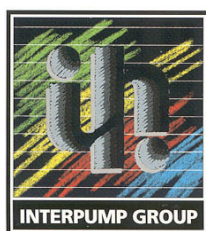


# **Annual Financial Report as at 31/12/2015**





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## **Board of Directors**

Fulvio Montipò  
*Chairman and Chief Executive Officer*

Paolo Marinsek  
*Deputy Chairman and Chief Executive Officer*

Giuseppe Ferrero  
*Non-executive Director*

Franco Garilli (a), (b), (c)  
*Independent Director*  
*Lead Independent Director*

Marcello Margotto (b)  
*Independent Director*

Giancarlo Mocchi  
*Non-executive Director*

Stefania Petruccioli (a), (c)  
*Independent Director*

Paola Tagliavini (a), (c)  
*Independent Director*

Giovanni Tamburi (b)  
*Non-executive Director*

## **Board of Statutory Auditors**

Pierluigi De Biasi  
*Chairman*

Paolo Scarioni  
*Statutory auditor*

Alessandra Tronconi  
*Statutory auditor*

## **Independent Auditors**

Reconta Ernst & Young S.p.A.

- (a) Member of the Audit and Risks Committee*
- (b) Member of the Remuneration Committee*
- (c) Member of the Related Party Transactions Committee*



## **2015 Board of Directors' Report**

### *Financial Highlights of the Interpump Group*

	<u>31/12/2015</u>	<u>31/12/2014</u>	<u>31/12/2013</u>	<u>31/12/2012<sup>(a)</sup></u>	<u>31/12/2011<sup>(b)</sup></u>
	(€000)	(€000)	(€000)	(€000)	(€000)
Consolidated net revenues	894,928	671,999	556,513	527,176	471,619
Foreign sales	85%	86%	86%	86%	84%
EBITDA	180,258	136,106	105,173	105,876	94,614
EBITDA %	20.1%	20.3%	18.9%	20.1%	20.1%
EBIT (Operating profit)	136,896	104,367	79,334	84,049	75,650
EBIT %	15.3%	15.5%	14.3%	15.9%	16.0%
Consolidated net profit	118,306	57,742	44,087	53,226	42,585
Free cash flow	85,246	38,290	34,282	38,598	28,800
Net debt	278,196 <sup>(c)</sup>	226,044 <sup>(c)</sup>	121,384 <sup>(c)</sup>	102,552 <sup>(c)</sup>	145,975 <sup>(c)</sup>
Consolidated shareholders' equity	622,628	466,550	432,949	396,876	315,160
Indebtedness/EBITDA	1.54	1.66	1.15	0.97	1.54
Net capital investment (Capex)	28,863	34,142	29,278	15,839	12,153
Average headcount	4,830	3,575	2,998	2,685	2,436
ROE	19%	12.4%	10.2%	13.4%	13.5%
ROCE	15.2%	15.1%	14.3%	16.8%	16.4%
EPS - €	1.101	0.541	0.413	0.556	0.439
Dividend per share - €	0.190	0.180	0.170	0.170	0.120

ROE: Consolidated net profit / Consolidated shareholders' equity

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

In 2007 the denominator included the extraordinary dividend payable of €000 16,594.

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

\* 0.230 of which extraordinary

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

(b) Continuing operations.

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



	<u>31/12/2010</u>	<u>31/12/2009</u>	<u>31/12/2008</u>	<u>31/12/2007</u>	<u>31/12/2006</u>
	(€000)	(€000)	(€000)	(€000)	(€000)
Consolidated net revenues	424,925	342,924	424,513	432,195	364,876
Foreign sales	80%	79%	80%	79%	76%
EBITDA	74,100	46,856	86,986	94,255	79,144
EBITDA %	17.4%	13.7%	20.5%	21.8%	21.7%
EBIT (Operating profit)	54,689	29,194	75,666	82,231	69,715
EBIT %	12.9%	8.5%	17.8%	19.0%	19.1%
Consolidated net profit	27,381	13,980	40,161	42,913	41,592
Free cash flow	56,997	63,136	22,132	31,951	26,733
Net debt	147,759 <sup>(c)</sup>	201,833 <sup>(c)</sup>	228,264 <sup>(c)</sup>	186,173	137,464
Consolidated shareholders' equity	291,459	242,796	177,951	147,131	155,888
Indebtedness/EBITDA	1.99	4.31	2.62	1.86	1.74
Net capital investment (Capex)	8,478	8,950	16,577	11,944	11,706
Average headcount	2,492	2,427	2,036	1,882	1,617
ROE	9.4%	5.8%	22.6%	29.2%	26.6%
ROCE	12.5%	6.6%	18.6%	23.5%	23.8%
EPS - €	0.284	0.187	0.545	0.567	0.542
Dividend per share - €	0.110	-	-	0.430*	0.180



## KEY EVENTS OF 2015

Performance in 2015 was marked by a considerable increase in sales, EBITDA and net profit, with the achievement by the Interpump Group of record results once again.

Sales were up by 33.2% compared to 2014 (+8.9% like for like and +1.3% net of exchange differences). The business sector analysis shows a 41.4% increase in sales in the Hydraulic Sector (+5.0% like for like and -1.0% net of exchange differences) and a 21.3% growth of sales in the Water Jetting Sector (+14.6% like for like and +4.7% net of exchange differences).

In geographical terms, growth in Europe including Italy was 33.7%, with 35.2% in North America, 37.3% in the Far East and Oceania and 22.2% in the Rest of the World. The geographical breakdown shows like for like growth of 4.0% in Europe (including Italy), 18.0% in North America, 4.8% in the Far East and Oceania and 6.8% in the Rest of the World.

EBITDA reached €180.3m, equivalent to 20.1% of sales. In 2014, EBITDA was €136.1m (20.3% of sales). The year on year growth of EBITDA thus amounts to 32.4%. EBITDA was 10.6% higher like for like, reaching €150.5m or 20.6% of sales, up by 0.3 percentage points.

Free cash flow more than doubled to €85.2m (€38.3m in 2014).

Net profit of €18.3m was more than double the €7.7m recorded in 2014.

Minority interests in Hydrocontrol S.p.A. and IMM Hydraulics S.p.A. were acquired in 2015. On 27 April Interpump Hydraulics S.p.A. acquired the remaining 16% stake in Hydrocontrol S.p.A., further to the exercise of the related put options by its minority shareholders. On 4 June Interpump Hydraulics S.p.A. acquired the remaining 40% stake in IMM Hydraulics S.p.A., further to the exercise of the related put options by the minority shareholder of IMM Hydraulics S.p.A. These two transactions generated financial income of €32.0m, due to the lower price paid with respect to the recorded liability for the acquisition of equity investments, which reflected measurement of the put options granted to the sellers. This income arose because the put options had been measured on the basis of projections to 2018 and 2020, being the dates from which the put options could be exercised, and consequently envisaged the growth of EBITDA and higher cash generation. The early exercise of the two minority put options is accelerating the release of synergies within the Group and considerable simplifications, resulting in appreciable cost savings.

In this regard, operations in India and South Africa are currently being rationalized. In addition, the business in Brazil based on the merger of the following four companies become operational during the year: Interpump Hydraulics do Brasil, Takarada Industria e Comercio, Walvoil Fluid do Brasil and Osper, with this last company having been acquired on 28 August 2015. The four companies have been concentrated into a single facility, with the release of significant synergies in industrial, logistic and administrative terms, and the reorganization of all operations. In addition, Interpump Hydraulics Brasil (the company formed through the merger) is now the Brazilian leader in the power take-offs sector, benefiting also from access to the Group's wide range of products in the Hydraulic Sector. The process of rationalization of the Group's structure and exploitation of potential commercial synergies will proceed over the coming years also in the other countries in which we operate.

2015 saw the first-time consolidation of the Walvoil Group (Hydraulic Sector) acquired on 15 January 2015, Inoxihp (Water Jetting Sector) acquired on 17 March 2015, but consolidated for

the full year due to its modest size, Bertoli S.r.l. (Water Jetting Sector), acquired on 22 May 2015 and consolidated for eight months, and Osper (Hydraulic Sector), acquired on 28 August 2015 and consolidated for four months.

The Walvoil Group is one of the key international players in the production and sale of hydraulic valves and directional controls. The 2015 sales of the Walvoil Group totaled €145.2m, with a consolidated EBITDA of €24.1m and net indebtedness of €15.1m. The final contractual price agreed for the purchase of 100% of the Walvoil Group was €16.1m. Payment was made in two tranches during 2015, with €70.3m settled in cash and the balance by the assignment of 4,004,341 listed shares in Interpump Group S.p.A.

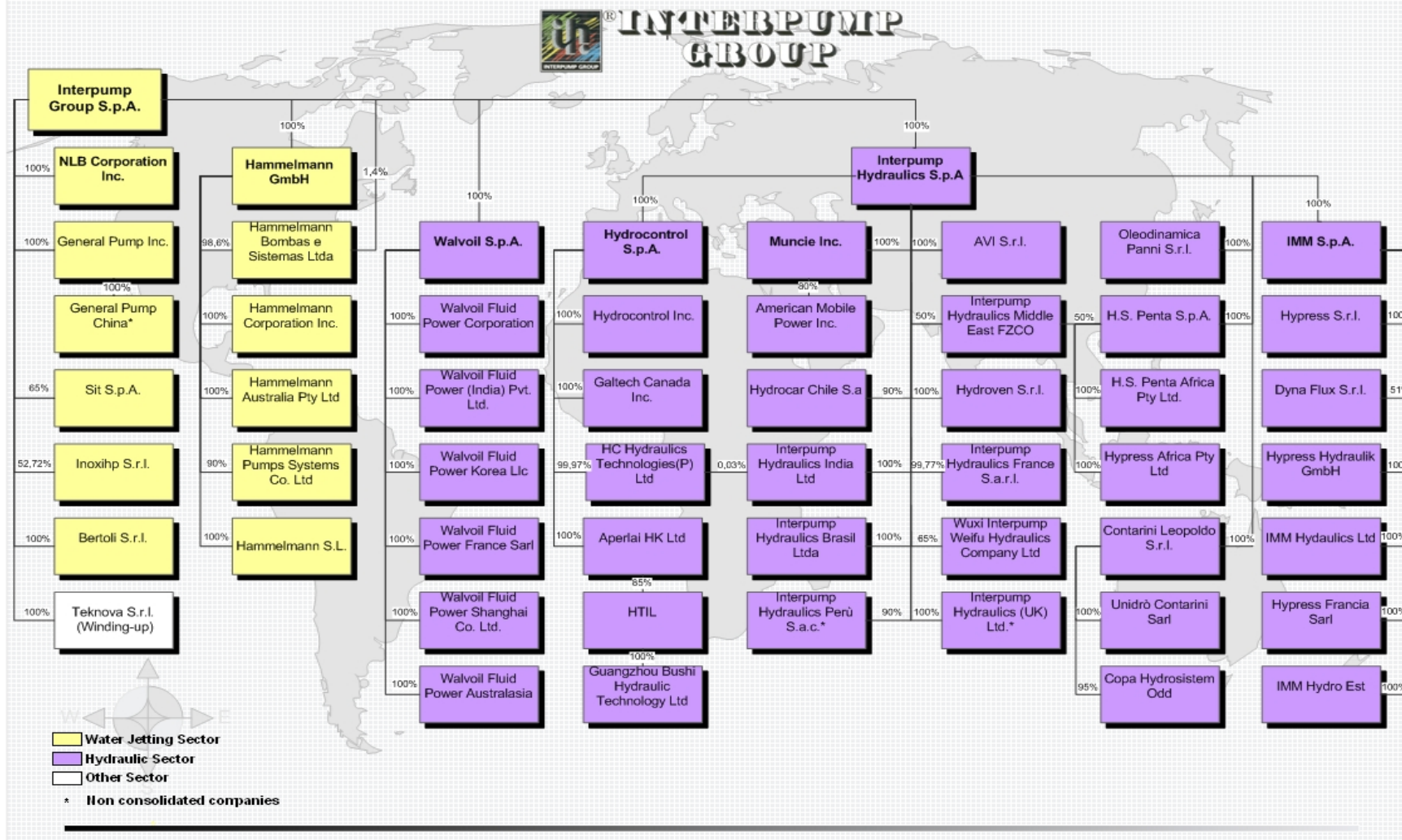
Inoxihp S.r.l., based in Nova Milanese (MB), produces high pressure and very high pressure water installations, with a leadership position in applications for the steel industry. The 2015 sales of Inoxihp amounted to €10.8m, with EBITDA in excess of 31% of sales and liquidity of €1.4m. The price agreed for a 52.72% interest in Inoxihp was €8.6m, of which €6.5m was settled in cash and the balance by the assignment of 156,160 shares in Interpump Group S.p.A. The minority quotaholder of Inoxihp is entitled to sell the remaining 47.28% as follows: 10% at any time and 37.28% subsequent to approval of the 2025 financial statements, at a price based on the average of the results reported in the two annual financial statements prior to the date of exercising the put option.

Bertoli S.r.l., based in the province of Parma, is a world leader in the design and construction of high pressure homogenizers with piston pumps, primarily for the food sector, but also for the chemicals and cosmetics sectors. The 2015 sales of Bertoli amounted to €12.5m, with EBITDA of €3.3m and liquidity of €1.9m. The price paid for the 100% interest in Bertoli was €7.3m.

Osper, based in Caxia do Sul (Brazil), is one of the leading Brazilian companies in the production and commercialization of power take-offs and hydraulic cylinders. The price agreed for the purchase of 100% of Osper was BRL 21.7m (approximately €5.4m). The amount paid at the closing date was BRL 10.5m (around €2.6m). The remaining BRL 11.2m (about €2.8m) will be paid as follows: BRL 1.2m in 60 monthly installments of BRL 20k, while BRL 10m constitute the guarantee as an indemnity against potential liabilities that may arise in the acquired company and will be paid, net of any indemnity amounts, within 15 August 2021.

Once again, the Interpump Group confirmed its established growth strategy during 2015, combining internal expansion with a targeted M&A strategy in order to accelerate growth and create value for the shareholders.

## Organizational chart as at 31/12/2015



## PERFORMANCE INDICATORS

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

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

- **Earnings before interest and tax (EBIT):** Net sales plus Other operating income less Operating costs (Cost of sales, Selling, general and administrative expenses, and Other operating costs);
- **Earnings before interest, tax, depreciation and amortization (EBITDA):** EBIT plus depreciation, amortization and provisions;
- **Net indebtedness:** Loans obtained plus Bank borrowing less Liquid funds and cash equivalents;
- **Capital investment (CAPEX):** the sum of investment in property, plant and equipment and intangible assets, net of retirements;
- **Return on capital employed (ROCE):** EBIT / Capital employed;
- **Return on equity (ROE):** Profit for the period / Shareholders' equity.

The Group's income statement is prepared by functional areas (also called the "cost of sales" method), this form being considered more representative than presentation by type of expense, this information being specified in the notes to the annual financial report. The chosen form, in fact, complies with the internal reporting and business management methods.

The cash flow statement was prepared with the indirect method.

## Consolidated income statement for the year

(€000)	<u>2015</u>	<u>2014</u>
<b>Net sales</b>	<b>894,928</b>	<b>671,999</b>
Cost of products sold	(577,310)	(426,585)
<b>Gross industrial margin</b>	<b>317,618</b>	<b>245,414</b>
<i>% on net sales</i>	<i>35.5%</i>	<i>36.5%</i>
Other operating revenues	13,133	12,563
Distribution costs	(84,321)	(68,074)
General and administrative expenses	(105,670)	(80,517)
Other operating costs	(3,864)	(5,019)
<b>EBIT</b>	<b>136,896</b>	<b>104,367</b>
<i>% on net sales</i>	<i>15.3%</i>	<i>15.5%</i>
Financial income	42,416	8,144
Financial expenses	(15,688)	(19,504)
Adjustment of the value of investments carried at equity	(262)	102
<b>Profit for the period before taxes</b>	<b>163,362</b>	<b>93,109</b>
Income taxes	(45,056)	(35,367)
<b>Consolidated net profit for the year</b>	<b>118,306</b>	<b>57,742</b>
<i>% on net sales</i>	<i>13.2%</i>	<i>8.6%</i>
<b>Due to:</b>		
Parent company's shareholders	117,639	56,936
Subsidiaries' minority shareholders	667	806
<b>Consolidated profit for the period</b>	<b>118,306</b>	<b>57,742</b>
 <b>EBITDA</b>	 <b>180,258</b>	 <b>136,106</b>
<i>% on net sales</i>	<i>20.1%</i>	<i>20.3%</i>
Shareholders' equity	622,628	466,550
Net debt	254,987	151,969
Payables for the acquisition of investments	23,209	74,075
Capital employed	900,824	692,594
<b>ROCE</b>	<b>15.2%</b>	<b>15.1%</b>
<b>ROE</b>	<b>19.0%</b>	<b>12.4%</b>
<b>Basic earnings per share</b>	<b>1.101</b>	<b>0.541</b>

## NET SALES

Net sales in 2015 totaled €894.9m, up by 33.2% from €672.0m in 2014 (+8.9% like for like and +1.3% net of exchange differences). Breakdown of sales by business sector and geographical area:

(€000)	<u>Italy</u>	<u>Rest of Europe</u>	<u>North America</u>	<u>Far East and Oceania</u>	<u>Rest of the World</u>	<u>Total</u>
<i>2015</i>						
Hydraulic Sector	105,509	194,815	151,083	40,004	68,860	560,271
Water Jetting Sector	<u>30,400</u>	<u>91,688</u>	<u>142,303</u>	<u>44,954</u>	<u>25,312</u>	<u>334,657</u>
Total	<u>135,909</u>	<u>286,503</u>	<u>293,386</u>	<u>84,958</u>	<u>94,172</u>	<u>894,928</u>
<i>2014</i>						
Hydraulic Sector	72,619	145,709	98,602	21,869	57,405	396,204
Water Jetting Sector	<u>19,159</u>	<u>78,554</u>	<u>118,436</u>	<u>39,993</u>	<u>19,653</u>	<u>275,795</u>
Total	<u>91,778</u>	<u>224,263</u>	<u>217,038</u>	<u>61,862</u>	<u>77,058</u>	<u>671,999</u>
<i>2015/2014 percentage changes</i>						
Hydraulic Sector	+45.3%	+33.7%	+53.2%	+82.9%	+20.0%	+41.4%
Water Jetting Sector	+58.7%	+16.7%	+20.2%	+12.4%	+28.8%	+21.3%
Total	+48.1%	+27.8%	+35.2%	+37.3%	+22.2%	+33.2%
<i>2015/2014 like for like changes (%)</i>						
Hydraulic Sector	+9.1%	-3.2%	+16.8%	-1.4%	+2.6%	+5.0%
Water Jetting Sector	+13.2%	+10.4%	+19.0%	+8.3%	+19.1%	+14.6%
Total	+10.0%	+1.6%	+18.0%	+4.8%	+6.8%	+8.9%

The like-for-like analysis net of exchange differences shows a decline of 1.0% in the Hydraulic Sector and 4.7% growth in the Water Jetting Sector.

## PROFITABILITY

The cost of sales accounted for 64.5% of turnover (63.5% in 2014). Production costs, which totaled €234.8m (€169.1m in 2014, which did not include the costs of the Walvoil Group, Inoxihp, Bertoli and Osper), accounted for 26.2% of sales (25.2% in 2014). The purchase cost of raw materials and components sourced on the market, including changes in inventories, was €342.6m (€257.5m in 2014, which however did not include the costs of the Walvoil Group, Inoxihp, Bertoli and Osper). The incidence of purchase costs, including changes in inventories, was 38.3%, as in 2014.

On a like-for-like basis, the percentage incidences of production costs and purchase costs in 2015 were respectively 24.5% and 38.7% (down overall by 0.3 percentage points). The percentage increase in the cost of sales from 63.5% in 2014 to 64.5% in 2015 is primarily due to a product mix effect related to the newly consolidated companies.

Like-for-like selling expenses were 7.9% higher than in 2014 (-0.1% net of exchange differences), while the incidence on sales fell by 0.1 percentage points with respect to 2014. With the inclusion of Walvoil, Inoxihp, Bertoli and Osper the incidence fell by 0.7 percentage points.



Like-for-like general and administrative expenses were 9.6% higher than in 2014 (+3.6% net of exchange differences), with a 0.1 percentage point increase in the incidence on sales with respect to 2014. With the inclusion of Walvoil, Inoxihp, Bertoli and Osper the incidence fell by 0.2 percentage points with respect to 2014.

Total payroll costs were €18.2m (€15.7m in 2014, which however did not include the Walvoil Group, Inoxihp, Bertoli and Osper). Like for like payroll costs rose by 8.5% (+2.8% net of exchange differences) due to a 6.3% per capita cost increase (+0.7% net of exchange differences) and a rise of 75 in the average headcount. The total number of Group employees in 2015 averaged 4,830 (3,650 like for like) compared to 3,575 in 2014. The like for like increase in the average headcount in 2015 breaks down as follows: 5 in Europe, 40 in the US and 30 in the Rest of the World (Brazil, China, India, Chile, Australia, South Korea, South Africa and the UAE).

EBITDA totaled €180.3m (20.1% of sales) compared to €136.1m in 2014, which represented 20.3% of sales, reflecting a 32.4% increase. Like for like EBITDA was up by 10.6% to €150.5m or 20.6% of sales, increasing margins by 0.3 percentage points. The following table shows EBITDA for each business sector:

	<i>2015</i>	<i>% on</i>	<i>2014</i>	<i>% on</i>	<i>Growth/</i>
	<i>€/000</i>	<i>total</i>	<i>€/000</i>	<i>total</i>	<i>Contraction</i>
		<i>sales*</i>		<i>sales*</i>	
Hydraulic Sector	96,605	17.2%	69,366	17.5%	+39.3%
Water Jetting Sector	83,671	24.9%	66,701	24.1%	+25.4%
Other Revenue Sector	(18)	n.s.	39	n.s.	n.s.
<b>Total</b>	<b><u>180,258</u></b>	<b><u>20.1%</u></b>	<b><u>136,106</u></b>	<b><u>20.3%</u></b>	<b><u>+32.4%</u></b>

\* = Total sales also include sales to other Group companies, while the sales analyzed previously are exclusively those external to the group (see Note 5 to the Annual Financial Report at 31 December 2015). Therefore, for the purposes of comparability the percentage is calculated on total sales rather than the sales shown earlier.

Like for like Hydraulic Sector EBITDA was up by 4.1% (17.4% of net sales). Like for like Water Jetting Sector EBITDA was up by 17.4% (24.7% of net sales).

EBIT stood at €136.9m (15.3% of sales) compared with €104.4m in 2014 (15.5% of sales), reflecting an increase of 31.2%. EBIT was 11.3% higher like for like, reaching €116.2m or 15.9% of sales, with an increase of 0.4 percentage points.

Financial management generated net income of €26.7m (net financial charges of €1.4m in 2014). 2015 saw the generation of income due to the lower payments made with respect to debts for commitments to acquire residual stakes in subsidiaries in the amount of €32.0m, as described at the beginning of this report. The net financial expenses incurred in 2014, on the other hand, included €8.2m relating to the adjustment of payables following the purchase of equity investments and the related interest.

The Group's acquisition strategy is to purchase majority interests, while signing purchase commitments for the residual stakes at prices based on the results that the companies concerned are able to achieve in the subsequent years. As a result, changes in the estimated liability from one period to the next, with an effect on the income statement, are neither rare or exceptional; however, the income of €32.0m recognized in 2015 must be recognized as a non-recurring

amount, since it is unusual for put options to be exercised prior to the first contractually-agreed date.

The effective tax rate was 27.6% (38.0% in 2014 – 35.2% net of the non-deductible financial charges totaling €8.2m mentioned above). The comparison is influenced by the inclusion, in 2015 only, of income on the adjustment of the expected debt for commitments to acquire residual stakes in subsidiaries as discussed above, originating exclusively in the consolidated financial statements and hence not taxable. In addition, deferred tax assets and liabilities were adjusted in 2015 to reflect the change in the IRES rate from 2017, as specified in the 2016 stability law. Net of the above effects, the 2015 tax rate would have been 33.9%. The reduction with respect to 2014 was mainly due to changes in Italian legislation concerning the total deductibility of payroll costs from the IRAP tax base, which led to a tax saving of €2.0m.

Net profit of €18.3m was more than double the amount for 2014 (€7.7m). A similar trend was followed by basic earnings per share, which rose from 0.541 euro in 2014 to 1.101 euro in 2015.

In compliance with CONSOB Communication no. 6064293 of 28 July 2006, we draw your attention to the fact that no atypical and/or unusual transactions were carried out in 2015.

## CASH FLOW

The change in net financial indebtedness can be broken down as follows:

	<i>2015</i> <u>€/000</u>	<i>2014</i> <u>€/000</u>
<b>Opening net financial position</b>	<b>(151,969)</b>	<b>(88,684)</b>
Adjustment: opening net cash position of companies not consolidated line by line at the end of the prior year (a)	<u>435</u>	<u>(158)</u>
<b>Adjusted opening net financial position</b>	<b>(151,534)</b>	<b>(88,842)</b>
Cash flow from operations	120,158	95,813
Cash flow generated (absorbed) by the management of commercial working capital	(13,279)	(21,519)
Cash flow generated (absorbed) by other current assets and liabilities	6,725	(2,236)
Capital expenditure on tangible fixed assets	(27,653)	(32,654)
Proceeds from sales of tangible fixed assets	1,594	1,512
Increase in other intangible fixed assets	(2,804)	(3,000)
Received financial income	714	637
Other	<u>(209)</u>	<u>(263)</u>
<b>Free cash flow</b>	<b>85,246</b>	<b>38,290</b>

	2015 <u>€/000</u>	2014 <u>€/000</u>
<b>Free cash flow</b>	<b>85,246</b>	<b>38,290</b>
Acquisition of investments, including received debt and net of treasury stock assigned	(145,243)	(53,266)
Receipts for the sale of investments and lines of business	746	796
Dividends paid	(20,390)	(18,166)
Outlays for the purchase of treasury stock	(32,709)	(38,299)
Proceeds from the sale of treasury stock to beneficiaries of stock options	8,166	4,626
Change in other financial assets	(1)	1,017
Loan repayments from (disbursals to) non-consolidated subsidiaries	-	21
<b>Cash flow generated (used)</b>	<b>(104,185)</b>	<b>(64,981)</b>
Exchange rate differences	732	1,854
<b>Net financial position at year end</b>	<b><u>(254,987)</u></b>	<b><u>(151,969)</u></b>

(a) = in 2015 this concerns Hammelmann Bombas e Sistemas Ltda and Interpump Hydraulics Middle East FZCO (see Note 1 to the Financial Statements and notes at 31 December 2015). Conversely, in 2014 the subjects were HS Penta Africa Pty Ltd and Galtech Canada Inc.

Net liquidity generated by operations totaled €120.2m (€95.8m in 2014), reflecting an increase of 25.4%. There was a considerable increase in free cash flow during 2015 to €85.2m, which was more than double the figure recorded 2014 (€38.3m).

Net indebtedness, excluding the payables and commitments illustrated below, is analyzed as follows:

	31/12/2015 <u>€/000</u>	31/12/2014 <u>€/000</u>	01/01/2014 <u>€/000</u>
Cash and cash equivalents	135,130	87,159	105,312
Bank payables (advances and STC amounts)	(5,735)	(27,770)	(20,932)
Interest-bearing financial payables (current portion)	(83,833)	(64,298)	(61,371)
Interest-bearing financial payables (non-current portion)	<u>(300,549)</u>	<u>(147,060)</u>	<u>(111,693)</u>
<b>Total</b>	<b><u>(254,987)</u></b>	<b><u>(151,969)</u></b>	<b><u>(88,684)</u></b>

The Group also has contractual commitments for the purchase of residual shareholdings in subsidiaries totaling €23.2 million (€74.1 million at 31 December 2014). €4.9m of the foregoing amounts concerns the acquisition of equity investments (€7.4m at 31 December 2014) and €18.3m is related to contractual agreements for the acquisition of residual interests in subsidiaries (€66.6m at 31 December 2014). The change with respect to the prior period was due, on the one hand, to the exercise of Hydrocontrol and IMM Hydraulics options and, on the other hand, to the new put option related to the acquisition of Inoxihp.

## GROUP BALANCE SHEET

Capital employed increased from €92.6m at 31 December 2014 to €900.8m at 31 December 2015. The rise in capital employed is mainly due to the consolidation of Walvoil, Inoxihp, Bertoli and Osper, which produced a €185.8m increase, and the effect of revaluation of foreign currencies against the euro, which led to an increase of €18.8m. ROCE stood at 15.2% (15.1% in 2014). ROE was 19.0% (12.4% in 2014).

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

	31/12/2015 (€/000)	%	31/12/2014 (€/000)	%
Trade receivables	178,129		135,634	
Net inventories	238,637		182,463	
Other current assets	22,172		17,784	
Trade payables	(94,022)		(80,273)	
Short-term tax payables	(19,904)		(11,665)	
Short-term portion for provisions for risks and charges	(4,423)		(4,162)	
Other short-term liabilities	(45,357)		(34,195)	
<b>Net working capital</b>	<b><u>275,232</u></b>	<b>30.6</b>	<b><u>205,586</u></b>	<b>29.7</b>
Net intangible and tangible fixed assets	319,259		233,722	
Goodwill	347,388		279,373	
Other financial fixed assets	1,025		1,740	
Other non-current assets	28,333		25,125	
Liabilities for employee benefits	(17,264)		(14,940)	
Medium/long-term portion for provisions for risks and charges	(2,683)		(1,949)	
Other medium/long-term liabilities	(50,466)		(36,063)	
<b>Total net fixed assets</b>	<b><u>625,592</u></b>	<b>69.4</b>	<b><u>487,008</u></b>	<b>70.3</b>
<b>Total capital employed</b>	<b><u>900,824</u></b>	<b>100</b>	<b><u>692,594</u></b>	<b>100</b>
<i>Financed by:</i>				
Group shareholders' equity	617,157		460,695	
Minority interests	<u>5,471</u>		<u>5,855</u>	
<b>Total shareholders' equity</b>	<b><u>622,628</u></b>	<b>69.1</b>	<b><u>466,550</u></b>	<b>67.4</b>
Cash and cash equivalents	(135,130)		(87,159)	
Payables to banks	5,735		27,770	
Short-term interest-bearing financial payables	83,833		64,298	
Short-term payable for purchase of investments	<u>3,560</u>		<u>4,097</u>	
<b>Total short term financial payables (cash)</b>	<b><u>(42,002)</u></b>	<b>-4.7</b>	<b><u>9,006</u></b>	<b>1.3</b>
Medium/long-term interest-bearing financial payables	300,549		147,060	
Medium/long-term payable for purchase of investments	<u>19,649</u>		<u>69,978</u>	
<b>Total medium/long-term financial payables</b>	<b><u>320,198</u></b>	<b>35.6</b>	<b><u>217,038</u></b>	<b>31.3</b>
<b>Total sources of financing</b>	<b><u>900,824</u></b>	<b>100.0</b>	<b><u>692,594</u></b>	<b>100.0</b>

Interpump Group's equity structure is balanced, with a leverage index of 0.45 (0.48 at 31 December 2014). The leverage index is calculated as the ratio between the short and medium/long-term financial payables and shareholders' equity inclusive of minority interests.

## CAPITAL EXPENDITURE

Expenditure on property, plant and equipment totaled €12.4m, of which €73.9m for the acquisition of equity investments (€81.2m in 2014, of which €39.8m for the acquisition of equity investments). It should be noted that the companies belonging to the Very-High Pressure Systems business segment classify the increase in machinery manufactured and hired out to customers under tangible fixed assets (€1.2m at 31 December 2015 and €7.2m at 31 December 2014). Net of these latter amounts and the investment via acquisitions, capital expenditure in the

strictest sense amounted to €27.3m in 2015 (€34.2m in 2014) and mainly refers to the normal renewal and modernization of plant, machinery and equipment, with the exception of €2.3m, related in 2015 to the construction of new plants in Bulgaria, Romania and India and to the expansion of a building owned by the Group Parent (€10.9m in 2014 related mainly to completion of the Hammelmann building). The difference with respect to the expenditure recorded in the cash flow statement is due to the dynamic of payments.

The increases in intangible assets totaled €15.2m, of which €12.4m from the acquisition of equity investments (€6.2m in 2014, of which €2.8m from the acquisition of equity investments) and refer mainly to the allocation of the price of acquisitions to trademarks (€11.7m in 2015) and to investment for the development of new products.

## **RESEARCH AND DEVELOPMENT**

Interpump Engineering S.r.l. (Research and Design Center) was absorbed by Interpump Group S.p.A. during 2015, with a view to simplifying the Group structure. The team, which is unchanged, is currently working on the design and development of new high pressure pumps and the related accessories. The five new projects completed during 2015 related to a new pump and three new valves for the Water Jetting Sector, and a new double-effect cylinder for the Hydraulic Sector. There are also several projects currently under way for new high and very-high pressure pumps, valves for the Water Jetting Sector and pumps and other hydraulic components. Research and development work was also carried out at Walvoil and Interpump Hydraulics for the Hydraulic Sector and at Hammelmann for the very high pressure Pumps Division.

Group strategy over the next few years is to continue with high levels of expenditure in the area of research and development in order to assure renewed impetus to structured growth. Research costs have been capitalized in accordance with their multi-annual usefulness. The product development costs capitalized in 2015 amounted to €000 1,279 (€000 1,936 in 2014), while the costs charged to the income statement amounted to €000 16,083 (€000 10,751 in 2014).

## **ENVIRONMENT**

The Interpump Group is engaged exclusively in mechanical engineering and components assembly activities that are not accompanied by the emission of pollutants into the environment. The production process is performed in compliance with statutory legislation.

## **EXPOSURE TO RISKS, UNCERTAINTIES AND FINANCIAL RISK FACTORS**

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

The financial risk factors are described in note 4 of the Annual Financial Report.

## **CORPORATE GOVERNANCE**

In relation to corporate governance, Interpump Group's model is based on the provisions of the Code of Corporate Governance promoted by Borsa Italiana S.p.A., published in July 2015, to

which Interpump Group has adhered. The above-mentioned report can be consulted on the Group website [www.interpumpgroup.it](http://www.interpumpgroup.it) in the Corporate Governance section.

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

Name	Company issuer	Number of shares held at end of prior period	Number of shares purchased/ subscribed	Number of shares sold	Number of shares held at end of year
<i>Fulvio Montipò</i>					
Held directly	Interpump Group S.p.A.	420,200	1,430,224	(1,215,191)	635,233
<i>Paolo Marinsek</i>					
Held directly	Interpump Group S.p.A.	-	80,000	(80,000)	-

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

The shareholders of Gruppo IPG Holding S.p.A. previously signed a Shareholders' Agreement governing the entire equity interest in Gruppo IPG Holding S.p.A. This Agreement contained constraints and limitations on the transfer of holdings and the purchase of shares, as well as agreements for the exercise of voting rights in Gruppo IPG Holding S.p.A. and in Interpump Group S.p.A. The Agreement was effective until 7 November 2015.

Fulvio Montipò, a shareholder of Gruppo IPG Holding S.p.A., as well as Chairman and Chief Executive Officer of Interpump Group S.p.A., exercised 1,215,191 options on 21/12/2015 and received the same number of shares in Interpump Group S.p.A., which he then sold to Gruppo IPG Holding S.p.A. On the same date, Gruppo IPG Holding S.p.A. transferred a total of 7,197,417 shares in Interpump Group S.p.A. to MAIS S.p.A. (controlled by Isabella Seragnoli), in the context of a transaction that resulted in that company ceasing to be a shareholder of Gruppo IPG Holding S.p.A. On completion of the transaction, Gruppo IPG Holding S.p.A. held about 20.23% of the share capital of Interpump Group S.p.A. Consequent to the entire transaction, the sole owners of Gruppo IPG Holding S.p.A. are the Montipò family and Tamburi Investment Partners.

## STOCK OPTION PLANS

With the aim of motivating Group management and promoting participation in the goal of value creation for shareholders, there are currently three stock option plans in existence, one approved by the Shareholders' Meeting of 20 April 2006 (**2002/2009** plan), one approved by the Shareholders' Meeting of 21 April 2010 (**2006/2012** plan), and one approved by the Shareholders' Meeting of 30 April 2013 (**2013/2015** plan).

The **2006/2009** plan is addressed to a number of directors and group employees and involved the assignment of up to 4,000,000 options, to be allocated over the following 4 years, using the company's treasury stock at an exercise price equal to the greater of the current market value at the time of allocation or the book value. Assignment depended on share prices reaching pre-

established stock market quotations and/or the achievement of specific financial parameters and personal targets. The assignments have now been completed. The options can only be exercised three years after the date of allocation. At 31 December 2015 the situation of the plan was as follows:

Number of rights assigned	2,999,296
Number of shares purchased	(2,500,296)
Total number of options not yet exercised	<u>499,000</u>

The beneficiaries of the options were:

	Price per share for the exercise of options	Vesting period	Number of rights assigned at start of year	Number of rights matured in the year	Number of shares purchased in the year	Number of options exercisable at year end
<u>Director of the Parent Company</u>						
	€7.2884	01.05.2010-31.05.2015	215,033	-	(215,033)	-
□ Fulvio Montipò	€5.4047	01.05.2011-31.05.2016	215,191	-	(215,191)	-
	€3.7524	01.11.2012-31.05.2017	80,000	-	-	80,000
	€3.7524	01.05.2010-31.12.2017	300,000	-	-	300,000
<u>Other beneficiaries (employees)</u>						
	€7.2884	01.05.2010-31.05.2015	108,000	-	(108,000)	-
	€5.4047	01.05.2011-31.05.2016	83,000	-	(14,000)	69,000
	€3.7524	01.07.2010-31.12.2017	72,500	-	(22,500)	50,000
Total			1,073,724	-	(574,724)	499,000

The Shareholders' Meeting of 21 April 2010 approved the adoption of a new incentive plan designated “Interpump **2010/2012** Incentive Plan”. The plan, which is based on the free assignment of options that grant the beneficiaries the right, on the achievement of specified objectives, to (i) purchase or subscribe the Company’s shares up to the maximum number of 3,000,000 or, (ii) at the discretion of the Board of Directors, receive the payment of a differential equivalent to any increase in the market value of the Company’s ordinary shares. Beneficiaries of the plan can be employees or directors of the Company and/or its subsidiaries, identified among the subjects with significant roles or functions. The exercise price has been set at €3.75 per share. The options can be exercised between 30 June 2013 and 31 December 2016. The conditions for the exercise of the options are connected to the arrival at specific parameters related to the financial statements and performance of Interpump Group shares. Since the targets of the plan were accomplished the 2,860,000 options assigned have matured, as resolved by the Board of directors' meetings held on 15 March 2011 and 24 April 2012.

At 31 December 2015 the situation of the plan was as follows:

Number of rights assigned	2,860,000
Number of shares purchased	(2,700,000)
Total number of options not yet exercised	<u>160,000</u>

The beneficiaries of the options were:

	Price per share for the exercise of options	Vesting period	Number of rights assigned at start of year	Number of rights matured in the year	Number of shares purchased in the year	Number of options exercisable at year end
Directors of the Parent Company						
☐ Fulvio Montipò	€3.75	01.07.2013-31.12.2016	1,000,000	-	(1,000,000)	-
☐ Paolo Marinsek	€3.75	01.07.2013-31.12.2016	100,000	-	(80,000)	20,000
Other beneficiaries (employees)	€3.75	01.07.2013-31.12.2016	257,000	-	(117,000)	140,000
Total			1,357,000	-	(1,197,000)	160,000

The Shareholders' Meeting of 30 April 2013 approved the adoption of a new incentive plan designated “Interpump **2013/2015** Incentive Plan”. The plan, which is based on the free assignment of options that grant the beneficiaries the right, on the achievement of specified objectives, to (i) purchase or subscribe the Company’s shares up to the maximum number of 2,000,000 or, (ii) at the discretion of the Board of Directors, receive the payment of a differential equivalent to any increase in the market value of the Company’s ordinary shares. Beneficiaries of the plan can be employees or directors of the Company and/or its subsidiaries, identified among the subjects with significant roles or functions. The exercise price has been set at €6.00 per share. The options can be exercised between 30 June 2016 and 31 December 2019. The next meeting of the Board of Directors, held on 30 April 2013, set a figure of 2,000,000 for the number of options to be assigned, divided by the total number of options in each tranche (500,000 for the first tranche, 700,000 for the second tranche and 800,000 for the third tranche) and established the terms for the exercise of the options, which are connected to the achievement of specific accounting parameters and the performance of Interpump Group stock. The same Board of Director's meeting assigned 1,000,000 options to Interpump Group S.p.A. director Fulvio Montipò and 320,000 options to director Paolo Marinsek, the exercise of which is subject to the fulfillment of the above conditions. Moreover, the same Board of Directors meeting conferred on the Chairman and the Deputy Chairman of Interpump Group, separately, the power to specify the beneficiaries of the further 680,000 options. 550,000 options were assigned to the other beneficiaries on 29 October 2013. Accordingly, a total of 1,870,000 options have been assigned.

