12,580 |
| Accumulated depreciation of revaluation | - | 2,367 | - | - | 2,367 |
| Net Value | 2,828 | 7,737 | - | 361 | 10,926 |
| Cost | 5,460 | 390 | - | 24 | 5,874 |
| Accumulated depreciation | 5,140 | 349 | - | - | 5,489 |
| Net Value | 320 | 41 | - | 24 | 385 |
| Cost | 1,821 | 197 | 59 | 16 | 2,093 |
| Accumulated depreciation | 1,382 | 249 | 36 | - | 1,667 |
| Net Value | 439 | (52) | 23 | 16 | 426 |
| Cost | 287 | 169 | - | (401) | 455 |
| Net Value | 287 | 169 | - | (401) | 455 |
| Cost | 33,149 | 1,828 | 317 | - | 35,294 |
| Revaluations | 699 | 10,257 | - | - | 10,956 |
| Accumulated depreciation | 21,388 | 2,161 | 294 | - | 23,843 |
| Accumulated depreciation of revaluation | 232 | 2,388 | - | - | 2,620 |
| Net Value | 12,228 | 7,536 | 23 | - | 19,787 |

Statement of changes in investments (amounts shown in €/000):

| | Balance as at 31 December <u>2000</u> | Increases due to acquisitions and payments | Disposals | Write-down and reduction in value | Balance as at 31 December <u>2001</u> |
|---|---|--|-------------|---|---|
| <i>Subsidiaries:</i> | | | | | |
| Interpump Cleaning S.p.A. | 3,493 | 1,704 | - | (2,652) | 2,545 |
| Interpump Engineering S.r.l. | 65 | 73 | - | - | 138 |
| Euromop S.p.A. | 5,650 | - | - | - | 5,650 |
| Unielectric S.p.A. | 11,494 | - | - | - | 11,494 |
| General Technology S.r.l. | 9,697 | 814 | - | (1,710) | 8,801 |
| Soteco S.p.A. | 27,582 | 1,200 | - | - | 28,782 |
| Teknova S.r.l. | 6,196 | - | - | (555) | 5,641 |
| Sit S.p.A. | 2,120 | - | - | - | 2,120 |
| General Pump Companies Inc. | 5,215 | - | - | - | 5,215 |
| Interpump Hydraulics S.p.A. | 4,323 | - | - | - | 4,323 |
| Pulex S.r.l. | <u>2,160</u> | <u>327</u> | = | = | <u>2,487</u> |
| <i>Total subsidiaries</i> | <u>77,995</u> | <u>4,118</u> | = | <u>(4,917)</u> | <u>77,196</u> |
| <i>Associates:</i> | | | | | |
| MecMarket.Com S.p.A. | 264 | - | (43) | (221) | - |
| Transfer Oil S.p.A. | <u>4,809</u> | = | = | = | <u>4,809</u> |
| <i>Total associates</i> | <u>5,073</u> | = | <u>(43)</u> | <u>(221)</u> | <u>4,809</u> |
| <i>Other companies:</i> | | | | | |
| Metalprint S.r.l. | 483 | - | - | - | 483 |
| Six S.r.l. | <u>6</u> | = | = | = | <u>6</u> |
| <i>Total other companies</i> | <u>489</u> | = | = | = | <u>489</u> |
| <i>Total investments</i> | <u>83,557</u> | <u>4,118</u> | <u>(43)</u> | <u>(5,138)</u> | <u>82,494</u> |
| Accessory charges for the acquisition of investments | = | <u>537</u> | = | <u>(537)</u> | = |

Supplementary statements

Cash Flow Statements

Statement of changes in shareholders' equity accounts

Reclassified balance sheets

Reclassified income statements

CASH FLOW STATEMENTS

| <i>(amounts shown in €/000)</i> | <i>31/12/2001</i> | <i>31/12/2000</i> |
|---|-------------------|-------------------|
| Net profit for the period | 9,548 | 6,691 |
| Non cash items: | | |
| Amortisation and depreciation of intangible and tangible fixed assets | 7,740 | 6,424 |
| Changes in staff severance indemnities | 281 | 214 |
| Changes in provision for deferred taxation, net of deferred tax assets | 210 | (93) |
| Change in other provisions | (224) | 224 |
| Write-downs of investments | 5,288 | 5,660 |
| Write down of financial assets other than investments | 537 | - |
| Reduction in value of investments for distribution of profits obtained before acquisition | - | 828 |
| Exchange gains on loans granted in foreign currency | (189) | (707) |
| Losses (gains) from sales of fixed assets | (42) | (16) |
| Dividends received | (10,631) | (6,134) |
| <i>Cash flow from operations</i> | <u>12,518</u> | <u>13,091</u> |
| Cash flow obtained from net operating working capital | (5,267) | 5,771 |
| <i>Operating cash flow</i> | <u>7,251</u> | <u>18,862</u> |
| <i>Investing activities</i> | | |
| Increase in tangible fixed assets | (1,829) | (2,252) |
| Increase in intangible fixed assets | (897) | (1,152) |
| Acquisition of investments, net | (2,414) | (10,429) |
| Change in payables related to the acquisition of investments | (2,522) | (487) |
| Proceeds from sales of investments | 43 | - |
| Purchase of treasury stock | (1,860) | (2,988) |
| Increase of financial fixed assets other than investments | (537) | - |
| Proceeds from sales of fixed assets | 65 | 49 |
| Other changes | (354) | - |
| <i>Total cash flow used for investing activities</i> | <u>(10,305)</u> | <u>(17,259)</u> |
| <i>Financing activities</i> | | |
| Increase in (repayment of) medium/long term borrowings | (34,539) | 25,721 |
| Collection (increase) of (in) medium/long-term financial receivables | 10,623 | 3,255 |
| Financing reimbursed by (paid out to) subsidiaries | 2,400 | - |
| Increase in share capital | 444 | 77 |
| Dividends received | 10,631 | 6,134 |
| Dividends paid | (6,648) | (39,699) |
| <i>Total cash flow obtained through (used in) financing activities</i> | <u>(17,089)</u> | <u>(4,512)</u> |
| Total cash flow generated (used) | <u>(20,143)</u> | <u>(2,909)</u> |

CASH FLOW STATEMENTS

(amounts shown in €/000)

31/12/2001 31/12/2000

| | | |
|---|-----------------|----------------|
| Net cash and cash equivalents at the beginning of the year | 21,162 | 24,071 |
| Cash flow generated (used) | <u>(20,143)</u> | <u>(2,909)</u> |
| <i>Net cash and cash equivalents at the end of the period</i> | <u>1,019</u> | <u>21,162</u> |

Net cash and cash equivalents can be broken down as follows:

| | | |
|--------------------------------------|--------------|---------------|
| Cash on hand and securities | 1,316 | 22,156 |
| Accrued interest | <u>(297)</u> | <u>(994)</u> |
| <i>Net cash and cash equivalents</i> | <u>1,019</u> | <u>21,162</u> |

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY ACCOUNTS

(amounts shown in €/000)

| | Share capital | Legal reserve | Share premium reserve | Reserve for treasury stock in portfolio | Other reserves profit carried forward | Profit for the year |
|---|---------------|---------------|-----------------------|---|---------------------------------------|---------------------|
| <i>Balances as at 31 December 1999</i> | 42,324 | 8,511 | 63,945 | 20,878 | 88 | 15,018 |
| Distribution of special dividend | - | - | (33,766) | - | - | - |
| Distribution of ordinary dividend | - | - | - | - | - | (5,933) |
| Allocation of 1999 residual profit | - | - | (961) | - | 9,085 | (9,085) |
| Increase in reserve for treasury stock held | - | - | - | 2,988 | (2,027) | - |
| Resolution of shareholders' meeting of 20/03/2000 | - | 176 | (88) | - | (88) | - |
| Increase in capital underwritten on 21/04/2000 for stock options | 15 | - | 62 | - | - | - |
| Conversion of share capital into euro as per resolution of shareholders meeting on 15/09/2000 | 291 | - | - | - | (291) | - |
| Profit for the year 2000 | = | = | = | = | = | 6,691 |
| <i>Balances as at 31 December 2000</i> | <u>42,630</u> | <u>8,687</u> | <u>29,192</u> | <u>23,866</u> | <u>6,767</u> | <u>6,691</u> |
| Increase in capital underwritten on 28/02/2001 for stock options | 73 | - | - | - | - | - |
| Distribution of ordinary dividend | - | - | - | - | - | (6,648) |
| Allocation of 2000 residual profit | - | - | - | - | 43 | (43) |
| Increase in capital underwritten on 20/07/2001 for stock options | 74 | - | 292 | - | - | - |
| Increase in capital underwritten on 20/10/2001 for stock options | 1 | - | 4 | - | - | - |
| Increase in share-premium reserve | - | - | - | 1,860 | (1,860) | - |
| Revaluation ex law 342/2000 | - | - | - | - | 8,308 | - |
| Profit for year 2001 | = | = | = | = | = | 9,548 |
| <i>Balances as at 31 December 2001</i> | <u>42,778</u> | <u>8,687</u> | <u>29,488</u> | <u>25,726</u> | <u>13,258</u> | <u>9,548</u> |

RECLASSIFIED BALANCE SHEETS

| <i>(amounts shown in €/000)</i> | <i>31/12/2001</i> | | <i>31/12/2000</i> | |
|---|-------------------|--------|-------------------|--------|
| Trade receivables | 8,152 | | 9,647 | |
| Inventories | 12,395 | | 14,146 | |
| Prepayments and accrued income within one year | 378 | | 22 | |
| Other receivables, net of deferred tax assets | 1,792 | | 109 | |
| Trade payables | (8,308) | | (9,761) | |
| Tax payables within one year | (4,822) | | (5,416) | |
| Other current payables net of payables to purchase investments | (2,028) | | (2,126) | |
| Accrued expenses, net of interest charges | (1) | | (1) | |
| <i>Net working capital</i> | <u>7,558</u> | 3.5% | <u>6,620</u> | 3.1% |
| | | | | |
| Tangible fixed assets | 19,741 | | 12,228 | |
| Goodwill | 37,677 | | 40,263 | |
| Treasury stock | 25,726 | | 23,866 | |
| Financial fixed assets | 131,249 | | 144,450 | |
| Other non current assets | 2,853 | | 1,923 | |
| Provisions for risks and charges | (469) | | (224) | |
| Staff severance indemnities | (3,550) | | (3,269) | |
| Payables for acquisition of investments | (516) | | (3,038) | |
| Other non current liabilities | (4,936) | | (7,142) | |
| <i>Total net fixed assets</i> | <u>207,775</u> | 96.5% | <u>209,057</u> | 96.9% |
| | | | | |
| <i>Total capital employed</i> | <u>215,333</u> | 100.0% | <u>215,677</u> | 100.0% |
| | | | | |
| <i>Financed by:</i> | | | | |
| | | | | |
| Share Capital | 42,778 | | 42,630 | |
| Retained earnings | 77,159 | | 68,513 | |
| Profit for the period | 9,548 | | 6,691 | |
| <i>Total shareholders' equity</i> | <u>129,485</u> | 60.1% | <u>117,834</u> | 54.7% |
| | | | | |
| Cash on hand | (5,500) | | (22,156) | |
| Payables to banks due within one year | 4,184 | | - | |
| Current portion of medium/long term financing | 36,886 | | 49,977 | |
| Accrued interest | 994 | | 994 | |
| Total short-term financial indebtedness | <u>35,867</u> | | <u>28,815</u> | |
| Medium/long-term financing | 49,981 | | 69,028 | |
| <i>Total net indebtedness</i> | <u>85,848</u> | 39.9% | <u>97,843</u> | 45.3% |
| | | | | |
| <i>Total sources of financing</i> | <u>215,333</u> | 100.0% | <u>215,677</u> | 100.0% |

