Annual financial report
at 31 December 2016

INTERPUMP GROUP

Contents

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

EY 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

2016 Board of Directors' Report

Financial Highlights of the Interpump Group

	31/12/2016	31/12/2015	31/12/2014	31/12/2013	31/12/2012[a]
	(€/000)	(€/000)	(€/000)	(€/000)	(€/000)
Consolidated net revenues	922,818	894,928	671,999	556,513	527,176
Foreign sales	83%	85%	86%	86%	86%
EBITDA	198,502	180,258	136,106	105,173	105,876
EBITDA %	21.5%	20.1%	20.3%	18.9%	20.1%
EBIT (Operating profit)	153,533	136,896	104,367	79,334	84,049
EBIT %	16.6%	15.3%	15.5%	14.3%	15.9%
Consolidated net profit	94,473	118,306	57,742	44,087	53,226
Free cash flow	89,947	85,246	38,290	34,282	38,598
Net debt	300,024 [c]	278,196 [c]	226,044 [c]	121,384 [c]	102,552 [c]
Consolidated shareholders' equity	677,538	622,628	466,550	432,949	396,876
Indebtedness/EBITDA	1.51	1.54	1.66	1.15	0.97
Net capital expenditure (Capex)	36,527	28,863	34,142	29,278	15,839
Average headcount	5,016	4,830	3,575	2,998	2,685
ROE	13.9%	19.0%	12.4%	10.2%	13.4%
ROCE	15.7%	15.2%	15.1%	14.3%	16.8%
EPS - EUR	0.884	1.101	0.541	0.413	0.556
Dividend per share - EUR	0.200	0.190	0.180	0.170	0.170

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 €16,594k.

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.

	31/12/2011[b]	31/12/2010	31/12/2009	31/12/2008	31/12/2007
	(€/000)	(€/000)	(€/000)	(€/000)	(€/000)
Consolidated net revenues	471,619	424,925	342,924	424,513	432,195
Foreign sales	84%	80%	79%	80%	79%
EBITDA	94,614	74,100	46,856	86,986	94,255
EBITDA %	20.1%	17.4%	13.7%	20.5%	21.8%
EBIT (Operating profit)	75,650	54,689	29,194	75,666	82,231
EBIT %	16.0%	12.9%	8.5%	17.8%	19.0%
Consolidated net profit	42,585	27,381	13,980	40,161	42,913
Free cash flow	28,800	56,997	63,136	22,132	31,951
Net debt	145,975 [c]	147,759 [c]	201,833 [c]	228,264 [c]	186,173
Consolidated shareholders' equity	315,160	291,459	242,796	177,951	147,131
Indebtedness/EBITDA	1.54	1.99	4.31	2.62	1.86
Net capital expenditure (Capex)	12,153	8,478	8,950	16,577	11,944
Average headcount	2,436	2,492	2,427	2,036	1,882
ROE	13.5%	9.4%	5.8%	22.6%	29.2%
ROCE	16.4%	12.5%	6.6%	18.6%	23.5%
EPS - EUR	0.439	0.284	0.187	0.545	0.567
Dividend per share - EUR	0.120	0.110	-	-	0.430*

KEY EVENTS OF 2016

2016 was another record year for the Interpump Group, marked by strong growth in EBITDA in absolute terms with an increase of around €18.2m, and in terms of sales percentage (+1.4%), thus confirming the validity of the strategies adopted in past years, which were pursued resolutely also in 2016.

Sales were up by 3.1% compared to 2015 (+0.3% like for like and net of exchange differences). Sector analysis shows a 6.5% increase in Hydraulic Sector sales (+2.7% like for like and net of exchange differences) and a 2.6% decline in Water Jetting Sector sales (-3.7% like for like and net of exchange differences).

In geographical terms, Europe, including Italy, grew by 7.9%, and the Far East and Oceania by 14.6%, while sales in the Rest of the World fell by 2.9% and by 5.2% in North America. The geographical breakdown shows like for like growth of 2.9% in Europe, 5.7% in the Far East and Oceania and a contraction of 4.3% in the Rest of the World and of 5.3% in North America.

EBITDA reached €198.5m, equivalent to 21.5% of sales. 2015 EBITDA totalled €180.3m (20.1% of sales); accordingly, an improvement of 1.4 percentage points was recorded. EBITDA has risen by 10.1%. On a like-for-like basis, EBITDA was 6.7% higher.

Free cash flow was almost €90m, up by 5.5% versus 2015 (€85.2m in 2015), despite net capital expenditure that was higher in the amount of €7.7m.

Net profit totalled €94.5m in 2016. Net profit in 2015 included one-off financial income of €32.0m due to the early exercise of put options by entitled parties. Net of this phenomenon, net profit for 2016 was 9.5% greater than the normalized net profit for 2015.

Work on the rationalization of Group companies continued also throughout 2016. The absorption of HS Penta S.p.A. by Interpump Hydraulics S.p.A. and of Bertoli S.r.l. by Interpump Group S.p.A., resolved at the end of 2015, were completed, as was the merger between Walvoil S.p.A. and Hydrocontrol S.p.A., resolved at the beginning of 2016. The mergers between US subsidiaries Walvoil Fluid Power Corp and Hydrocontrol Inc, and between Dyna Flux S.r.l. and IMM Hydraulics S.p.A. will take effect from 1 January 2017, while the merger of our four UK subsidiaries and the merger of Wavoil's Chinese subsidiaries will take place in the second half of the year.

The following companies were consolidated for the first time in 2016: Endeavour (Hydraulic Sector) acquired in January 2016, Tubiflex (Hydraulic Sector) acquired in May 2016 and consolidated for eight months, and Tekno Tubi (Hydraulic Sector), Mega Pacific Australia and Mega Pacific New Zealand (Hydraulic Sector) acquired in July 2016 and consolidated for six months.

Based in Bath in the UK, Endeavour produces hydraulic hose assembly machines and systems. The acquisition is part of a programme to strengthen and rationalize Interpump's direct commercial presence in the various international markets. In the reporting period to 31 March 2016 Endeavour reported sales of around GBP 1.6m (approximately €1.8m), generating EBITDA of about 16% of sales. The Interpump Group paid GBP 1.1m for Endeavour, including approximately GBP 300k in cash.

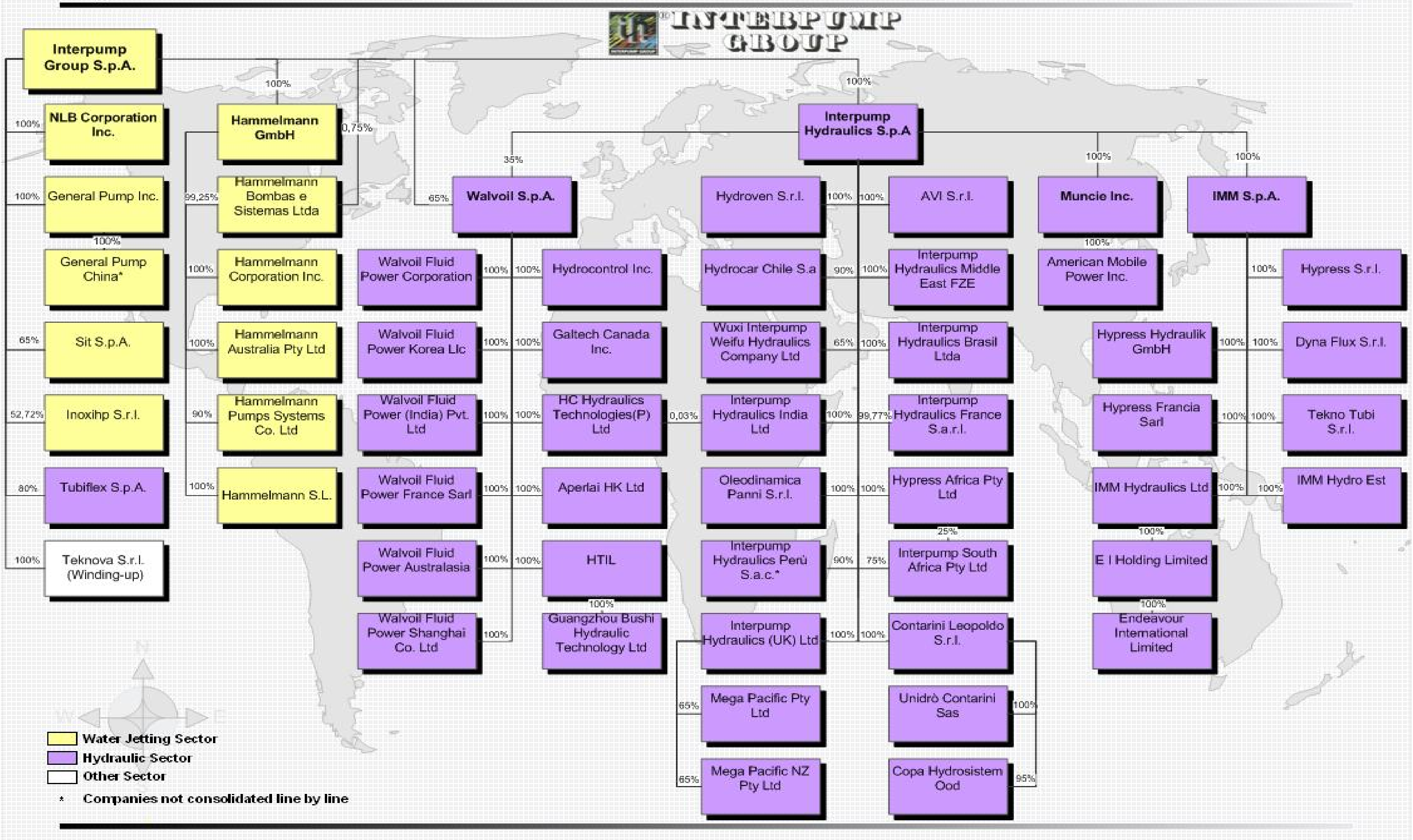
Tubiflex S.p.A., based in Orbassano (Turin) is active in the production and sale of metallic and non-metallic flexible hoses, metallic expansion joints, metal bellows, corrugated pipe for heat exchangers, and special products. The principal application sectors are: aerospace, shipyards, railways, automotive, air conditioning, medical, energy generation, steel and petrochemicals. Tubiflex reported net sales of €20.1m in 2016, with EBITDA of €4.4m (22.1% of sales). The price for 80% of Tubiflex, inclusive of liquidity purchased, was €21.6m, paid in cash plus transfer of 449,160 treasury shares. For the remaining 20%, call and put options were agreed for exercise on the date of approval of the financial statements as at 31 December 2018. The exercise price will be established on the basis of Tubiflex's 2018 results.

Tekno Tubi S.r.l., based in Sant'Agostino (Ferrara, Italy), specialises in shaping and assembling rigid pipes in steel and other metals, as well as unions for rubber or plastic flexible hoses for the hydraulic and automotive sectors. The acquisition of Tekno Tubi allows the Interpump Group to strengthen its position in the vast expanse of the hoses market, adding rigid hoses to the flexible rubber hoses already produced by IMM, and the metallic flexible hoses made by Tubiflex. This broadening of the range will lead to significant commercial and other synergies. This company recorded sales of €12.7m in 2016, with EBITDA of approximately €2.2m. The agreed price for 100% of Tekno Tubi was €4.1m, this figure being subject to an adjustment based on the company's 2016 and 2017 results.

Mega Pacific Pty Ltd (Australia) and Mega Pacific NZ Pty Ltd (New Zealand) are among the biggest distributors of hydraulic products in Oceania, where they operate through 7 branches. In the latest financial statements at 30 June 2016, the Mega Pacific Group reported sales of AUD 20.5m, reflecting 8% growth, and with EBITDA of AUD 3.6m (17.7% of sales). The price paid for the 65% interest in Mega Pacific was AUD 12.3m. In addition, put and call options were agreed on the remaining 35%, which are exercisable five years after the closing with reference to the results for the year ending on 31 December 2020.

The Interpump Group confirmed its well-established growth strategy also in 2016, combining internal expansion with M&As in order to accelerate business development and create value for the shareholders while keeping a tight rein on debt.

Organizational chart as at 31/12/2016



ALTERNATIVE 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/(Losses) 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/(Losses) before interest, tax, depreciation and amortization (EBITDA)**: EBIT plus depreciation, amortization and provisions;
- **Net indebtedness**: calculated as the sum of Loans obtained and Bank borrowing less Liquid funds and cash equivalents;
- **Capital expenditure (CAPEX)**: the sum of investment in property, plant and equipment and intangible assets, net of divestments;
- **Return on capital employed (ROCE)**: EBIT / Capital employed;
- **Return on equity (ROE)**: Net profit / Shareholders' equity.

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

The cash flow statement was prepared using the indirect method.

Consolidated income statement for the year

(€/000)	*2016*	*2015*
Net sales	**922,818**	**894,928**
Cost of sales	(584,816)	(577,310)
Gross industrial margin	**338,002**	**317,618**
% on net sales	*36.6%*	*35.5%*
Other operating revenues	14,372	13,133
Distribution costs	(86,425)	(84,321)
General and administrative expenses	(108,973)	(105,670)
Other operating costs	(3,443)	(3,864)
EBIT	**153,533**	**136,896**
% on net sales	*16.6%*	*15.3%*
Financial income	7,862	42,416
Financial expenses	(12,862)	(15,688)
Adjustment of the value of investments carried at equity	(40)	(262)
Profit for the year before taxes	**148,493**	**163,362**
Income taxes	(54,020)	(45,056)
Consolidated net profit for the year	**94,473**	**118,306**
% on net sales	*10.2%*	*13.2%*
Pertaining to:		
Parent company's shareholders	93,850	117,639
Subsidiaries' minority shareholders	623	667
Consolidated net profit for the year	**94,473**	**118,306***
EBITDA	**198,502**	**180,258**
% on net sales	*21.5%*	*20.1%*
Shareholders' equity	677,538	622,628
Net debt	257,263	254,987
Payables for the acquisition of investments	42,761	23,209
Capital employed	977,562	900,824
ROCE	**15.7%**	**15.2%**
ROE	**13.9%**	**19.0%**
Basic earnings per share	**0.884**	**1.101**

* = As stated on page 15, the normalized net profit for 2015 was €86.3m.

NET SALES

Net sales in 2016 totalled €922.8m, up by 3.1% from the €894.9m in 2015 (+0.3% like for like and net of exchange differences). The following table gives a breakdown of sales by business sector and geographical area:

(€/000)	Italy	Rest of Europe	North America	Far East and Oceania	Rest of the World	Total
2016						
Hydraulic Sector	124,390	209,640	145,175	46,958	70,648	596,811
Water Jetting Sector	30,971	90,885	132,996	50,393	20,762	326,007
Total	155,361	300,525	278,171	97,351	91,410	922,818
2015						
Hydraulic Sector	105,509	194,815	151,083	40,004	68,860	560,271
Water Jetting Sector	30,400	91,688	142,303	44,954	25,312	334,657
Total	135,909	286,503	293,386	84,958	94,172	894,928
2016/2015 percentage changes						
Hydraulic Sector	+17.9%	+7.6%	-3.9%	+17.4%	+2.6%	+6.5%
Water Jetting Sector	+1.9%	-0.9%	-6.5%	+12.1%	-18.0%	-2.6%
Total	+14.3%	+4.9%	-5.2%	+14.6%	-2.9%	+3.1%

The like for like analysis net of exchange differences shows growth of 2.7% in the Hydraulic Sector and a decline of 3.7% in the Water Jetting Sector.

PROFITABILITY

The cost of sales accounted for 63.4% of turnover (64.5% in 2015). Production costs, which totalled €246.5m (€234.8m in 2015, which however did not include the costs of Endeavour, Tubiflex, Tekno Tubi and Mega Pacific), accounted for 26.7% of sales (26.2% in 2015). The purchase cost of raw materials and components sourced on the market, including changes in inventories, was €338.3m (€342.6m in 2015, which however did not include the costs of the Endeavour, Tubiflex, Tekno Tubi and Mega Pacific). The incidence of purchase costs including changes in inventories was 36.7% (38.3% in 2015), thus improving by 1.6 percentage points.

On a like for like basis distribution costs were 2.1% lower than in 2015, and the related incidence on sales fell by 0.2 percentage points.

Like for like general and administrative expenses fell by 0.7% with respect to 2015, while the related incidence on sales was in line with 2015.

Payroll costs totalled €230.3m (€218.2m in 2015, which however did not include Endeavour, Tubiflex, Tekno Tubi and Mega Pacific). Like for like payroll costs rose by 1.9% due to a 1.5% per capita cost increase and an increase of 18 in the average headcount. The total number of Group employees in 2016 averaged 5,016 (4,848 like for like) compared to 4,830 in 2015. The increase in the average headcount during 2016 on a like for like basis breaks down as follows: +32 in Europe, -12 in the US and -2 in the Rest of the World.

EBITDA totalled €198.5m (21.5% of sales) compared to €180.3m in 2015, which represented 20.1% of sales, reflecting a 10.1% increase. Like for like, EBITDA was up by 6.7% reaching

€192.3m or 21.5% of sales, resulting in a 1.4 percentage point rise in the business margin. The following table shows EBITDA by business sector:

	2016 €/000	*% on total sales**	*2015 €/000*	*% on total sales**	*Increase/ Decrease*
Hydraulic Sector	115,446	19.3%	96,605	17.2%	+19.5%
Water Jetting Sector	83,075	25.4%	83,671	24.9%	-0.7%
Other Revenues Sector	(19)	n.s.	(18)	n.s.	n.s.
Total	***198,502***	***21.5%***	***180,258***	***20.1%***	***+10.1%***

* = 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 2016). For comparability, the percentage is calculated on total sales, rather than the net sales shown earlier.

Like for like Hydraulic Sector EBITDA was up by 14.0% (19.3% of net sales). Like-for-like Water Jetting Sector EBITDA was down by 1.7% (25.4% of net sales).

EBIT stood at €153.5m (16.6% of sales) compared to €136.9m in 2015 (15.3% of sales), reflecting an increase of 12.2% and a rise in profitability of 1.3 percentage points. EBIT was 8.6% higher, like for like, reaching €148.7m or 16.7% of sales, with an increase of 1.4 percentage points.

Finance operations generated net charges of €5.0m (net financial proceeds of €26.7m in 2015). 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.

The tax rate for the period was 36.4% (27.6% in 2015). The comparison is influenced by the inclusion, in 2015 only, of income due to adjustment of the estimate of the foregoing debt, 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 increase in 2016 was principally due to non-deductible charges relating to the put options and to the derecognition of deferred tax assets, resulting in higher taxation of €2.3m in total.

Net profits amounted to €94.5m. The net profit for 2015, €118.3m, was influenced by the non-recurring events described above. Net of these phenomena, net profit for 2016 was 9.5% greater than the normalized net profit for 2015 of €86.3m. Basic earnings per share were EUR 0.884 in 2016 (EUR 1.101 in 2015, this figure also being influenced by the matters described above).

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 2016.

CASH FLOW

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

	2016 *€/000*	*2015* *€/000*
Opening net financial position	**(254,987)**	**(151,969)**
Adjustment: opening net cash position of companies not consolidated line by line at the end of the prior year (a)	160	435
Adjusted opening net financial position	**(254,827)**	**(151,534)**
Cash flow from operations	137,995	120,158
Cash flow generated (absorbed) by the management of commercial working capital	(5,121)	(13,279)
Cash flow generated (absorbed) by other current assets and liabilities	(7,061)	6,725
Capital expenditure on tangible fixed assets	(34,071)	(27,653)
Proceeds from sales of tangible fixed assets	566	1,594
Increase in other intangible fixed assets	(3,022)	(2,804)
Received financial income	496	714
Other	165	(209)
Free cash flow	***89,947***	***85,246***
Acquisition of investments, including received debt and net of treasury shares assigned	(39,552)	(145,243)
Receipts for the sale of investments and lines of business	861	746
Dividends paid	(21,138)	(20,390)
Outlays for the purchase of treasury shares	(43,308)	(32,709)
Proceeds from the sale of treasury shares to beneficiaries of stock options	9,490	8,166
Change in other financial assets	(53)	(1)
Cash flow generated (used)	***(3,753)***	***(104,185)***
Exchange rate differences	1,317	732
Net financial position at year end	**(257,263)**	**(254,987)**

(a) = Interpump Hydraulics (UK) in 2016 (see Note 2 to the Annual Financial Report at 31 December 2016). In 2015 the companies in question were Hammelmann Bombas e Sistemas Ltda and Interpump Hydraulics Middle East FZCO.

Net liquidity generated by operating activities totalled €138.0m (€120.2m in 2015), reflecting an increase of 14.8%. Free cash flow amounted to €89.9m in 2016 (€85.2m in 2015), reflecting an increase of 5.5% despite additional capital expenditure of €7.7m.

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

	31/12/2016	31/12/2015	01/01/2015
	€/000	€/000	€/000
Cash and cash equivalents	197,891	135,130	87,159
Bank payables (advances and STC amounts)	(2,396)	(5,735)	(27,770)
Interest-bearing financial payables (current portion)	(124,784)	(83,833)	(64,298)
Interest-bearing financial payables (non-current portion)	(327,974)	(300,549)	(147,060)
Total	**(257,263)**	**(254,987)**	**(151,969)**

The Group also has contractual commitments for the purchase of residual shareholdings in subsidiaries totalling €42.8m (€23.2m at 31 December 2015). Of this amount, €6.5m relates to the acquisition of equity investments (€4.9m at 31 December 2015), while €36.3m relates to contractual agreements for the acquisition of residual interests in subsidiaries (€18.3m at 31 December 2015). The change with respect to the comparative period was due to the new put options arranged on the Tubiflex and Mega Pacific acquisitions.

GROUP BALANCE SHEET

Capital employed increased from €900.8m at 31 December 2015 to €977.6m at 31 December 2016 The rise in capital employed is mainly due to the consolidation of Endeavour, Tubiflex, Tekno Tubi and Mega Pacific, which produced a €61.7m increase, and to the effect of revaluation of foreign currencies against the euro, which led to an increase of €10.8m. ROCE stood at 15.7% (15.2% in 2015). The ROE was 13.9% (19.0% in 2015, partly as a result of the matters described above in relation to net profit).

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

	31/12/2016 (€/000)	*%*	*31/12/2015 (€/000)*	*%*
Trade receivables	200,018		178,129	
Net inventories	257,545		238,637	
Other current assets	18,826		22,172	
Trade payables	(109,004)		(94,022)	
Short-term tax payables	(18,126)		(19,904)	
Short-term portion for provisions for risks and charges	(3,620)		(4,423)	
Other short-term liabilities	(45,525)		(45,357)	
Net working capital	**300,114**	**30.7**	**275,232**	**30.6**
Net intangible and tangible fixed assets	330,960		319,259	
Goodwill	390,708		347,388	
Other financial fixed assets	790		1,025	
Other non-current assets	27,502		28,333	
Liabilities for employee benefits	(19,311)		(17,264)	
Medium/long-term portion for provisions for risks and charges	(2,866)		(2,683)	
Other medium/long-term liabilities	(50,335)		(50,466)	
Total net fixed assets	**677,448**	**69.3**	**625,592**	**69.4**
Total capital employed	**977,562**	**100**	**900,824**	**100**

	31/12/2016 (€/000)	%	31/12/2015 (€/000)	%
Financed by:				
Group shareholders' equity	673,744		617,157	
Minority interests	3,794		5,471	
Total shareholders' equity	**677,538**		**622,628**	**69.1**
Cash and cash equivalents	(197,891)		(135,130)	
Payables to banks	2,396		5,735	
Short-term interest-bearing financial payables	124,784		83,833	
Short-term payable for purchase of investments	4,283		3,560	
Total short term financial payables (cash)	**(66,428)**	**-6.8**	**(42,002)**	**-4.7**
Medium/long-term interest-bearing financial payables	327,974		300,549	
Medium/long-term payable for the acquisition of equity investments	38,478		19,649	
Total medium/long-term financial payables	**366,452**	**37.5**	**320,198**	**35.6**
Total sources of financing	**977,562**	**100**	**900,824**	**100.0**

Interpump Group's equity structure is balanced, with a leverage index of 0.44 (0.45 at 31 December 2015). 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 totalled €54.8m, of which €8.9m via the acquisition of equity investments (112.4m in 2015, of which €73.9m via the acquisition of equity investments). We point out 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 (€10.8m at 31 December 2016 and €11.2m at 31 December 2015). Net of these latter amounts and expenditure for acquisitions, capital expenditure in the strictest sense amounted to €35.1m in 2016 (€27.3m in 2015) and mainly refers to the normal renewal and modernization of plant, machinery and equipment, with the exception of €6.1m, related to the construction of new plants in Romania, the UK and at Atessa in Italy, in order to increase the production capacity of the hydraulic hoses and fittings division (€3.7m), to the purchase and construction of factories in India (€1.5m) and to the extensions of a building owned by the Group Parent and another owned by Hammelmann China. The difference with respect to the expenditure recorded in the cash flow statement is due to the timing of payments.

Increases in intangible fixed assets totalled €3.2m, mainly as a result of investment in the development of new products (€15.2m in 2015, of which €12.4m reflected the acquisition of equity investments, most of which (€11.7m) was allocated to the trademarks acquired, while the balance was invested in the development of new products).

RESEARCH AND DEVELOPMENT

Design and development of new high pressure pumps and related accessories for the Water Jetting Sector is carried out by parent company Interpump Group S.p.A. 2016 saw the completion of seven new projects relating to new versions of pumps for various applications and to new valves and seals, and the opening on a further six new projects. Development activities concerning new very high pressure pumps and systems for the Water Jetting sector are instead carried out by Hammelmann. In 2016 Hammelmann developed several projects concerning a new family of very high pressure pumps (1,100 kW), new accessories (such as the rotary nozzle for pressure of up to 3,000 bar), and different applications of existing products that make it possible to break into new application sectors.

R&D activities for the Hydraulic Sector are conducted by Walvoil, Interpump Hydraulics and IMM. 2016 saw the development of new power take-offs, valves and hydraulic components and the start of development of new technologies applied to the manufacturer of hoses, fittings and other components of higher quality and performance levels than currently available.

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 2016 amounted to €1,336k (€1,279k in 2015), while the costs charged to the income statement amounted to €17,234k (€16,083k in 2015).