## RELATIONS WITH GROUP COMPANIES AND TRANSACTIONS WITH RELATED PARTIES

With regard to transactions entered into with related parties, including intra-group transactions, we point out that they cannot be defined as either atypical or unusual, inasmuch as they form part of the normal course of activities of the Group companies. These transactions are regulated



at arm's length conditions, taking into account the characteristics of the assets transferred and services rendered.

Information on relations with related parties, including the information required by CONSOB communication of 28 July 2006, is given in Note 36 to the Annual Financial Report.

The Board of Directors of Interpump Group S.p.A. has approved the Procedure for Transactions with Related Parties, in application of the new legislation issued to transpose the relevant European Council Directive and the related Consob Regulation. For more details, we invite you to refer to the report on corporate governance and the ownership structure, which is available on the website [www.interpumpgroup.it](http://www.interpumpgroup.it) in the Corporate Governance section.

## **TREASURY STOCK**

Information on treasury stock is given in Note 23 of the Annual Financial Report.

## **RECONCILIATION WITH THE FINANCIAL STATEMENTS OF THE PARENT COMPANY**

Reconciliation of consolidated net equity and net profit ascribable to the Parent company's shareholders with those relative to the individual financial statements of the Parent company is as follows:

	Shareholders' equity at 31/12/2015	Net profit as 2015	Shareholders' equity at 31/12/2014
Parent Company's financial statements	<u>294,927</u>	<u>28,529</u>	<u>247,020</u>
Difference between the book value of consolidated investments and their valuation according to the net equity method	324,093	89,896	214,752
Greater book value of a building owned by the Parent Company	199	3	196
Elimination of Parent Company's intra-group income	<u>(2,062)</u>	<u>(789)</u>	<u>(1,273)</u>
Total consolidation adjustments	<u>322,230</u>	<u>89,110</u>	<u>213,675</u>
Shareholders equity and result ascribable to the Parent Company's Shareholders	<u>617,157</u>	<u>117,639</u>	<u>460,695</u>

## **GROUP COMPANIES**

At 31 December 2015 the Interpump Group is led by Interpump Group S.p.A., which holds direct and indirect controlling interests in 54 companies (one in liquidation) operating in two business segments (known as the Hydraulic Sector and the Water Jetting Sector).

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

The main data of the consolidated subsidiaries is presented in the table below, whereas for the Parent Company this can be taken from the financial statements attached hereto.

<u>Companies consolidated line by line</u>	<u>Share capital (€000)</u>	<u>% held at 31/12/15</u>	<u>Head office</u>	<u>Main activity</u>	<u>Sales €million 31/12/2015</u>	<u>Sales €million 31/12/2014</u>	<u>Average number of employees 2015</u>	<u>Average number of employees 2014</u>
Bertoli S.r.l.	50	100.00%	Reggio Emilia	Systems and pumps for homogenizers (Water Jetting Sector)	7.9	-	31	-
General Pump Inc.	1,854	100.00%	Minneapolis – USA	Distributor of high pressure pumps (Water Jetting Sector)	47.5	42.1	60	58
Hammelmann GmbH	25	100.00%	Oelde – Germany	High pressure systems and pumps (Water Jetting Sector)	94.1	83.1	322	316
Hammelmann Australia Pty Ltd	472	100.00%	Melbourne – Australia	Sale of high pressure systems and pumps (Water Jetting Sector)	9.6	8.2	21	19
Hammelmann Corporation Inc.	39	100.00%	Miamisburg - USA	Sale of high pressure systems and pumps (Water Jetting Sector)	29.1	20.2	32	29
Hammelmann S. L. (1)	500	100.00%	Zaragoza - Spain	Sale of high pressure systems and pumps (Water Jetting Sector)	2.6	2.4	5	5
Hammelmann Pumps Systems Co Ltd	871	90.00%	Tianjin – China	Sale of high pressure systems and pumps (Water Jetting Sector)	7.4	6.7	16	16
Hammelmann Bombas e Sistemas Ltda	739	100.00%	San Paolo - Brazil	Sale of high pressure systems and pumps (Water Jetting Sector)	1.0	-	6	-
Inoxihp S.r.l.	119	52.72%	Nova Milanese (MI)	High pressure systems and pumps (Water Jetting Sector)	10.8	-	29	2
NLB Corporation Inc.	12	100.00%	Detroit – USA	High pressure systems and pumps (Water Jetting Sector)	83.4	67.4	233	226
SIT S.p.A.	105	65.00%	S. Ilario d'Enza (RE)	Sheet metal drawing, blanking, and pressing (Water Jetting Sector)	4.3	4.0	22	22
Interpump Hydraulics S.p.A.	2,632	100.00%	Calderara di Reno (BO)	Power take-offs and hydraulic pumps (Hydraulic Sector)	43.4	44.0	204	206
HS Penta S.p.A.	4,244	100.00%	Faenza (RA)	Production and sale of hydraulic cylinders (Hydraulic Sector)	29.6	30.4	111	121
HS Penta Africa Pty Ltd	-	100.00%	Johannesburg - South Africa	Production and sale of hydraulic cylinders (Hydraulic Sector)	3.5	3.6	17	16
Hypress Africa Pty Ltd	796	100.00%	Boksburg - South Africa	Sale of hydraulic hoses and fittings (Hydraulic Sector)	2.2	2.2	29	28
Interpump Hydraulics Middle East FZCO	326	100.00%	Dubai - United Arab Emirates	Sale of ancillary products for industrial vehicles, hydraulic pumps and power takeoffs (Hydraulic Sector)	2.9	-	5	-
Oleodinamica Panni S.r.l.	2,000	100.00%	Tezze sul Brenta (VI)	Production and sale of hydraulic cylinders (Hydraulic Sector)	38.4	35.8	192	189
Contarini Leopoldo S.r.l.	47	100.00%	Lugo (RA)	Production and sale of hydraulic cylinders (Hydraulic Sector)	19.9	20.0	98	100
Unidro S.a.r.l.	8	100.00%	Barby - France	Production and sale of hydraulic cylinders (Hydraulic Sector)	3.6	3.7	11	11
Copa Hydrosystem Ood	3	95.00%	Troyan - Bulgaria	Production and sale of hydraulic cylinders (Hydraulic Sector)	4.8	5.0	102	79

<u>Companies consolidated line by line</u>	<u>Share capital (€000)</u>	<u>% held at 31/12/15</u>	<u>Head office</u>	<u>Main activity</u>	<u>Sales €million 31/12/2015</u>	<u>Sales €million 31/12/2014</u>	<u>Average number of employees 2015</u>	<u>Average number of employees 2014</u>
AVI S.r.l.	10	100.00%	Varedo (MB)	Sale of ancillary products for industrial vehicles, hydraulic pumps and power takeoffs (Hydraulic Sector)	5.1	5.2	13	14
Hydrocar Chile S.A.	129	90.00%	Santiago – Chile	Sale of hydraulic pumps and power takeoffs (Hydraulic Sector)	7.0	8.7	54	62
Hydroven S.r.l.	200	100.00%	Tezze sul Brenta (VI)	Sale of ancillary products for industrial vehicles, hydraulic pumps and power takeoffs (Hydraulic Sector)	12.9	10.9	35	35
Interpump Hydraulics France S.a.r.l.	76	99.77%	Ennery – France	Sale of hydraulic pumps and power takeoffs (Hydraulic Sector)	4.2	4.4	17	19
Interpump Hydraulics India Private Ltd	682	100.00%	Hosur – India	Production and sale of power takeoffs and hydraulic pumps (Hydraulic Sector)	9.7	7.3	78	73
Interpump Hydraulics Brasil Ltda	12,899	100.00%	Caxia do Sul - Brazil	Production and sale of power takeoffs, hydraulic pumps and cylinders (Hydraulic Sector)	4.5	6.3 *	87	82 *
Muncie Power Prod. Inc.	784	100.00%	Muncie - USA	Power take-offs and hydraulic pumps (Hydraulic Sector)	95.7	82.9	343	319
American Mobile Power Inc.	3,410	80.00%	Fairmount – USA	Production and sale of hydraulic cylinders (Hydraulic Sector)	12.4	10.2	65	65
Wuxi Interpump Weifu Hydraulics Company Ltd	2,095	65.00%	Wuxi - China	Production and sale of hydraulic pumps and power take-offs (Hydraulic Sector)	17.7	16.2	96	96
Hydrocontrol S.p.A.	1,350	100.00%	Osteria Grande (BO)	Production and sale of hydraulic valves and directional controls (Hydraulic Sector)	65.1	67.8	410	419
Hydrocontrol Inc.	763	100.00%	Minneapolis – USA	Sale of hydraulic valves and directional controls (Hydraulic Sector)	10.2	8.3	17	14
HC Hydraulic Technologies (P) Ltd	4,120	100.00%	Bangalore – India	Production and sale of hydraulic valves and directional controls (Hydraulic Sector)	7.7	5.2	66	56
Aperlai HK Ltd	77	100.00%	Hong Kong	Holding company for Hydrocontrol in China (Hydraulic Sector)	-	-	-	-
HTIL	98	85.00%	Hong Kong	Sub-holding company for Hydrocontrol in China (Hydraulic Sector)	-	-	-	-
Guangzhou Bushi Hydraulic Technology Ltd	3,720	100.00%	Guangzhou - China	Production and sale of hydraulic valves and directional controls (Hydraulic Sector)	7.5	6.1	77	73
Galtech Canada Inc.	76	100.00%	Terrebonne Quebec – Canada	Sale of hydraulic valves and directional controls (Hydraulic Sector)	2.8	2.7	11	10
IMM Hydraulics S.p.A.	520	100.00%	Atessa (CH)	Production and sale of hydraulic hoses and fittings (Hydraulic Sector)	47.7	48.9	230	238
Hypress S.r.l.	50	100.00%	Atessa (CH)	Rental of line of business (Hydraulic Sector)	-	-	2	2
IMM Hydraulics Ltd	1	100.00%	Halesowen – United Kingdom	Sale of hydraulic hoses and fittings (Hydraulic Sector)	13.0	13.4	46	51

<u>Companies consolidated line by line</u>	Share capital (€000)	% held at 31/12/15	Head office	Main activity	Sales €million 31/12/2015	Sales €million 31/12/2014	Average number of employees 2015	Average number of employees 2014
Hypress Hydraulik GmbH	52	100.00%	Meinerzhagen - Germany	Sale of hydraulic hoses and fittings (Hydraulic Sector)	6.1	6.0	16	15
Hypress France S.a.r.l.	3,616	100.00%	Strasbourg – France	Sale of hydraulic hoses and fittings (Hydraulic Sector)	2.2	3.6	8	14
IMM Hydro Est	3,155	100.00%	Catcau Cluj Napoca – Romania	Production and sale of hydraulic hoses and fittings (Hydraulic Sector)	7.4	6.5	87	79
Dyna Flux S.r.l.	40	51.00%	Bolzaneto (GE)	Sale of hydraulic hoses and fittings (Hydraulic Sector)	0.6	0.6	3	4
Walvoil S.p.A.	5,000	100.00%	Reggio Emilia	Production and sale of hydraulic valves and directional controls (Hydraulic Sector)	117.7	-	768	-
Walvoil Fluid Power Corp.	41	100.00%	Tulsa – USA	Sale of hydraulic valves and directional controls (Hydraulic Sector)	32.1	-	45	-
Walvoil Fluid Power Shanghai Co. Ltd	1,872	100.00%	Shanghai – China	Production and sale of hydraulic valves and directional controls (Hydraulic Sector)	5.2	-	36	-
Walvoil Fluid Power (India) Pvt Ltd	683	100.00%	Bangalore – India	Production and sale of hydraulic valves and directional controls (Hydraulic Sector)	11.1	-	216	-
Walvoil Fluid Power Korea	453	100.00%	Pyeongtaek - South Korea	Production and sale of hydraulic valves and directional controls (Hydraulic Sector)	10.0	-	41	-
Walvoil Fluid Power France S.a.r.l.	10	100.00%	Vritz - France	Agent for the sale of hydraulic valves and directional controls (Hydraulic Sector)	-	-	3	-
Walvoil Fluid Power Australasia	7	100.00%	Melbourne – Australia	Agent for the sale of hydraulic valves and directional controls (Hydraulic Sector)	-	-	1	-
Teknova S.r.l. (in liquidation)	28	100.00%	Reggio Emilia	Inoperative (Other Sector)	-	-	-	-
<u>Companies not consolidated line by line</u>								
General Pump China	111	100%	Ningbo - China	Marketing of components (Water Jetting Sector)				
Interpump Hydraulics UK Ltd	13	100%	Birmingham – UK	Sale of hydraulic pumps and power takeoffs (Hydraulic Sector)				
Interpump Hydraulics Perú	319	90%	Lima - Peru	Sale of hydraulic pumps and power takeoffs (Hydraulic Sector)				

\* = Sales and the average number of employees in 2014 relate to Takarada Industria e Comercio Ltda, an operating company that was absorbed in 2015 by Interpump Hydraulics do Brasil Participacoes Ltda, the holding company, which then became known as Interpump Hydraulics Brasil Ltda.

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

The entire equity interest in Endeavour (Hydralok brand), based in Bath, England, was acquired on 22 January 2016. This company manufactures machinery and systems for joining hydraulic pipes. The purchase is part of a program to strengthen and rationalize Interpump's direct commercial presence in the various international markets. Possession of a company that manufactures crimping systems enables Interpump not only to sell them, but also to equip all international branches with the equipment necessary to commercialize joined hydraulic pipes, which is an important after sales service.

During the year ended 31 March 2015, Endeavour reported sales of about GBP 1.9m (about €2.5m), with an EBITDA of about 16% of sales. Via IMM Hydraulics UK, Interpump paid GBP 1m for Endeavour, including cash of GBP 200k. This price may be adjusted by a maximum of GBP 300k with reference to EBITDA at 31 March 2016.

Considering the short time span since 31 December 2015, the adverse economic situation in world markets and the short period of time historically covered by the order portfolio, we do not yet have sufficient information to make a reliable forecast of trends in 2016, for which positive results are anyway predicted in terms of sales and profitability.

## **FURTHER INFORMATION**

Pursuant to the regulatory requirements for listing that concern subsidiaries formed in or subject to the laws of non-EU states, Walvoil Fluid Power Corporation (USA) and Walvoil Fluid Power Pvt Ltd (India) have been included since 31 December 2014 among the companies of significant importance to the consolidated financial statements, following their inclusion in the audit plan, even though they have not individually exceeded the limits established in art. 151 of the Issuers' Regulation.

The Interpump Group comprises a large number of companies, some of which are small, and has direct presence in 15 countries. This generally means that the audit plan must be added to each year with companies that, although they do not individually exceed the limits set down in art. 151 of the Issuers' Regulation, must anyway be included in order to comply with the cumulative limits prescribed in the same article.

It should be noted that the Parent Company is not subject to activities of management or coordination. The resolution of the Interpump Group S.p.A. Board of Directors of 12 June 2008 acknowledges that "Interpump Group S.p.A." is not subject to the management or coordination of the shareholder "Gruppo IPG Holding S.r.l." because:

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

At the date of this report no changes had occurred in relation to conditions stated above.

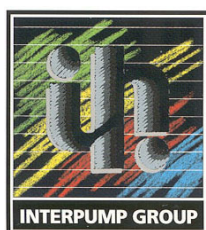
Interpump Group S.p.A. belongs to a domestic tax group together with Teknova S.r.l. and Interpump Hydraulics S.p.A. In addition, IMM Hydraulics S.p.A. and Hypress S.r.l. are members of a different domestic tax group.

Pursuant to the terms of art. 3 of Consob Resolution no. 18079 of 20 January 2012, Interpump Group S.p.A. chose to adhere to the opt-out regime provided for by art. 70, par. 8, and art. 71, par. 1-bis, of Consob Reg. no. 11971/99 (as amended), thus making use of the faculty of derogation from the obligation to publish the informative documents prescribed at the time of significant operations of mergers, break-ups, capital increases by means of the conferment of assets in kind, acquisitions and divestments.

Sant'Ilario d'Enza (RE), 18 March 2016

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

# **Consolidated Financial Statements at 31/12/2015**



**Interpump Group S.p.A. and subsidiaries**

## Consolidated balance sheet

(€000)	<i>Notes</i>	<i>31/12/2015</i>	<i>31/12/2014</i>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	7	135,130	87,159
Trade receivables	8, 31	178,129	135,634
Inventories	9	238,637	182,463
Tax receivables		14,361	10,477
Derivative financial instruments	10, 31	2	-
Other current assets	12, 31	7,809	6,855
<b>Total current assets</b>		<b>574,068</b>	<b>422,588</b>
<b>Non-current assets</b>			
Property, plant and equipment	13	286,066	209,073
Goodwill	14	347,388	279,373
Other intangible assets	15	33,193	24,649
Other financial assets	16, 31	1,025	994
Tax receivables		1,934	2,456
Deferred tax assets	17	25,190	22,035
Other non-current assets		1,209	1,380
<b>Total non-current assets</b>		<b>696,005</b>	<b>539,960</b>
Assets held for sale	11	-	615
<b>Total assets</b>		<b>1,270,073</b>	<b>963,163</b>



(€000)	<u>Notes</u>	<u>31/12/2015</u>	<u>31/12/2014</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade payables	8, 31	94,022	80,273
Payables to banks	18, 31	5,735	27,770
Interest-bearing financial payables (current portion)	18, 31	83,833	64,298
Derivative financial instruments	10, 31	77	169
Tax payables		19,904	11,665
Other current liabilities	19, 31	48,840	38,123
Provisions for risks and charges	20	4,423	4,162
<b>Total current liabilities</b>		<b>256,834</b>	<b>226,460</b>
<b>Non-current liabilities</b>			
Interest-bearing financial payables	18, 31	300,549	147,060
Liabilities for employee benefits	21	17,264	14,940
Deferred tax liabilities	17	48,098	33,436
Other non-current liabilities	22	22,017	72,605
Provisions for risks and charges	20	2,683	1,949
<b>Total non-current liabilities</b>		<b>390,611</b>	<b>269,990</b>
Liabilities held for sale	11	-	163
<b>Total liabilities</b>		<b>647,445</b>	<b>496,613</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	23	56,032	53,871
Legal reserve	24	11,323	11,323
Share premium reserve	23	138,955	101,237
Reserve for the measurement of hedging derivatives at fair value	24	(13)	(19)
Reserve for restatement of defined benefit plans		(3,501)	(5,273)
Translation provision	24	22,657	3,809
Other reserves	24	391,704	295,747
<b>Group shareholders' equity</b>		<b>617,157</b>	<b>460,695</b>
Minority interests	25	5,471	5,855
<b>Total shareholders' equity</b>		<b>622,628</b>	<b>466,550</b>
<b>Total shareholders' equity and liabilities</b>		<b>1,270,073</b>	<b>963,163</b>

## Consolidated income statement for the year

(€'000)	<i>Notes</i>	<i>2015</i>	<i>2014</i>
<b>Net sales</b>		<b>894,928</b>	<b>671,999</b>
Cost of products sold	27	(577,310)	(426,585)
<b>Gross industrial margin</b>		<b>317,618</b>	<b>245,414</b>
Other net revenues	26	13,133	12,563
Distribution costs	27	(84,321)	(68,074)
General and administrative expenses	27, 28	(105,670)	(80,517)
Other operating costs	27	(3,864)	(5,019)
<b>Ordinary profit before financial expenses</b>		<b>136,896</b>	<b>104,367</b>
Financial income	29	42,416	8,144
Financial expenses	29	(15,688)	(19,504)
Adjustment of the value of investments carried at equity		(262)	102
<b>Profit for the period before taxes</b>		<b>163,362</b>	<b>93,109</b>
Income taxes	30	(45,056)	(35,367)
<b>Consolidated net profit for the period</b>		<b>118,306</b>	<b>57,742</b>
<b>Due to:</b>			
Parent company's shareholders		117,639	56,936
Subsidiaries' minority shareholders		667	806
<b>Consolidated profit for the period</b>		<b>118,306</b>	<b>57,742</b>
Basic earnings per share	31	1.101	0.541
Diluted earnings per share	31	1.086	0.531

## Comprehensive consolidated income statements for the year

(€000)	<u>2015</u>	<u>2014</u>
<b>Consolidated profit for the year (A)</b>	<b>118,306</b>	<b>57,742</b>
<b>Other comprehensive profit (loss) that will be subsequently reclassified in consolidated profit for the period</b>		
<i>Accounting for interest rate hedging derivatives using the cash flow hedge method:</i>		
- Profit (Loss) on derivative financial instruments for the period	-	-
- Minus: Adjustment for reclassification of profits (losses) to the income statement	-	-
- Minus: Adjustment for recognition of fair value to reserves in the prior year	=	<u>50</u>
<i>Total</i>	-	<u>50</u>
<i>Accounting for exchange risk hedging derivatives using the cash flow hedge method:</i>		
- Profit (Loss) on derivative financial instruments for the period	(19)	(27)
- Minus: Adjustment for reclassification of profits (losses) to the income statement	27	(14)
- Minus: Adjustment for recognition of fair value to reserves in the prior year	=	<u>-</u>
<i>Total</i>	8	<u>(41)</u>
<i>Profits (Losses) arising from the translation to euro of the financial statements of foreign companies</i>	18,985	23,275
<i>Profits (Losses) of companies carried at equity</i>	(16)	68
<i>Related taxes</i>	<u>(2)</u>	<u>(1)</u>
<b>Total other profit (loss) that will be subsequently reclassified in consolidated profit for the period, net of the tax effect (B)</b>	<b><u>18,975</u></b>	<b><u>23,351</u></b>
<b>Other comprehensive profit (loss) that will not be subsequently reclassified in consolidated profit for the period</b>		
<i>Profit (loss) deriving from the restatement of defined benefit plans</i>	2,479	(2,640)
<i>Related taxes</i>	(683)	<u>726</u>
<b>Total Other comprehensive profit (loss) that will not be subsequently reclassified in consolidated profit for the year, net of tax effect (C)</b>	<b><u>1,796</u></b>	<b><u>(1,914)</u></b>
<b>Comprehensive consolidated profit for the year (A) + (B) + (C)</b>	<b><u>139,077</u></b>	<b><u>79,179</u></b>
<b>Due to:</b>		
Parent company's shareholders	138,256	77,960
Subsidiaries' minority shareholders	<u>821</u>	<u>1,219</u>
<b>Comprehensive consolidated profit for the period</b>	<b><u>139,077</u></b>	<b><u>79,179</u></b>

## Consolidated cash flow statement

(€000)

	2015	2014
<b>Cash flow from operating activities</b>		
Pre-tax profit	163,362	93,109
Adjustments for non-cash items:		
Capital losses (Capital gains) from the sale of fixed assets	(3,076)	(1,519)
Capital losses (Capital gains) from the sale of business divisions and equity investments	-	(406)
Amortization and depreciation, loss and reinstatement of assets	41,886	30,085
Costs ascribed to the income statement relative to stock options that do not involve monetary outflows for the Group	1,370	1,370
Loss (Profit) from investments	262	(102)
Net change in risk provisions and provisions for employee benefits	(973)	(147)
Outlays for tangible fixed assets destined for hire	(11,201)	(7,180)
Proceeds from the sale of fixed assets granted for hire	7,643	3,792
Net financial charges	(26,728)	11,360
	172,545	130,362
(Increase) decrease in trade receivables and other current assets	1,546	(5,503)
(Increase) decrease in inventories	3,412	(14,145)
Increase (decrease) in trade payables and other current liabilities	(11,512)	(4,107)
Interest paid	(5,838)	(5,823)
Currency exchange gains realized	2,110	1,185
Taxes paid	(48,659)	(29,911)
<b>Net cash from operating activities</b>	<b>113,604</b>	<b>72,058</b>
<b>Cash flows from investing activities</b>		
Outlay for the acquisition of investments, net of received cash and including treasury stock assigned	(176,227)	(47,784)
Disposal of investments including transferred cash	746	796
Capital expenditure in property, plant and equipment	(27,502)	(32,575)
Proceeds from sales of tangible fixed assets	1,594	1,512
Increase in intangible fixed assets	(2,804)	(3,000)
Received financial income	714	637
Other	290	883
<b>Net liquidity used in investing activities</b>	<b>(203,189)</b>	<b>(79,531)</b>
<b>Cash flows of financing activity</b>		
Disbursal (repayment) of loans	145,847	28,325
Dividends paid	(20,390)	(18,166)
Outlays for purchase of treasury stock	(32,709)	(38,299)
Sale of treasury stock for the acquisition of equity investments	60,891	7,026
Proceeds from the sale of treasury stock to beneficiaries of stock options	8,166	4,626
Repayment (disbursal) of loans by/to non-consolidated subsidiaries	-	21
Change in other financial assets	(409)	1,017
Disbursal (repayment) of loans from (to) shareholders	(1)	(248)
Payment of financial leasing installments (principal portion)	(3,368)	(4,306)
<b>Net liquidity generated (used by) financing activities</b>	<b>158,027</b>	<b>(20,004)</b>
<b>Net increase (decrease) of cash and cash equivalents</b>	<b>68,442</b>	<b>(27,477)</b>

(€000)	<u>2015</u>	<u>2014</u>
<b>Net increase (decrease) of cash and cash equivalents</b>	<b>68,442</b>	<b>(27,477)</b>
Opening cash and cash equivalents of companies consolidated line by line for the first time	1,129	41
Exchange differences from the translation of cash of companies in areas outside the EU	435	2,445
Cash and cash equivalents at the beginning of the year	59,389	84,380
<b>Cash and cash equivalents at the end of the year</b>	<b>129,395</b>	<b>59,389</b>

For reconciliation of cash on hand refer to note 34.

## Statement of changes in consolidated shareholders' equity

	Share capital	Legal reserve	Share premium reserve	Reserve for valuation of hedging derivatives at fair value	Reserve for restatement of defined benefit plans	Translation provision	Other reserves	Group shareholders' equity	Minority interests	Total
<i>Balances at 31 December 2013</i>	55,003	11,323	125,039	(27)	(3,396)	(19,084)	257,828	426,686	6,263	432,949
Recognition in the income statement of the fair value of stock options assigned and exercisable	-	-	1,370	-	-	-	-	1,370	-	1,370
Purchase of treasury stock	(1,986)	-	(35,970)	-	-	-	(343)	(38,299)	-	(38,299)
Sale of treasury stock to the beneficiaries of stock options	482	-	4,144	-	-	-	-	4,626	-	4,626
Sale of treasury stock for payment of equity investments	372	-	6,654	-	-	-	-	7,026	-	7,026
Dividends paid	-	-	-	-	-	-	(18,108)	(18,108)	(58)	(18,166)
Purchase of residual interests in subsidiaries	-	-	-	-	-	-	(542)	(542)	(1,871)	(2,413)
Effect of Hydrocar Chile-Syscam combination	-	-	-	-	-	-	(82)	(82)	289	207
Copa-Golf merger effect	-	-	-	-	-	-	58	58	(58)	-
Acquisition of IMM	-	-	-	-	-	-	-	-	71	71
Comprehensive Profit (loss) for 2014	-	-	-	8	(1,877)	22,893	56,936	77,960	1,219	79,179
<i>Balances at 31 December 2014</i>	53,871	11,323	101,237	(19)	(5,273)	3,809	295,747	460,695	5,855	466,550
Recognition in the income statement of the fair value of stock options assigned and exercisable	-	-	1,370	-	-	-	-	1,370	-	1,370
Purchase of treasury stock	(1,322)	-	(32,709)	-	-	-	1,322	(32,709)	-	(32,709)
Sale of treasury stock to the beneficiaries of stock options	921	-	8,166	-	-	-	(921)	8,166	-	8,166
Sale of treasury stock for payment of equity investments	2,562	-	60,891	-	-	-	(2,562)	60,891	-	60,891
Dividends paid	-	-	-	-	-	-	(19,321)	(19,321)	(925)	(20,246)
Purchase of residual interests in subsidiaries	-	-	-	-	-	-	(191)	(191)	(280)	(471)
Comprehensive Profit (loss) for 2015	-	-	-	6	1,772	18,848	117,630	138,256	821	139,077
<i>Balances at 31 December 2015</i>	56,032	11,323	138,955	(13)	(3,501)	22,657	391,704	617,157	5,471	622,628

## Notes to the annual financial report

### 1. General information

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

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

The consolidated financial statements at 31 December 2015 were approved by the Board of Directors on 18 March 2016.

### 2. Scope of the consolidation

The 2015 consolidation basis includes the Parent Company and the following subsidiaries consolidated on a line-by-line basis (with the information required on the basis of DEM/6064293 of 28/07/2006):

<u>Company</u>	<u>Head office</u>	<u>Share capital</u> <u>€/000</u>	<u>Shareholders' Equity</u> <u>€/000</u>	<u>Profit 2015</u> <u>€/000</u>	<u>% stake</u> <u>at 31/12/15</u>
Bertoli S.r.l.	Reggio Emilia	50	5,979	1,116	100.00%
General Pump Inc.	Minneapolis (USA)	1,854	19,469	4,062	100.00%
Hammelmann GmbH	Oelde (Germany)	25	118,126	20,285	100.00%
Hammelmann Australia Pty Ltd (1)	Melbourne (Australia)	472	5,768	659	100.00%
Hammelmann Corporation Inc (1)	Miamisburg (USA)	39	15,098	4,901	100.00%
Hammelmann S. L. (1)	Zaragoza (Spain)	500	1,635	403	100.00%
Hammelmann Pumps Systems Co Ltd (1)	Tianjin (China)	871	5,266	1,278	90.00%
Hammelmann Bombas e Sistemas Ltda (1)	San Paolo (Brazil)	739	106	(102)	100.00%
Inoxihp S.r.l.	Nova Milanese (MI)	119	5,410	2,214	52.72%
NLB Corporation Inc.	Detroit (USA)	12	90,093	5,938	100.00%
SIT S.p.A.	S. Ilario d'Enza (RE)	105	1,143	35	65.00%
Interpump Hydraulics S.p.A.	Calderara di Reno (BO)	2,632	141,339	15,870	100.00%
HS Penta S.p.A (2)	Faenza (RA)	4,244	10,348	808	100.00%
HS Penta Africa Pty Ltd (10)	Johannesburg (South Africa)	-	851	158	100.00%
Interpump Hydraulics Middle East FZCO (2) and (9)	Dubai (UAE)	326	543	119	100.00%
Oleodinamica Panni S.r.l. (2)	Tezze sul Brenta (VI)	2,000	20,056	4,592	100.00%
Contarini Leopoldo S.r.l. (2)	Lugo (RA)	47	6,968	1,988	100.00%
Unidro S.a.r.l. (3)	Barby (France)	8	2,477	370	100.00%
Copa Hydrosystem Ood (3)	Troyan (Bulgaria)	3	4,256	192	95.00%
AVI S.r.l. (2)	Varedo (MB)	10	1,763	327	100.00%
Hydrocar Chile S.A. (2)	Santiago (Chile)	129	5,078	283	90.00%
Hydroven S.r.l. (2)	Tezze sul Brenta (VI)	200	3,514	1,003	100.00%
Interpump Hydraulics France S.a.r.l. (2)	Ennery (France)	76	1,648	271	99.77%
Interpump Hydraulics India Private Ltd (2)	Hosur (India)	682	9,141	672	100.00%
Interpump Hydraulics Brasil Ltda (2)	Caxia do Sul (Brazil)	12,899	10,183	(843)	100.00%
Muncie Power Prod. Inc. (2)	Muncie (USA)	784	68,165	12,372	100.00%

<i>Company</i>	<i>Head office</i>	<i>Share capital €'000</i>	<i>Shareholders' Equity €'000</i>	<i>Profit 2015 €'000</i>	<i>% stake at 31/12/15</i>
American Mobile Power Inc. (4)	Fairmount (USA)	3,410	8,061	1,474	80.00%
Wuxi Interpump Weifu Hydraulics Company Ltd (2)	Wuxi (China)	2,095	9,793	1,621	65.00%
Hydrocontrol S.p.A. (2)	Osteria Grande (BO)	1,350	29,712	2,097	100.00%
Hydrocontrol Inc. (5)	Minneapolis (USA)	763	1,357	667	100.00%
HC Hydraulics Technologies(P) Ltd (5)	Bangalore (India)	4,120	5,591	688	100.00%
Aperlai HK Ltd (5)	Hong Kong	77	74	(3)	100.00%
HTIL (6)	Hong Kong	98	4,522	2,386	85.00%
Guangzhou Bushi Hydraulic Technology Ltd (7)	Guangzhou (China)	3,720	6,856	1,473	100.00%
Galtech Canada Inc. (5)	Terrebonne, Quebec (Canada)	76	1,143	275	100.00%
IMM Hydraulics S.p.A. (2)	Atessa (Switzerland)	520	22,157	1,183	100.00%
Hypress S.r.l. (8)	Atessa (Switzerland)	50	(4)	(81)	100.00%
IMM Hydraulics Ltd (8)	Halesowen (UK)	1	3,830	763	100.00%
Hypress Hydraulik GmbH (8)	Meinerzhagen (Germany)	52	1,875	69	100.00%
Hypress France S.a.r.l. (8)	Strasbourg (France)	3,616	(837)	(1,505)	100.00%
IMM Hydro Est (8)	Catcau Cluj Napoca (Romania)	3,155	6,689	1,166	100.00%
Hypress Africa Pty Ltd (9)	Boksburg (South Africa)	796	671	(85)	100.00%
Dyna Flux S.r.l. (8)	Bolzaneto (GE)	40	141	20	51.00%
Walvoil S.p.A.	Reggio Emilia	5,000	62,868	9,540	100.00%
Walvoil Fluid Power Corp. (10)	Tulsa (USA)	41	7,514	1,396	100.00%
Walvoil Fluid Power Shanghai Co. Ltd (10)	Shanghai (China)	1,872	4,928	452	100.00%
Walvoil Fluid Power Pvt Ltd (10)	Bangalore (India)	683	10,006	887	100.00%
Walvoil Fluid Power Korea (10)	Pyeongtaek (South Korea)	453	4,547	1,061	100.00%
Walvoil Fluid Power France S.a.r.l. (10)	Vritz (France)	10	131	22	100.00%
Walvoil Fluid Power Australasia (10)	Melbourne (Australia)	7	38	26	100.00%
Teknova S.r.l. (in liquidation)	Reggio Emilia	28	27	(340)	100.00%

(1) = controllata da Hammelmann GmbH

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

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

(4) = controlled by Muncie Power Inc.

(5) = controlled by Hydrocontrol S.p.A.

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

(6) = controllata da Aperlai HK Ltd

(7) = controlled by HTIL

(8) = controlled by IMM Hydraulics S.p.A.

(9) = controlled by HS Penta S.p.A.

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

The Walvoil Group, Inoxihp, Bertoli and Osper (merged into Interpump Hydraulics Brasil together with Takarada and Walvoil Fluid Power do Brasil) have been consolidated for the first time.

Despite their modest size, in consideration of development plans for the coming years also Hammelmann Bombas e Sistemas Ltda and Interpump Hydraulics Middle East FZCO were consolidated line-by-line for the first time. The effect on 2015 is not significant.

The minority shareholders of American Mobile Power are obliged to sell their holdings (and Muncie is obliged to purchase them) in April 2016 at a price to be determined on the basis of the company's results as reported in the last two financial statements for the years closed prior to that date. The minority shareholder of Inoxihp S.r.l. is entitled to dispose of its holdings starting from the approval of the 2025 financial statements up to the 2035 financial statements, on the basis of the average results of the company in the last two financial statements for the years ended before the exercise of the option.



In compliance with the requirements of IFRS 10 and IFRS 3, American Mobile Power and Inoxihp have been consolidated in full, recording a payable representing an estimate of the current value of the exercise price of the options determined with reference to a business plan for each company. Any changes in the payable representing the present value of the exercise price that occur within 12 months of the date of acquisition, as a result of additional or better information, will be recorded as an adjustment of goodwill, while any changes after 12 months from the date of acquisition will be recognized in the income statement.

### **3. Accounting standards adopted**

#### **3.1 Reference accounting principles**

The annual financial report at 31 December 2015 was drafted in compliance with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and approved by the European Union. “IFRS” also means the International Accounting Standards (“IAS”) currently in force and all the interpretative documents issued by the IFRS Interpretations Committee, previously denominated the International Financial Reporting Interpretations Committee (“IFRIC”) and still earlier known as the Standing Interpretations Committee (“SIC”).

The consolidated financial statements are drafted in thousands of euro. The financial statements are drafted according to the cost method, with the exception of financial instruments, which are measured at fair value.

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

##### **3.1.1 Accounting standards, amendments and interpretations in force from 1 January 2015**

As from 2015 the Group has applied the following new accounting standards, amendments and interpretations, reviewed by IASB:

- On 12 December 2012, the IASB issued a collection of amendments to IAS/IFRS standards (“*Annual Improvements to the 2011–2013 Cycle*”). The amendments resulted in changes: (i) to IFRS 3, specifying that the standard is not applicable to measure the accounting effects related to the formation of a joint venture or joint operation (as defined by IFRS 11) in the financial statements of the joint venture or joint operation; (ii) to IFRS 13, explaining that the provision of IFRS 13 on the basis of which the fair value of a group of financial assets and liabilities can be measured on a net basis, is applicable to all contracts (including non-financial contracts) falling within the scope of IAS 39 or IFRS 9; (iii) to IAS 40, explaining that to establish when the acquisition of a property constitutes a business combination, reference must be made to the provisions of IFRS 3.

### **3.1.2 Accounting principles, amendments and interpretations taking effect as from 1 January 2015 but not relevant for the Group**

- *IFRIC 21 Levies* - The IASB published this interpretation on 20 May 2013. IFRIC 21 states that an entity shall recognize a liability for levies no earlier than the time of occurrence of the event to which the payment is linked, in compliance with the applicable law. For payments that become due only when a specified minimum threshold is exceeded, the liability is booked only when said minimum threshold is reached. Retrospective application is required for IFRIC 21.

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

- *IFRS 9 – Financial instruments*. On 12 November 2009, the IASB published the following standard, which was subsequently amended on 28 October 2010 in a further amendment in mid-December 2011. The new standard, which is applicable from 1 January 2018, constitutes the first part of a process in stages aimed at replacing IAS 39 and introduces new criteria for the classification and measurement of financial assets and liabilities, and for the derecognition of financial assets from the financial statements. Specifically, the new standard uses a single approach to financial assets based on the methods of management of financial instruments and on the characteristics of the contractual cash flows of financial assets in order to establish the measurement criterion, replacing the various rules contained in IAS 39. In contrast, for financial liabilities the main change concerns the accounting treatment for changes in the fair value of a financial liability designated as a financial liability measured at fair value in profit and loss, in the event wherein such changes are due to changes in the credit rating of the liabilities in question. In accordance with the new standard, such changes must be recorded in the comprehensive income statement and cannot thereafter be derecognised in profit and loss.
- On 30 January 2014, the IASB published IFRS 14 *Regulatory Deferral Accounts*, which is an interim standard related to the *Rate-regulated activities* project. IFRS 14 allows exclusively first-time adopters of IFRS to continue recognizing amounts associated with rate regulation in compliance with the accounting policies previously adopted. In order to improve comparability with entities that are already applying the IFRS standards and that do not therefore disclose these amounts, the standard requires the rate regulation effect to be presented separately from other captions;
- On 12 December 2012, the IASB issued a collection of amendments to IAS/IFRS standards: *Annual Improvements to IFRSs 2010–2012 Cycle*. The amendments resulted in changes: (i) to IFRS 2, clarifying the definition of “vesting condition” and introducing the definitions of the service and performance conditions; (ii) to IFRS 3, clarifying that the obligations to pay a contingent consideration other than those included in the definition of equity instrument, are to be measured at fair value at each reporting date, with the changes recognized in the income statement; (iii) to IFRS 8, requiring an entity to disclose the judgments made by management in applying the aggregation criteria to the operating segments, describing the segments that have been aggregated and the economic indicators that were assessed to determine that the aggregated segments have similar economic characteristics; (iv) to IAS 16 and IAS 38, clarifying the method of determining the carrying amount of assets, in the case of revaluation further to the application of the revaluation model; (v) to IAS 24, establishing the information to be supplied when there is a third-party entity that supplies services related to the administration of key management personnel of the

reporting entity. These amendments will be effective for reporting periods starting after 1 February 2015. Early adoption is however permitted.