RECLASSIFIED INCOME STATEMENTS

| <i>(amounts shown in €/000)</i> | <i>31/12/2001</i> | | <i>31/12/2000</i> | |
|---|-------------------|--------|-------------------|--------|
| Net consolidated revenues | 61,735 | 100.0% | 66,270 | 100.0% |
| Purchases, net of changes in inventories | <u>(19,503)</u> | | <u>(23,123)</u> | |
| <i>Gross industrial margin</i> | <u>42,232</u> | 68.4% | <u>43,147</u> | 65.1% |
| Personnel expenses | (11,958) | | (12,285) | |
| Other operating costs | <u>(10,084)</u> | | <u>(9,918)</u> | |
| <i>Gross operating profit</i> | <u>20,190</u> | 32.7% | <u>20,944</u> | 31.6% |
| Operating depreciation and amortisation | <u>(4,720)</u> | | <u>(2,050)</u> | |
| <i>Operating profit</i> | <u>15,470</u> | 25.1% | <u>18,894</u> | 28.5% |
| Amortisation of goodwill | (2,586) | | (2,585) | |
| Amortisation of acquisition and listing costs | - | | (1,666) | |
| Effect of accelerated depreciation | (434) | | (123) | |
| Dividends and relating tax credits | 16,874 | | 8,908 | |
| Financial income (charges), net | (3,842) | | (1,879) | |
| Financial discounts granted to clients | (1,306) | | (1,427) | |
| Write-downs of investments | (5,825) | | (5,660) | |
| Extraordinary income (charges), net | <u>23</u> | | <u>(225)</u> | |
| <i>Profit before taxes</i> | <u>18,374</u> | | <u>14,237</u> | |
| Income taxes | <u>(8,826)</u> | | <u>(7,546)</u> | |
| <i>Net profit for the year</i> | <u>9,548</u> | | <u>6,691</u> | |

Report of the Board of Statutory Auditors to the Meeting of Shareholders of Interpump Group S.p.A. in compliance with the provisions of art. 2429 of the Italian Civil Code and art. 153 of Legislative Decree D. Lgs. 58/98.

Shareholders,

The Board of Statutory Auditors herewith reports to you on its operations in compliance with the requirements of art. 2429 of the Italian Civil Code and art. 153 of Legislative Decree D. Lgs. 58/98, taking account also of the principles of conduct prescribed by the "Consigli Nazionali dei Dottori Commercialisti e dei Ragionieri" (National Councils of Certified Public Accountants) and CONSOB Communications of 6 April 2001 no. DEM-1025564, 20 February 1997 no. 97001574 and 27 February 1998 no. 98015375.

1. The Board of Statutory Auditors has been periodically informed by the Directors on the basis of art. 150 of Legislative Decree D. Lgs. 58/98.

The operations of the greatest significance in economic and financial terms performed by the company in 2001 were as follows:

- the purchase of 500,500 treasury shares for a total cost of € 1,860,650, in accordance with a specific authorisation of the Shareholders' Meeting;
- the renegotiation of a loan for ITL 30 billion from Banco di Napoli;
- the purchase of 3% of Soteco S.p.A. for an investment of € 1,200,000, bringing the total shareholding to 100%;
- coverage of losses of the fully controlled company Interpump Cleaning S.p.A. for € 1,704,000.

2.1 We found no trace of any atypical and/or unusual transactions conducted with third parties, related parties or intergroup operations carried out by the Company.

2.2 With reference to transactions of an ordinary nature conducted with related parties, the Company:

- a) purchased from Mr Fulvio Montipò and from parties associated with this latter:
 - a stake of 7.5% in General Technology S.r.l. for ITL 1,568,627,000 on the basis of contractual obligations entered into in previous years;

- a stake of 20% in Interpump Engineering S.r.l. for € 73,000, on the basis of an independent expert's appraisal;
- b) entered into a non-competition agreement with Mr Fulvio Montipò, said agreement having been approved by the Shareholders' Meeting on 24-4-01;
 - c) conducted transactions, at market conditions, with various other related parties, as illustrated in par. 11 of the board of directors' report accompanying the consolidated financial statements;
 - d) has in existence stock option plans aimed at motivating company management (including Directors G. Cavallini and F. Montipò), described in detail in the board of directors' report accompanying the consolidated financial statements under par. 10.
- 2.3 With regard to intergroup transactions, the Directors' report describes the characteristics of commercial and financial relations entertained with subsidiaries and associates; we consider that the relative amounts are congruous and that the operations carried out were in line with the interests of the Company.
3. The Board of Statutory Auditors herewith declares that the information provided by the Directors in the Directors' Report with regard to intergroup transactions and operations conducted with related parties constitutes full and accurate disclosure.
4. The independent auditing company KPMG S.p.A. issued its report on 18-3-2002, in compliance with the requirements of art. 156 of Legislative Decree D. Lgs. 58/98, in which it confirms that the company financial statements and consolidated financial statements are correctly set down and provide a clear and fair view of the financial position and results of the company and of the Group. The report contains the following information references:
- the company draws up also the consolidated financial statements;
 - the company has revalued various assets in compliance with Italian Law L. 342/00;
 - the company has performed accelerated depreciation and write-downs of investments within the limits permitted by fiscal legislation.

We have no specific observations to make on this count, as the foregoing references are of an exclusively formal nature

5. We have received no complaints pursuant to art. 2408 of the Italian Civil Code.
6. Furthermore, the Board of Statutory Auditors has received no petitions or memoranda.

7. The company also awarded additional assignments to the independent auditing company KPMG concerning verification of the accounts of the German Gansow Group, for a total fee of € 315,661.
8. No assignments were awarded to parties working in a relationship of employment with KPMG.
9. We have expressed our opinions solely in relation to the remuneration amounts as per art. 2389 no. 2 of the Italian Civil Code.
10. A total of 4 meetings of the Board of Statutory Auditors were held and 10 meetings of the Board of Directors, all of which were attended by the Board of Statutory Auditors; we also participated in the meetings of the Governance Committee and the ordinary and special Shareholders' Meetings.
11. We have verified and monitored, within the scope of our competence, the observance of the principles of correct administration, by means of direct checks and through information gathered from the persons in charge of the various company functions and meetings with representatives of the Auditing Company, arranged with the purpose of assuring the reciprocal exchange of data and relevant information.

No anomalies or matters to be submitted to your attention have emerged in this context.

12. We have also verified and supervised over, within the limits of our competence, the suitability of the company's organizational structure, in which context we have no matters to submit to your attention.
13. We evaluated the conformity of the Company's corporate governance system, verifying the activities and control procedures in place and ensuring that they are appropriate.
14. We believe that the administration-accounting system is adequate and reliable for the faithful representation of all aspects of company operations.
15. The company has issued the subsidiaries with the instructions necessary to comply with the communication obligations specified by art. 114, par. 2 of legislative decree D. Lgs. 58/98. Said instructions are in compliance with statutory requirements.
16. We have verified, by means of direct checks and by analysing information obtained from the Independent Auditing Company, the full observance of legal requirements concerning the drafting and layout of the financial statements for the year, the consolidated financial statements, and the accompanying board of directors' report.

17. With reference to the Code of Corporate Governance, the methods of adherence are described in detail in the relative report approved by the Board of Directors on 25-3-2002.
18. During our activities of supervision and control no matters emerged such that call for notification to the supervisory authorities or mention in this report.
19. The Board of Statutory Auditors, having acknowledged the results of the financial statements at 31-12-2001, which show a profit of € 9,548,036, raises no objections in relation to the proposal of the Board of Directors for the designation of the year's profits.

S. Ilario d'Enza, 25 March 2002

Enrico Cervellera

Maurizio Salom

Antonio Zini



KPMG Assurance

KPMG S.p.A.
Via Passarotti, 6
I-40128 BOLOGNA BO

Telephone +39 (051) 6311975
Telefax +39 (051) 6311912

(Translation from the Italian original which remains the definitive version)

Report of the auditors in accordance with article 156 of legislative decree no. 58 of 24 February 1998

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

- 1 We have audited the financial statements of Interpump Group S.p.A. as at and for the year ended 31 December 2001. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
- 2 We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Reference should be made to the report dated 22 March 2001 for our opinion on the prior year figures which are presented for comparative purposes as required by law.

- 3 In our opinion, the financial statements of Interpump Group S.p.A. as at and for the year ended 31 December 2001 comply with the Italian regulations governing their preparation; therefore they are clearly stated and give a true and fair view of the financial position and results of the company.
- 4 We draw your attention to the following matters disclosed in the notes to the financial statements:
 - 4.1 The company holds controlling interests in a number of companies and, in accordance with current legislation, has prepared consolidated financial statements. Such statements are presented in addition to its own financial statements in order to furnish adequate information on the financial position of both the company and the group. We have audited the consolidated financial statements and these (with our audit report thereon) are presented together with the statutory financial statements.



KPMG S.p.A. is a member of KPMG International.

Milan Ancona Bari Bergamo Bologna Bolzano
Brescia Catania Como Firenze Foggia Genova Lecco
Naples Novara Padova Palermo Parma Perugia
Pescara Roma Terni Treviso Trieste Udine Varese Verona

Società per azioni
Capitale sociale Euro 4.386.923,55 i.r.
Registro Imprese Milano N. 276823
R.E.A. Milano N. 512867
Cod. Fisc. e IVA 00709600159
Sede legale: Via Vittor Pisani, 25 - 20124 Milano MI

- 4.2 The company has revalued certain tangible fixed assets in its financial statements as at and for the year ended 31 December 2001 according to law no. 342/2000. The effects of this revaluation on tangible fixed assets, shareholders' equity and on sums due to taxation authorities are described in the notes.
- 4.3 In 2001 and in previous years, the company recorded accelerated depreciation as allowed by tax legislation, in excess of that required to write-off the fixed assets on a straight line basis over their estimated useful lives, and wrote-down certain investments in subsidiary companies within the limits permitted by tax legislation, even if such write-downs do not represent a permanent impairment in value.

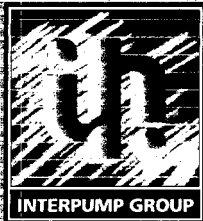
The accounting methods used and impact of such fiscally-driven entries are described in the notes to the financial statements.

Bologna, 18 March 2002

KPMG S.p.A.