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 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 of the prior period	Number of shares purchased/ subscribed	Number of shares sold	Number of shares held at end of of the year
Fulvio Montipò					
Held directly	Interpump Group S.p.A.	635,233	1,380,000	(1,380,000)	635,233
Paolo Marinsek					
Held directly	Interpump Group S.p.A.	-	20,000	(20,000)	-
Giuseppe Ferrero					
Held directly	Interpump Group S.p.A.	100,000	15,000	-	115,000

Changes for the year arise from the exercise of stock options in the case of Fulvio Montipò and Paolo Marinsek.

At 31 December 2016, Gruppo IPG Holding S.p.A. based in Milan held approximately 21.498% of the shares in Interpump Group S.p.A. This means that Gruppo IPG Holding S.p.A. has a controlling stake in Interpump Group S.p.A. although it does not carry out any management or coordination roles in respect of the company. The resolution of the Interpump Group S.p.A. Board of Directors of 12 June 2008 acknowledges that "Interpump Group S.p.A." is not subject to the management or coordination of the shareholder "Gruppo IPG Holding S.p.A." because:

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

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

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

Giovanni Tamburi, non-executive director of Interpump Group S.p.A., is the Chairman and Chief Executive Officer of Tamburi Investment Partners S.p.A., a company that held 67,348 shares at 31 December 2016, representing 23.64% of Gruppo IPG Holding S.p.A. and Fulvio Montipò, Chairman and Chief Executive Officer of Interpump Group S.p.A., held 97,521 shares at 31 December 2016, representing 34.23% of Gruppo IPG Holding S.p.A., which in turn held a total of 23,406,799 shares in Interpump Group S.p.A. In addition, Gruppo IPG Holding S.p.A. held 29.89% of its own treasury shares. The remaining 12.24% of the capital was held by the Montipò family at 31 December 2016.

On 4 July 2016, Fulvio Montipò exercised 1,380,000 options under the various stock option plans and received the same number of shares in Interpump Group S.p.A., which he then sold on the same date to Gruppo IPG Holding S.p.A.

STOCK OPTION PLANS

With the aim of motivating Group management and promoting participation in the goal of value creation for shareholders, there are currently four stock option plans in existence, one approved by the Shareholders' Meeting of 20 April 2006 (**2006/2009** plan), one approved by the Shareholders' Meeting of 21 April 2010 (**2010/2012** plan), one approved by the Shareholders' Meeting of 30 April 2013 (**2013/2015** plan), and one approved by the Shareholders' Meeting of 28 April 2016 (**2016/2018** 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 shares 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 2016 the situation of the plan was as follows:

Number of rights assigned	2,999,296
Number of shares purchased	(2,979,296)
Total number of options not yet exercised	20,000

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
Director of the Parent Company							
❑	Fulvio Montipò	EUR 3.7524	01.11.2012-31.05.2017	80,000	-	(80,000)	-
		EUR 3.7524	01.05.2010-31.12.2017	300,000	-	(300,000)	-
Other beneficiaries (employees)		EUR 5.4047	01.05.2011-31.05.2016	69,000	-	(69,000)	-
		EUR 3.7524	01.07.2010-31.12.2017	50,000	-	(30,000)	20,000
Total				499,000	-	(479,000)	20,000

The Shareholders' Meeting of 21 April 2010 approved the adoption of a new plan called the "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 persons having significant roles or functions. The exercise price was set at EUR 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 2016 the situation of the plan was as follows:

Number of rights assigned	2,860,000
Number of shares purchased	(2,860,000)
Total number of options not yet exercised	-

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						
❑ Paolo Marinsek	EUR 3.75	01.07.2013-31.12.2016	20,000	-	(20,000)	-
Other beneficiaries (employees)	EUR 3.75	01.07.2013-31.12.2016	140,000	-	(140,000)	-
Total			160,000	-	(160,000)	-

The Shareholders' Meeting of 30 April 2013 approved the adoption of a new plan called the "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 persons having significant roles or functions. The exercise price was set at EUR 6.00 per share. The options can be exercised between 30 June 2016 and 31 December 2019. The 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. At 31 December 2016 the situation of the plan was as follows:

Number of rights assigned	1,870,000
Number of shares cancelled	7,000
Number of shares purchased	(1,163,000)
Total number of options not yet exercised	700,000

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	EUR 6.00	01.07.2016-31.12.2019	1,000,000	-	(1,000,000)	-
❑ Paolo Marinsek	EUR 6.00	01.07.2016-31.12.2019	320,000	-	-	320,000
Other beneficiaries (employees)	EUR 6.00	01.07.2016-31.12.2019	550,000	(7,000)	(163,000)	380,000
Total			1,870,000	(7,000)	(1,163,000)	700,000

The Shareholders' Meeting held on 28 April 2016 approved the adoption of a new incentive plan called the "Interpump **2016/2018** Incentive Plan". The plan, which is based on the free assignment of options that grant the beneficiaries the right, on the achievement of specified objectives, to (i) purchase or subscribe the Company's shares up to the maximum number of 2,500,000 or, (ii) at the discretion of the Board of Directors, receive the payment of a differential equivalent to any increase in the market value of the Company's ordinary shares. Beneficiaries of the plan can be employees or directors of the Company and/or its subsidiaries, identified among persons having significant roles or functions. The exercise price was set at EUR 12.8845 per share. The options can be exercised between 30 June 2019 and 31 December 2022. The next meeting of the Board of Directors, held on 12 May 2016, set a figure of 2,500,000 for the number of options to be assigned, divided by the total number of options in each tranche (625,000 for the first tranche, 875,000 for the second tranche and 1,000,000 for the third tranche) and established the terms for the exercise of the options, which are connected to the achievement of specific accounting parameters and the performance of Interpump Group stock. That Board meeting also assigned 1,620,000 options, exercisable subject to the conditions described above, and granted mandates to the Chairman and the Deputy Chairman of Interpump Group, acting separately, to identify the beneficiaries of a further 880,000 options.
On 6 and 29 July 2016 and on 13 December 2016 a total of 519,800 options were assigned to other beneficiaries identified within the Interpump Group. At 31 December 2016 the situation of the plan was as follows:

Number of rights assigned	2,139,800
Number of shares purchased	-
Total number of options not yet exercised	2,139,800

The beneficiaries of the options were:

	Price per share for the exercise of options	Vesting period	Number of rights assigned in the 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	EUR 12.8845	01.07.2019-31.12.2022	1,620,000	-	-	1,620,000
❑ Paolo Marinsek	EUR 12.8845	01.07.2019-31.12.2022	65,000	-	-	65,000
Other beneficiaries (employees)	EUR 12.8845	01.07.2019-31.12.2022	454,800	-	-	454,800
Total			2,139,800	-	-	2,139,800

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 35 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 in the Corporate Governance section.

TREASURY SHARES

Information on treasury shares is given in Note 22 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 31/12/2016	Net profit as 2016	Shareholders' equity at 31/12/2015
Parent Company's financial statements	312,034	64,067	294,927
Difference between the book value of consolidated investments and their valuation according to the net equity method	363,516	29,726	324,093
Greater book value of a building owned by the Parent Company	195	(4)	199
Elimination of Parent Company's intra-group income	(2,001)	61	(2,062)
Total consolidation adjustments	361,710	29,783	322,230
Shareholders equity and result ascribable to the Parent Company's Shareholders	673,744	93,850	617,157

GROUP COMPANIES

At 31 December 2016 the Interpump Group is led by Interpump Group S.p.A., which holds direct and indirect controlling interests in 57 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.

Companies consolidated line by line	Share capital (€/000)	% held at 31/12/16	Head office	Main activity	Sales €/million 31/12/2016	Sales €/million 31/12/2015	Average number of employees 2016	Average number of employees 2015
General Pump Inc.	1,854	100.00%	Minneapolis – USA	Distributor of high pressure pumps (Water Jetting Sector)	45.6	47.5	61	60
Hammelmann GmbH	25	100.00%	Oelde – Germany	High pressure systems and pumps (Water Jetting Sector)	97.8	94.1	337	322
Hammelmann Australia Pty Ltd	472	100.00%	Melbourne – Australia	Sale of high pressure systems and pumps (Water Jetting Sector)	10.9	9.6	20	21
Hammelmann Corporation Inc.	39	100.00%	Miamisburg - USA	Sale of high pressure systems and pumps (Water Jetting Sector)	22.7	29.1	28	32
Hammelmann S. L.	500	100.00%	Zaragoza – Spain	Sale of high pressure systems and pumps (Water Jetting Sector)	2.4	2.6	5	5
Hammelmann Pumps Systems Co Ltd	871	90.00%	Tianjin – China	Sale of high pressure systems and pumps (Water Jetting Sector)	8.2	7.4	17	16
Hammelmann Bombas e Sistemas Ltda	765	100.00%	San Paolo - Brazil	Sale of high pressure systems and pumps (Water Jetting Sector)	0.9	1.0	6	6
Inoxihp S.r.l.	119	52.72%	Nova Milanese (MI)	High pressure systems and pumps (Water Jetting Sector)	7.1	10.8	35	29
NLB Corporation Inc.	12	100.00%	Detroit – USA	High pressure systems and pumps (Water Jetting Sector)	73.7	83.4	229	233
SIT S.p.A.	105	65.00%	S.Ilario d'Enza (RE)	Sheet metal drawing, blanking, and pressing (Water Jetting Sector)	4.1	4.3	21	22
Interpump Hydraulics S.p.A.	2,632	100.00%	Calderara di Reno (BO)	Power take-offs and hydraulic pumps (Hydraulic Sector)	72.6	72.3 *	302	315 *
AVI S.r.l.	10	100.00%	Varedo (MB)	Sale of ancillary products for industrial vehicles, hydraulic pumps and power takeoffs (Hydraulic Sector)	5.2	5.1	13	13
Contarini Leopoldo S.r.l.	47	100.00%	Lugo (RA)	Production and sale of hydraulic cylinders (Hydraulic Sector)	20.7	19.9	107	98
Unidro S.a.r.l.	8	100.00%	Barby - France	Production and sale of hydraulic cylinders (Hydraulic Sector)	3.6	3.6	11	11
Copa Hydrosystem Ood	3	95.00%	Troyan - Bulgaria	Production and sale of hydraulic cylinders (Hydraulic Sector)	5.4	4.8	99	102
Hydrocar Chile S.A.	129	90.00%	Santiago – Chile	Sale of hydraulic pumps and power takeoffs (Hydraulic Sector)	7.4	7.0	57	54
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)	13.6	12.9	39	35
Hypress Africa Pty Ltd	412	100.00%	Boksburg – South Africa	Sale of hydraulic hoses and fittings (Hydraulic Sector)	0.6	2.2	9	29
Interpump Hydraulics Brasil Ltda	13,996	100.00%	Caxia do Sul – Brazil	Production and sale of power takeoffs, hydraulic pumps and cylinders (Hydraulic Sector)	7.0	4.5	118	87

Companies consolidated line by line	Share capital (€/000)	% held at 31/12/16	Head office	Main activity	Sales €/million 31/12/2016	Sales €/million 31/12/2015	Average number of employees 2016	Average number of employees 2015
Interpump Hydraulics France S.a.r.l.	76	99.77%	Ennery – France	Sale of hydraulic pumps and power takeoffs (Hydraulic Sector)	4.1	4.2	14	17
Interpump Hydraulics India Private Ltd	682	100.00%	Hosur – India	Production and sale of power takeoffs and hydraulic pumps (Hydraulic Sector)	13.1	9.7	85	78
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)	2.0	2.9	5	5
Interpump South Africa Pty Ltd	-	100.00%	Johannesburg – South Africa	Production and sale of hydraulic cylinders (Oil Sector)	4.8	3.5	35	17
Interpump Hydraulics (UK) Ltd.	13	100.00%	Kingswinford (United Kingdom)	Sale of hydraulic pumps and power takeoffs (Hydraulic Sector)	1.3	-	6	-
Mega Pacific Pty Ltd	335	65.00%	Newcastle (Australia)	Sale of hydraulic products (Hydraulic Sector)	6.8	-	19	-
Mega Pacific NZ Pty Ltd	557	65.00%	Mount Maunganui (New Zealand)	Sale of hydraulic products (Hydraulic Sector)	0.8	-	4	-
Muncie Power Prod. Inc.	784	100.00%	Muncie - USA	Power take-offs and hydraulic pumps (Hydraulic Sector)	89.0	95.7	340	343
American Mobile Power Inc.	3,410	100.00%	Fairmount – USA	Production and sale of hydraulic cylinders (Hydraulic Sector)	11.5	12.4	61	65
Oleodinamica Panni S.r.l.	2,000	100.00%	Tezze sul Brenta (VI)	Production and sale of hydraulic cylinders (Hydraulic Sector)	41.5	38.4	201	192
Wuxi Interpump Weifu Hydraulics Company Ltd	2,095	65.00%	Wuxi - China	Production and sale of hydraulic pumps and power take-offs (Hydraulic Sector)	12.6	17.7	77	96
IMM Hydraulics S.p.A.	520	100.00%	Atessa (CH)	Production and sale of hydraulic hoses and fittings (Hydraulic Sector)	48.6	47.7	239	230
Dyna Flux S.r.l.	40	100.00%	Bolzaneto (GE)	Sale of hydraulic hoses and fittings (Hydraulic Sector)	0.6	0.6	4	3
Hypress France S.a.r.l.	162	100.00%	Strasbourg – France	Sale of hydraulic hoses and fittings (Hydraulic Sector)	2.4	2.2	7	8
Hypress Hydraulik GmbH	52	100.00%	Meinerzhagen - Germany	Sale of hydraulic hoses and fittings (Hydraulic Sector)	6.8	6.1	18	16
Hypress S.r.l.	50	100.00%	Atessa (CH)	Rental of line of business (Hydraulic Sector)	-	-	2	2
IMM Hydro Est	3,155	100.00%	Catcau Cluj Napoca – Romania	Production and sale of hydraulic hoses and fittings (Hydraulic Sector)	8.1	7.4	108	87
IMM Hydraulics Ltd	1	100.00%	Halesowen – United Kingdom	Sale of hydraulic hoses and fittings (Hydraulic Sector)	11.4	13.0	42	46
E.I. Holdings Ltd	127	100.00%	Bath (United Kingdom)	IMM holding in the UK (Hydraulic Sector)	-	-	-	-

Companies consolidated line by line	Share capital (€/000)	% held at 31/12/16	Head office	Main activity	Sales €/million 31/12/2016	Sales €/million 31/12/2015	Average number of employees 2016	Average number of employees 2015
Endeavour International Ltd	69	100.00%	Bath (United Kingdom)	Production and sale of hydraulic hose assembly machines and systems (Hydraulic Sector)	2.4	-	9	-
Tekno Tubi S.r.l.	100	100.00%	Sant’Agostino (FE)	Production and sale of rigid and flexible hydraulic lines (Hydraulic Sector)	6.1	-	23	-
Tubiflex S.p.A.	515	80.00%	Orbassano (TO)	Production and sale of flexible hydraulic hoses (Hydraulic Sector)	12.8	-	96	-
Walvoil S.p.A.	7,692	100.00%	Reggio Emilia	Production and sale of hydraulic valves and directional controls (Hydraulic Sector)	191.5	182.1 *	926	1,178 *
Walvoil Fluid Power Corp.	41	100.00%	Tulsa – USA	Sale of hydraulic valves and directional controls (Hydraulic Sector)	34.3	32.1	49	45
Walvoil Fluid Power Shanghai Co. Ltd	1,872	100.00%	Shanghai – China	Production and sale of hydraulic valves and directional controls (Hydraulic Sector)	4.7	5.2	30	36
Walvoil Fluid Power (India) Pvt Ltd	683	100.00%	Bangalore – India	Production and sale of hydraulic valves and directional controls (Hydraulic Sector)	13.5	11.1	211	216
Walvoil Fluid Power Korea	453	100.00%	Pyeongtaek – South Korea	Production and sale of hydraulic valves and directional controls (Hydraulic Sector)	10.1	10.0	42	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	3
Walvoil Fluid Power Australasia	7	100.00%	Melbourne – Australia	Agent for the sale of hydraulic valves and directional controls (Hydraulic Sector)	-	-	1	1
Hydrocontrol Inc.	763	100.00%	Minneapolis – USA	Sale of hydraulic valves and directional controls (Hydraulic Sector)	8.7	10.2	14	17
Galtech Canada Inc.	76	100.00%	Terrebonne Quebec – Canada	Sale of hydraulic valves and directional controls (Hydraulic Sector)	3.0	2.8	12	11
HC Hydraulic Technologies (P) Ltd	4,120	100.00%	Bangalore – India	Production and sale of hydraulic valves and directional controls (Hydraulic Sector)	8.2	7.7	73	66
Aperlai HK Ltd	77	100.00%	Hong Kong	Holding company for Hydrocontrol in China (Hydraulic Sector)	-	-	-	-
HTIL	98	100.00%	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)	6.6	7.5	67	77
Teknova S.r.l. (in liquidation)	28	100.00%	Reggio Emilia	Inoperative (Other Revenues Sector)	-	-	-	-

Companies not consolidated line by line

General Pump China	111	100%	Ningbo – China	Marketing of components (Water Jetting Sector)
Interpump Hydraulics Perù	318	90%	Lima - Peru	Sale of hydraulic pumps and power takeoffs (Hydraulic Sector)

* = the 2015 sales and average number of employees of Walvoil S.p.A. and Interpump Hydraulics S.p.A. are proforma data that take account of the mergers that took place in 2016 of, respectively Hydrocontrol S.p.A. in Walvoil S.p.A., and HS Penta S.p.A. in Interpump Hydraulics S.p.A.

EVENTS OCCURRING AFTER THE END OF THE YEAR AND BUSINESS OUTLOOK

No atypical or unusual transactions have been carried out subsequent to 31 December 2016 that would call for changes to these consolidated financial statements.

100% of the equity of Bristol Hoses Ltd, based in Bristol, England, was acquired on 25 January 2017. This company provides services to the hydraulic, pneumatic and general industrial sectors, including the supply of spare parts. The acquisition is part of a programme to strengthen and rationalize Interpump's direct commercial presence in the various international markets. In particular, the company sells hydraulic hoses and fittings as spare parts and this acquisition will enable the Group to increase the sales of these materials in the UK market. Bristol Hoses reported sales of approximately GBP 2.25m (approx. €2.6m) in 2016, with a normalized EBITDA of about 13% of sales. By way of its subsidiary company IMM Hydraulics UK, Interpump paid GBP 550k for Bristol Hose. The company had a negative net financial position of GBP 420k.

Inoxpa was acquired on 3 February 2017. This Spanish group is active in the manufacture and commercialization of process equipment and systems for the treatment of fluids generated by the food, cosmetics and pharmaceuticals industries. The brand is well known throughout the world.
This acquisition significantly expands and supplements the products of the Water Jetting division, which will now be able to supply a vast range of pumps, valves, mixers, process plant and accessories alongside Bertoli homogenizers. All products are made from stainless steel, meeting the rigorous requirements demanded by the food industry. The group is based near Girona (north of Barcelona) in Spain. More than 75% of sales are generated by 20 branches in a further 18 countries, which will further strengthen the already solid international presence established by Interpump. The preliminary 2016 data for the Inoxpa group show net sales of around €60m, with EBITDA of €11.5m (19.3% of sales). The price paid, €90m, consisted of the enterprise value of €76m and net cash of about €14m.

Considering the short time span since 31 December 2016, 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 2017, for which positive results are anyway predicted in terms of sales and profitability.

FURTHER INFORMATION

In relation to the regulatory prescriptions concerning the condition for the listing of subsidiaries incorporated or regulated in compliance with the laws of non-EU countries, we draw your attention to the fact that, with respect to 31 December 2015 Mega Pacific Pty Ltd (Australia) was added to companies of significant importance in relation to the consolidated financial statements further its inclusion in the audit plan, even though the company had not individually exceeded the limits established pursuant to art. 151 of the Issuers' Code. Conversely, Hydrocar Chile S.A. was removed from the audit plan.

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.

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 consequent right not to publish the prescribed prospectuses for significant mergers, absorptions, break-ups, capital increases by the contribution of assets in kind, acquisitions and divestments.

Sant'Ilario d'Enza (RE), 15 March 2017

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

Consolidated Financial Statements at 31/12/2016

Interpump Group S.p.A. and subsidiaries

Consolidated balance sheet

(€/000)	*Notes*	*31/12/2016*	*31/12/2015*
ASSETS			
Current assets			
Cash and cash equivalents	7	197,891	135,130
Trade receivables	8, 31	200,018	178,129
Inventories	9	257,545	238,637
Tax receivables		11,140	14,361
Derivative financial instruments	10, 31	-	2
Other current assets	11, 31	7,686	7,809
Total current assets		**674,280**	**574,068**
Non-current assets			
Property, plant and equipment	12	300,921	286,066
Goodwill	13	390,708	347,388
Other intangible assets	14	30,039	33,193
Other current financial	15, 31	790	1,025
Tax receivables		1,740	1,934
Deferred tax assets	16	24,108	25,190
Other non-current assets		1,654	1,209
Total non-current assets		**749,960**	**696,005**
Total assets		***1,424,240***	***1,270,073***

(€/000)	*Notes*	*31/12/2016*	*31/12/2015*
LIABILITIES			
Current liabilities			
Trade payables	8, 31	109,004	94,022
Payables to banks	17, 31	2,396	5,735
Interest-bearing financial payables (current portion)	17, 31	124,784	83,833
Derivative financial instruments	10, 31	36	77
Tax payables		18,126	19,904
Other current liabilities	18, 31	49,772	48,840
Provisions for risks and charges	19	3,620	4,423
Total current liabilities		**307,738**	**256,834**
Non-current liabilities			
Interest-bearing financial payables	17, 31	327,974	300,549
Liabilities for employee benefits	20	19,311	17,264
Deferred tax liabilities	16	47,755	48,098
Other non-current liabilities	21	41,058	22,017
Provisions for risks and charges	19	2,866	2,683
Total non-current liabilities		**438,964**	**390,611**
Total liabilities		**746,702**	**647,445**
SHAREHOLDERS' EQUITY			
Share capital	22	55,431	56,032
Legal reserve	23	11,323	11,323
Share premium reserve	22, 23	112,386	138,955
Reserve for the measurement of hedging derivatives at fair value	23	(24)	(13)
Reserve for restatement of defined benefit plans		(5,022)	(3,501)
Translation provision	23	33,497	22,657
Other reserves	23	466,153	391,704
Group shareholders' equity		**673,744**	**617,157**
Minority interests	24	3,794	5,471
Total shareholders' equity		**677,538**	**622,628**
Total shareholders' equity and liabilities		***1,424,240***	***1,270,073***

Consolidated income statement for the year

(€/000)	*Notes*	*2016*	*2015*
Net sales		**922,818**	**894,928**
Cost of sales	26	(584,816)	(577,310)
Gross industrial margin		**338,002**	**317,618**
Other net revenues	25	14,372	13,133
Distribution costs	26	(86,425)	(84,321)
General and administrative expenses	26, 27	(108,973)	(105,670)
Other operating costs	26	(3,443)	(3,864)
Ordinary profit before financial expenses		**153,533**	**136,896**
Financial income	28	7,862	42,416
Financial expenses	28	(12,862)	(15,688)
Adjustment of the value of investments at equity		(40)	(262)
Profit for the year before taxes		**148,493**	**163,362**
Income taxes	29	(54,020)	(45,056)
Consolidated net profit for the period		**94,473**	**118,306**
Pertaining to:			
Parent company's shareholders		93,850	117,639
Subsidiaries' minority shareholders		623	667
Consolidated net profit for the year		**94,473**	**118,306**
Basic earnings per share	30	0.884	1.101
Diluted earnings per share	30	0.880	1.086

Comprehensive consolidated income statements for the year

(€/000)	*2016*	*2015*
Consolidated profit for the year (A)	**94,473**	**118,306**
Other comprehensive profit (loss) that will be subsequently reclassified in consolidated profit for the period		
Accounting for interest rate hedging derivatives using the cash flow hedge method:		
- 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	-	-
Total	-	-
Accounting for exchange risk hedging derivatives using the cash flow hedge method:		
- Profit (Loss) on derivative financial instruments for the period	(33)	(19)
- Minus: Adjustment for reclassification of profits (losses) to the income statement	19	27
- Minus: Adjustment for recognition of fair value to reserves in the prior year	-	-
Total	*(14)*	*8*
Profits (Losses) arising from the translation to euro of the financial statements of foreign companies	*10,664*	*18,985*
Profits (Losses) of companies carried at equity	*(5)*	*(16)*
Related taxes	*3*	*(2)*
Total other profit (loss) that will be subsequently reclassified in consolidated profit for the period, net of the tax effect (B)	**10,648**	**18,975**
Other comprehensive profit (loss) that will not be subsequently reclassified in consolidated profit for the period		
Profit (loss) deriving from the restatement of defined benefit plans	*(1,803)*	*2,479*
Related taxes	*262*	*(683)*
Total other comprehensive profit (loss) that will not be subsequently reclassified in consolidated profit for the year, net of the tax effect (C)	**(1,541)**	**1,796**
Comprehensive consolidated profit for the year (A) + (B) + (C)	**103,580**	**139,077**
Pertaining to:		
Parent company's shareholders	103,115	138,256
Subsidiaries' minority shareholders	465	821
Comprehensive consolidated profit for the period	**103,580**	**139,077**

Consolidated cash flow statement

(€/000)	*2016*	*2015*
Cash flow from operating activities		
Pretax profit	148,493	163,362
Adjustments for non-cash items:		
Capital losses (Capital gains) from the sale of fixed assets	(2,099)	(3,076)
Capital losses (Capital gains) from the sale of business divisions and equity investments	(61)	-
Amortization and depreciation, loss and reinstatement of assets	44,044	41,886
Costs ascribed to the income statement relative to stock options that do not involve monetary outflows for the Group	1,733	1,370
Loss (Profit) from investments	40	262
Net change in risk provisions and provisions for employee benefits	(1,298)	(973)
Outlays for tangible fixed assets destined for hire	(10,784)	(11,201)
Proceeds from the sale of fixed assets granted for hire	6,494	7,643
Net financial charges	5,000	(26,728)
	191,562	172,545
(Increase) decrease in trade receivables and other current assets	(4,614)	1,546
(Increase) decrease in inventories	(5,753)	3,412
Increase (decrease) in trade payables and other current liabilities	(1,815)	(11,512)
Interest paid	(4,450)	(5,838)
Currency exchange gains realized	(653)	2,110
Taxes paid	(48,464)	(48,659)
Net cash from operating activities	**125,813**	**113,604**
Cash flows from investing activities		
Outlay for the acquisition of investments, net of received cash and including treasury shares assigned	(41,302)	(176,227)
Disposal of investments including transferred cash	861	746
Capital expenditure on property, plant and equipment	(31,954)	(27,502)
Proceeds from sales of tangible fixed assets	566	1,594
Increase in intangible fixed assets	(3,022)	(2,804)
Received financial income	496	714
Other	149	290
Net liquidity used in investing activities	**(74,206)**	**(203,189)**
Cash flows of financing activity		
Disbursal (repayment) of loans	66,464	145,847
Dividends paid	(21,138)	(20,390)
Outlays for purchase of treasury shares	(43,308)	(32,709)
Sale of treasury shares for the acquisition of equity investments	5,516	60,891
Proceeds from the sale of treasury shares to beneficiaries of stock options	9,490	8,166
Change in other financial assets	(53)	(1)
Disbursal (repayment) of loans from (to) shareholders	(7)	(409)
Payment of financial leasing installments (principal portion)	(3,992)	(3,368)
Net liquidity generated (used by) financing activities	**12,972**	**158,027**
Net increase (decrease) of cash and cash equivalents	**64,579**	**68,442**

(€/000)	*2016*	*2015*
Net increase (decrease) of cash and cash equivalents	**64,579**	**68,442**
Opening cash and cash equivalents of companies consolidated line by line for the first time	1,361	1,129
Exchange differences from the translation of cash of companies in areas outside the EU	160	435
Cash and cash equivalents at the beginning of the year	129,395	59,389
Cash and cash equivalents at the end of the year	**195,495**	**129,395**

For reconciliation of cash on hand refer to note 33.