- *Amendments to IAS 19 – Employee benefits.* On 21 November 2013, the IASB published an amendment to IAS 19 limited to contributions to defined benefit plans for employees. The changes are aimed at simplifying the accounting of contributions that are unrelated to years of seniority, such as contributions calculated on the basis of a fixed percentage of salary. This amendment will be effective for reporting periods starting after 1 February 2015. Early adoption is however permitted.
- *IFRS 15 – Recognition of revenue from contracts with customers.* On 28 May 2014, the IASB and the FASB jointly issued IFRS 15 designed to improve the disclosure of revenues and the global comparability of financial statements in order to harmonize the recognition of economically similar transactions. The standard is effective for IFRS users from reporting periods starting after 1 January 2017 (early adoption is permitted).
- *Amendment to IFRS 15* – On 11 September 2015, the IASB released an amendment whereby the application of the standard is deferred by one year, i.e. to 1 January 2018. Early adoption is however permitted.
- *Amendment of IFRS 27 – Separate financial statements.* On 12 August 2014, the IASB published an amendment to the standard that will allow entities to use the equity method to recognize investments in subsidiaries, joint ventures and associates in separate financial statements. The amendment is effective from 1 January 2016.
- *Annual improvements to IFRS 2012–2014 cycle* – On 15 December 2015, the European Union issued regulation 2015/2343 adopting the annual improvements to IFRS 2012–2014 cycle, which was issued by the IASB on 25 September 2014 and relates to a number of amendments to the IAS/IFRS. The aim of the annual improvements is to address necessary matters related to inconsistencies found in IFRSs or for clarifications of terminology, which are not of an urgent nature but which reflect issues discussed by the IASB during the project cycle. Among the amended standards, IFRS 5, in relation to which a clarification has been introduced concerning cases in which the method of disposal of an asset is changed from held for sale to held for distribution; IFRS 7, with a clarification to establish if and when a residual involvement in a transferred financial asset exists in the presence of an associated service contract, thus determining the required level of disclosure; IAS 19, which clarifies that the currency of securities used as a benchmark to estimate the discount rate, must be the same as the currency in which the benefits will be paid; and IAS 34 in which the meaning of "elsewhere" is clarified for the inclusion of information by cross-reference.
- *Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment entities: applying the consolidation exception.* On 18 December 2014, the IASB published the amendments in question concerning the problems deriving from application of the consolidation exception granted to investment entities. The first application date introduced by the IASB is for annual periods beginning on or after 1 January 2016. Early application is permitted.
- *Amendments to IFRS 10 and IAS 28: sale or contribution of assets between an investor and its associate or joint venture.* – On 11 September 2014, the IASB published the amendments in question, which are designed to remove the conflict between the requirements of IAS 28 and those of IFRS 10 and clarify that in a transaction that involves an associate or a joint venture the extent to which it is possible to recognize a profit or a loss depends on whether the asset subject to sale or contribution is a business. In December 2015 the IASB issued an amendment that defers the entry into force of these amendments for an indefinite period.

- *Amendments to IAS 16 and IAS 41: agriculture - bearer plants* – On 23 November 2015 the European Union issued regulation 2015/2113 adopting these amendments. The amendments, which do not concern the Interpump Group, will be applicable to financial periods starting on or after 1 January 2016.
- *Amendments to IFRS 11: accounting for acquisitions of interests in joint operations* – On 24 November 2015 the European Union issued regulation 2015/2173 adopting these amendments, which provide guidance on the accounting for acquisitions of interests in joint operations that comprise a business activity. The amendments apply to financial periods starting on or after 1 January 2016.
- *Amendments to IAS 16 and IAS 38: property, plant and equipment and intangible assets* – On 2 December 2015 the European Union issued regulation 2015/2231 specifying that a method of depreciation based on the revenues generated by the asset is inappropriate because it reflects solely the revenue flow generated by the asset and does not reflect the methods of consumption of the prospective future economic benefits embodied in the asset. The amendments apply, at the latest, to financial periods starting on or after 1 January 2016. It is deemed that adoption of the standard will have no significant effects on the Group's financial statements.
- *Amendments to IAS 1: presentation of financial statements - disclosure initiative* – On 18 December 2015 the European Union issued regulation 2015/2406 adopting these amendments that seek to improve the effectiveness of disclosures and encourage companies to use professional judgment when determining the information to be reported in the financial statements pursuant to IAS 1. The amendments apply, at the latest, to financial periods starting on or after 1 January 2016.

At today's date the competent bodies of the European Union have completed the approval process related to the new standards and amendments applicable to financial statements starting as from 1 January 2016, while the approval process required for adoption of the other standards and amendments is still under way. On the basis of analysis currently in progress no significant impacts are predicted from the 2016 adoption of the applicable new standards and amendments.

## 3.2 Consolidation principles

### *(i) Subsidiaries*

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

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

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

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

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

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

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

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

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

The fair value of any contingent consideration payable is recognized by the purchaser at the acquisition date. Changes in the fair value of contingent consideration classified as an asset or a liability, as a financial instrument governed by IAS 39 Financial instruments: recognition and measurement, are recognized in the income statement or in the statement of other comprehensive income. Any contingent consideration not falling within the scope of IAS 39 is measured in accordance with the appropriate IFRS. If the contingent consideration is classified in equity, its value is not remeasured and the effect of subsequent settlement is also recognized in equity.

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

For the purposes of consolidation of subsidiaries, the method of global integration is adopted, i.e. assuming the entire amount of equity assets and liabilities and all the costs and revenues irrespective of the percentage of control. The accounting value of consolidated equity investments is therefore eliminated against the related interest in their shareholders' equity. The portions of shareholders' equity and profits of minority interests are shown respectively in a specific caption under shareholders' equity and on a separate line of the consolidated income statement. When the losses ascribable to minority shareholders in a consolidated subsidiary exceed the minority interests, the excess and all further losses attributable to minority shareholders are ascribed to the Parent Company's shareholders, with the exception of the part for which the minority shareholders have a binding obligation to cover the loss with additional expenditure and are capable of doing so. If the subsidiary subsequently makes a profit, such profits are attributable to the Parent Company shareholders up to the amount of the losses of the minority shareholders that were previously covered.

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

*(ii) Associates*

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

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

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

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

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

Subsequent to application of the equity method, the Group considers if it is necessary to recognize any impairment in the value of its interests in associates. On each reporting date, the Group determines if there is any objective evidence that the carrying amount of associates

might be impaired. If so, the Group calculates the loss as the difference between the recoverable value of the associate and its carrying amount, and charges it to the "interest in the results of associates" caption of the income statement.

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

*(iii) Investments in other companies*

Investments in other companies constituting financial assets held for sale are measured at their fair value, if this can be established, and the gains and losses deriving from the change in fair value are recognized directly in equity until investments are divested or have suffered a value impairment; at that time, the overall gains or losses previously recognized in equity are recognized in the income statement for the year. Investments in other companies for which the fair value is not available are recorded at cost after deducting any impairment losses.

*(iv) Transactions eliminated in the consolidation process*

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

### **3.3 Business sector information**

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

### **3.4 Treatment of foreign currency transactions**

*(i) Foreign currency transactions*

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

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

Assets and liabilities of companies residing in countries other than EU countries, including adjustments deriving from the consolidation process relative to goodwill and adjustments to fair value generated by the acquisition of a foreign company outside the EU, are translated at

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

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

	2015 averages	At 31 December 2015	2014 averages	At 31 December 2014
US Dollar	1.109	1.089	1.329	1.214
Australian Dollar	1.478	1.490	1.472	1.483
UK Pound	0.726	0.734	0.806	0.779
Brazilian Real	3.700	4.312	3.121	3.221
Indian Rupee	71.196	72.021	81.041	76.719
Chilean Peso	726.406	772.713	756.933	737.297
Chinese Yuan	6.973	7.061	8.186	7.536
Canadian Dollar	1.418	1.512	1.466	1.406
Romanian Leu	4.445	4.524	4.444	4.483
South African Rand	14.172	16.953	14.404	14.035
Hong Kong Dollar	8.601	8.438	10.302	9.417
Bulgarian Lev	1.956	1.956	1.956	1.956
UAE Dirham	4.073	3.997	-	-
South Korean Won	1,256.544	1,280.780	-	-
Peruvian Sol	3.532	3.708	-	-

### 3.5 Non-current assets held for sale and discontinued operations

Non-current assets held for sale and any assets and liabilities pertaining to lines of business destined for sale are valued at the lower of their book value at the time these items were classified as held for sale, and their fair value, net of the costs of sale. Any impairments recorded in application of said principle are recorded in the income statement, both in the event of write-downs for adaptation to the fair value and also in the case of profits and losses deriving from future changes of the fair value.

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

### 3.6 Property, plant and equipment

#### (i) Own assets

Property, plant and equipment are measured at their historic cost and reported net of accumulated depreciation (see next point iv) and impairment losses (see heading 3.9). The cost of goods produced internally includes the cost of raw materials, directly related labor costs, and a portion of indirect production costs. The cost of assets, whether purchased



externally or produced internally, includes the ancillary costs that are directly attributable and necessary for use of the asset and, when they are significant and in the presence of contractual obligations, the current value of the cost estimated for the dismantling and removal of the related assets.

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

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

*(ii) Assets held through financial leasing*

Assets held through financial leasing agreements, for which the Group has assumed practically all the risks and benefits associated with membership, are recognized as Group assets. These assets are valued at the lower of the fair value and the discounted value of the leasing installments at the time of signing of the agreement, net of accumulated depreciation (see following point *iv*) and the impairment value (see section 3.9). The corresponding liability in relation to the lessor is recorded in the financial statements under financial debts, reduced on the basis of the plan for repayment of the principal amounts. Financial leasing installments are booked in accordance with the method outlined in section 3.22.

*(iii) Subsequent costs*

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

*(iv) Depreciation*

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

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

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

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

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

### **3.7 Goodwill**

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

Goodwill is recorded at cost, net of impairment losses.

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

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

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

### **3.8 Other intangible assets**

#### *(i) Research and development costs*

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

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

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

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

#### *(ii) Loan ancillary costs*

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

#### *(iii) Other intangible assets*

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

Trademarks and patents, which constitute almost the entirety of this caption, are amortized as follows: the Hammelmann trademark and NLB trademark and patents, the Inoxihp trademark and the American Mobile trademark are amortized over 15 years, this period being considered representative of the expected useful life, in consideration of their positions as world leaders in their respective niche markets. The Walvoil and Hydrocontrol trademarks are amortized over 10 years, in consideration of their leadership positions in highly competitive markets. The trademarks of companies in the Cylinders Division, on the other hand, are amortized over 7 years due to their different competitive strength. The IMM trademark is amortized over 5 years in view of the specific characteristics of the market for hoses and fittings.

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

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

*(iv) Subsequent costs*

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

*(v) Amortization/depreciation*

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

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

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

### **3.9 Impairment of assets**

The book values of assets, with the exception of inventories (see section 3.14), financial assets regulated by IAS 39, deferred tax assets (see section 3.18), and non-current assets held for sale regulated by IFRS 5, are subject to measurement at the balance sheet reference date in order to identify the existence of possible indicators of impairment. If the valuation process identifies the presence of such indicators, the presumed recoverable value of the asset is calculated using the methods indicated in the following point (i).

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

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

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

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

*(i) Calculation of presumed impairment loss*

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

The presumed recovery value of other assets is equal to the higher of their net sale price and their value in use. The value in use is equivalent to the projected future cash flows, discounted to present value at a rate, including tax, that takes account of the market value, of interest rates and specific risks of the asset to which the presumed realization value refers. For assets that

do not give rise to independent cash flows the presumed realization value is determined with reference to the cash generating unit to which the asset belongs.

*(ii) Reinstatement of impairment losses*

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

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

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

Impairment relative to goodwill can never be reinstated.

### **3.10 Investments**

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

Investments in other companies are classified among financial instruments available for sale in accordance with the requirements of IAS 39, even if the Group has not manifested any intention of divesting the relative holdings.

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

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

### **3.11 Cash and cash equivalents**

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

### **3.12 Current financial assets, Receivables and Other current assets**

Current financial assets, trade receivables and other current assets (excluding derivative financial instruments) are recorded, at the time of their initial entry, on the basis of the purchase cost inclusive of ancillary costs (fair value for the initial entry).

Subsequently, available for sale financial assets are assessed at their fair value (market value). Gains or losses deriving from the valuation are recognized in equity up to the moment in which the financial asset is sold, at which time the gains or losses are recorded in the income statement. If the market value of the financial assets cannot be reliably determined, they are entered at their purchase cost.

Accounts receivable, with due date within normal commercial terms or that accrue interest at market rates, are not discounted to current value and are entered at amortized cost net of a bad debt provision booked as a direct deduction from the receivables in question to bring the valuation to the presumed realizable value (see section 3.9). Accounts receivable with due dates beyond normal commercial terms are initially entered at their fair value and subsequently at the amortized cost using the effective interest rate method, net of the related value impairments.

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognized (i.e. removed from the Group's statement of financial position) when:

- the right to receive cash flows deriving from the asset has expired, or
- the Group has transferred the right to receive cash flows deriving from the asset to a third party, or has accepted a contractual obligation to pay them over in full and without delay and (a) has transferred substantially all the risks and benefits of ownership of the financial asset, or (b) has not transferred or retained substantially all the risks and benefits of ownership of the financial asset, but has transferred control over it.

### **3.13 Derivative financial instruments**

It is Group policy to avoid subscribing speculative derivative financial instruments, although, when derivative financial instruments fail to meet the requirements set down for the accounting of hedging derivatives (hedge accounting) in IAS 39, changes to the fair value of such instruments are booked to the income statement as financial charges and/or income.

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

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

The methods used to recognize derivative financial instruments depend on whether or not the conditions and requirements of IAS 39 are fulfilled. Specifically:

*(i) Cash flow hedges*

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

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

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

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

### **3.14 Inventories**

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

### **3.15 Share capital and Treasury stock**

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

### **3.16 Interest-bearing financial payables**

Interest-bearing financial payables are initially recorded at their fair value, net of ancillary charges. After the original entry, interest-bearing financial payables are valued with the amortized cost criterion; the difference between the resulting value and the discharge value is entered in the income statement during the term of the loan on the basis of the amortization plan.

A financial liability is derecognized when the underlying obligation expires or is canceled or settled. If an existing financial liability is replaced by another from the same lender, on substantially different conditions, or if the conditions of an existing financial liability are amended substantially, this exchange or amendment is recognized by canceling the original liability and recording the new liability, with the recognition in the income statement of any difference between their carrying amounts.

### **3.17 Liabilities for employee benefits**

#### *(i) Defined contribution plans*

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

#### *(ii) Defined benefit plans*

Defined benefits for employees disbursed on termination of their employment with the Group or thereafter, and which include severance indemnity of Italian companies, are calculated separately for each plan, using actuarial techniques to estimate the amount employees have accrued in the year and in previous years. The resulting benefit is discounted to present value and recorded net of the fair value of any related assets. The discount rate at the balance sheet reference date is calculated as required by IAS 19 with reference to the market yield of high quality corporate bonds. Only the securities of corporate issuers with a "AA" rating are considered, on the assumption that this class identifies a high rating level in the context of "Investment Grade" securities, with the exclusion, therefore, of higher risk securities. Considering that IAS 19 makes no explicit reference to a specific product sector, we opted for a composite market curve that summarizes the market conditions existing at the date of valuation of the securities issued by companies operating in various sectors including utilities, telecommunications, finance, banking and industrial. At 31 December 2015, the above rate curve for "AA" securities has shifted upwards with respect to the same curve at 31 December 2014, which was used for the previous actuarial valuation. This was due to an increase in market volatility caused by the Greek crisis and the instability of the Chinese market. The calculation is performed on an annual basis by an independent actuary using the projected unit credit method.

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

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

Until 31 December 2006 the severance indemnity provision (TFR) of Italian companies was considered to be a defined benefits plan. The rules governing the provision were amended by Law no. 296 of 27 December 2006 ("2007 Finance Act") and by subsequent Decrees and

Regulations enacted in the initial months of 2007. In the light of these changes, and in particular with reference to companies with at least 50 employees, the TFR severance indemnity should now be classified as a defined benefits plan exclusively for the portions accrued prior to 1 January 2007 (and not yet paid out at the date of the financial statements), while after that date TFR should be considered as a defined contributions plan.

*(iii) Stock options*

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

No costs are recognized for rights that do not vest, except in the case of rights whose assignment is dependent on market conditions or a non-vesting condition. These are treated as if vested, regardless of whether or not the market conditions or other non-vesting conditions have been satisfied, without prejudice to the fact that all other performance and/or service conditions must still be satisfied. If the plan conditions are amended, the minimum cost recognized is that which would have been incurred without the plan amendment. A cost is also recognized for each amendment that increases the total fair value of the payment plan, or that is in any case favorable for employees; this cost is measured with reference to the amendment date.

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

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

### **3.18 Income taxes**

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

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

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



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

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

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

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

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

### **3.19 Provisions for risks and charges**

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

#### *(i) Product warranty provision*

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

#### *(ii) Restructuring provision*

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

#### *(iii) Onerous contracts*

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

### **3.20 Current financial payables, Trade payables and Other debts**

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

Current financial liabilities include the short term portions of financial debts, inclusive of debts for cash advances and other financial liabilities. Financial liabilities are measured at their amortized cost according to the effective interest method.

Financial assets hedged by derivative financial instruments taken out to hedge the interest rate risk are valued at their current value in accordance with the methods specified for hedge accounting.

### **3.21 Revenues**

#### *(i) Revenues from the sale of goods and services*

Revenues from the sale of goods are entered in the income statement when the risks and benefits connected to the ownership of the goods are substantially transferred to the purchaser. Revenues for services rendered are recognized in the income statement on the basis of the percentage of completion at the balance sheet reference date.

#### *(ii) State grants*

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

### **3.22 Costs**

#### *(i) Rental and leasing installments*

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

#### *(ii) Financial leasing installments*

Financial leasing installments are entered, in the amount of the capital portion, in reduction of the financial debt, while the interest portion is entered in the income statement.

#### *(iii) Financial income and charges*

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

## **4. Financial risk management**

The business of the Group is exposed to various financial risks: market risk (including the exchange rate risk and interest rate risk), credit risk, liquidity risk, price risk and cash flow risk. The risk management programme is based on the unpredictability of financial markets and it aims to minimize any negative impact on the group's financial performance. Interpump Group utilizes derivative financial instruments to hedge exchange and interest rate risks. The Group does not take out derivative financial instruments with speculative aims, in compliance with the rulings established by the procedure approved by the Board of Directors. Based on this procedure, financial risk hedging is managed by a central department in the parent company in cooperation with individual operating units.

### **(a) Market risks**

#### *(i) Exchange rate risk*

The Group has subsidiaries in 17 countries and has to translate financial statements denominated in 15 currencies other than the Euro. Accordingly, the Group is primarily exposed to the risk deriving from the translation of those financial statements.

The Group operates internationally and mostly manufactures in the countries of the destination markets. As such, the majority of local currency revenues are naturally absorbed by costs incurred in the same local currency. The Group is however exposed to a residual exchange-rate risk, deriving from exposure to the US dollar and the Australian dollar in relation to transactions with costs and revenues in different currencies.

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

In particular, the Group's US dollar exposure principally derives from the sales made to US subsidiaries and, to a lesser extent, to third-party customers, while its Australian dollar exposure derives from the sales made to a subsidiary. Group policy

is monitor exchange-rate trends and to hedge solely if the rates are deemed favorable with reference to a matrix of values established beforehand by top management. This approach locks in the favorable conditions for period of time that varies from three to six months. Although the exchange rate reached and even exceeded the established values considered favorable during 2015, top management decided not to start hedging, except for isolated, individual transactions, in order to benefit from the weakness of the euro.

The Group also has limited exposures in Chinese renminbi, Brazilian reals, Indian rupees and UK pounds as a result of commercial transactions between Group companies. It was decided not to hedge these exposures either.

In relation to financial exposures, loans of €1.8m were collected during 2015 in currencies other than those utilized by the debtor companies. At 31 December 2015, loans totaling €4.1m are still outstanding in currencies other than those utilized by the debtor companies (€2.5m as of 31 December 2015). The increase over the year was entirely due to the first-time consolidation of the companies acquired during 2015. Once again in 2015, the Group decided not to hedge this exposure.

Considering the strategic importance of these subsidiaries, the assets of which are not expected to be realized in the short term, it was decided that hedge contracts were not necessary in this case.

(ii) *Interest rate risk*

Interest rate risk derives from medium/long-term loans granted at floating rates. Current Group policy is to monitor the gradient of the interest-rate curves, in order to assess possible hedging opportunities.

(b) ***Credit risk***

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

(c) ***Liquidity risk***

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

(d) ***Price and cash flow risk***

The group is subject to constant changes in metal prices, especially brass, aluminium, steel, stainless steel and cast iron. Group policy is to hedge this risk where possible by way of medium-term commitments with suppliers, or by means of stocking policies when prices are low, or by entering into agreements with customers to transfer the risk to them.

The Group invests a significant part of its available liquidity in restricted bank deposits and deposit accounts, in order to optimize financial management. The Group does not hold listed securities that would be subject to stock market fluctuations. Despite the high level of cash investment carried out by the Group, the revenues and cash flows of Group operating activities are only marginally influenced by changes in interest generating assets.

Further quantitative information on the financial risks to which the Group is exposed is given in Note 33 "Information on financial risks".

## 5. Business sector information

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

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

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

The Group is composed of the following business sectors:

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

*Hydraulic Sector.* This sector includes the production and sale of power take-offs, hydraulic cylinders, pumps, directional controls, valves, hydraulic hoses and fittings and other hydraulic components. Power take-offs are mechanical devices designed to transmit drive from an industrial vehicle engine or transmission to power a range of ancillary services through hydraulic components. These products, combined with other hydraulic components (spool valves, controls, etc.) allow the execution of special functions such as lifting tipping bodies, operating truck-mounted cranes, operating mixer truck drums, and so forth. Hydraulic cylinders are components of the hydraulic system of various vehicle types employed in a wide range of applications depending on the type. Front-end and underbody cylinders (single acting) are utilized mainly on industrial vehicles in the construction sector, while double acting cylinders are utilized in a range of applications: earthmoving machinery, agricultural machinery, cranes and truck cranes, waste compactors, etc. Hydraulic lines and fittings are used in a vast range of hydraulic equipment and are also employed in very high pressure water systems.

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

	Hydraulic Sector		Water Jetting Sector		Other Revenue Sector		Elimination entries		Interpump Group	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Net sales external to the Group	560,271	396,204	334,657	275,795	-	-	-	-	894,928	671,999
Sales between sectors	235	187	1,588	1,162	-	2,777	(1,823)	(4,126)	-	-
<b>Total net sales</b>	<b>560,506</b>	<b>396,391</b>	<b>336,245</b>	<b>276,957</b>	<b>-</b>	<b>2,777</b>	<b>(1,823)</b>	<b>(4,126)</b>	<b>894,928</b>	<b>671,999</b>
Cost of products sold	(384,098)	(267,173)	(194,927)	(160,766)	-	(1,739)	1,715	3,093	(577,310)	(426,585)
<b>Gross industrial margin</b>	<b>176,408</b>	<b>129,218</b>	<b>141,318</b>	<b>116,191</b>	<b>-</b>	<b>1,038</b>	<b>(108)</b>	<b>(1,033)</b>	<b>317,618</b>	<b>245,414</b>
<i>% on net sales</i>	<i>31.5%</i>	<i>32.6%</i>	<i>42.0%</i>	<i>42.0%</i>	<i>-</i>	<i>n.s.</i>			<i>35.5%</i>	<i>36.5%</i>
Other net revenues	9,431	9,446	3,735	3,385	-	38	(33)	(306)	13,133	12,563
Distribution costs	(48,130)	(38,226)	(36,195)	(29,856)	-	-	4	8	(84,321)	(68,074)
General and administrative expenses	(66,953)	(48,802)	(38,836)	(32,001)	(18)	(1,045)	137	1,331	(105,670)	(80,517)
Other operating costs	(3,163)	(2,169)	(701)	(2,850)	-	-	-	-	(3,864)	(5,019)
<b>Ordinary profit before financial expenses</b>	<b>67,593</b>	<b>49,467</b>	<b>69,321</b>	<b>54,869</b>	<b>(18)</b>	<b>31</b>	<b>-</b>	<b>-</b>	<b>136,896</b>	<b>104,367</b>
<i>% on net sales</i>	<i>12.1%</i>	<i>12.5%</i>	<i>20.6%</i>	<i>19.8%</i>	<i>n.s.</i>	<i>n.s.</i>			<i>15.3%</i>	<i>15.5%</i>
Financial income	40,300	4,562	4,195	5,550	-	1	(2,079)	(1,969)	42,416	8,144
Financial expenses	(11,600)	(15,391)	(6,162)	(6,075)	(5)	(7)	2,079	1,969	(15,688)	(19,504)
Dividends	-	-	14,000	8,500	-	-	(14,000)	(8,500)	-	-
Adjustment of investments carried at equity	(253)	92	(9)	10	-	-	-	-	(262)	102
<b>Profit for the period before taxes</b>	<b>96,040</b>	<b>38,730</b>	<b>81,345</b>	<b>62,854</b>	<b>(23)</b>	<b>25</b>	<b>(14,000)</b>	<b>(8,500)</b>	<b>163,362</b>	<b>93,109</b>
Income taxes	(22,632)	(17,345)	(22,107)	(17,894)	(317)	(128)	-	-	(45,056)	(35,367)
<b>Consolidated profit for the period</b>	<b>73,408</b>	<b>21,385</b>	<b>59,238</b>	<b>44,960</b>	<b>(340)</b>	<b>(103)</b>	<b>(14,000)</b>	<b>(8,500)</b>	<b>118,306</b>	<b>57,742</b>
<b>Due to:</b>										
Parent company's shareholders	72,880	20,632	59,099	44,907	(340)	(103)	(14,000)	(8,500)	117,639	56,936
Subsidiaries' minority shareholders	528	753	139	53	-	-	-	-	667	806
<b>Consolidated profit for the period</b>	<b>73,408</b>	<b>21,385</b>	<b>59,238</b>	<b>44,960</b>	<b>(340)</b>	<b>(103)</b>	<b>(14,000)</b>	<b>(8,500)</b>	<b>118,306</b>	<b>57,742</b>
<b><u>Further information required by IFRS 8</u></b>										
Amortization, depreciation and write-downs	28,635	18,905	13,251	11,172	-	8	-	-	41,886	30,085
Other non-monetary costs	2,504	2,641	2,986	3,250	-	-	-	-	5,490	5,891

**Financial position**  
(Amounts shown in €000)

	<u>Hydraulic Sector</u>		<u>Water Jetting Sector</u>		<u>Other Revenue Sector</u>		<u>Elimination entries</u>		<u>Interpump Group</u>	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014	31 December 2015	31 December 2014	31 December 2015	31 December 2014	31 December 2015	31 December 2014
<b>Assets by sector</b>	<b>725,674</b>	<b>522,500</b>	<b>566,031</b>	<b>452,719</b>	<b>577</b>	<b>1,739</b>	<b>(157,339)</b>	<b>(101,569)</b>	<b>1,134,943</b>	<b>875,389</b>
<b>Assets held for sale</b>	<b>-</b>	<b>615</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>615</b>
<b>Subtotal of assets of the sector (A)</b>	<b>725,674</b>	<b>523,115</b>	<b>566,031</b>	<b>452,719</b>	<b>577</b>	<b>1,739</b>	<b>(157,339)</b>	<b>(101,569)</b>	<b>1,134,943</b>	<b>876,004</b>
Cash and cash equivalents									135,130	87,159
<b>Total assets</b>									<b>1,270,073</b>	<b>963,163</b>
<b>Liabilities of the sector</b>	<b>308,674</b>	<b>214,213</b>	<b>82,187</b>	<b>68,778</b>	<b>597</b>	<b>1,825</b>	<b>(157,339)</b>	<b>(101,569)</b>	<b>234,119</b>	<b>183,247</b>
<b>Liabilities held for sale</b>	<b>-</b>	<b>163</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>163</b>
<b>Subtotal of liabilities of the sector (B)</b>	<b>308,674</b>	<b>214,376</b>	<b>82,187</b>	<b>68,778</b>	<b>597</b>	<b>1,825</b>	<b>(157,339)</b>	<b>(101,569)</b>	<b>234,119</b>	<b>183,410</b>
Debts for the payment of investments									23,209	74,075
Payables to banks									5,735	27,770
Interest-bearing financial payables									384,382	211,358
<b>Total liabilities</b>									<b>647,445</b>	<b>496,613</b>
<b>Total assets, net (A-B)</b>	<b>417,000</b>	<b>308,739</b>	<b>483,844</b>	<b>383,941</b>	<b>(20)</b>	<b>(86)</b>	<b>-</b>	<b>-</b>	<b>900,824</b>	<b>692,594</b>
<b><u>Further information required by IFRS 8</u></b>										
Investments carried at equity	106	76	283	463	-	-	-	-	389	539
Non-current assets other than financial assets and deferred tax assets	415,225	300,806	254,565	215,950	-	175	-	-	669,790	516,931

The sectors are compared as follows, like for like:

(amounts shown in €000)	Hydraulic Sector		Water Jetting Sector	
	2015	2014	2015	2014
Net sales external to the Group	415,920	396,204	316,103	275,795
Sales between sectors	235	187	1,454	1,162
<b>Total net sales</b>	<b>416,155</b>	<b>396,391</b>	<b>317,557</b>	<b>276,957</b>
Cost of products sold	(278,755)	(267,173)	(185,254)	(160,766)
<b>Gross industrial margin</b>	<b>137,400</b>	<b>129,218</b>	<b>132,303</b>	<b>116,191</b>
<i>% on net sales</i>	<i>33.0%</i>	<i>32.6%</i>	<i>41.7%</i>	<i>42.0%</i>
Other net revenues	8,373	9,446	3,374	3,385
Distribution costs	(39,301)	(38,226)	(34,145)	(29,856)
General and administrative expenses	(51,892)	(48,802)	(36,445)	(32,001)
Other operating costs	(2,828)	(2,169)	(609)	(2,850)
<b>Ordinary profit before financial expenses</b>	<b>51,752</b>	<b>49,467</b>	<b>64,478</b>	<b>54,869</b>
<i>% on net sales</i>	<i>12.4%</i>	<i>12.5%</i>	<i>20.3%</i>	<i>19.8%</i>
Financial income	37,031	4,562	4,152	5,550
Financial expenses	(7,513)	(15,391)	(5,540)	(6,075)
Dividends	-	-	14,000	8,500
Adjustment of the value of investments carried at equity	(253)	92	(9)	10
<b>Profit for the period before taxes</b>	<b>81,017</b>	<b>38,730</b>	<b>77,081</b>	<b>62,854</b>
Income taxes	(19,180)	(17,345)	(20,608)	(17,894)
<b>Consolidated profit for the period</b>	<b>61,837</b>	<b>21,385</b>	<b>56,473</b>	<b>44,960</b>
<b>Due to:</b>				
Parent company's shareholders	61,309	20,632	56,334	44,907
Subsidiaries' minority shareholders	528	753	139	53
<b>Consolidated profit for the period</b>	<b>61,837</b>	<b>21,385</b>	<b>56,473</b>	<b>44,960</b>

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

€000	Sector Hydr.		Sector Water		Sector Other		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
Cash flows from:								
Operating activities	58,618	43,369	55,194	28,543	(208)	146	113,604	72,058
Investing activities	(52,141)	(61,181)	(151,048)	(18,397)	-	47	(203,189)	(79,531)
Financing activities	25,755	19,379	132,102	(38,881)	170	(502)	158,027	(20,004)
Total	32,232	1,567	36,248	(28,735)	(38)	(309)	68,442	(27,477)

Hydraulic Sector investing activities in 2015 included €34,696k related to the acquisition of equity interests (€47,267k in 2014), while Water Jetting Sector investing activities included €41,531k related to the acquisition of Walvoil, Inoxihp, and Bertoli and of residual interests in existing subsidiaries (€17k for the acquisition of equity investments in 2014).

Financing activities for 2015 included net disbursements of intercompany loans from the Water Jetting Sector to the Hydraulic Sector in the amount of €57,348k (€28,646k in 2014) and from the Water Jetting Sector to the Other Revenue Sector in the amount of €170k (no amount recorded in 2014). Moreover, the cash flows of Water Jetting Sector financing activities in 2015 included outlays for the purchase of treasury shares in the amount of €32,709k (€38,299k in 2014), proceeds from the sale of treasury shares to the beneficiaries of stock options in the



amount of €8,166k (€4,626k in 2014), and €60,891k related to the value of treasury stock assigned for the acquisition of equity investments (€7,026k in 2014), and the payment of dividends for €19,396k (€18,108k in 2014).

### Geographical sectors

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

A breakdown of sales by geographical area is provided below:

	2015		2014		Growth
	<u>(€000)</u>	<u>%</u>	<u>(€000)</u>	<u>%</u>	
Italy	135,909	15	91,778	14	+48.1%
Rest of Europe	286,503	32	224,263	33	+27.8%
North America	293,386	33	217,038	32	+35.2%
Far East and Oceania	84,958	9	61,862	9	+37.3%
Rest of the World	<u>94,172</u>	<u>11</u>	<u>77,058</u>	<u>12</u>	+22.2%
Total	<u>894,928</u>	<u>100</u>	<u>671,999</u>	<u>100</u>	+33.2%

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

	31/12/2015	31/12/2014
	<u>(€000)</u>	<u>(€000)</u>
Italy	446,089	324,445
Rest of Europe	96,788	96,229
North America	97,433	82,581
Far East and Oceania	8,248	4,450
Rest of the World	<u>21,232</u>	<u>9,226</u>
Total	<u>669,790</u>	<u>516,931</u>

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

## 6. Acquisition of investments

### Walvoil Group

The amounts are expressed in euro thousands (the exchange rates adopted for conversion of the financial statements of subsidiaries in the US, India, China, South Korea and Australia were 1,214 US dollars/1 euro, 7,536 Chinese renminbi/1 euro, 76,719 Indian rupees/1 euro, 3,221 Brazilian Real/1 euro, 1,483 AUS dollars/1 euro, and 1,324.8 South Korean Won/1 euro, corresponding to the exchange rates in force on the date of acquisition).

€000	Amount s acquired	Adjustments to fair value	Carrying values in the acquiring company
Cash and cash equivalents	3,676	-	3,676
Trade receivables	32,721	-	32,721
Inventories	42,170	-	42,170
Tax receivables	5,267	-	5,267
Other current assets	1,172	-	1,172
Property, plant and equipment	49,523	20,341	69,864
Other intangible assets	536	9,300	9,836
Financial assets	2	-	2
Non-current tax receivables	2	-	2
Deferred tax assets	4,819	-	4,819
Other non-current assets	627	-	627
Trade payables	(20,975)	-	(20,975)
Payables to banks	(8,006)	-	(8,006)
Financial payables to banks - loans (current portion)	(10,099)	-	(10,099)
Leasing payables (current portion)	(1,491)	-	(1,491)
Derivative financial instruments	(63)	-	(63)
Tax payables	(3,592)	-	(3,592)
Other current liabilities	(10,118)	-	(10,118)
Provisions for risks and charges (current portion)	(150)	-	(150)
Financial payables to banks - loans (medium-/long-term portion)	(6,341)	-	(6,341)
Leasing payables (medium-/long-term portion)	(9,581)	-	(9,581)
Liabilities for employee benefits (severance indemnity provision)	(4,693)	-	(4,693)
Deferred tax liabilities	(6,005)	(9,307)	(15,312)
Other non-current liabilities	(254)	-	(254)
Net assets acquired	<u>59,147</u>	<u>20,334</u>	79,481
Goodwill related to the acquisition			<u>37,896</u>
<b>Total net assets acquired</b>			<b><u>117,377</u></b>
Total amount paid in treasury stock			47,038
Total amount paid in cash			<u>70,339</u>
<b>Total acquisition cost (A)</b>			<b><u>117,377</u></b>
Acquired net financial indebtedness (B)			31,842
Total amount paid in cash			<u>70,339</u>
<b>Total change in the net financial position including changes in debt for the acquisition of investments</b>			<b><u>102,181</u></b>
<b>Capital employed (A) + (B)</b>			<b>149,219</b>

The fair value of property, plant and equipment and the brand, booked under intangible fixed assets, was measured by independent valuers.

The acquisition cost differs from the contract price due to the different valuation of the treasury shares assigned, in compliance with the requirements of international accounting standards.

#### Inoxihp S.r.l.

€000	Amount s <u>acquired</u>	Adjustments to fair value	Carrying values in the acquiring <u>company</u>
Cash and cash equivalents	1,843		1,843
Trade receivables	3,313	-	3,313
Inventories	2,536	-	2,536
Tax receivables	837	-	837
Other current assets	24	-	24
Property, plant and equipment	643	-	643
Other intangible assets	23	1,825	1,848
Deferred tax assets	269	-	269
Other non-current assets	49	-	49
Trade payables	(2,670)	-	(2,670)
Payables to banks	(34)	-	(34)
Financial payables to banks - loans (current portion)	(674)	-	(674)
Tax payables	(1,416)	-	(1,416)
Other current liabilities	(484)	-	(484)
Financial payables to banks - loans (medium-/long-term portion)	(789)	-	(789)
Liabilities for employee benefits (severance indemnity provision)	(326)	-	(326)
Deferred tax liabilities	-	(573)	(573)
Net assets acquired	<u>3,144</u>	<u>1,252</u>	4,396
Goodwill related to the acquisition			<u>21,963</u>
<b>Total net assets acquired</b>			<b><u>26,359</u></b>
Total amount paid in treasury stock			2,139
Total amount paid in cash			6,471
Amount due in medium/long-term			<u>17,749</u>
<b>Total acquisition cost (A)</b>			<b><u>26,359</u></b>
Net financial indebtedness (cash) (e) acquired (e) (B)			(346)
Total amount paid in cash			6,471
Payable for commitment to acquire minority interests			<u>17,749</u>
<b>Total change in the net financial position including changes in debt for the acquisition of investments</b>			<b><u>23,874</u></b>
<b>Capital employed (A) + (B)</b>			<b>26,013</b>

The value of the trade mark was measured by means of an internal appraisal. Fixed assets do not include any other significant valuation surpluses.

The acquisition cost differs from the contract price due to the different valuation of the treasury shares assigned, in compliance with the requirements of international accounting standards.

## Bertoli S.r.l.

€000	Amount s <u>acquired</u>	Adjustments <u>to fair value</u>	Carrying values in the acquiring <u>company</u>
Cash and cash equivalents	1,724	-	1,724
Trade receivables	3,207	-	3,207
Inventories	3,742	-	3,742
Tax receivables	178	-	178
Other current assets	103	-	103
Property, plant and equipment	1,663	-	1,663
Other intangible assets	45	-	45
Other financial assets	22	-	22
Deferred tax assets	305	-	305
Other non-current assets	12	-	12
Trade payables	(2,574)	-	(2,574)
Financial payables to banks - loans (current portion)	(212)	-	(212)
Leasing payables (current portion)	(281)	-	(281)
Tax payables	(540)	-	(540)
Other current liabilities	(1,003)	-	(1,003)
Provisions for risks and charges (current portion)	(118)	-	(118)
Leasing payables (medium-/long-term portion)	(428)	-	(428)
Liabilities for employee benefits (severance indemnity provision)	(915)	-	(915)
Deferred tax liabilities	<u>(178)</u>	=	<u>(178)</u>
Net assets acquired	<u>4,752</u>	=	4,752
Goodwill related to the acquisition			<u>2,549</u>
<b>Total net assets acquired</b>			<b><u>7,301</u></b>
Total amount paid in cash			7,301
<b>Total acquisition cost (A)</b>			<b><u>7,301</u></b>
Net financial indebtedness (cash) acquired (B)			(803)
Total amount paid in cash			<u>7,301</u>
<b>Total change in net financial position</b>			<b><u>6,498</u></b>
<b>Capital employed (A) + (B)</b>			<b>6,498</b>

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The amounts are shown in euro/thousands (the exchange rate used for translation of the financial statements is BRL 4,0171 / 1 euro, corresponding to the exchange rate in force on the day of the acquisition).

€000	Amount s <u>acquired</u>	Adjustments to fair value	Carrying values in the acquiring <u>company</u>
Cash and cash equivalents	22	-	22
Trade receivables	408	-	408
Inventories	364	-	364
Tax receivables	24	-	24
Other current assets	75	-	75
Property, plant and equipment	1,244	452	1,696
Other intangible assets	3	618	621
Other financial assets	15	-	15
Trade payables	(344)	-	(344)
Financial payables to banks - loans (current portion)	(10)	-	(10)
Tax payables	(21)	-	(21)
Other current liabilities	<u>(215)</u>	<u>-</u>	<u>(215)</u>
Net assets acquired	<u>1,565</u>	<u>1,070</u>	2,635
Goodwill related to the acquisition			<u>1,418</u>
<b>Total net assets acquired</b>			<b><u>4,053</u></b>
Total amount paid in cash			2,614
Total discounted amount due in medium/long-term			<u>1,439</u>
<b>Total acquisition cost (A)</b>			<b><u>4,053</u></b>
Net financial indebtedness (cash) acquired (B)			(12)
Total amount paid in cash			2,614
Debt discounted for extended payment of equity investments			<u>1,439</u>
<b>Total change in net financial position</b>			<b><u>4,041</u></b>
<b>Capital employed (A) + (B)</b>			<b>4,041</b>

The fair value of property, plant and equipment and the brand, booked under intangible fixed assets, was measured by independent valuers.