(Signed on the original)

Franco Garilli
Director

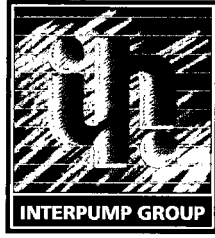


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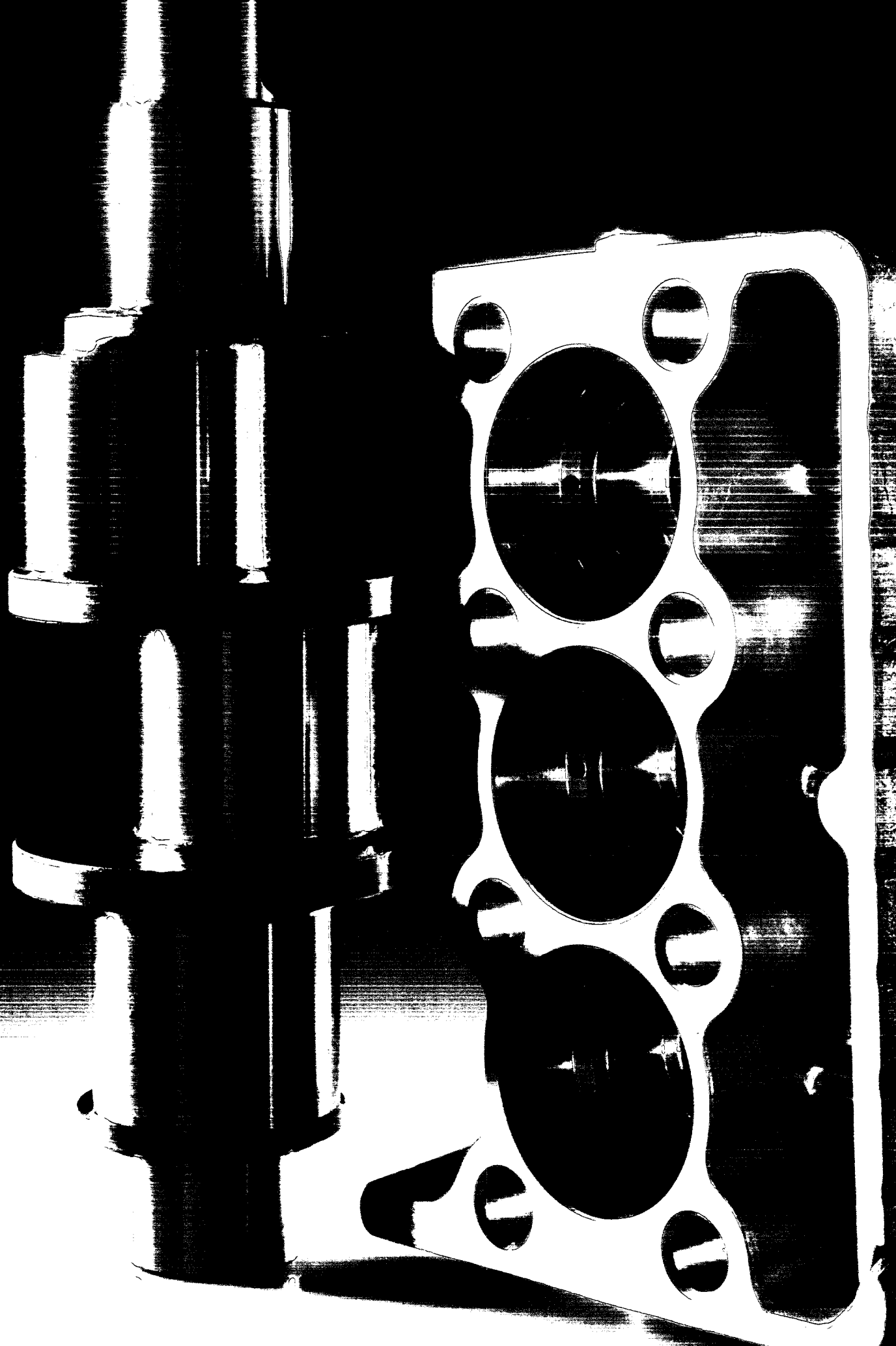
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INTERPUMP GROUP

INTERPUMP GROUP



2001 Results



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MATCH-RACE



Board of Directors

Sergio Erede
Chairman

Giovanni Cavallini
Deputy Chairman
Chief Executive Officer

Fulvio Montipò
Executive Officer

Francesco Loredan
Non-executive Director

Pierleone Ottolenghi
Independent Director

Paolo Pomè
Non-executive Director

Marco Reboa
Independent Director

Board of Statutory Auditors

Enrico Cervellera
Chairman

Maurizio Salom
Statutory Auditor

Antonio Zini
Statutory Auditor

Independent Auditors

KPMG S.p.A.

INTERPUMP GROUP S.p.A.

Head Office: Sant'Ilario d'Enza (RE) Via E. Fermi, 25 - Share Capital: € 42,848,780 wholly paid up
Court of Reggio Emilia - Companies Register no. 117217 - Tax Code 11666900151 - VAT Number 01682900350

Letter to Shareholders

Dear Shareholders,

The performance for 2001 confirms the solidity and competitive strength of the Interpump Group, that, from the year of its stock exchange listing (1996) **has more than doubled its revenue and almost tripled its net profit, reflecting a rate of compound annual growth of 23%**. These major results in terms of growth and development of the Interpump Group were achieved thanks to the competitive strength of the organization and also to the diversification of operations in relation to different business sectors and different geographical areas.

The main developments and events of 2001 were as follows:

- the Cleaning sector, that, with 45% of net consolidated revenue for the year, constitutes the main activity for the Group, recorded an increase in net revenue of 8.5%. The achievement of these excellent results confirms the appropriateness of Group operations in the sector - especially when viewed within the context of an unfavourable macroeconomic situation - and strengthens Group commitment to continue investing in this sector. Significant investments were made during 2001 in the research and development of new products and in increasing production capacity, the benefits of which will be reflected in the accounts of future years. Specifically, investments made during the year led to the launch of a new multi-function machine designed to operate as a conventional vacuum cleaner, a wet vac with water filtration, a hot-water, cold-water or steam carpet cleaner and as an air humidifier. Furthermore, research projects have been completed for two new models of floor sweeper, a floor cleaner, and two new models of high-pressure washers, as well as a variety of new accessories for professional high-pressure washers. Investments made during 2001 also include the 12.7 million euro spent on industrial buildings. These investments will allow further rationalization of production activities leading to improvements in terms of company efficiency and output. The investment plan will be completed in 2002, a year in which further investments for approximately 6.3 million euro are expected for the completion of the work begun in 2001 and the construction of another industrial building. The benefits from these investments will begin to emerge in 2002, becoming even more apparent in 2003.

- The Hydraulic Sector, which accounts for 30% of Group net revenues, recorded an increase in sales of 0.7%, despite difficulties on the North American market, where the Interpump Group, the second American manufacturer of power take-offs for industrial vehicles, managed to con-

tain the downturn in turnover to 6.6% in a market that recorded a far greater drop in sales of industrial vehicles. In contrast, the Hydraulic Sector grew by 6.3% in Europe, with Hydrocar and P.Z.B.. In Italy, in the month of July last, the Group acquired control of Hydroven, a company in which the Group previously held 36%, thus strengthening its competitive position in the sector. The Group has also continued developing manufacturing synergies, on the one hand among the various companies based in Italy, and, on the other, between Europe and the United States.

- The Industrial Sector, which accounts for 25% of consolidated net revenues, recorded a drop of 2.9%, due to both the fall-off in the American market - the main outlet for high-pressure pumps (partially offset by the growth in other Countries), and to the drop in sales of electric motors. During the course of the year two new lines of high-pressure pumps were launched, which have gone to bolster the already wide range of products, as well as a number of new models of accessories.

With respect to 2000, **net revenues** grew by 3.5% to **426.1 million euro**, and **EBITDA** rose by almost 2% to **81.3 million euro**, equivalent to 19.1% of sales. Net profit grew by around 13% to reach 21.4 million euro (19.0 million euro in 2000). Earnings per share adjusted to take into account goodwill amortization was 0.401 euro with respect to the 0.366 euro of 2000 and therefore up by 9.6%. **Cash flow** generated in 2001 was **47.3 million euro**, substantially in line with 2000. The marked capacity to generate liquidity displayed by the company has made it possible to maintain the level of indebtedness substantially unchanged (176.4 million euro at 31/12/2001) compared to the previous year, despite the 24.3 million euro of capital expenditure which includes the investments in the Cleaning Sector as described above, the acquisition of investments for 6.8 million euro, dividends for 8.9 million euro, and purchase of treasury stock for 1.9 million euro.

The **dividend** that the Board of Directors intends to propose for approval of the Shareholders' Meeting is **0.10 euro**, **representing an increase of 15%** with respect to the amount distributed in 2000. The dividend will be payable as from 9 May, with registration date of 6 May. This dividend is equivalent to 2.5% of the average value of the share during the first two months of 2002.

Results for the 2001 financial statements provide further confirmation of the dynamic nature and soundness of the Interpump Group, which, apart from achieving excellent results in terms of profitability, has also consolidated its standing as an industrial organization with an elevated capacity to generate liquidity. Since 1996, the

first year of Stock Market listing, Interpump Group has generated **accumulated operating cash flow of 211 million euro**, of which 45%, or **94 million euro** has been returned to **Shareholders** in the form of dividends and purchases of treasury stock. The Group's growth has been made possible, apart from internal development, also thanks to the 11 equity investments made, which called for capital expenditure of 168 million euro. It should be stressed that the development of the Group during the year confirmed the high levels of profitability in relation to invested capital (**ROCE** unchanged at 20.3%) while significantly improving **ROE** (return on equity), which rose from 11.4% to 20%. The Group's excellent profitability and cash flow generation, plus its capacity to create value with the acquisition and incorporation of companies, constitute the basis for its historic development and the strategy underpinning plans for future growth. In January 2002 a five-year loan for 60 million euro was taken out to support the acquisitions strategy to which the Group maintains its commitment.

RESEARCH AND DEVELOPMENT

Interpump Group invests constantly in the research and development of products and innovative technical solutions, with the aim of maintaining and strengthening its presence in the business sectors in which it is active. The Group is equipped with an R&D structure able to offer its customers an efficient service for the design and production of customized products and user applications, constantly increasing for the various product lines.

During 2001, Interpump Engineering, incorporated in 1999 to handle an important development programme of new products and to accelerate the relative market launches, completed a series of projects regarding new lines of high-pressure pumps and professional cleaning appliances, as described in greater detail above.

Group strategy over coming years will focus on continuing with significant levels of capital expenditure in research and development in order to provide further impetus to internal growth.

CORPORATE GOVERNANCE

In consideration of the requirements of information transparency and Corporate Governance, Interpump Group has been admitted to the **high standard mid-capital STAR** segment of the Italian stock exchange from the beginning of April 2001. The Group Internet website www.interpumpgroup.it provides access to the report on Corporate Governance, together with the most recent annual financial statements approved by the Shareholders' Meeting, the quarterly statements, and the latest press releases.