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*
Balances as at 1 January 2015	*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 shares	(1,322)	-	(32,709)	-	-	-	1,322	(32,709)	-	(32,709)
Sale of treasury shares to the beneficiaries of stock options	921	-	8,166	-	-	-	(921)	8,166	-	8,166
Sale of treasury shares 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
Balances as at 31 December 2015	*56,032*	*11,323*	*138,955*	*(13)*	*(3,501)*	*22,657*	*391,704*	*617,157*	*5,471*	*622,628*
Recognition in the income statement of the fair value of stock options assigned and exercisable	-	-	1,733	-	-	-	-	1,733	-	1,733
Purchase of treasury shares	(1,772)	-	(43,308)	-	-	-	1,772	(43,308)	-	(43,308)
Sale of treasury shares to the beneficiaries of stock options	937	-	9,490	-	-	-	(937)	9,490	-	9,490
Sale of treasury shares for payment of equity investments	234	-	5,516	-	-	-	(234)	5,516	-	5,516
Dividends paid	-	-	-	-	-	-	(20,054)	(20,054)	(1,102)	(21,156)
Purchase of residual interests in subsidiaries	-	-	-	-	-	43	52	95	(1,040)	(945)
Comprehensive Profit (loss) for 2016	-	-	-	(11)	(1,521)	10,797	93,850	103,115	465	103,580
Balances as at 31 December 2016	*55,431*	*11,323*	*112,386*	*(24)*	*(5,022)*	*33,497*	*466,153*	*673,744*	*3,794*	*677,538*

Notes to the annual financial report

1. General information

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

The Group manufactures and markets high and very high pressure plunger pumps, very high pressure systems (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 2016 were approved by the Board of Directors on this day (15 March 2017).

2. Scope of the consolidation

The 2016 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):

Company	*Head office*	*Share capital €/000*	*Shareholders' Equity €/000*	*Profit 2016 €/000*	*% stake at 31/12/16*
General Pump Inc.	Minneapolis (USA)	1,854	19,515	3,952	100.00%
Hammelmann GmbH	Oelde (Germany)	25	125,442	25,316	100.00%
Hammelmann Australia Pty Ltd (1)	Melbourne (Australia)	472	6,151	771	100.00%
Hammelmann Corporation Inc (1)	Miamisburg (USA)	39	14,893	3,849	100.00%
Hammelmann S. L. (1)	Zaragoza (Spain)	500	1,591	356	100.00%
Hammelmann Pumps Systems Co Ltd (1)	Tianjin (China)	871	5,403	1,278	90.00%
Hammelmann Bombas e Sistemas Ltda (1)	San Paolo (Brazil)	765	628	(29)	100.00%
Inoxihp S.r.l.	Nova Milanese (MI)	119	5,399	1,023	52.72%
NLB Corporation Inc.	Detroit (USA)	12	92,511	4,004	100.00%
SIT S.p.A.	S.Ilario d'Enza (RE)	105	1,153	67	65.00%
Interpump Hydraulics S.p.A.	Calderara di Reno (BO)	2,632	137,302	20,647	100.00%
AVI S.r.l. (2)	Varedo (MB)	10	1,539	317	100.00%
Contarini Leopoldo S.r.l. (2)	Lugo (RA)	47	8,278	2,366	100.00%
Unidro S.a.r.l. (3)	Barby (France)	8	2,338	361	100.00%
Copa Hydrosystem Ood (3)	Troyan (Bulgaria)	3	4,917	661	95.00%
Hydrocar Chile S.A. (2)	Santiago (Chile)	129	5,384	150	90.00%
Hydroven S.r.l. (2)	Tezze sul Brenta (VI)	200	3,867	1,232	100.00%
Hypress Africa Pty Ltd (2)	Boksburg (South Africa)	412	395	(24)	100.00%
Interpump Hydraulics Brasil Ltda (2)	Caxia do Sul (Brazil)	13,996	12,466	(2,141)	100.00%
Interpump Hydraulics France S.a.r.l. (2)	Ennery (France)	76	1,448	300	99.77%
Interpump Hydraulics India Private Ltd (2)	Hosur (India)	682	10,243	1,008	100.00%
Interpump Hydraulics Middle East FZCO (2)	Dubai (UAE)	326	490	(68)	100.00%
Interpump South Africa Pty Ltd (2)	Johannesburg (South Africa)	-	1,896	447	100.00%
Interpump Hydraulics (UK) Ltd. (2)	Kingswinford (United Kingdom)	13	8,275	(118)	100.00%
Mega Pacific Pty Ltd (4)	Newcastle (Australia)	335	5,541	861	65.00%

Company	Head office	Share capital €/000	Shareholders' Equity €/000	Profit 2016 €/000	% stake at 31/12/16
Mega Pacific NZ Pty Ltd (4)	Mount Maunganui (New Zealand)	557	1,567	68	65.00%
Muncie Power Prod. Inc. (2)	Muncie (USA)	784	76,212	12,758	100.00%
American Mobile Power Inc. (5)	Fairmount (USA)	3,410	7,074	1,337	100.00%
Oleodinamica Panni S.r.l. (2)	Tezze sul Brenta (VI)	2,000	18,896	4,926	100.00%
Wuxi Interpump Weifu Hydraulics Company Ltd (2)	Wuxi (China)	2,095	7,823	765	65.00%
IMM Hydraulics S.p.A. (2)	Atessa (Switzerland)	520	24,484	4,927	100.00%
Dyna Flux S.r.l. (6)	Bolzaneto (GE)	40	168	31	100.00%
Hypress France S.a.r.l. (6)	Strasbourg (France)	162	510	347	100.00%
Hypress Hydraulik GmbH (6)	Meinerzhagen (Germany)	52	1,981	106	100.00%
Hypress S.r.l. (6)	Atessa (Switzerland)	50	539	(266)	100.00%
IMM Hydro Est (6)	Catcau Cluj Napoca (Romania)	3,155	7,505	846	100.00%
IMM Hydraulics Ltd (6)	Halesowen (UK)	1	1,530	(2)	100.00%
E.I. Holdings Ltd (7)	Bath (United Kingdom)	127	155	-	100.00%
Endeavour International Ltd (8)	Bath (United Kingdom)	69	1,507	350	100.00%
Tekno Tubi S.r.l. (6)	Sant'Agostino (FE)	100	2,579	473	100.00%
Tubiflex S.p.A.	Orbassano (TO)	515	14,786	1,710	80.00%
Walvoil S.p.A.	Reggio Emilia	7,692	108,150	22,991	100.00%
Walvoil Fluid Power Corp. (9)	Tulsa (USA)	41	9,443	2,506	100.00%
Walvoil Fluid Power Shanghai Co. Ltd (9)	Shanghai (China)	1,872	4,631	266	100.00%
Walvoil Fluid Power Pvt Ltd (9)	Bangalore (India)	683	10,802	1,311	100.00%
Walvoil Fluid Power Korea (9)	Pyeongtaek (South Korea)	453	4,945	1,288	100.00%
Walvoil Fluid Power France S.a.r.l. (9)	Vritz (France)	10	160	29	100.00%
Walvoil Fluid Power Australasia (9)	Melbourne (Australia)	7	56	17	100.00%
Hydrocontrol Inc. (9)	Minneapolis (USA)	763	2,521	1,066	100.00%
Galtech Canada Inc. (9)	Terrebonne, Quebec (Canada)	76	1,581	352	100.00%
HC Hydraulics Technologies(P) Ltd (9)	Bangalore (India)	4,120	6,429	775	100.00%
Aperlai HK Ltd (9)	Hong Kong	77	71	785	100.00%
HTIL (9)	Hong Kong	98	4,719	979	100.00%
Guangzhou Bushi Hydraulic Technology Ltd (10)	Guangzhou (China)	3,720	6,788	1,268	100.00%
Teknova S.r.l. (in liquidation)	Reggio Emilia	28	35	8	100.00%

(1) = controlled by Hammelmann GmbH
(2) = controlled by Interpump Hydraulics S.p.A.
(3) = controlled by Contarini Leopoldo S.r.l.
(4) = controlled by Interpump Hydraulics (UK) Ltd.
(5) = controlled by Muncie Power Inc
(6) = controlled by IMM Hydraulics S.p.A.
(7) = controlled by IMM Hydraulics Ltd
(8) = controlled by E.I. Holdings Ltd
(9) = controlled by Walvoil S.p.A.
(10) = controlled by HTIL
The other companies are controlled directly by Interpump Group S.p.A.

E.I. Holdings Ltd and Endeavour International Ltd were consolidated for twelve months for the first time, while Tubiflex S.p.A., acquired in May, was consolidated for 8 months, and Tekno Tubi S.r.l., Mega Pacific Pty Ltd and Mega Pacific NZ Pty Ltd were consolidated for 6 months, having been purchased in July.

In addition, despite its modest size, Interpump Hydraulics (UK) Ltd has also been consolidated on a line-by-line basis for the first time, in view of its development plans for the coming years.

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. Similarly, the minority shareholder of Tubiflex S.p.A. is entitled and required to dispose of its holdings upon approval of the 2018 financial statements, on the basis of the results of the company reported in the 2018 financial statements. The minority shareholder of Mega Pacific Pty Ltd and of Mega Pacific NZ Pty Ltd is entitled and required to sell its shares within 90 days of 29 July 2021, based on the results of the financial statements prepared immediately prior to exercise of the option.

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

3. Accounting standards adopted

3.1 Reference accounting principles

The annual financial report at 31 December 2016 was drafted in compliance with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and approved by the European Union. “IFRS” also means the International Accounting Standards (“IAS”) currently in force and all the interpretative documents issued by the IFRS Interpretation Committee, previously denominated International Financial Reporting Interpretations Committee (“IFRIC”) and still earlier known as the Standing Interpretations Committee (“SIC”).

The consolidated financial statements are 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 as from 1 January 2016

As from 2016 the Group has applied the following new accounting standards, amendments and interpretations, reviewed by IASB:

- *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.

- *Amendment to IAS 16 and 38 – Property, plant and equipment and Intangible assets.* On 12 May 2014 IASB published an amendment to the standards, 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.
- *Amendment to IAS 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.
- *Amendment to IAS 1: disclosure initiative* - On 18 December 2014 IASB published the amendment in question, which is designed to provide clarifications to IAS 1 to address several perceived impediments to preparers exercising their judgment in presenting their financial statements.
- On 12 December 2012 the IASB issued a collection of amendments to IAS/IFRS standards *IFRS Annual Improvements Cycle 2010–2012. These 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.

3.1.2 Accounting principles, amendments and interpretations taking effect as from 1 January 2016 but not relevant for the Group

- *Amendment to IFRS 11 – Joint arrangements*. On 6 May 2014 IASB published an amendment to the standard adding a new guide to the recognition of the acquisition of an interest in joint operations when the operation constitutes a business.
- *Amendment to IFRS 10, IFRS 12 and IAS 28 – Investment entities: applying the consolidation exception.* On 18 December 2014 IASB published the amendments in question concerning the problems deriving from application of the consolidation exception granted to investment entities.
- *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 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.

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

- *IFRS 2 – Share-based payments.* On 21 June 2016 IASB published amendments to the standard with a view to clarifying the accounting for certain operations involving share-based payments. The amendments will be applicable from 1 January 2018, although early adoption is allowed.
- *IFRS 9 – Financial instruments*. On 12 November 2009 IASB published the following standard, which was subsequently amended on 28 October 2010 in a further amendment in mid-December 2011. The new standard, which is applicable from 1 January 2018, constitutes the first part of a process in stages aimed at replacing IAS 39 and introduces new criteria for the classification and measurement of financial assets and liabilities, and for 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 derecognized in profit and loss.
- On 30 January 2014, IASB published IFRS 14 *Regulatory Deferral Accounts*, which is an interim standard related to the *Rate-regulated activities* project. IFRS 14 allows exclusively first-time adopters of IFRS to continue 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.
- *IFRS 15 – Recognition of revenue from contracts with customers.* On 28 May 2014 IASB and FASB jointly issued IFRS 15 designed to improve the disclosure of revenues and the global comparability of financial statements in order to harmonize the recognition of economically similar transactions. The standard is effective for IFRS users from reporting periods starting after 1 January 2017 (early adoption is permitted). On 12 April 2016, IASB published"*Clarification to IFRS 15*", in order to clarify certain requirements and provide further simplifications that reduce costs and complexity for first-time adopters of the new standard.
- *IFRS Annual improvements cycle 2012–2014* - On 25 September 2014 IASB issued a raft of amendments to IAS/IFRS standards. The aim of the annual improvements is to address necessary matters related to inconsistencies found in IFRSs or for clarifications of terminology, which are not of an urgent nature but which reflect issues discussed by 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. These amendments will be effective for reporting periods starting after 1 January 2016. Early adoption is however permitted.

- *IFRS 16 – Leasing*. On 13 January 2016, the IASB published the new standard that replaces IAS 17. The new standard will make the financial statements of companies even more comparable, by abolishing the distinction between "finance leases" and "operating leases" and by requiring companies to recognize in their financial statements the assets and liabilities associated with all types of leasing contract. IFRS 16 is applicable from 1 January 2019. Early application is allowed for entities that also apply IFRS 15 "Revenue from contracts with customers".
- *Amendments to IAS 12 – Income taxes.* The IASB has published certain amendments to the standard. The document entitled *Recognition of deferred tax assets for unrealised losses (Amendment to IAS 12)* seeks to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendments are applicable from 1 January 2017. Early adoption is allowed.
- *Amendments to IAS 7 - Statement of cash flows.* On 29 January 2016, IASB published an amendment to the standard entitled "*Disclosure initiative*" in order to improve the information provided about changes in financial liabilities. The amendments are applicable from 1 January 2017.
- *IFRS Annual improvements Cycle 2014–2016* - On 8 December 2016 IASB issued several minor changes to IFRS 1 *(First-Time Adoption of IFRS)*, IFRS 12 *(Disclosure of interests in other entities)* and IAS 28 *(Investments in Associates and Joint Ventures)*, as well as an IFRIC interpretation *(Interpretation 22 Foreign Currency Transactions and Advance Consideration)*. The aim of the annual improvements is to address necessary matters related to inconsistencies found in IFRSs or for clarifications of terminology, which are not of an urgent nature but which reflect issues discussed by the IASB during the project cycle. Among the principal amendments, IFRIC 22 provides guidance on the use of exchange rates in transactions in which the foreign currency consideration is paid or received in advance. These amendments will be effective for reporting periods starting after 1 January 2018, except for the amendments to IFRS 12 that took effect on 1 January 2017.

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 some of the others is still under way.

An analysis currently in progress into the possible effects of applying IFRS 15 (*Revenue recognition*). Application of this standard from 1 January 2018 is not currently expected to have a significant effect. With regard to the application of IFRS 16 (Leasing), the effects on payables before discounting are reported in note 34 to the consolidated financial statements at 31 December 2016. On the basis of analyses currently in progress, no significant effects are expected from the 2017 adoption of other 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 losses 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. Intercompany losses are only omitted in the presence of evidence that they have not been incurred in relation to third parties.

3.3 Business sector information

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:

	2016 averages	At 31 December 2016	2015 averages	At 31 December 2015
US Dollar	1.107	1.054	1.109	1.089
Australian Dollar	1.488	1.460	1.478	1.490
UK Pound	0.819	0.856	0.726	0.734
Brazilian Real	3.856	3.431	3.700	4.312
Indian Rupee	74.372	71.594	71.196	72.021
Chilean Peso	748.477	704.945	726.406	772.713
Chinese Yuan	7.352	7.320	6.973	7.061
Canadian Dollar	1.466	1.419	1.418	1.512
Romanian Leu	4.490	4.539	4.445	4.524
South African Rand	16.264	14.457	14.172	16.953
Hong Kong Dollar	8.592	8.175	8.601	8.438
Bulgarian Lev	1.956	1.956	1.956	1.956
UAE Dirham	4.063	3.870	4.073	3.997
South Korean Won	1,284.181	1,269.360	1,256.544	1,280.780
Peruvian Sol	3.736	3.540	3.532	3.708
New Zealand dollar	1.589	1.516	-	-

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 equipment	12.5 years
- Industrial and commercial equipment	3-6 years
- Other assets	3-8 years

The estimated useful life of the assets is reviewed on an annual basis, and any changes in the rates of depreciation are applied where necessary 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 method of the effective interest rate, net of the relative 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 shares

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

3.16 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 relative assets. The discount rate at the balance sheet reference date is calculated as required by IAS 19 with reference to the market yields of high quality corporate bonds. Only the securities of corporate issuers with 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. The curve of “AA” rated interest rates at 31 December 2016 described above and used for the purpose of actuarial valuation, displayed a reduction with respect to the same curve at 31 December 2015, due to the more stable European macroeconomic scenario with respect to the prior year and constantly strengthening economic growth, although proceeding at a reduced rate compared to progress before the crisis, as shown by the ECB. The calculation is performed on an annual basis by an independent actuary using the projected unit credit method.

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

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

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

(iii) Stock options

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

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

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

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

3.18 Income taxes

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

Current taxes are taxes that are expected to be due, calculated by applying to the taxable income the tax rate in force at the 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 19 countries and has to translate financial statements denominated in 16 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 can use plain vanilla forward contracts or purchase options, when deemed appropriate. The counterparts of these contracts are primary international financial institutions with high ratings.

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

In relation to financial exposures, €1.2m of intercompany loans were disbursed and €0.7m collected during 2016 in currencies other than those utilized by the debtor companies. At 31 December 2016, loans totaling €4.8m are still outstanding in currencies other than those utilized by the debtor companies (€4.1m as at 31 December 2015). The increase with respect to the end of 2015 is due, in the amount of €0.2m, to the full consolidation of companies previously consolidated on a provisional basis. The Group has decided to proceed also in 2016 with the strategy of not hedging this exposure. due to the limited amounts involved and the uncertainty concerning the collection dates.

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

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

(c) Liquidity risk
Prudent management of liquidity risk involves the retention of an appropriate level of cash on hand and sufficient access to lines of credit. Because of the dynamic nature of the Group's business with the associated frequent acquisitions, it is Group policy to have access to 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 does not hold listed securities that would be subject to stock market fluctuations. The income and cash flow of Group operating activities are not influenced by changes in interest generating assets.

Further quantitative information on the financial risks to which the Group is exposed is given in Note 32 "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 includes high pressure homogenizers with piston pumps that are mainly used in the food processing industry, but also in chemicals and cosmetics.

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 truck mixer, truck drums, and so forth. Hydraulic cylinders are components of the hydraulic system of various vehicle types employed in a wide range of applications depending on the type. Front-end and underbody cylinders (single acting) are utilized mainly on industrial vehicles in the construction sector, while double acting cylinders are utilized in a range of applications: earthmoving machinery, agricultural machinery, cranes and truck cranes, waste compactors, etc. Hydraulic lines and fittings are used in a vast range of hydraulic equipment and are also employed in very high pressure water systems.

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

	Hydraulic Sector		Water Jetting Sector		Other		Elimination entries		**Interpump Group**	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Net sales external to the Group	596,811	560,271	326,007	334,657	-	-	-	-	922,818	894,928
Sales between sectors	272	235	1,347	1,588	-	-	(1,619)	(1,823)	-	-
Total net sales	**597,083**	**560,506**	**327,354**	**336,245**	**-**	**-**	**(1,619)**	**(1,823)**	**922,818**	**894,928**
Cost of sales	(399,594)	(384,098)	(186,850)	(194,927)	-	-	1,628	1,715	(584,816)	(577,310)
Gross industrial margin	**197,489**	**176,408**	**140,504**	**141,318**	**-**	**-**	**9**	**(108)**	**338,002**	**317,618**
% on net sales	*33.1%*	*31.5%*	*42.9%*	*42.0%*	-	-			*36.6%*	*35.5%*
Other net revenues	9,512	9,431	4,923	3,735	-	-	(63)	(33)	14,372	13,133
Distribution costs	(49,476)	(48,130)	(36,983)	(36,195)	-	-	34	4	(86,425)	(84,321)
General and administrative expenses	(69,730)	(66,953)	(39,244)	(38,836)	(19)	(18)	20	137	(108,973)	(105,670)
Other operating costs	(2,653)	(3,163)	(790)	(701)	-	-	-	-	(3,443)	(3,864)
Ordinary profit before financial expenses	**85,142**	**67,593**	**68,410**	**69,321**	**(19)**	**(18)**	**-**	**-**	**153,533**	**136,896**
% on net sales	*14.3%*	*12.1%*	*20.9%*	*20.6%*	*n.s.*	*n.s.*			*16.6%*	*15.3%*
Financial income	6,386	40,300	3,359	4,195	1	-	(1,884)	(2,079)	7,862	42,416
Financial expenses	(9,125)	(11,600)	(5,621)	(6,162)	-	(5)	1,884	2,079	(12,862)	(15,688)
Dividends	-	-	29,201	14,000	-	-	(29,201)	(14,000)	-	-
Adjustment of investments carried at equity	(43)	(253)	3	(9)	-	-	-	-	(40)	(262)
Profit for the year before taxes	**82,360**	**96,040**	**95,352**	**81,345**	**(18)**	**(23)**	**(29,201)**	**(14,000)**	**148,493**	**163,362**
Income taxes	(31,504)	(22,632)	(22,542)	(22,107)	26	(317)	-	-	(54,020)	(45,056)
Consolidated net profit for the year	**50,856**	**73,408**	**72,810**	**59,238**	**8**	**(340)**	**(29,201)**	**(14,000)**	**94,473**	**118,306**
Pertaining to:										
Parent company's shareholders	50,384	72,880	72,659	59,099	8	(340)	(29,201)	(14,000)	93,850	117,639
Subsidiaries' minority shareholders	472	528	151	139	-	-	-	-	623	667
Consolidated net profit for the year	**50,856**	**73,408**	**72,810**	**59,238**	**8**	**(340)**	**(29,201)**	**(14,000)**	**94,473**	**118,306**
Further information required by IFRS 8										
Amortization, depreciation and write-downs	29,909	28,635	14,135	13,251	-	-	-	-	44,044	41,886
Other non-monetary costs	2,822	2,504	1,936	2,986	-	-	-	-	4,758	5,490

Financial position
(Amounts shown in €/000)

	Hydraulic Sector		Water Jetting Sector		Other Revenues Sector		Elimination entries		**Interpump Group**	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Assets by sector	**812,397**	**725,674**	**587,459**	**566,031**	**549**	**577**	**(174,056)**	**(157,339)**	**1,226,349**	**1,134,943**
Assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Subtotal of assets of the sector (A)	**812,397**	**725,674**	**587,459**	**566,031**	**549**	**577**	**(174,056)**	**(157,339)**	**1,226,349**	**1,134,943**
Cash and cash equivalents									197,891	135,130
Total assets									**1,424,240**	**1,270,073**
Liabilities of the sector	**341,131**	**308,674**	**81,148**	**82,187**	**564**	**597**	**(174,056)**	**(157,339)**	**248,787**	**234,119**
Liabilities held for sale	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Subtotal of liabilities of the sector (B)	**341,131**	**308,674**	**81,148**	**82,187**	**564**	**597**	**(174,056)**	**(157,339)**	**248,787**	**234,119**
Debts for the payment of investments									42,761	23,209
Payables to banks									2,396	5,735
Interest-bearing financial payables									452,758	384,382
Total liabilities									**746,702**	**647,445**
Total assets, net (A-B)	**471,266**	**417,000**	**506,311**	**483,844**	**(15)**	**(20)**	**-**	**-**	**977,562**	**900,824**
<u>Further information required by IFRS 8</u>										
Investments carried at equity	72	106	272	283	-	-	-	-	344	389
Non-current assets other than financial assets and deferred tax assets	466,820	415,225	258,242	254,565	-	-	-	-	725,062	669,790

The sectors are compared as follows, like for like:

(amounts shown in €/000)	Hydraulic Sector 2016	Hydraulic Sector 2015
Net sales external to the Group	570,467	560,271
Sales between sectors	272	235
Total net sales	**570,739**	**560,506**
Cost of sales	(383,781)	(384,098)
Gross industrial margin	**186,958**	**176,408**
% on net sales	*32.8%*	*31.5%*
Other net revenues	8,956	9,431
Distribution costs	(46,178)	(48,130)
General and administrative expenses	(66,150)	(66,953)
Other operating costs	(2,586)	(3,163)
Ordinary profit before financial expenses	**81,000**	**67,593**
% on net sales	*14.2%*	*12.1%*
Financial income	6,122	40,300
Financial expenses	(8,477)	(11,600)
Dividends	-	-
Adjustment of the value of investments carried at equity	(43)	(253)
Profit for the year before taxes	**78,602**	**96,040**
Income taxes	(30,250)	(22,632)
Consolidated profit for the year	**48,352**	**73,408**
Pertaining to:		
Parent company's shareholders	47,880	72,880
Subsidiaries' minority shareholders	472	528
Consolidated net profit for the year	**48,352**	**73,408**

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

€/000	Hydraulic Sector 2016	Hydraulic Sector 2015	Water Jetting Sector 2016	Water Jetting Sector 2015	Other Revenues Sector 2016	Other Revenues Sector 2015	Total 2016	Total 2015
Cash flows from:								
Operating activities	84,682	58,618	41,129	55,194	2	(208)	125,813	113,604
Investing activities	(37,119)	(52,141)	(37,088)	(151,048)	1	-	(74,206)	(203,189)
Financing activities	(28,170)	25,755	41,142	132,102	-	170	12,972	158,027
Total	19,393	32,232	45,183	36,248	3	(38)	64,579	68,442

Hydraulic Sector investing activities in 2016 include €13,563k related to the acquisition of equity interests (€34,696k in 2015), while Water Jetting Sector investing activities include €27,739k related to the acquisition of Tubiflex (€141,531k for the acquisition of equity investments in 2015).