## 7. Cash and cash equivalents

	31/12/2015 <u>(€000)</u>	31/12/2014 <u>(€000)</u>
Cash flow	109	158
Repurchase agreements	-	505
Bank deposits	<u>135,021</u>	<u>86,496</u>
Total	<u>135,130</u>	<u>87,159</u>

Bank deposits include €000 33,699 in US dollars (\$/000 36,687), €000 7,801 in Chinese renminbi (CNY/000 55,078), €000 1,978 in British pounds (£/000 1,452), €000 971 in Australian dollars (AUD/000 1,446), €000 1,988 in Indian rupees (INR 143,172), €000 1,044 in Brazilian reals (BRL/000 4,503), €000 386 in South African rand (ZAR/000 6,545) and €000 1,644 in other minor currencies.

At 31 December 2015, the total nominal value of bank deposits was €5.2m at an average fixed rate of 0.98%.

Throughout 2015 the Group proceeded with its policy of optimization of finance management by investing surplus cash in bank deposits restricted for up to three months, as well as in unrestricted deposit accounts. The careful policy adopted by the Group during 2015 resulted in an average yield from the investment of liquidity of 0.46%. This was lower than the 0.69% achieved in 2014 due, in the main, to the lower returns offered by financial institutions.

## 8. Trade receivables

	31/12/2015 (€000)	31/12/2014 (€000)
Trade receivables, gross	185,584	141,719
Bad debt provision	<u>(7,455)</u>	<u>(6,085)</u>
Trade receivables, net	<u>178,129</u>	<u>135,634</u>

Changes in the bad debt provision were as follows:

	2015 (€000)	2014 (€000)
Opening balances	6,085	4,673
Exchange rate difference	28	83
Change to consolidation basis	1,648	398
Provisions in the year	1,197	1,492
Decreases in the year due to surpluses	(100)	(1)
Drawdowns in the year	<u>(1,403)</u>	<u>(560)</u>
Closing balance	<u>7,455</u>	<u>6,085</u>

Provisions in the year are booked under other operating costs.

Receivables due beyond 12 months total €000 110, while trade payables are all due within 12 months.

## 9. Inventories

	31/12/2015 (€000)	31/12/2014 (€000)
Raw materials and components	59,982	42,201
Semi-finished products	78,377	60,322
Finished products	<u>100,278</u>	<u>79,940</u>
Total inventories	<u>238,637</u>	<u>182,463</u>

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

	2015 (€000)	2014 (€000)
Opening balances	17,936	15,238
Exchange rate difference	655	558
Change to consolidation basis	8,601	627
Provisions for the year	2,525	2,513
Drawdowns in the year	(2,563)	(1,000)
Reversal of provisions due to surpluses	-	-
Closing balance	<u>27,154</u>	<u>17,936</u>

## 10. Derivative financial instruments

### *Interest rate hedging*

The Group adopts a procedure, approved by the Board of Directors, which identifies the derivative financial instruments to be used to hedge against the risk of interest rate fluctuations. These instruments are as follows: *Interest Rate Swaps (IRS)*, *Forward Rate Agreements (FRA)* and *options on interest rates (Caps & Floors)*.

Current Group policy is to assess the opportunities offered by the market in relation to the possibility to arrange interest rate swaps on economically advantageous conditions. However, considering the limited average duration of medium/long-term loans, it was not deemed necessary to hedge interest-rate risks during 2015.

Hydrocontrol, which was acquired at the start of May 2013, had arranged six hedges in prior years for a total amount of €11.8m. The residual hedges outstanding at 31 December 2015 amount to €3.7m. The instruments arranged, Interest Rate Swaps (IRS) and Interest Rate Collars, have not been recognized in the consolidated financial statements as hedges, since they do not comply with all the requirements for hedging contracts set down in IAS 39.

The fair values of the derivatives hedging interest-rate risk at the end of the year are:

	31/12/2015 Notional (€000)	31/12/2015 Positive fair value (€000)	31/12/2015 Negative fair value (€000)	31/12/2014 Notional (€000)	31/12/2014 Positive fair value (€000)	31/12/2014 Negative fair value (€000)
Interest rate collars for hedging of loans	3,000	-	43	3,000	-	120
IRS hedges on loans	<u>685</u>	=	<u>6</u>	<u>1,686</u>	=	<u>21</u>
Total	<u>3,685</u>	=	<u>49</u>	<u>4,686</u>	=	<u>141</u>

Depending on the method of accounting adopted, the fair value of rate risk hedges is allocated as follows:

	31/12/2015 Notional (€000)	31/12/2015 Positive fair value (€000)	31/12/2015 Negative fair value (€000)	31/12/2014 Notional (€000)	31/12/2014 Positive fair value (€000)	31/12/2014 Negative fair value (€000)
Derivatives that do not comply with the conditions required by IAS 39 to qualify as hedges	<u>3,685</u>	=	<u>49</u>	<u>4,686</u>	=	<u>141</u>
Total derivative financial instruments hedging interest-rate risks	<u>3,685</u>	=	<u>49</u>	<u>4,686</u>	=	<u>141</u>

#### *Exchange rate risk hedging*

The Group is principally exposed to:

- the US dollar for sales made in USD of:
  - high pressure pumps;
  - very high pressure systems and pumps;
  - directional controls and valves;
  - various hydraulic components;
- the Australian dollar for sales of very high pressure systems and pumps made in AUD.

The hedges arranged in 2015 solely related to the sale of high pressure pumps to third parties and all took the form of plain vanilla forward contracts.

The fair values of exchange rate risk derivative hedges at the close of the year were as follows:

	31/12/2015 Notional (\$/000)	31/12/2015 Positive fair value (€000)	31/12/2015 Negative fair value (€000)	31/12/2014 Notional (\$/000)	31/12/2014 Positive fair value (€000)	31/12/2014 Negative fair value (€000)
Plain vanilla forwards to hedge the sales of high pressure pumps	<u>1,482</u>	<u>2</u>	<u>28</u>	<u>696</u>	=	<u>28</u>
Total derivative financial instruments to hedge against the USD exchange rate risk	<u>1,482</u>	<u>2</u>	<u>28</u>	<u>696</u>	=	<u>28</u>

The plain vanilla forwards used to hedge exchange-rate risks were all recognized using the cash flow hedge method. At the time of drafting of the financial statements no situations of overhedging were identified.

#### *Cash flow hedges*

The net effects recognized in the income statement include €000 9 in losses relating to management of the exchange-rate risk.

The Interpump Group exchange risk management policy involves the hedging of future sales and customer purchase orders when deemed appropriate. The maximum time span in which it is predicted that the cash flows will originate is 6 months. It is therefore reasonable to assume that the related hedge effect deferred to the fair value reserve will be recognized in the income statement in the following year.



During 2015 the Group released previously deferred profits from equity to the income statement totaling €000 20, net of the theoretical tax effect. This amount was booked as an increase in net sales of €000 27 and as an adjustment to deferred taxation of €000 7.

The ineffective element of cash flow hedging transactions in 2015 and 2014 was negligible.

#### ***Fair value hedges***

The profits and losses deriving from the measurement of derivative financial instruments in compliance fair value hedge rules and the profits and losses ascribable to the associated hedged elements are shown in the following table:

	2015 (€000)	2014 (€000)
Net profits (losses) on derivative instruments used to hedge against exchange risks	(17)	-
Change in fair value of the underlying elements	<u>(2)</u>	=
Net profits (losses)	<u>(19)</u>	=

#### ***Fair values***

The net profit recognized in the income statement from derivative instruments that do not comply with the parameters of IAS 39 amounted to €000 155 (€000 61 in 2014), mainly due to a reduction in the notionals and the close-out of derivatives on maturity. The total comprises €000 92 in relation to the management of interest-rate risks and €000 63 regarding exchange-rate risks.

The main methods and assumptions made in the estimation of fair value are outlined below.

#### ***Derivatives***

The fair value of derivative financial instruments is calculated considering market parameters at the date of these financial statements and using measurement models widely adopted in the financial sector. Specifically:

- the fair value of plain vanilla forwards is calculated considering the exchange rate and interest rates of the two currencies at 31 December (last available trading day);
- the fair value of the interest rate swaps is calculated utilizing the discounted cash flow model: the input data used by this model comprises the interest rate curves at 31 December and the current interest rate fixings;
- the fair value of interest rate collars is calculated utilizing an option pricing model (Black & Scholes): the input data used by this model comprises the interest rate curves, the current interest rate fixings and the implied volatility surface calculated with reference to listed caps and floors at 31 December.

In application of IFRS 13, the fair value measurement of the instruments is performed taking account of the counterparty risk and, in particular, by calculating a credit value adjustment (CVA) in the case of derivatives with positive fair value, or a debit value adjustment (DVA) in the case of derivatives with negative fair value.

#### ***Investments in other companies***

The fair value is essentially represented by the cost, written down if necessary to take account of any value impairments.

#### ***Interest-bearing financial payables***

The fair value is based on the predicted cash flows for the principal amount and interest.

#### *Financial leasing payables*

The fair value is represented by the discounted value of future cash flows generated by the payment of installments; the interest rate utilized is the market rate for similar transactions.

#### *Receivables/Payables*

For receivables and payables due within twelve months the carrying value is assumed as the fair value. The fair value of other receivables and payables is the discounted nominal value if the temporal factor and notional value are significant.

#### *Interest rates utilized to obtain the fair value*

To establish the fair value, the Group utilizes the interest rate curve at 31 December plus a suitable spread. The interest rates utilized are as follows:

	31/12/2015 %	31/12/2014 %
Derivative financial instruments (euro)	-0,13/1,59	0,14/1,52
Derivative financial instruments (USD)	0,27/2,63	0,08/2,71
Interest bearing financial payables in euro	Euribor+0.70/1.80	Euribor+1.10/2.00
Financial leasing agreements	3.3	4.5
Financial assets	1.1	1.9
Payables	2.2	5.0

At 31 December 2015, cash on hand totaling €5.2m was held at fixed interest rates, while the remainder was held at floating rates. Except for €12.2m, loans and bank debt all bear interest at floating rates.

In relation to financial instruments recorded in fair value in the balance sheet, international accounting principles require that said values be classified on the basis of a hierarchy of levels that reflects the significance of the inputs utilized to establish the fair value and subdivided on the basis of the recurrence in their measurement. International accounting standards identify the following levels:

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

The following table shows the financial instruments measured at fair value at 31 December 2015, broken down by level:

(€000)	Level 1	Level 2	Level 3	Total
Active derivatives:				
- <i>Plain vanilla forwards</i>	-	2	-	2
Other financial assets available for sale	326	-	32	358
<b>Total assets</b>	<b>326</b>	<b>2</b>	<b>32</b>	<b>360</b>
Derivatives payable:				
- <i>Plain vanilla forwards</i>	-	28	-	28
- <i>Interest rate swaps</i>	-	6	-	6
- <i>Interest rate collars</i>	-	43	-	43
<b>Total liabilities</b>	<b>-</b>	<b>77</b>	<b>-</b>	<b>77</b>

No transfers between levels were carried out in 2015.

All fair value measurements shown in the above table are to be considered as recurrent; the Group did not perform any non-recurrent fair value measurements in 2015.

## 11. Assets and liabilities held for sale

The assets held for sale at 31 December 2014 comprised an industrial building, with related installations, for which a preliminary sale contract had already been signed. The sale was completed in February 2015, with a capital gain of €000 163.

The liabilities held for sale at 31 December 2014 reflected the deferred tax liabilities recorded in relation to the assets held for sale.

## 12. Other current assets

	31/12/2015 (€000)	31/12/2014 (€000)
Accrued income and prepayments	3,632	3,189
Short-term receivables from the sale of equity investments	746	746
Other receivables	2,276	1,855
Other current assets	<u>1,155</u>	<u>1,065</u>
Total other current assets	<u>7,809</u>	<u>6,855</u>

### 13. Property, plant and equipment

	<i>Land and buildings</i> (€000)	<i>Plant and machinery</i> (€000)	<i>Equipment</i> (€000)	<i>Other assets</i> (€000)	<i>Total</i> (€000)
<b>At 31 December 2013</b>					
Cost	68,812	181,287	53,370	44,454	347,923
Accumulated amortization	<u>(20,025)</u>	<u>(104,660)</u>	<u>(44,980)</u>	<u>(27,590)</u>	<u>(197,255)</u>
Net book value	<u>48,787</u>	<u>76,627</u>	<u>8,390</u>	<u>16,864</u>	<u>150,668</u>
<b>Changes in 2014</b>					
Opening net book value	48,787	76,627	8,390	16,864	150,668
Exchange rate differences	781	2,410	359	2,096	5,646
Change to consolidation basis	23,903	14,978	392	502	39,775
Additions	11,189	17,876	3,884	8,459	41,408
Disposals	(5)	(1,411)	(294)	(1,975)	(3,685)
Reclassified	3	220	(525)	294	(8)
Reclassification from assets held for sale	(594)	(20)	(1)	-	(615)
Depreciation capitalized	-	(24)	(3)	(5)	(32)
Amortization and depreciation	<u>(1,992)</u>	<u>(15,040)</u>	<u>(3,356)</u>	<u>(3,696)</u>	<u>(24,084)</u>
Closing net book value	<u>82,072</u>	<u>95,616</u>	<u>8,846</u>	<u>22,539</u>	<u>209,073</u>
<b>At 31 December 2014</b>					
Cost	104,767	222,569	58,033	55,298	440,667
Accumulated amortization	<u>(22,695)</u>	<u>(126,953)</u>	<u>(49,187)</u>	<u>(32,759)</u>	<u>(231,594)</u>
Net book value	<u>82,072</u>	<u>95,616</u>	<u>8,846</u>	<u>22,539</u>	<u>209,073</u>
<b>Changes in 2015</b>					
Opening net book value	82,072	95,616	8,846	22,539	209,073
Exchange rate differences	717	1,938	506	2,046	5,207
Change to consolidation basis	32,367	36,278	3,653	1,640	73,938
Additions	4,192	16,499	4,509	13,259	38,459
Disposals	(17)	(1,652)	(245)	(3,815)	(5,729)
Reclassified	2	(445)	501	(40)	18
Depreciation capitalized	-	(9)	-	-	(9)
Write-downs	-	(193)	-	-	(193)
Amortization and depreciation	<u>(3,132)</u>	<u>(20,621)</u>	<u>(4,975)</u>	<u>(5,970)</u>	<u>(34,698)</u>
Closing net book value	<u>116,201</u>	<u>127,411</u>	<u>12,795</u>	<u>29,659</u>	<u>286,066</u>
<b>At 31 December 2015</b>					
Cost	151,728	290,655	86,640	74,264	603,287
Accumulated amortization	<u>(35,527)</u>	<u>(163,244)</u>	<u>(73,845)</u>	<u>(44,605)</u>	<u>(317,221)</u>
Net book value	<u>116,201</u>	<u>127,411</u>	<u>12,795</u>	<u>29,659</u>	<u>286,066</u>

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

	<i>Land and buildings</i> (€000)	<i>Plant and machinery</i> (€000)	<i>Equipment</i> (€000)	<i>Other assets</i> (€000)	<i>Total</i> (€000)
At 1 January 2013	5,798	1,032	530	72	7,432
At 31 December 2014	138	1,758	719	51	2,666
At 31 December 2015	1,736	3,742	519	82	6,079

The following value, included in the net book value of assets disclosed above, is associated with financial leasing agreements:

	<i><u>Land and buildings</u></i> (€000)	<i><u>Plant and machinery</u></i> (€000)	<i><u>Equipment</u></i> (€000)	<i><u>Other assets</u></i> (€000)	<i><u>Total</u></i> (€000)
At 1 January 2013	4,331	6,513	108	284	11,236
At 31 December 2014	2,250	10,392	145	540	13,327
At 31 December 2015	14,358	18,976	78	456	33,868

Depreciation of €000 30,526 was charged to the cost of sales (€000 20,948 in 2014), €000 704 to distribution costs (€000 621 in 2014) and €000 3,469 for general and administrative costs (€000 2,515 in 2014).

At 31 December 2015 the Group had contractual commitments for the purchase of tangible fixed assets totaling €000 4,217 (€000 287 at 31/12/2014).

## 14. Goodwill

The changes in goodwill in 2015 were as follows:

<i><u>Company:</u></i>	<i><u>Balance at 31/12/2014</u></i>	<i><u>Increases (Decreases) in the year</u></i>	<i><u>Changes due to foreign exchange differences</u></i>	<i><u>Balance at 31/12/2015</u></i>
Water Jetting Sector	130,456	24,512	4,290	159,258
Hydraulic Sector	<u>148,917</u>	<u>39,035</u>	<u>178</u>	<u>188,130</u>
<i>Total goodwill</i>	<u>279,373</u>	<u>63,547</u>	<u>4,468</u>	<u>347,388</u>

The increases in 2015 refer to:

- €000 37,896 for the Walvoil Group acquisition (Hydraulic Sector);
- €000 21,963 for the acquisition of Inoxihp (Water Jetting Sector), inclusive of the debt for the associated put options;
- €000 2,549 for the acquisition of Bertoli (Water Jetting Sector);
- €000 1,418 for the acquisition of Osper (Hydraulic Sector).

The decreases are referred to recalculation of the debt for adjustment of the acquisition of minority stakes in Interpump Hydraulics International (Hydraulic Sector) in the amount of €000 279.

The impairment test was conducted using the Discounted Cash Flow method (DCF) net of taxation. Expected cash flows utilized in the calculation of DCF were determined on the basis of 5-year business plans that take account of the various reference scenarios and on the basis of growth forecasts in the various markets. In particular, extreme uncertainty persists in several of the Group's reference markets (primarily in Asia, but also in Europe), which are only showing weak signs of economic recovery or even negative trends. Despite this, the Group considers that the sales policies adopted, with ever greater integration between its production and distribution networks, will make it possible to offset the adverse macroeconomic effects and increase sales by 3-4% in the Water Jetting Sector and by 5-6% in the Hydraulic Sector. The faster growth of the Hydraulic Sector, with respect to the Water Jetting Sector, was due to the increased manufacturing and commercial integration of the various entities in the Hydraulic Sector. This process is expected to release significant production and distribution synergies, thus ensuring percentage growth that more rapid than the expansion of the individual markets concerned. For

periods after 2020, a perpetual growth rate of 1% was used for the "Hydraulic Sector" and of 1.5% for the "Water Jetting Sector", because of the greater defensibility of this business area. The forecast cash flows determined in this manner were reduced by a discount factor in order to take into consideration the risk that the future plans could prove to be impracticable. WACC, *after tax*, was measured for the various CGUs as follows:

CGU	WACC
Water Jetting Sector	5.04%
Hydraulic Sector	5.66%
Weighted average cost of capital	5.34%

The WACC utilised in 2014 was 5.25%. In addition, a sensitivity analysis was carried out in compliance with the requirements of the joint document issued by Banca d'Italia, Consob, and ISVAP on 3 March 2010. Reducing the expected cash flows of each CGU by 10% would not have resulted in the need to write down goodwill, and nor would increasing the cost of capital utilised to actualize the predicted flows by 50 basis points. Moreover, as an additional positive element supporting the recoverability of goodwill, Interpump Group's stock market capitalization is far higher than the Group's Shareholders' equity throughout 2015.

## 15. Other intangible assets

	<i>Product development costs (€000)</i>	<i>Patents trademarks and industrial rights (€000)</i>	<i>Other intangible assets (€000)</i>	<i>Total (€000)</i>
<b>At 31 December 2013</b>				
Cost	20,099	33,530	5,446	59,075
Accumulated amortization	<u>(12,733)</u>	<u>(18,116)</u>	<u>(4,471)</u>	<u>(35,320)</u>
Net book value	<u>7,366</u>	<u>15,414</u>	<u>975</u>	<u>23,755</u>
<b>Changes in 2014</b>				
Opening net book value	7,366	15,414	975	23,755
Exchange rate differences	125	643	34	802
Change in the scope of consolidation	98	2,595	110	2,803
Increases	1,936	170	1,304	3,410
Decreases	-	-	(128)	(128)
Reclassified	(12)	8	12	8
Write-downs	(124)	-	-	(124)
Amortization and depreciation	<u>(1,824)</u>	<u>(3,401)</u>	<u>(652)</u>	<u>(5,877)</u>
Closing net book value	<u>7,565</u>	<u>15,429</u>	<u>1,655</u>	<u>24,649</u>
<b>At 31 December 2014</b>				
Cost	22,792	37,011	7,372	67,175
Accumulated amortization	<u>(15,227)</u>	<u>(21,582)</u>	<u>(5,717)</u>	<u>(42,526)</u>
Net book value	<u>7,565</u>	<u>15,429</u>	<u>1,655</u>	<u>24,649</u>

	<i>Product development costs (€000)</i>	<i>Patents trademarks and industrial rights (€000)</i>	<i>Other intangible assets (€000)</i>	<i>Total (€000)</i>
<b>Changes in 2015</b>				
Opening net book value	7,565	15,429	1,655	24,649
Exchange rate differences	112	456	33	601
Change in the scope of consolidation	21	11,876	469	12,366
Increases	1,279	771	779	2,829
Decreases	(9)	(2)	(5)	(16)
Reclassified	(223)	(37)	19	(241)
Write-downs	-	-	-	-
Amortization and depreciation	<u>(1,693)</u>	<u>(4,464)</u>	<u>(838)</u>	<u>(6,995)</u>
Closing net book value	<u>7,052</u>	<u>24,029</u>	<u>2,112</u>	<u>33,193</u>
<b>At 31 December 2015</b>				
Cost	24,280	52,873	11,312	88,465
Accumulated amortization	<u>(17,228)</u>	<u>(28,844)</u>	<u>(9,200)</u>	<u>(55,272)</u>
Net book value	<u>7,052</u>	<u>24,029</u>	<u>2,112</u>	<u>33,193</u>

The cost of assets in progress, included in the net book values disclosed in the previous table, is as follows:

	<i>Product development costs (€000)</i>	<i>Patents trademarks and industrial rights (€000)</i>	<i>Other intangible assets (€000)</i>	<i>Total (€000)</i>
At 1 January 2013	4,491	2	293	4,786
At 31 December 2014	2,487	8	135	2,630
At 31 December 2015	3,051	10	354	3,415

Amortization was charged in full to general and administrative costs.

Except for €000 28, product development costs consist entirely of capitalized internal costs.

## 16. Other financial assets

This item comprises:

	31/12/2015 (€000)	31/12/2014 (€000)
Investments in non-consolidated subsidiaries	389	539
Investments in other companies	55	55
Assets servicing employee benefits	303	-
Loans to non-consolidated subsidiaries	218	340
Other loan receivables	5	5
Other	<u>55</u>	<u>55</u>
Total	<u>1,025</u>	<u>994</u>

The following changes were recorded:

	<i>2015</i> <u>(€000)</u>	<i>2014</i> <u>(€000)</u>
Opening balance	994	2,072
Exchange rate differences	28	30
Increases for the year	147	302
Change in fair value	11	1
First- time consolidation of investments not consolidated line by line in the prior year	(269)	(1,106)
Change in the scope of consolidation	158	552
Decreases for the year	<u>(44)</u>	<u>(857)</u>
Closing balance	<u>1,025</u>	<u>994</u>

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

Company	<u>31/12/2015</u> <u>(€000)</u>	% <u>stake</u>	<u>31/12/2014</u> <u>(€000)</u>	% <u>stake</u>
General Pump China	283	100%	270	100%
Hammelmann Bombas e Sistemas	-	100%	193	100%
Interpump Hydraulics (UK) Ltd	-	100%	-	100%
Interpump Hydraulics Perú S.a.c.	106	90%	-	-
Interpump Hydraulics Middle East FZCO	<u>-</u>	100%	<u>76</u>	100%
<i>Total non-consolidated subsidiaries</i>	<u>389</u>		<u>539</u>	

General Pump China, Interpump Hydraulics (UK) Ltd and Interpump Hydraulics Perú S.a.c. are all subsidiaries, but they have not been consolidated in 2015 in view of their limited size.

Despite their modest size, Hammelmann Bombas e Sistemas and Interpump Hydraulics Middle East FZCO were consolidated line-by-line for the first time in 2015, in consideration of their development plans for the coming years.

Interpump Hydraulics Perú S.a.c., with headquarters in Lima, was formed in 2015 in order to guarantee a direct Group presence in this important market.

The value of the investment in Interpump Hydraulics UK Ltd, a distribution company based in Birmingham UK incorporated at the end of 2012 with the aim of guaranteeing direct presence of the Group on the important UK market, was reduced to zero and a provision for risks was created in the amount of €000 633 in accordance with the losses incurred during the start-up stage.



## 17 Deferred tax assets and liabilities

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

	<u>Deferred tax assets</u>		<u>Deferred tax liabilities</u>	
	2015	2014	2015	2014
	(€000)	(€000)	(€000)	(€000)
At 31 December of the previous year	22,035	19,525	33,436	26,458
Exchange rate differences	368	390	1,888	1,767
Change in the scope of consolidation	5,393	2,603	16,063	5,579
Charged to income statement in the year	(2,072)	(956)	(3,603)	49
Reclassified	-	(18)		(18)
Reclassification from (to) liabilities held for sale	-	-	163	(163)
Charged to net equity	(534)	491	151	(236)
At 31 December 2015	<u>25,190</u>	<u>22,035</u>	<u>48,098</u>	<u>33,436</u>

Deferred tax assets/liabilities recorded directly in equity refer to the measurement of the fair value of derivative financial instruments recorded using the hedge accounting method, and to the restatement of defined benefit plans.

Deferred tax assets and liabilities refer to the following items of the balance sheet:

	<u>Deferred tax assets</u>		<u>Deferred tax liabilities</u>	
	31/12/2015	31/12/2014	31/12/2015	31/12/2014
	(€000)	(€000)	(€000)	(€000)
Property, plant and equipment	5,499	5,895	32,865	22,638
Intangible fixed assets	414	563	13,607	9,947
Investments	390	429	10	12
Inventories	11,113	6,857	-	-
Receivables	1,023	696	10	-
Liabilities for employee benefits	387	765	203	39
Derivative instruments	6	8	-	-
Provisions for risks and charges	1,501	1,243	281	-
Losses to be carried forward	1,170	3,289	-	-
Other	<u>3,687</u>	<u>2,290</u>	<u>1,122</u>	<u>800</u>
Total	<u>25,190</u>	<u>22,035</u>	<u>48,098</u>	<u>33,436</u>

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

## 18. Interest-bearing financial payables and bank payables

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

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

At 31/12/2015 all financial covenants had been amply complied with.

	31/12/2015 (€000)	31/12/2014 (€000)
<i>Current</i>		
Payables to banks	<u>5,735</u>	<u>27,770</u>
Bank loans	81,488	62,278
Financial leasing agreements	2,338	1,635
Other	<u>7</u>	<u>385</u>
Total current interest bearing financial payables	<u>83,833</u>	<u>64,298</u>
<i>Non-current</i>		
Bank loans	289,229	143,605
Financial leasing agreements	<u>11,320</u>	<u>3,455</u>
Total non-current interest bearing financial payables	<u>300,549</u>	<u>147,060</u>

At 31 December 2015, fixed-rate loans amounted to €000 12,158, while the remainder were at floating rates. Hedge contracts were taken out on several of the loans for the total amount of €000 3,685 (see note 10).

Bank payables and loans include €000 2,454 in currencies other than the euro, mainly in US dollars, Indian rupees and Brazilian reals connected with foreign subsidiaries. Amounts in currencies other than the euro are as follows:

(€000)	Payables to <u>banks</u>	Current <u>interest-bearing</u> financial payables	Non-current <u>interest-</u> <u>bearing</u> financial payables	<u>Total</u>
US Dollar	580	207	499	1,286
Indian Rupee	561	1	-	562
Brazilian Real	-	174	153	327
Canadian Dollar	-	157	17	174
UK Pound	-	19	23	42
Chilean Pesos	-	34	-	34
South African Rand	-	7	15	22
Hong Kong Dollar	-	<u>7</u>	<u>-</u>	<u>7</u>
Total	<u>1,141</u>	<u>606</u>	<u>707</u>	<u>2,454</u>

See note 10 for details of interest rates.

Finance lease payables at 31 December 2015 are analyzed as follows:

(€000)	31 December 2015				31 December 2014			
	Within the year	Between one and five years	Beyond five years	Total	Within the year	Between one and five years	Beyond five years	Total
Outstanding installments on finance leasing contracts	2,624	5,921	6,807	15,352	1,875	2,578	1,534	5,987
Interest	<u>(286)</u>	<u>(589)</u>	<u>(819)</u>	<u>(1,694)</u>	<u>(240)</u>	<u>(433)</u>	<u>(224)</u>	<u>(897)</u>
Present value of finance lease payables	<u>2,338</u>	<u>5,332</u>	<u>5,988</u>	<u>13,658</u>	<u>1,635</u>	<u>2,145</u>	<u>1,310</u>	<u>5,090</u>

At 31 December 2015 the Group held several active finance leasing contracts for industrial buildings, plant and machinery, the carrying value of which, totalling €000 33,868 (€000 13,327 at 31 December 2014), has been booked under Property, plant and equipment (Note 13).

Non-current financial payables have the following due dates:

	31/12/2015 (€000)	31/12/2014 (€000)
From 1 to 2 years	81,486	41,456
From 2 to 5 years	209,073	98,755
Beyond 5 years	<u>9,990</u>	<u>6,849</u>
Total	<u>300,549</u>	<u>147,060</u>

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

	31/12/2015 (€000)	31/12/2014 (€000)
Export advances and Italian portfolio	129,285	86,329
Current account overdrafts	11,077	17,010
Medium/long-term loans	<u>232,970</u>	<u>153,688</u>
Total	<u>373,332</u>	<u>257,027</u>

## 19. Other current liabilities

	31/12/2015 (€000)	31/12/2014 (€000)
Payables related to the acquisition of investments	3,560	4,097
Other short-term payables	43,282	33,593
Government grants	977	-
Other	<u>1,021</u>	<u>433</u>
Total	<u>48,840</u>	<u>38,123</u>

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

## 20. Provisions for risks and charges

Changes were as follows:

(€000)	Product warranti es	Agents' termination indemnity	Investme nt returns	Investment risks	Restructuring charges	Other	Total
Balance at 31/12/2014	3,067	594	119	849	346	1,136	6,111
Exchange rate difference	106	-	13	31	-	61	211
Increase in the year	862	19	30	79	-	917	1,907
Surplus released to the income statement	(598)	-	-	(103)	-	-	(701)
Change in the scope consolidation basis	118	-	150	-	-	-	268
Reclassified	-	(1)	-	-	-	-	(1)
Utilizations in the year	<u>(221)</u>	<u>(20)</u>	<u>(16)</u>	<u>-</u>	<u>(346)</u>	<u>(86)</u>	<u>(689)</u>
Balance at 31/12/2015	<u>3,334</u>	<u>592</u>	<u>296</u>	<u>856</u>	=	<u>2,028</u>	<u>7,106</u>

The balance of other provisions at 31/12/2015 refers to various disputes or estimated liabilities in group companies.

The closing balance is disclosed as shown below in the balance sheet:

	31/12/2015 (€000)	31/12/2014 (€000)
Current	4,423	4,162
Non-current	<u>2,683</u>	<u>1,949</u>
Total	<u>7,106</u>	<u>6,111</u>

In addition to the comments provided in Note 16, the provision for investment risks includes an additional allocation made in prior years of €000 223, net of €000 103 released as no longer necessary during 2015, associated with a potential liability connected with an investment in other companies.

The Parent company and several of its subsidiaries are directly involved in several lawsuits in respect of limited amounts. It is however considered that the settlement of said lawsuits will not generate any significant liabilities for the Group that cannot be covered by the risk provisions that have already been created.

As envisaged by IAS 37, no further provisions have been recorded in relation to other contingent liabilities that might crystallize following tax inspections of certain corporate transactions carried out in prior years.

## 21. Liabilities for employee benefits

### *Liabilities for defined benefit plans*

The following movements were recorded in liabilities:

	2015 (€000)	2014 (€000)
Liabilities at 1 January	14,940	11,942
Amount charged to the income statement in the year	232	277
Reclassifications to other current liabilities	(68)	(28)
Recognition in equity of actuarial results	(2,479)	2,642
Change to consolidation basis	5,934	965
Payments	(1,295)	(858)
Liabilities at 31 December	<u>17,264</u>	<u>14,940</u>

The following items were recognized in the income statement:

	2015 (€000)	2014 (€000)
Current service cost	203	229
Financial expenses	29	48
Past service cost	-	-
Total recognized in the income statement	<u>232</u>	<u>277</u>

Items recognized in the income statement were booked as follows:

	2015 (€000)	2014 (€000)
Cost of products sold	83	93
Distribution costs	58	47
General and administrative expenses	62	89
Financial expenses	<u>29</u>	<u>48</u>
Total	<u>232</u>	<u>277</u>

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

	Unit of measurement	2015	2014
Discount rate	%	2.37	1.46
Expected increase in rate of remuneration*	%	2.78	3.10
Percentage of employees expected to resign ( <i>turnover</i> )**	%	2.11	2.43
Annual cost-of-living increase	%	1.5	1.5
Average period of employment	Years	12.60	12.50

\* = restricted to companies with less than 50 employees.

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

## 22. Other non-current liabilities

	2015 (€000)	2014 (€000)
Payables related to the acquisition of investments	19,649	70,515
Other long-term employee benefits	2,281	1,910
Other	87	180
Total	<u>22,017</u>	<u>72,605</u>

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

	2015 (€000)	2014 (€000)
Liabilities at 1 January	72,605	18,774
Exchange rate difference	44	477
Amount recognized in the income statement in the year	(31,315)	7,308
Discounting effect	-	29
Reclassifications to other current liabilities	(3,273)	(20)
Change to consolidation basis	19,462	46,431
Payments	<u>(35,506)</u>	<u>(394)</u>
Liabilities at 31 December	<u>22,017</u>	<u>72,605</u>

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

## 23. Share capital

The share capital at 31 December 2015 was composed of 108,879,294 ordinary shares with a unit par value of €0.52 for a total amount of €56,617,232.88. In contrast, share capital recorded in the financial statements amounted to €000 56,032 because the nominal value of purchased treasury shares, net of divested treasury stock, was deducted from the share capital in compliance with the reference accounting standards. At 31 December 2015 Interpump S.p.A. held 1,125,912 treasury shares in the portfolio corresponding to 1.03% of the share capital, acquired at an average unit cost of €11.6443.

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

	<u>Number</u>
<i>Balance at 31/12/2013</i>	<i>3,103,503</i>
2014 purchases	3,819,682
Sale of shares to finance subsidiaries' purchases	(715,530)
Sale of shares for the exercise of stock options	<u>(926,560)</u>
<i>Balance at 31/12/2014</i>	<i>5,281,095</i>
2015 purchases	2,542,395
Sale of shares to finance subsidiaries' purchases	(4,925,854)
Sale of shares for the exercise of stock options	<u>(1,771,724)</u>
<i>Balance at 31/12/2015</i>	<u><i>1,125,912</i></u>

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

	2015	2014
	<u>Number of shares</u>	<u>Number of shares</u>
Ordinary shares in existence at 1 January	108,879,294	108,879,294
Treasury stock	<u>(5,281,095)</u>	<u>(3,103,503)</u>
Shares in circulation at 1 January	103,598,199	105,775,791
Treasury stock purchased	<u>(2,542,395)</u>	<u>(3,819,682)</u>
Treasury stock sold	<u>6,697,578</u>	<u>1,642,090</u>
Total shares in circulation at 31 December	<u>107,753,382</u>	<u>103,598,199</u>

The aims identified by the Group in the management of capital are the creation of value for all shareholders and supporting development of the group, both through internal means and by means of targeted acquisitions. The Group therefore intends to maintain an adequate level of capitalization, which simultaneously makes it possible to generate a satisfactory economic return for shareholders and to guarantee the economically effective access to external sources of borrowing. The Group constantly monitors the evolution of the debt to equity ratio and the generation of cash through its industrial operations. In order to attain the aforementioned goals, the Group constantly monitors the cash flows generated by the business sectors in which it operates, both through improvement or maintenance of profitability, and careful management of working capital and of other expenditure. Capital is construed as both the value provided by Interpump Group shareholders (share capital and share premium reserve, totalling €000 194,987 at 31 December 2015 and €000 155,108 at 31 December 2014), and the value generated by the Group in terms of the results of operations (other reserves and legal reserve, including profit for the year, overall equivalent to €000 403,027 at 31 December 2015 and €000 307,070 at 31 December 2014, excluding the translation provision, the reserve for restatement of defined benefit plans, and the provision for fair value measurement of derivative hedges).

#### *Treasury shares purchased*

The amount of treasury stock held by Interpump Group is recorded in an equity reserve. The Group acquired 2,542,395 treasury shares in 2015 for €000 32,709, at an average price of €12.8654 (the Group purchased 3,819,682 treasury shares in 2014 for the total amount of €000 38,299).

#### *Treasury shares sold*

In the framework of the execution of stock option plans, a total of 1,771,724 options have been exercised resulting in the collection of €000 8,166 (926,560 options were exercised for €000 4,626 in 2014). Moreover, 4,925,854 treasury shares were assigned in 2015 to pay for equity investments (715,530 treasury shares assigned in 2014 in payment for equity investments).

#### *Stock options*

The fair value of the 2010/2012 and 2014/2015 stock option plans was recorded in the 2015 and 2014 financial statements in compliance with IFRS 2. Costs of €000 1,370 (€000 1,370 in 2014 as well) relating to the stock option plans were therefore recognized in the 2015 income statement, with a matching entry in the share premium reserve. Said costs represent the portion for the year of the value of the options assigned to employees and directors, established at the allocation date, corresponding to the value of the services rendered by the latter in addition to normal remuneration.

Items recognized in the income statement were booked as follows:

	2015 <u>(€000)</u>	2014 <u>(€000)</u>
Cost of products sold	54	54
Distribution costs	130	130
General and administrative expenses	<u>1,186</u>	<u>1,186</u>
Total	<u>1,370</u>	<u>1,370</u>

Changes in the share premium reserve were as follows:

	2015 <u>€000</u>	2014 <u>€000</u>
Share premium reserve at 1 January	101,237	125,039
Increase due to income statement recognition of the fair value of stock options granted	1,370	1,370
Increase for the disposal of treasury stock further to payment for acquisitions of subsidiaries	60,891	6,654
Increase for the disposal of treasury stock further to the exercise of stock options	8,166	4,144
Utilization to cover purchase of treasury stock	<u>(32,709)</u>	<u>(35,970)</u>
Share premium reserve at 31 December	<u>138,955</u>	<u>101,237</u>

The Shareholders' Meeting held on 20 April 2006 approved a stock option plan ("2006/2009 stock option plan"), which is described in detail in the Board of Directors' Report. The options are exercisable as shown in the following table:

	<u>No. of options granted</u>	<u>Vesting period</u>	<u>Exercise price (€)</u>
Second tranche	69,000	01/05/2011 – 31/05/2016	5.4047
Third tranche	80,000	01/11/2012 – 31/05/2017	3.7524
Fourth tranche	<u>350,000</u>	01/07/2010 – 31/12/2017	3.7524
Total	<u>499,000</u>		

Changes in options are as follows:

	2015 <u>Number of options</u>	2014 <u>Number of options</u>
Options assigned at 1 January	1,073,724	1,694,284
Options granted in the year	-	-
Options exercised in the year	<u>(574,724)</u>	<u>(620,560)</u>
Total options assigned at 31 December	<u>499,000</u>	<u>1,073,724</u>
Of which:		
- vested at 31 December	499,000	1,073,724
- not vested at 31 December	-	-
Total options assigned at 31 December	<u>499,000</u>	<u>1,073,724</u>

The Shareholders' Meeting held on 21 April 2010 approved the adoption of an incentive plan denominated "2010/2012 Interpump Incentive Plan", which is also described in detail in the Board of Directors' Report accompanying the consolidated financial statements. The exercise



price has been set at €3.75 per share. The options can be exercised between 30 June 2013 and 31 December 2016. The changes in options during 2015 and 2014 are indicated below:

	2015	2014
	<u>Number of options</u>	<u>Number of options</u>
Options assigned at 1 January	1,357,000	1,663,000
Options granted in the year	-	-
Options exercised in the year	<u>(1,197,000)</u>	<u>(306,000)</u>
Total options assigned at 31 December	<u>160,000</u>	<u>1,357,000</u>
Of which:		
- vested at 31 December	160,000	1,357,000
- not vested at 31 December	<u>-</u>	<u>-</u>
Total options assigned at 31 December	<u>160,000</u>	<u>1,357,000</u>

The Shareholders' Meeting held on 30 April 2013 approved the adoption of a new incentive plan denominated “2013/2015 *Interpump Incentive Plan*”. The plan, which is based on the free assignment of options that grant the beneficiaries the right, on the achievement of specified objectives, to (i) purchase or subscribe the Company’s shares up to the maximum number of 2,000,000 or, (ii) at the discretion of the Board of Directors, receive the payment of a differential equivalent to any increase in the market value of the Company’s ordinary shares. Beneficiaries of the plan can be employees or directors of the Company and/or its subsidiaries, identified among the subjects with significant roles or functions. The exercise price has been set at €6.00 per share. The options can be exercised between 30 June 2016 and 31 December 2019. The next meeting of the Board of Directors held on 30 April 2013 set a figure of 2,000,000 for the number of options to be assigned, divided by the total number of options in each tranche (500,000 for the first tranche, 700,000 for the second tranche and 800,000 for the third tranche) and established the terms for the exercise of the options, which are connected to the achievement of specific accounting parameters. The same Board of Director's meeting assigned 1,000,000 options to Interpump Group S.p.A. director Fulvio Montipò and 320,000 options to director Paolo Marinsek, the exercise of which is subject to the fulfillment of the above conditions. Moreover, the same Board of Directors meeting conferred on the Chairman and the Deputy Chairman of Interpump Group, separately, the power to specify the beneficiaries of the further 680,000 options. 550,000 options were assigned to the other beneficiaries on 29 October 2013.