PLANS FOR STOCK OPTIONS AND PURCHASE OF TREASURY STOCK

The stock option plans, aimed at aligning the interests of management and Shareholders, are an additional component in the strategy to create value. The company currently has two stock option plans linked to the arrival at target quotations of the shares on the stock market, and/or to operating targets. Moreover, the company is also currently engaged in a buyback plan for the purchase of treasury stock represented by up to 10% of shares issued.

The Shareholders' Meeting convened to approve the financial statements in April 2002 will also be asked to approve a further stock option plan regarding a maximum of 4,000,000 shares that can be assigned from 2003 to 2006.

EVENTS OCCURRING AFTER THE CLOSE OF THE YEAR

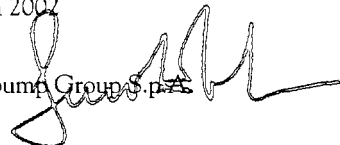
Among events that occurred after the end of the year we refer you to the **acquisition** of the business of the **Gansow Group** in Germany, which took place on 1 March 2002. The Gansow Group is one of the leading European manufacturers of professional floor scrubbers and floor sweepers, with a factory near Dortmund and eight after-sales and service branches throughout Germany. For the Interpump Group, the acquisition of Gansow business in Germany constitutes a major step towards the consolidation of its position as a world leader in the cleaning sector, and will allow more effective penetration throughout Germany (the primary European market), and significant growth in the Floor Care segment, one of the most promising areas of business in which the Interpump Group is engaged. The full effects of this acquisition can be expected to become evident starting from 2003, and still more in subsequent years, with the rationalization of commercial and manufacturing synergies of the various Floor Care companies in the Interpump Group.

STRATEGY FOR FUTURE YEARS

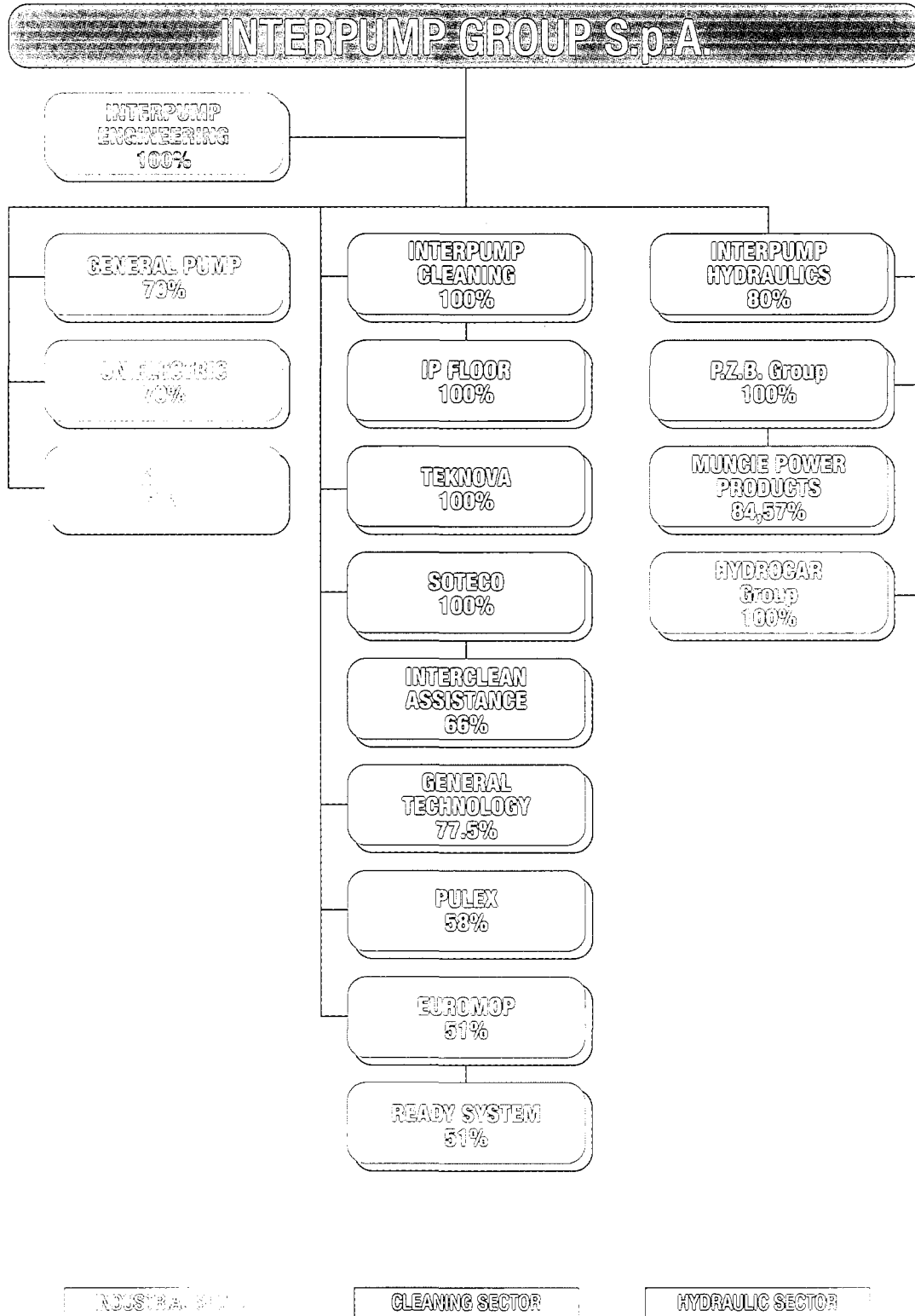
In the 5 years since its stock market listing, Interpump Group has more than doubled its turnover, doubled EBITDA and almost tripled net profit. These excellent results are largely due to the success of a cogently pursued strategy of internal and external growth through targeted investments. Armed by the knowledge of its fiercely competitive stance, Interpump Group is embarking on a renewed phase of expansion, pursuing the goals of management efficiency and selectivity in the choice of acquisitions, which are the foundation of the strategy for growth and **value-creation for Shareholders**.

Milan, 12 March 2002

Sergio Erede
Chairman Interpump Group S.p.A.



The Group's structure was the following (at 31/12/2001)



(the percentages indicate the stake held)

As in the past, throughout 2001 the Group continued its course of development and growth; key operations in the year were:

- strengthening of the Hydraulic Sector with the acquisition of a controlling shareholding in Hydroven, the distributor of power take offs and other hydraulic components in which the previous stake was 36%.

Hydroven is a specialist in the design of custom-made hydraulic power units and circuits;

- the acquisition of minority stakes in Interpump Engineering (20%), General Technology (7.5%) and Soteco (3%), in a framework of optimisation of corporate structure in accordance with the requirements of previous contractual commitments.

Financial Highlights of the Interpump Group

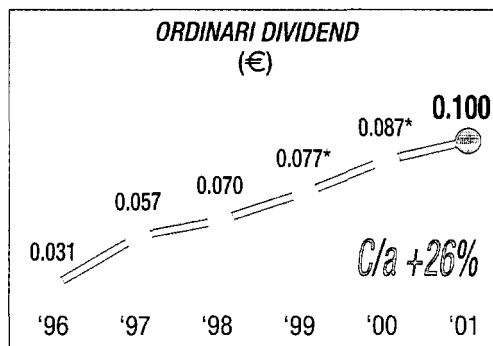
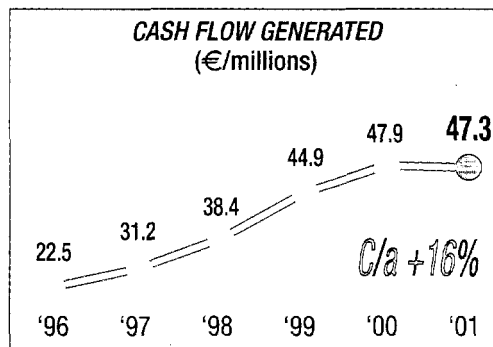
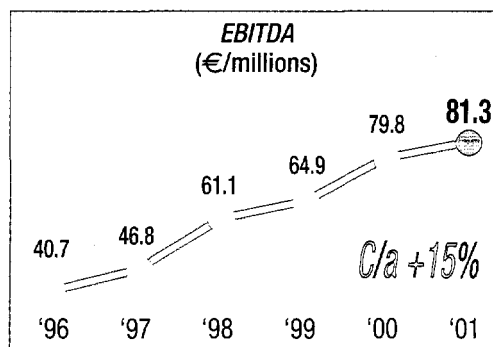
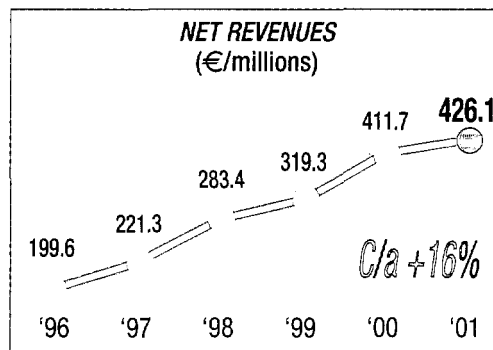
| | 31/12/2001 Euro/000 | 31/12/2000 Euro/000 | 31/12/1999 Euro/000 | 31/12/1998 Euro/000 | 31/12/1997 Euro/000 | 31/12/1996 Euro/000 |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| Net consolidated revenues | 426,075 | 411,673 | 319,256 | 283,430 | 221,320 | 199,578 |
| Foreign sales | 72% | 72% | 69% | 68% | 66% | 68% |
| EBITDA (Earnings before interest, tax, depreciation and amortization) | 81,314 | 79,811 | 64,878 | 61,119 | 46,834 | 40,732 |
| EBITDA % | 19.1% | 19.4% | 20.3% | 21.6% | 21.2% | 20.4% |
| Consolidated operating profit | 67,552 | 67,156 | 55,062 | 52,358 | 40,483 | 35,544 |
| Operating profit % | 15.9% | 16.3% | 17.2% | 18.5% | 18.3% | 17.8% |
| Consolidated net profit | 21,433 | 19,016 | 22,152 | 16,581 | 13,827 | 7,623 |
| Cash flow from operations | 47,322 | 47,876 | 44,936 | 38,438 | 31,213 | 22,538 |
| Net financial indebtedness | 176,429 | 177,087 | 160,171 | 83,889 | 38,824 | 43,023 |
| Consolidated shareholders' equity | 182,782 | 162,007 | 177,105 | 157,135 | 143,739 | 133,123 |
| Debt/Equity ratio | 0.97 | 1.09 | 0.90 | 0.53 | 0.27 | 0.32 |
| Financial indebtedness adjusted by treasury stock | 150,703 | 153,221 | 139,292 | 67,871 | 38,824 | 43,023 |
| Adjusted debt/equity ratio | 0.82 | 0.95 | 0.79 | 0.43 | 0.27 | 0.32 |
| Net investments for the year in tangible and intangible fixed assets | 24,280 | 18,714 | 11,371 | 9,894 | 10,471 | 19,365 |
| Average number of employees | 2,213 | 2,198 | 2,105 | 1,604 | 1,286 | 1,089 |
| ROE: (Net profit + amortisation of goodwill + Minority interests)/ Consolidated shareholders' equity | 20.0% | 20.4% | 18.4% | 17.9% | 16.8% | 11.4% |
| ROCE: Operating profit/ (Consolidated shareholders' equity + Financial indebtedness - Treasury stock) | 20.3% | 21.3% | 17.4% | 23.3% | 22.2% | 20.2% |
| Average number of outstanding shares | 76,712,704 | 76,711,053 | 77,060,933 | 78,817,107 | 81,400,000 | 81,400,000 |
| EPS: (Earnings per share adjusted for goodwill amortisation) - € | 0.401 | 0.366 | 0.389 | 0.293 | 0.234 | 0.152 |
| Dividend per share - € | **0.100 | 0.087 | *0.516 | 0.070 | 0.057 | 0.031 |