Financing activities in 2016 included repayments of intercompany loans from the Hydraulic Sector to the Water Jetting Sector totalling €10,243k (loans of €57,348k from the Water Jetting Sector to the Hydraulic Sector in 2015). Moreover, the cash flows of Water Jetting Sector financing activities in 2016 included outlays for the purchase of treasury shares in the amount of €43,308k (€32,709k in 2015), proceeds from the sale of treasury shares to the beneficiaries of stock options in the amount of €9,490k (€8,166k in 2015), and €5,516k related to the value of treasury shares assigned for the acquisition of equity investments (€60,891k in 2015), and the payment of dividends for €20,150k (€19,396k in 2015).

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:

	2016 (€/000)	%	2015 (€/000)	%	Growth
Italy	155,361	17	135,909	15	+14.3%
Rest of Europe	300,525	33	286,503	32	+4.9%
North America	278,171	30	293,386	33	-5.2%
Far East and Oceania	97,351	10	84,958	9	+14.6%
Rest of the World	91,410	10	94,172	11	-2.9%
Total	922,818	100	894,928	100	+3.1%

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:

	31/12/2016 (€/000)	31/12/2015 (€/000)
Italy	487,701	446,089
Rest of Europe	100,146	96,788
North America	101,719	97,433
Far East and Oceania	9,466	8,248
Rest of the World	26,030	21,232
Total	725,062	669,790

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. Business combinations

Endeavour

Amounts are stated in thousands of euro (the exchange rate used to translate the financial statements was GBP 0.755 / 1 euro, corresponding to the exchange rate in force on the acquisition date).

€/000	Amounts acquired	Adjustments to fair value	Carrying values in the acquiring company
Cash and cash equivalents	386	-	386
Trade receivables	294	-	294
Inventories	333	-	333
Tax receivables	13	-	13
Other current assets	37	-	37
Property, plant and equipment	15	-	15
Trade payables	(306)	-	(306)
Tax payables	(50)	-	(50)
Other current liabilities	(24)	-	(24)
Deferred tax liabilities	(3)		(3)
Net assets acquired	695	-	695
Goodwill related to the acquisition			772
Total net assets acquired			**1,467**
Total amount paid in cash			1,467
Total acquisition cost (A)			**1,467**
Net liquidity acquired (B)			(386)
Total amount paid in cash			1,467
Total change in the net financial position including changes in debt for the acquisition of investments			**1,081**
Capital employed (A) + (B)			**1,081**

The acquisition of 100% of Endeavour took place on 22 January 2016. The company was thus consolidated for twelve months in 2016.

Tubiflex S.p.A.

€/000	Amounts acquired	Adjustments to fair value	Carrying values in the acquiring company
Cash and cash equivalents	5,811	-	5,811
Trade receivables	7,221	-	7,221
Inventories	3,169	-	3,169
Tax receivables	208	-	208
Other current assets	279	-	279
Property, plant and equipment	2,182	2,236	4,418
Other intangible assets	59	-	59
Deferred tax assets	377	-	377
Other non-current assets	216	-	216
Trade payables	(3,037)	-	(3,037)
Financial payables to banks - loans (current portion)	(200)	-	(200)
Tax payables	(455)	-	(455)
Other current liabilities	(1,156)	-	(1,156)
Provision for risks and charges (current portion)	(75)	-	(75)
Financial payables to banks – loans (medium- /long-term portion)	(567)	-	(567)
Liabilities for employee benefits (severance indemnity provision)	(661)	-	(661)
Deferred tax liabilities	(9)	(645)	(654)
Provision for risks (medium-/long-term portion)	(228)	-	(228)
Net assets acquired	13,134	1,591	14,725
Goodwill related to the acquisition			19,968
Total net assets acquired			**34,693**
Amount paid in treasury shares			5,516
Total amount paid in cash			21,560
Amount due in medium/long-term			7,617
Total acquisition cost (A)			**34,693**
Net liquidity acquired (B)			(5,044)
Total amount paid in cash			21,560
Payable for commitment to acquire minority interests			7,617
Total change in the net financial position including changes in debt for the acquisition of investments			**24,133**
Capital employed (A) + (B)			**29,649**

The acquisition of 80% of Tubiflex S.p.A. took place on 5 January 2016. The company was thus consolidated for eight months in 2016.

The fair value of property, plant and equipment was measured by independent appraisers.

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.

Tekno Tubi S.r.l.

€/000	Amounts acquired	Adjustments to fair value	Carrying values in the acquiring company
Cash and cash equivalents	161	-	161
Trade receivables	5,472	-	5,472
Inventories	2,182	-	2,182
Tax receivables	27	-	27
Other current assets	297	-	297
Property, plant and equipment	3,807	42	3,849
Other intangible assets	5	-	5
Deferred tax assets	101	-	101
Other non-current assets	17	-	17
Trade payables	(2,892)	-	(2,892)
Payables to banks	(2,468)	-	(2,468)
Financial payables to banks - loans (current portion)	(607)	-	(607)
Leasing payables (current portion)	(123)	-	(123)
Tax payables	(589)	-	(589)
Other current liabilities	(585)	-	(585)
Financial payables to banks – loans (medium-/long-term portion)	(699)	-	(699)
Leasing payables (medium-/long-term portion)	(1,170)	-	(1,170)
Liabilities for employee benefits (severance indemnity provision)	(700)	-	(700)
Deferred tax liabilities	(220)	(13)	(233)
Net assets acquired	2,016	29	2,045
Goodwill related to the acquisition			6,218
Total net assets acquired			**8,263**
Total amount paid in cash			3,712
Amount due in short-term			4,213
Amount due in medium/long-term			338
Total acquisition cost (A)			**8,263**
Acquired net financial indebtedness (B)			4,906
Total amount paid in cash			3,712
Short-term payable for price adjustment and deferred payments			4,213
Medium-/long-term payable for deferred payments			338
Total change in net financial position			**13,169**
Capital employed (A) + (B)			**13,169**

The acquisition of 100% of Tekno Tubi S.r.l. took place on 8 July 2016. The company has accordingly been consolidated in 2016 for six months.

The fair value of property, plant and equipment was measured by independent appraisers.

Mega Pacific PTY Ltd and Mega Pacific NZ Pty Ltd (proforma consolidation)
Amounts are shown in thousands of euro (the exchange rates used for translation of the financial statements were AUD 1.4929 / 1 euro and NZD 1.5616 / 1 euro, corresponding to the exchange rates in force on the acquisition date).

€/000	Amounts acquired	Adjustments to fair value	Carrying values in the acquiring company
Cash and cash equivalents	487	-	487
Trade receivables	2,573	-	2,573
Inventories	3,729	-	3,729
Derivative instruments for trading	1	-	1
Other current assets	207	-	207
Property, plant and equipment	557	-	557
Other intangible assets	21	-	21
Deferred tax assets	174	-	174
Other non-current assets	76	-	76
Trade payables	(1,683)	-	(1,683)
Payables to banks	(1)	-	(1)
Interest-bearing financial payables (current portion)	(191)	-	(191)
Tax payables	(290)	-	(290)
Derivative instruments for trading	(9)	-	(9)
Other current liabilities	(348)	-	(348)
Interest-bearing financial payables (medium-/long-term portion)	(209)	-	(209)
Deferred tax liabilities	(6)	-	(6)
Other medium/long-term liabilities	(87)	-	(87)
Net assets acquired	5,001	-	5,001
Goodwill related to the acquisition			12,860
Total net assets acquired			**17,861**
Total amount paid in cash			8,367
Total discounted amount due in medium/long-term			9,494
Total acquisition cost (A)			**17,861**
Net liquidity acquired (B)			(86)
Total amount paid in cash			8,367
Discounted debt for extended payment of investment and exercise of option on residual shares			9,494
Total change in net financial position			**17,775**
Capital employed (A) + (B)			**17,775**

Acquisition of 65% of Mega Pacific Pty Ltd and Mega Pacific NZ Pty Ltd took place on 29 July 2016. The company was thus consolidated for six months in 2016.

7. Cash and cash equivalents

	31/12/2016 (€/000)	31/12/2015 (€/000)
Cash	140	109
Bank deposits	197,751	135,021
Total	197,891	135,130

Bank deposits include amounts in currencies other than the euro, as shown below:

	Amounts in €/000	Amount in original currency
EUR	142,589	142,589
US Dollar	38,354	40,429
Chinese Renminbi	6,284	45,992
Indian Rupee	2,792	199,857
Australian Dollars	2,734	3,899
UK Sterling	1,481	1,268
Brazilian Real	1,033	3,543
Korean Won	773	981,395
South African Rand	372	5,370
Canadian Dollars	328	465
New Zealand dollars	328	497
Chilean Peso	267	188,261
Bulgarian Lev	226	441
Other minor currencies	330	n.a.
Total	197,891	

At 31 December 2016, the total nominal value of bank deposits was €5.0m at an average fixed interest rate of 0.75%.

Investment of the Group's excess liquidity made it possible to achieve an average yield of 0.26% in 2016, a figure that is down on the 0.46% achieved in 2015 mainly because of the reduction in interest rates available from banks.

8. Trade receivables

	31/12/2016 (€/000)	31/12/2015 (€/000)
Trade receivables, gross	207,358	185,584
Bad debt provision	(7,340)	(7,455)
Trade receivables, net	200,018	178,129

Changes in the bad debt provision were as follows:

	2016 (€/000)	*2015* (€/000)
Opening balances	7,455	6,085
Exchange rate difference	93	28
Change to consolidation basis	343	1,648
Provisions in the year	1,394	1,197
Decreases in the year due to surpluses	(381)	(100)
Drawdowns in the year	(1,564)	(1,403)
Closing balance	7,340	7,455

Provisions in the year are booked under other operating costs.

Receivables due beyond 12 months total €159k (€110k in 2015), while trade payables are all due within 12 months.

9. Inventories

	31/12/2016 (€/000)	31/12/2015 (€/000)
Raw materials and components	74,130	59,982
Semi-finished products	75,395	78,377
Finished products	108,020	100,278
Total inventories	257,545	238,637

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

	2016 (€/000)	*2015* (€/000)
Opening balances	27,154	17,936
Exchange rate difference	171	655
Change to consolidation basis	1,256	8,601
Provisions for the year	2,329	2,525
Drawdowns in the year	(2,314)	(2,563)
Reversal of provisions due to surpluses	-	-
Closing balance	28,596	27,154

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 2016.

Hydrocontrol (merged in Walvoil from 2016), acquired at the start of May 2013, had taken out six hedges in prior years for a total amount of €11.8m. Residual hedges outstanding at 31 December 2016 amounted to €0.1m. The remaining subscribed instruments are Interest Rate Swaps (IRS) and they were not 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:

	31/12/2016 Notional (€/000)	31/12/2016 Positive fair value (€/000)	31/12/2016 Negative fair value (€/000)	31/12/2015 Notional (€/000)	31/12/2015 Positive fair value (€/000)	31/12/2015 Negative fair value (€/000)
Interest rate collars for hedging of loans	-	-	-	3,000	-	43
IRS hedges on loans	55	-	-	685	-	6
Total	55	-	-	3,685	-	49

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

	31/12/2016 Notional (€/000)	31/12/2016 Positive fair value (€/000)	31/12/2016 Negative fair value (€/000)	31/12/2015 Notional (€/000)	31/12/2015 Positive fair value (€/000)	31/12/2015 Negative fair value (€/000)
Derivatives that do not comply with the conditions required by IAS 39 to qualify as hedges	55	-	-	3,685	-	49
Total derivative financial instruments hedging interest-rate risks	55	-	-	3,685	-	49

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 in AUD.

The hedges arranged in 2016 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:

	31/12/2016 Notional ($/000)	31/12/2016 Positive fair value (€/000)	31/12/2016 Negative fair value (€/000)	31/12/2015 Notional ($/000)	31/12/2015 Positive fair value (€/000)	31/12/2015 Negative fair value (€/000)
Plain vanilla forwards to hedge the sales of high pressure pumps	600	-	36	1,483	2	28
Total derivative financial instruments to hedge against the USD exchange rate risk	600	-	36	1,483	2	28

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 €4k 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 2016 the Group released previously deferred profits from equity to the income statement totaling €13k, net of the theoretical tax effect. This amount was booked as an increase in net sales of €19k and as an adjustment to deferred taxation of €6k.

Ineffectiveness deriving from cash flow hedging transactions in 2016 and in 2015 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:

	2016 (€/000)	2015 (€/000)
Net profits (losses) on derivative instruments used to hedge against exchange risks	-	(17)
Change in the fair value of other underlying elements	-	(2)
Net profits (losses)	-	(19)

Fair values
The net profit recognized in the income statement from derivative instruments that do not comply with the parameters of IAS 39 amount to €48k (€155k in 2015), mainly due to a reduction in the notionals and the close-out of derivatives on maturity, and it refers to interest

rate risk management in the amount of €49k (€92k in 2015), and a loss of €1k arising from exchange risk management activities (€63k profit in 2015).

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 utilities the interest rate curve at 31 December plus a suitable spread. The interest rates utilized are as follows:

	31/12/2016 %	31/12/2015 %
Derivative financial instruments (euro)	-0.33/1.18	-0.13/1.59
Derivative financial instruments (USD)	0.69/2.56	0.27/2.63
Interest bearing financial payables in euro	Euribor +0.65/1.80	Euribor +0.70/1.80
Financial leasing agreements	3.0	3.3
Financial assets	0.7	1.1
Payables	1.5	2.2

At 31 December 2016, cash on hand totaling €5.0m was held at fixed interest rates, while the remainder was held at floating rates. With the exception of €9.9m, also loan debts and bank borrowings are subject to 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 2016, broken down by level:

(€/000)	Level 1	Level 2	Level 3	Total
Other financial assets available for sale	394	-	47	441
Total assets	**394**	**-**	**47**	**441**
Derivatives payable:				
- *Plain vanilla forwards*	-	36	-	36
- *Interest rate collars*	-	-	-	-
Total liabilities	**-**	**36**	**-**	**36**

No transfers between levels were carried out in 2016.

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 2016.

11. Other current assets

	31/12/2016 (€/000)	31/12/2015 (€/000)
Accrued income and prepayments	3,862	3,632
Short-term receivables from the sale of equity investments	-	746
Other receivables	2,483	2,276
Other current assets	1,341	1,155
Total other current assets	7,686	7,809

12. Property, plant and equipment

	Land and buildings (€/000)	*Plant and machinery* (€/000)	*Equipment* (€/000)	*Other assets* (€/000)	*Total* (€/000)
At 31 December 2014					
Cost	104,767	222,569	58,033	55,298	440,667
Accumulated amortization	(22,695)	(126,953)	(49,187)	(32,759)	(231,594)
Net book value	82,072	95,616	8,846	22,539	209,073
Changes in 2015					
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
Capitalized depreciation	-	(9)	-	-	(9)
Write-downs	-	(193)	-	-	(193)
Depreciation and amortization	(3,132)	(20,621)	(4,975)	(5,970)	(34,698)
Closing net book value	116,201	127,411	12,795	29,659	286,066
At 31 December 2015					
Cost	151,728	290,655	86,640	74,264	603,287
Accumulated amortization	(35,527)	(163,244)	(73,845)	(44,605)	(317,221)
Net book value	116,201	127,411	12,795	29,659	286,066
Changes in 2016					
Opening net book value	116,201	127,411	12,795	29,659	286,066
Exchange rate differences	290	968	118	994	2,370
Change to consolidation basis	2,204	5,667	339	659	8,869
Additions	6,790	21,529	5,548	12,035	45,902
Disposals	(24)	(1,257)	(32)	(3,581)	(4,894)
Reclassified	591	1,172	(234)	(1,402)	127
Capitalized depreciation	-	(11)	-	-	(11)
Write-downs	(422)	(4)	-	-	(426)
Depreciation and amortization	(3,393)	(22,896)	(4,573)	(6,220)	(37,082)
Closing net book value	122,237	132,579	13,961	32,144	300,921
At 31 December 2016					
Cost	162,691	326,051	94,476	82,282	665,500
Accumulated amortization	(40,454)	(193,472)	(80,515)	(50,138)	(364,579)
Net book value	122,237	132,579	13,961	32,144	300,921

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

	Land and buildings (€/000)	*Plant and machinery* (€/000)	*Equipment* (€/000)	*Other assets* (€/000)	*Total* (€/000)
At 1 January 2015	138	1,758	719	51	2,666
At 31 December 2015	1,736	3,742	519	82	6,079
At 31 December 2016	1,233	2,645	530	4	4,412

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

	Land and buildings (€/000)	*Plant and machinery* (€/000)	*Equipment* (€/000)	*Other assets* (€/000)	*Total* (€/000)
At 1 January 2015	2,250	10,392	145	540	13,327
At 31 December 2015	14,358	18,976	78	456	33,868
At 31 December 2016	15,837	15,909	69	428	32,243

Depreciation of €32,543k was charged to the cost of sales (€30,526k in 2015), €767k to distribution costs (€704k in 2015) and €3,772k for general and administrative costs (€3,469k in 2015).

At 31 December 2016 the Group had contractual commitments for the purchase of tangible fixed assets totaling €3,201k (€4,217k at 31/12/2015).

13. Goodwill

The changes in goodwill in 2016 were as follows:

Company:	Balance as at 31/12/2015	Increases (Decreases) in the year	Changes due to foreign exchange differences	Balance as at 31/12/2016
Water Jetting Sector	159,258	-	1,363	160,621
Hydraulic Sector	188,130	39,818	2,139	230,087
Total goodwill	*347,388*	*39,818*	*3,502*	*390,708*

The increases in 2016 refer to:

- €19,968k for the acquisition of Tubiflex (Hydraulic Sector), inclusive of the debt for the associated put options;
- €12,860k for the acquisition of Mega Pacific (Hydraulic Sector), inclusive of the debt for the associated put options;
- €6,218k for the acquisition of Tekno Tubi (Hydraulic Sector);
- €772k for the acquisition of Endeavour (Hydraulic Sector).

The impairment test was conducted using the Discounted Cash Flow method (DCF) net of taxation. Expected cash flows utilized in the calculation of DCF were determined on the basis of 5-year business plans that take account of the various reference scenarios and on the basis of growth forecasts in the various markets. In particular, extreme uncertainty persists in several of the Group's reference markets (primarily in Asia and South America, 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 4-5% for the Hydraulic Sector CGU 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 2021, a perpetual growth rate of 1% was used for the

"Hydraulic Sector" CGU and of 1.5% for the "Water Jetting Sector" CGU, because of the sustainability through time of the competitive advantages of the two business areas. The projected cash flows determined in this manner were reduced by a discount factor in order to take account of the risk that future plans could become impracticable. WACC *after tax* was measured for the various CGUs as follows:

CGU	WACC
Water Jetting Sector	4.53%
Hydraulic Sector	5.48%
Weighted average cost of capital	5.04%

The WACC utilised in 2015 was 5.34%. 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 2016.

14. Other intangible assets

	Product development costs (€/000)	*Patents trademarks and industrial rights* (€/000)	*Other intangible assets* (€/000)	*Total* (€/000)
At 31 December 2014				
Cost	22,792	37,011	7,372	67,175
Accumulated amortization	(15,227)	(21,582)	(5,717)	(42,526)
Net book value	7,565	15,429	1,655	24,649
Changes in 2015				
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	-	-	-	-
Depreciation and amortization	(1,693)	(4,464)	(838)	(6,995)
Closing net book value	7,052	24,029	2,112	33,193
At 31 December 2015				
Cost	24,280	52,873	11,312	88,465
Accumulated amortization	(17,228)	(28,844)	(9,200)	(55,272)
Net book value	7,052	24,029	2,112	33,193

	Product development costs (€/000)	Patents trademarks and industrial rights (€/000)	Other intangible assets (€/000)	Total (€/000)
Changes in 2016				
Opening net book value	7,052	24,029	2,112	33,193
Exchange rate differences	17	315	55	387
Change in the scope of consolidation	-	18	67	85
Increases	1,336	569	1,167	3,072
Decreases	(26)	(1)	(1)	(28)
Reclassified	(29)	214	(312)	(127)
Write-downs	(16)	-	-	(16)
Capitalized depreciation	-	-	(7)	(7)
Depreciation and amortization	(1,740)	(4,083)	(697)	(6,520)
Closing net book value	6,594	21,061	2,384	30,039
At 31 December 2016				
Cost	25,818	56,203	11,055	93,076
Accumulated amortization	(19,224)	(35,142)	(8,671)	(63,037)
Net book value	6,594	21,061	2,384	30,039

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

	Product development costs (€/000)	Patents trademarks and industrial rights (€/000)	Other intangible assets (€/000)	Total (€/000)
At 1 January 2015	2,487	8	135	2,630
At 31 December 2015	3,051	10	354	3,415
At 31 December 2016	3,708	4	505	4,217

Amortization was charged in full to general and administrative costs.

Product development costs consist entirely of capitalized internal costs.

15. Other current financial

This item comprises:

	31/12/2016 (€/000)	31/12/2015 (€/000)
Investments in non-consolidated subsidiaries	344	389
Investments in other companies	-	55
Assets servicing employee benefits	367	303
Loans to non-consolidated subsidiaries	-	218
Other loan receivables	5	5
Other	74	55
Total	790	1,025

The following changes were recorded:

	2016 (€/000)	*2015* (€/000)
Opening balance	1,025	994
Exchange rate differences	35	28
Increases for the year	45	147
Change in fair value	3	11
First- time consolidation of investments not consolidated line by line in the prior year	-	(269)
Change in the scope of consolidation	(201)	158
Decreases for the year	(117)	(44)
Closing balance	790	1,025

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

Company	31/12/2016 (€/000)	% stake	31/12/2015 (€/000)	% stake
General Pump China	272	100%	283	100%
Interpump Hydraulics Perù S.a.c.	72	90%	106	90%
Total non-consolidated subsidiaries	*344*		*389*	

General Pump China and Interpump Hydraulics Perù S.a.c. are subsidiaries, but they were not been consolidated in 2016 due to their limited size.

In addition, despite its modest size, Interpump Hydraulics (UK) Ltd was consolidated on a line-by-line basis for the first time in 2016, in view of its development plans for the coming years.

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

16. Deferred tax assets and liabilities

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

	Deferred tax assets		Deferred tax liabilities	
	2016 (€/000)	2015 (€/000)	2016 (€/000)	2015 (€/000)
At 31 December of the previous year	25,190	22,035	48,098	33,436
Exchange rate differences	203	368	691	1,888
Change in the scope of consolidation	736	5,393	980	16,063
Charged to income statement in the year	(2,698)	(2,072)	(2,393)	(3,603)
Reclassified	(114)	-	(147)	
Reclassification from (to) liabilities held for sale	-	-	-	163
Charged to net equity	791	(534)	526	151
At 31 December 2016	24,108	25,190	47,755	48,098

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:

	Deferred tax assets		Deferred tax liabilities	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
	(€/000)	(€/000)	(€/000)	(€/000)
Property, plant and equipment	5,662	5,499	32,340	32,865
Intangible fixed assets	253	414	14,200	13,607
Investments	392	390	10	10
Inventories	11,438	11,113	29	-
Receivables	693	1,023	4	10
Liabilities for employee benefits	887	387	-	203
Derivative instruments	(11)	6	-	-
Provisions for risks and charges	1,951	1,501	385	281
Losses to be carried forward	478	1,170	-	-
Other	2,365	3,687	787	1,122
Total	24,108	25,190	47,755	48,098

No deferred tax liabilities were recorded for reserves qualifying for tax relief as they are not expected to be distributed (see note 23).

17. 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 31/12/2016 all financial covenants had been amply complied with.

	31/12/2016	31/12/2015
	(€/000)	(€/000)
Current		
Payables to banks	2,396	5,735
Bank loans	122,874	81,488
Financial leasing agreements	1,910	2,338
Other	-	7
Total current interest bearing financial payables	124,784	83,833
Non-current		
Bank loans	316,462	289,229
Financial leasing agreements	11,512	11,320
Total non-current interest bearing financial payables	327,974	300,549

At 31 December 2016, fixed-rate loans amounted to €/000 9,922, while the remainder were at floating rates. Hedge contracts were taken out on several loans for the total amount of €55k (see note 10), these being the remainder present in the newly acquired companies.

Bank payables and loans include €2,664k in currencies other than the euro, mainly in UK sterling, Brazilian reals, Australian dollars and Canadian dollars related to foreign subsidiaries. Amounts in currencies other than the euro are as follows:

(€/000)	Payables to banks	Current interest-bearing financial payables	Non-current interest-bearing financial payables	Total
UK Pound	7	193	1,441	1,641
Brazilian Real	-	150	166	316
Australian Dollar	-	67	173	240
Canadian Dollar	-	167	18	185
Chilean Pesos	-	49	83	132
US Dollar	-	21	88	109
Indian Rupee	41	-	-	41
Total	48	647	1,969	2,664

See note 10 for details of interest rates.

Breakdown of finance lease payables at 31 December:

	31 December 2016				31 December 2015			
(€/000)	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	2,255	6,611	6,381	15,247	2,624	5,921	6,807	15,352
Interest	(345)	(944)	(536)	(1,825)	(286)	(589)	(819)	(1,694)
Present value of finance lease payables	1,910	5,667	5,845	13,422	2,338	5,332	5,988	13,658

At 31 December 2016 the Group held several active finance leasing contracts for industrial buildings, plant and machinery, the carrying value of which, totalling €/000 32,243 (€/000 33,868 at 31 December 2015), has been booked under Property, plant and equipment (Note 12).