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

2006-2009 Plan - Second tranche

	Unit of measurement	
Number of shares assigned	no.	827,361
Grant date		May 2008
Exercise price	€	5.4047
Vesting date		1 May 2011
Fair value per option at the grant date	€	1.2431
Expected volatility (expressed as the weighted average of the volatility values utilized to build the binomial lattice model)	%	23
Expected average duration of the plan life	years	7.7
Expected dividends (compared with share value)	%	4
Risk free interest rate (calculated using a linear interpolation of swap rates at 17/04/2008)	%	From 4.445 to 4.496

2006-2009 Plan - Third tranche

	Unit of measurement	
Number of shares assigned	no.	275,000
Grant date		April/July 2009
Exercise price	€	3.7524
Vesting date		1 November 2012
Fair value per option at the grant date	€	0.57306
Expected volatility (expressed as the weighted average of the volatility values utilized to build the binomial lattice model)	%	30
Expected average duration of the plan life	years	7.83
Expected dividends (compared with share value)	%	4
Risk free interest rate (calculated using a linear interpolation of swap rates at 30/06/2009)	%	From 3.258 to 3.395

2006-2009 Plan - Fourth tranche

	Unit of measurement	
Number of shares assigned	no.	1,100,000
Grant date		March 2010
Exercise price		3.7524
Vesting date		1 July 2010
Fair value per option at the grant date	€	0.92286
Expected volatility (expressed as the weighted average of the volatility values utilized to build the binomial lattice model)	%	30
Expected average duration of the plan life	years	7.75
Expected dividends (compared with share value)	%	4
Risk free interest rate (calculated using a linear interpolation of swap rates in 2010)	%	From 2.899 to 3.069

### 2010//2012 Plan

#### *First assignment*

	Unit of measurement	
Number of shares assigned	no.	2,320,000
Grant date		21 April 2010
Exercise price		3.7500
Vesting date		1 July 2013
Fair value per option at the grant date	€	0.89555
Expected volatility (expressed as the weighted average of the volatility values utilized to build the binomial lattice model)	%	30
Expected average duration of the plan life	years	6.666
Expected dividends (compared with share value)	%	4
Risk free interest rate (calculated using a linear interpolation of swap rates at 21 April 2010)	%	From 2.63 to 2.83

#### *Second assignment*

	Unit of measurement	
Number of shares assigned	no.	540,000
Grant date		07 July 2010
Exercise price		3.7500
Vesting date		1 July 2013
Fair value per option at the grant date	€	1.08964
Expected volatility (expressed as the weighted average of the volatility values utilized to build the binomial lattice model)	%	30
Expected average duration of the plan life	years	6.5
Expected dividends (compared with share value)	%	4
Risk free interest rate (calculated using a linear interpolation of swap rates at 7 July 2010)	%	From 2.29 to 2.49

### 2013//2015 Plan

#### *First assignment*

	Unit of measurement	
Number of shares assigned	no.	1,320,000
Grant date		30 April 2013
Exercise price		6.0000
Vesting date		1 July 2016
Fair value per option at the grant date	€	1.8631
Expected volatility (expressed as the weighted average of the volatility values utilized to build the binomial lattice model)	%	30
Expected average duration of the plan life	years	6.666
Expected dividends (compared with share value)	%	2.5
Risk free interest rate (calculated using a linear interpolation of Euro Swap rates at 30 April 2013)	%	From 0.91 to 1.06

### 2013/2015 Plan

#### *Second assignment*

	Unit of measurement	
Number of shares assigned	no.	550,000
Grant date		29 October 2013
Exercise price		6.0000
<i>Vesting date</i>		1 July 2016
Fair value per option at the grant date	€	2.8916
Expected volatility (expressed as the weighted average of the volatility values utilized to build the binomial lattice model)	%	30
Expected average duration of the plan life	years	6.166
Expected dividends (compared with share value)	%	2.5
Risk free interest rate (calculated using a linear interpolation of Euro Swap rates at 29 October 2013)	%	From 1.38 to 1.57

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

## **24. Reserves**

#### *Reserve for valuation of hedging derivatives at fair value*

This includes net accumulated changes in the fair value of derivative financial instruments classified as hedges and recorded using the hedge accounting method.

#### *Translation provision*

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

#### *Reserve for the re-measurement of defined benefit plans*

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

*Classification of net equity depending on possibility of utilization*

(amounts in €000)	Amount	Possibility of utilization	Available portion	Tax payable in the event of distribution	Summary of utilizations over the past three years	
					to cover losses	for other reasons
<b>Share capital</b>	56,617	B	-	-	-	-
Nominal value of treasury stock in portfolio	(585)					
Total share capital	<u>56,032</u>					
<b>Capital reserves</b>						
From Parent Company's financial statements:						
Legal reserve	6,860	B	-	-	-	-
Share premium reserve	<u>65,726</u>	A,B,C	<u>65,726</u>	-	-	15,742
Total from Parent Company's financial statements	72,586		65,726			
Consolidation entries	<u>36</u>					
Total from consolidated financial statements	<u>72,622</u>					
<b>Profit reserves:</b>						
From Parent Company's financial statements:						
Legal reserve	4,463	B	-	-	-	-
Share premium reserve	72,391	A,B,C	71,130	1,687	-	1,592
Extraordinary reserve	61,015	A,B,C	59,478	-	-	2,382
Reserve for share capital reduction	585	-	-	-	-	-
First Time Adoption Reserve	(45)	-	-	-	-	-
Reserve for the measurement of hedging derivatives at fair value	(13)	-	-	-	-	-
Merger surplus						
General Technology and Interpump Engineering	863	A,B,C	698	-	-	-
Reserve for restatement of defined benefits plans	(1,479)	-	-	-	-	-
Profit for the year	<u>28,529</u>	A,B,C	<u>28,529</u>	-	-	-
Total from Parent Company's financial statements	166,309		159,835			
Consolidation entries	<u>322,194</u>					
Total from consolidated financial statements	<u>488,503</u>					
Reserve for treasury stock held	13,110	-	-	-	-	92,450
Treasury shares	(13,110)					
Non-distributable portion*			<u>(5,680)</u>			
<b>Remaining distributable portion</b>			<u>219,881</u>			

A: for capital increase

B: for coverage of losses

C: for distribution to shareholders

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

Utilizations refer to dividends, purchase of treasury stock and reductions of reserves for other causes and do not include transfers between reserves. In particular, with reference to the changes that occur red in the past three years note that the drawdowns of the treasury shares reserve refer to purchases of treasury stock, while drawdowns from the share premium reserve

refer to the sale of treasury shares at a price below their carrying value and the drawdowns from the extraordinary reserve refer to integration of the 2012 dividend.

On the basis of Italian tax legislation the reserves and profits are freely distributable and do not attract tax even in the case of distribution, on the condition that the reserves and residual profits exceed the negative components of income ascribed exclusively in the tax return; otherwise, distributed reserves and profits would be subject to tax in the measure in which the residual reserves and profits were lower than the negative components of income that have been ascribed exclusively to the tax return. At 31 December 2015, this condition has been complied with in full, hence no taxes were payable in the event of distribution of the parent company's entire profits for the year and the entirety of available reserves, beyond the taxes already indicated in the prior statement.

*Breakdown of components recorded directly in equity*

(amounts in €000)	2015		Amount net of taxation	2014		Amount net of taxation
	Amount before taxation	Taxation		Amount before taxation	Taxation	
Accounting for derivatives hedging interest-rate risks using the cash flow hedge method	-	-	-	50	(14)	36
Accounting for derivatives hedging exchange-rate risks using the cash flow hedge method	8	(2)	6	(41)	13	(28)
Profit (Loss) arising from translation of the financial statements companies	18,985	-	18,985	23,275	-	23,275
Profit (Loss) of companies carried at equity	(16)	-	(16)	68	-	68
Actuarial Profits (Losses) associated with restatement of defined benefits plans	<u>2,479</u>	<u>(683)</u>	<u>1,796</u>	<u>(2,640)</u>	<u>726</u>	<u>(1,914)</u>
<b>Total</b>	<b><u>21,456</u></b>	<b><u>(685)</u></b>	<b><u>20,771</u></b>	<b><u>20,712</u></b>	<b><u>725</u></b>	<b><u>21,437</u></b>

**25. Minority shareholders' equity**

This is the portion of consolidated shareholders' equity pertaining to minority shareholders of the consolidated subsidiaries. The following changes were recorded:

(€000)	Interpump Hydraulics Group	Interpump Hydraulics International Group	Hydrocontrol Group	IMM Group	Sit	Hammelmann Pump System	Share of intragroup profits included inventories	Total
Balance at 31/12/2014	4,050	484	862	58	365	447	(411)	5,855
Merger effect	484	(484)	-	-	-	-	-	-
Dividends paid to third parties	(861)	-	-	-	-	(64)	-	(925)
Interests acquired	(242)	-	(38)	-	-	-	-	(280)
Changes recognized directly in equity	-	-	-	1	23	-	-	24
Exchange rate difference	83	-	29	-	-	18	-	130
Profit (loss) of the year minority interests	<u>612</u>	<u>-</u>	<u>267</u>	<u>10</u>	<u>12</u>	<u>126</u>	<u>(360)</u>	<u>667</u>
Balance at 31/12/2015	<u>4,126</u>	<u>-</u>	<u>1,120</u>	<u>69</u>	<u>400</u>	<u>527</u>	<u>(771)</u>	<u>5,471</u>

The subsidiaries with minority interests are not individually or cumulatively significant to the Interpump Group.

## 26. Other net revenues

	2015 (€000)	2014 (€000)
Reimbursement of expenses	6,064	4,897
Income from the sale of waste and scrap	2,620	2,973
Income from the sale of know-how and technical drawings	-	1,500
Capital gains on the sale of equity investments and lines of business	-	499
Utilization of surplus provisions and allocations	801	343
Capital gains from the sale of property, plant and equipment	410	161
Income from rent/royalties	342	214
Refunds from insurance	340	114
Other	<u>2,556</u>	<u>1,862</u>
Total	<u>13,133</u>	<u>12,563</u>

## 27. Costs by nature

	2015 (€000)	2014 (€000)
Raw materials and components	342,551	257,509
Personnel and temporary staff	224,052	161,870
Services	93,364	72,890
Amortization / depreciation (notes 13 and 15)	41,693	29,961
Directors' and statutory auditors' remuneration	8,059	7,690
Hire purchase and leasing charges	11,906	10,322
Provisions / impairment of tangible and intangible fixed assets (notes 13, 15 and 20)	1,669	1,778
Other operating costs	<u>47,871</u>	<u>38,175</u>
Total cost of sales, distribution costs, general and administrative expenses, other operating costs and impairment losses of tangible and intangible fixed assets	<u>771,165</u>	<u>580,195</u>

In accordance with the requirements of article 149-duodecies of the Issuers' Regulation as amended by Consob Resolution no. 15915 of 3 May 2007 published in the Official Journal of the Italian Republic no. 111 of 15 May 2007 (S.O. no. 115), the remuneration amounts for 2015 are listed below for services rendered to the Group by the independent auditors and the entities belonging to the network of said independent auditing company:

- assignments for auditing of the parent company €000 123;
- assignments for auditing of subsidiaries €000 701;

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

## 28. Directors' and statutory auditors' remuneration

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

	2015 (€000)	2014 (€000)
Parent Company	4,070	3,885
Statutory auditors	<u>167</u>	<u>182</u>
Total remuneration	<u>4,237</u>	<u>4,067</u>

The amounts include the emoluments authorized at the Shareholders' Meeting and those established by the Board of Directors for directors with special duties, including bonuses, non-cash benefits, payments to cover the cost of personal security and the remuneration element of stock option plans, as represented by the period portion of the fair value of the options calculated at the grant date. The difference with respect to 2014 was due to the recognition in 2015 of a payment totaling €000 186 to cover the personal security costs of the Chairman of the Board of Directors.

## 29. Financial income and charges

	2015 €000	2014 €000
<u>Financial income</u>		
Interest income from liquid funds	508	601
Interest income from other assets	70	51
Financial income to adjust debt estimate for commitment to purchase residual stakes in subsidiaries	32,056	742
Foreign exchange gains	9,533	6,579
Earnings from valuation of derivative financial instruments	206	146
Other financial income	<u>43</u>	<u>25</u>
Total financial income	<u>42,416</u>	<u>8,144</u>
<u>Financial expenses</u>		
Interest expense on loans	5,944	6,636
Interest expense on put options	475	3,465
Financial charges to adjust estimated debt for commitment to purchase residual stakes in subsidiaries	390	4,693
<i>Tobin Tax</i>	268	45
Foreign exchange losses	8,286	4,326
Losses from valuation of derivative financial instruments	77	70
Other financial charges	<u>248</u>	<u>269</u>
Total financial expenses	<u>15,688</u>	<u>19,504</u>
Total financial expenses (income), net	<u>(26,728)</u>	<u>11,360</u>

See the comments on page 17 of the Report on operations for information about the financial income deriving from adjustment of the estimated liability for the purchase of residual interests in subsidiaries.



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

The adjustment of the estimated liability for the purchase of residual interests in subsidiaries may result in financial charges, if the actual performance of the companies concerned is better than initially expected, or if the related put options are exercised later than initially expected. Conversely, financial income may be recognized if the actual performance of the companies concerned is worse than initially expected, or if the related put options are exercised earlier than initially expected.

### 30. Income taxes

The effective tax rate for the year was 27.6% (38.0% in 2014). This change is explained in the Report on operations.

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

	2015 (€000)	2014 (€000)
Current taxes	(45,749)	(34,483)
Current taxes of prior financial years	(838)	121
Deferred taxes	<u>1,531</u>	<u>(1,005)</u>
Total taxes	<u>(45,056)</u>	<u>(35,367)</u>

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

	2015 (€000)	2014 (€000)
Deferred tax assets generated in the year	3,258	2,524
Deferred tax liabilities generated in the year	(2,515)	(2,147)
Deferred tax assets transferred to the income statement	(2,823)	(3,483)
Deferred tax liabilities recognized in the income statement	3,395	2,096
Deferred tax assets resulting from change in rate	(1,076)	2
Deferred tax liabilities resulting from change in rate	2,723	3
Derecognized deferred tax assets	(1,431)	-
Deferred taxes not calculated in previous years	-	-
Total deferred taxes	<u>1,531</u>	<u>(1,005)</u>

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

	2015 (€000)	2014 (€000)
<u>IRES/National tax</u>		
Profit before taxes from the income statement	<u>163,362</u>	<u>93,109</u>
Theoretical taxes at the Italian rate (27.5%)	44,925	25,605
Effect of different rates applicable to foreign subsidiaries	(102)	(292)
Tax on dividends from consolidated companies	1,309	1,211
Higher (Lower) taxes resulting from the valuation of investments using the equity method	72	(28)
Higher tax for non-deductible stock option costs	104	104
Lower taxes due to IRAP deduction relating to expenses for employees and similar for the year	(250)	(727)
Lower taxes due to IRAP deduction on interest expenses in the year	(101)	(99)
Higher taxes due to not recognizing deferred tax assets on current year tax losses	51	-
Lower taxes due to not recognizing deferred tax assets on prior year tax losses	(271)	-
Deferred taxes derecognized in the year	1,431	-
Taxes relating to previous years (current plus deferred)	976	(70)
Higher taxes on financial expenses relative to discounting of debts for the purchase of investments and related adjustments	(8,596)	2,008
Effect of scheduled change in the IRES tax rate from 2017	(1,619)	-
Higher (Lower) taxes for non-taxable revenues and non-deductible costs	<u>(742)</u>	<u>(394)</u>
<i>Total IRES/National tax</i>	<u>37,187</u>	<u>27,318</u>
<u>IRAP/Local income taxes</u>		
Profit before taxes from the income statement	<u>163,362</u>	<u>93,109</u>
Theoretical taxes at the Italian rate (3.9%)	6,371	3,631
Effect of different rates applicable to foreign subsidiaries	1,921	1,854
Higher taxes for non-deductible payroll costs	233	1,928
Higher taxes for non-deductible directors' emoluments	311	264
Higher taxes due to non-deductible financial expenses	(1,187)	358
Tax on dividends from consolidated companies	23	-
Higher taxes due to measuring investments using equity method	(3)	(5)
Taxes relating to previous years (current plus deferred)	14	(26)
Higher taxes due to change in the tax rate	26	-
Higher (Lower) taxes for non-taxable revenues and non-deductible costs	<u>160</u>	<u>45</u>
<i>Total IRAP/Local income taxes</i>	<u>7,869</u>	<u>8,049</u>
<i>Total income taxes recognized in the income statement</i>	<u>45,056</u>	<u>35,367</u>

Interpump Group S.p.A. belongs to a domestic tax group together with Teknova S.r.l. and Interpump Hydraulics S.p.A. In addition, IMM S.p.A. and Hypress S.r.l. are members of a different domestic tax group.

### 31. Earnings per share

#### *Basic earnings per share*

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

	<u>2015</u>	<u>2014</u>
Consolidated profit for the period attributable to Parent company shareholders (€000)	117,639	56,936
Average number of shares in circulation	106,854,067	105,257,907
Basic earnings per share (€)	<u>1.101</u>	<u>0.541</u>

#### *Diluted earnings per share*

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

	<u>2015</u>	<u>2014</u>
Consolidated profit for the period attributable to Parent company shareholders (€000)	<u>117,639</u>	<u>56,936</u>
Average number of shares in circulation	106,854,067	105,257,907
Number of potential shares for stock option plans (*)	<u>1,491,735</u>	<u>2,006,055</u>
Average number of shares (diluted)	<u>108,345,802</u>	<u>107,263,962</u>
Diluted earnings per share (€)	<u>1.086</u>	<u>0.531</u>

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

### 32. Information on financial assets and liabilities

Financial assets and liabilities, broken down by the categories identified by IAS 39, are summarized in the following table:

(€000)	<i>Financial assets at 31/12/2015</i>				<i>Financial liabilities at 31/12/2015</i>		
	At the fair value recorded in the Income Statement		Loans and receivables	Held for sale	Valued at the amortized cost	Total	Fair value
	Initially*	IAS 39					
Trade receivables	-	-	178,129	-	-	178,129	178,129
Other current assets	-	-	4,177	-	-	4,177	4,177
Other financial assets	303	-	223	499	-	1,025	1,025
Trade payables	-	-	-	-	(94,022)	(94,022)	(94,022)
Payables to banks	-	-	-	-	(4,972)	(4,972)	(4,972)
Current interest bearing financial payables	-	-	-	-	(83,833)	(83,833)	(83,833)
Derivative instruments payable	-	(49)	-	-	-	(49)	(49)
Other current liabilities	-	-	-	-	(47,819)	(47,819)	(47,819)
Non-current interest-bearing financial payables	-	-	-	-	(300,549)	(300,549)	(300,549)
Other non-current assets	-	-	-	-	(22,017)	(22,017)	(22,017)
Total	<u>303</u>	<u>(49)</u>	<u>182,529</u>	<u>499</u>	<u>(553,212)</u>	<u>(369,930)</u>	<u>(369,930)</u>

(€000)	<i>Financial assets at 31/12/2014</i>				<i>Financial liabilities at 31/12/2014</i>		
	At the fair value recorded in the Income Statement		Loans and receivables	Held for sale	Valued at the amortized cost	Total	Fair value
	Initially*	IAS 39					
Trade receivables	-	-	135,634	-	-	135,634	135,634
Other current assets	-	-	3,667	-	-	3,667	3,667
Other financial assets	-	-	345	649	-	994	994
Trade payables	-	-	-	-	(80,273)	(80,273)	(80,273)
Payables to banks	-	-	-	-	(27,289)	(27,289)	(27,289)
Current interest bearing financial payables	-	-	-	-	(64,298)	(64,298)	(64,298)
Derivative instruments payable	-	(141)	-	-	-	(141)	(141)
Other current liabilities	-	-	-	-	(37,690)	(37,690)	(37,690)
Non-current interest-bearing financial payables	-	-	-	-	(147,060)	(147,060)	(147,060)
Other non-current assets	-	-	-	-	(72,605)	(72,605)	(72,605)
Total	<u>-</u>	<u>(141)</u>	<u>139,646</u>	<u>649</u>	<u>(429,215)</u>	<u>(289,061)</u>	<u>(289,061)</u>

\* = designated as such at the time of initial recording.

\*\* = classified as held for trading according to the requirements of IAS 39.

The carrying amount of financial assets and liabilities is substantially the same as their fair value.

The 2015 consolidated income statement only reports fair value earnings of €000 155 (€000 113 in 2014, in part offset by €000 25 of fair value losses) on derivative financial instruments, which, although arranged for hedging purposes, failed to meet all the requirements of IAS 39 in order to be considered hedges. These financial instruments comprise interest rate swaps and

interest rate collars. Note 10 gives the methods for calculation utilized to establish the fair value of derivative financial instruments and their maturity dates.

Loans and receivables generated costs and revenues. The revenues comprised exchange gains of €000 6,046 (€000 3,335 in 2014). Costs, on the other hand, comprised losses on receivables of €000 1,329 (€000 1,549 in 2014), classified in the income statement as other operating costs, and exchange losses of €000 4,990 (€000 1,582 in 2014).

The financial liabilities measured at amortized cost also generated costs and revenues in the income statement. Revenues refer to exchange rate gains €000 2,693 (€000 1,496 in 2014), while costs refer to currency exchange losses for €000 3,162 (€000 1,037 in 2014) and the portion of ancillary charges initially incurred to obtain the loans and then distributed on the basis of the loan duration according to the financial method. In 2015 the value of these expenses booked to the income statement totalled €000 478 (€000 761 in 2014).

Financial assets and liabilities not designated at fair value through the income statement (all those indicated in the previous table, with the exception of those appearing in the first two columns) generated, respectively, interest income of €000 32,160 (€000 795 in 2014) and interest expense of €000 6,551 (€000 14,033 in 2014); in addition, general and administrative expenses include commission amounts and bank charges of €000 1,344 (€000 1,006 in 2014).

### **33. Information on financial risks**

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

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

The Group is not exposed to significant risk concentrations.

As described in Note 4 "Financial risks management", the Interpump Group constantly monitors the financial risks to which it is exposed so that the potential negative effects can be evaluated in advance and appropriate actions can be taken to mitigate them.

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

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

#### **Exchange risk**

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

- wherever Group companies generate revenues in currencies other than the currencies in which the respective costs are denominated, exchange rate fluctuations can impact on the relative companies' operating profit.

In 2015 the total amount of cash flows directly exposed to exchange risks corresponded to approximately 10% of Group turnover (approximately 10% in 2014).

The main exchange rates to which the Group is exposed are:

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

The Interpump Group has adopted a policy of hedging commercial transactions denominated in foreign currency, in the framework of which the most effective derivative instruments for the achievement of the preset goals have been identified and the relative responsibilities, duties and system of delegations have been defined.

Where macro hedging of foreign currency revenues and costs is not possible, Group policy is to hedge solely if the exchange rates are deemed to be favorable, based on a matrix of values established beforehand by top management, thus ensuring maintenance of the favorable condition for a time period of between three and six months. Although the exchange rate reached and even exceeded the established values considered favorable during 2015, top management decided not to start hedging, except for isolated, individual transactions, in order to benefit from the weakness of the euro.

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

In 2015 the commercial cash flows directly exposed to exchange risks were equivalent to approximately 21% of Group purchases (11% in 2014) and mainly related to intercompany transactions and the USD/Euro, Renminbi/Euro, Rupee/Euro, Leu/Euro, Won/Euro and Renminbi/USD exchange rates. The increase in the incidence of currency purchases with respect to 2014 was partly due (4%) to the decision to invoice in Renminbi the hydraulic pumps made in China for the US market, while the remainder was due to the consolidation of the Walvoil Group. Currently the Group policy regarding purchases in foreign currency is to refrain from systematic hedging and, where possible, to establish macro hedges for currency costs and revenues. This was the case, for example, in 2015 with €11m of purchases and sales in Euro made in North America by the Group's distribution companies. The decision to refrain from systematic hedging reflects the large number and fragmented nature of transactions, whose total value has not yet reached a level that would enable the benefits connected with stabilization of the exchange rate to offset the costs associated with arranging the related hedges. However, the Group monitors this phenomenon constantly both in relation to exchange rate trends and also the evolution of business.

- Again in relation to commercial activities, the Group companies can be in a position wherein they hold commercial receivables or payables denominated in currencies other than

the account currency of the holding entity. Fluctuations in exchange rates can therefore result in the realization or assessment of positive or negative exchange differences. As highlighted earlier, it is Group policy to monitor the need to hedge exposures deriving from trade payables.

- In relation to financial exposure, wherever the monetary outflows/inflows are denominated in a currency other than the account currency utilized by the creditor/debtor company, fluctuation of the exchange rates can impact negatively on the net profits of said companies. In relation to financial exposures, loans of €1.8m were collected during 2015 in currencies other than those utilized by the debtor companies. At 31 December 2015, loans totaling €4.1m are still outstanding in currencies other than those utilized by the debtor companies. Once again in 2015, the Group decided not to hedge this exposure.
- Several Group subsidiaries are situated in non-EMU countries, notably the US, Chile, Australia, China, India, Brazil, Korea, Romania and the United Arab Emirates. Since the Group's functional currency is the euro, the income statements of these companies are translated into euro at the average exchange rate of the year. Changes in exchange rates can impact on the corresponding value of revenues, costs and economic result in euro.
- The assets and liabilities of consolidated companies whose account currency is different from the euro can assume different equivalent euro values depending on the rates of exchange. As provided for by the reference accounting principles, the effects of changes in the exchange rate are recognized directly in equity in the Translation reserve. The Group monitors the main exposures to translation risk; at the date of the financial statements no hedges have been arranged in relation to these exposures.

The nature and structure of the exposure to exchange risk and the related hedging policies adopted by the Group were substantially unchanged in 2015.

### **Exchange risk sensitivity analysis**

The potential loss deriving from the change in the fair value of financial assets and liabilities caused by a hypothetical and sudden increase in the value of the euro of 10% with respect to the main foreign currencies would be approximately €000 2,302 (€000 1,368 in 2014).

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

### **Interest rate risk**

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

It is company policy to monitor the changes in the rate curves, in order to assess the need to hedge part of the outstanding loans. As more fully described in note 10, loans for which the interest risk is hedged total €000 15,843 at 31/12/2015, comprising fixed-rate loans of €000 12,158 and €000 3,685 relating to derivative instruments taken over from newly-acquired companies.

At 31 December 2015, liquidity of €5.2m is held in the form of unrestricted deposits at fixed interest rates, while the remainder is held at floating rates, consistent with the Group's financial payables and bank debt.

### **Sensitivity analysis relative to the interest rate risk**

The effects on the Group of a hypothetical and sudden upswing in interest rates of 50 basis points would be higher financial expenses, net of the increase in financial income, totalling €000 1,220 (€000 501 in 2014). It is reasonable to assume that a 50 basis points decrease in interest rates would produce an equivalent effect, although this time in terms of lower financial expenses. The sensitivity analysis did not take account of loans in relation to which hedges have been taken out, those at fixed interest rates and liquidity invested at fixed rates. It is reasonable to assume that the fluctuation in interest rates could produce an opposite economic effect on the derivative financial instruments of an amount that is identical to the change in the underlying hedged transactions thereby effectively offsetting the fluctuation.

### **Credit risk**

The maximum theoretical credit risk exposure of the Group at 31 December 2015 and 2014 is represented by the carrying value of the financial assets recorded in the financial statements.

However, historically the Group has never suffered any significant bad debts (0.1% of sales in 2015 and 0.2% in 2014). This is because Group companies generally grant extended payment terms only to their long-term customers of known solvency and reliability. In contrast, after having passed an initial credit rating analysis, new customers are required to make payments in advance or to open a letter of credit for amounts due.

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

At 31 December 2015 the Loans and Receivables booked under financial assets for the purposes of IFRS 7 totaled €000 182,529 (€000 139,646 at 31/12/2014), and they include €000 7,455 related to written down receivables (€000 6,085 at 31/12/2014); on the residual amount payments overdue by less than three months were €000 30,015 (€000 27,291 at 31/12/2014), while those overdue beyond three months totaled €000 13,900 (€000 12,776 at 31/12/2014). The increases were mainly due to the change in the scope of consolidation. In relation to receivables overdue by less than three months guarantees received total €000 164 (€000 257 at 31/12/2014), while in relation to receivables overdue by more than three months the guarantees received totaled €000 7 (€000 160 in 2014).

The Group is not exposed to any significant concentrations of sales. In fact, in 2015 the top customer in terms of sales accounted for about 1% of total sales (1% also in 2014), while the top 10 customers accounted for 7% of total sales (8% in 2014). The concentration is similar on the sector level because the top customer in terms of sales accounts for around 2% in both the Water Jetting Sector and the Hydraulic Sector, while the top 10 customers account for 14% of the Water Jetting Sector and 10% of the Hydraulic Sector.

### **Liquidity risk**

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

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

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



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

The maturity characteristics of interest bearing financial debts and bank debts are described in Note 18.

Management considers that the currently available funds and lines of credit, in addition to resources that will be generated by operating and financing activities will allow the Group to meet requirements deriving from investing activities, management of working capital and repayment of debts at the natural due date, in addition to ensuring the pursuit of a strategy of growth also by means of targeted acquisitions able to create value for shareholders. Cash on hand at 31 December 2015 totals €135.1 million. Cash on hand, combined with the significant cash generation from operations that the Group has been able to realize in 2015 and in prior years, are definitely factors that make it possible to reduce the Group's exposure to liquidity risk. The decision to maintain a high level of liquidity was adopted in order to minimize the liquidity risk, which is considered important given the current state of uncertainty of the economy, and to pick up on any opportunities for acquisitions that may arise.

### **Price risk**

The Group is exposed to risks deriving from fluctuations in the prices of metals that can impact on economic results and profit margins. Specifically, the incidence of costs for the purchase of metals was 29% of total Group purchase costs of raw materials, semi-finished products and finished products in 2015 (23% in 2014). The main metals utilized by the Group include brass, aluminium, copper, steel, stainless steel, cast iron, and, to a lesser extent, copper, sheet metal and mild steel. With respect to 31 December 2014, prices of raw materials used by the Group did not increase significantly and even fell in some cases. The Group constantly monitors the trend of the prices of these materials in the attempt to adopt the most effective policies to reduce the potential exposure to this risk.

The Group sectors feature differing levels of propensity towards the risk of fluctuations in the prices of metals, notably:

- in the Water Jetting Sector the cost of metals constituted approximately 15% of costs for the purchase of raw materials, semi-finished products and finished products in 2015 (13% in 2014). The metals utilized are primarily brass, steel, stainless steel, aluminium and copper. The policy is to leave the cost of storage of materials to vendors; this means that the risk is hedged by means of orders for periods and quantities made at fixed price. At 31 December 2015 there were agreements in place covering 86% of the projected consumption of brass and 67% of the projected consumption of aluminum for 2015 (in 2014, 27% coverage of the projected consumption of brass and 14% coverage of the projected consumption of aluminum in relation to 2014). The percentage coverage of the predicted consumption of brass and aluminum rises still further, to the extent of covering the entire requirement for the coming year, if the stocks of brass and aluminum on hand at 31/12/2015 are considered in addition to the agreements signed;
- the cost of metals in the Hydraulic Sector constituted around 36% of purchase costs for raw materials, semi-finished products and finished products in 2015 (29% in 2014). The metals utilized are primarily steel, aluminum, mild steel and iron. The prices of these commodities, with the exception of aluminum, are not historically sensitive to significant fluctuations. The Group therefore considers that a strategy aimed at accurate analysis of price trends is

sufficient to mitigate the price risk. In relation to aluminum, no hedging transactions are undertaken because of the limited effect of such operations on purchase prices.

Generally the selling prices of the various Group companies are reviewed once a year.

### 34. Notes to the cash flow statement

#### Property, plant and equipment

In 2015 the Group purchased buildings, plant and machinery totalling €000 38,460 (€000 41,408 in 2014). This investment involved payments of €000 38,703, including the purchase of assets for subsequent rental and considering the dynamics of the payables incurred for this reason (€000 39,755 in 2014).

#### Cash and cash equivalents

This item can be broken down as follows:

	31/12/2015 (€000)	31/12/2014 (€000)
Cash and cash equivalents from the balance sheet	135,130	87,159
Payables to banks (current account overdrafts and advances subject to collection)	(5,735)	(27,770)
Cash and cash equivalents from the cash flow statement	<u>129,395</u>	<u>59,389</u>

#### Net financial position and cash-flow statement

For the amount and detail of the main components of the net financial position and the changes that occurred in 2015 and 2014 we invite you to refer to the "Cash Flow" section of the Report on operations.

### 35. Commitments

At 31/12/2015 the group had commitments to purchase raw materials totalling €000 183 (€000 306 at 31/12/2014).

Furthermore, the Group also has commitments to purchase tangible assets totalling €000 4,217 (€000 287 at 31/12/2014).

The Group has signed rental and hire purchase agreements primarily regarding buildings, machinery, cars and computers. The total outlay in 2015 was €000 10,566 (€000 10,518 in 2014). At 31/12/2015, the following commitments were outstanding:

	(€000)
Due within 1 year	10,371
Due from 1 to 2 years	9,539
Due from 2 to 5 years	19,347
Due beyond 5 years	<u>3,104</u>
Total	<u>42,361</u>

### 36. Transactions with related parties

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

The effects on the Group's consolidated income statements for 2015 and 2014 are shown below:

	2015					
	Total	Non-consolidated	<u>Associates</u>	Other related	Total related	% incidence
(€000)	<u>Total</u>	<u>subsidiaries</u>		<u>parties</u>	<u>parties</u>	<u>on account caption</u>
Net sales	894,928	1,893	-	1,710	3,603	0.4%
Cost of products sold	577,310	447	-	17,888	18,335	3.2%
Other revenues	13,133	18	-	-	18	0.1%
Distribution costs	84,321	38	-	1,284	1,322	1.6%
General and admin. expenses	105,670	-	-	923	923	0.9%
Financial income	42,416	7	-	-	7	-
Financial expenses	15,688	-	-	2	2	-

	2014					
	Total	Non-consolidated	<u>Associates</u>	Other related	Total related	% incidence
(€000)	<u>Total</u>	<u>subsidiaries</u>		<u>parties</u>	<u>parties</u>	<u>on account caption</u>
Net sales	671,999	4,702	-	2,657	7,359	1.1%
Cost of products sold	426,585	403	-	18,103	18,506	4.3%
Other revenues	12,563	3	-	2	5	0.0%
Distribution costs	68,074	210	-	1,429	1,639	2.4%
General and admin. expenses	80,517	-	-	768	768	1.0%
Financial income	8,143	9	-	-	9	0.1%
Financial expenses	19,504	-	-	8	8	0.0%

The effects on the consolidated statement of financial position at 31 December 2015 and 2014 are described below:

	31 December 2015					
	Total	Non-consolidated	<u>Associates</u>	Other related	Total related	% incidence
(€000)	<u>Total</u>	<u>subsidiaries</u>		<u>parties</u>	<u>parties</u>	<u>on account caption</u>
Trade receivables	178,129	1,774	-	429	2,203	1.2%
Other current assets	7,809	4	-	-	4	0.1%
Other non-current financial assets	1,025	218	-	-	218	21.3%
Trade payables	94,022	36	-	1,744	1,780	1.9%
Interest-bearing financial payables	83,833	-	-	7	7	-

31 December 2014

(€000)	Total <u>Total</u>	Non- consolidated <u>subsidiaries</u>	<u>Associates</u>	Other related <u>parties</u>	Total related <u>parties</u>	% incidence on account <u>caption</u>
Trade receivables	135,634	3,915	-	392	4,307	3.2%
Other current assets	6,856	5	-	-	5	0.1%
Other non-current financial assets	944	340	-	-	340	36.0%
Trade payables	80,273	101	-	3,049	3,150	3.9%
Interest-bearing financial financial payables	64,298	-	-	409	409	0.6%

*Relations with non-consolidated subsidiaries*

Relations with non-consolidated subsidiaries are as follows:

(€000)	Receivables		Revenues	
	<u>31/12/2015</u>	<u>31/12/2014</u>	<u>2015</u>	<u>2014</u>
Interpump Hydraulics Middle East*	-	2,464	-	3,103
Interpump Hydraulics (UK)	963	780	704	591
Interpump Hydraulics Perú	724	-	730	-
General Pump China Inc.	91	245	477	656
Hammelmann Bombas e Sistemas Ltda*	-	431	-	355
<i>Total subsidiaries</i>	<u>1,778</u>	<u>3,920</u>	<u>1,911</u>	<u>4,705</u>

(€000)	Payables		Costs	
	<u>31/12/2015</u>	<u>31/12/2014</u>	<u>2015</u>	<u>2014</u>
General Pump China Inc.	36	44	485	454
Interpump Hydraulics Middle East*	-	2	-	2
Hammelmann Bombas e Sistemas Ltda*	-	55	-	157
<i>Total subsidiaries</i>	<u>36</u>	<u>101</u>	<u>485</u>	<u>613</u>

\* = fully consolidated at 31 December 2015

(€000)	Loans		Financial income	
	<u>31/12/2015</u>	<u>31/12/2014</u>	<u>2015</u>	<u>2014</u>
Interpump Hydraulics (UK)	218	205	7	7
Interpump Hydraulics Middle East*	-	105	-	2
Hammelmann Bombas e Sistemas Ltda*	-	<u>30</u>	-	-
<i>Total subsidiaries</i>	<u>218</u>	<u>340</u>	<u>7</u>	<u>9</u>

\* = fully consolidated at 31 December 2015

#### *Relations with associates*

The Group does not hold any associated companies.

#### *Transactions with other related parties*

Transactions with other related parties concern the leasing of facilities owned by companies controlled by the current shareholders and directors of Group companies for the amount of €4,899k (€5,002k in 2014) and consultancy services provided by entities connected with directors and statutory auditors of the Parent company for €140k (€102k in 2014). Costs for rentals were recorded under the cost of sales in the amount of €3,572k (€3,951k in 2014), under distribution costs in the amount of €796k (€882k in 2014) and under general and administrative expenses in the amount of €31k (€169k in 2014). Consultancy costs were allocated to distribution costs in the amount of €60k (€60k allocated to distribution costs also in 2014) and to general and administrative expenses in the amount of €80k (€42k in 2014). Revenues from sales in the year ended 31 December 2015 included revenues from sales to companies by Group shareholders or directors in the amount of €1,710k (€2,657k at 31 December 2014). In addition, the cost of sales includes purchases from subsidiaries by minority shareholders or Group company directors in the amount of €13,967k (€14,048k in 2014).

Moreover, further to the signing of building rental contracts with other related parties, at 31 December 2015 the Group has commitments of €16,812k (€21,495k at 31 December 2014).

### **37. Events occurring after the close of the year**

As discussed further in the Report on operations, the entire equity interest in Endeavour (Hydralok brand), based in Bath, England, was acquired on 22 January 2016.

**Attestation of the consolidated financial statements pursuant to art. 81-(3) of Consob regulation no. 11971 (which refers to art. 154-(2) para. 5 of the Consolidated Finance Act) of 14 May 1999 and subsequent amendments**

1. The undersigned Paolo Marinsek and Carlo Banci, respectively Executive Director and Manager responsible for the drafting of company accounting documents of Interpump Group S.p.A., taking account also of the provisions of art. 154-(2), subsections 3 and 4 of legislative decree no. 58 of 24 February 1998, attest to:
  - adequacy in relation to the characteristics of the business and
  - effective applicationof the administrative and accounting procedures for the formation of the consolidated financial statements during 2015.
2. In addition, it is confirmed that consolidated financial statements of Interpump Group S.p.A. and its subsidiaries for the year ended 31 December 2015, which show consolidated total assets of €1,270,073 thousand, consolidated net profit of €18,306 thousand and consolidated shareholder's equity of €22,628 thousand:
  - a) correspond to the results of the company books and accounting entries;
  - b) were prepared in compliance with the international accounting standards approved by the European Commission further to the enforcement of Ruling (CE) no. 1606/2002 of the European Parliament and the European Council of 19 July 2002, and the provisions issued in implementation of art. 9 of legislative decree 38/2005 and the contents are suitable for providing a truthful and fair representation of the equity, economic and financial situation of the company and the group of companies included in the scope of consolidation;
  - c) the Board of Directors' report contains a reliable analysis of performance and results and the situation of the issuer and the companies included in the consolidation together with a description of the main risks and uncertainties to which they are exposed.