* 0.439 of which special dividend;

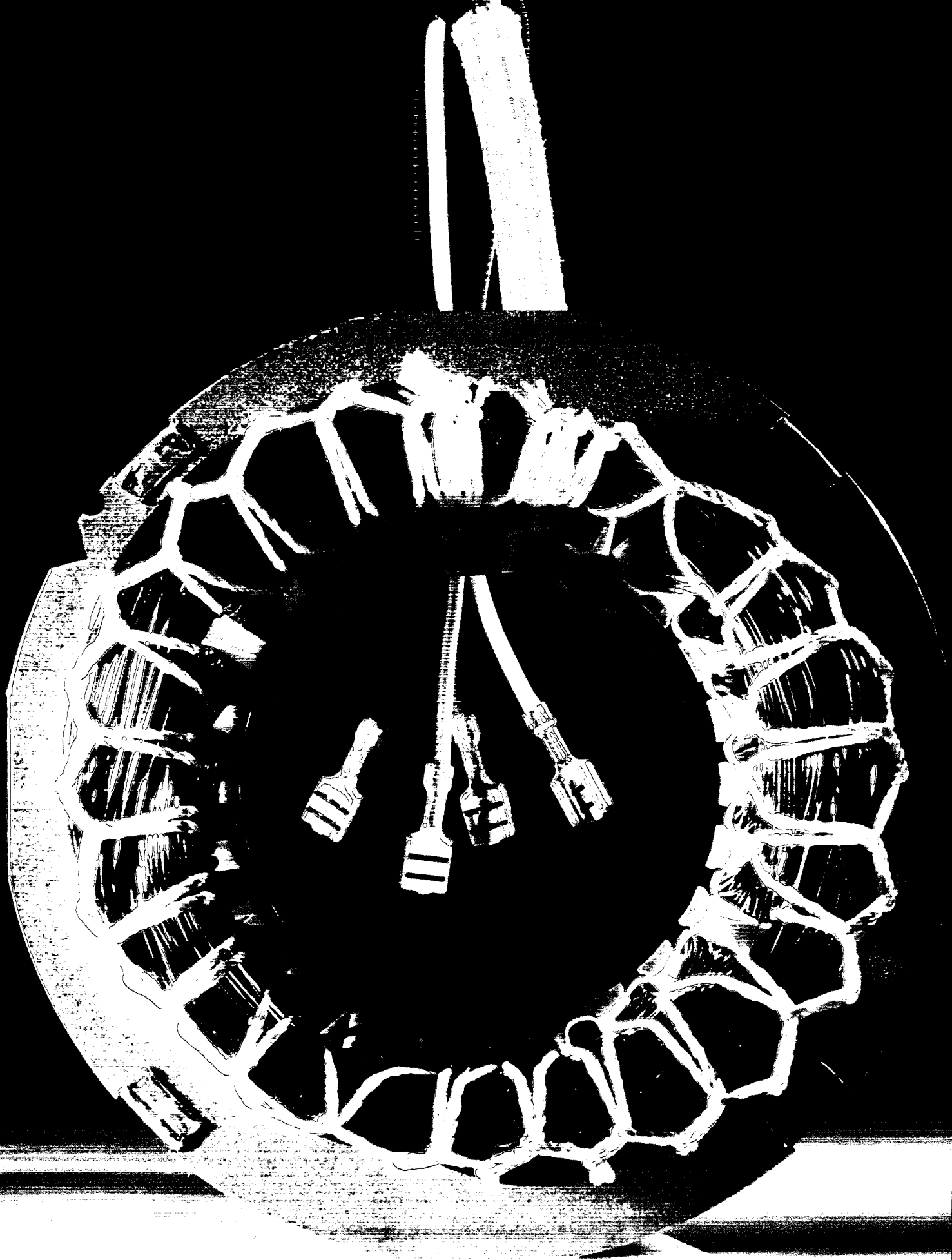
** proposal of the Board to be approved by the Shareholders' Meeting.
The dividends refer to the year when the distributed profits were formed.

The year 2001 featured the following elements

The performance for 2001 confirms the solidity and competitive strength of the Interpump Group, that, from the year of its stock exchange listing (1996), has more than doubled its turnover, doubled its gross operating profit (EBITDA) and almost tripled its net profit. In the year 2001 net revenues reached 426.1 million euro with an increase of 3.5% compared to the previous year, EBITDA grew by 1.9% to 81.4 million euro and net profit increased by 12.7% to 21.4 million euro. Despite the difficult international economic situation, the Interpump Group has managed to achieve and in certain cases even surpass (for example in terms of net profit) its own objectives. A contribution to these important results was provided by the diversification into different sectors of activity and geographical areas of the Interpump Group, as more specifically detailed in the continuation of this report.



*Net of the special dividend of '99 for € 0.439



Reclassified Consolidated Financial Statements

RECLASSIFIED CONSOLIDATED INCOME STATEMENTS

| | 2001 Euro/000 | | 2000 Euro/000 | |
|---|------------------|---------------|------------------|---------------|
| Net consolidated revenues | 426,075 | <i>100.0%</i> | 411,673 | <i>100.0%</i> |
| Purchases, net of changes in inventories | (192,744) | | (189,091) | |
| <i>Gross industrial margin</i> | <i>253,331</i> | <i>54.8%</i> | <i>222,582</i> | <i>54.1%</i> |
| Personnel expenses | (77,394) | | (74,845) | |
| Other operating costs | (74,623) | | (67,926) | |
| <i>Gross operating profit</i> | <i>81,314</i> | <i>19.1%</i> | <i>79,811</i> | <i>19.4%</i> |
| Operating depreciation and amortisation | (13,762) | | (12,655) | |
| <i>Operating profit</i> | <i>67,552</i> | <i>15.9%</i> | <i>67,156</i> | <i>16.3%</i> |
| Amortisation of goodwill | (9,348) | | (9,046) | |
| Amortisation of acquisition and listing costs | - | | (1,666) | |
| Amortisation of the consolidation difference allocated to buildings | (208) | | (208) | |
| Financial income (charges), net | (10,515) | | (9,077) | |
| Financial discounts granted to clients | (1,798) | | (2,266) | |
| Adjustment of value of investments according to the equity method and adjustments of financial assets | (1,207) | | 291 | |
| Extraordinary income (charges), net | (168) | | (192) | |
| <i>Profit for the year before taxes and minority interests</i> | <i>44,508</i> | | <i>44,992</i> | |
| Income taxes | (17,089) | | (20,941) | |
| <i>Net profit before minority interests</i> | <i>27,219</i> | | <i>24,051</i> | |
| Minority interests | (5,786) | | (5,035) | |
| <i>Consolidated net profit for the period</i> | <i>21,433</i> | <i>5.0%</i> | <i>19,016</i> | <i>4.6%</i> |