Non-current financial payables have the following due dates:

	31/12/2016 (€/000)	31/12/2015 (€/000)
In 2018	136,474	81,486
From 2 to 5 years	182,402	209,073
Beyond 5 years	9,098	9,990
Total	327,974	300,549

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

	31/12/2016 (€/000)	31/12/2015 (€/000)
Export advances and Italian portfolio	121,001	129,285
Current account overdrafts	6,036	11,077
Medium/long-term loans	86,138	232,970
Total	213,175	373,332

18. Other current liabilities

	31/12/2016 (€/000)	31/12/2015 (€/000)
Payables related to the acquisition of investments	4,283	3,560
Other short-term payables	44,651	43,282
Government grants	50	977
Other	788	1,021
Total	49,772	48,840

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

19. Provisions for risks and charges

Changes were as follows:

(€/000)	Product warranties	Agents' termination indemnity	Provision for returns on sales	Proivision for liabilities and charges on investments	Other	Total
Balance at 31/12/2015	3,334	592	296	856	2,028	7,106
Exchange rate difference	20	-	3	-	(17)	6
Increase in the year	389	20	66	-	517	992
Surplus released to the income statement	(503)	-	-	-	(129)	(632)
Change in the scope consolidation basis	-	228	-	(633)	75	(330)
Reclassified	(1)	-	-	-	(25)	(26)
Utilizations in the year	(453)	(45)	(8)	-	(124)	(630)
Balance at 31/12/2016	2,786	795	357	223	2,325	6,486

The balance of other provisions at 31/12/2016 refers to various disputes or estimated liabilities in group companies.

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

	31/12/2016 (€/000)	31/12/2015 (€/000)
Current	3,620	4,423
Non-current	2,866	2,683
Total	6,486	7,106

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

20. Liabilities for employee benefits

Liabilities for defined benefit plans

The following movements were recorded in liabilities:

	2016 (€/000)	2015 (€/000)
Liabilities at 1 January	17,264	14,940
Amount charged to the income statement in the year	264	232
Reclassifications to other current liabilities	(92)	(68)
Recognition in equity of actuarial results	1,803	(2,479)
Change to consolidation basis	1,361	5,934
Payments	(1,289)	(1,295)
Liabilities at 31 December	19,311	17,264

The following items were recognized in the income statement:

	2016 (€/000)	2015 (€/000)
Current service cost	260	203
Financial expenses	4	29
Past service cost	-	-
Total recognized in the income statement	264	232

Items recognized in the income statement were booked as follows:

	2016 (€/000)	2015 (€/000)
Cost of sales	112	83
Distribution costs	79	58
General and administrative expenses	69	62
Financial expenses	4	29
Total	264	232

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

	Unit of measurement	2016	2015
Discount rate	%	1.69	2.37
Expected increase in rate of remuneration*	%	2.82	2.78
Percentage of employees expected to resign (turnover) **	%	2.51	2.11
Annual cost-of-living increase	%	1.50	1.5
Average period of employment	Years	13.07	12.60

* = restricted to companies with less than 50 employees.
** = average annual resignation percentage, all causes, in the first ten years following the assessment.

21. Other non-current liabilities

	2016 (€/000)	2015 (€/000)
Payables related to the acquisition of investments	38,478	19,649
Other long-term employee benefits	2,536	2,281
Other	44	87
Total	41,058	22,017

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

	2016 (€/000)	2015 (€/000)
Liabilities at 1 January	22,017	72,605
Exchange rate difference	425	44
Amount charged to the income statement in the year	1,401	(31,315)
Reclassifications to other current liabilities	16	(3,273)
Change to consolidation basis	17,199	19,462
Payments	-	(35,506)
Liabilities at 31 December	41,058	22,017

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.

22. Share capital

The share capital at 31 December 2016 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 €55,431k because the nominal value of purchased treasury shares, net of divested treasury shares, was deducted from the share capital in compliance with the reference accounting standards. At 31 December 2016 Interpump S.p.A. held 2,281,752 treasury shares in the portfolio corresponding to 2.1% of the capital stock, acquired at an average unit cost of EUR 12.4967.

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

	Number
Balance at 31/12/2014	*5,281,095*
2015 purchases	2,542,395
Sale of shares to finance subsidiaries' purchases	(4,925,854)
Sale of shares for the exercise of stock options	(1,771,724)
Balance at 31/12/2015	*1,125,912*
2016 purchases	3,407,000
Sale of shares to finance subsidiaries' purchases	(449,160)
Sale of shares for the exercise of stock options	(1,802,000)
Balance at 31/12/2016	*2,281,752*

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

	2016 Number of shares	2015 Number of shares
Ordinary shares in existence at 1 January	108,879,294	108,879,294
Treasury shares held	(1,125,912)	(5,281,095)
Shares in circulation at 1 January	107,753,382	103,598,199
Treasury shares purchased	(3,407,000)	(2,542,395)
Treasury shares sold	2,251,160	6,697,578
Total shares in circulation at 31 December	106,597,542	107,753,382

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 €167,817k at 31 December 2016 and €194,987k at 31 December 2015), 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 €477,476k at 31 December 2016 and €403,027k at 31 December 2015, 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 shares held by Interpump Group is recorded in an equity provision. The Group acquired 3,407,000 treasury shares in 2016 for €43,308k, at an average price of €12.7114 (the Group purchased 2,542,395 treasury shares in 2015 for the total amount of €32,709k).

Treasury shares sold
In the framework of the execution of stock option plans a total of 1,802,000 options were exercised resulting in a receipt of €9,490k (1,771,724 options were exercised for €8,166k in 2015). Moreover, 449,160 treasury shares were divested in 2016 to pay for part of the equity investment in Tubiflex (4,925,854 treasury shares divested in 2015 for the acquisition of equity investments).

Stock options
The fair value of the 2013/2015 and 2016/2018 stock option plans was recorded in the 2016 and 2015 financial statements in compliance with IFRS 2. Costs of €/000 1,733 (€/000 1,370 in 2015) relating to the stock option plans were therefore recognized in the 2016 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:

	2016 (€/000)	2015 (€/000)
Cost of sales	27	54
Distribution costs	67	130
General and administrative expenses	1,639	1,186
Total	1,733	1,370

Changes in the share premium reserve were as follows:

	2016 €/000	2015 €/000
Share premium reserve at 1 January	138,955	101,237
Increase due to income statement recognition of the fair value of stock options granted	1,733	1,370
Increase for the disposal of treasury shares further to payment for acquisitions of subsidiaries	5,516	60,891
Increase for the disposal of treasury shares further to the exercise of stock options	9,490	8,166
Utilization to cover purchase of treasury shares	(43,308)	(32,709)
Share premium reserve at 31 December	112,386	138,955

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:

	No. of options granted	Vesting period	Exercise price (€)
Fourth tranche	20,000	01/07/2010 – 31/12/2017	3.7524

Changes in options are as follows:

	2016 Number of options	2015 Number of options
Options assigned at 1 January	499,000	1,073,724
Options granted in the year	-	-
Options exercised in the year	(479,000)	(574,724)
Total options assigned at 31 December	20,000	499,000
Of which:		
- vested at 31 December	20,000	499,000
- not vested at 31 December	-	-
Total options assigned at 31 December	20,000	499,000

The Shareholders' Meeting held on 21 April 2010 approved the adoption of the "*2010/2012 Interpump Incentive Plan*", which is also described in detail in the Board of Directors' Report. The changes in options during 2016 and 2015 are indicated below:

	2016 Number of options	2015 Number of options
Options assigned at 1 January	160,000	1,357,000
Options granted in the year	-	-
Options exercised in the year	(160,000)	(1,197,000)
Total options assigned at 31 December	-	160,000
Of which:		
- vested at 31 December	-	160,000
- not vested at 31 December	-	-
Total options assigned at 31 December	-	160,000

The Shareholders' Meeting held on 30 April 2013 approved the adoption of the "*2013/2015 Interpump Incentive Plan*", which is also described in detail in the Board of Directors' Report. The exercise price was set at EUR 6.00 per share. The options can be exercised between 30 June 2016 and 31 December 2019. The changes in options during 2016 and 2015 are indicated below:

	2016 Number of options	2015 Number of options
Options assigned at 1 January	1,870,000	1,870,000
Options granted in the year	-	-
Options exercised in the year	(1,163,000)	-
Options cancelled in the year	(7,000)	-
Total options assigned at 31 December	700,000	1,870,000
Of which:		
- vested at 31 December	700,000	1,870,000
- not vested at 31 December	-	-
Total options assigned at 31 December	700,000	1,870,000

The Shareholders' Meeting held on 28 April 2016 approved the adoption of a new incentive plan called the "*Interpump 2016/2018 Incentive Plan*". The plan, which is based on the free assignment of options that grant the beneficiaries the right, on the achievement of specified objectives, to (i) purchase or subscribe the Company's shares up to the maximum number of 2,500,000 or, (ii) at the discretion of the Board of Directors, receive the payment of a differential equivalent to any increase in the market value of the Company's ordinary shares. Beneficiaries of the plan can be employees or directors of the Company and/or its subsidiaries, identified among persons having significant roles or functions. The exercise price was set at EUR 12.8845 per share. The options can be exercised between 30 June 2019 and 31 December 2022. The next meeting of the Board of Directors, held on 12 May 2016, set a figure of 2,500,000 for the number of options to be assigned, divided by the total number of options in each tranche (625,000 for the first tranche, 875,000 for the second tranche and 1,000,000 for the third tranche) and established the terms for the exercise of the options, which are connected to the achievement of specific accounting parameters and the performance of Interpump Group stock. The same Board meeting assigned 1,620,000 options, exercisable subject to the conditions described above, and granted mandates to the Chairman and the Deputy Chairman of Interpump Group, acting separately, to identify the beneficiaries of a further 880,000 options. A total of 519,800 options were assigned to other beneficiaries identified within the Interpump Group on 6 and 29 July 2016 and on 13 December 2016.

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

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	EUR	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

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	EUR	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	EUR	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

2016//2018 Plan

First assignment	Unit of measurement	
Number of shares assigned	no.	1,620,000
Grant date		12 May 2016
Exercise price		12.8845
Vesting date		1 July 2019
Fair value per option at the grant date	EUR	2.4585
Expected volatility (expressed as the weighted average of the volatility values utilized to build the binomial lattice model)	%	30
Expected average duration of the plan life	years	6.583
Expected dividends (compared with share value)	%	2.50
Risk free interest rate (calculated using a linear interpolation of Euro Swap rates at 12 May 2016)	%	From 0.11 to 0.22

Second assignment	Unit of measurement	
Number of shares assigned	no.	483,800
Grant date		6 July 2016
Exercise price		12.8845
Vesting date		1 July 2019
Fair value per option at the grant date	EUR	3.0520
Expected volatility (expressed as the weighted average of the volatility values utilized to build the binomial lattice model)	%	30
Expected average duration of the plan life	years	6.417
Expected dividends (compared with share value)	%	2.50
Risk free interest rate (calculated using a linear interpolation of Euro Swap rates at 6 July 2016)	%	From -0.094 to -0.004

Third grant date	Unit of measurement	
Number of shares assigned	no.	30,000
Grant date		29 July 2016
Exercise price		12.8845
Vesting date		1 July 2019
Fair value per option at the grant date	EUR	3.7130
Expected volatility (expressed as the weighted average of the volatility values utilized to build the binomial lattice model)	%	30
Expected average duration of the plan life	years	6.417
Expected dividends (compared with share value)	%	2.50
Risk free interest rate (calculated using a linear interpolation of Euro Swap rates at 29 July 2016)	%	From -0.082 to -0.002

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

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.

23. 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 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
Share capital	56,617	B	-	-	-	-
Nominal value of treasury shares in portfolio	(1,186)					
Total share capital	55,431					
Capital reserves						
From Parent Company's financial statements:						
Legal reserve	6,860	B	-	-	-	-
Share premium reserve	37,351	A,B,C	37,351	-	-	27,492
Total from Parent Company's financial statements	44,211		37,351			
Consolidation entries	36					
Total from consolidated financial statements	44,247					
Profit reserves:						
From Parent Company's financial statements:						
Legal reserve	4,463	B	-	-	-	-
Share premium reserve	74,197	A,B,C	72,632	1,232	-	-
Extraordinary reserve	69,501	A,B,C	67,502	-	-	-
Reserve for share capital reduction	1,186	-	-	-	-	-
First Time Adoption Reserve	(56)		-	-	-	-
Reserve for the measurement of hedging derivatives at fair value	(24)	-	-	-	-	-
General Technology and Interpump Engineering Merger surplus	863	A,B,C	698	-	-	-
Reserve for restatement of defined benefits plans	(1,805)	-	-	-	-	-
Profit for the year	64,067	A,B,C	28,529	-	-	-
Total from Parent Company's financial statements	212,392		169,361			
Consolidation entries	361,674					
Total from consolidated financial statements	574,066					
Reserve for treasury shares held	28,514	-	-	-	-	114,317
Treasury shares	(28,514)					
Non-distributable portion*			(4,677)			
Remaining distributable portion			202,035			

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.

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

On the basis of Italian tax legislation the reserves and profits are freely distributable and do not attract tax even in the case of distribution, on the condition that the reserves and residual profits exceed the negative components of income ascribed exclusively in the tax return; otherwise, distributed reserves and profits would be subject to tax in the measure in which the residual reserves and profits were lower than the negative components of income that have been ascribed exclusively to the tax return. At 31 December 2016, 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

	2016			2015		
(amounts in €/000)	Pre-tax amount	Taxation	Amount net of taxes	Pre-tax amount	Taxation	Amount net of taxes
Accounting for derivatives hedging exchange-raterisks using the cash flow hedge method	(14)	3	(11)	8	(2)	6
Profit (Loss) arising from translation of the financial statements companies	10,664	-	10,664	18,985	-	18,985
Profit (Loss) of companies carried at at equity	(5)	-	(5)	(16)	-	(16)
Actuarial Profits (Losses) associated with restatement of defined benefits plans	(1,803)	262	(1,541)	2,479	(683)	1,796
Total	**8,842**	**265**	**9,107**	**21,456**	**(685)**	**20,771**

24. 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	Walvoil Group (Ex. Hydrocontrol)	IMM Group	Sit	Hammelmann Pump System	Portions of intercompany profits inventories	Total
Balance at 31/12/2015	4,126	1,120	69	400	527	(771)	5,471
Dividends distributed to minority interests	(861)	(140)	-	-	(101)	-	(1,102)
Interests acquired	-	(957)	(83)	-	-	-	(1,040)
Movements directly equity	-	-	-	(20)	-	-	(20)
Exchange rate difference	(82)	(45)	-	-	(11)	-	(138)
Profit (Loss) for the financial period minority interests	344	22	14	23	128	92	623
Balance at 31/12/2016	3,527	-	-	403	543	(679)	3,794

Minority interest subsidiaries are not individually or cumulatively significant to the Interpump Group.

25. Other net revenues

	2016 (€/000)	2015 (€/000)
Reimbursement of expenses	6,504	6,064
Income from the sale of waste and scrap	3,161	2,620
Utilization of surplus provisions and allocations	1,013	801
Income from rent/royalties	397	342
Capital gains from the sale of property, plant and equipment	299	410
Refunds from insurance	155	340
Capital gains on the sale of equity investments and lines of business	61	-
Capital gains from the sale of intangible assets	4	-
Other	2,778	2,556
Total	14,372	13,133

26. Costs by nature

	2016 (€/000)	2015 (€/000)
Raw materials and components	338,332	342,551
Personnel and temporary staff	237,376	224,052
Services	92,647	93,364
Amortization / depreciation (notes 12 and 14)	43,602	41,693
Directors' and statutory auditors' remuneration	7,780	8,059
Hire purchase and leasing charges	13,533	11,906
Provisions / impairment of tangible and intangible fixed assets (notes 12, 14 and 19)	1,367	1,669
Other operating costs	49,020	47,871
Total cost of sales, distribution costs, general and administrative expenses, other operating costs and impairment losses of tangible and intangible fixed assets	783,657	771,165

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 2016 are listed below for services rendered to the Group by the independent auditors and the entities belonging to the network of the independent auditors:

- assignments for auditing of the parent company €/000 123;
- assignments for auditing of subsidiaries €/000 712;

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

27. 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:

	2016 (€/000)	2015 (€/000)
Parent Company	4,492	4,070
Statutory auditors	177	167
Total remuneration	4,669	4,237

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 2015 is due to the higher fair value of the stock options assigned in the new 2016/2018 incentive plan compared to the previous one.

28. Financial income and charges

	2016 €/000	2015 €/000
Financial income		
Interest income from liquid funds	412	508
Interest income from other assets	65	70
Financial income to adjust debt estimate for commitment to purchase residual interests in subsidiaries	-	32,056
Foreign exchange gains	7,283	9,533
Earnings from valuation of derivative financial instruments	70	206
Other financial income	32	43
Total financial income	7,862	42,416
Financial expenses		
Interest expense on loans	4,108	5,944
Interest expense on put options	610	475
Financial charges to adjust estimated debt for commitment to purchase residual interests in subsidiaries	1,100	390
Tobin Tax	107	268
Foreign exchange losses	6,688	8,286
Losses from valuation of derivative financial instruments	27	77
Other financial charges	222	248
Total financial expenses	12,862	15,688
Total financial expenses (income), net	5,000	(26,728)

For a commentary concerning the financial income deriving from adjustment of the estimated liability for the commitment to purchase residual interests in subsidiaries in 2015, we invite you to refer to the comments on page 15 of the Board of Directors' Report.

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

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.

29. Income taxes

The effective tax rate for the year was 36.4% (27.6% in 2015). This change is explained in the Report on operations.

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

	2016 (€/000)	2015 (€/000)
Current taxes	(53,432)	(45,749)
Current taxes of prior financial years	(283)	(838)
Deferred taxes	(305)	1,531
Total taxes	(54,020)	(45,056)

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

	2016 (€/000)	2015 (€/000)
Deferred tax assets generated in the year	3,820	3,258
Deferred tax liabilities generated in the year	(2,457)	(2,515)
Deferred tax assets transferred to the income statement	(4,524)	(2,823)
Deferred tax liabilities recognized in the income statement	4,772	3,395
Deferred tax assets resulting from change in rate	(519)	(1,076)
Deferred tax liabilities resulting from change in rate	78	2,723
Derecognized deferred tax assets	(1,475)	(1,431)
Deferred taxes not calculated in previous years	-	-
Total deferred taxes	(305)	1,531

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

	2016 (€/000)	2015 (€/000)
IRES/National tax		
Profit before taxes from the income statement	148,493	163,362
Theoretical taxes at the Italian rate (27.5%)	40,836	44,925
Effect of different rates applicable to foreign subsidiaries	(382)	(102)
Tax on dividends from consolidated companies	2,702	1,309
Higher (Lower) taxes resulting from the measurement of investments at equity	11	72
Higher tax for non-deductible stock option costs	84	104
Lower taxes due to IRAP deduction relating to expenses for employees and similar for the year	(154)	(250)
Lower taxes due to IRAP deduction on interest expenses in the year	(60)	(101)
Higher taxes due to not recognizing deferred tax assets on current year tax losses	28	51
Lower taxes due to not recognizing deferred tax assets on prior year tax losses	(210)	(271)
Deferred taxes derecognized in the year	1,085	1,431
Taxes relating to previous years (current plus deferred)	270	976
Higher (Lower) taxes on financial expenses relative to discounting of debts for the purchase of investments and related adjustments	417	(8,596)
Effect of scheduled change in the IRES tax rate from 2017	441	(1,619)
Higher (Lower) taxes for non-taxable revenues and non-deductible costs	(496)	(742)
Total IRES/National tax	*44,572*	*37,187*
IRAP/Local income taxes		
Profit before taxes from the income statement	148,493	163,362
Theoretical taxes at the Italian rate (3.9%)	5,791	6,371
Effect of different rates applicable to foreign subsidiaries and for holding companies	2,463	1,921
Higher taxes for non-deductible payroll costs	111	233
Higher taxes for non-deductible directors' emoluments	284	311
Higher taxes due to non-deductible financial expenses	194	(1,187)
Tax on dividends from consolidated companies	-	23
Higher taxes due to measuring investments at equity	2	(3)
Taxes relating to previous years (current plus deferred)	13	14
Higher taxes due to change in the tax rate	-	26
Deferred taxes derecognized in the year	390	-
Higher (Lower) taxes for non-taxable revenues and non-deductible costs	200	160
Total IRAP/Local income taxes	*9,448*	*7,869*
Total income taxes recognized in the income statement	*54,020*	*45,056*

Together with Hypress S.r.l., IMM S.p.A. opted for inclusion in the Italian domestic tax group in the period 2014-2016.

30. 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:

	2016	2015
Consolidated net profit for the period attributable to Parent company to Parent company shareholders (€/000)	93,850	117,639
Average number of shares in circulation	106,196,360	106,854,067
Basic earnings per share (€)	0.884	1.101

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:

	2016	2015
Consolidated net profit for the period attributable to Parent company to Parent company shareholders (€/000)	93,850	117,639
Average number of shares in circulation	106,196,360	106,854,067
Number of potential shares for stock option plans (*)	419,088	1,491,735
Average number of shares (diluted)	106,615,448	108,345,802
Diluted earnings per share (€)	0.880	1.086

(*) 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.

31. 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)	At the fair value recorded in the Income Statement Initially*	IAS 39**	*Financial assets at 31/12/2016* Loans and receivables	Held for sale	*Financial liabilities at 31/12/2016* Valued at the amortized cost	Total	Fair value
Trade receivables	-	-	200,018	-	-	200,018	200,018
Other current assets	-	-	3,824	-	-	3,824	3,824
Other current financial	367	-	5	418	-	790	790
Trade payables	-	-	-	-	(109,004)	(109,004)	(109,004)
Payables to banks	-	-	-	-	(1,921)	(1,921)	(1,921)
Current interest-bearing financial payables	-	-	-	-	(124,784)	(124,784)	(124,784)
Derivative instruments payable	-	-	-	-	-	-	-
Other current liabilities	-	-	-	-	(48,984)	(48,984)	(48,984)
Non-current interest-bearing financial payables	-	-	-	-	(327,974)	(327,974)	(327,974)
Other non-current liabilities	-	-	-	-	(41,058)	(41,058)	(41,058)
Total	367	-	203,847	418	(653,725)	(449,093)	(449,093)

(€/000)	At the fair value recorded in the Income Statement Initially*	IAS 39**	*Financial assets at 31/12/2015* Loans and receivables	Held for sale	*Financial liabilities at 31/12/2015* Valued at the amortized cost	Total	Fair value
Trade receivables	-	-	178,129	-	-	178,129	178,129
Other current assets	-	-	4,177	-	-	4,177	4,177
Other current financial	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 liabilities	-	-	-	-	(22,017)	(22,017)	(22,017)
Total	303	(49)	182,529	499	(553,212)	(369,930)	(369,930)

* = 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 2016 consolidated income statement shows fair value earnings of €54k (€155k in 2015) and fair value losses of €6k (no loss in 2015) 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 derivative instruments are IRS (interest rate swaps), interest rate collars and plain vanilla forwards. Note 10 gives the methods for calculation employed 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 €3,475k (€6,046k in 2015). In contrast, costs refer to bad debts for €1,471k (€1,329k in 2015), included in the face of the income statement adopted under other operating costs, to foreign exchange losses for €3,471k (€4,990k in 2015).

The financial liabilities measured at amortized cost also generated costs and revenues in the income statement. Revenues refer to exchange rate gains €3,354k (€2,693k in 2015), while costs refer to currency exchange losses for €2,201k (€3,162k in 2015) 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 2016 the value of these expenses booked to the income statement totalled €356k (€478k in 2015).

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 €87k (€32,160k in 2015) and interest expense of €5,690k (€6,551k in 2015); in addition, general and administrative expenses include commission amounts and bank charges of €1,263k (€1,344k in 2015).

32. 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:

- Several Group subsidiaries are situated in non-EMU countries, notably the US, Chile, Australia, China, India, Brazil, Korea, Romania, the United Arab Emirates and the United Kingdom. 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.
- 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 2016 the total amount of cash flows directly exposed to exchange risks corresponded to approximately 10% of Group sales (approximately 10% also in 2015).

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

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

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

  In 2016 the commercial cash flows directly exposed to exchange risks were equivalent to approximately 21% of Group purchases (21% also in 2015) and mainly related to intercompany transactions and the USD/euro, USD/Renminbi, Leu/euro, GBP/euro, Indian Rupee/euro, South Korean Won/euro, Rand/euro and Chilean Pesos/euro exchange rates. Current 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 2016 with €10.7m of purchases and sales in euro made in North America by the Group's distribution companies. The decision to refrain from systematic hedging is due to the large number of transactions, usually between Group companies, that occur constantly throughout the year and that can therefore be considered to be recurrent in terms of amount and also of the frequency with which they take place. However, the Group monitors this phenomenon constantly both in relation to exchange rate trends and also the evolution of business.

- Again in relation to commercial activities, Group companies may be obliged to hold trade receivables or payables denominated in currencies other than the account currency of the holding entity. Fluctuations in exchange rates can therefore result in the realization or assessment of positive or negative exchange differences.
- In relation to financial exposure, wherever the monetary outflows/inflows are denominated in a currency other than the account currency utilized by the creditor/debtor company, fluctuation of the exchange rates can impact negatively on the net profits of said companies.
  In relation to financial exposures, €1.2m of intercompany loans were disbursed and €0.7m collected during 2016 in currencies other than those utilized by the debtor companies. At 31 December 2016, loans totaling €4.8m are still outstanding in currencies other than those utilized by the debtor companies (€4.1m as at 31 December 2015). The increase with respect to the end of 2015 is due, in the amount of €0.2m, to the full consolidation of companies previously consolidated on a provisional basis. Once again, the Group has decided not to hedge this exposure in 2016.

The nature and structure of the exposure to exchange risk and the related hedging policies adopted by the Group were substantially unchanged in 2016.

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 €2,425k (€2,302k in 2015).
The sensitivity analysis did not take account of changes in the receivables and payables in relation to which the hedge operations were arranged. It is reasonable to assume that the fluctuation in exchange rates could produce an opposite economic effect on the derivative financial instruments of an amount that is identical to the change in the underlying hedged transactions thereby effectively offsetting the fluctuation.

Interest rate risk

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

It is currently Group policy not to take out hedges, in view of the short average duration of the existing loans (around 3 years). As more fully described in note 10, at 31 December 2016, loans with hedged interest risk total €9,977k, made up of fixed-rate loans for €9,922k and derivative instruments taken over from newly-acquired companies in the amount of €55k.

At 31 December 2016, liquidity of €5.0m was 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 €1,261k (€1,220k in 2015). 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 2016 and 2015 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 (0.2% of sales in 2016 and 0.1% in 2015). 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 2016 the Loans and Receivables booked under financial assets for the purposes of IFRS 7 totalled €203,847k (€182,529k at 31 December 2015), and they include €7,340k related to written down receivables (€7,455k at 31 December 2015); of the residual amount, payments overdue by less than three months totalled €32,745k (€30,015k at 31 December 2015), while those overdue beyond three months totalled €15,194k (€13,900k at 31 December 2015). The increases were mainly due to the change in the scope of consolidation.