Sant'Ilario d'Enza (RE), 18 March 2016

Paolo Marinsek  
Deputy Chairman and  
Chief Executive Officer

Carlo Banci  
Manager responsible for preparing  
the company's accounting documents

## **Report of the Board of Statutory Auditors to the Shareholders' Meeting of Interpump Group S.p.A. on the consolidated financial statements at 31 December 2015**

Shareholders,

This report relates to the consolidated financial statements of Interpump Group S.p.A., which show a net profit of €000 118,306, including €000 667 attributable to minority interests.

We received the consolidated financial statements by the legally prescribed deadline, together with the report on operations, the separate financial statements for 2015 and the associated report. They were prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union.

Except as specified below, the work of the Board of Statutory Auditors did not extend to the consolidated financial statements, as is specifically envisaged by law (Italian legislative decree no. 58/1998 and art. 41, para. 3, of Italian legislative decree 127/1991).

On these grounds, we:

- have verified and monitored, within the scope of our remit, the adequacy of the Company's organizational structure (with special regard to the existence of a function responsible for relations with subsidiaries) and the observance of the principles of correct administration, by means of direct checks and through information gathered from the persons in charge of the administrative function and meetings held with representatives of the independent auditors appointed to perform the legal audit of the accounts, Reconta, Ernst & Young S.p.A., with the aim of assuring the reciprocal exchange of significant data and information;
- have ascertained the methods adopted to identify the scope of consolidation, the consolidation principles, and the procedures adopted for the purpose of consolidation, which are compliant with IFRS prescriptions;
- have checked compliance with legal provisions regulating the consolidated financial statements and board of directors' report, and, with special reference to the latter, its adequacy in representing the financial position and economic performance of the companies subject to consolidation, the trend of operating activities in the year and their foreseeable evolution, and also consistency of the report with the contents of the consolidated financial statements;
- have acknowledged that the financial statements of the main subsidiaries, for the purpose of formation of the consolidated financial statements, were examined by the bodies and/or parties responsible for the control of individual companies, in compliance with their respective legal systems, and by the independent auditors in the framework of the procedures adopted for auditing of the consolidated financial statements;
- have examined the independent auditors' report dated 29 March 2016, which contains no qualifications or emphasis of matter;
- have examined the attestation given by the Chief Executive Officer and the Manager responsible for preparing the company's accounting documents, pursuant to art. 81-ter of Consob Regulation no. 11971/1999 as amended and art. 154-bis of Italian legislative decree

58/1998.

As part of our general supervisory role, we identified no significant events requiring disclosure in this report.

To complete this report you are invited to read our comments on the separate financial statements of Interpump Group S.p.A. for the year ending 31 December 2015, containing all the information required by the Italian stock exchange regulatory body.

It is our opinion that the structure of the consolidated financial statements is technically correct and overall in compliance with the specific regulatory framework and that the financial statements provide an accurate representation of the Interpump Group's economic and financial situation, as well as its results, in conformity with the regulations governing consolidated financial statements referenced above.

We also deem the board of directors' report on Group operations to be an accurate representation that is consistent with the consolidated financial statements.

\* \* \* \* \*

S. Ilario d'Enza, 31 March 2016

for THE BOARD OF STATUTORY AUDITORS

Pierluigi De Biasi





Reconta Ernst & Young S.p.A.  
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40123 Bologna

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**Independent auditor's report  
in accordance with articles 14 and 16 of Legislative Decree n. 39, dated 27 January 2010  
(Translation from the original Italian text)**

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

**Report on the consolidated financial statements**

We have audited the accompanying consolidated financial statements of Interpump Group S.p.A. and its subsidiaries ("Interpump Group"), which comprise the balance sheet as at December 31, 2015, and the income statement, the comprehensive statement, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Directors' responsibility for the consolidated financial statements*

The Directors of Interpump Group S.p.A. are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued to implement art. 9 of Legislative Decree n. 38, dated 28 February 2005.

*Auditor's responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) implemented in accordance with article 11, paragraph 3 of Legislative Decree n. 39, dated 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Interpump Group as at December 31, 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with article 9 of Legislative Decree n. 38, dated 28 February 2005.

Reconta Ernst & Young S.p.A.  
Sede Legale: Via Po, 32 - 00198 Roma  
Capitale Sociale € 1.402.500,00 i.v.  
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma  
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904  
P.IVA 00891231003  
Iscritta all'Albo Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998  
Iscritta all'Albo Speciale delle società di revisione  
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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#### **Report on other legal and regulatory requirements**

*Opinion on the consistency of the Report on Operations and of specific information of the Report on Corporate Governance and the Company's Ownership Structure with the consolidated financial statements*

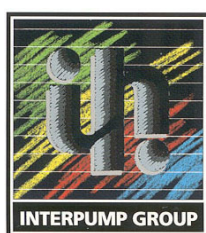
We have performed the procedures required under audit standard SA Italia n. 720B in order to express an opinion, as required by law, on the consistency of the Report on Operations and of specific information of the Report on Corporate Governance and the Company's Ownership Structure, published in the section "corporate Governance" of Interpump Group's website, as provided for by article 123-bis, paragraph 4 of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements. The Directors of Interpump Group S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and the Company's Ownership Structure in accordance with the applicable laws and regulations. In our opinion the Report on Operations and the specific information of the Report on Corporate Governance and the Company's Ownership Structure are consistent with the consolidated financial statements of Interpump Group as at December 31, 2015.

Bologna, March 29, 2016  
Reconta Ernst & Young S.p.A.  
Signed by: Marco Mignani, partner

*This report has been translated into the English language solely for the convenience of international readers.*

**Interpump Group S.p.A.**

**Annual Financial Statements**  
**at 31 December 2015**





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**2015 Board of Directors' Report  
of Parent Company Interpump Group S.p.A.**





As in previous years, the operations of Interpump Group S.p.A. consisted, in addition to ordinary industrial activities, in the strategic and management coordination of the Group, in the drive to optimize the Group's financial flows, and in research activities and the selection of equity investments to acquire with the aim of accelerating the Group's expansion. The acquisition of Walvoil, Inoxihp, Bertoli and Osper during 2015 was consistent with this external growth strategy. A more complete discussion of these transactions is presented in the 2015 Report on operations accompanying the 2015 Consolidated Financial Statements.

The company absorbed General Technology S.r.l. and Interpump Engineering S.r.l., both subsidiaries, during the year. The mergers were arranged to simplify the organizational structure, given that General Technology S.r.l. produced almost exclusively for Interpump Group S.p.A., while the R&D activities of Interpump Engineering were principally carried out for Interpump Group S.p.A. and General Technology S.r.l.

Since the intercompany transactions between the absorbed companies were eliminated at the time of the merger, comparison with the amounts reported in 2014 is essentially consistent, with a reclassification of costs from purchases to production costs and general and administrative expenses. The notes to the financial statements of Interpump Group S.p.A. report the effect of the mergers.

Interpump Group S.p.A. has chosen the opt-out regime provided for by art. 70, para. 8, and art. 71, para. 1-bis, of Consob Reg. no. 11971/99 (as amended), thus making use of the consequent right not to publish the required prospectuses at the time of significant mergers, break-ups, capital increases by the contribution of assets in kind, acquisitions and divestments.

## **1 Profitability**

Interpump Group S.p.A. booked net revenues of €78.0m (€77.1m in 2014), reflecting growth of 1.1%. The analysis by geographic area of the revenues from sales and services is given in the commentary on this item in the notes to the financial statements.

The cost of sales accounted for 61.8% of turnover (63.2% in 2014). Production costs of €26.7m (€24.3m in 2014) accounted for 34.2% of sales (31.5% in 2014). The purchase costs of raw materials and components sourced on the market, including changes in inventories, totaled €21.5m (€24.4m in 2014). The change in the percentage incidence of purchase costs, down by 4.1 percentage points compared with 2014, was principally due to the effect of the merger by absorption, which involved the reclassification of purchase costs as production costs in 2015 (2.7 points higher than in 2014). To a lesser extent, the reduction also reflects the lower incidence of raw material costs due to careful procurement management.

Commercial costs were 3.1% higher than in 2014 and their incidence on sales rose by 0.1 percentage points.

General and administrative costs were 14.6% higher than in 2013 and their incidence on sales rose by 2.3 percentage points. Here too, the increased incidence of general and administrative expenses was almost entirely due to the merger (explaining about 2 points of the rise).

Payroll costs totaled €22.5m (€20.2m in 2014) for an average of 376 employees (362 employees in 2014). Comparison between the 2015 and 2014 payroll costs is affected by the merger completed at the end of October 2015, accordingly a comparative pro forma schedule is needed in order to understand the true dynamics of payroll costs.

	<i>2015</i> <i>Pro forma</i>	<i>2014</i> <i>Pro forma</i>	<i>Change</i>
Total payroll cost	22,494	21,661	+3.8%
Average number of employees	405	397	+8 persons
Cost per capita	55.5	54.6	+1.7%

The 3.8% rise in payroll costs was therefore due to a +1.7% per capita cost increase, linked to wage rises and greater recourse to overtime working, and an increase of 8 in the average headcount.

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

	<i>2015</i> <i>(€/000)</i>	<i>% on</i> <i>sales</i>	<i>2014</i> <i>(€/000)</i>	<i>% on</i> <i>sales</i>
Ordinary profit before financial charges	34,068		39,101	
Dividends	(23,117)		(27,143)	
Impairment losses on investments	340		14	
<b>Operating profit (EBIT)</b>	<b><u>11,291</u></b>	<b>14.5%</b>	<b><u>11,972</u></b>	<b>15.5%</b>
Amortization, depreciation and write-downs	4,135		3,940	
<b>Gross operating profit (EBITDA)</b>	<b><u>15,426</u></b>	<b>19.8%</b>	<b><u>15,912</u></b>	<b>20.6%</b>

EBIT was 11.2 million euro, or 14.5% of sales, compared with 12.0 million euro in 2014 (15.5% of sales), down 5.7%.

EBITDA totaled 15.4 million euro, or 19.8% of sales, compared with 15.9 million euro in 2014, or 20.6% of sales, down 3.1%.

The net profit for the year ended 31 December 2015 was 28.5 million euro (34.0 million euro in 2014), mainly due to a reduction in the dividends received from subsidiaries to 23.1 million euro in 2015 from 27.1 million euro in 2014.

The effective tax rate for the year, net of dividends, impairment losses on investments and prior-year taxation, was 34.9% compared with 36.2% in 2014. The reduction compared with 2014 is due to changes in Italian legislation concerning the full deductibility of payroll costs from the IRAP tax base, which led to a tax saving of 0.4 million euro. More complete information on the changes in tax rate between 2015 and 2014 is provided in Note 27 to the financial statements.

## 2 Balance sheet

Below we give the reclassified balance sheet on the basis of cash flows obtained/used:

	31/12/2015 (€/000)	%	31/12/2014 (€/000)	%
Trade receivables	9,503		12,801	
Net inventories	14,283		13,232	
Other current assets	11,463		7,298	
Trade payables	(10,148)		(11,191)	
Short-term tax payables	(6,484)		(3,577)	
Other short-term liabilities	<u>(5,463)</u>		<u>(4,844)</u>	
<b>Net working capital</b>	<b><u>13,154</u></b>	<b>2.4</b>	<b><u>13,719</u></b>	<b>3.8</b>
Net intangible and tangible fixed assets	27,940		24,919	
Goodwill	32,506		32,506	
Investments	337,670		193,955	
Other financial fixed assets	142,090		98,800	
Other non-current assets	3,144		2,693	
Liabilities for employee benefits	(4,403)		(4,151)	
Medium/long-term portion for provisions for risks and charges	(12)		(23)	
Other medium/long-term liabilities	<u>(679)</u>		<u>(817)</u>	
<b>Total net fixed assets</b>	<b><u>538,256</u></b>	<b>97.6</b>	<b><u>347,882</u></b>	<b>96.2</b>
<b>Total capital employed</b>	<b><u>551,410</u></b>	<b>100.0</b>	<b><u>361,601</u></b>	<b>100.0</b>
<i>Financed by:</i>				
<b>Total shareholders' equity</b>	<b><u>294,927</u></b>	<b>53.5</b>	<b><u>247,020</u></b>	<b>68.3</b>
Cash and cash equivalents	(46,601)		(22,841)	
Payables to banks	731		408	
Short-term interest-bearing financial payables	<u>47,227</u>		<u>22,896</u>	
<b>Total short-term financial payables (cash on hand)</b>	<b><u>1,357</u></b>	<b>0.2</b>	<b><u>463</u></b>	<b>0.1</b>
<b>Total medium/long-term financial payables</b>	<b><u>255,126</u></b>	<b>46.3</b>	<b><u>114,118</u></b>	<b>31.6</b>
<b>Total sources of financing</b>	<b><u>551,410</u></b>	<b>100.0</b>	<b><u>361,601</u></b>	<b>100.0</b>

The reclassified face of the balance sheet adopted makes it possible to assess the capital soundness of the company, highlighting its capacity to maintain a condition of financial equilibrium in the medium/long-term.

## 3 Capital expenditure

Capital expenditure on tangible fixed assets was 4.4 million euro (3.4 million euro in 2014) and related to the normal renewal and modernization of plant and equipment. The difference with respect to the expenditure recorded in the cash flow statement is due to the dynamics of payments.

Increases in intangible fixed assets amounted to 0.9 million euro (1.6 million euro in 2014), mostly due to the capitalization of development costs.

#### 4 Loans

Net financial indebtedness as at 31 December 2015 was 256.5 million euro (114.6 million euro at 31/12/2014). Changes in the year are listed in the table below:

	2015 (€000)	2014 (€000)
<b>Opening net financial position</b>	<b>(114,581)</b>	<b>(65,692)</b>
Adjustment: Opening net financial position of absorbed companies	578	-
<b>Adjusted opening net financial position</b>	<b>(114,003)</b>	<b>(65,692)</b>
Cash flow from operations	6,249	10,879
Liquidity generated (absorbed) by operating capital	2,441	(4,750)
Liquidity generated (absorbed) by other current assets and liabilities	5,675	(149)
Net investment in tangible and intangible fixed assets	(5,680)	(3,602)
Financial income collected	2,268	2,050
Other	(428)	(466)
<i>Free cash flow</i>	<i>10,525</i>	<i>3,962</i>
Proceeds (payments) from the disposal (purchase) of investments	(85,137)	(46)
Purchase of treasury shares	(32,709)	(38,299)
Proceeds from sales of treasury shares for stock options	8,166	4,626
Dividends received	29,141	21,448
Dividends paid	(19,321)	(18,108)
Change in other financial assets	26	179
Reimbursement (Disbursement) of loans from (to) subsidiaries	(53,171)	(22,651)
<i>Cash flow generated (used)</i>	<i>(142,480)</i>	<i>(48,889)</i>
<b>Net financial position at end of year</b>	<b>(256,483)</b>	<b>(114,581)</b>

The net financial position is analyzed as follows:

	31/12/2015 (€000)	31/12/2014 (€000)	01/01/2014 (€000)
Cash and cash equivalents	46,601	22,841	39,879
Payables to banks	(731)	(408)	(143)
Interest-bearing financial payables (current portion)	(47,227)	(22,896)	(25,519)
Interest-bearing financial payables (non-current portion)	(255,126)	(114,118)	(79,909)
<b>Total</b>	<b>(256,483)</b>	<b>(114,581)</b>	<b>(65,692)</b>

At 31 December 2015 all the loan covenants had been amply complied with.

## 5 Relations with subsidiaries

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

	Receivables		Revenues	
	<u>31/12/2015</u>	<u>31/12/2014</u>	<u>2015</u>	<u>2014</u>
<i>Subsidiaries:</i>				
General Pump Inc.	1,546	1,909	18,523	18,696
NLB Corporation Inc.	283	359	2,218	971
Interpump Hydraulics India Ltd	259	522	553	483
Muncie Power Inc.	77	9	526	-
General Pump China Inc.	91	244	400	630
Interpump Hydraulics S.p.A.	1,241	1,899	308	32
Hammelmann Bombas e Sistemas Ltda	43	24	105	24
Hammelmann S. L.	2	46	93	108
Inoxihp S.r.l.	14	-	41	-
Bertoli S.r.l.	26	-	37	-
AVI S.r.l.	10	20	33	30
Hydroven S.r.l.	2	2	9	12
Interpump Hydraulics (UK) Ltd	-	4	9	4
Contarini Leopoldo S.r.l.	5	5	7	5
Hydrocontrol S.p.A.	32	5	6	5
Interpump Hydraulics Middle East FZCO	1	9	5	9
H.S. Penta Africa Pty Ltd	1	-	5	8
Hammelmann GmbH	-	6,059	5	-
Walvoil S.p.A.	56	-	4	-
IMM S.p.A.	6	3	3	4
HS Penta S.p.A.	14	12	3	3
Hydrocar Chile	-	-	3	-
Unidro Contarini Sarl	-	8	1	17
Oleodinamica Panni S.r.l.	2	3	1	3
Teknova S.r.l. (in liquidation)	12	7	-	-
General Technology S.r.l.*	-	360	-	822
Interpump Engineering S.r.l.*	-	26	-	119
Hammelmann Pump System Co. Ltd	-	-	-	10
American Mobile Power Inc.	-	1	-	-
<i>Total</i>	<u>3,723</u>	<u>11,536</u>	<u>22,898</u>	<u>21,995</u>

\*= absorbed by Interpump Group on 1 November 2015

The amounts due from Interpump Hydraulics S.p.A., Hydrocontrol S.p.A., H.S. Penta S.p.A., Walvoil S.p.A., Teknova S.r.l. and IMM Hydraulics S.p.A. include, in addition to the trade receivables component, the uncollected part of financial income, amounting, respectively, to €000 636, €000 24, €000 14, €000 12, €000 12 and €000 2. The receivable from Interpump Hydraulics S.p.A. includes €000 345 in relation to membership of the Italian domestic tax group. All other receivables refer to relations of a commercial nature governed at arm's length conditions.

	Payables		Costs	
	<u>31/12/2015</u>	<u>31/12/2014</u>	<u>2015</u>	<u>2014</u>
<i>Subsidiaries:</i>				
SIT S.p.A.	73	32	306	220
Hammelmann GmbH	14	-	153	165
Interpump Hydraulics S.p.A.	449	436	89	65
General Pump Inc.	12	4	57	57
General Pump China Inc.	1	-	50	53
NLB Corporation Inc.	-	-	30	5
Interpump Hydraulics India Ltd	-	-	3	8
Hydroven S.r.l.	-	-	2	1
Bertoli S.r.l.	1	-	1	-
Contarini Leopoldo S.r.l.	-	-	1	-
Interpump Hydraulics Middle East FZCO	-	-	1	-
Teknova S.r.l.	2	-	-	-
General Technology S.r.l.*	-	263	-	5,369
Interpump Engineering S.r.l.*	-	510	-	763
<i>Total subsidiaries</i>	<u>552</u>	<u>1,245</u>	<u>693</u>	<u>6,706</u>

\*= absorbed by Interpump Group on 1 November 2015

The amount payable to Interpump Hydraulics S.p.A. includes €000 411 relating to inclusion in the Italian domestic tax group, as does the amount due to Teknova S.r.l. All other payables refer to relations of a commercial nature governed at arm's length conditions.

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

	Financing		Interest income	
	<u>31/12/2015</u>	<u>31/12/2014</u>	<u>2015</u>	<u>2014</u>
<i>Subsidiaries:</i>				
Interpump Hydraulics S.p.A.	122,090	94,090	1,871	1,945
Hydrocontrol	7,500	-	81	-
Walvoil S.p.A.	9,000	-	75	-
Hammelmann GmbH	-	4,000	54	105
HS Penta S.p.A.	6,500	-	45	19
IMM Hydraulics S.p.A.	6,000	-	2	-
Contarini Leopoldo S.r.l.	348	-	-	-
General Technology S.r.l.*	-	500	-	18
Teknova S.r.l. (in liquidation)	-	210	5	5
<i>Total</i>	<u>151,438</u>	<u>98,800</u>	<u>2,133</u>	<u>2,092</u>

\*= absorbed by Interpump Group on 1 November 2015

The intercompany loans outstanding at 31 December 2015 earn interest at Euribor (3 or 6 months) uplifted on average by 158 basis points.

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

	<u>2015</u>	<u>2014</u>
Interpump Hydraulics S.p.A.	14,000	8,000
Hammelmann GmbH	6,000	12,000
NLB Corporation Inc.	-	3,610
General Pump Inc.	3,117	3,032
Interpump Engineering S.r.l.	<u>-</u>	<u>500</u>
<i>Total</i>	<u><u>23,117</u></u>	<u><u>27,142</u></u>

All the dividends declared by subsidiaries had been collected by 31 December 2015.

## **6 Transactions with related parties**

These operations are described in note 31 of the financial statements.

## **7 Exposure to risks and uncertainties and Financial risk factors**

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

These financial risk factors are described in note 3 of the financial statements.

## **8 Environment**

The Interpump Group is engaged exclusively in mechanical engineering and components assembly activities that are not accompanied by the emission of pollutants into the environment. The production process is performed in compliance with statutory legislation.

## **9 Further information**

Following the absorption of Interpump Engineering S.r.l. by Interpump Group S.p.A., the Research and Design Center established in 1999, with a view to centralizing the design and development of new products, is once again an integral part of the Company's activities. The four new projects completed during 2015 related to new versions of pumps for various applications and to new valves; in addition, work commenced on 7 new projects. It is company policy to continue to invest heavily in research and development in future years in order to add further impetus to organic growth. Product development costs totaling €000 774 were capitalized in 2015, since they will benefit future years, while an amount of €000 1,464 was charged to the income statement.

On 10 November 2015 a resolution was adopted to merge Bertoli S.r.l. in Interpump Group S.p.A., with the intention of exploiting all the production and commercial synergies identified between the two companies. This merger will become operational during the first half of 2016.

At 31 December 2015 the Company held 1,125,912 treasury shares, representing 1.03% of capital, acquired at an average unit cost of €11.6443.

With regard to stock option plans and the shares of the company and of subsidiaries held by directors, statutory auditors, and general managers, you are invited to consult the 2015 Board of Directors' Report, which is attached to the consolidated financial statements.

In 2013 the company renewed its adherence to the national tax consolidation which, in addition to Interpump Group S.p.A., includes Teknova S.r.l. and Interpump Hydraulics S.p.A.

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

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

Considering the short time since 31 December 2015, and in the light of the short period of time historically covered by the order portfolio, we do not yet have enough information to make a reliable forecast of expected trends in the current year. No other events occurred such as to deserve mention in this report, and the company's business proceeded smoothly.

## **11 Proposal to the Shareholders' Meeting**

In relation to the profit for the year of €28,529,378, we propose:

- assigning a dividend of €0.19 for each of the shares in circulation including the right as per art. 2357-(3) subsection 2 of the Italian Civil Code;
- booking the remaining amount to the extraordinary reserve, since the legal reserve now stands at one fifth of the share capital.

Sant'Ilario d'Enza (RE), 18 March 2016

For the Board of Directors

Fulvio Montipò

Chairman and Chief Executive Officer



**Annual Financial Statements at 31 December 2015  
of Parent Company Interpump Group S.p.A.**

**INTERPUMP GROUP S.p.A.**

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

Via E. Fermi 25

Share Capital: €56,617,232.88

Reggio Emilia Court - Company Register no. 117217

Tax code 11666900151

VAT number 01682900350

## Balance sheet

Euro	<i>Notes</i>	<i>31/12/2015</i>	<i>31/12/2014</i>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	4	46,601,136	22,841,455
Trade receivables	5, 21	9,502,692	12,800,896
Dividends receivable		-	6,000,000
Inventories	6	14,282,723	13,232,294
Tax receivables		1,721,442	518,322
Derivative financial instruments	7	1,906	-
Current financial assets	13, 21	9,348,227	-
Other current assets	8, 21	391,750	780,123
<b>Total current assets</b>		<b>81,849,876</b>	<b>56,173,090</b>
<b>Non-current assets</b>			
Property, plant and equipment	9	22,259,980	20,046,743
Goodwill	10	32,505,900	32,505,900
Other intangible assets	11	5,679,684	4,871,975
Investments in subsidiaries	12	337,669,904	193,954,953
Other financial assets	13, 21	142,090,340	98,800,340
Tax receivables		1,047,946	1,047,939
Deferred tax assets	14	2,082,247	1,635,351
Other non-current assets		14,176	10,089
<b>Total non-current assets</b>		<b>543,350,177</b>	<b>352,873,290</b>
<b>Total assets</b>		<b>625,200,053</b>	<b>409,046,380</b>

Euro	<u>Notes</u>	<u>31/12/2015</u>	<u>31/12/2014</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade payables	5, 21	10,148,321	11,191,941
Interest-bearing financial payables (current portion)	15, 21	47,958,151	23,304,303
Derivative financial instruments	7	28,204	27,742
Tax payables		6,484,152	3,576,766
Other current liabilities	16, 21	5,433,662	4,816,498
<b>Total current liabilities</b>		<b>70,052,490</b>	<b>42,917,250</b>
<b>Non-current liabilities</b>			
Interest-bearing financial payables	15, 21	255,126,135	114,117,678
Liabilities for employee benefits	18	4,402,768	4,151,478
Deferred tax liabilities	14	679,315	817,045
Provisions for risks and charges	17	12,248	22,968
<b>Total non-current liabilities</b>		<b>260,220,466</b>	<b>119,109,169</b>
<b>Total liabilities</b>		<b>330,272,956</b>	<b>162,026,419</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	19	56,031,759	53,871,063
Legal reserve	20	11,323,447	11,323,447
Share premium reserve	19	138,117,148	100,399,959
Reserve for restatement of defined benefit plans		(13,457)	(1,592,193)
Reserve for the measurement of hedging derivatives at fair value	20	(1,479,330)	(18,254)
Other reserves	20	90,947,530	83,035,939
<b>Total shareholders' equity</b>		<b>294,927,097</b>	<b>247,019,961</b>
<b>Total shareholders' equity and liabilities</b>		<b>625,200,053</b>	<b>409,046,380</b>

## Income statement

Euro	<i>Notes</i>	<i>2015</i>	<i>2014</i>
<b>Net sales</b>	23	<b>77,971,593</b>	<b>77,090,216</b>
Cost of products sold	25	48,211,471	(48,738,883)
<b>Gross industrial margin</b>		<b>29,760,122</b>	<b>28,351,333</b>
Other net revenues	24	1,126,658	1,365,026
Distribution costs	25	(4,734,530)	(4,594,133)
General and administrative expenses	25	(14,858,853)	(12,963,974)
Impairment losses on assets	11, 12	(340,000)	(153,876)
Other operating costs	25	(2,202)	(45,882)
Dividends		23,117,485	27,142,599
<b>Ordinary profit before financial expenses</b>		<b>34,068,680</b>	<b>39,101,093</b>
Financial income	26	2,791,461	4,902,842
Financial expenses	26	(4,015,951)	(5,054,329)
<b>Profit for the period before taxes</b>		<b>32,844,190</b>	<b>38,949,606</b>
Income taxes	27	(4,314,812)	(4,994,616)
<b>Net profit for the year</b>		<b>28,529,378</b>	<b>33,954,990</b>
Basic earnings per share	28	0.267	0.323
Diluted earnings per share	28	0.263	0.317

## Comprehensive income statements

(€000)	<u>2015</u>	<u>2014</u>
<b>Net profit (A)</b>	<b>28,529</b>	<b>33,955</b>
<b>Other comprehensive profit (loss) that will be subsequently reclassified in profit for the year</b>		
<i>Accounting for interest rate hedging derivatives using the cash flow hedge method:</i>		
- Profit (Loss) on derivatives in the year	-	-
- Minus: Adjustment for reclassification of profits (losses) to the income statement	-	-
- Minus: Adjustment for recognition of fair value to reserves in the prior period	-	37
<i>Total</i>	<u>-</u>	<u>37</u>
<i>Accounting for exchange risk hedging derivatives using the cash flow hedge method:</i>		
- Profit (Loss) on derivatives in the year	(19)	(26)
- Minus: Adjustment for reclassification of profits (losses) to the income statement	26	-
- Minus: Adjustment for recognition of fair value to reserves in the prior period	-	-
<i>Total</i>	<u>7</u>	<u>(26)</u>
<i>Related taxes</i>	<u>(2)</u>	<u>(2)</u>
<b>Total other profit (loss) that will be subsequently reclassified in profit for the year, net of the tax effect (B)</b>	<b><u>5</u></b>	<b><u>9</u></b>
<b>Other profit (loss) that will not be subsequently reclassified in profit for the year</b>		
<i>Profit (Loss) deriving from the restatement of defined benefit plans</i>	638	(700)
<i>Related taxes</i>	<u>(175)</u>	<u>192</u>
<b>Total other profit (loss) that will not be subsequently reclassified in profit for the year, net of tax effect (C)</b>	<b><u>463</u></b>	<b><u>(508)</u></b>
<b>Comprehensive net profit (A) + (B) + (C)</b>	<b><u>28,997</u></b>	<b><u>33,456</u></b>

## Cash flow statement

(€000)

	2015	2014
<b>Cash flow from operating activities</b>		
Pre-tax profit	32,844	38,950
Profit before taxes of merged companies prior to absorption	(90)	-
Adjustments for non-cash items:		
Capital gains from the sale of fixed assets	(4)	(1)
Loss on adjustment of investment disposal price	-	46
Amortization and depreciation of tangible and intangible fixed assets	4,133	3,936
Costs ascribed to the income statement relative to stock options, that do not involve monetary outflows for the Group	991	992
Impairment losses (write-back of impairment losses) on assets	340	14
Net change in risk funds and allocations to provisions for employee benefits	(272)	(111)
Dividends ascribed in the income statement	(23,117)	(27,143)
Net financial charges	1,224	151
	<u>16,049</u>	<u>16,834</u>
(Increase) decrease in trade receivables and other current assets	1,685	(2,486)
(Increase) decrease in inventories	697	(4,470)
Increase (decrease) in trade payables and other current liabilities	5,734	2,057
Taxes paid	(6,845)	(3,656)
Interest paid	(3,233)	(2,820)
Currency exchange gains realized	278	521
<b>Net cash from operating activities</b>	<b><u>14,365</u></b>	<b><u>5,980</u></b>
<b>Cash flows from investing activities</b>		
Payments for the purchase of equity investments	(134,314)	-
Payment on capital account to Interpump Hydraulics on transfer of treasury stock to support acquisition of the outstanding interest in indirect subsidiaries	(11,365)	(1,581)
Outlays for purchase of treasury stock	(32,709)	(38,299)
Proceeds from sales of treasury stock for stock options	8,166	4,626
Disposal of treasury stock in relation to the acquisition of investments	60,891	7,026
Capital expenditure in property, plant and equipment	(4,542)	(2,261)
Proceeds from sales of tangible fixed assets	13	1
Increase in intangible fixed assets	(1,151)	(1,342)
Received financial income	2,268	2,050
Other	26	133
<b>Net liquidity generated (used) by investing activities</b>	<b><u>(112,717)</u></b>	<b><u>(29,647)</u></b>

(€000)	<u>2015</u>	<u>2014</u>
<b>Cash flows of financing activity</b>		
Dividends received from subsidiaries	29,141	21,448
Dividends paid	(19,321)	(18,108)
(Disbursal) Repayment of intra-group loans	(53,520)	(28,096)
Disbursals (repayments) of loans	164,911	31,120
<b>Net liquidity generated (used by) financing activities</b>	<u><b>121,211</b></u>	<u><b>6,364</b></u>
<b>Net increase (decrease) of cash and cash equivalents</b>	<u><b>22,859</b></u>	<u><b>(17,303)</b></u>
Opening cash and cash equivalents of merged companies	578	-
Cash and cash equivalents at the beginning of the year	<u><b>22,433</b></u>	<u><b>39,736</b></u>
Cash and cash equivalents at the end of the year	<u><b>45,870</b></u>	<u><b>22,433</b></u>

For reconciliation of cash on hand refer to note 29.

## Statement of changes in shareholders' equity

	Share capital	Legal reserve	Share premium reserve	Reserve for restatement of defined benefit plans	Reserve for valuation of hedging derivatives at fair value	Other reserves	Total shareholders' equity
<i>Balances at 1 January 2014</i>	55,003	11,323	124,202	(1,084)	(27)	67,532	256,949
Distribution of the dividend	-	-	-	-	-	(18,108)	(18,108)
Recognition in the income statement of the fair value of stock options granted to and exercisable employees of Interpump Group S.p.A.	-	-	992	-	-	-	992
Fair value measurement of the stock options granted to and exercisable by employees of subsidiaries	-	-	378	-	-	-	378
Purchase of treasury stock	(1,986)	-	(35,970)	-	-	(343)	(38,299)
Sale of treasury stock to the beneficiaries of stock options	482	-	4,144	-	-	-	4,626
Sale of treasury stock for the acquisition of equity investments	372	-	6,654	-	-	-	7,026
Comprehensive net profit for the year	-	-	-	(508)	9	33,955	33,456
<i>Balances at 31 December 2014</i>	53,871	11,323	100,400	(1,592)	(18)	83,036	247,020
Distribution of the dividend	-	-	-	-	-	(19,321)	(19,321)
Recognition in the income statement of the fair value of stock options granted to and exercisable employees of Interpump Group S.p.A.	-	-	991	-	-	-	991
Fair value measurement of the stock options granted to and exercisable by employees of subsidiaries	-	-	379	-	-	-	379
Effect of absorbing General Technology and Interpump Engineering	-	-	-	(350)	-	863	513
Purchase of treasury stock	(1322)	-	(32,710)	-	-	1,323	(32,709)
Sale of treasury stock to the beneficiaries of stock options	921	-	8,166	-	-	(921)	8,166
Sale of treasury stock for the acquisition of equity investments	2,562	-	60,891	-	-	(2,562)	60,891
Comprehensive net profit for the year	-	-	-	463	5	28,529	28,997
<i>Balances at 31 December 2015</i>	56,032	11,323	138,117	(1,479)	(13)	90,947	294,927



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

### ***1. General information***

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

The company manufactures and markets high and very high pressure plunger pumps, and has controlling interests in 54 companies. Interpump Group S.p.A. has production facilities in Sant'Ilario d'Enza (RE). For more specific information on the group's operations, refer to the Board of Directors' Report provided with the consolidated financial statements.

The financial statements at 31 December 2015, drafted on the basis of the going concern assumption, were approved by the Board of Directors in the meeting held on this day (18 March 2016).

### **2. Accounting standards adopted**

#### **2.1 Reference accounting standards**

The consolidated financial statements at 31 December 2015 have been prepared in compliance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union. "IFRS" also means the International Accounting Standards ("IAS") currently in force and all the interpretative documents issued by the IFRS Interpretations Committee, previously denominated International Financial Reporting Interpretations Committee ("IFRIC") and still earlier known as the Standing Interpretations Committee ("SIC").

The figures of Balance sheet and Income statement are shown in euro, while the other schedules and notes are shown in thousands of euro. The financial statements are drafted according to the cost method, with the exception of financial instruments, which are carried at fair value.

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

The company's income statement is prepared by functional areas (or cost of sales), this form being considered more representative than presentation by type of sales, this information being specified in the notes to the financial statements. The chosen form, in fact, complies with the internal reporting and business management methods. For a more comprehensive analysis of the Group's economic results, we invite you to refer to the Board of Director's Report submitted together with the 2015 Consolidated Financial Statements.

The cash flow statement was prepared with the indirect method.

### **2.1.1 Accounting standards, amendments and interpretations in force as from 1 January 2015**

As from 2015 the Group has applied the following new accounting standards, amendments and interpretations revised by the IASB:

- On 12 December 2012, the IASB issued a collection of amendments to IAS/IFRS standards ("*Annual Improvements to the 2011–2013 Cycle*"). The amendments resulted in changes: (i) to IFRS 3, specifying that the standard is not applicable to measure the accounting effects related to the formation of a joint venture or joint operation (as defined by IFRS 11) in the financial statements of the joint venture or joint operation; (ii) to IFRS 13, explaining that the provision of IFRS 13 on the basis of which the fair value of a group of financial assets and liabilities can be measured on a net basis, is applicable to all contracts (including non-financial contracts) falling within the scope of IAS 39 or IFRS 9; (iii) to IAS 40, explaining that to establish when the acquisition of a property constitutes a business combination, reference must be made to the provisions of IFRS 3.

### **2.1.2 Accounting standards, amendments and interpretations taking effect as from 1 January 2015 but not relevant for the company**

- *IFRIC 21 Levies* - On 20 May 2013 IASB published the interpretation in question. IFRIC 21 states that an entity shall recognize a liability for levies no earlier than the time of occurrence of the event to which the payment is linked, in compliance with the applicable law. For payments that become due only when a specified minimum threshold is exceeded, the liability is booked only when said minimum threshold is reached. Retrospective application is required for IFRIC 21.

### **2.1.3 Accounting standards and amendments not yet applicable and not adopted early by the company**

- *IFRS 9 – Financial instruments*. On 12 November 2009 IASB published the following standard, which was subsequently amended on 28 October 2010 in a further amendment in mid-December 2011. The new standard, which is applicable from 1 January 2018, constitutes the first part of a process in stages aimed at replacing IAS 39 and introduces new criteria for the classification and measurement of financial assets and liabilities, and for the derecognition of financial assets from the financial statements. Specifically, the new standard uses a single approach to financial assets based on the methods of management of financial instruments and on the characteristics of the contractual cash flows of financial assets in order to establish the measurement criterion, replacing the various rules contained in IAS 39. In contrast, for financial liabilities the main change concerns the accounting treatment for changes in the fair value of a financial liability designated as a financial liability measured at fair value in profit and loss, in the event wherein such changes are due to changes in the credit rating of the liabilities in question. In accordance with the new standard, such changes must be recorded in the comprehensive income statement and cannot thereafter be derecognised in profit and loss.
- On 30 January 2014, the IASB published IFRS 14 *Regulatory Deferral Accounts*, which is an interim standard related to the *Rate-regulated activities* project. IFRS 14 allows exclusively first-time adopters of IFRS to continue recognizing amounts associated with rate regulation in compliance with the accounting policies previously adopted. In order

to improve comparability with entities that are already applying the IFRS standards and that do not therefore disclose these amounts, the standard requires the rate regulation effect to be presented separately from other captions;

- On 12 December 2012, the IASB issued a collection of amendments to IAS/IFRS standards: *Annual Improvements to IFRSs 2010–2012 Cycle*. The amendments resulted in changes: (i) to IFRS 2, clarifying the definition of “vesting condition” and introducing the definitions of the service and performance conditions; (ii) to IFRS 3, clarifying that the obligations to pay a contingent consideration other than those included in the definition of equity instrument, are to be measured at fair value at each reporting date, with the changes recognized in the income statement; (iii) to IFRS 8, requiring an entity to disclose the judgments made by management in applying the aggregation criteria to the operating segments, describing the segments that have been aggregated and the economic indicators that were assessed to determine that the aggregated segments have similar economic characteristics; (iv) to IAS 16 and IAS 38, clarifying the method of determining the carrying amount of assets, in the case of revaluation further to the application of the revaluation model; (v) to IAS 24, establishing the information to be supplied when there is a third-party entity that supplies services related to the administration of key management personnel of the reporting entity. These amendments will be effective for reporting periods starting after 1 February 2015. Early adoption is however permitted.
- *Amendments to IAS 19 – Employee benefits*. On 21 November 2013 IASB published an amendment to IAS 19 limited to contributions to defined benefit plans for employees. The changes are aimed at simplifying the accounting of contributions that are unrelated to years of seniority, such as contributions calculated on the basis of a fixed percentage of salary. This amendment will be effective for reporting periods starting after 1 February 2015. Early adoption is however permitted.
- *IFRS 15 – Recognition of revenue from contracts with customers*. On 28 May 2014 IASB and FASB jointly issued IFRS 15 designed to improve the disclosure of revenues and the global comparability of financial statements in order to harmonize the recognition of economically similar transactions. The standard is effective for IFRS users from reporting periods starting after 1 January 2017 (early adoption is permitted).
- *Amendment to IFRS 15* – On 11 September 2015, the IASB released an amendment whereby the application of the standard is deferred by one year, i.e. to 1 January 2018. Early adoption is however permitted.
- *Amendment of IFRS 27 – Separate financial statements*. On 12 August 2014, the IASB published an amendment to the standard that will allow entities to use the equity method to recognize investments in subsidiaries, joint ventures and associates in separate financial statements. The amendment is effective from 1 January 2016.
- *Annual improvements to IFRS 2012–2014 cycle* – On 15 December 2015, the European Union issued regulation 2015/2343 adopting the annual improvements to IFRS 2012–2014 cycle, which was issued by the IASB on 25 September 2014 and relates to a number of amendments to the IAS/IFRS. The aim of the annual improvements is to address necessary matters related to inconsistencies found in IFRSs or for clarifications of terminology, which are not of an urgent nature but which reflect issues discussed by the IASB during the project cycle. Among the amended standards, IFRS 5, in relation to which a clarification has been introduced concerning cases in which the method of disposal of an asset is changed from held for sale to held for distribution; IFRS 7, with a clarification to establish if and when a residual involvement in a transferred financial asset exists in the presence of an associated service contract, thus determining the required level of disclosure; IAS 19, which clarifies that the currency of securities used

as a benchmark to estimate the discount rate, must be the same as the currency in which the benefits will be paid; and IAS 34 in which the meaning of "elsewhere" is clarified for the inclusion of information by cross-reference.