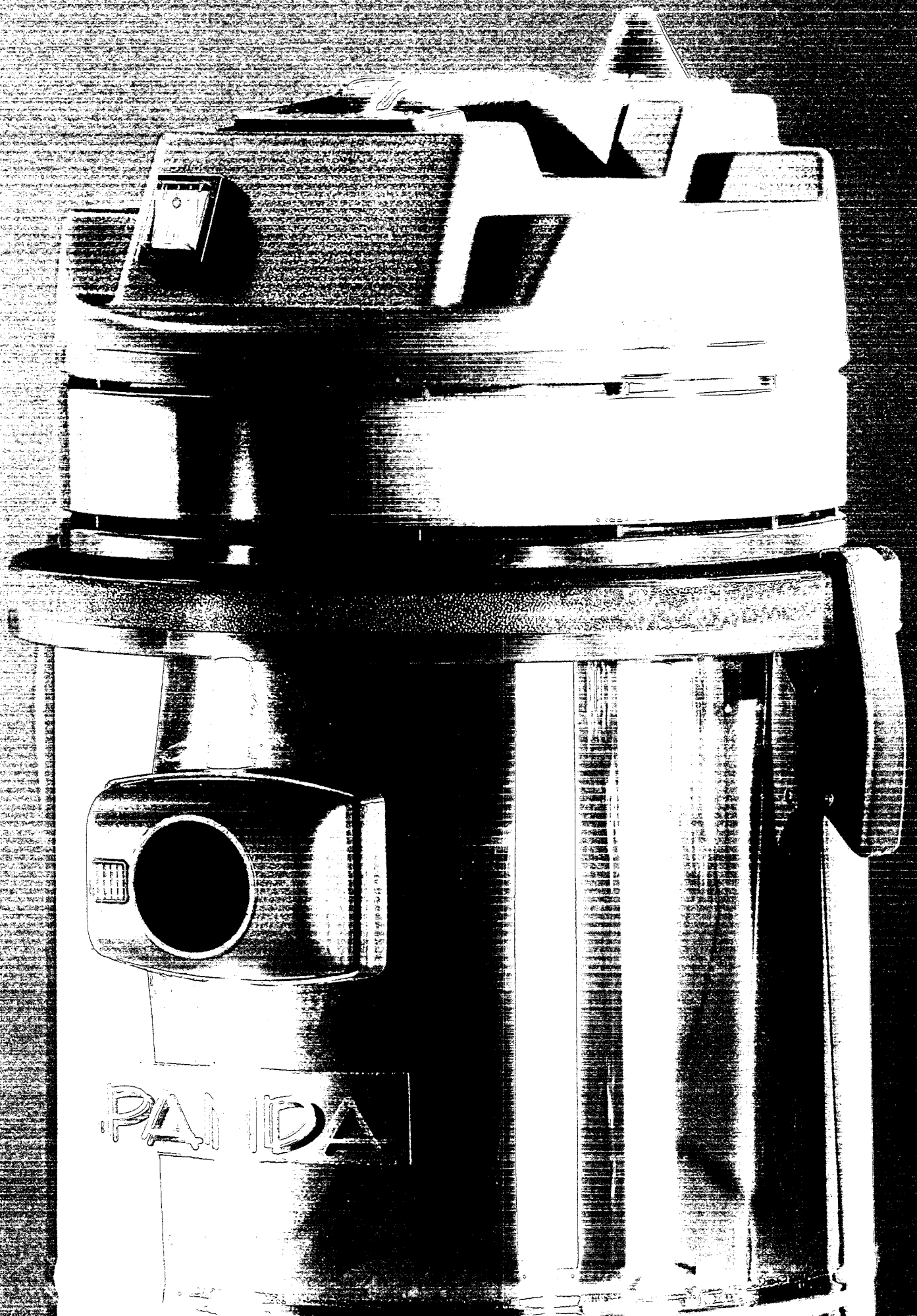
RECLASSIFIED CONSOLIDATED BALANCE SHEETS

| | 31/12/2001 Euro/000 | | 31/12/2000 Euro/000 | |
|--|------------------------|---------------|------------------------|---------------|
| Trade receivables | 90,371 | | 87,606 | |
| Inventories | 88,337 | | 87,483 | |
| Prepayment and accrued income within one year | 2,232 | | 2,327 | |
| Other receivables, net of deferred tax assets | 7,043 | | 4,359 | |
| Trade payables | (68,768) | | (66,551) | |
| Tax payables within one year | (9,477) | | (10,505) | |
| Other current payables net of payables to purchase investments | (10,832) | | (10,497) | |
| Accrued expenses, net of interest charges | (596) | | (907) | |
| <i>Net operating working capital</i> | <i>98,310</i> | <i>27.4%</i> | <i>93,315</i> | <i>27.5%</i> |
| Tangible fixed assets | 88,783 | | 76,719 | |
| Goodwill | 140,238 | | 146,565 | |
| Treasury stock | 25,726 | | 23,866 | |
| Financial fixed assets | 10,792 | | 10,653 | |
| Other non current assets | 22,899 | | 18,604 | |
| Provisions | (8,643) | | (8,263) | |
| Staff severance indemnities | (13,379) | | (12,156) | |
| Payables for acquisition of investments | (516) | | (3,038) | |
| Other non current liabilities | (4,999) | | (7,171) | |
| <i>Total net fixed assets</i> | <i>260,901</i> | <i>72.6%</i> | <i>245,779</i> | <i>72.5%</i> |
| <i>Total capital employed</i> | <i>339,211</i> | <i>100.0%</i> | <i>339,094</i> | <i>100.0%</i> |

RECLASSIFIED CONSOLIDATED BALANCE SHEETS

(continued)

| | 31/12/2001 Euro/000 | | 31/12/2000 Euro/000 | |
|--|------------------------|---------------|------------------------|---------------|
| <i>Financed by:</i> | | | | |
| Share Capital | 42,778 | | 42,630 | |
| Retained earnings | 95,783 | | 82,351 | |
| Profit for the period | 21,433 | | 19,016 | |
| Total shareholders' equity for the Group | 159,994 | | 143,997 | |
| Minority interests | 22,788 | | 18,010 | |
| <i>Total consolidated shareholders' equity</i> | <u>182,782</u> | <u>50.9%</u> | <u>162,007</u> | <u>47.8%</u> |
| Cash on hand | (23,181) | | (48,773) | |
| Payables to banks within one year | 32,817 | | 29,693 | |
| Current portion of medium/long term financing | 63,728 | | 70,810 | |
| Accrued interests | 1,273 | | 1,197 | |
| Total short-term financial indebtedness (liquidity) | 74,637 | | 52,927 | |
| Medium/long-term financing | 101,792 | | 124,160 | |
| <i>Total net indebtedness</i> | <u>176,429</u> | <u>49.1%</u> | <u>177,087</u> | <u>52.2%</u> |
| <i>Total sources of financing</i> | <u><u>359,211</u></u> | <u>100.0%</u> | <u><u>359,094</u></u> | <u>100.0%</u> |



PANIDA

CONSOLIDATED CASH FLOW STATEMENTS

| | 2001 Euro/000 | 2000 Euro/000 |
|---|------------------|------------------|
| Net profit for the period | 21,433 | 19,016 |
| Minority profits | 5,786 | 5,035 |
| Non cash items: | | |
| Amortisation and depreciation of intangible and tangible fixed assets | 23,414 | 23,575 |
| Changes in staff severance indemnities | 1,006 | 1,042 |
| Changes in provision for deferred taxation, net of deferred tax assets | (3,903) | 355 |
| Losses (profits) of non-consolidated equity investments | 1,207 | (291) |
| Losses (gains) from sales of fixed assets | (1,069) | (230) |
| Exchange rate (profit) loss on intergroup financing and receivables | (189) | - |
| Change in other provisions | (363) | (626) |
| <i>Cash flow from operations</i> | <i>47,522</i> | <i>47,876</i> |
| Cash flow obtained (used) through (in) net operating working capital | (3,683) | 11,413 |
| <i>Operating cash flow generated</i> | <i>43,639</i> | <i>59,289</i> |
| <i>Investing activities</i> | | |
| Increase in tangible fixed assets | (24,389) | (15,762) |
| Increase in intangible fixed assets | (2,827) | (2,952) |
| Acquisition of investments, net | (3,793) | (11,445) |
| Change in payables related to the acquisition of equity investments | (2,522) | (745) |
| Acquisition of treasury stock | (1,860) | (2,988) |
| Proceeds from sales of fixed assets | 2,936 | 548 |
| Other changes | 607 | (1,082) |
| <i>Total cash flow used in investing activities</i> | <i>(31,846)</i> | <i>(34,426)</i> |



CONSOLIDATED CASH FLOW STATEMENTS

(continued)

| | 2001 Euro/000 | 2000 Euro/000 |
|--|------------------|------------------|
| <i>Financing activities</i> | | |
| Increase in (repayment of) medium/long-term borrowings | (30,381) | 25,234 |
| Repayment of shareholders' financing | (253) | (1,453) |
| Collection (increase) of (in) medium/long-term financial receivables | (772) | (116) |
| Increase in share capital | 444 | 77 |
| Dividends collected from investments valued at equity method | 147 | 255 |
| Dividends paid | (8,904) | (40,222) |
| <i>Total cash flow obtained through (used in) financing activities</i> | <i>(59,719)</i> | <i>(16,225)</i> |
| Total cash flow generated (used) | (27,926) | 8,638 |
| Net cash and cash equivalents at the beginning of the period | 17,883 | 8,288 |
| Adjustment: | | |
| Opening net cash and cash equivalents (debt) of companies not consolidated in prior period | (477) | 1,801 |
| Net cash and cash equivalents at the beginning of the year | 17,406 | 10,089 |
| Cash flow generated (used) | (27,926) | 8,638 |
| Exchange differences | (389) | (844) |
| <i>Net cash and cash equivalents at the end of the period</i> | <i>(10,909)</i> | <i>17,885</i> |
| Net cash and cash equivalents can be broken down as follows: | | |
| Cash on hand and securities | 23,181 | 48,773 |
| Payables to banks due within one year | (94,377) | (99,351) |
| Adjustments: current portion of medium term borrowings | 61,560 | 69,658 |
| Accrued interest | (1,273) | (1,197) |
| <i>Net cash and cash equivalents</i> | <i>(10,909)</i> | <i>17,885</i> |



Comments on the Group's activity as at December 31, 2001

PROFITABILITY

2001 was characterised by positive development of Group business and continued integration of the acquisitions made during

previous years. The following section contains an overview of the reclassified income statement, comparing also the 2001 results on an equal consolidation area basis with 2000:

| | 2001 Euro/000 | % | 2001 (with the same consolidation area as 2000) Euro/000 | % | 2000 Euro/000 | % |
|---|------------------|-------|---|-------|------------------|-------|
| Net consolidated revenues | 426,075 | 100.0 | 414,847 | 100.0 | 411,673 | 100.0 |
| Purchases, net of changes in inventories | (192,744) | | (188,109) | | (189,091) | |
| Gross industrial margin | 233,331 | 54.8 | 226,738 | 54.7 | 222,582 | 54.1 |
| Personnel expenses | (77,394) | | (75,856) | | (74,845) | |
| Other operating costs | (74,623) | | (71,906) | | (67,926) | |
| Gross operating profit | 81,314 | 19.1 | 78,976 | 19.0 | 79,811 | 19.4 |
| Operating depreciation and amortization | (13,762) | | (13,607) | | (12,655) | |
| Consolidated operating profit | 67,552 | 15.9 | 65,369 | 15.8 | 67,156 | 16.3 |

Consolidated net revenues increased by 3.5% (+0.8% on an equal consolidation basis). These figures are discussed in detail in the breakdown by sectors.

The gross industrial margin was 54.8%, reflecting an increase of 0.7% with respect to 2000 thanks to the application of systematic policies of purchase cost reduction.

Against a background of a 3.5% increase in per capita costs, the trend of personnel costs was limited, on an equal consolidation basis, to 1.3% thanks to careful and timely management of the Group's human resources.

During the course of the year 2001 the Group made greater investments in its own commercial activities in order to strengthen its presence on the major reference markets. Commercial investment was the main reason behind the increase of 5.8% of other operating costs on an equal consolidation basis.

Gross operating profit (EBITDA) grew by almost 2%, up from the 79.8 million euro of 2000 to 81.3 million euro.

On an equal consolidation basis EBITDA fell by 1%, largely as a result of the previously mentioned commercial investments. In terms of incidence on net revenues, gross

operating profit amounted to 19.1% (19.4% in 2000).

Operating amortisation/depreciation increased due to the amortisation of increased research expenses of Interpump Engineering and the substantial investments made in the past year, especially concerning reorganization of the hydraulic sector aimed at boosting production efficiency, the effect of which will become fully apparent during the course of next year.

Operating profit increased by 0.6% against 2000, totalling 67.6 million euro or 15.9% of net revenues (67.2 million euro in 2000).

The incidence of financial expenses on turnover rose from the 2.2% of 2000 to 2.5% in 2001, largely because of the increase in the average interest rate for exchange rate hedging operations. The coverage ratio (EBITDA/net financial costs) is 7.7 times. This figure, considered together with a marked capacity to generate liquidity, allows the Group to pursue its acquisition strategy freely.

Net profit increased by 12.7% reaching 21.4 million euro, thanks also to the lower tax burden due to the revaluation of plant carried out by several Group companies, as described in detail in the explanatory note.

INTERPUMP GROUP ACTIVITIES

The Interpump Group lays claim to the position of the world's largest manufacturer of professional high-pressure plunger pumps and power take offs, and is also among world leaders in the market of professional cleaning machines and high pressure washers for the domestic sector.

The overall share of export sales of the Interpump Group in 2001 was approxima-

tely 72%. The most important export markets for the Group are the United States, Germany and France.

BUSINESS SECTORS

The main business areas of the Interpump Group can be identified as follows on the basis of final product destinations:

a) "Cleaning Sector", covering cold and hot water high-pressure washers, wet/dry vacuum cleaners, floor sweepers, floor scrubbers, steam cleaning appliances, professional cleaning service trolleys and window cleaning equipment.

High-pressure washers are appliances powered by an electric motor or combustion engine which, through the application of a plunger pump, deliver a jet of water at very high-pressure. These appliances are utilised for washing industrial and agricultural equipment, vehicles, boats, animal stalls and any other washable surface, and for home or DIY use.