The Group is not exposed to any significant concentrations of sales. In fact, in 2016 the top customer in terms of sales accounted for about 1% of the total (approximately 1% also in 2015), while the top 10 customers accounted for 8% of total sales (7% in 2015). 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 11% 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 17.

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 2016 totals €197.9m. Cash on hand, combined with the significant cash generation from operations that the Group has proved able to achieve in 2016 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 24% of total Group purchase costs of raw materials, semi-finished products and finished products in 2016 (29% in 2015). The main metals utilized by the Group include brass, aluminium, steel, stainless steel, cast iron, mild steel and, to a lesser extent, copper and sheet metal. While the average prices of the raw materials used by the Group were in line with the prior year, 2016 has revealed a rising market price trend with respect to the minimum prices recorded at the start of the year, leading to projections of price increases in 2017. 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 16% of costs for the purchase of raw materials, semi-finished products and finished products in 2016 (15% in 2015). 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. Agreements in place at 31 December 2016 covered 97% of projected brass consumption and 43% of projected aluminium consumption for 2017 (86% coverage of projected brass consumption and 67% coverage of projected aluminium consumption in 2017). The coverage percentages of projected brass and aluminum consumption are even higher, to the point of covering the entire requirement for the coming year if brass and aluminum stocks on hand at 31 December 2016 are considered in addition to the agreements entered into;

- the cost of metals in the Hydraulic Sector constituted around 28% of purchase costs for raw materials, semi-finished products and finished products in 2016 (36% in 2015). 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 a strategy capable of assuring accurate analysis of price trends to be sufficient to mitigate the price risk. In relation to aluminum, no hedging transactions are undertaken because of the limited incidence on purchase costs.

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

33. Notes to the cash flow statement

Property, plant and equipment

In 2016 the Group purchased buildings, plant and machinery totalling €45,902k (€38,459k in 2015). This investment involved payments of €42,738k, including the purchase of assets for subsequent rental and considering the dynamics of the payables incurred for this reason (€38,703k in 2015).

Cash and cash equivalents

This item can be broken down as follows:

	31/12/2016 (€/000)	31/12/2015 (€/000)
Cash and cash equivalents from the balance sheet	197,891	135,130
Payables to banks (current account overdrafts and advances subject to collection)	(2,396)	(5,735)
Cash and cash equivalents from the cash flow statement	195,495	129,395

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 2016 and 2015 we invite you to refer to the "Cash Flow" section of the Report on operations.

34. Commitments

At 31/12/2016 the group had commitments to purchase raw materials totalling €139k (€183k at 31/12/2015).

Furthermore, the Group also has commitments to purchase tangible assets totalling €3,201k (€4,217k at 31/12/2015).

The Group has signed rental and hire purchase agreements primarily regarding buildings, machinery, cars and computers. The total outlay in 2016 was €13,535k (€10,566k in 2015). At 31/12/2016, the following commitments were outstanding:

	(€/000)
Due within 1 year	12,886
Due from 1 to 2 years	11,855
Due from 2 to 5 years	18,404
Due beyond 5 years	8,056
Total	51,201

35. Transactions with related parties

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

The effects on the Group's consolidated income statements for 2016 and 2015 are shown below:

	2016					
(€/000)	Total Total	Non-consolidated subsidiaries	Associates	Other related parties	Total related parties	% incidence on the financial statements caption
Net sales	922,818	1,304	-	1,016	2,320	0.3%
Cost of sales	584,816	499	-	10,076	10,575	1.8%
Other revenues	14,372	64	-	23	87	0.6%
Distribution costs	86,425	54	-	643	697	0.8%
G&A expenses	108,973	-	-	1,582	1,582	1.5%

	2015					
(€/000)	Consolidated Total	Non-consolidated subsidiaries	Associates	Other related parties	Total related parties	% incidence on the financial statements caption
Net sales	894,928	1,893	-	1,710	3,603	0.4%
Cost of sales	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%
G&A expenses	105,670	-	-	923	923	0.9%
Financial income	42,416	7	-	-	7	-
Financial expenses	15,688	-	-	2	2	-

The effects on the consolidated statement of financial position at 31 December 2016 and 2015 are described below:

(€/000)	31 December 2016 Total Total	Non-consolidated subsidiaries	Associates	Other related parties	Total related parties	% incidence on the financial statements caption
Trade receivables	200,018	1,240	-	324	1,564	0.8%
Trade payables	109,004	19	-	310	329	0.3%

(€/000)	31 December 2015 Total Total	Non-consolidated subsidiaries	Associates	Other related parties	Total related parties	% incidence on the financial statements caption
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 financial payables	83,833	-	-	7	7	-

Relations with non fully-consolidated subsidiaries

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

(€/000)	Receivables		Revenues	
	31/12/2016	31/12/2015	2016	2015
Interpump Hydraulics (UK)*	-	963	-	704
Interpump Hydraulics Perù	958	724	800	730
General Pump China Inc.	282	91	568	477
Total subsidiaries	*1,240*	*1,778*	*1,368*	*1,911*

(€/000)	Payables		Costs	
	31/12/2016	31/12/2015	2016	2015
General Pump China Inc.	19	36	553	485
Total subsidiaries	*19*	*36*	*553*	*485*

(€/000)	Loans		Financial income	
	31/12/2016	31/12/2015	2016	2015
Interpump Hydraulics (UK)*	-	218	-	7
Total subsidiaries	*-*	*218*	*-*	*7*

* = fully consolidated at 31 December 2016

Relations with associates

The Group does not hold any associated companies.

Transactions with other related parties

Transactions with other related parties regard the leasing of facilities owned by companies controlled by current shareholders and directors of Group companies for €4,319k (€4,899k in 2015), and consultancy services provided by entities connected with directors and statutory auditors of the Parent company for €84k (€140k in 2015). The reduction in leasing costs with respect to the prior year was due to fact that several parties are no longer related in 2016, having left the Group in the interim. Leasing costs were recognized as cost of sales, €3,195k (€3,572k in 2015), distribution costs, €335k (€796k in 2015), and general and administrative expenses of €789k (€531k in 2015). Consultancy costs have been recognized as follows: distribution costs, €60k (€60k also in 2015), and general and administrative expenses, €24k (€80k in 2015). Revenues from sales in the year ended 31 December 2016 included revenues from sales to companies by Group shareholders, directors and statutory auditors totaling €1,016k (€1,710k at 31 December 2015). In addition, the cost of sales includes purchases from subsidiaries by minority shareholders or Group company directors totaling €6,913k (€13,967k in 2015). This reduction was due to lower purchases by the Chinese subsidiary from the related party, due to the contraction in sales and the reduction in the inventories of Muncie, the subsidiary that acquires these products.

Moreover, further to the signing of building rental contracts with other related parties, at 31 December 2016 the Group has commitments of €16,192k (€16,812k at 31 December 2015).

36. Events occurring after the close of the year

On 25 January 2017 we acquired 100% control of Bristol Hoses Ltd, based in Bristol, UK. On 3 January 2017, we also acquired the Inoxpa Group, based in Girona, Spain. Both operations are described in full in the Board of Directors' Report.

Attachment 1

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 application

   of the administrative and accounting procedures for the formation of the consolidated financial statements during 2016.

2. It is further attested that the consolidated financial statements of Interpump Group S.p.A. and its subsidiaries for the year ended 31 December 2016, which show consolidated total assets of €1,424,240k, consolidated net profit of €94,473k and consolidated shareholder's equity of €677,538k:
   a) correspond to the results of the company books and accounting entries;
   b) were prepared in compliance with the international accounting standards approved by the European Commission further to the enforcement of Ruling (CE) no. 1606/2002 of the European Parliament and the European Council of 19 July 2002, and the provisions issued in implementation of art. 9 of Italian legislative decree 38/2005 and the contents are suitable for providing a truthful and fair representation of the equity, economic and financial situation of the company 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), 15 March 2017

Paolo Marinsek	Carlo Banci
Deputy Chairman and	Manager responsible for drafting
Chief Executive Officer	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 2016

Shareholders,

This report relates to the consolidated financial statements of Interpump Group S.p.A., which show a net profit of €94,473k, including €623k 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 2016 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, 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 issued this day (29 March 2017), which contains no qualifications or emphasis of matter;
- have examined the attestation given by the Chief Executive Officer and the Manager responsible for drafting 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 2016, 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, 29 March 2017

THE BOARD OF STATUTORY AUDITORS

Pierluigi De Biasi

____

Alessandra Tronconi

____

Paolo Scarioni

____

Building a better
working world

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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 consolidated balance sheet as at December 31, 2016, and the consolidated income statement for the year, the comprehensive consolidated income statements for the year, the statement of changes in consolidated shareholders' equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and notes to the annual financial statements.

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 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, 2016, 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 Board of Directors' Report 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 Board of Directors' Report 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.p.A.'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 Board of Directors' Report 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 Board of Directors' Report 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, 2016.

Bologna, March 29, 2017
EY 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 2016

Contents

2016 Board of Directors' Report
of the 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 its financial flows, and in research activities and the selection of equity investments to acquire with the aim of maximising the Group's rate of growth. The external growth strategy is evident in the 2016 acquisitions of Endeavour International Limited, Tubiflex S.p.A., Tekno Tubi S.r.l., and Mega Pacific Australia/New Zealand. A more complete discussion of these operations is given in the “2016 Board of Directors’ Report” accompanying the Consolidated Annual Financial Report at 31 December 2016.

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

We remind you that 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 prescribed prospectuses for significant mergers, absorptions, 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 €92.3m (€78.0m in 2015). 2015 proforma sales, including Bertoli, were recorded for €90.4m, so the 2016 figure reflects a 2.1% increase. An analysis by geographic area of the revenues from sales and services is given in the commentary on this item in the notes to the financial statements.

The cost of sales accounted for 61.4% of turnover (61.8% in 2015). Production costs totalling €30.0m (€26.7m in 2015, which however did not include the costs of Bertoli), accounted for 32.5% of sales (34.2% in 2015). The purchase cost of raw materials and components sourced on the market, including changes in inventories, was €26.7m or 28.9% of sales (€21.5m in 2015, which however did not include the costs of Bertoli).

Distribution costs stood at €6.2m (€4.7m in 2015, excluding Bertoli) and their incidence on sales rose by 0.7 percentage points compared to 2015.

General and administrative expenses were recorded for €16.7m (€14.9m in 2015, excluding Bertoli) and their incidence on sales fell by 1 percentage point.

Total payroll costs were €25.9m (€22.5m in 2015, excluding Bertoli) for an average headcount of 434 (377 employees excluding the workforces of the companies merged in 2016 and 2015, while the average headcount in 2015 was 376). The per capita cost is virtually identical to that of the prior year (-0.2%).

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

	2016 (€/000)	% on sales	2015 (€/000)	% on sales
Ordinary profit before financial charges	71,310		34,068	
Dividends	(56,814)		(23,117)	
Impairment losses on investments	-		340	
Operating profit (EBIT)	***14,496***	***15.7%***	***11,291***	***14.5%***
Amortization, depreciation and write-downs	4,988		4,135	
Gross operating profit (EBITDA)	***19,484***	***21.1%***	***15,426***	***19.8%***

EBIT totalled €14.5m or 15.7% of sales, compared to the €11.3m in 2015 (14.5% of sales), reflecting an increase of 1.2 %.

EBITDA stood at €19.5m or 21.1% of sales, compared to the €15.4m in 2015 (19.8% of sales), reflecting an increase of 1.3 %.

Net profit for the year ended 31 December 2016 was €64.1m (€28.5m in 2015), mainly due to the difference in the amount of dividends received from subsidiaries, with a figure of €56.8m in 2016 compared to €23.1m in 2015.

The effective tax rate for the year, net of dividends, impairment losses on investments and prior-year taxation, was 35.3% compared to 34.9% in 2015. More complete information on the changes in tax rate between 2016 and 2015 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. We draw your attention to the fact that the figures at 31 December 2016 are inclusive also of the balances of Bertoli S.r.l., which were not present in 2015; the amounts are not therefore exactly comparable.

	31/12/2016 (€/000)	*%*	*31/12/2015 (€/000)*	*%*
Trade receivables	16,030		9,503	
Net inventories	18,992		14,283	
Other current assets	21,008		11,463	
Trade payables	(12,828)		(10,148)	
Short-term tax payables	(1,690)		(6,484)	
Short-term portion for provisions for risks and charges	(275)		-	
Other short-term liabilities	(6,362)		(5,463)	
Net working capital	**34,875**	**5.8**	**13,154**	**2.4**
Net intangible and tangible fixed assets	28,490		27,940	
Goodwill	34,043		32,506	
Investments	357,817		337,670	
Other financial fixed assets	147,630		142,090	
Other non-current assets	3,217		3,144	
Liabilities for employee benefits	(5,424)		(4,403)	
Medium/long-term portion for provisions for risks and charges	(14)		(12)	
Other medium/long-term liabilities	(851)		(679)	
Total net fixed assets	**564,908**	**94.2**	**538,256**	**97.6**
Total capital employed	**599,783**	**100.0**	**551,410**	**100.0**
Financed by:				
Total shareholders' equity	**312,034**	**52.0**	**294,927**	**53.5**
Cash and cash equivalents	(87,956)		(46,601)	
Payables to banks	433		731	
Short-term interest-bearing financial payables	92,673		47,227	
Total short-term financial payables (cash on hand)	**5,150**	**0.9**	**1,357**	**0.2**
Total medium/long-term financial payables	**282,599**	**47.1**	**255,126**	**46.3**
Total sources of financing	**599,783**	**100.0**	**551,410**	**100.0**

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 €3.0m (€4.4m in 2015) 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 €0.7m (€0.9m in 2015), mostly due to the capitalization of development costs.

4 Loans

Net financial indebtedness as at 31 December 2016 was €287.7m (€256.5m at 31/12/2015). Changes in the year are listed in the table below:

	2016 (€/000)	2015 (€/000)
Opening net financial position	**(256,483)**	**(114,581)**
Adjustment: Opening net financial position of absorbed companies	2,112	578
Adjusted opening net financial position	**(254,371)**	**(114,003)**
Cash flow from operations	11,889	6,249
Liquidity generated (absorbed) by operating capital	(3,490)	2,441
Liquidity generated (absorbed) by other current assets and liabilities	(5,055)	5,675
Net investment in tangible and intangible fixed assets	(4,314)	(5,680)
Received financial income	1,660	2,268
Other	8	(428)
Free cash flow	*698*	*10,525*
Proceeds (payments) from the disposal (purchase) of investments	(21,750)	(85,137)
Purchase of treasury shares	(43,308)	(32,709)
Proceeds from sales of treasury shares for stock options	9,490	8,166
Dividends received from subsidiaries	54,483	29,141
Dividends paid	(20,054)	(19,321)
Change in other financial assets	16	26
Reimbursement (Disbursement) of loans from (to) subsidiaries	(12,953)	(53,171)
Cash flow generated (used)	*(33,378)*	*(142,480)*
Net financial position at end of year	**(287,749)**	**(256,483)**

The net financial position is analyzed as follows:

	31/12/2016 (€/000)	31/12/2015 (€/000)	01/01/2015 (€/000)
Cash and cash equivalents	87,956	46,601	22,841
Payables to banks	(433)	(731)	(408)
Interest-bearing financial payables (current portion)	(92,673)	(47,227)	(22,896)
Interest-bearing financial payables (non-current portion)	(282,599)	(255,126)	(114,118)
Total	**(287,749)**	**(256,483)**	**(114,581)**

At 31 December 2016 all 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	
	31/12/2016	31/12/2015	2016	2015
Subsidiaries:				
General Pump Inc.	2,438	1,546	17,653	18,523
NLB Corporation Inc.	2,811	283	2,044	2,218
Interpump Hydraulics India Ltd	479	259	687	553
General Pump China Inc.	282	91	525	400
Muncie Power Inc.	138	77	282	526
Interpump Hydraulics S.p.A.	1,142	1,241	75	308
Hammelmann Bombas e Sistemas Ltda	36	43	47	105
AVI S.r.l.	18	10	41	33
Interpump Hydraulics Middle East FZE	2	1	41	5
Hammelmann S. L.	13	2	38	93
IMM Hydraulics S.p.A.	64	6	37	3
Hammelmann GmbH	-	-	34	5
Inoxihp S.r.l.	14	14	33	41
Walvoil S.p.A.	53	56	12	4
Hydroven S.r.l.	6	2	8	9
Interpump South Africa Pty Ltd**	-	1	8	5
Interpump Hydraulics (UK) Ltd	6	-	6	9
Unidro Contarini Sarl	-	-	2	1
Tubiflex S.p.A.	-	-	2	-
Tekno Tubi S.r.l.	7	-	2	-
Hydrocontrol S.p.A.	-	32	-	6
Bertoli S.r.l.*	-	26	-	37
HS Penta S.p.A.	-	14	-	3
Teknova S.r.l. (in liquidation)	12	12	-	-
Contarini Leopoldo S.r.l.	2	5	-	7
Oleodinamica Panni S.r.l.	2	2	-	1
American Mobile Power Inc.	2	-	-	-
Hydrocar Chile	-	-	-	3
Total	*7,527*	*3,723*	*21,577*	*22,898*

*= absorbed by Interpump Group on 1 May 2016
**= change of company title from H.S. Penta Africa Pty Ltd

Receivables due to Interpump Hydraulics S.p.A., Walvoil S.p.A., Teknova S.r.l., IMM Hydraulics S.p.A., Contarini Leopoldo S.r.l. and Tekno Tubi S.r.l. include, in addition to the trade receivables component, also the uncollected part of financial income, amounting, respectively, to €848k, €35k, €12k, €26k, €1k and €7k. The payable due to NLB Corporation refers to the dividend resolved in March 2016 in the amount of €2,372k. All other receivables refer to relations of a commercial nature governed at arm's length conditions.

	Payables		Costs	
	31/12/2016	31/12/2015	2016	2015
Subsidiaries:				
SIT S.p.A.	83	73	252	306
Hammelmann GmbH	-	14	206	153
Interpump Hydraulics S.p.A.	498	449	154	89
General Pump Inc.	-	12	77	57
IMM Hydraulics S.p.A.	26	-	68	-
NLB Corporation Inc.	-	-	61	30
General Pump China Inc.	-	1	59	50
Interpump Hydraulics India Ltd	-	-	22	3
Inoxihp S.r.l.	10	-	8	-
Hammelmann Bombas e Sistemas Ltda	-	-	3	-
Hydroven S.r.l.	-	-	2	2
Bertoli S.r.l.*	-	1	-	1
Contarini Leopoldo S.r.l.	-	-	-	1
Interpump Hydraulics Middle East FZE	-	-	-	1
Teknova S.r.l.	-	2	-	-
Total subsidiaries	*617*	*552*	*912*	*693*

*= absorbed by Interpump Group on 1 May 2016

The amount payable to Interpump Hydraulics S.p.A. includes €411k relating to the inclusion in the Italian domestic tax group, said option having expired in 2016 and not having been renewed. 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	
	31/12/2016	31/12/2015	2016	2015
Subsidiaries:				
Interpump Hydraulics S.p.A.	136,590	122,090	1,640	1,871
HS Penta S.p.A.	-	6,500	-	45
Walvoil S.p.A.	13,500	9,000	143	75
Hydrocontrol	-	7,500	-	81
IMM Hydraulics S.p.A.	10,500	6,000	77	2
Tekno Tubi S.r.l.	3,800	-	8	-
Contarini Leopoldo S.r.l.	-	348	3	-
Hammelmann GmbH	-	-	-	54
Teknova S.r.l. (in liquidation)	-	-	-	5
Total	*164,390*	*151,438*	*1,871*	*2,133*

On 4 January 2016 the absorption of HS Penta S.p.A. by Interpump Hydraulics S.p.A. came into effect and on 1 Agosto 2016 that of Hydrocontrol S.p.A. by Walvoil S.p.A., so their respective loans are shown under the title of the absorbing companies.

The intercompany loans outstanding at 31 December 2016 earn interest at Euribor (3 or 6 months) uplifted by a spread that fluctuates in the range between 80 and 125 basis points.

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

	2016	2015
Interpump Hydraulics S.p.A.	24,200	14,000
Hammelmann GmbH	18,000	6,000
NLB Corporation Inc.	4,565	-
General Pump Inc.	4,521	3,117
Walvoil S.p.A.	5,000	-
Walvoil Fluid Power (India) Pvt Ltd	1	-
Inoxihp S.r.l.	527	-
Total	*56,814*	*23,117*

At 31 December 2016 half of the dividends resolved by NLB Corporation, equivalent to €2,372k (US $2,500k) remained to be collected.

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 high barrier to the entry of new competitors, due to significant economy of scale effects against the backdrop of uncertain economic returns for potential new entrants. The company retains world leadership positions that mitigate the risks and uncertainties of the business activity.

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

Seven new projects were completed during 2016 related to new versions of pumps for various applications, new valves, and new seals; in addition, work commenced on six 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 €552k were capitalized in 2016, since they will benefit future years, while an amount of €1,708k was charged to the income statement.

At 31 December 2016 the company held 2,281,752 treasury shares in the portfolio corresponding to 2.10% of the capital, acquired at an average unit cost of EUR 12.4967.

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 2016 Board of Directors' Report, which is attached to the consolidated financial statements.

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 business outlook

Inoxpa was acquired on 3 February 2017. This Spanish group is active in the manufacture and commercialization of process equipment and systems for the treatment of fluids generated by the food, cosmetics and pharmaceuticals industries. The brand is well known throughout the world.
This acquisition significantly expands and supplements the products of the Water Jetting division, which will now be able to supply a vast range of pumps, valves, mixers, process plant and accessories alongside Bertoli homogenizers. All products are made from stainless steel, meeting the rigorous requirements demanded by the food industry. Inoxpa is based near Girona (north of Barcelona) in Spain. More than 75% of sales are generated by 20 branches in a further 18 countries, which will further strengthen Interpump's already solid international presence. Preliminary data of the Inoxpa group in 2016 are: net sales of around €60m, with EBITDA of €11.5m (19.3% of sales). The €90m paid consisted of €76m enterprise value and approximately €14m net cash.

Considering the short time since 31 December 2016, 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 EUR 64,066,551, we propose:

- assigning a dividend of EUR 0.20 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), 15 March 2017

For the Board of Directors

Fulvio Montipò

Chairman and Chief Executive Officer

Annual Financial Statements at 31 December 2016
of the 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: EUR 56,617,232.88
Reggio Emilia Court - Company Register no. 117217
Tax code 11666900151
VAT number 01682900350

Balance sheet

EUR	*Notes*	*31/12/2016*	*31/12/2015*
ASSETS			
Current assets			
Cash and cash equivalents	4	87,956,381	46,601,136
Trade receivables	5, 21	16,029,645	9,502,692
Dividends receivable		2,371,691	-
Inventories	6	18,992,371	14,282,723
Tax receivables		1,364,538	1,721,442
Derivative financial instruments	7	-	1,906
Current financial assets	13.21	16,760,000	9,348,227
Other current assets	8, 21	510,962	391,750
Total current assets		**143,985,588**	**81,849,876**
Non-current assets			
Property, plant and equipment	9	23,813,088	22,259,980
Goodwill	10	34,043,360	32,505,900
Other intangible assets	11	4,677,263	5,679,684
Investments in subsidiaries	12	357,816,716	337,669,904
Other current financial	13, 21	147,630,340	142,090,340
Tax receivables		1,052,253	1,047,946
Deferred tax assets	14	2,151,143	2,082,247
Other non-current assets		13,198	14,176
Total non-current assets		**571,197,361**	**543,350,177**
Total assets		***715,182,949***	***625,200,053***

EUR	*Notes*	*31/12/2016*	*31/12/2015*
LIABILITIES			
Current liabilities			
Trade payables	5, 21	12,828,315	10,148,321
Interest-bearing financial payables (current portion)	15, 21	93,105,817	47,958,151
Derivative financial instruments	7	35,548	28,204
Tax payables		1,690,322	6,484,152
Other current liabilities	16, 21	6,325,767	5,433,662
Provisions for risks and charges	17	275,000	-
Total current liabilities		**114,260,769**	**70,052,490**
Non-current liabilities			
Interest-bearing financial payables	15, 21	282,598,894	255,126,135
Liabilities for employee benefits	18	5,423,966	4,402,768
Deferred tax liabilities	14	850,818	679,315
Provisions for risks and charges	17	14,424	12,248
Total non-current liabilities		**288,888,102**	**260,220,466**
Total liabilities		**403,148,871**	**330,272,956**
SHAREHOLDERS' EQUITY			
Share capital	19	55,430,722	56,031,759
Legal reserve	20	11,323,447	11,323,447
Share premium reserve	19	111,548,066	138,117,148
Reserve for restatement of defined benefit plans		(1,805,238)	(1,479,330)
Reserve for the measurement of hedging derivatives at fair value	20	(23,624)	(13,457)
Other reserves	20	135,560,705	90,947,530
Total shareholders' equity		**312,034,078**	**294,927,097**
Total shareholders' equity and liabilities		***715,182,949***	***625,200,053***

Income statement

EUR	*Notes*	*2016*	*2015*
Net sales	23	**92,286,149**	**77,971,593**
Cost of sales	25	56,634,935	48,211,471
Gross industrial margin		**35,651,214**	**29,760,122**
Other net revenues	24	2,309,191	1,126,658
Distribution costs	25	(6,227,899)	(4,676,530)
General and administrative expenses	25	(16,733,106)	(14,858,853)
Impairment losses on assets	11, 12	(22,229)	(340,000)
Other operating costs	25	(480,973)	(60,202)
Dividends		56,813,890	23,117,485
Ordinary profit before financial expenses		**71,310,088**	**34,068,680**
Financial income	26	2,334,379	2,791,461
Financial expenses	26	(3,414,115)	(4,015,951)
Profit for the year before taxes		**70,230,352**	**32,844,190**
Income taxes	27	(6,163,801)	(4,314,812)
Net profit for the year		**64,066,551**	**28,529,378**
Basic earnings per share	28	0.603	0.267
Diluted earnings per share	28	0.601	0.263