- *Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment entities: applying the consolidation exception.* On 18 December 2014, the IASB published the amendments in question concerning the problems deriving from application of the consolidation exception granted to investment entities. The first application date introduced by IASB is for annual periods beginning on or after 1 January 2016. Early application is permitted.
- *Amendments to IFRS 10 and IAS 28: sale or contribution of assets between an investor and its associate or joint venture.* - On 11 September 2014, the IASB published the amendments in question, which are designed to remove the conflict between the requirements of IAS 28 and those of IFRS 10 and clarify that in a transaction that involves an associate or a joint venture the extent to which it is possible to recognize a profit or a loss depends on whether the asset subject to sale or contribution is a business. In December 2015 the IASB issued an amendment that defers the entry into force of these amendments for an indefinite period.
- *Amendments to IAS 16 and IAS 41: agriculture - bearer plants* – On 23 November 2015 the European Union issued regulation 2015/2113 adopting these amendments. The amendments, which do not concern the Interpump Group, will be applicable to financial periods starting on or after 1 January 2016.
- *Amendments to IFRS 11: accounting for acquisitions of interests in joint operations* – On 24 November 2015 the European Union issued regulation 2015/2173 adopting these amendments, which provide guidance on the accounting for acquisitions of interests in joint operations that comprise a business activity. The amendments apply to financial periods starting on or after 1 January 2016.
- *Amendments to IAS 16 and IAS 38: property, plant and equipment and intangible assets* – On 2 December 2015 the European Union issued regulation 2015/2231 specifying that a method of depreciation based on the revenues generated by the asset is inappropriate because it reflects solely the revenue flow generated by the asset and does not reflect the methods of consumption of the prospective future economic benefits embodied in the asset. The amendments apply, at the latest, to financial periods starting on or after 1 January 2016. It is deemed that adoption of the standard will have no significant effects on the Group's financial statements.
- *Amendments to IAS 1: presentation of financial statements - disclosure initiative* – On 18 December 2015 the European Union issued regulation 2015/2406 adopting these amendments that seek to improve the effectiveness of disclosures and encourage companies to use professional judgment when determining the information to be reported in the financial statements pursuant to IAS 1. The amendments apply, at the latest, to financial periods starting on or after 1 January 2016.

At today's date the competent bodies of the European Union have completed the approval process related to the new standards and amendments applicable to financial statements starting as from 1 January 2016, while the approval process required for adoption of the other standards and amendments is still under way. On the basis of analysis currently in progress no significant impacts are predicted from the 2016 adoption of the applicable new standards and amendments.

## **2.2 Sector information**

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

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

## **2.3 Treatment of foreign currency transactions**

### *(i) Foreign currency transactions*

The functional and presentation currency adopted by Interpump Group S.p.A. is the euro. Foreign exchange transactions are translated into euro on the basis of the exchange rates in force on the date that the related transactions were carried out. Monetary assets and liabilities are translated at the exchange rate in force on the balance sheet reference date. Foreign exchange differences arising from the translation are recognized in the income statement. Non-monetary assets and liabilities measured at historical cost are translated at the exchange rates in force on the date of the related transactions. Monetary assets and liabilities stated at fair value are translated to euro at the exchange rate in force on the date in respect of which the relative fair value was determined.

## **2.4. Non-current assets held for sale and discontinued operations**

Non-current assets held for sale and any assets and liabilities pertaining to lines of business or consolidated investments held for sale, are measured at the lower of their book value at the time of classification of said captions as "held for sale", and their fair value, net of the costs of sale.

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

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

## **2.5 Property, plant and equipment**

### *(i) Own assets*

Property, plant and equipment are valued at the historic cost and disclosed net of accumulated depreciation (see next point *iii*) and impairment losses (see section 2.8). The cost of goods produced internally includes the cost of raw materials, directly related labor costs, and a portion of indirect production costs. The cost of assets, whether purchased externally or produced internally, includes the ancillary costs that are directly attributable and necessary for use of the

asset and, when they are significant and in the presence of contractual obligations, the current value of the cost estimated for the dismantling and removal of the related assets.

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

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

#### *(ii) Subsequent costs*

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

#### *(iii) Depreciation*

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

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

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

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

## **2.6 Goodwill**

Goodwill represents the portions of the merger deficit 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.

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

## **2.7 Other intangible assets**

#### *(i) Research and development costs*

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

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

- the technical feasibility and intention of completing the intangible asset in such a way that it is available for use or for sale;
- their ability to use or sell the asset;

- the forecast volumes and realization values indicate that the costs incurred for development activities will generate future economic benefits;
- said costs are measurable in a reliable manner;
- and the resources exist to complete the development project.

The development of new products, carried out by Interpump Engineering S.r.l. through 2014, is now performed by the Company following the absorption of this subsidiary at the end of October 2015. The capitalized costs relate to development projects that meet the requirements for deferral. Capitalized development costs are valued at cost, net of accumulated amortization, (see next point v) and impairment (see section 2.8).

*(ii) Loan ancillary costs*

Loan ancillary costs are deducted from the nominal amount of the loan and handled as outlined in section 2.14.

*(iii) Other intangible assets*

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

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

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

*(iv) Subsequent costs*

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

*(v) Amortization/depreciation*

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

Patents and trade marks	3 years
Development costs	5 years
Granting of software licenses	5 years

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

## **2.8 Impairment of assets**

The book values of assets, with the exception of inventories (see section 2.12), financial assets regulated by IAS 39, deferred tax assets (see section 2.16), and non-current assets held for sale regulated by IFRS 5, are subject to measurement at the balance sheet reference date in order to identify the existence of possible indicators of impairment. If the valuation process identifies the presence of such indicators, the presumed recoverable value of the asset is calculated using the methods indicated in the following point (i).

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

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

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

*(i) Calculation of presumed impairment loss*

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

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

*(ii) Reinstatement of impairment losses*

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

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

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

Impairment relative to goodwill can never be reinstated.

## **2.9 Investments**

Investments in subsidiaries and associates are measured at cost.

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

## **2.10 Cash and cash equivalents**

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



### **2.11 Current financial assets, Receivables and Other current assets**

Current financial assets, trade receivables and other current assets (excluding derivative financial instruments) are recorded, at the time of their initial entry, on the basis of the purchase cost inclusive of ancillary costs (fair value for the initial entry).

Subsequently, financial assets available for sale are assessed at their fair value. Gains or losses deriving from the valuation are recognized in equity up to the moment in which the financial asset is sold, at which time the gains or losses are recorded in the income statement. If the market value of the financial assets cannot be reliably determined, they are entered at their purchase cost.

Accounts receivable, with due date within normal commercial terms or that accrue interest at market rates, are not discounted to current value and are entered at amortized cost net of a bad debt provision booked as a direct deduction from the receivables in question to bring the valuation to the presumed realizable value (see section 2.8). Accounts receivable with due dates beyond normal commercial terms are initially entered at their fair value and subsequently at the amortized cost using the method of the effective interest rate, net of the relative value impairments.

### **2.12 Inventories**

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

### **2.13 Share capital and Treasury stock**

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

### **2.14 Interest-bearing financial payables**

Interest-bearing financial payables are initially recorded at their fair value, net of ancillary charges. After the original entry, interest-bearing financial payables are valued with the amortized cost criterion; the difference between the resulting value and the discharge value is entered in the income statement during the term of the loan on the basis of the amortization plan.

## 2.15 Liabilities for employee benefits

### *(i) Defined contribution plans*

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

### *(ii) Defined benefit plans*

Defined benefit plans for employees - disbursed at the time of termination of the period of employment with the company or thereafter - that include severance indemnity, are calculated separately for each plan, estimating the amount of the future benefit that the employees have accrued during the year and in previous years by means of actuarial techniques. The resulting benefit is discounted to present value and recorded net of the fair value of any relative assets. The discount rate at the balance sheet reference date is calculated as required by IAS 19 with reference to the market yield of high quality corporate bonds. Exclusively the securities released by corporate issuers included in rating class "AA" are considered, in the assumption that this class identifies a high rating level in the framework of a group of "Investment Grade" securities and thereby excluding higher risk securities. Considering that IAS 19 makes no explicit reference to a specific product sector, we opted for a composite market curve that summarizes the market conditions existing at the date of valuation of the securities issued by companies operating in various sectors including utilities, telecommunications, finance, banking and industrial. At 31 December 2015, the above rate curve for "AA" securities has shifted upwards with respect to the same curve at 31 December 2014, which was used for the previous actuarial valuation. This was due to an increase in market volatility caused by the Greek crisis and the instability of the Chinese market. The calculation is performed on an annual basis by an independent actuary using the projected unit credit method.

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

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

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

### *(iii) Stock options*

On the basis of the stock option plan currently in existence, certain employees and directors are entitled to purchase the treasury shares of Interpump Group S.p.A. The options are measured at their fair value, which is entered in the income statement and increased by the cost of personnel and directors with a matching entry in the share premium reserve. The fair value is measured at the grant date of the option and recorded in the income statement in the period that runs between

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

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

## **2.16 Income tax**

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

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

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

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

## **2.17 Provisions for risks and charges**

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

## **2.18 Current financial liabilities, Trade payables and Other debts**

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

Current financial liabilities include the short term portions of financial debts, inclusive of debts for cash advances and other financial liabilities. Financial liabilities are measured at their amortized cost according to the effective interest method. Financial assets hedged by derivative financial instruments taken out to hedge the interest rate risk are valued at their current value in accordance with the methods specified for hedge accounting.

## **2.19 Revenues**

### *(i) Revenues from the sale of goods and services*

Revenues from the sale of goods are entered in the income statement when the risks and benefits connected to the ownership of the goods are substantially transferred to the purchaser. Revenues for services rendered are recorded in the income statement on the basis of the percentage of completion at the balance sheet reference date.

### *(ii) Dividends*

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

## **2.20 Costs**

### *(i) Rental and leasing installments*

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

### *(ii) Financial income and charges*

Financial income and charges are recorded on an accrual basis in accordance with the interest matured on the net value of the relative financial assets and liabilities, using the effective interest rate. Financial income and charges include foreign exchange gains and losses and gains and losses on derivative instruments booked to the income statement (see section 3.2).

## **3. Financial risk management**

### **3.1 Financial risk factors**

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

#### **(a) Market risks**

##### *(i) Exchange rate risk*

The company does business internationally and is exposed to the exchange risk related to business conducted in US dollars. In this context, the company invoices its US subsidiaries and a major US customer in dollars. Group policy is to hedge these exposures, when deemed appropriate in particularly favorable circumstances.

##### *(ii) Interest rate risk*

Interest rate risk derives from medium/long-term loans granted at floating rates. Current company policy is to monitor the gradient of the interest-rate curves, in order to assess possible hedging opportunities.

#### **(b) Credit risk**

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

**(c) *Liquidity risk***

Prudent management of liquidity risk involves the retention of an appropriate level of cash on hand and sufficient access to lines of credit. Because of the dynamic nature of the company's business, which results also in frequent targeted acquisitions, it is company policy to ensure access to revolving stand-by lines of credit that can be utilized at short notice.

**(d) *Price and cash flow risk***

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

The company invests a significant part of its available liquidity in restricted bank deposits and deposit accounts, in order to optimize financial management. Despite the high level of cash investment carried out by the company, the revenues and cash flows of the company's operating activities are only marginally influenced by changes in interest generating assets.

Further quantitative information on the financial risks to which the company is exposed is given on Note 22 "Information on financial risks".

### **3.2 Accounting methods for derivative financial instruments and hedged transactions**

As already pointed out, the company avoids subscribing speculative derivative financial instruments; however, when derivative financial instruments fail to meet the requirements for hedge accounting set down in IAS 39, changes in the fair value of such instruments are booked to the income statement as financial charges and/or income.

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

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

The methods used to recognize derivative financial instruments depend on whether or not the conditions and requirements of IAS 39 have been fulfilled. Specifically:

**(i) *Cash flow hedges***

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

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

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

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

#### 4. Cash and cash equivalents

	31/12/2015 (€000)	31/12/2014 (€000)
Cash flow	9	7
Bank deposits	<u>46,592</u>	<u>22,834</u>
Total	<u>46,601</u>	<u>22,841</u>

Bank accounts include €000 3,296 held in US dollars (\$/000 3,588). Currency liquidity totaling €000 589 (\$/000 641) has been hedged against the risk of exchange rate fluctuations.

The reduction in deposit interest rates, that began in 2014, continued during 2015. Accordingly, the Company has preferred to keep its liquidity immediately available, rather than invest it at modest yields that would have limited access to it.

#### 5. Trade receivables

	31/12/2015 (€000)	31/12/2014 (€000)
Trade receivables, gross	9,969	13,176
Bad debt provision	<u>(466)</u>	<u>(375)</u>
Trade receivables, net	<u>9,503</u>	<u>12,801</u>

Changes in the bad debt provision were as follows:

	2015 (€000)	2014 (€000)
Opening balances	375	316
Provisions in the year	58	64
Merger effect	155	-
Utilizations in the year due to losses	<u>(122)</u>	<u>(5)</u>
Closing balance	<u>466</u>	<u>375</u>

Provisions in the year are booked under other operating costs.

Receivables denominated in US dollars total €000 1,607 (\$/000 1,749). No receivables at 31 December 2015 are hedged against the risk of exchange-rate fluctuations.

No trade receivables or payables are due after one year.

## 6. Inventories

	31/12/2015 (€000)	31/12/2014 (€000)
Raw materials and components	5,667	5,198
Semi-finished products	6,204	5,630
Finished products	<u>2,412</u>	<u>2,404</u>
Total inventories	<u>14,283</u>	<u>13,232</u>

Inventories are stated net of an allowance for inventories totalling €000 1,804 (€000 1,146 at 31/12/2014) allocated to cover materials considered to be obsolete and slow moving stock. Changes in the inventories allowance were as follows:

	2015 (€000)	2014 (€000)
Opening balances	1,146	946
Provisions in the year	295	200
Merger effect	363	-
Utilizations in the year due to losses	<u>-</u>	<u>-</u>
Closing balance	<u>1,804</u>	<u>1,146</u>

## 7. Derivative financial instruments

### *Interest rate hedging*

The company adopts a procedure, approved by the Board of Directors, which identifies the derivative financial instruments to be used to hedge against the risk of interest rate fluctuations. These instruments are as follows: Interest Rate Swaps (IRS), Forward Rate Agreements (FRA) and options on interest rates (Caps & Floors).

Company policy is currently to assess the opportunities offered by the market in relation to the possibility to take out Interest Rate Swaps at economically advantageous conditions.

At 31/12/2015 there are no interest rate hedging derivatives.

### *Exchange rate risk hedging*

The company is subject to exposure to the US dollar for sales in the US

- of high pressure pumps to General Pump;
- of a mechanical component to NLB;
- of high pressure pumps to customers outside the Interpump Group.

The hedges arranged solely related to the sale of high pressure pumps to third parties and all took the form of plain vanilla forward contracts.

The fair values of exchange rate risk derivative hedges at the close of the year were as follows:

	31/12/2015	31/12/2015	31/12/2015	31/12/2014	31/12/2014	31/12/2014
	Notional	Positive fair value	Negative fair value	Notional	Positive fair value	Negative fair value
	(\$/000)	(€000)	(€000)	(\$/000)	(€000)	(€000)
Plain vanilla forwards hedging						
sales of high pressure pumps	<u>1,483</u>	<u>2</u>	<u>28</u>	<u>696</u>	<u>=</u>	<u>28</u>
<i>Total derivative financial instruments to hedge against the USD exchange rate risk</i>	<u>1483</u>	<u>2</u>	<u>28</u>	<u>696</u>	<u>=</u>	<u>28</u>

The plain vanilla forwards used to hedge exchange-rate risks were all recognized using the cash flow hedge method. At the time of drafting of the financial statements no situations of overhedging were identified.

### *Cash flow hedges*

The net effects recognized in the income statement include the loss of €000 4 deriving from management of the exchange-rate risk.

The company exchange risk management policy involves the hedging of future commercial cash flows when deemed appropriate. The maximum time span in which it is predicted that the cash flows will originate is 6 months. It is therefore reasonable to assume that the related hedge effect deferred to the fair value reserve will be recognized in the income statement in the following year.

During 2015 the Group released previously deferred profits from equity to the income statement totaling €000 19, net of the theoretical tax effect. This amount was booked as an increase in net sales of €000 26 and as an adjustment to deferred taxation of €000 7.



The ineffectiveness deriving from cash flow hedging transactions in 2015 and in 2014 was negligible.

#### ***Fair value hedges***

The profits and losses deriving from the measurement of derivative financial instruments in compliance fair value hedge rules and the profits and losses ascribable to the associated hedged elements are shown in the following table:

	2015 <u>(€000)</u>	2014 <u>(€000)</u>
Net profit (loss) on derivative instruments utilized to hedge against exchange risks	(17)	-
Change in the fair value of the other underlying elements	<u>(2)</u>	=
Profit (loss), net	<u>(19)</u>	=

The main methods and assumptions made in the estimation of fair value are outlined below.

#### ***Derivatives***

The fair value of derivative financial instruments is calculated considering market parameters at the date of these financial statements and using measurement models widely adopted in the financial sector. Specifically:

- the fair value of plain vanilla forwards is calculated considering the exchange rate and interest rates of the two currencies at 31 December (last available trading day);
- the fair value of the interest rate swaps is calculated utilizing the discounted cash flow model: the input data used by this model comprises the interest rate curves at 31 December and the current interest rate fixings;

In application of IFRS 13, the fair value measurement of the instruments is performed taking account of the counterparty risk and, in particular, by calculating a credit value adjustment (CVA) in the case of derivatives with positive fair value, or a debit value adjustment (DVA) in the case of derivatives with negative fair value.

#### ***Interest-bearing financial payables***

The fair value is based on the projected cash flows for the principal amount and the interest.

#### ***Receivables/Payables***

For receivables and payables due within twelve months the carrying value is assumed as the fair value. The fair value of other receivables and payables is the discounted nominal value if the temporal factor and notional value are significant.

*Interest rates utilized to obtain the fair value*

To establish the fair value, the company uses the interest rate curve plus an appropriate spread. The interest rates utilized are as follows:

	31/12/2015 %	31/12/2014 %
Derivative financial instruments (euro)	-0,13/1,59	0,14/1,52
Derivative financial instruments (USD)	0,27/2,63	0,08/2,71
Interest bearing financial payables in euro	Euribor +0.70/1.20	Euribor +1.10/2.00
Financial leasing agreements	N/a	N/a
Financial assets	1.1	1.9

At 31 December 2015 all liquid assets were held at floating interest rates, as were all financial payables and bank debts.

In relation to financial instruments recorded in fair value in the balance sheet, international accounting principles require that said values be classified on the basis of a hierarchy of levels that reflects the significance of the inputs utilized to establish the fair value and subdivided on the basis of the recurrence in their measurement. International accounting standards identify the following levels:

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

The following table shows the financial instruments measured at fair value at 31 December 2015, broken down by level:

(€000)	Level 1	Level 2	Level 3	Total
Active derivatives:				
- <i>Plain vanilla forwards</i>	-	2	-	2
<b>Total assets</b>	-	<b>2</b>	-	<b>2</b>
Derivatives payable:				
- <i>Plain vanilla forwards</i>	-	28	-	28
<b>Total liabilities</b>	-	<b>28</b>	-	<b>28</b>

No transfers between levels were carried out in 2015.

All fair value measurements shown in the above table are to be considered as recurrent; the company did not perform any non-recurring fair value measurements in 2015.

## 8. Other current assets

This item comprises:

	31/12/2015 (€000)	31/12/2014 (€000)
Accessory charges for the acquisition of investments not yet completed	-	397
Other receivables	258	247
Accrued income and prepayments	<u>134</u>	<u>136</u>
Total	<u>392</u>	<u>780</u>

## 9. Property, plant and equipment

	<i>Land and buildings</i> (€000)	<i>Plant and machinery</i> (€000)	<i>Equipment</i> (€000)	<i>Other assets</i> (€000)	<i>Total</i> (€000)
<b>At 1 January 2014</b>					
Cost	10,138	29,088	13,226	2,704	55,156
Accumulated depreciation	<u>(3,633)</u>	<u>(19,324)</u>	<u>(11,054)</u>	<u>(2,190)</u>	<u>(36,201)</u>
Net book value	<u>6,505</u>	<u>9,764</u>	<u>2,172</u>	<u>514</u>	<u>18,955</u>
<b>Changes in 2014</b>					
Opening net book value	6,505	9,764	2,172	514	18,955
Increases	13	2,440	888	58	3,399
Disposals	-	-	-	-	-
Depreciation	<u>(119)</u>	<u>(1,212)</u>	<u>(824)</u>	<u>(152)</u>	<u>(2,307)</u>
Closing net book value	<u>6,399</u>	<u>10,992</u>	<u>2,236</u>	<u>420</u>	<u>20,047</u>
<b>At 31 December 2014</b>					
Cost	10,151	31,514	14,114	2,734	58,513
Accumulated depreciation	<u>(3,752)</u>	<u>(20,522)</u>	<u>(11,878)</u>	<u>(2,314)</u>	<u>(38,466)</u>
Net book value	<u>6,399</u>	<u>10,992</u>	<u>2,236</u>	<u>420</u>	<u>20,047</u>
<b>Changes in 2015</b>					
Opening net book value	6,399	10,992	2,236	420	20,047
Increases	319	3,529	335	173	4,356
Merger effect	-	200	75	85	360
Disposals	-	(6)	(1)	(2)	(9)
Reclassified	2	49	-	(51)	-
Depreciation capitalized	-	(8)	-	-	(8)
Depreciation	<u>(122)</u>	<u>(1,361)</u>	<u>(829)</u>	<u>(174)</u>	<u>(2,486)</u>
Closing net book value	<u>6,598</u>	<u>13,395</u>	<u>1,816</u>	<u>451</u>	<u>22,260</u>
<b>At 31 December 2015</b>					
Cost	10,888	35,732	16,186	3,108	65,914
Accumulated depreciation	<u>(4,290)</u>	<u>(22,337)</u>	<u>(14,224)</u>	<u>(2,657)</u>	<u>(43,508)</u>
Allowance for impairment	-	-	<u>(146)</u>	-	<u>(146)</u>
Net book value	<u>6,598</u>	<u>13,395</u>	<u>1,816</u>	<u>451</u>	<u>22,260</u>

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

	<i>Land and buildings</i> (€000)	<i>Plant and machinery</i> (€000)	<i>Equipment</i> (€000)	<i>Other assets</i> (€000)	<i>Total</i> (€000)
At 1 January 2014	-	444	397	-	841
At 31 December 2014	-	1,686	499	-	2,185
At 31 December 2015	287	3,330	347	-	3,964

There are no finance leasing contracts in existence.

Depreciation of €000 2,224 was charged to the cost of sales (€000 2,065 in 2014) and €000 262 for general and administrative expenses (€000 242 in 2014).

At 31 December 2015 the company had contractual commitments for the purchase of tangible assets equal to €000 2,417 (€000 100 at 31/12/2014).

## 10. Goodwill

Goodwill consists of the merger surplus, as described in section 2.6.

The impairment test was conducted using the Discounted Cash Flow method (DCF) net of taxation. The projected cash flows used in the DCF calculation were determined on the basis of a 5-year business plan that takes account of the various reference scenarios and on the basis of growth forecasts in the various markets. A perpetual growth rate of 1.5% was used for periods after 2020. The forecast cash flows determined in this manner were reduced by a discount factor in order to take into consideration the risk that the future plans could prove to be impracticable. WACC, *after tax*, was measured at 5.04%. At 31/12/2014 the WACC was 4.82%. In addition, a sensitivity analysis was carried out in compliance with the requirements of the joint document issued by Banca d'Italia, Consob, and ISVAP on 3 March 2010. Even reducing the projected cash flows of the CGU by 10% would not have led to any impairment, and nor would an 0.5% increase in the cost of capital used to actualize the projected cash flows. For a complete and more detailed analysis of goodwill, refer to Note 15 in the Consolidated Financial Statements at 31/12/2015.

## 11. Other intangible assets

	<i>Product development expenses</i> (€000)	<i>Patents trademarks and industrial rights</i> (€000)	<i>Other intangible assets</i> (€000)	<i>Total</i> (€000)
<b>At 1 January 2014</b>				
Cost	14,256	-	1,000	15,256
Accumulated amortization	<u>(9,788)</u>	=	<u>(560)</u>	<u>(10,348)</u>
Net book value	<u>4,468</u>	=	<u>440</u>	<u>4,908</u>
<b>Changes in 2014</b>				
Opening net book value	4,468	-	440	4,908
Increases	1,251	-	342	1,593
Impairment losses	(140)	-	-	(140)
Amortization	<u>(1,317)</u>	=	<u>(172)</u>	<u>(1,489)</u>
Closing net book value	<u>4,262</u>	=	<u>610</u>	<u>4,872</u>

	<i>Product development expenses (€000)</i>	<i>Patents trademarks and industrial rights (€000)</i>	<i>Other intangible assets (€000)</i>	<i>Total (€000)</i>
<b>At 31 December 2014</b>				
Cost	15,507	-	1,342	16,849
Accumulated amortization	<u>(11,245)</u>	=	<u>(732)</u>	<u>(11,977)</u>
Net book value	<u>4,262</u>	=	<u>610</u>	<u>4,872</u>
<b>Changes in 2015</b>				
Opening net book value	4,262	-	610	4,872
Increases	774	-	134	908
Merger effect	1,528	19	-	1,547
Reclassifications		(19)	19	-
Amortization	<u>(1,449)</u>	=	<u>(198)</u>	<u>(1,647)</u>
Closing net book value	<u>5,115</u>	=	<u>565</u>	<u>5,680</u>
<b>At 31 December 2015</b>				
Cost	19,621	137	1,675	21,433
Accumulated amortization	<u>(14,506)</u>	<u>(137)</u>	<u>(1,110)</u>	<u>(15,753)</u>
Net book value	<u>5,115</u>	=	<u>565</u>	<u>5,680</u>

Through 2014, product development expenses comprised the invoices received from Interpump Engineering S.r.l. for the development of new products. Subsequently, following the absorption of Interpump Engineering S.r.l. in 2015, they comprise the internal costs that have been capitalized in compliance with the criteria specified in IAS 38. The Company writes down any capitalized project costs that are no longer deemed to be recoverable.

The other intangible assets mainly relate to the cost of developing the new management information software.

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

	<i>Product development expenses (€000)</i>	<i>Other intangible assets (€000)</i>	<i>Total (€000)</i>
At 1 January 2014	2,183	289	2,472
At 31 December 2014	1,028	-	1,028
At 31 December 2015	2,059	-	2,059

Amortization of €000 1,647 (€000 1,489 in 2014) was booked entirely to general and administrative costs.

## 12. Investments in subsidiaries

(€000)	Balance at 31 December <u>2014</u>	Increases due to assignment of <u>stock</u> <u>options</u>	<u>Increases</u>	Merger effect	<u>Reclassified</u>	Impairment losses	Balance at 31 December <u>2015</u>
<i>Subsidiaries:</i>							
Walvoil S.p.A.	-	-	117,775	-	397	-	118,172
Walvoil Fluid Power India Pvt.Ltd.	-	-	14	-	-	-	14
NLB Corporation Inc.	62,048	-	-	-	-	-	62,048
General Pump Companies Inc.	8,903	-	-	-	-	-	8,903
Interpump Hydraulics S.p.A.	92,893	-	11,365	-	-	-	104,258
Hammelmann GmbH	26,032	-	-	-	-	-	26,032
Bertoli S.r.l.	-	-	7,424	-	-	-	7,424
Inoxihp S.r.l.	-	-	8,704	-	-	-	8,704
Interpump Engineering S.r.l.	138	-	-	(138)	-	-	-
General Technology S.r.l.	2,095	-	-	(2,095)	-	-	-
Teknova S.r.l. (in liquidation)	-	-	-	-	367	(340)	27
SIT S.p.A.	814	-	-	-	-	-	814
Hammelmann Bombas e Sistemas Ltda	13	-	-	-	-	-	13
Fair value of the stock options of the employees of subsidiaries	<u>1,018</u>	<u>379</u>	<u>-</u>	<u>(136)</u>	<u>-</u>	<u>-</u>	<u>1,261</u>
<i>Total subsidiaries</i>	<u>193,954</u>	<u>379</u>	<u>145,282</u>	<u>(2,369)</u>	<u>764</u>	<u>(340)</u>	<u>337,670</u>

All the equity investments held by Interpump Group S.p.A., with the exception of the investment in Sit S.p.A., are considered, starting from the date of acquisition, as financial assets since they correspond to financial instruments available for sale.

The increases relate to the companies acquired in 2015, except for that relating to Interpump Hydraulics S.p.A., regarding the payment on capital account represented by the assignment of treasury shares for the acquisition of the outstanding interest in Hydrocontrol S.p.A., and to Teknova S.r.l., regarding the transformation of the loan granted into a reserve for future capital increases.

As required by IFRIC 11, which came into force on 1 January 2010, share-based payment agreements (stock option plans) were recorded, the subject of which is equity instruments of the parent company in favour of the employees of its subsidiaries. The fair value of the stock options assigned to and exercisable by employees of subsidiaries of €000 379 was added to the value of the investments, with the increase in the share premium reserve as a matching entry.

The impairment of Teknova S.r.l. (in liquidation) is due to adaptation to the book value of shareholders' equity, following losses for the year.

## 13. Other financial assets

The only item included under other financial assets relates to loans to subsidiaries, a breakdown of which is given in Note 5 of the "2015 Board of Directors' Report of Parent Company Interpump Group S.p.A."

#### 14. Deferred tax assets and liabilities

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

	<i>Deferred taxes assets</i>		<i>Deferred taxes liabilities</i>	
	<i>2015</i>	<i>2014</i>	<i>2015</i>	<i>2014</i>
	<i>(€000)</i>	<i>(€000)</i>	<i>(€000)</i>	<i>(€000)</i>
At 1 January	1,635	1,355	817	805
Charged to income statement in the year	378	171	(146)	93
Merger effect	240	-	2	-
Charged to net equity	<u>(171)</u>	<u>109</u>	<u>6</u>	<u>(81)</u>
At 31 December	<u>2,082</u>	<u>1,635</u>	<u>679</u>	<u>817</u>

Deferred tax assets and liabilities can be booked to the following items of the balance sheet:

	<i>31/12/2015</i>	<i>31/12/2014</i>	<i>31/12/2015</i>	<i>31/12/2014</i>
	<i>Deferred tax assets</i>	<i>Deferred tax assets</i>	<i>Deferred tax liabilities</i>	<i>Deferred tax liabilities</i>
	<i>(€000)</i>	<i>(€000)</i>	<i>(€000)</i>	<i>(€000)</i>
Property, plant and equipment	142	195	631	708
Intangible fixed assets	101	154	-	-
Inventories	517	360	-	-
Receivables	32	28	-	83
Investments	318	365	10	12
Liabilities for employee benefits	-	(11)	599	-
Shareholders' equity				
- derivative financial instruments	6	8	-	-
- liabilities for employee benefits	-	110	(561)	-
Other	<u>966</u>	<u>426</u>	<u>-</u>	<u>14</u>
Total	<u>2,082</u>	<u>1,635</u>	<u>679</u>	<u>817</u>

Deferred tax assets/liabilities recorded directly in equity refer to the measurement of the fair value of derivative financial instruments recorded using the hedge accounting method, and to the remeasurement of the liability for employee benefits in relation to the actuarial component.

No deferred tax liabilities were recorded for reserves qualifying for tax relief as they are not expected to be distributed (see note 20).

#### 15. Interest-bearing financial payables and bank payables

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

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

At 31/12/2015 all financial covenants had been amply respected.

Non-current financial payables have the following due dates:

	31/12/2015 (€000)	31/12/2014 (€000)
From 1 to 2 years	64,085	30,968
From 2 to 5 years	191,041	83,150
Beyond 5 years	-	-
Total	<u>255,126</u>	<u>114,118</u>

The average interest rate on loans in 2015 was approximately 1.19% (2.2% in 2014).

At 31/12/2015 all loans were at floating-rates.

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

	31/12/2015 (€000)	31/12/2014 (€000)
Current account overdrafts and export advances	19,045	14,045
Medium/long-term loans	<u>211,500</u>	<u>147,375</u>
Total	<u>230,545</u>	<u>161,420</u>

## 16. Other current liabilities

This item comprises:

	31/12/2015 (€000)	31/12/2014 (€000)
Payables to personnel	2,102	2,285
Payables to social security institutions	1,642	1,170
Customer advances	541	291
Customer credit balances	236	192
Customers for credit notes to issue	59	85
Payables for remuneration of directors/auditors	789	779
Accrued expenses and deferred income	14	-
Other	<u>51</u>	<u>14</u>
Total	<u>5,434</u>	<u>4,816</u>

Customer advances include €000 379 denominated in US dollars (\$/000 413).

## 17. Provisions for risks and charges

The provisions for risks and charges, €000 12, relate entirely to the agents' termination indemnity provision, which was increased by €000 2 in 2015. The provision for investment risks (€000 13 in 2014) was deducted from the value of the investment following the increase in the quota capital of Teknova S.r.l. The balance of €000 12 (€000 23 in 2014) is classified entirely in the non-current part of the statement of financial position.

As envisaged by IAS 37, no further provisions have been recorded in relation to other contingent liabilities that might crystallize following tax inspections of certain corporate transactions carried out in prior years.



## 18. Liabilities for employee benefits

### *Liabilities for defined benefit plans*

The following movements were recorded in liabilities:

	2015 (€000)	2014 (€000)
Liabilities at 1 January	4,152	3,566
Amount charged to the income statement in the year	7	14
Recognition in equity of actuarial results	(638)	700
Reclassified	(29)	-
Merger effect	1,185	-
Payments	<u>(274)</u>	<u>(128)</u>
Liabilities at 31 December	<u>4,403</u>	<u>4,152</u>

The following items were recognized in the income statement:

	2015 (€000)	2014 (€000)
Current service cost	-	-
Financial expenses	7	14
Past service cost	<u>-</u>	<u>-</u>
Total recognized in the income statement	<u>7</u>	<u>14</u>

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

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

	2015	2014
Executives	9	8
Middle management	8	7
White collar	65	63
Blue collar	270	272
Fixed-contract personnel	<u>24</u>	<u>12</u>
Total	<u>376</u>	<u>362</u>

The increase in the average number of employees was mostly due to the greater recourse made to personnel on fixed-term contracts and, to a small extent, to the absorption of General Technology S.r.l. and Interpump Engineering S.r.l., which only influenced the last two months of 2015.

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

	Unit of measurement	2015	2014
Discount rate	%	2.37	1.46
Expected increase rate of remuneration	%	n.a.	n.a.
Percentage of employees expected to resign before retirement age ( <i>turnover</i> )*	%	2.64	3.00
Annual cost-of-living increase	%	1.5	1.5
Average period of employment	Years	15.79	15.61

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

## 19. Share capital

The share capital at 31 December 2015 was composed of 108,879,294 ordinary shares with a unit par value of €0.52 for a total amount of €56,617,232.88. In contrast, share capital recorded in the financial statements amounted to €000 56,032 because the nominal value of purchased treasury shares, net of divested treasury stock, was deducted from the share capital in compliance with the reference accounting standards. At 31 December 2015 Interpump S.p.A. held 1,125,912 treasury shares in the portfolio corresponding to 1.03% of the share capital, acquired at an average unit cost of €11.6443.

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

	<u>Number</u>
<i>Balance at 31/12/2013</i>	<i>3,103,503</i>
2014 purchases	3,819,682
Sale of shares to finance subsidiaries' purchases	(715,530)
Sale of shares for the exercise of stock options	<u>(926,560)</u>
<i>Balance at 31/12/2014</i>	<i>5,281,095</i>
2015 purchases	2,542,395
Sale of shares to finance subsidiaries' purchases	(4,925,854)
Sale of shares for the exercise of stock options	<u>(1,771,724)</u>
<i>Balance at 31/12/2015</i>	<u><i>1,125,912</i></u>

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

	2015 <u>Number of shares</u>	2014 <u>Number of shares</u>
Ordinary shares in existence at 1 January	108,879,294	108,879,294
Treasury stock	<u>(5,281,095)</u>	<u>(3,103,503)</u>
Shares in circulation at 1 January	103,598,199	105,775,791
Treasury stock purchased	(2,542,395)	(3,819,682)
Treasury stock sold	<u>6,697,578</u>	<u>1,642,090</u>
Total shares in circulation at 31 December	<u>107,753,382</u>	<u>103,598,199</u>

The aims identified by the company in the management of capital are the creation of value for all shareholders and supporting development of the group, both through internal means and by

means of targeted acquisitions. The company therefore intends to maintain an adequate level of capitalization, which simultaneously makes it possible to generate a satisfactory economic return for shareholders and to guarantee the economically effective access to external sources of borrowing. The company constantly monitors the evolution of the level of debt in relation to shareholders' equity and the generation of cash through its industrial operations. In order to attain the aforementioned goals, the company constantly monitors the cash flows generated, both through improvement or maintenance of profitability, and through careful management of working capital and investment. Capital is construed as both the value provided by Interpump Group shareholders (share capital and share premium reserve, totalling €000 194,149 at 31 December 2015 and €000 154,271 at 31 December 2014), and the value generated by the company in terms of the results of operations (other reserves and legal reserve, including profit for the year, overall equivalent to €000 102,271 at 31 December 2015 and €000 94,359 at 31 December 2014, excluding the reserve for restatement of defined benefit plans and the provision for fair value measurement of derivative hedges).

#### *Treasury stock purchased*

The amount of treasury stock held by Interpump Group is recorded in an equity provision. The Group acquired 2,542,395 treasury shares in 2015 for €000 32,709, at an average price of €12.8654 (the Group purchased 3,819,682 treasury shares in 2014 for the total amount of €000 38,299).

#### *Treasury stock sold*

In the framework of the execution of stock option plans a total of 1,771,724 options were exercised resulting in a receipt of €000 8,166 (926,560 options were exercised for €000 4,626 in 2014). Moreover, 4,925,854 treasury shares were assigned in 2015 to pay for equity investments (715,530 treasury shares assigned in 2014 in payment for equity investments).

#### *Stock options*

The fair value of the 2010/2012 and 2014/2015 stock option plans was recorded in the 2015 and 2013 financial statements in compliance with IFRS 2. Costs of €000 991 (€000 992 in 2014) relating to the stock option plans were therefore recognized in the 2015 income statement, with a matching entry in the share premium reserve. Said costs represent the portion for the year of the value of the options assigned to employees and directors, established at the allocation date, corresponding to the value of the services rendered by the latter in addition to normal remuneration.

