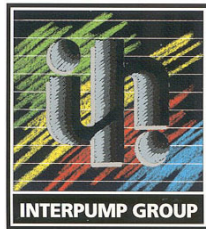


Interim Report for Q4 2016



Interpump Group S.p.A. and subsidiaries

Table of Contents

	Page
Composition of corporate bodies	5
Interpump Group Organization Chart at 31 December 2016	7
Interim Board of Directors' Report:	
- Directors' remarks on performance in 2016	11
- Directors' remarks on performance in Q4 2016	21
Financial statements and notes	27

This document can be accessed on the Internet at:

www.interpumpgroup.it

Interpump Group S.p.A.

Registered office in S. Ilario d'Enza (Reggio Emilia), Via Enrico Fermi, 25

Paid-up Share Capital: 56,617,232.88 euro

Reggio Emilia Companies Register - Tax Code 11666900151

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

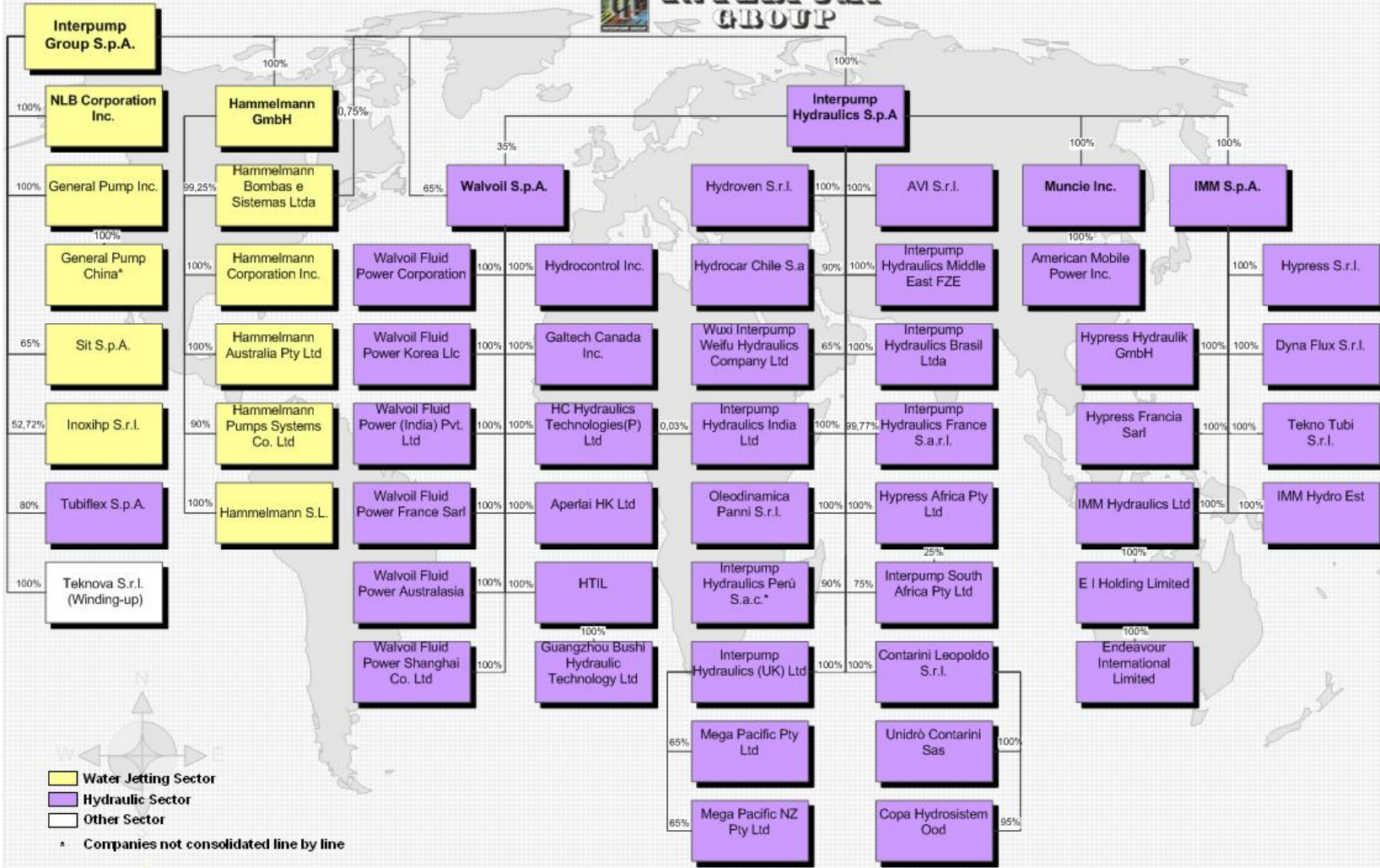
Alessandra Tronconi
Statutory auditor

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

Organizational chart as at 31/12/2016



Interim Board of Directors' Report

**Directors' remarks on performance
in 2016**

KEY EVENTS OF 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 the sales of the Hydraulic Sector (+2.7% like for like and net of exchange differences) and a 2.6% decline in the sales of the Water Jetting Sector (-3.7% like for like and net of exchange differences).

In geographical terms, there was 7.9% growth in Europe, including Italy, and 14.6% expansion in the Far East and Oceania, while the Rest of the World and North America by 2.9% and 5.2% respectively. The geographical breakdown shows like for like growth of 5.1% in Europe, 0.2% in the Far East and Oceania and 1.3% in the Rest of the World, while North America declined by 4.1%.

EBITDA reached 198.5 million euro, equivalent to 21.5% of sales. In 2015 EBITDA totaled 180.3 million euro (20.1% of sales); accordingly, there has been an improvement of 1.4 percentage points. EBITDA has risen by 10.1%. On a like-for-like basis, EBITDA was 6.7% higher.