Comprehensive income statements

(€/000)	*2016*	*2015*
Net profit (A)	**64,067**	**28,529**
Other comprehensive profit (loss) that will be subsequently reclassified in profit for the year		
Accounting for interest rate hedging derivatives using the cash flow hedge method:		
- Profit (Loss) on derivative financial instruments for the period	-	-
- Minus: Adjustment for reclassification of profits (losses) to the income statement	-	-
- Minus: Adjustment for fair value recognition of reserves in the prior period	-	-
Total	-	-
Accounting for exchange risk hedging derivatives using the cash flow hedge method:		
- Profit (Loss) on derivative financial instruments for the period	(33)	(19)
- Minus: Adjustment for reclassification of profits (losses) to the income statement	19	26
- Minus: Adjustment for fair value recognition of reserves in the prior period	-	-
Total	*(14)*	*7*
Related taxes	*3*	*(2)*
Total other profit (loss) that will be subsequently reclassified in profit for the year, net of the tax effect (B)	**(11)**	**5**
Other profit (loss) that will not be subsequently reclassified in profit for the year		
Profit (Loss) deriving from the restatement of defined benefit plans	*(383)*	*638*
Related taxes	*22*	*(175)*
Total other comprehensive profit (loss) that will not be subsequently reclassified in profit for the year, net of the tax effect (C)	**(361)**	**463**
Comprehensive net profit (A) + (B) + (C)	**63,695**	**28,997**

Cash flow statement

(€/000)	**2016**	**2015**
Cash flow from operating activities		
Pretax profit	70,230	32,844
Profit before taxes of merged companies prior to absorption	(897)	(90)
Adjustments for non-cash items:		
Capital gains from the sale of fixed assets	(10)	(4)
Loss on adjustment of investment disposal price	-	-
Amortization and depreciation of tangible and intangible fixed assets	4,711	4,133
Costs ascribed to the income statement relative to stock options, that do not involve monetary outflows for the Group	1,429	991
Impairment losses (write-back of impairment losses) on assets	-	340
Net change in risk funds and allocations to provisions for employee benefits	85	(272)
Dividends ascribed in the income statement	(56,814)	(23,117)
Net financial charges	1,080	1,224
	19,814	16,049
(Increase) decrease in trade receivables and other current assets	(3,340)	1,685
(Increase) decrease in inventories	(948)	697
Increase (decrease) in trade payables and other current liabilities	(4,257)	5,734
Taxes paid	(4,887)	(6,845)
Interest paid	(3,021)	(3,233)
Currency exchange gains realized	(17)	278
Net cash from operating activities	**3,344**	**14,365**
Cash flows from investing activities		
Payments for the purchase of equity investments	(27,266)	(134,314)
Payment on capital account to Interpump Hydraulics on transfer of treasury shares to support acquisition of the outstanding interest in indirect subsidiaries	-	(11,365)
Outlays for purchase of treasury shares	(43,308)	(32,709)
Proceeds from sales of treasury shares for stock options	9,490	8,166
Disposal of treasury shares in relation to the acquisition of investments	5,516	60,891
Capital expenditure on property, plant and equipment	(3,666)	(4,542)
Proceeds from sales of tangible fixed assets	14	13
Increase in intangible fixed assets	(662)	(1,151)
Received financial income	1,660	2,268
Other	16	26
Net liquidity generated (used) by investing activities	**(58,206)**	**(112,717)**

(€/000)	**2016**	**2015**
Cash flows of financing activity		
Dividends received from subsidiaries	54,483	29,141
Dividends paid	(20,054)	(19,321)
(Disbursal) Repayment of intra-group loans	(12,953)	(53,520)
Disbursals (repayments) of loans	72,689	164,911
Payment of financial leasing installments (principal portion)	(190)	-
Net liquidity generated (used by) financing activities	**93,975**	**121,211**
Net increase (decrease) of cash and cash equivalents	**39,113**	**22,859**
Opening cash and cash equivalents of merged companies	2,540	578
Cash and cash equivalents at the beginning of the year	**45,870**	**22,433**
Cash and cash equivalents at the end of the year	**87,523**	**45,870**

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*
Balances as at 1 January 2015	*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 by 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 shares	*(1,322)*	-	*(32,710)*	-	-	*1,323*	*(32,709)*
Sale of treasury shares to the beneficiaries of stock options	*921*	-	*8,166*	-	-	*(921)*	*8,166*
Sale of treasury shares 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*
Balances as at 31 December 2015	*56,032*	*11,323*	*138,117*	*(1,479)*	*(13)*	*90,947*	*294,927*
Distribution of the dividend	-	-	-	-	-	*(20,054)*	*(20,054)*
Recognition in the income statement of the fair value of stock options granted to and exercisable by employees of Interpump Group S.p.A.	-	-	*1,429*	-	-	-	*1,429*
Fair value measurement of the stock options granted to and exercisable by employees of subsidiaries	-	-	*304*	-	-	-	*304*
Bertoli merger effect	-	-	-	*35*	-	-	*35*
Purchase of treasury shares	*(1,772)*	-	*(43,308)*	-	-	*1,772*	*(43,308)*
Sale of treasury shares to the beneficiaries of stock options	*937*	-	*9,490*	-	-	*(937)*	*9,490*
Sale of treasury shares for the acquisition of equity investments	*234*	-	*5,516*	-	-	*(234)*	*5,516*
Comprehensive net profit for the year	-	-	-	*(361)*	*(11)*	*64,067*	*63,695*
Balances as at 31 December 2016	*55,431*	*11,323*	*111,548*	*(1,805)*	*(24)*	*135,561*	*312,034*

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 57 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 2016, drafted on the basis of the going concern assumption, were approved by the Board of Directors in the meeting held on this day (15 March 2017).

2. Accounting standards adopted

2.1 Reference accounting standards

The consolidated financial statements at 31 December 2016 have been prepared in compliance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union. "IFRS" also means the International Accounting Standards ("IAS") currently in force and all the interpretative documents issued by the IFRS Interpretation Committee, previously denominated International Financial Reporting Interpretations Committee ("IFRIC") and still earlier known as the Standing Interpretations Committee ("SIC").

The 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 measured 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 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 2016 Consolidated Financial Statements.

The cash flow statement was prepared using the indirect method.

2.1.1 Accounting standards, amendments and interpretations in force as from 1 January 2016

As from 2016 the Group has applied the following new accounting standards, amendments and interpretations, reviewed by IASB:

- *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.
- *Amendment to IAS 16 and 38 – Property, plant and equipment and Intangible assets.* On 12 May 2014 IASB published an amendment to the standards, 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.
- *Amendment to IAS 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.
- *Amendment to IAS 1 - Disclosure initiative* On 18 December 2014 IASB published the amendment in question, which is designed to provide clarifications to IAS 1 to address several perceived impediments to preparers exercising their judgment in presenting their financial statements.
- On 12 December 2012 the IASB issued a collection of amendments to IAS/IFRS standards *IFRS Annual Improvements Cycle 2010–2012. These 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.

2.1.2 Accounting standards, amendments and interpretations taking effect as from 1 January 2016 but not relevant for the company

- *Amendment to IFRS 11 – Joint arrangements*. On 6 May 2014 IASB published an amendment to the standard adding a new guide to the recognition of the acquisition of an interest in joint operations when the operation constitutes a business.
- *Amendment to IFRS 10, IFRS 12 and IAS 28 – Investment entities: applying the consolidation exception.* On 18 December 2014 IASB published the amendments in question concerning the problems deriving from application of the consolidation exception granted to investment entities.

- *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 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.

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

- *IFRS 2 – Share-based payments.* On 21 June 2016 IASB published amendments to the standard with a view to clarifying the accounting for certain operations involving share-based payments. The amendments will be applicable from 1 January 2018, although early adoption is allowed.
- *IFRS 9 – Financial instruments*. On 12 November 2009 IASB published the following standard, which was subsequently amended on 28 October 2010 in a further amendment in mid-December 2011. The new standard, which is applicable from 1 January 2018, constitutes the first part of a process in stages aimed at replacing IAS 39 and introduces new criteria for the classification and measurement of financial assets and liabilities, and for 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 derecognized in profit and loss.
- On 30 January 2014, IASB published IFRS 14 *Regulatory Deferral Accounts*, which is an interim standard related to the *Rate-regulated activities* project. IFRS 14 allows exclusively first-time adopters of IFRS to continue 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.
- *IFRS 15 – Recognition of revenue from contracts with customers.* On 28 May 2014 IASB and FASB jointly issued IFRS 15 designed to improve the disclosure of revenues and the global comparability of financial statements in order to harmonize the recognition of economically similar transactions. The standard is effective for IFRS users from reporting periods starting after 1 January 2017 (early adoption is permitted). On 12 April 2016, IASB published"*Clarification to IFRS 15*", in order to clarify certain requirements and provide further simplifications that reduce costs and complexity for first-time adopters of the new standard.
- *IFRS annual improvements cycle 2012–2014*. On 25 September 2014 IASB issued a raft of amendments to IAS/IFRS standards. The aim of the annual improvements is to address necessary matters related to inconsistencies found in IFRSs or for clarifications of terminology, which are not of an urgent nature but which reflect issues discussed by 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. These amendments will be effective for reporting periods starting after 1 January 2016. Early adoption is however permitted.

- *IFRS 16 – Leasing*. On 13 January 2016, the IASB published the new standard that replaces IAS 17. The new standard will make the financial statements of companies even more comparable, by abolishing the distinction between "finance leases" and "operating leases" and by requiring companies to recognize in their financial statements the assets and liabilities associated with all types of leasing contract. IFRS 16 is applicable from 1 January 2019. Early application is allowed for entities that also apply IFRS 15 "Revenue from contracts with customers".
- *Amendments to IAS 12 – Income taxes.* The IASB has published certain amendments to the standard. The document entitled *Recognition of deferred tax assets for unrealised losses (Amendment to IAS 12)* seeks to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendments are applicable from 1 January 2017. Early adoption is allowed.
- *Amendments to IAS 7 - Statement of cash flows.* On 29 January 2016, IASB published an amendment to the standard entitled "*Disclosure initiative*" in order to improve the information provided about changes in financial liabilities. The amendments are applicable from 1 January 2017.
- *IFRS annual improvements cycle 2014-2016.* On 8 December 2016 IASB issued several minor changes to IFRS 1 *(First-Time Adoption of IFRS)*, IFRS 12 *(Disclosure of interests in other entities)* and IAS 28 *(Investments in Associates and Joint Ventures)*, as well as an IFRIC interpretation *(Interpretation 22 Foreign Currency Transactions and Advance Consideration)*. The aim of the annual improvements is to address necessary matters related to inconsistencies found in IFRSs or for clarifications of terminology, which are not of an urgent nature but which reflect issues discussed by the IASB during the project cycle. Among the principal amendments, IFRIC 22 provides guidance on the use of exchange rates in transactions in which the foreign currency consideration is paid or received in advance. These amendments will be effective for reporting periods starting after 1 January 2018, except for the amendments to IFRS 12 that took effect on 1 January 2017.

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 2017, while the approval process required for adoption of the other standards and amendments is still under way.

An analysis currently in progress into the possible effects of applying IFRS 15 (*Revenue recognition*). Application of this standard from 1 January 2018 is not currently expected to have a significant effect. With regard to the application of IFRS 16 (Leasing), the effects on payables before discounting are reported in note 30. On the basis of analyses currently in progress, no significant effects are expected from the 2017 adoption of other 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 Jetting Sector, which basically includes high and very-high pressure pumps, very high pressure systems, and high pressure homogenizers with piston pumps, and the Hydraulic 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 is represented by the merger deficit portions paid for this reason and arising from the merger operations.

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

2.7 Other intangible assets

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

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

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

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

2.14 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. The curve of “AA” rated interest rates at 31 December 2016 described above and used for the purpose of actuarial valuation, displayed a reduction with respect to the same curve at 31 December 2015, due to the more stable European macroeconomic scenario with respect to the prior year and constantly strengthening economic growth, although proceeding at a reduced rate compared to progress before the crisis, as shown by the ECB. The calculation is performed on an annual basis by an independent actuary using the projected unit credit method.

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

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

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

(iii) Stock options
On the basis of the stock option plan currently in existence, certain employees and directors are entitled to purchase the treasury shares of Interpump Group S.p.A. The options are measured at 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. can use derivative financial instruments to hedge against exchange and interest rate risks. The company does not hold derivative financial instruments of a speculative nature, in compliance with the rulings established by the procedure approved by the Board of Directors.

(a) Market risks

(i) Exchange rate risk

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

(ii) Interest rate risk

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

(b) Credit risk

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

(c) Liquidity risk

Prudent management of liquidity risk involves the retention of an appropriate level of cash on hand and sufficient access to lines of credit. Because of the dynamic nature of the 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 income and cash flow of the company's operating activities are not 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

	31/12/2016 (€/000)	31/12/2015 (€/000)
Cash	13	9
Bank deposits	87,943	46,592
Total	87,956	46,601

Bank accounts include €395k held in US dollars ($417k). Currency liquidity totaling €190k ($200k) has been hedged against the risk of exchange rate fluctuations.

The company continued its strategy of maintaining immediately available liquidity also in 2016, relinquishing the very modest yields that can be achieved only by accepting conditions of limited access.

5. Trade receivables

	31/12/2016 (€/000)	31/12/2015 (€/000)
Trade receivables, gross	16,610	9,969
Bad debt provision	(580)	(466)
Trade receivables, net	16,030	9,503

Changes in the bad debt provision were as follows:

	2016 (€/000)	2015 (€/000)
Opening balances	466	375
Provisions in the year	78	58
Merger effect	321	155
Drawdowns in the year due to losses	(285)	(122)
Closing balance	580	466

Provisions in the year are booked under other operating costs.

Receivables expressed in US dollars totalled €2,882k (US$3,038k) while loans stated in pounds sterling totalled €6k (GBP 5). At 31 December 2016 no receivables were hedged against the risk of exchange rate fluctuations.

No trade receivables or payables are due beyond twelve months.

6. Inventories

	31/12/2016 (€/000)	31/12/2015 (€/000)
Raw materials and components	7,777	5,667
Semi-finished products	8,367	6,204
Finished products	2,848	2,412
Total inventories	18,992	14,283

Inventories are stated net of an allowance for inventories totalling €2,373k (€1,804k at 31 December 2015) allocated to cover materials considered to be obsolete and slow moving stock. Changes in the inventories allowance were as follows:

	2016 (€/000)	2015 (€/000)
Opening balances	1,804	1,146
Provisions in the year	100	295
Merger effect	469	363
Drawdowns in the year due to losses	-	-
Closing balance	2,373	1,804

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.

There were no interest rate hedging derivatives in existence at 31 December 2016.

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:

	31/12/2016 Notional ($/000)	31/12/2016 Positive fair value (€/000)	31/12/2016 Negative fair value (€/000)	31/12/2015 Notional ($/000)	31/12/2015 Positive fair value (€/000)	31/12/2015 Negative fair value (€/000)
Plain vanilla forwards hedging sales of high pressure pumps	600	-	36	1,483	2	28
Total derivative financial instruments to hedge against the USD exchange rate risk	600	-	36	1,483	2	28

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 €4k deriving from exchange rate risk management activities.

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 2016 the Group released previously deferred profits from equity to the income statement totaling €13k, net of the theoretical tax effect. This amount was booked as an increase in net sales of €19k and as an adjustment to deferred taxation of €6k.

Ineffectiveness deriving from cash flow hedging transactions in 2016 and in 2015 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:

	2016 (€/000)	2015 (€/000)
Net profit (loss) on derivative instruments utilized to hedge against exchange risks	-	(17)
Change in the fair value of other underlying elements	-	(2)
Profit (loss), net	-	(19)

Fair Value

The net effects recognized in the income statement on derivative instruments that do not comply with the parameters of IAS 39 amount to a gain of €2k (no effect recognized in 2015) and are referred entirely to the exchange risk management activity.

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. TAhe 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).

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:

	31/12/2016 %	31/12/2015 %
Derivative financial instruments (euro)	-0.33/1.18	-0.13/1.59
Derivative financial instruments (USD)	0.69/2.56	0.27/2.63
Interest bearing financial payables in euro	Euribor +0.65/0.90	Euribor +0.70/1.20
Financial leasing agreements	3.25	N/a
Financial assets	0.7	1.1

At 31 December 2016 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 2016, broken down by level:

(€/000)	Level 1	Level 2	Level 3	Total
Active derivatives:				
- Plain vanilla forwards	-	-	-	-
Total assets	**-**	**-**	**-**	**-**
Derivatives payable:				
- Plain vanilla forwards	-	36	-	36
Total liabilities	**-**	**36**	**-**	**36**

No transfers between levels were carried out in 2016.

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 2016.

8. Other current assets

This item comprises:

	31/12/2016 (€/000)	31/12/2015 (€/000)
Other receivables	331	258
Accrued income and prepayments	180	134
Total	511	392

9. Property, plant and equipment

	Land and buildings (€/000)	*Plant and machinery* (€/000)	*Equipment* (€/000)	*Other assets* (€/000)	*Total* (€/000)
At 1 January 2015					
Cost	10,151	31,514	14,114	2,734	58,513
Accumulated amortization	(3,752)	(20,522)	(11,878)	(2,314)	(38,466)
Net book value	6,399	10,992	2,236	420	20,047
Changes in 2015					
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)	-
Capitalized depreciation	-	(8)	-	-	(8)
Depreciation and amortization	(122)	(1,361)	(829)	(174)	(2,486)
Closing net book value	6,598	13,395	1,816	451	22,260
At 31 December 2015					
Cost	10,888	35,732	16,186	3,108	65,914
Accumulated amortization	(4,290)	(22,337)	(14,224)	(2,657)	(43,508)
Allowance for impairment	-	-	(146)	-	(146)
Net book value	6,598	13,395	1,816	451	22,260
Changes in 2016					
Opening net book value	6,598	13,395	1,816	451	22,260
Increases	183	1,973	635	185	2,976
Merger effect	2	1,385	178	28	1,593
Disposals	-	-	(4)	-	(4)
Reclassified	-	(82)	63	19	-
Write-downs	-	(4)	-	-	(4)
Capitalized depreciation	-	(10)	(1)	-	(11)
Depreciation and amortization	(138)	(1,795)	(859)	(205)	(2,997)
Closing net book value	6,645	14,862	1,828	478	23,813
At 31 December 2016					
Cost	11,075	40,255	17,371	3,487	72,188
Accumulated amortization	(4,430)	(25,389)	(15,397)	(3,009)	(48,225)
Allowance for impairment	-	(4)	(146)	-	(150)
Net book value	6,645	14,862	1,828	478	23,813

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

	Land and buildings (€/000)	*Plant and machinery* (€/000)	*Equipment* (€/000)	*Other assets* (€/000)	*Total* (€/000)
At 1 January 2015	-	1,686	499	-	2,185
At 31 December 2015	287	3,330	347	-	3,964
At 31 December 2016	-	1,244	465	-	1,709

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

	Land and buildings (€/000)	*Plant and machinery* (€/000)	*Equipment* (€/000)	*Other assets* (€/000)	*Total* (€/000)
At 1 January 2015	-	-	-	-	-
At 31 December 2015	-	-	-	-	-
At 31 December 2016	-	939	29	11	979

Depreciation of €2,719k was charged to the cost of sales (€2,224k in 2015) and €278k for general and administrative expenses (€262k in 2015).

At 31 December 2016 the company had contractual commitments for the purchase of tangible assets equal to €2,698k (€2,417k at 31 December 2015).

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 2021. The projected cash flows determined in this manner were reduced by a discount factor in order to take account of the risk that future plans could become impracticable. WACC, *after tax*, was measured at 4.53%. The WACC was 5.04% at 31 December 2015. 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 December 2016.

11. Other intangible assets

	Product development expenses (€/000)	*Patents trademarks and industrial rights* (€/000)	*Other intangible assets* (€/000)	*Total* (€/000)
At 1 January 2015				
Cost	15,507	-	1,342	16,849
Accumulated amortization	(11,245)	-	(732)	(11,977)
Net book value	4,262	-	610	4,872
Changes in 2015				
Opening net book value	4,262	-	610	4,872
Increases	774	-	134	908
Merger effect	1,528	19	-	1,547
Reclassified		(19)	19	-
Depreciation and amortization	(1,449)	-	(198)	(1,647)
Closing net book value	5,115	-	565	5,680
At 31 December 2015				
Cost	19,621	137	1,675	21,433
Accumulated amortization	(14,506)	(137)	(1,110)	(15,753)
Net book value	5,115	-	565	5,680
Changes in 2016				
Opening net book value	5,115	-	565	5,680
Increases	552	-	128	680
Merger effect	-	34	-	34
Reclassified		(34)	34	-
Write-downs	(19)	-	-	(19)
Capitalized depreciation	-	-	(7)	(7)
Depreciation and amortization	(1,463)	-	(228)	(1,691)
Closing net book value	4,185	-	492	4,677
At 31 December 2016				
Cost	20,154	137	2,372	22,663
Accumulated amortization	(14,600)	(137)	(1,880)	(16,617)
Allowance for impairment	(1,369)	-	-	(1,369)
Net book value	4,185	-	492	4,677

Product development costs are referred to the costs for the development of new products, which were capitalised for the part that complies with the criteria set down 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:

	Product development expenses (€/000)	*Other intangible assets* (€/000)	*Total* (€/000)
At 1 January 2015	1,028	-	1,028
At 31 December 2015	2,059	-	2,059
At 31 December 2016	1,760	-	1,760

Amortization of €1,691k (€1,647k in 2015) was booked entirely to general and administrative costs.

12. Investments in subsidiaries

(€/000)	Balance at 31 December 2015	Increases due to assignment of stock options	Increases	Merger effect	Impairment losses	Balance at 31 December 2016
Subsidiaries:						
Walvoil S.p.A.	118,172	-	-	-	-	118,172
Walvoil Fluid Power India Pvt Ltd	14	-	-	-	-	14
NLB Corporation Inc.	62,048	-	-	-	-	62,048
General Pump Companies Inc.	8,903	-	-	-	-	8,903
Interpump Hydraulics S.p.A.	104,258	-	-	-	-	104,258
Hammelmann GmbH	26,032	-	-	-	-	26,032
Bertoli S.r.l.	7,424	-	-	(7,424)	-	-
Inoxihp S.r.l.	8,704	-	-	-	-	8,704
Teknova S.r.l. (in liquidation)	27	-	-	-	-	27
SIT S.p.A.	814	-	-	-	-	814
Hammelmann Bombas e Sistemas Ltda	13	-	-	-	-	13
Tubiflex S.p.A.	-	-	27,266	-	-	27,266
Fair value of the stock options of the employees of subsidiaries	1,261	304	-	-	-	1,565
Total subsidiaries	*337,670*	*304*	*27,266*	*(7,424)*	*-*	*357,816*

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 and are therefore investments (financial instruments) that differ from held for sale investments.

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 €304k was added to the value of the investments, with the increase in the share premium reserve as a matching entry.

13. Other current financial

The only item included under other financial assets relates to loans to subsidiaries, a breakdown of which is given in Note 5 of the "2016 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:

	Deferred taxes assets		*Deferred taxes liabilities*	
	2016 (€/000)	*2015* (€/000)	*2016* (€/000)	*2015* (€/000)
At 1 January	2,082	1,635	679	817
Charged to income statement in the year	(740)	378	(526)	(146)
Merger effect	263	240	176	2
Charged to net equity	573	(171)	549	6
Reclassified	(27)	-	(27)	-
At 31 December	2,151	2,082	851	679

Deferred tax assets and liabilities can be booked to the following items of the balance sheet:

	31/12/2016 *Deferred tax assets* (€/000)	*31/12/2015* *Deferred tax assets* (€/000)	*31/12/2016* *Deferred tax liabilities* (€/000)	*31/12/2015* *Deferred tax liabilities* (€/000)
Property, plant and equipment	132	142	786	631
Intangible fixed assets	54	101	-	-
Inventories	680	517	-	-
Receivables	39	32	-	-
Investments	318	318	10	10
Liabilities for employee benefits	(508)	-	-	599
Shareholders' equity				
- derivative financial instruments	10	6	-	-
- liabilities for employee benefits	570	-	-	(561)
Provision for risks and charges	66	-	-	-
Other	790	966	55	-
Total	2,151	2,082	851	679

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 re-measurement 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 December 2016 all financial covenants had been amply complied with.

Interest bearing financial payables at 31 December 2016 included also payables for finance leasing of €238k, deriving from the Bertoli S.r.l. merger and composed as follows at 31 December 2016:

(€/000)	Within the year	Between one and five years	Beyond five years	Total
Payment of financial leasing installments	157	90	-	247
Interest	(6)	(3)	-	(9)
Current value of financial leasing payables	151	87	-	238

The financial leasing contracts are related to plant and machinery, equipment and other assets whose carrying value, which stands at €979k, has been included under the Property, plant and equipment caption (Note 13).

Non-current financial payables have the following due dates:

	31/12/2016 (€/000)	31/12/2015 (€/000)
From 1 to 2 years	119,015	64,085
From 2 to 5 years	163,584	191,041
Beyond 5 years	-	-
Total	282,599	255,126

The average interest rate on loans in 2016 was approximately 0.68% (1.19% in 2015).

At 31/12/2016 all loans were at floating-rates.

The company has the following lines of credit which were unused at year-end:

	31/12/2016 (€/000)	31/12/2015 (€/000)
Current account overdrafts and export advances	19,045	19,045
Medium/long-term loans	63,400	211,500
Total	82,445	230,545

16. Other current liabilities

This item comprises:

	31/12/2016 (€/000)	31/12/2015 (€/000)
Payables to personnel	2,509	2,102
Payables to social security institutions	1,956	1,642
Customer advances	756	541
Customer credit balances	160	236
Customers for credit notes to issue	36	59
Payables for remuneration of directors/auditors	812	789
Accrued expenses and deferred income	-	14
Other	97	51
Total	6,326	5,434

17. Provisions for risks and charges

Provisions for risks and charges refer to the agents' termination indemnity provision in the amount of €14k, which rose by €2k in 2016, and to various disputes in progress in the amount of €275k. The balance of €289k (€12k in 2015) is classified in the current part of the balance sheet in the amount of €275k and in the non-current part in the amount of €14k.

18. Liabilities for employee benefits

Liabilities for defined benefit plans

The following movements were recorded in liabilities:

	2016 (€/000)	2015 (€/000)
Liabilities at 1 January	4,403	4,152
Amount charged to the income statement in the year	2	7
Recognition in equity of actuarial results	383	(638)
Reclassified	(62)	(29)
Merger effect	891	1,185
Payments	(193)	(274)
Liabilities at 31 December	5,424	4,403

The following items were recognized in the income statement:

	2016 (€/000)	2015 (€/000)
Current service cost	-	-
Financial expenses	2	7
Past service cost	-	-
Total recognized in the income statement	2	7

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:

	2016	2015
Executives	12	9
Middle management	13	8
White collar	87	65
Blue collar	299	270
Fixed-contract personnel	23	24
Total	434	376

The increase in the average headcount is mainly due to the Bertoli S.r.l. merger, which is not included in the 2015 values.