Like the high-pressure washers, the numerous models in the range of wet/dry vacuum cleaners, floor sweepers and floor scrubbers are utilized in the industrial and professional cleaning sector.

b) "Hydraulic Sector" covering power take offs and hydraulic pumps.

The hydraulic pumps and power take offs are mainly utilised to equip industrial vehicles.

c) "Industrial Sector", including high and very high-pressure plunger pumps and other components including electric motors and windings.

High-pressure plunger pumps constitute the core component of our range of high-pressure washers. These pumps are also utilised for a broad range of industrial ap-

plications including car wash installations, forced lubrication systems for machine tools, inverse osmosis systems for water desalination plants, and equipment for cutting solid materials.

PERFORMANCE BY SECTOR

The above mentioned Group business sectors are identified as "primary sectors"

(see International Accounting Principle no. 14), while the geographical sectors are defined as "secondary" (see heading 4.3). Appendix A at the end of the consolidated financial statements contains information for the individual primary business sectors.

The following section contains an overview of data relative to the Group's external revenues, broken down by sector:

| | 2001 Euro/000 | 2000 Euro/000 | Increase/ Decrease | 2001 (on an equal consolidation basis as at 31/12/2000) Euro/000 | Increase/ Decrease |
|-------------------|------------------|------------------|-----------------------|---|-----------------------|
| Cleaning Sector | 190,727 | 175,756 | +8.5% | 183,155 | +4.2% |
| Hydraulic Sector | 127,419 | 126,561 | +0.7% | 123,843 | -2.1% |
| Industrial Sector | 104,286 | 107,454 | -2.9% | 104,286 | -2.9% |
| Other revenues | 3,643 | 1,902 | n.s. | 3,563 | n.s. |
| Total | 426,075 | 411,673 | +3.5% | 414,847 | +0.8% |

The above table gives rise to the following observations regarding the trend of each business sector.

CLEANING SECTOR

Net revenues of the Cleaning Sector totalled 190.7 million euro (175.8 million euro in 2000) and account for 45% of Group consolidated net revenue. The sector therefore expanded by 8.5% thanks also to the new acquisition of Pulex (the income statement for which was not consolidated in 2000) and Ready System, which was consolidated only for six months in 2000. On an equal consolidation basis, the sector grew by 4.2%. Particularly significant growth was achieved in the field of vacuum cleaners and floor sweepers. Achieving this important result strengthens the Group's commitment to continue investing in this sector. Consider-

able investments were made during the year both in research and development of new products and in increasing production capacity. These initiatives can be expected to yield fruit in future years. In particular, an innovative new product has been launched in the form of a multifunction appliance that operates as a dry vacuum, a wet vacuum with water filtration, a hot water / cold water / steam carpet cleaner, and an air humidifier. Furthermore, research projects have been completed for two new models of floor sweeper, a floor scrubber, and two new models of high-pressure washers, as well as a variety of new high-pressure washer accessories.

Operating profit for this sector totalled 12.7% of net revenues (against 13.6% in 2000). In absolute value the sector achieved profit of 24.2 million euro, some 1.3% higher than the 23.8 million euro of 2000.

HYDRAULIC SECTOR

Consolidated net revenues of the Hydraulic Sector totalled 127.4 million euro (up slightly on the 126.6 million euro of 2000), accounting for 30% of Group consolidated net revenues. The Hydraulic Sector recorded an increase in sales of 0.7%, despite difficulties on the North American market, where the Interpump Group, the second American manufacturer of power take offs for industrial vehicles, managed to contain the downturn to 6.6% in a market that recorded a far greater drop in industrial vehicle sales. In Italy last July the Group acquired control of Hydroven, a company in which we previously held a 36% stake, thus strengthening our competitive stance in the sector. The Group has also continued developing manufacturing synergies, on the one hand with a number of Italian companies and, on the other, in Europe and in the United States. More specifically, attention may be drawn to the Bologna plant, suitably expanded in 2000, which has begun to produce several components also for the North American market.

Operating profit for the sector accounted for 16.2% of net revenue (against 16.4% in 2000). In absolute terms operating profit totalled 20.6 million euro, substantially in line with the previous year (20.8 million euro).

INDUSTRIAL SECTOR

The Group's net external revenues for the Industrial Sector amounted to 104.3 million euro (107.5 million euro in 2000), corresponding to 24% of Group consolidated net revenues. The Industrial Sector recorded a drop of 2.9%, due to both the fall-off on the North American market, the main destination of high-pressure pumps, partially compensated by growth in other Countries, and by the drop in sales of electric motors. During the course of the year two new lines of high-pressure pumps were launched, extending the already wide range of products, plus several new models of accessories.

Operating profit for the sector in terms of percentage of net revenues was 16.3% (17% in 2000). In absolute terms operating profit amounted to 19.4 million euro (20.7 million euro in 2000).

GEOGRAPHICAL SECTORS

This section contains information referring to the geographical sectors classified as secondary in the light of the definition provided by the above-mentioned International Accounting Standard.

Net revenues according to geographical sectors, identified on the basis of customer location, can be broken down as follows:

| | 2001 Euro/000 | % | 2000 Euro/000 | % | Growth |
|--|------------------|------------|------------------|------------|--------------|
| Italy | 119,152 | 28 | 115,825 | 28 | +2.9% |
| Rest of Europe | 132,299 | 31 | 127,206 | 31 | +4.0% |
| North America | 126,897 | 30 | 131,150 | 32 | -3.2% |
| Pacific Area (Far East and Oceania) | 22,654 | 5 | 21,820 | 5 | +3.8% |
| Rest of the World | 25,073 | 6 | 15,672 | 4 | +60.0% |
| Total | 426,075 | 100 | 411,673 | 100 | +3.5% |

2001 was characterised by a massive expansion of emerging countries totalling 60%. The Group considers that these emerging markets offer major important potential in relation to the medium-long term outlook for growth. On a European level the Group grew overall by 3.5%, more than compensating for the drop on the North American market, which was limited to 3.2%, thanks

to the strong competitive positions enjoyed by the Interpump Group on the market. The Group is strategically managed in a uniform manner on a worldwide level, with all the production facilities concentrated in North Italy, with the exception of Muncie Power Products Inc. in the US. The other foreign consolidated companies are formed by the following trade companies:

| | |
|---|--|
| General Pump Companies Inc. | distributor of high-pressure pumps for the North American market |
| P.Z.B. France S.a.r.l. and Hydrocar France S.a.r.l. | distributors of power take offs and related products for the French market |
| Interpump Hydraulics Asia Pte Ltd | distributor of power take offs and related products for the Asian market |
| Interclean Assistance SA | distributor of cleaning appliances for the French market |

Data by geographical sectors on the basis of the location of activities are as follows:

| | Assets | | Increases in the year of tangible and intangible fixed assets | |
|---------------------|------------------------|------------------------|---|------------------|
| | 31/12/2001 Euro/000 | 31/12/2000 Euro/000 | 2001 Euro/000 | 2000 Euro/000 |
| Italy | 420,771 | 428,882 | 25,371 | 15,360 |
| Rest of Europe (EU) | 9,461 | 8,673 | 46 | 87 |
| North America | 68,849 | 68,747 | 1,798 | 3,234 |
| Asia Pacific | 521 | 653 | 1 | 33 |
| Total | 499,602 | 506,955 | 27,216 | 18,714 |

RESEARCH AND DEVELOPMENT

The Interpump Groups invests constantly in research and development of new products and innovative technical solutions in order to maintain and strengthen its presence in all of its business sectors. The Group is equipped with R&D structures able to offer its customers an efficient ser-

vice also in terms of the design and manufacture of custom-built products and for specifically requested applications.

Together with commitments in the development and integration of the existing product range, the Group's research capabilities have promoted the growth of new synergic activities or other activities in which the Group is able to leverage its

industrial expertise and commercial strengths.

1999 saw the constitution of a Research Centre (Interpump Engineering S.r.l.) aimed at centralizing the design and development of new products.

The intention is that of bringing together in a single body the strengths that the Group possesses in the sector, without depriving individual companies of the resources needed for their specific local activities.

As mentioned in the comment relative to business sectors, 2001 saw the presentation of a new multifunction appliance that operates as a conventional vacuum cleaner, a wet vac with water filtration, hot water/cold water/steam carpet cleaner and an air humidifier. Furthermore, research projects have been completed for two new models of floor sweeper, a floor scubber, and two new models of high-pressure washers, as well as a variety of new accessories for the high-pressure washers. During the course of the year two new lines of high-pressure pumps were launched, which have gone to bolster the already wide range of products, as well as a number of new models of accessories. Group strategy over the next few years will be focused on continuing to make substantial investments in research and development with the aim of providing further impetus for internal growth. Research costs sustained through Interpump Engineering were capitalized in accordance with their multi-annual usefulness.

INVESTMENTS

The productive activities of the Interpump Group are structured with the aim of optimizing product quality, competitiveness in production costs, manufacturing efficiency and flexibility, concentrating within the Group the highest added value production phases and the most critical processes in terms of quality.

During 2001 it proved necessary to invest in new industrial buildings, as specified below, for a total of 12.7 million euro.

These investments will allow a rationalization of the production activities, that in certain cases are dispersed in a number of different buildings, allowing operations to be concentrated and making for a general improvement in efficiency. The investment plan will be completed in 2002, when further investments for approximately 6.3 million euro are planned for the completion of the work begun in 2001 and the construction of another industrial building. The benefits from these investments will begin to show in 2002 and, to a greater extent, in 2003.

Acquisitions during 2001 included Hydroven S.r.l., as described in greater detail in the remarks on Group structure, and various minority shareholdings in companies already controlled by the Group. These acquisitions globally resulted in an increase of indebtedness of 6.8 million euro.

Moreover, during 2001 the policy of purchasing treasury shares was pursued, generating expenditure of 1.9 million euro, to be added to the 23.9 million euro already invested in own shares in previous years. This latest purchase means that as at 31 December 2001 the Group portfolio contains 6,154,000 treasury shares equivalent to 7.48% of capital stock.

Operations for the transition to the euro were concluded in the scheduled time. This activity was almost entirely conducted using internal resources. The costs sustained totalled 200,000 euro, entirely disbursed in 2001.

FINANCING

During the course of the year the loan of 15.5 million euro was renewed at the Euribor rate +0.3 points from Banco di Napoli. Also, in early 2002 a medium-long term credit line of 60 million euro was obtained at Euribor +0.65

points from a pool of banks headed by Banca Popolare di Verona – Banco S. Geminiano e S. Prospero. This loan is repayable in three instalments falling due in January 2006, 2007 and 2008. In December 2001 the first instalment of the original pool loan of 103.3 million

euro was repaid, for a total of 34.4 million euro.