The net profit for 2016 was 94.5 million euro. Net profit in 2015 included one-off financial income of 32.0 million euro, 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.

The entire equity interest in Endeavour (Hydralok brand), based in Bath, England, was acquired on 22 January 2016. This company manufactures machinery and systems for joining hydraulic pipes. The purchase is part of a program to strengthen and rationalize Interpump's direct commercial presence in the various international markets. Possession of a company that manufactures crimping systems enables Interpump not only to sell them, but also to equip all international branches with the equipment necessary to commercialize joined hydraulic pipes, which is an important after sales service. During the year ended 31 March 2016, Endeavour reported sales of about GBP 1.6m (about 1.8 million euro), with an EBITDA of about 16% of sales. Via IMM Hydraulics UK, Interpump paid GBP 1.1m for Endeavour, including cash of about GBP 300k.

80% of Tubiflex S.p.A., based in Orbassano (Turin), was acquired on 5 May 2016. This company is active in the production and sale of flexible metallic and non-metallic hoses, metallic expansion joints, metal bellows, corrugated pipe for heat exchangers, special products. The principal sectors of application comprise: aerospace, shipyards, railways, automotive, air conditioning, medical, energy generation, steel and petro-chemicals. The acquisition of Tubiflex strengthens Interpump in the vast hoses market, adding flexible metallic hoses to the flexible rubber hoses already produced by IMM, another member of the Group. The expansion of the range will release significant commercial synergies. Tubiflex reported net sales for 2015 of 22.8 million euro, with an EBITDA of 5.3 million euro (23.4% of sales). At 31/12/2015 Tubiflex had net liquidity of 3.9 million euro. The price paid, including the liquidity purchased, was 21.6 million euro in cash, plus 449,160 treasury shares. With regard to the remaining 20%, call and put options were agreed for exercise on the date of approval of the financial statements as at 31/12/2018. The exercise price will depend on the 2018 results of Tubiflex. This company was consolidated for eight months of 2016.

Via IMM Hydraulics S.p.A., on 8 July 2016 Interpump Group acquired 100% of Tekno Tubi S.r.l. based in Sant'Agostino (Ferrara). This company is active in the shaping and assembly of rigid hoses in steel and other metals, as well as the joining of flexible hoses in rubber or plastic

materials for the hydraulic and automotive sectors. The acquisition of Tekno Tubi further strengthens Interpump in the vast hoses market, adding rigid hoses to the flexible rubber hoses already produced by IMM, another member of the Group, and to the flexible metallic hoses made by Tubiflex. The broadening of the range will release significant commercial and other synergies. Sales in 2015 totalled €1.2 million and EBITDA was €1.4 million. Net financial indebtedness at 31 December 2015 was €4.5m. The price agreed was €4.1m.

On 29 July 2016, Interpump Hydraulics UK Ltd acquired control (65%) of Mega Pacific Pty Ltd (Australia) and Mega Pacific NZ Pty Ltd (New Zealand), one of the largest distributors of hydraulic products in Oceania. Mega Pacific has a strong territorial presence, with 7 branches. In the latest financial statements as at 30 June 2016, Mega Pacific reported sales of A\$ 20.5m, following 8% growth, with EBITDA of A\$ 3.6m (17.7% of sales). The business was acquired for A\$ 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 acquisition of Mega Pacific represents a great leap forward for Interpump's organised distribution capability throughout Oceania.

Work has also continued on the rationalization of Group companies. The merger of Walvoil S.p.A. and Hydrocontrol S.p.A.; in addition, Walvoil Fluid Power Corp and Hydrocontrol Inc., two US subsidiaries, have been merged with effect from 1 January 2017. The absorptions of HS Penta S.p.A. by Interpump Hydraulics S.p.A. and of Bertoli S.r.l. by Interpump Group S.p.A. have been completed. In addition, the four subsidiaries in the UK are being merged, as are the Chinese subsidiaries of Walvoil and Hydrocontrol; furthermore, Dyna Flux S.r.l. is being absorbed by IMM Hydraulics S.p.A. This rationalization work is intended to improve the efficiency of production systems and contain costs, all with a view to increasing profitability even further.

The following companies were consolidated for the first time during 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.

In addition, Bertoli S.r.l. (Water Jetting Sector) was acquired in May 2015 and was consolidated for just eight months in the comparative period, while Osper (Hydraulic Sector) was acquired in August 2015 and was consolidated for just four months last year. These two companies have been consolidated for the entire period in 2016.

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, the allocation of resources and other operational matters.

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

- **Earnings before interest and tax (EBIT):** Net sales plus Other operating income less Operating costs (Cost of sales, Selling, general and administrative expenses, and Other operating costs);
- **Earnings before interest, tax, depreciation and amortization (EBITDA):** EBIT plus depreciation, amortization and provisions for risks;
- **Net indebtedness:** Loans obtained plus Bank borrowing less Liquid funds and cash equivalents;
- **Capital investment (CAPEX):** the sum of investment in property, plant and equipment and intangible assets, net of 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 the internal reporting and business management methods.

The cash flow statement was prepared using the indirect method.

Consolidated income statement for the year

(€000)	<u>2016</u>	<u>2015</u>
Net sales	922,818	894,928
Cost of products sold	(584,816)	(577,310)
Gross industrial margin	338,002	317,618
<i>% on net sales</i>	<i>36.6%</i>	<i>35.5%</i>
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
<i>% on net sales</i>	<i>16.6%</i>	<i>15.3%</i>
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
<i>% on net sales</i>	<i>10.2%</i>	<i>13.2%</i>
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
<i>% on net sales</i>	<i>21.5%</i>	<i>20.1%</i>
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 17, the normalized net profit for 2015 was 86.3 million euro.

NET SALES

Net sales in 2016 totaled €922.8m, up by 3.1% from €894.9m in 2015 (+0.3% like for like and net of exchange differences).