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

	Unit of measurement	2016	2015
Discount rate	%	1.69	2.37
Expected increase rate of remuneration	%	n.a.	n.a.
Percentage of employees expected to resign before retirement age (*turnover)***	%	3.08	2.64
Annual cost-of-living increase	%	1.5	1.5
Average period of employment	Years	15.51	15.79

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

19. Share capital

The share capital at 31 December 2016 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 €55,431k because the nominal value of purchased treasury shares, net of divested treasury shares, was deducted from the share capital in compliance with the reference accounting standards. At 31 December 2016 Interpump S.p.A. held 2,281,752 treasury shares in the portfolio corresponding to 2.10% of the capital stock, acquired at an average unit cost of EUR 12.4967.

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

	Number
Balance at 31/12/2014	*5,281,095*
2015 purchases	2,542,395
Sale of shares to finance subsidiaries' purchases	(4,925,854)
Sale of shares for the exercise of stock options	(1,771,724)
Balance at 31/12/2015	*1,125,912*
2016 purchases	3,407,000
Sale of shares to finance subsidiaries' purchases	(449,160)
Sale of shares for the exercise of stock options	(1,802,000)
Balance at 31/12/2016	*2,281,752*

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

	2016 Number of shares	2015 Number of shares
Ordinary shares in existence at 1 January	108,879,294	108,879,294
Treasury shares held	(1,125,912)	(5,281,095)
Shares in circulation at 1 January	107,753,382	103,598,199
Treasury shares purchased	(3,407,000)	(2,542,395)
Treasury shares sold	2,251,160	6,697,578
Total shares in circulation at 31 December	106,597,542	107,753,382

The aims identified by the company in the management of capital are the creation of value for all shareholders and supporting development of the group, both through internal means and by means of acquisitions. The company therefore intends to maintain an adequate level of capitalization, which simultaneously makes it possible to generate a satisfactory economic return for shareholders and 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 €166,979k at 31 December 2016 and €194,149k at 31 December 2015), 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 €146,884k at 31 December 2016 and €102,271k at 31 December 2015, excluding 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 shares held by Interpump Group is recorded in an equity provision. The Group acquired 3,407,000 treasury shares in 2016 for €43,308k, at an average price of €12.7114 (the Group purchased 2,542,395 treasury shares in 2015 for the total amount of €32,709k).

Treasury shares sold
In the framework of the execution of stock option plans a total of 1,802,000 options were exercised resulting in a receipt of €9,490k (1,771,724 options were exercised for €8,166k in 2015). Moreover, 449,160 treasury shares were divested in 2016 to pay for part of the equity investment in Tubiflex (4,925,854 treasury shares divested in 2015 for the acquisition of equity investments).

Stock options
The fair value of the 2013/2015 and 2016/2018 stock option plans was recorded in the 2016 and 2015 financial statements in compliance with IFRS 2. Costs of €1,429k (€991k in 2015) relating to the stock option plans were therefore recognized in the 2016 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:

	2016 (€/000)	2015 (€/000)
Cost of sales	-	-
Distribution costs	53	86
General and administrative expenses	1,376	905
Total	1,429	991

Changes in the share premium reserve were as follows:

	2016 €/000	2015 €/000
Share premium reserve at 1 January	138,117	100,400
Increase due to income statement recognition of the fair value of stock options granted	1,429	991
Increase due to the recognition in equity of the fair value of stock options assigned to employees of subsidiaries	304	379
Increase for the disposal of treasury shares further to payment for acquisitions of subsidiaries	5,516	60,891
Increase for the disposal of treasury shares further to stock options exercised	9,490	8,166
Utilization to cover purchase of treasury shares	(43,308)	(32,710)
Share premium reserve at 31 December	111,548	138,117

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:

	No. of options granted	Vesting period	Exercise price (€)
Fourth tranche	20,000	01/07/2010 – 31/12/2017	3.7524

Changes in options are as follows:

	2016 Number of options	2015 Number of options
Options assigned at 1 January	499,000	1,073,724
Options granted in the year	-	-
Options exercised in the year	(479,000)	(574,724)
Total options assigned at 31 December	20,000	499,000
Of which:		
- vested at 31 December	20,000	499,000
- not vested at 31 December	-	-
Total options assigned at 31 December	20,000	499,000

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 changes in options during 2016 and 2015 are indicated below:

	2016 Number of options	2015 Number of options
Options assigned at 1 January	160,000	1,357,000
Options granted in the year	-	-
Options exercised in the year	(160,000)	(1,197,000)
Total options assigned at 31 December	-	160,000
Of which:		
- vested at 31 December	-	160,000
- not vested at 31 December	-	-
Total options assigned at 31 December	-	160,000

The Shareholders' Meeting held on 30 April 2013 approved the adoption of an incentive plan denominated "*2013/2015 Interpump Incentive Plan*", which is also described in detail in the Board of Directors' Report accompanying the consolidated financial statements. The exercise price was set at EUR 6.00 per share. The options can be exercised between 30 June 2016 and 31 December 2019. The changes in options during 2016 and 2015 are indicated below:

	2016 Number of options	2015 Number of options
Options assigned at 1 January	1,870,000	1,870,000
Options granted in the year	-	-
Options exercised in the year	(1,163,000)	-
Options cancelled in the year	(7,000)	-
Total options assigned at 31 December	700,000	1,870,000
Of which:		
- vested at 31 December	700,000	1,870,000
- not vested at 31 December	-	-
Total options assigned at 31 December	700,000	1,870,000

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

A total of 519,800 options were assigned to other beneficiaries identified within the Interpump Group on 6 and 29 July 2016 and on 13 December 2016 (251,400 options within Interpump Group S.p.A.).

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

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	EUR	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

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	EUR	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	EUR	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

2016//2018 Plan

First assignment	Unit of measurement	
Number of shares assigned	no.	1,620,000
Grant date		12 May 2016
Exercise price		12.8845
Vesting date		1 July 2019
Fair value per option at the grant date	EUR	2.4585
Expected volatility (expressed as the weighted average of the volatility values utilized to build the binomial lattice model)	%	30
Expected average duration of the plan life	years	6.583
Expected dividends (compared with share value)	%	2.50
Risk free interest rate (calculated using a linear interpolation of Euro Swap rates at 12 May 2016)	%	From 0.11 to 0.22

Second assignment	Unit of measurement	
Number of shares assigned	no.	483,800
Grant date		6 July 2016
Exercise price		12.8845
Vesting date		1 July 2019
Fair value per option at the grant date	EUR	3.0520
Expected volatility (expressed as the weighted average of the volatility values utilized to build the binomial lattice model)	%	30
Expected average duration of the plan life	years	6.417
Expected dividends (compared with share value)	%	2.50
Risk free interest rate (calculated using a linear interpolation of Euro Swap rates at 6 July 2016)	%	From -0.094 to -0.004

Third grant date	Unit of measurement	
Number of shares assigned	no.	30,000
Grant date		29 July 2016
Exercise price		12.8845
Vesting date		1 July 2019
Fair value per option at the grant date	EUR	3.7130
Expected volatility (expressed as the weighted average of the volatility values utilized to build the binomial lattice model)	%	30
Expected average duration of the plan life	years	6.417
Expected dividends (compared with share value)	%	2.50
Risk free interest rate (calculated using a linear interpolation of Euro Swap rates at 29 July 2016)	%	From -0.082 to -0.002

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

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
Share capital						
Subscribed and fully paid-up share capital	56,617	B	-	-	-	-
Nominal value of treasury shares in portfolio	(1,186)	-	-	-	-	-
Total share capital	55,431					
Capital reserves						
Legal reserve	6,860	B	-	-	-	-
Share premium reserve	37,351	A,B,C	37,351	-	-	27,492
Total capital reserves	44,211		37,351			
Profit reserves:						
Legal reserve	4,463	B	-	-	-	-
Share premium reserve	74,197	A,B,C	72,632	1,232	-	-
Extraordinary reserve	69,501	A,B,C	67,502	-	-	-
Reserve for share capital reduction	1,186	-	-	-	-	-
First Time Adoption Reserve	(56)	-	-	-	-	-
Reserve for the measurement of hedging derivatives at fair value	(24)	-	-	-	-	-
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	(1,805)					
Profit for the year	64,067	A,B,C	28,529	-	-	-
Total profit reserves	212,392		169,361			
Reserve for treasury shares held	28,514	-	-	-	-	114,317
Treasury shares	(28,514)	-	-	-	-	-
Non-distributable portion*			(4,677)			
Remaining distributable portion			202,035			

A: for capital increase B: for coverage of losses C: for distribution to shareholders

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

We draw your attention to the fact that €12,987k of the share premium reserve qualifies for tax relief in that it was fiscally formed from the revaluation reserve, Law 342/2000 and Law 266/2005.

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

On the basis of tax legislation the reserves and profits are freely distributable and do not attract tax even in the case of distribution, on the condition that the reserves and residual profits exceed the negative components of income ascribed exclusively to the tax return; otherwise, distributed reserves and profits are subject to tax in the measure in which the residual reserves and profits are lower than the negative components of income that have been ascribed exclusively to the tax return. At 31 December 2016, 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)	2016			2015		
	Pre-tax amount	Taxation	Amount net of taxes	Pre-tax amount	Taxation	Amount net of taxes
Accounting for derivatives hedging exchange-rate risks using the cash flow hedge method	(14)	3	(11)	7	(2)	5
Restatement of defined benefit plans	(383)	22	(361)	638	(175)	463
Total	**(397)**	**25**	**(372)**	**645**	**(177)**	**468**

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)	At the fair value recorded in the Income Statement		*Financial assets at 31/12/2016*	*Financial liabilities at 31/12/2016*		
	Initially*	IAS 39**	Loans and receivables	Valued at the amortized cost	Total	*Fair value*
Trade receivables	-	-	16,030	-	16,030	16,030
Dividends receivable			2,372		2,372	2,372
Other current assets	-	-	331	-	331	331
Other current financial assets	-		16,760	-	16,760	16,760
Other current financial assets	-	-	147,630	-	147,630	147,630
Trade payables	-	-	-	(12,828)	(12,828)	(12,828)
Current interest-bearing financial payables	-	-	-	(93,106)	(93,106)	(93,106)
Derivative instruments - Payables	-	-	-	-	-	-
Other current liabilities	-	-	-	(6,326)	(6,326)	(6,326)
Non-current interest-bearing financial payables	-	-	-	(282,599)	(282,599)	(282,599)
Total	-	-	183,123	(394,859)	(211,736)	(211,736)

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

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

			Financial assets at 31/12/2015	*Financial liabilities at 31/12/2015*		
(€/000)	At the fair value recorded in the Income Statement Initially*	IAS 39**	Loans and receivables	Valued at the amortized cost	Total	*Fair value*
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 current 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	-	-	-	(255,126)	(255,126)	(255,126)
Total	-	-	161,199	(318,652)	(157,453)	(157,453)

* = 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.

In the 2016 income statement the company has recognized fair value gains of €2k on derivative financial instruments that, although arranged for hedging purposes, did meet all the requirements specified in IAS 39 for recognition as hedges (no value gains or losses of were recognized in 2015). 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 €428k (€531k in 2015). In contrast, the costs refer to exchange losses in the amount of €208k (€271k in 2015), to bad debts for €78k (€58k 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 2016 the value of these expenses booked to the income statement totalled €346k (€478k in 2015).

Financial assets and liabilities that are not designated at fair value through profit or loss (in the case of Interpump Group S.p.A., all those indicated in the above tables) generated interest income of €1,871k (€2,133k in 2015) and interest expense of €2,502k (€3,173k in 2015); in addition, general and administrative expenses include commissions and bank charges of €116k (€92k in 2015).

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 2016 the total amount of cash flow exposed directly to exchange risks was approximately 22% of company sales (approximately 27% in 2015) of which around 1% hedged with respect to the exchange fluctuations risk.
  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. In recent years the company has started billing in USD also to its other US subsidiary, NLB Inc.
  The Interpump Group has adopted a policy of hedging commercial transactions denominated in foreign currency in the framework of which the most effective derivative instruments for the achievement of the preset goals have been identified and the relative responsibilities, duties and system of delegations have been defined.
  In relation to the exposure in dollars for recurring sales on the American market the company policy is not to hedge foreign currency transactions, while in relation to the exposure in dollars for sales on the US market that are non-recurring either in terms of amount or of frequency of occurrence, it is company policy to take out hedges.
- Again in relation to commercial activities, the company may be in a position wherein it holds commercial receivables denominated in currencies other than the account currency. Fluctuations in exchange rates can therefore result in the realization or assessment of positive or negative exchange differences.
- In relation to financial exposure, wherever the monetary outflows are denominated in a currency other than the account currency, fluctuation of the exchange rates can impact the net profits of the company negatively. At 31 December 2016 and 31 December 2015 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 2016 and 2015.

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 €496k (potential profit of €412k in 2015).

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 currently company policy not to take out hedges, in view of the short average duration of the existing loans (around 3 years). At 31 December 2016 all the group's cash on hand was subject to floating interest rates, as were all financial and bank debts. In addition, in 2016 and in prior years the company granted loans to its subsidiaries in the amount of €164.4m (€151.4m at 31 December 2015), 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 €615k (higher financial expenses of €524k in 2015). 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 2016 and 2015 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 2016, Loans and Receivables from financial activities total €183,123k (€161,199k at 31 December 2015), and include €580k for written down receivables (€466k at 31 December 2015); amounts overdue by less than three months are €2,783k (€1,729k at 31 December 2015), while those overdue beyond three months total €335k (€306k at 31 December 2015).

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 19% of total sales in 2016 (24% in 2015). The top customer outside the Group accounted for approximately 6% of sales in 2016 (5% in 2015) while, in total, the top 10 customers after the first intercompany customer accounted for 22% of sales (22% also in 2015).

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 2016 totals €88.0m. Cash on hand and the cash generated by the company in 2016 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 34% of the company purchase cost of raw materials, semi-finished products and finished products (31% in 2015). The main metals utilized by the company include brass, aluminium, stainless steel and steel.

Company policy is to transfer the cost of stocking materials to suppliers; in this scenario the risk is hedged by means of orders for specific periods and quantities agreed at a fixed price; at 31 December 2016 signed commitments were in place entirely covering the projected 2017 consumption of brass (100% also at 31 December 2015), 53% of aluminium consumption predicted for 2017 (100% at 31 December 2015), 35% of steel consumption (23% at 31 December 2015) and 35% of the stainless steel consumption predicted for next year (38% at 31 December 2015). In addition, at 31 December 2016 stocks covered about 30% of forecast brass consumption of (11% at 31 December 2015), 38% of aluminum consumption (23% at 31 December 2015), 18% of steel consumption (54% at 31 December 2015) and 15% of stainless steel consumption (5% at 31 December 2015).

The company's selling prices are generally reviewed on an annual basis.

23. Net sales

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

	2016 (€/000)	2015 (€/000)
Italy	18,817	13,736
Rest of Europe	25,356	22,008
Rest of the World	48,113	42,228
Total	92,286	77,972

Details of net sales in each invoicing currency are provided below:

	2016 (€/000)	2015 (€/000)
EUR	72,359	56,724
USD	19,921	21,239
GBP	6	9
Total	92,286	77,972

Sales in USD refer primarily to invoices issued to the US subsidiaries General Pump Inc. and NLB Corporation Inc.

24. Other net revenues

	2016 (€/000)	2015 (€/000)
Capital gains on the sale of tangible assets	14	6
Transfer of surplus provisions	36	-
Income from rent/royalties	40	16
Sale of scrap	993	140
Other	403	401
Reimbursement of expenses	823	563
Total	2,309	1,126

25. Costs by nature

	2016 (€/000)	2015 (€/000)
Raw materials and components	26,653	21,538
Personnel and temporary staff	26,482	22,888
Services	11,791	10,573
Amortization / depreciation (notes 9 and 11)	4,688	4,133
Directors' and statutory auditors' remuneration	4,577	4,144
Hire purchase and leasing charges	653	591
Provisions / impairment of tangible and intangible fixed assets (notes 9, 11 and 17)	300	2
Other operating costs	4,933	3,938
Total cost of sales, distribution costs, general and administrative expenses, other operating costs and impairment losses of tangible and intangible fixed assets	80,077	67,807

The emoluments of the Directors and Statutory Auditors of Interpump Group S.p.A. in 2016 were, respectively, €4,471k and €105k 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 of merged company Bertoli S.r.l. totalling €1k).

26. Financial income and charges

	2016 (€/000)	2015 (€/000)
Financial income		
Interest income from liquid funds	12	26
Interest income from financial assets (intercompany loans)	1,871	2,133
Other financial income	5	2
Foreign exchange gains	428	580
Earnings from valuation of derivative financial instruments	18	51
Total	2,334	2,792
Financial expenses		
Interest expense on loans	2,848	3,618
Other financial charges	124	50
Tobin tax	43	-
Foreign exchange losses	378	271
Losses from valuation of derivative financial instruments	21	77
Total	3,414	4,016

27. Income taxes

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

	2016 (€/000)	2015 (€/000)
IRES		
Profit before taxes from the income statement	70,230	32,844
Theoretical taxes at nominal rate (27.5%)	19,313	9,032
Lower taxes for non-taxable dividends	(14,521)	(5,890)
Higher taxes due to non-deductible write-downs of investments	-	94
Lower taxes due to IRAP deduction relating to expenses for employees and similar	(71)	(83)
Lower taxes due to IRAP deduction on interest expenses	(24)	(23)
Higher / (Lower) taxes on absorption of difference between severance indemnities under IFRS and those determined using fiscal criteria	(23)	6
Taxes for prior financial years	323	337
Effect of scheduled change in the IRES tax rate from 2017	23	91
Other	185	27
Total IRES	5,205	3,591
IRAP/Local income taxes		
Profit before taxes from the income statement	70,230	32,844
Theoretical taxes at nominal rate (4.65%)	3,266	1,527
Lower taxes for non-taxable dividends	(2,642)	(1,074)
Higher taxes for non-deductible payroll costs	91	74
Higher taxes for non-deductible directors' emoluments	196	179
Higher taxes due to non-deductible financial expenses	14	1
Effect of change in tax rate	-	(7)
Other	34	24
Total IRAP (Local income taxes)	959	724
Total income taxes recognized in the income statement	6,164	4,315

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

	2016 (€/000)	2015 (€/000)
Current taxes	(5,627)	(4,372)
Current taxes of prior financial years	(323)	(467)
Deferred taxes	(214)	524
Total taxes	(6,164)	(4,315)

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

	2016 (€/000)	2015 (€/000)
Deferred tax assets generated in the year	580	975
Deferred tax liabilities generated in the year	(55)	(32)
Deferred tax assets transferred to the income statement	(1,297)	(569)
Deferred tax liabilities recognized in the income statement	581	104
Deferred tax assets due to changes in the tax rate	(23)	(158)
Deferred tax liabilities due to changes in the tax rate	-	74
Deferred tax assets not calculated in previous years	-	130
Total deferred taxes	(214)	524

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:

	2016	2015
Profit for the year attributable to shareholders (€/000)	64,067	28,529
Average number of shares in circulation	106,196,360	106,854,067
Basic earnings per share for the year	0.603	0.267

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:

	2016	2015
Profit for the year attributable to shareholders (€/000)	64,067	28,529
Average number of shares in circulation	106,196,360	106,854,067
Number of potential shares for stock option plans (*)	419,088	1,491,735
Average number of shares (diluted)	106,615,448	108,345,802
Earnings per diluted share at 31 December (EUR)	0.601	0.263

(*) 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 2016 the company purchased property, plant and equipment totalling €2,976k (€4,356k in 2015). This expenditure involved the payment of €3,666k, inclusive of the payment of past debts for the same purpose and net of payables deferred to the following year (€4,542k in 2015).

Cash and cash equivalents

This item can be broken down as follows:

	31/12/2016 (€/000)	31/12/2015 (€/000)	01/01/2015 (€/000)
Cash and cash equivalents from the balance sheet	87,956	46,601	22,841
Payables to banks (for current account overdrafts and advances subject to collection and accrued expenses for interest payable)	(433)	(731)	(408)
Cash and cash equivalents from the cash flow statement	87,523	45,870	22,433

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 2016 and 2015 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 €2,698k (€2,417k at 31/12/2015).

Interpump Group S.p.A. has signed rental and hire purchase agreements mainly for warehouses, offices, and cars. The total outlay in 2016 was €941k (€126k in 2015). At 31/12/2016, the following commitments were outstanding:

	€/000
Due within 1 year	891
Due from 1 to 2 years	829
Due from 2 to 5 years	1,477
Due beyond 5 years	-
Total	3,197

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 €665k (€665k also in 2015), consultancy services provided by entities connected with directors and statutory auditors of the Parent company for €16k (€68k 2015) and other costs in the amount of €3k (no costs incurred in 2015). The leasing costs are classified among the cost of sales, €599k (€577k in 2015), and general and administrative costs of €66k (€88k in 2015). The consultancy costs were charged in full to general and administrative expenses.

At 31 December 2016 the company had commitments in the amount of €2,664k (€3,325k in 2015) connected to rental contracts with related parties.

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., after 31 December 2016 the company acquired the Spanish Inoxpa Group on 3 February 2017; the Inoxpa Group operates in the production and sale of process equipment and systems for fluid treatment in the food, cosmetics and pharmaceuticals industry with a world-famous brand, as more fully described in the Board of Directors' Report. We invite you to refer to the "Board of Director's Report" of the consolidated financial statements at 31 December 2016 with regard to events occurring 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 2016.

2. We further confirm that the annual financial statements of Interpump Group S.p.A for the year ended 31 December 2016, showing total assets of €715,183k, net profit of €64,067k and shareholders' equity of €312,034k:
   a) correspond to the results of the company books and accounting entries;
   b) were prepared in compliance with the international accounting standards approved by the European Commission further to the enforcement of Ruling (CE) no. 1606/2002 of the European Parliament and the European Council of 19 July 2002, and the provisions issued in implementation of art. 9 of Italian legislative decree 38/2005 and the contents are suitable for providing a truthful and fair representation of the equity, economic and financial situation of the company;
   c) 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), 15 March 2017

Paolo Marinsek	Carlo Banci
Deputy Chairman and	Manager responsible for drafting
Chief Executive Officer	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 2016, 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 2016 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 2016 were prepared in compliance with the IAS/IFRS standards approved by the International Accounting Standards Board and endorsed by the European Union.

The explanatory notes provide details of 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 2016 reported in press releases and described in the Board of Directors' Report, were:

a) on 22 January 2016 the subsidiary I.M.M. Hydraulics S.p.A. acquired 100% of Endeavour, based in Bath (UK), specialised in the production of hydraulic hose assembly machines and systems (Hydraulic Sector);
b) on 5 May 2016 the company acquired 80% of Tubiflex S.p.A. based in Orbassano (Turin, Italy) and operating in the Hydraulic Sector. For the remaining 20%, call and put options were agreed for exercise on the date of approval of the financial statements as at 31 December 2018. The exercise price will be established on the basis of Tubiflex's 2018 results;
c) on 8 July the subsidiary I.M.M. Hydraulics S.p.A. acquired 100% of Tekno Tubi S.r.l., based in Sant'Agostino (Ferrara, Italy) and operating in the Hydraulic Sector;
d) on 29 July 2016 subsidiary Interpump Hydraulics (UK) Ltd acquired 65% of Mega Pacific Pty Ltd (Australia) and Mega Pacific NZ Pty Ltd (New Zealand). Put and call options were agreed on the remaining 35%, exercisable five years after the closing date with reference to the results for the year that will end on 31 December 2020;
e) the absorption of Bertoli S.r.l. with 100% control.

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 2016 and subsequent to year end, we did not receive information from the Board of Directors or the Independent Auditors concerning 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 2016 separate financial statements, specifying the following matters in particular:

a) the Company carried out transactions at arm's-length terms with other Group companies and with top management, as described in 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 by the shareholders' meeting on 28 April 2016, 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 supplied the remuneration disclosures required by statutory legislation in a specific report.

5. With regard to intercompany transactions, in Note 35 to their report the Directors indicated the characteristics of the commercial and financial transactions with subsidiaries and associates; We consider that the amounts are congruous and the transactions carried out are in line with the interests of the Company.

6. The Independent auditing firm Ernst & Young S.p.A. issued its report on this day (29 March 2017) 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 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. Note that during 2016 the independent auditors Ernst & Young S.p.A. were given the following additional task with respect to their auditing activities:

– €5,000 for a one-off task concerning the management of exchange differences in relation to several transactions that took place with a holding resident outside Italy.

We monitored the independence of the Independent auditors, ascertaining the respect of the related normative provisions, and compatibility with the limitations imposed by the law for services other than the auditing services supplied to Interpump Group S.p.A. and its subsidiaries, noting that there were no significant assignments conferred to entities forming part of the same group.

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 checked the correct application of the verification criteria and procedures utilized by the Board of Directors to evaluate the independence of its members. Moreover, in compliance with article 2426, no. 6 of the Italian civil code, we gave our approval to the allocation to the “Goodwill” caption of the merger deficit (€1,537,460) that emerged from the absorption of Bertoli S.r.l.

10. The Board of Statutory Auditors met 6 times during the year and attended 7 meetings of the Board of Directors; we also attended 5 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;

– auditing of the annual accounts and the consolidated accounts;

– the independence of the independent auditing firm.

There are 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. During the execution of our supervision and control activities we 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 2016, which we received within the legally prescribed terms, together with the Board of Directors' Report, show a net profit for the year of €64,066,551, 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, 29 March 2017

THE BOARD OF STATUTORY AUDITORS

Pierluigi De Biasi

____

Alessandra Tronconi

____

Paolo Scarioni

____

Building a better working world

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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, 2016, the income statement, the comprehensive income statements, the statement of changes in shareholders' equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and notes to the financial statements.

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 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.

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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, 2016, 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 Board of Directors' Report and of specific information of the Report on Corporate Governance and the Company's Ownership Structure with the 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 Board of Directors' Report 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.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 Board of Directors' Report 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 Board of Directors' Report and the specific information of the Report on Corporate Governance and the Company's Ownership Structure are consistent with the financial statements of Inteprump Group S.p.A. as at December 31, 2016.

Bologna, March 29, 2017
EY S.p.A.
Signed by: Marco Mignani, partner

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