Net financial indebtedness as at 31 December 2001 totalled 176.4 million euro (177.1 million euro as at 31 December 2000). Changes during the year are shown in the following chart:

| | 2001 Euro/000 | 2000 Euro/000 |
|---|------------------|------------------|
| Opening indebtedness | (177,087) | (160,171) |
| Exchange rate differences on opening indebtedness | (910) | (1,666) |
| Cash flow from operations | 47,322 | 47,876 |
| Decrease (increase) in working capital | (3,683) | 11,413 |
| Investment in tangible fixed assets and suspended costs in intangible fixed assets | (27,216) | (18,714) |
| Proceeds from sales of fixed assets | 2,936 | 548 |
| Increase in capital by stock option | 444 | 77 |
| Ordinary dividends paid out | (8,904) | (6,456) |
| Increase in indebtedness due to the acquisition of investments | (6,792) | (11,765) |
| Purchase of treasury stock | (1,860) | (2,988) |
| Special dividend paid out | - | (33,766) |
| Other changes | (679) | (1,475) |
| Closing indebtedness | <u>(176,429)</u> | <u>(177,087)</u> |

The exchange rate difference on the opening net cash position concerns loans of U.S. subsidiaries.

THE COMPANIES IN THE GROUP

As at 31 December 2001 the Interpump Group is composed of a structure headed by Interpump Group S.p.A., which holds an direct and indirect controlling stakes in the capital of 25 companies working in three business sectors (Industrial, Cleaning and Hydraulic).

The Parent company, with registered offices in Sant'Ilario d'Enza, produces high and very-high-pressure plunger pumps for the

Industrial Sector, and high-pressure washers for the Cleaning Sector.

The principal data of consolidated subsidiaries are summarised in the following table, while data for the Parent company can be found in its financial statements, enclosed in the annual report.

Relations with non-consolidated subsidiaries and associates, and also relations with related parties, are conducted at normal market conditions and have been described in analytical detail in the annual report.

THE COMPANIES IN THE GROUP

| Company | Share Capital Euro/000 | Controlling interest | Registered Office | Main activity |
|--------------------------------------|------------------------------|-------------------------|--------------------------|---|
| Interpump Cleaning S.p.A. | 5,165 | 100% | Vaiano Cremasco (CR) | High-pressure washers (Cleaning Sector) |
| Unielectric S.p.A. | 1,456 | 70% | Sant'Ilario d'Enza (RE) | Windings and electric motors (Industrial Sector) |
| Soteco S.p.A. | 140 | 100% | Castelverde (CR) | Vacuum cleaners and liquid vacuum cleaners (Cleaning Sector) |
| Sit S.p.A. | 105 | 60% | Sant'Ilario d'Enza (RE) | Sheet metal drawing, blanking, and pressing (Industrial Sector) |
| Teknova S.r.l. | 362 | 100% | Casalgrande (RE) | Industrial floor sweepers (Cleaning Sector) |
| General Technology S.r.l. | 780 | 77.5% | Reggio Emilia | Steam cleaning appliances (Cleaning Sector) |
| Oleodinamica Pederzani e Zini S.p.A. | 3,120 | 80% | Calderara di Reno (BO) | Hydraulic pumps and power take-offs (Hydraulic Sector) |
| P.Z.B. France S.a.r.l. | 32 | 80% | Peltre-Metz (F) | Sales of hydraulic pumps and power take-offs (Hydraulic Sector) |
| General Pump Companies Inc. | 1,854 | 70% | Minneapolis - USA | High-pressure pumps distributor (Industrial Sector) |
| Interpump Hydraulics S.p.A. | 2,632 | 80% | Nonantola (MO) | Holding company of the Hydraulics Sector |
| Hydrocar S.r.l. | 104 | 80% | Nonantola (MO) | Hydraulic pumps and power take-offs (Hydraulic Sector) |
| Hydrometal S.r.l. | 130 | 80% | Sorbara di Bonporto (MO) | Sales of complementary products for industrial vehicles, hydraulic pumps and power take-offs (Hydraulic Sector) |
| Hydroven S.r.l. | 200 | 40.80% | Tezze sul Brenta (VI) | Sales of complementary products for industrial vehicles, hydraulic pumps and power take-offs (Hydraulic Sector) |
| A.V.I. S.r.l. | 10 | 40.80% | Varedo (MI) | Sales of complementary products for industrial vehicles, hydraulic pumps and power take-offs (Hydraulic Sector) |
| Hydrocar France S.a.r.l. | 100 | 79.97% | Brie Comte Robert (F) | Sales of hydraulic pumps and power take-offs (Hydraulic Sector) |
| Hydrocar Roma S.r.l. | 10 | 56% | Modena | Sales of hydraulic pumps and power take-offs (Hydraulic Sector) |
| Interpump Hydraulics Asia Pte Ltd | 96 | 56% | Singapore | Sales of hydraulic pumps and power take-offs (Hydraulic Sector) |
| Interpump Engineering S.r.l. | 76 | 100% | Reggio Emilia | Research and development |
| Muncie Power Products Inc. | 847 | 67.66% | Muncie (USA) | Hydraulic pumps and power take-offs (Hydraulic Sector) |
| IP Floor S.p.A. | 952 | 100% | Portogruaro (VE) | Floor scrubbers (Cleaning Sector) |
| Interclean Assistance S.A. | 457 | 66% | Epone (F) | Sales of cleaning appliances (Cleaning Sector) |
| Euromop S.p.A. | 103 | 51% | Villa del Conte (PD) | Trolleys for cleaning (Cleaning Sector) |
| Ready System S.r.l. | 250 | 26.01% | Saccolongo (PD) | Trolleys for cleaning (Cleaning Sector) |
| Pulex S.r.l. | 15 | 58% | Brescia | Window cleaning equipment (Cleaning Sector) |

THE COMPANIES IN THE GROUP

| Company | Sales €/millions 2001 | Sales €/millions 2000 | Average number of employees 2001 | Average number of employees 2000 |
|--------------------------------------|-----------------------------|-----------------------------|--|--|
| Interpump Cleaning S.p.A. | 92.6 | 76.7 | 366 | 389 |
| Unielectric S.p.A. | 46.2 | 45.2 | 186 | 181 |
| Soteco S.p.A. | 38.1 | 38.6 | 280 | 281 |
| Sir S.p.A. | 3.7 | 3.5 | 22 | 22 |
| Teknova S.r.l. | 11.2 | 9.8 | 61 | 57 |
| General Technology S.r.l. | 3.7 | 6.3 | 34 | 37 |
| Oleodinamica Pederzani e Zini S.p.A. | 21.4 | 18.6 | 125 | 120 |
| P.Z.B. France S.a.r.l. | 2.2 | 2.0 | 7 | 7 |
| General Pump Companies Inc. | 39.9 | 41.6 | 96 | 101 |
| Interpump Hydraulics S.p.A. | 1.8 | 1.6 | 10 | 8 |
| Hydrocar S.r.l. | 30.9 | 29.6 | 97 | 96 |
| Hydrometal S.r.l. | 9.0 | 9.3 | 27 | 30 |
| Hydroven S.r.l. | 4.2 ** | * | 16 | * |
| A.V.I. S.r.l. | 4.3 | 3.8 | 8 | 8 |
| Hydrocar France S.a.r.l. | 3.6 | 3.9 | 12 | 12 |
| Hydrocar Roma S.r.l. | 1.9 | 1.8 | 2 | 2 |
| Interpump Hydraulics Asia Pte Ltd | 0.8 | 1.2 | 4 | 4 |
| Interpump Engineering S.r.l. | 2.0 | 2.1 | 18 | 17 |
| Muncie Power Products Inc. | 59.8 | 64.1 | 236 | 238 |
| IP Floor S.p.A. | 11.9 | 12.1 | 64 | 70 |
| Interclean Assistance S.A. | 13.3 | 11.5 | 46 | 42 |
| Euromop S.p.A. | 15.4 | 15.8 | 86 | 88 |
| Ready System S.r.l. | 5.2 | 2.3 ** | 26 | 25 |
| Pulex S.r.l. | 6.4 | (a) | 32 | * |

* = income statement not consolidated - ** = 6 months

(a) = income statement has not been consolidated. Sales totalled €/millions 6.2



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

Since the close of the year the current business of the Group has proceeded, generating, in the initial months, growth of turnover with respect to the equivalent period in 2001.

As mentioned earlier, in January 2002 a loan was taken out for 60 million euro to finance the acquisitions strategy that the Group intends to pursue.

Also, February 2002 saw the exercising of stock options relative to the third tranche of the first stock option plan and the second tranche of the second plan. The subscription led to an increase in share capital totalling 278,000 euro and in the share premium reserve of 280,900 euro.

We also draw your attention to the tax inspection that was carried out at the Group Parent company, as detailed in the supplementary notes of the annual report.

Considering the short time span that has passed since 31 December 2001, also in the light of the limited time covered by the order book, we are not currently in possession of sufficient information to be able to make forecasts regarding the trend in 2002. There are however, no events suggesting that the Group cannot continue along the positive growth trend of recent years. On 1 March 2002, the Interpump Group

acquired several assets from the Gansow Group in Germany. The Gansow Group is one of the leading European manufacturers of professional floor scrubbers and floor sweepers, with a factory near Dortmund and eight after-sales and service branches throughout Germany. As of January 2002 The Gansow Group has been in receivership due to a serious cash-flow deficit that arose in the second half of 2001. In 2000, the date of the most recent approved financial statements, consolidated turnover of the Gansow Group amounted to approximately 40 million euro. The range of products, the trade mark, and the service network in Germany present high levels of potential synergy with the Interpump Group Cleaning Sector. The investment made by Interpump for the purchase of fixed assets, patents, inventories and goodwill totalled 3.7 million euro.

For the Interpump Group, the acquisition of Gansow business in Germany constitutes a major step towards the consolidation of its position as a world leader in the cleaning sector, and will allow more effective penetration throughout Germany (the primary European market), and significant growth in the Floor Care segment, one of the most promising areas of business in which the Interpump Group is engaged. The full effects of this acquisition can be expected to become evident starting from 2003, and still more in subsequent years, with the rationalization of commercial and manufacturing synergies of the various Floor Care companies in the Interpump Group.



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(Translation from the Italian original which remains the definitive version)

**Report of the auditors in accordance with article 156 of legislative
decree no. 58 of 24 February 1998**

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

- 1 We have audited the consolidated financial statements of Interpump Group S.p.A. and subsidiary companies (Interpump Group) as at and for the year ended 31 December 2001. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
- 2 We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Reference should be made to the report dated 22 March 2001 for our opinion on the prior year consolidated figures which are presented for comparative purposes as required by law.

- 3 In our opinion, the consolidated financial statements of Interpump Group as at and for the year ended 31 December 2001 comply with the Italian regulations governing their preparation; therefore they are clearly stated and give a true and fair view of the financial position and results of the group.

Bologna, 18 March 2002

KPMG S.p.A.

(Signed on the original)

Franco Garilli
Director



KPMG S.p.A. is a member of KPMG International.

Milan Ancona Bari Bergamo Bologna Bolzano
Brescia Catania Como Firenze Foggia Genova Lecce
Naples Novara Padua Palermo Parma Perugia
Pescaia Roma Turin Treviso Trieste Udine Varese Verona

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The information herein reported have
been extracted from the annual report,
which can be downloaded from the website
www.interpumpgroup.it and requested to

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