Breakdown of sales by business sector and geographical area:

(€000)	<u>Italy</u>	<u>Rest of Europe</u>	<u>North America</u>	<u>Far East and Oceania</u>	<u>Rest of the World</u>	<u>Total</u>
<i>2016</i>						
Hydraulic Sector	124,390	209,640	145,175	46,958	70,648	596,811
Water Jetting Sector	<u>30,971</u>	<u>90,885</u>	<u>132,996</u>	<u>50,393</u>	<u>20,762</u>	<u>326,007</u>
Total	<u>155,361</u>	<u>300,525</u>	<u>278,171</u>	<u>97,351</u>	<u>91,410</u>	<u>922,818</u>
<i>2015</i>						
Hydraulic Sector	105,509	194,815	151,083	40,004	68,860	560,271
Water Jetting Sector	<u>30,400</u>	<u>91,688</u>	<u>142,303</u>	<u>44,954</u>	<u>25,312</u>	<u>334,657</u>
Total	<u>135,909</u>	<u>286,503</u>	<u>293,386</u>	<u>84,958</u>	<u>94,172</u>	<u>894,928</u>
<i>2016/2015 percentage changes</i>						
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 totaled €246.5 million (€234.8 million 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 €38.3m (€42.6m 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 relative incidence on sales fell by 0.2 percentage points.

General and administrative expenses fell by 0.7% with respect to 2015 on a like for like basis, while the relative incidence on sales was broadly unchanged.

Payroll costs totalled €230.3 million (€218.2 million 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 totaled €198.5m (21.5% of sales) compared to €180.3m in 2015, which represented 20.1% of sales, reflecting a 10.1% increase. On a like-for-like basis, EBITDA was 6.7% higher. The following table shows EBITDA by business sector:

	<u>2016</u>	<i>% on</i>	<u>2015</u>	<i>% on</i>	<i>Increase/ Decrease</i>
	<u>€/000</u>	<i>total</i>	<u>€/000</u>	<i>total</i>	
		<i>sales*</i>		<i>sales*</i>	
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	<u>(19)</u>	n.s.	<u>(18)</u>	n.s.	n.s.
Total	<u>198,502</u>	21.5%	<u>180,258</u>	20.1%	+10.1%

* = Total sales include also include sales to other group companies, while the sales analyzed previously are exclusively those external to the group (see Note 2 to the Consolidated Financial Statements 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 amounted to 153.5 million euro (16.6% of sales) compared with 136.9 million euro in 2015 (15.3% of sales), reflecting an increase of 12.2% and a rise in profitability of 1.3 percentage points. On a like for like basis EBIT grew by 8.6% to €148.7m, or 16.7% of sales.

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 on the adjustment of the expected cost of acquiring residual stakes in subsidiaries as discussed above, originating exclusively in the consolidated financial statements and hence not taxable. In addition, deferred tax assets and liabilities were adjusted in 2015 to reflect the change in the IRES rate from 2017. 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 2.3 million euro in total.

Net profits amounted to 94.5 million euro. The net profit for 2015, 118.3 million euro, 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 86.3 million euro. Basic earnings per share was 0.884 euro in 2016 (1.101 euro in 2015, partly as a result of the matters described above).

Capital employed increased from 900.8 million euro at 31 December 2015 to 977.6 million euro at 31 December 2016, principally due to the acquisitions made in 2016. 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).

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)	<u>160</u>	<u>435</u>
Adjusted opening net financial position	(254,827)	(151,534)
Cash flow from operations	138,595	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	(7,666)	6,725
Capital expenditure on tangible fixed assets	(34,023)	(27,653)
Proceeds from sales of tangible fixed assets	517	1,594
Increase in other intangible fixed assets	(3,022)	(2,804)
Received financial income	496	714
Other	<u>169</u>	<u>(209)</u>
Free cash flow	89,945	85,246
Acquisition of investments, including received debt and net of treasury stock assigned	(39,552)	(145,243)
Proceeds from the sale of investments and lines of business	861	746
Dividends paid	(21,138)	(20,390)
Outlays for the purchase of treasury stock	(43,308)	(32,709)
Proceeds from the sale of treasury stock to beneficiaries of stock options	9,490	8,166
Change in other financial assets	<u>(53)</u>	<u>(1)</u>
Cash flow generated (used)	(3,755)	(104,185)
Exchange rate differences	<u>1,319</u>	<u>732</u>
Net financial position at year end	<u>(257,263)</u>	<u>(254,987)</u>

^(a) = Interpump Hydraulics (UK) in 2016 and Hammelmann Bombas e Sistemas Ltda and Interpump Hydraulics Middle East FZCO in 2015.

Net liquidity generated by operations totaled €138.6m (€120.2m in 2015), reflecting an increase of 15.3%. Free cash flow amounted to €89.9m in 2016 (€85.2m in 2015), reflecting an increase of 5.5% despite additional capital expenditure of 7.7 million euro.

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

	31/12/2016 €000	31/12/2015 €000	01/01/2015 €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)	(124,764)	(83,833)	(64,298)
Interest-bearing financial payables (non-current portion)	<u>(327,994)</u>	<u>(300,549)</u>	<u>(147,060)</u>
Total	<u>(257,263)</u>	<u>(254,987)</u>	<u>(151,969)</u>

The Group also has contractual commitments for the purchase of residual shareholdings in subsidiaries totaling €12.8 million (€13.2 million at 31 December 2015). Of this amount, 6.5 million euro relates to the acquisition of equity investments (4.9 million euro at 31 December 2015), while 36.3 million euro relates to contractual agreements for the acquisition of residual

interests in subsidiaries (18.3 million euro at 31 December 2015). The change with respect to the comparative period was due to the new put options arranged on the acquisitions of Tubiflex and Mega Pacific.