Items recognized in the income statement were booked as follows:

	2015 (€000)	2014 (€000)
Cost of products sold	-	-
Distribution costs	86	87
General and administrative expenses	<u>905</u>	<u>905</u>
Total	<u>991</u>	<u>992</u>

Changes in the share premium reserve were as follows:

	2015 <u>€000</u>	2014 <u>€000</u>
Share premium reserve at 1 January	100,400	124,202
Increase due to income statement recognition of the fair value of stock options granted	991	992
Increase due to the recognition in equity of the fair value of stock options assigned to employees of subsidiaries	379	378
Increase for the disposal of treasury stock further to payment for acquisitions of subsidiaries	60,891	6,654
Increase for the disposal of treasury stock further to the exercise of stock options	8,166	4,144
Utilization to cover purchase of treasury stock	<u>(32,710)</u>	<u>(35,970)</u>
Share premium reserve at 31 December	<u>138,117</u>	<u>100,400</u>

The Shareholders' Meeting held on 20 April 2006 approved a stock option plan ("2006/2009 stock option plan"), which is described in detail in the Board of Directors' Report. The options are exercisable as shown in the following table:

	<u>No. of options granted</u>	<u>Vesting period</u>	<u>Exercise price (€)</u>
Second tranche	69,000	01/05/2011 – 31/05/2016	5.4047
Third tranche	80,000	01/11/2012 – 31/05/2017	3.7524
Fourth tranche	<u>350,000</u>	01/07/2010 – 31/12/2017	3.7524
Total	<u>499,000</u>		

Changes in options are as follows:

	2015 <u>Number of options</u>	2014 <u>Number of options</u>
Options assigned at 1 January	1,073,724	1,694,284
Options granted in the year	-	-
Options exercised in the year	<u>(574,724)</u>	<u>(620,560)</u>
Total options assigned at 31 December	<u>499,000</u>	<u>1,073,724</u>
Of which:		
- vested at 31 December	499,000	1,073,724
- not vested at 31 December	<u>-</u>	<u>-</u>
Total options assigned at 31 December	<u>499,000</u>	<u>1,073,724</u>

The Shareholders' Meeting held on 21 April 2010 approved the adoption of an incentive plan denominated “2010/2012 Interpump Incentive Plan”, which is also described in detail in the Board of Directors' Report accompanying the consolidated financial statements. The exercise price has been set at €3.75 per share. The options can be exercised between 30 June 2013 and 31 December 2016. The changes in options during 2014 and 2013 are indicated below:

	2015	2014
	<u>Number of options</u>	<u>Number of options</u>
Options assigned at 1 January	1,357,000	1,663,000
Options granted in the year	-	-
Options exercised in the year	<u>(1,197,000)</u>	<u>(306,000)</u>
Total options assigned at 31 December	<u>160,000</u>	<u>1,357,000</u>
Of which:		
- vested at 31 December	160,000	1,357,000
- not vested at 31 December	-	-
Total options assigned at 31 December	<u>160,000</u>	<u>1,357,000</u>

The Shareholders' Meeting held on 30 April 2013 approved the adoption of a new incentive plan denominated “2013/2015 Interpump Incentive Plan”. The plan, which is based on the free assignment of options that grant the beneficiaries the right, on the achievement of specified objectives, to (i) purchase or subscribe the Company's shares up to the maximum number of 2,000,000 or, (ii) at the discretion of the Board of Directors, receive the payment of a differential equivalent to any increase in the market value of the Company's ordinary shares. Beneficiaries of the plan can be employees or directors of the Company and/or its subsidiaries, identified among the subjects with significant roles or functions. The exercise price has been set at €6.00 per share. The options can be exercised between 30 June 2016 and 31 December 2019. The next meeting of the Board of Directors held on 30 April 2013 set a figure of 2,000,000 for the number of options to be assigned, divided by the total number of options in each tranche (500,000 for the first tranche, 700,000 for the second tranche and 800,000 for the third tranche) and established the terms for the exercise of the options, which are connected to the achievement of specific accounting parameters. The same Board of Directors' meeting assigned 1,000,000 options to Interpump Group S.p.A. director Fulvio Montipò and 320,000 options to director Paolo Marinsek, the exercise of which is subject to the fulfillment of the above conditions. Moreover, the same Board of Directors meeting conferred on the Chairman and the Deputy Chairman of Interpump Group, separately, the power to specify the beneficiaries of the further 680,000 options. 550,000 options were assigned to the other beneficiaries on 29 October 2013.

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

2006-2009 Plan - Second tranche

	Unit of measurement	
Number of shares assigned	no.	827,361
Grant date		May 2008
Exercise price	€	5.4047
Vesting date		1 May 2011
Fair value per option at the grant date	€	1.2431
Expected volatility (expressed as the weighted average of the volatility values utilized to build the binomial lattice model)	%	23
Expected average duration of the plan life	years	7.7
Expected dividends (compared with share value)	%	4
Risk free interest rate (calculated using a linear interpolation of swap rates at 17/04/2008)	%	From 4.445 to 4.496

2006-2009 Plan - Third tranche

	Unit of measurement	
Number of shares assigned	no.	275,000
Grant date		April/July 2009
Exercise price	€	3.7524
Vesting date		1 November 2012
Fair value per option at the grant date	€	0.57306
Expected volatility (expressed as the weighted average of the volatility values utilized to build the binomial lattice model)	%	30
Expected average duration of the plan life	years	7.83
Expected dividends (compared with share value)	%	4
Risk free interest rate (calculated using a linear interpolation of swap rates at 30/06/2009)	%	From 3.258 to 3.395

2006-2009 Plan - Fourth tranche

	Unit of measurement	
Number of shares assigned	no.	1,100,000
Grant date		March 2010
Exercise price		3.7524
Vesting date		1 July 2010
Fair value per option at the grant date	€	0.92286
Expected volatility (expressed as the weighted average of the volatility values utilized to build the binomial lattice model)	%	30
Expected average duration of the plan life	years	7.75
Expected dividends (compared with share value)	%	4
Risk free interest rate (calculated using a linear interpolation of swap rates in 2010)	%	From 2.899 to 3.069

### 2010/2012 Plan

#### *First assignment*

	Unit of measurement	
Number of shares assigned	no.	2,320,000
Grant date		21 April 2010
Exercise price		3.7500
Vesting date		1 July 2013
Fair value per option at the grant date	€	0.89555
Expected volatility (expressed as the weighted average of the volatility values utilized to build the binomial lattice model)	%	30
Expected average duration of the plan life	years	6.666
Expected dividends (compared with share value)	%	4
Risk free interest rate (calculated using a linear interpolation of swap rates at 21 April 2010)	%	From 2.63 to 2.83

#### *Second assignment*

	Unit of measurement	
Number of shares assigned	no.	540,000
Grant date		07 July 2010
Exercise price		3.7500
Vesting date		1 July 2013
Fair value per option at the grant date	€	1.08964
Expected volatility (expressed as the weighted average of the volatility values utilized to build the binomial lattice model)	%	30
Expected average duration of the plan life	years	6.5
Expected dividends (compared with share value)	%	4
Risk free interest rate (calculated using a linear interpolation of swap rates at 7 July 2010)	%	From 2.29 to 2.49

### 2013//2015 Plan

#### *First assignment*

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

*Second assignment*

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

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

**20. Reserves***Reserve for valuation of hedging derivatives at fair value*

This includes net accumulated changes in the fair value of derivative financial instruments classified as hedges and recorded using the hedge accounting method.

*Reserve for restatement of defined benefit plans*

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



*Classification of net equity depending on possibility of utilization*

(amounts in €000)	Amount	Possibility of utilization	Available portion	Tax payable in the event of distribution	Summary of utilizations over the past three years	
					to cover losses	for other reasons
<b>Share capital</b>						
Subscribed and fully paid-up share capital	56,617	B	-	-	-	-
Nominal value of treasury stock in portfolio	(585)	-	-	-	-	-
Total share capital	<u>56,032</u>					
<b>Capital reserves</b>						
Legal reserve	6,860	B	-	-	-	-
Share premium reserve	<u>65,726</u>	A,B,C	<u>65,726</u>	-	-	15,742
Total capital reserves	<u>72,586</u>		65,726			
<b>Profit reserves:</b>						
Legal reserve	4,463	B	-	-	-	-
Share premium reserve	72,391	A,B,C	71,130	1,687	-	1,592
Extraordinary reserve	61,015	A,B,C	59,478	-	-	2,382
Reserve for share capital reduction	585	-	-	-	-	-
First Time Adoption Reserve	(45)	-	-	-	-	-
Reserve for the measurement of hedging derivatives at fair value	(13)	-	-	-	-	-
Merger surplus General Technology S.r.l. and Interpump Engineering S.r.l.	863	A,B,C	698			
Reserve for restatement of defined benefit plans	(1,479)					
Profit for the year	<u>28,529</u>	A,B,C	<u>28,529</u>	-	-	-
Total profit reserves	<u>166,309</u>		159,835			
Reserve for treasury stock held	13,110	-	-	-	-	92,450
Treasury shares	(13,110)	-	-	-	-	-
Non-distributable portion*			<u>(5,680)</u>			
<b>Remaining distributable portion</b>			<u>219,881</u>			

A: for capital increase

B: for coverage of losses

C: for distribution to shareholders

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

We draw your attention to the fact that €000 12,987 of the share premium reserve qualifies for tax relief in that it was fiscally formed from the revaluation reserve, Law 342/2000 and Law 266/2005.

Utilizations refer to dividends, purchase of treasury stock and reductions of reserves for other causes and do not include transfers between reserves. In particular, with reference to the changes that occur red in the past three years note that the drawdowns of the treasury shares reserve refer to purchases of treasury stock, while drawdowns from the share premium reserve refer to the sale of treasury shares at a price below their carrying value and the drawdowns from the extraordinary reserve refer to integration of the 2012 dividend.

On the basis of tax legislation the reserves and profits are freely distributable and do not attract tax even in the case of distribution, on the condition that the reserves and residual profits exceed the negative components of income ascribed exclusively to the tax return; otherwise, distributed reserves and profits are subject to tax in the measure in which the residual reserves and profits are lower than the negative components of income that have been ascribed exclusively to the tax return. At 31 December 2015, this condition has been complied with in full, hence no taxes were payable in the event of distribution of the parent company's entire profits for the year and the entirety of available reserves, beyond the taxes already indicated in the prior statement.

*Breakdown of components recorded directly in equity*

(€000)	2015			2014		
	Pre-tax amount	Amount net of taxes		Pre-tax amount	Amount net of taxes	
	Taxation			Taxation		
Accounting for derivatives hedging interest-rate risks using the cash flow hedge method	-	-	-	37	(10)	27
Accounting for derivatives hedging exchange-rate risks using the cash flow hedge method	7	(2)	5	(26)	8	(18)
Restatement of defined benefit plans	<u>638</u>	<u>(175)</u>	<u>463</u>	<u>(700)</u>	<u>192</u>	<u>(508)</u>
<b>Total</b>	<b><u>645</u></b>	<b><u>(177)</u></b>	<b><u>468</u></b>	<b><u>689</u></b>	<b><u>190</u></b>	<b><u>(499)</u></b>

## 21. Information on financial assets and liabilities

Financial assets and liabilities, broken down by the categories identified by IAS 39, are summarized in the following tables:

(€000)	<i>Financial assets at 31/12/2015</i>			<i>Financial liabilities at 31/12/2015</i>	Total	<i>Fair value</i>
	At the fair value recorded in the Income Statement			Valued at the amortized cost		
	Initially*	IAS 39	Loans and receivables			
Trade receivables	-	-	9,503	-	9,503	9,503
Other current assets	-	-	258	-	258	258
Other current financial assets	-	-	9,348	-	9,348	9,348
Other financial assets	-	-	142,090	-	142,090	142,090
Trade payables	-	-	-	(10,148)	(10,148)	(10,148)
Current interest bearing financial payables	-	-	-	(47,958)	(47,958)	(47,958)
Derivative instruments - Payables	-	-	-	-	-	-
Other current liabilities	-	-	-	(5,420)	(5,420)	(5,420)
Non-current interest-bearing financial payables	=	=	-	<u>(255,126)</u>	<u>(255,126)</u>	<u>(255,126)</u>
<b>Total</b>	<b>=</b>	<b>=</b>	<b><u>161,199</u></b>	<b><u>(318,652)</u></b>	<b><u>(157,453)</u></b>	<b><u>(157,453)</u></b>

\* = designated as such at the time of initial recording.

\*\* = classified as held for trading according to the requirements of IAS 39.

	<i>Financial assets</i> <i>at</i> <i>31/12/2014</i>			<i>Financial liabilities at</i> <i>31/12/2014</i>		
(€000)	At the fair value recorded in the Income Statement			Valued at the amortized cost	Total	<i>Fair value</i>
	Initially*	IAS 39	Loans and receivables			
Trade receivables	-	-	12,801	-	12,801	12,801
Dividends receivable	-	-	6,000	-	6,000	6,000
Other current assets	-	-	644	-	644	644
Other financial assets	-	-	98,800	-	98,800	98,800
Trade payables	-	-	-	(11,192)	(11,192)	(11,192)
Current interest-bearing financial payables	-	-	-	(23,304)	(23,304)	(23,304)
Other current liabilities	-	-	-	(4,816)	(4,816)	(4,816)
Non-current interest-bearing financial payables	=	=	-	(114,118)	(114,118)	(114,118)
Total	-	-	118,245	(153,430)	(35,185)	(35,185)

\* = designated as such at the time of initial recording.

\*\* = classified as held for trading according to the requirements of IAS 39.

The carrying amount of financial assets and liabilities is substantially the same as their fair value.

The Company has not recognized any fair value gains or losses on derivative financial instruments in the 2015 income statement since, although arranged for hedging purposes, they did meet all the requirements specified in IAS 39 for recognition as hedges (in 2014, the Company recognized fair value gains of €000 65 and fair value losses of €000 25). Note 7 gives the methods for calculation utilized to establish the fair value of derivative financial instruments.

Loans and receivables generated revenues and costs. Revenues refer to exchange rate gains for €000 531 (€000 832 in 2014). In contrast, the costs refer to exchange losses in the amount of €000 271 (€000 49 in 2014), to bad debts for €000 58 (€000 64 in 2015) classified under other operating costs.

Financial liabilities measured at amortized cost have generated costs relating to the portion of ancillary charges initially incurred to obtain the loans and subsequently expensed over the duration of the loan in accordance with the financial method. In 2015 the value of these charges booked to the income statement totaled €000 478 (€000 720 in 2014).

Financial assets and liabilities that are not designated at fair value recorded in the Income Statement (in the case of Interpump Group S.p.A., all those indicated in the above tables) generated interest receivable for €000 2,133 (€000 2,092 in 2014) and interest payable for €000 3,173 (€000 2,552 in 2014); in addition, general and administrative expenses include commissions and bank charges for €000 92 (€000 96 in 2014).

## 22. Information on financial risks

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

- market risks (mainly related to currency exchange rates and interest rates) since the company does business internationally and is exposed to the exchange risk deriving from exposure to the US dollar;
- credit risk connected with business relations with customers;

- liquidity risk, with special reference to the availability of financial resources and access to the lending market and financial instruments in general;
- price risk in relation to metal price fluctuations that constitute a significant portion of the raw materials purchase price.

The company is not exposed to significant concentrations of risk.

As described in Note 3 "Management of financial risks" the company constantly monitors the financial risks to which it is exposed in such a way as to make an advance assessment of potential negative effects and take appropriate actions to mitigate them.

The following section contains reference qualitative and quantitative indications regarding the uncertainty of these risks for Interpump Group S.p.A.

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

### **Exchange risk**

The company is exposed to risks arising from fluctuations in currency exchange rates, which may affect economic results. Specifically:

- for revenues denominated in currencies other than the currencies in which the respective costs are denominated, exchange rate fluctuations can impact on the company's operating profit.

In 2015 the total amount of cash flow exposed directly to exchange risks was approximately 27% of company sales (approximately 26% in 2014).

The exchange rates to which the company is exposed are EUR/USD, in relation to sales in dollars of high pressure pumps in North America through General Pump Inc., which is sited in this important market, and in direct relation to an important US customer. Moreover, in recent years the company has also begun billing in USD to its other US subsidiary, NLB Inc., even though the amounts are as yet modest.

The Interpump Group has adopted a policy of hedging commercial transactions denominated in foreign currency, in the framework of which the most effective derivative instruments for the achievement of the preset goals have been identified and the relative responsibilities, duties and system of delegations have been defined.

In relation to the dollar exposure generated by sales made in the North American market to General Pump Inc., Company policy is to arrange hedges only when the exchange rate reached certain levels deemed to be favorable, thus ensuring the continuation of this condition for between three and six months. Although the exchange rate reached and even exceeded the established values considered favorable during 2015, top management decided not to start hedging in order to benefit from the weakness of the euro.

In relation to exposures in dollars for sales on the American market to subsidiary NLB Inc., the company has decided for the present not to hedge them because it considers that they have not yet reached a level such as to allow the benefits associated with the stabilization of the exchange rates to cover the costs connected with setting up the associated hedges.

In relation to the dollar exposure generated by sales made in the North American market to customers external to the Interpump Group, Company policy is to arrange hedges only when the exchange rates are deemed to be favorable.

- Again in relation to commercial activities, the company may be in a position wherein it holds commercial receivables denominated in currencies other than the account currency. Fluctuations in exchange rates can therefore result in the realization or assessment of

positive or negative exchange differences. It is company policy, as previously specified, to hedge exposure deriving from trade receivables.

- In relation to financial exposure, wherever the monetary outflows are denominated in a currency other than the account currency, fluctuation of the exchange rates can impact the net profits of the company negatively. At 31 December 2015 and 31 December 2014 the company had no financial exposures in foreign currency.

The nature and structure of the exposure to exchange risk and the related hedging policies were substantially unchanged in 2015 and 2014.

### **Exchange risk sensitivity analysis**

The potential profit deriving from the change in the fair value of financial assets and liabilities caused by a hypothetical and immediate increase in the value of the euro of 10% with respect to the US dollar would be in the order of approximately €000 412 (potential profit of €000 225 in 2014).

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

### **Interest rate risk**

It is company policy to monitor the changes in the rate curves, in order to assess the need to hedge part of the outstanding loans. Currently, no loans are hedged against interest-rate risk. At 31 December 2015 all the group's cash on hand was subject to floating interest rates, as were all financial and bank debts. In addition, in 2015 and in prior years the Company granted loans to subsidiaries totaling €151.4 million (€8.8 million at 31/12/2014), mainly to finance the Group's process of expansion through acquisitions. As described in Note 5 of the Board of directors' report attached to the financial statements, all the loans were granted at floating rates.

### **Sensitivity analysis relative to the interest rate risk**

The effects of a hypothetical and instantaneous upward variation in interest rates of 50 basis points would provide Interpump Group S.p.A. with higher financial expenses, net of the increase in financial income of €000 524 (higher financial expenses of €000 130 in 2014). It is reasonable to assume that a 50 basis points decrease in interest rates would produce an equivalent effect, although this time in terms of lower financial expenses.

### **Credit risk**

The maximum theoretical credit risk exposure of the company at 31 December 2015 and 2014 is represented by the accounting value of the financial assets recorded in the financial statements.

Historically the company has not suffered any significant losses on receivables. This is because the company generally allows extended payments only to its long-term customers, whose solubility and economic stability is known. In contrast, after having passed an initial credit rating analysis, new customers are required to make payments in advance or to open a letter of credit for amounts due.

Individual write-downs are applied in relation to positions, if of significant magnitude, in relation to which an objective condition of uncollectability is present for all or part of the outstanding amount. The amount of the write-down takes account of an estimate of the recoverable flows and the associated collection date, and the expenses and costs for future debt

recovery. Collective provisions are allocated in relation to receivables that are not subject to individual write-downs, taking account of the historic exposure and statistical data.

At 31 December 2015, Loans and Receivables from financial activities total €000 161,119 (€000 118,245 at 31/12/2014), and include €000 466 for written down receivables (€000 375 at 31/12/2014); amounts overdue by less than three months are €000 1,729 (€000 2,233 at 31/12/2014), while those overdue beyond three months total €000 306 (€000 544 at 31/12/2014).

The Company is not exposed to any significant concentrations of sales. In fact, the top customer in terms of sales is part of the Interpump Group and accounted for about 24% of total sales in 2015 (24% also in 2014). The top customer outside the Group accounted for approximately 5% of sales (4% in 2014) while, in total, the top 10 customers after the first intercompany customer accounted for 22% of sales (19% in 2014).

### **Liquidity risk**

The liquidity risk can arise if it becomes impossible to obtain, at acceptable economic conditions, the financial resources needed for the company's business operations. The two main factors that define the company's liquidity situation are the resources generated by or used in business activities and investment, and the characteristics of expiry and renewal of debt or liquidity of financial investments and the relative market conditions.

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

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

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

Management considers that the currently available funds and lines of credit, in addition to resources generated by operating and financing activities, will allow the company to meet requirements deriving from investing activities, management of working capital and repayment of debts at their natural due dates, in addition to ensuring the pursuit of a strategy of growth, also by means of targeted acquisitions capable of creating value for shareholders. Cash on hand at 31 December 2015 totals € 46.6 million. Cash on hand and the cash generated by the company in 2015 are both factors that serve to reduce the company's exposure to the liquidity risk. The decision to maintain a high level of cash was adopted in order to minimize the liquidity risk, which is considered important given the current state of uncertainty of the economy, and to pick up on any acquisition opportunities that may arise.

### **Price risk**

Interpump Group S.p.A. is exposed to risks deriving from price fluctuations of metals, which may affect economic results and profitability. Specifically, the purchase cost of metals accounted for 31% of the company purchase cost of raw materials, semi-finished products and finished products (18% in 2014). The main metals utilized by the company include brass, aluminium, steel and stainless steel.

Company policy is to transfer the cost of stocking materials to suppliers; in this scenario the risk is hedged by means of orders for specific periods and quantities agreed at a fixed price; at 31 December 2015 signed commitments were in place covering all expected brass consumption and aluminum consumption in 2016 (34% coverage of forecast brass consumption and 18% coverage of forecast aluminum consumption at 31/12/2014), 23% of steel consumption (34% at 31/12/2014) and 38% of the stainless steel consumption predicted for next year (51% at 31/12/2014). In addition, at 31 December 2015 stocks covered about 11% of forecast brass consumption of (16% at 31/12/2014), 23% of aluminum consumption (41% at 31/12/2014), 54% of steel consumption (22% at 31/12/2014) and 5% of stainless steel consumption (2% at 31/12/2014).

Generally speaking the company reviews selling prices on a once-yearly basis.

### 23. Net sales

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

	2015 (€000)	2014 (€000)
Italy	13,736	14,884
Rest of Europe	22,008	20,324
Rest of the World	42,228	41,882
Total	<u>77,972</u>	<u>77,090</u>

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

	2015 (€000)	2014 (€000)
Euro	56,724	57,309
USD	21,239	19,778
GBP	9	3
Total	<u>77,972</u>	<u>77,090</u>

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

### 24. Other net revenues

	2015 (€000)	2014 (€000)
Capital gains on the sale of tangible assets	6	1
Revenues from consultancy	-	44
Income from rent/royalties	16	-
Sale of scrap	140	178
Other	401	656
Reimbursement of expenses	563	486
Total	<u>1,126</u>	<u>1,365</u>

## 25. Costs by nature

	2015 (€000)	2014 (€000)
Raw materials and components	21,538	24,436
Personnel and temporary staff	22,888	20,459
Services	10,573	10,396
Amortization / depreciation (notes 9 and 11)	4,133	3,796
Directors' and statutory auditors' remuneration	4,144	3,650
Hire purchase and leasing charges	591	237
Provisions / impairment of tangible and intangible fixed assets (notes 9, 11 and 17)	2	143
Other operating costs	<u>3,938</u>	<u>3,366</u>
Total cost of sales, distribution costs, general and administrative expenses, other operating costs and impairment losses	<u>67,807</u>	<u>66,483</u>
of tangible and intangible fixed assets		

The emoluments of the Directors and Statutory Auditors of Interpump Group S.p.A. in 2015 were, respectively, €000 3,967 and €000 105 and included the remuneration authorized at the Shareholders' Meeting, the remuneration established by the Board of Directors for directors assigned special duties, including bonuses, and the remunerative component deriving from stock option plans, represented by the current-year portion of the fair value of the options calculated at the grant date (excluding however the emoluments of the directors and statutory auditors of General Technology S.r.l and Interpump Engineering S.r.l., totaling €000 72).

## 26. Financial income and charges

	2015 (€000)	2014 (€000)
<u>Financial income</u>		
Interest income from liquid funds	26	163
Interest income from financial assets (intercompany loans)	2,133	2,092
Other financial income	2	-
Foreign exchange gains	580	2,580
Earnings from valuation of derivative financial instruments	<u>51</u>	<u>68</u>
Total	<u>2,792</u>	<u>4,903</u>
Interest expenses	3,651	3,272
Other financial charges	17	14
Foreign exchange losses	271	1,734
Losses from valuation of derivative financial instruments	<u>77</u>	<u>34</u>
Total	<u>4,016</u>	<u>5,054</u>



## 27. Income taxes

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

	2015 (€000)	2014 (€000)
<b>IRES</b>		
Profit before taxes from the income statement	<u>32,844</u>	<u>38,950</u>
Theoretical taxes at nominal rate (27.5%)	9,032	10,711
Lower taxes for non-taxable dividends	(5,890)	(6,841)
Higher taxes due to non-deductible write-downs of investments	94	4
Lower taxes due to IRAP deduction relating to expenses for employees and similar	(83)	(153)
Lower taxes due to IRAP deduction on interest expenses	(23)	(28)
Higher taxes on absorption of difference between severance indemnities under IFRS and those determined using fiscal criteria	6	82
Taxes for prior financial years	337	3
Effect of scheduled change in the IRES tax rate from 2017	91	-
Other	<u>27</u>	<u>116</u>
<b>Total IRES</b>	<u><b>3,591</b></u>	<u><b>3,894</b></u>
<b><u>IRAP/Local income taxes</u></b>		
Profit before taxes from the income statement	<u>32,844</u>	<u>38,950</u>
Theoretical taxes at nominal rate (4.65%)	1,527	1,519
Lower taxes for non-taxable dividends	(1,074)	(1,058)
Higher taxes for non-deductible payroll costs	74	485
Higher taxes for non-deductible directors' emoluments	179	130
Higher taxes due to non-deductible financial expenses	1	7
Taxes for prior financial years	-	-
Effect of change in tax rate	(7)	-
Other	<u>24</u>	<u>18</u>
<b>Total IRAP (Local income taxes)</b>	<u><b>724</b></u>	<u><b>1,101</b></u>
<b>Total income taxes recognized in the income statement</b>	<u><b>4,315</b></u>	<u><b>4,995</b></u>

Note that together with Teknova S.r.l. and Interpump Hydraulics S.p.A., the company has chosen to form a domestic tax group.

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

	2015 (€000)	2014 (€000)
Current taxes	(4,372)	(5,070)
Current taxes of prior financial years	(467)	(3)
Deferred taxes	<u>524</u>	<u>78</u>
<b>Total taxes</b>	<u><b>(4,315)</b></u>	<u><b>(4,995)</b></u>

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

	2015 (€000)	2014 (€000)
Deferred tax assets generated in the year	975	526
Deferred tax liabilities generated in the year	(32)	(97)
Deferred tax assets transferred to the income statement	(569)	(355)
Deferred tax liabilities recognized in the income statement	104	4
Deferred tax assets due to changes in the tax rate	(158)	-
Deferred tax liabilities due to changes in the tax rate	74	-
Deferred tax assets not calculated in previous years	<u>130</u>	<u>-</u>
Total deferred taxes	<u>524</u>	<u>78</u>

## 28. Earnings per share

### *Basic earnings per share*

Earnings per share are calculated on the basis of profit for the year divided by the weighted average number of ordinary shares during the year as follows:

	2015	2014
Profit for the year attributable to shareholders (€000)	28,529	33,955
Average number of shares in circulation	106,854,067	105,257,907
Basic earnings per share for the year	<u>0.267</u>	<u>0.323</u>

### *Diluted earnings per share*

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

	2015	2014
Profit for the year attributable to shareholders (€000)	<u>28,529</u>	<u>33,955</u>
Average number of shares in circulation	106,854,067	105,257,907
Number of potential shares for stock option plans (*)	<u>1,491,735</u>	<u>2,006,055</u>
Average number of shares (diluted)	<u>108,345,802</u>	<u>107,263,962</u>
Earnings per diluted share at 31 December (€)	<u>0.263</u>	<u>0.317</u>

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

## 29. Notes to the cash flow statement

### *Property, plant and equipment*

In 2015 the company purchased property, plant and equipment totalling €000 4,356 (€000 3,399 in 2014). This expenditure involved the payment of €000 4,542, inclusive of the payment of past debts for the same purpose and net of payables deferred to the following year (€000 2,261 in 2014).

### ***Cash and cash equivalents***

This item can be broken down as follows:

	31/12/2015 <u>(€000)</u>	31/12/2014 <u>(€000)</u>	01/01/2014 <u>(€000)</u>
Cash and cash equivalents from the balance sheet	46,601	22,841	39,879
Payables to banks (for current account overdrafts and advances subject to collection and accrued expenses for interest payable)	<u>(731)</u>	<u>(408)</u>	<u>(143)</u>
Cash and cash equivalents from the cash flow statement	<u>45,870</u>	<u>22,433</u>	<u>39,736</u>

### ***Net financial position and cash-flow statement***

For the amount and details of the main components of the net financial position and the changes that occurred in 2015 and 2014 we invite you to refer to the "Loans" section of the Board of Directors' Report.

## **30. Commitments**

The company has commitments to purchase tangible assets totalling €000 2,417 (€000 100 at 31/12/2014).

Interpump Group S.p.A. has signed rental and hire purchase agreements mainly for warehouses, offices, and cars. The total outlay in 2015 was €000 126 (€000 343 in 2014). At 31/12/2015, the following commitments were outstanding:

	<u>€000</u>
Due within 1 year	787
Due from 1 to 2 years	770
Due from 2 to 5 years	2,125
Due beyond 5 years	<u>7</u>
Total	<u>3,689</u>

## **31. Transactions with related parties**

### ***Transactions involving top management***

Transactions with related parties concern the leasing of facilities owned by companies controlled by the current shareholders and directors of the Parent company for €000 665 (no transactions in 2014), deriving from the merger completed during the year, and consultancy services provided by entities connected with directors and statutory auditors of the Parent company for €000 68 (no transactions in 2014). The leasing costs are classified among the cost of sales, €000 577, and general and administrative expenses €000 88. The consultancy costs were charged in full to general and administrative expenses.

After taking over the lease contracts signed with related parties, the Company has commitments totaling €000 3,325 at 31 December 2015.

With regard to transactions with Group companies we invite you to refer to chapter 5 of the Board of Directors' Report.

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

### **32. Events occurring after the close of the year**

With regard to Interpump Group S.p.A., no further events occurred after 31 December 2015 such that require mention in this report, while we invite you to refer to the "Board of Directors' Report" of the consolidated financial statements at 31 December 2015 with regard to events after the close of the year concerning the Group.

## Attachment 1

### **Attestation of the annual financial statements pursuant to art. 81-(3) of Consob regulation no. 11971 of 14 May 1999 and subsequent amendments and integrations**

1. The undersigned Paolo Marinsek and Carlo Banci, respectively Executive Director and Manager responsible for the drafting of company accounting documents of Interpump Group S.p.A., taking account also of the provisions of art. 154-(2), subsections 3 and 4 of legislative decree no. 58 of 24 February 1998, attest to:
  - adequacy in relation to the characteristics of the business and
  - effective application,of the administrative and accounting procedures for formation of the financial statements during 2015.
2. In addition, it is confirmed that the annual financial statements of Interpump Group S.p.A for the year ended 31 December 2015, showing total assets of €625,200 thousand, net profit of €28,529 thousand and shareholders' equity of €294,927 thousand:
  - a) correspond to the results of the company books and accounting entries;
  - b) were prepared in compliance with the international accounting standards approved by the European Commission further to the enforcement of Ruling (CE) no. 1606/2002 of the European Parliament and the European Council of 19 July 2002, and the provisions issued in implementation of art. 9 of legislative decree 38/2005 and the contents are suitable for providing a truthful and fair representation of the equity, economic and financial situation of the company;
  - c) the Board of Directors' report contains a reliable analysis of performance and results and the situation of the issuer together with a description of the main risks and uncertainties to which it is exposed.

Sant'Ilario d'Enza (RE), 18 March 2016

. Paolo Marinsek  
Deputy Chairman and  
Chief Executive Officer

Carlo Banci  
Manager responsible for preparing  
the company's accounting documents

**Report of the Board of Statutory Auditors to the Shareholders' Meeting of Interpump Group S.p.A. on the financial statements at 31 December 2015, pursuant to art. 2429, subsection 2, of the Italian civil code and art. 153 of Italian legislative decree 58/1998 (Consolidated Finance Act).**

Shareholders,

We have performed the supervisory activities required by art. 2429, subsection 2 of the Italian Civil Code of the Italian civil code and art. 153 of Italian legislative decree 58/1998, taking account also of the principles of conduct prescribed by the "Consigli Nazionali dei Dottori Commercialisti e degli Esperti Contabili" (national councils of certified public accountants) and the CONSOB communication of 6 April 2001, as amended. Throughout 2015 we performed the duties prescribed by art. 149 of Italian legislative decree 58/1998 and we are therefore in a position to disclose the following matters.

Pursuant to the law, the Company is required to present consolidated financial statements.

The separate financial statements at 31 December 2015 were prepared in compliance with the IAS/IFRS approved by the International Accounting Standards Board and endorsed by the European Union.

The explanatory notes describe in detail the accounting policies adopted for the preparation of the financial statements.

1. We attended the meetings of the board of directors, during which we were informed by the directors of the activities performed and the operations of the greatest economic and financial significance under discussion and executed by the company and/or by its subsidiaries, in compliance with art. 150 of Italian legislative decree 58/1998.

The principal economic and financial transactions carried out by the Company during 2015 were reported in press releases and described in the Report on operations. In particular:

- a) the purchase via Interpump Hydraulics S.p.A. of the minority interests in Hydrocontrol S.p.A. and IMM Hydraulics S.p.A.; in particular, the remaining 16% of Hydrocontrol S.p.A. was purchased in April 2015 and the remaining 40% of IMM Hydraulics S.p.A. was acquired on 4 June 2015;
- b) the acquisition on 28 August 2015 of Osper, a Brazilian company that produced and sold power take-offs and hydraulic cylinders (Hydraulic Sector) and the subsequent amalgamation in Brazil, already operational, of four companies: Interpump Hydraulics do Brasil, Takarada Industria e Comercio, Walvoil Fluid Power do Brasil and Osper. The new company, post merger, is known as Interpump Hydraulics Brasil;
- c) the consolidation of the Walvoil Group (Hydraulic Sector), acquired on 15 January 2015, Inoxihp S.r.l. (Water Jetting Sector), acquired on 17 March 2015, Bertoli S.r.l. (Water Jetting Sector), acquired on 22 May 2015 and consolidated for eight months, and Osper (Hydraulic Sector), acquired on 28 August 2015 and consolidated for four months.

2. We have ascertained that the foregoing operations were in compliance with the law and the Bylaws, that they did not conflict with the resolutions adopted at Shareholders' Meetings and that they were consistent with the principles of proper administration.

3. During 2015 and subsequent to year end, we did not receive information from the Board of Directors or the Auditing Firm about any atypical and/or unusual transactions with third parties, related parties or group companies.

**4.** With regard to intercompany transactions and related party transactions, the directors have provided specifications and precise information in the board of directors' report and in the notes to the 2015 separate financial statements, specifying the following matters in particular:

a) the Company carried out transactions on arm's-length terms with other Group companies and with top management, as described in section 5 of the board of directors' report and in note 31 to the separate financial statements;

b) the Company has a number of stock option plans, the most recent of which approved at the shareholders' meeting on 30 April 2013, designed to provide incentives to and increase the loyalty of management. These stock option plans are described in detail in note 19 to the separate financial statements.

The Company has issued a specific report containing the remuneration disclosures required by statutory legislation.

**5.** With regard to intercompany transactions, the board of directors' report - to which reference is made - describes the characteristics of commercial and financial relations entertained with subsidiaries and associates; we consider that the amounts in question are congruous and that the transactions carried out were in line with the interests of the company.

**6.** The Independent auditing firm Reconta Ernst & Young S.p.A. issued its report on 29 March 2016 in compliance with the requirements of articles 14 and 16 of Italian legislative decree 39/2010, wherein it attests that the annual financial statements provide a clear and fair view of the financial position, results and cash flows of the company in the year under examination.

The independent auditors also judged the information given in the board of directors' report on operations and in the corporate governance report to be in compliance with the financial statements, as required by the amendments introduced by Italian legislative decree 173/2008.

**7.** We have received no complaints pursuant to art. 2408 of the Italian civil code.

**8.** Neither Reconta Ernst & Young S.p.A. nor other entities associated with that firm were engaged to perform any professional work other than the audit and certification of the financial statements.

**9.** We have expressed our opinions in relation to the incentive plans (including the stock option plans) and the remuneration amounts as per art. 2389, no. 3, of the Italian civil code, and their consistency with the general remunerations policy; also, pursuant to the requirements of art. 3.C.5 of the code of corporate governance, we have checked the correct application of the verification criteria and procedures utilized by the board of directors to evaluate the independence of its members.

**10.** The board of statutory auditors met 9 times during the year and attended 8 meetings of the board of directors; we also attended 6 meetings of the internal control and risks committee and the shareholders' meeting.

**11.** Within the scope of our remit we have verified and monitored 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 independent auditors held in order to allow the reciprocal exchange of relevant data and information. No anomalies or matters to be submitted to your attention have emerged in this context.

**12.** Within the scope of our remit we have also verified and monitored the adequacy of the company's organizational structure, which we found to be commensurate with the size of the company. This has allowed, partly via meetings with the persons in charge of company functions and representatives of the independent auditors, the comprehensive collection of information concerning compliance with the principles of diligent and correct administrative conduct.

**13.** We evaluated the adequacy of the company's corporate governance and administrative and accounting system and the reliability of the latter in providing a true and faithful representation of all aspects of the company's operations, by means of: (i) examination of reports of the manager responsible for preparing company accounting documents on the administrative and accountancy structure and on the corporate governance system and the financial reporting process; (ii) information gathered from the managers of the related company functions; (iii) relations with the administrative bodies of subsidiaries pursuant to subsections 1 and 2 of art. 151 of Italian legislative decree 58/1998; (iv) participation in the work of the control and risks committee (in compliance with the code of corporate governance). No anomalies and/or issues have emerged from the activities performed that could be construed as indicators of inadequacy of the corporate governance system.

**14.** On the basis of the provisions contained in art. 19 of Italian legislative decree no. 39 of 27 January 2010, the board of statutory auditors - identified by said provisions as the audit committee - has also supervised:

- the financial reporting process;
- the legal audit of the annual accounts and the consolidated financial statements;
- the independence of the auditing firm.

There were no elements and/or qualified remarks requiring mention in this report.

**15.** The board of statutory auditors considers that the administrative-accounting system is capable of assuring correct representation of the operating events for preparation of the company's accounting documents.

**16.** The company has issued its subsidiaries with the instructions necessary to comply with the disclosure obligations prescribed in art. 114, subsection 2, of Italian legislative decree 58/1998.

Said instructions appear to be adequate in relation to statutory legal requirements.

**17.** We have verified, through direct checks and by analyzing information obtained from the independent auditors, the full observance of legal requirements concerning the formation of the separate financial statements and the attached board of directors' report. Specifically, we checked to ensure that no exceptions were made pursuant to art. 2423, subsection 4, of the Italian civil code.

**18.** With reference to corporate governance and the tangible implementation of the rules set down by the code of corporate governance issued by Borsa Italiana, the company's methods of compliance are described in the corporate governance report, with whose contents we are in agreement.

**19.** Our supervision and control activities did not identify any major facts requiring notification to the supervisory bodies or disclosure in this report.



**20.** In acknowledging that the separate financial statements at 31 December 2015, which we received within the legally prescribed terms, together with the board of directors' report, show a net profit for the year of €28,529,378, in consideration of the matters illustrated above and taking account of the report issued by the independent auditors, we express our agreement with the proposal made by the board of directors, both with regard to the approval of the separate financial statements and also with regard to the proposal for distribution of profit for the year.

\* \* \* \* \*

S. Ilario d'Enza, 31 March 2016

for THE BOARD OF STATUTORY AUDITORS

Pierluigi De Biasi



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**Independent auditor's report  
in accordance with articles 14 and 16 of Legislative Decree n. 39, dated 27 January 2010  
(Translation from the original Italian text)**

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

**Report on the financial statements**

We have audited the accompanying financial statements of Interpump Group S.p.A., which comprise the balance sheet as at December 31, 2015, and the income statement, the comprehensive income statement, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Directors' responsibility for the financial statements*

The Directors of Interpump Group S.p.A. are responsible for the preparation of these financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued to implement art. 9 of Legislative Decree n. 38, dated 28 February 2005.

*Auditor's responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) implemented in accordance with article 11, paragraph 3 of Legislative Decree n. 39, dated 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of Interpump Group S.p.A. as at December 31, 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with article 9 of Legislative Decree n. 38, dated 28 February 2005.

**Report on other legal and regulatory requirements**

*Opinion on the consistency of the Report on Operations and of specific information of the Report on Corporate Governance and the Company's Ownership Structure with the financial statements*

Reconta Ernst & Young S.p.A.  
Sede Legale: Via Po, 32 - 00198 Roma  
Capitale Sociale € 1.402.500,00 i.v.  
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma  
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904  
P.IVA 00891231003  
Iscritta all'Albo Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998  
Iscritta all'Albo Speciale delle società di revisione  
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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We have performed the procedures required under audit standard SA Italia n. 720B in order to express an opinion, as required by law, on the consistency of the Report on Operations and of specific information of the Report on Corporate Governance and the Company's Ownership Structure, published in the section "Corporate Governance" of the Interpump Group S.p.A.'s website, as provided for by article 123-bis, paragraph 4 of Legislative Decree n. 58, dated 24 February 1998, with the financial statements. The Directors of Interpump Group S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and the Company's Ownership Structure in accordance with the applicable laws and regulations. In our opinion the Report on Operations and the specific information of the Report on Corporate Governance and the Company's Ownership Structure are consistent with the financial statements of Interpump Group S.p.A. as at December 31, 2015.

Bologna, March 29, 2016  
Reconta Ernst & Young S.p.A.  
Signed by: Marco Mignani, partner

*This report has been translated into the English language solely for the convenience of international readers.*