CAPITAL EXPENDITURE

Expenditure on property, plant and equipment totaled 54.7 million euro, of which 8.9 million via the acquisition of equity investments (112.4 million in 2015, of which 73.9 million euro via the acquisition of equity investments). The companies belonging to the Very-High Pressure Systems business segment classify machinery manufactured and hired out to customers as tangible fixed assets (€10.8m at 31 December 2016 and €1.2m at 31 December 2015). Net of these latter amounts and those relating to the acquisition of equity investments, 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 purchase and/or construction of new plants in Romania, the UK and at Atessa, in order to increase the production capacity of the hydraulic hoses and fittings division (€3.7m), to the purchase and/or construction of factories in India (€1.5m) and to expand 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 totaled €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 (€1.7m) was allocated to the trademarks acquired, while the balance was invested in the development of new products).

INTERCOMPANY AND RELATED PARTY TRANSACTIONS

With regard to transactions entered into with related parties, including intercompany transactions, these cannot be defined as either atypical or unusual, as they are part of the normal course of activities of the Group companies. These transactions are regulated at arm's length conditions, taking into account the characteristics of the assets transferred and services rendered. Information on transactions carried out with related parties is given in Note 8 of the Consolidated Financial statements at 31 December 2016.

CHANGES IN THE GROUP STRUCTURE IN 2016

In addition to the acquisitions described at the start of this report, the Group structure underwent the following changes:

- the absorption of HS Penta S.p.A. by Interpump Hydraulics S.p.A. took effect on 4 January 2016;
- the absorption of Bertoli S.r.l. by Interpump Group S.p.A. took effect on 1 May 2016;
- the residual 15% interest in HTIL, the Hong Kong sub-holding company, was acquired for €900k on 24 June 2016. HTIL holds 100% of Guangzhou Bushi Hydraulic Technology Ltd (China) (GBHT). This acquisition was made in preparation for rationalisation of the activities of the Hydraulics Sector in China, with the planned absorption of Walvoil Shanghai by GBHT and the liquidation of the two sub-holding companies based in Hong Kong: HTIL and Aperlai;
- the residual 49% interest in Dyna Flux S.r.l. was acquired for €45k on 28 June 2016;
- the absorption of Hydrocontrol S.p.A. by Walvoil S.p.A. took effect on 1 August 2016.

- Walvoil Fluid Power Corporation and Hydrocontrol Inc. merged on 30 December, with legal effect from 1 January 2017.

EVENTS OCCURRING AFTER THE CLOSE OF THE YEAR

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

The entire equity interest in 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 purchase is part of a program 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 about GBP 2.25m (about 2.6 million euro) in 2016, with a normalized EBITDA of about 13% of sales. Via IMM Hydraulics UK, Interpump paid GBP 550k for Bristol Hose. The company had a 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 - together with the Bertoli homogenizers - a vast range of pumps, valves, mixers, process plant and accessories. 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 Inoxpa group reported net sales for 2016 of about 60 million euro, with an EBITDA of 11.5 million euro (19.3% of sales). The price paid, 90 million euro, consisted of the enterprise value of 76 million euro and net cash of about 14 million euro.

**Directors' remarks on performance
in Q4 2016**

Q4 consolidated income statements

(€000)	<i>2016</i>	<i>2015</i>
Net sales	229,796	213,050
Cost of products sold	(146,607)	(141,045)
Gross industrial margin	83,189	72,005
<i>% on net sales</i>	<i>36.2%</i>	<i>33.8%</i>
Other operating revenues	3,818	3,619
Distribution costs	(23,017)	(21,576)
General and administrative expenses	(28,311)	(26,356)
Other operating costs	(1,187)	(1,629)
EBIT	34,492	26,063
<i>% on net sales</i>	<i>15.0%</i>	<i>12.2%</i>
Financial income	2,705	1,637
Financial expenses	(2,802)	(3,257)
Adjustment of the value of investments carried at equity	(44)	(69)
Profit for the period before taxes	34,351	24,374
Income taxes	(13,429)	(7,411)
Consolidated net profit for the period	20,922	16,963
<i>% on net sales</i>	<i>9.1%</i>	<i>8.0%</i>
Pertaining to:		
Parent company's shareholders	20,845	16,675
Subsidiaries' minority shareholders	77	288
Consolidated net profit for the period	20,922	16,963
EBITDA	46,904	38,945
<i>% on net sales</i>	<i>20.4%</i>	<i>18.3%</i>
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
Unannualised ROCE	3.5%	2.9%
Unannualised ROE	3.1%	2.7%
Basic earnings per share	0.196	0.156

For the first time, the scope of consolidation in Q4 2016 includes Endeavour, Tubiflex, Teknotubi and Mega Pacific Australia and Mega Pacific New Zealand, all of which belong to the Hydraulic Sector and none of which were present in Q4 2015.

NET SALES

Net sales in Q4 2016 totaled €229.8m, up by 7.9% with respect to sales in Q4 2015 (€13.0m). Like for like sales net of exchange differences the increase was 2.8%.

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

(€000)	<u>Italy</u>	<u>Rest of Europe</u>	<u>North America</u>	<u>Far East and Oceania</u>	<u>Rest of the World</u>	<u>Total</u>
<i>Q4 2016</i>						
Hydraulic Sector	33,258	48,596	35,050	14,970	18,693	150,567
Water Jetting Sector	<u>8,512</u>	<u>22,164</u>	<u>29,704</u>	<u>12,894</u>	<u>5,955</u>	<u>79,229</u>
Total	<u>41,770</u>	<u>70,760</u>	<u>64,754</u>	<u>27,864</u>	<u>24,648</u>	<u>229,796</u>
<i>Q4 2015</i>						
Hydraulic Sector	25,865	45,486	34,313	9,419	15,168	130,251
Water Jetting Sector	<u>6,736</u>	<u>22,789</u>	<u>34,366</u>	<u>12,655</u>	<u>6,253</u>	<u>82,799</u>
Total	<u>32,601</u>	<u>68,275</u>	<u>68,679</u>	<u>22,074</u>	<u>21,421</u>	<u>213,050</u>
<i>2016/2015 percentage changes</i>						
Hydraulic Sector	+28.6%	+6.8%	+2.1%	+58.9%	+23.2%	+15.6%
Water Jetting Sector	+26.4%	-2.7%	-13.6%	+1.9%	-4.8%	-4.3%
Total	+28.1%	+3.6%	-5.7%	+26.2%	+15.1%	+7.9%

The like for like analysis net of exchange differences shows growth of 7.8% in the Hydraulic Sector and a decline of 5.0% in the Water Jetting Sector.

PROFITABILITY

The cost of sales accounted for 63.8% of turnover (66.2% in Q4 2015). Production costs, which totaled €63.9 million (€58.3 million in Q4 2015, which however did not include the costs of Endeavour, Tubiflex, Teknotubi and Mega Pacific), accounted for 27.8% of sales (27.4% in Q4 2015). Like for like production costs rose by 4.7%, with a 0.4 percentage point rise in their incidence on sales. The purchase cost of raw materials and components sourced on the market, including changes in inventories, was €82.7m (€82.7m in the equivalent period of 2015 as well, which however did not include the costs of the Endeavour, Tubiflex, Teknotubi and Mega Pacific). The incidence of purchase costs, including changes in inventories, was 36.0% with respect to 38.8% in Q4 2015, thus improving by 2.8 percentage points.

Distribution costs, like for like, rose by 0.5% with respect to Q4 2015, while their incidence on sales fell by 0.2 percentage points.

Like for like general and administrative expenses increased by 1.7% with respect to Q4 2015, while their incidence on sales was 0.2 percentage points lower.

EBITDA totaled €46.9m (20.4% of sales) compared to €38.9m in Q4 2015, which represented 18.3% of sales, reflecting a 20.4% increase. On a like-for-like basis, EBITDA was 16.8% higher. The following table shows EBITDA by business sector:

	<i>Q4 2016</i>	<i>% on</i>	<i>Q4 2015</i>	<i>% on</i>	<i>Increase/</i>
	<i>€/000</i>	<i>total</i>	<i>€/000</i>	<i>total</i>	<i>Decrease</i>
		<i>sales*</i>		<i>sales*</i>	
Hydraulic Sector	27,545	18.3%	19,190	14.7%	+43.5%
Water Jetting Sector	19,361	24.3%	19,765	23.7%	-2.0%
Other Revenues Sector	(2)	n.s.	(10)	n.s.	n.s.
Total	<u>46,904</u>	20.4%	<u>38,945</u>	18.3%	+20.4%

* = Total sales include also include sales to other group companies, while the sales analyzed previously are exclusively those external to the group (see Note 2 to the Consolidated Financial Statements at 31 December 2016). For comparability, the percentage is calculated on total sales, rather than the net sales shown earlier.

Like for like EBITDA for the Hydraulic Sector was €26.1 million (18.6% of sales), reflecting an increase of 36.1%.

EBIT stood at €34.5m (15.0% of sales) compared to €26.1m in Q4 2015 (12.2% of sales), reflecting an increase of 32.3%. Like-for-like EBIT rose by 28.7%.

Q4 closed with consolidated net profit of €20.9m (€17.0m in Q4 2015), reflecting a rise of 23.3%.

Basic earnings per share were €0.196 (€0.156 in Q4 2015), showing a 25.6% increase.

Sant'Ilario d'Enza (RE), 14 February 2017

For the Board of Directors
Fulvio Montipò
Chairman and Chief Executive Officer

The manager in charge of preparing the company's accounting documents, Carlo Banci, declares, pursuant to the terms of section 2 article 154-(2) of the Italian Consolidated Finance Act, that the accounting disclosures in this document correspond to the documentary evidence, the company books and the accounting entries.

Sant'Ilario d'Enza (RE), 14 February 2017

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

Financial statements and notes

Consolidated balance sheet

(€000)	<u>Notes</u>	<u>31/12/2016</u>	<u>31/12/2015</u>
ASSETS			
Current assets			
Cash and cash equivalents		197,891	135,130
Trade receivables		200,018	178,129
Inventories	3	257,545	238,637
Tax receivables		11,604	14,361
Other current assets		7,713	7,811
Total current assets		<u>674,771</u>	<u>574,068</u>
Non-current assets			
Property, plant and equipment	4	300,921	286,066
Goodwill	1	390,708	347,388
Other intangible assets		30,039	33,193
Other financial assets		790	1,025
Tax receivables		1,740	1,934
Deferred tax assets		24,071	25,190
Other non-current assets		1,654	1,209
Total non-current assets		<u>749,923</u>	<u>696,005</u>
Total assets		<u>1,424,694</u>	<u>1,270,073</u>

(€000)	<u>Notes</u>	<u>31/12/2016</u>	<u>31/12/2015</u>
LIABILITIES			
Current liabilities			
Trade payables		109,004	94,022
Payables to banks		2,396	5,735
Interest-bearing financial payables (current portion)		124,764	83,833
Derivative financial instruments		36	77
Tax payables		18,639	19,904
Other current liabilities		49,750	48,840
Provisions for risks and charges		3,620	4,423
Total current liabilities		<u>308,209</u>	<u>256,834</u>
Non-current liabilities			
Interest-bearing financial payables		327,994	300,549
Liabilities for employee benefits		19,311	17,264
Deferred tax liabilities		47,718	48,098
Other non-current liabilities		41,058	22,017
Provisions for risks and charges		2,866	2,683
Total non-current liabilities		<u>438,947</u>	<u>390,611</u>
Total liabilities		<u>747,156</u>	<u>647,445</u>
SHAREHOLDERS' EQUITY			
	5		
Share capital		55,431	56,032
Legal reserve		11,323	11,323
Share premium reserve		112,386	138,955
Reserve for the measurement of hedging derivatives at fair value		(24)	(13)
Reserve for restatement of defined benefit plans		(5,022)	(3,501)
Translation provision		33,497	22,657
Other reserves		466,153	391,704
Group shareholders' equity		<u>673,744</u>	<u>617,157</u>
Minority interests		3,794	5,471
Total shareholders' equity		<u>677,538</u>	<u>622,628</u>
Total shareholders' equity and liabilities		<u>1,424,694</u>	<u>1,270,073</u>

Consolidated income statement for the year

(€000)	<u>Notes</u>	<u>2016</u>	<u>2015</u>
Net sales		922,818	894,928
Cost of products sold		<u>(584,816)</u>	<u>(577,310)</u>
Gross industrial margin		338,002	317,618
Other net revenues		14,372	13,133
Distribution costs		(86,425)	(84,321)
General and administrative expenses		(108,973)	(105,670)
Other operating costs		<u>(3,443)</u>	<u>(3,864)</u>
Ordinary profit before financial expenses		153,533	136,896
Financial income	6	7,862	42,416
Financial expenses	6	(12,862)	(15,688)
Adjustment of the value of investments at equity		<u>(40)</u>	<u>(262)</u>
Profit for the year before taxes		148,493	163,362
Income taxes		<u>(54,020)</u>	<u>(45,056)</u>
Consolidated net profit for the year		94,473	118,306
Pertaining to:			
Parent company's shareholders		93,850	117,639
Subsidiaries' minority shareholders		<u>623</u>	<u>667</u>
Consolidated net profit for the year		94,473	118,306
Basic earnings per share	7	0.884	1.101
Diluted earnings per share	7	0.880	1.086

Comprehensive consolidated income statements for the year

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

Q4 consolidated income statements

(€000)	<i>Notes</i>	<u>2016</u>	<u>2015</u>
Net sales		229,796	213,050
Cost of products sold		(146,607)	(141,045)
Gross industrial margin		83,189	72,005
Other net revenues		3,818	3,619
Distribution costs		(23,017)	(21,576)
General and administrative expenses		(28,311)	(26,356)
Other operating costs		(1,187)	(1,629)
Ordinary profit before financial expenses		34,492	26,063
Financial income	6	2,705	1,637
Financial expenses	6	(2,802)	(3,257)
Adjustment of the value of investments at equity		(44)	(69)
Profit for the period before taxes		34,351	24,374
Income taxes		(13,429)	(7,411)
Consolidated net profit for the period		20,922	16,963
Pertaining to:			
Parent company's shareholders		20,845	16,675
Subsidiaries' minority shareholders		77	288
Consolidated net profit for the period		20,922	16,963
Basic earnings per share	7	0.196	0.156
Diluted earnings per share	7	0.194	0.154

Comprehensive consolidated income statement for Q4

(€000)	<u>2016</u>	<u>2015</u>
Consolidated profit for the period (A)	20,922	16,963
Other comprehensive profit (loss) that will be subsequently reclassified in consolidated profit for the period		
<i>Accounting for exchange risk hedging derivatives recorded in accordance with the cash flow hedging method:</i>		
- Profit (Loss) on derivative financial instruments for the period	(32)	(25)
- Minus: Adjustment for reclassification of profits (losses) to the income statement	-	-
- Minus: Adjustment for recognition of fair value to reserves in the prior period	-	-
<i>Total</i>	<i>(32)</i>	<i>(25)</i>
<i>Profits (Losses) arising from the translation to euro of the financial statements of foreign companies</i>	<i>15,349</i>	<i>7,507</i>
<i>Profits (Losses) of companies carried at equity</i>	<i>22</i>	<i>4</i>
<i>Related taxes</i>	<i>9</i>	<i>8</i>
Total other profit (loss) that will be subsequently reclassified in consolidated profit for the period, net of the tax effect (B)	<u>15,348</u>	<u>7,494</u>
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	(1,731)	2,479
<i>Related taxes</i>	<i>242</i>	<i>(683)</i>
Total Other comprehensive profit (loss) that will not be subsequently reclassified in consolidated profit for the period, net of the tax effect (C)	<u>(1,489)</u>	<u>1,796</u>
Comprehensive consolidated profit for the period (A) + (B) + (C)	<u>34,781</u>	<u>26,253</u>
Pertaining to:		
Parent company's shareholders	34,649	25,908
Subsidiaries' minority shareholders	132	345
Comprehensive consolidated profit for the period	<u>34,781</u>	<u>26,253</u>

Consolidated cash flow statement for the year

(€000)

	<u>2016</u>	<u>2015</u>
Cash flow from operating activities		
Pre-tax 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, impairment and reinstatement of value	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 funds and allocations 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
Financial expenses (Income), net	5,000	(26,728)
	<u>191,562</u>	<u>172,545</u>
(Increase) decrease in trade receivables and other current assets	(3,126)	1,546
(Increase) decrease in inventories	(5,753)	3,412
Increase (decrease) in trade payables and other current liabilities	(3,908)	(11,512)
Interest paid	(4,450)	(5,838)
Currency exchange gains realized	(653)	2,110
Taxes paid	(47,864)	(48,659)
Net cash from operating activities	<u>125,808</u>	<u>113,604</u>
Cash flows from investing activities		
Outlay for the acquisition of investments, net of received cash and including treasury stock assigned	(41,302)	(176,227)
Disposal of investments and lines of business including transferred cash	861	746
Capital expenditure on property, plant and equipment	(31,854)	(27,502)
Proceeds from sales of tangible fixed assets	517	1,594
Increase in intangible fixed assets	(3,022)	(2,804)
Received financial income	496	714
Other	153	290
Net liquidity used in investing activities	<u>(74,151)</u>	<u>(203,189)</u>
Cash flows of financing activity		
Disbursals (repayments) of loans	66,465	145,847
Dividends paid	(21,138)	(20,390)
Outlays for purchase of treasury stock	(43,308)	(32,709)
Sale of treasury stock for the acquisition of equity investments	5,516	60,891
Proceeds from the sale of treasury stock to beneficiaries of stock options	9,490	8,166
Disbursals (repayments) of loans from (to) shareholders	(7)	(409)
Change in other financial assets	(53)	(1)
Payment of financial leasing installments (principal portion)	(4,043)	(3,368)
Net liquidity generated (used by) financing activities	<u>12,922</u>	<u>158,027</u>
Net increase (decrease) of cash and cash equivalents	<u>64,579</u>	<u>68,442</u>

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

Cash and cash equivalents can be broken down as follows:

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

Statement of changes in consolidated shareholders' equity

	Share capital	Legal reserve	Share premium reserve	Reserve for valuation of derivatives at fair value	Reserve for restatement of defined benefit plans	Translation provision	Other reserves	Group shareholders' equity	Minority interests	Total
<i>Balances as at 1 January 2015</i>	53,871	11,323	101,237	(19)	(5,273)	3,809	295,747	460,695	5,855	466,550
Recognition in the income statement of the fair value of the stock options assigned and exercisable	-	-	1,370	-	-	-	-	1,370	-	1,370
Purchase of treasury stock	(1,322)	-	(32,709)	-	-	-	1,322	(32,709)	-	(32,709)
Sale of treasury stock to the beneficiaries of stock options	921	-	8,166	-	-	-	(921)	8,166	-	8,166
Sale of treasury stock to pay for equity investments	2,562	-	60,891	-	-	-	(2,562)	60,891	-	60,891
Dividends paid	-	-	-	-	-	-	(19,321)	(19,321)	(925)	(20,246)
Purchase of residual interests in subsidiaries	-	-	-	-	-	-	(191)	(191)	(280)	(471)
Comprehensive Profit (loss) for 2015	-	-	-	6	1,772	18,848	117,630	138,256	821	139,077
<i>Balances as at 31 December 2015</i>	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 the stock options assigned and exercisable	-	-	1,733	-	-	-	-	1,733	-	1,733
Purchase of treasury stock	(1,772)	-	(43,308)	-	-	-	1,772	(43,308)	-	(43,308)
Sale of treasury stock to the beneficiaries of stock options	937	-	9,490	-	-	-	(937)	9,490	-	9,490
Sale of treasury stock for payment of equity investments	234	-	5,516	-	-	-	(234)	5,516	-	5,516
Purchase of residual interests in subsidiaries	-	-	-	-	-	43	52	95	(1,040)	(945)
Dividends paid	-	-	-	-	-	-	(20,054)	(20,054)	(1,102)	(21,156)
Comprehensive Profit (loss) for 2016	-	-	-	(11)	(1,521)	10,797	93,850	103,115	465	103,580
<i>Balances as at 31 December 2016</i>	55,431	11,323	112,386	(24)	(5,022)	33,497	466,153	673,744	3,794	677,538

Notes to the consolidated financial statements

General information

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

The Group manufactures and markets high and very high-pressure plunger pumps, very high-pressure systems, power take-offs, hydraulic cylinders, valves and directional controls, hydraulic hoses and fittings and other hydraulic products. The Group has production facilities in Italy, the US, Germany, China, India, Brazil, Bulgaria, Romania, the United Kingdom and South Korea.

Sales are not affected by any significant degree of seasonality.

The consolidated financial statements include Interpump Group S.p.A. and its directly or indirectly controlled subsidiaries (hereinafter "the Group").

The interim board of directors' report at 31 December 2016 was approved by the Board of Directors meeting held on this day (14 February 2017).

Basis of preparation

The interim board of directors' report at 31 December 2016 was drawn up in compliance with the international accounting standards (IAS/IFRS) utilized for interim financial statements. The tables were prepared in compliance with IAS 1, while the notes were prepared in condensed form in application of the faculty provided by IAS 34 and therefore they do not include all the information required for annual financial statements drafted in compliance with IFRS standards. Therefore the interim board of directors' report at 31 December 2016 should be read together with the consolidated annual financial statements for the year ending 31 December 2015.

Preparation of an interim report in compliance with IAS 34 "Interim Financial Reporting" calls for judgments, estimates, and assumptions that have an effect on assets, liabilities, costs and revenues and on information regarding potential assets and liabilities at the report reference date. We draw your attention to the fact that estimates may differ from the effective results, the magnitude of which will only be known in the future.

The interim report is presented in thousands of euro. The Group adopts the cost of goods sold (GOGS) based income statement, and the cash flow statement with the indirect method. The financial statements are drafted according to the cost method, with the exception of financial instruments, which are measured at fair value.

Accounting standards

The accounting standards adopted are those described in the consolidated financial statements as at 31 December 2015, with the exception of those adopted as from 1 January 2016 as described hereunder, and they were uniformly applied to all Group companies and all periods presented.

a) New accounting standards and amendments taking effect on 1 January 2016 and adopted by the Group

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 *Annual Improvements to IFRSs 2010–2012 Cycle*. The amendments resulted in changes: (i) to IFRS 2, clarifying the definition of “vesting condition” and introducing the definitions of the service and performance conditions; (ii) to IFRS 3, clarifying that the obligations to pay a contingent consideration other than those included in the definition of equity instrument, are to be measured at fair value at each reporting date, with the changes recognized in the income statement; (iii) to IFRS 8, requiring an entity to disclose the judgments made by management in applying the aggregation criteria to the operating segments, describing the segments that have been aggregated and the economic indicators that were assessed to determine that the aggregated segments have similar economic characteristics; (iv) to IAS 16 and IAS 38, clarifying the method of determining the carrying amount of assets, in the case of revaluation further to the application of the revaluation model; (v) to IAS 24, establishing the information to be supplied when there is a third-party entity that supplies services related to the administration of key management personnel of the reporting entity.

b) New accounting standards and amendments effective 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.
- *Amendments 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.

c) *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 principle, which was subsequently amended on 28 October 2010 and by a further amendment in mid-December 2011. The new standard, which is applicable from 1 January 2018, constitutes the first part of a process in stages aimed at replacing IAS 39 and introduces new criteria for the classification and measurement of financial assets and liabilities, and for the derecognition of financial assets from the financial statements. Specifically, the new standard uses a single approach to financial assets based on the methods of management of financial instruments and on the characteristics of the contractual cash flows of financial assets in order to establish the measurement criterion, replacing the various rules contained in IAS 39. In contrast, for financial liabilities the main change concerns the accounting treatment for changes in the fair value of a financial liability designated as a financial liability measured at fair value in profit and loss, in the event wherein such changes are due to changes in the credit rating of the liabilities in question. In accordance with the new standard, such changes must be recorded in the comprehensive income statement and cannot thereafter be derecognised in profit and loss.
- On 30 January 2014 IASB published IFRS 14 "Regulatory Deferral Accounts", which is an interim standard relating 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 already apply IFRS 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, the 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.
- *Annual Improvements to IFRSs 2012–2014 Cycle* - On 25 September 2014 IASB issued a collection of amendments to IASs/IFRSs. 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 recognise 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 (Amendments 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, the 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.
- *Annual improvements to IFRSs 2014–2016* - On 8 December 2016 the IASB issued 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 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 is being made of the possible effects of applying IFRS 15 (*Revenue recognition*). The 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 35 to the consolidated financial statements at 31/12/2015. On the basis of analyses currently in progress, no significant effects are expected from the 2017 adoption of other applicable new standards and amendments.

Notes to the consolidated Financial Statements at 31 December 2016

	Page
1. Consolidation basis and goodwill	43
2. Sector information	45
3. Inventories and detail of changes in the Inventories allowance	51
4. Property, plant and equipment	51
5. Shareholders' equity	51
6. Financial income and charges	54
7. Earnings per share	55
8. Transactions with related parties	56
9. Disputes, Contingent Liabilities and Contingent Assets	58

1. Consolidation basis and goodwill

At 31 December 2016 the scope of consolidation includes the Parent company (which is included in the Water Jetting Sector) and the following subsidiaries:

<u>Company</u>	<u>Head office</u>	<u>Sector</u>	<u>Share capital</u> <u>€/000</u>	<u>% stake</u> <u>as at</u> <u>31/12/16</u>
General Pump Inc.	Minneapolis (USA)	Water	1,854	100.00%
Hammelmann GmbH	Oelde (Germany)	Water	25	100.00%
Hammelmann Australia Pty Ltd (1)	Melbourne (Australia)	Water	472	100.00%
Hammelmann Corporation Inc (1)	Miamisburg (USA)	Water	39	100.00%
Hammelmann S. L. (1)	Zaragoza (Spain)	Water	500	100.00%
Hammelmann Pumps Systems Co Ltd (1)	Tianjin (China)	Water	871	90.00%
Hammelmann Bombas e Sistemas Ltda (1)	San Paolo (Brazil)	Water	765	100.00%
Inoxihp S.r.l.	Nova Milanese (MI)	Water	119	52.72%
NLB Corporation Inc.	Detroit (USA)	Water	12	100.00%
SIT S.p.A.	S. Ilario d'Enza (RE)	Water	105	65.00%
Interpump Hydraulics S.p.A.	Calderara di Reno (BO)	Hydr.	2,632	100.00%
AVI S.r.l. (2)	Varedo (MB)	Hydr.	10	100.00%
Contarini Leopoldo S.r.l. (2)	Lugo (RA)	Hydr.	47	100.00%
Unidro S.a.s. (3)	Barby (France)	Hydr.	8	100.00%
Copa Hydrosystem Ood (3)	Troyan (Bulgaria)	Hydr.	3	95.00%
Hydrocar Chile S.A. (2)	Santiago (Chile)	Hydr.	129	90.00%
Hydroven S.r.l. (2)	Tezze sul Brenta (VI)	Hydr.	200	100.00%
Hypress Africa Pty Ltd (2)	Boksburg (South Africa)	Hydr.	412	100.00%
Interpump Hydraulics Brasil Ltda (2)	Caxia do Sul (Brazil)	Hydr.	13,996	100.00%
Interpump Hydraulics France S.a.r.l. (2)	Ennery (France)	Hydr.	76	99.77%
Interpump Hydraulics India Private Ltd (2)	Hosur (India)	Hydr.	682	100.00%
Interpump Hydraulics Middle East FZCO (2)	Dubai (UAE)	Hydr.	326	100.00%
Interpump South Africa Pty Ltd (2)	Johannesburg (South Africa)	Hydr.	-	100.00%
Interpump Hydraulics (UK) Ltd. (2)	Kingswinford (United Kingdom)	Hydr.	13	100.00%
Mega Pacific Pty Ltd (4)	Newcastle (Australia)	Hydr.	335	65.00%
Mega Pacific NZ Pty Ltd (4)	Mount Maunganui (New Zealand)	Hydr.	557	65.00%
Muncie Power Prod. Inc. (2)	Muncie (USA)	Hydr.	784	100.00%
American Mobile Power Inc. (5)	Fairmount (USA)	Hydr.	3,410	100.00%
Oleodinamica Panni S.r.l. (2)	Tezze sul Brenta (VI)	Hydr.	2,000	100.00%
Wuxi Interpump Weifu Hydraulics Company Ltd (2)	Wuxi (China)	Hydr.	2,095	65.00%
IMM Hydraulics S.p.A. (2)	Atessa (Switzerland)	Hydr.	520	100.00%
Dyna Flux S.r.l. (6)	Bolzaneto (GE)	Hydr.	40	100.00%
Hypress France S.a.r.l. (6)	Strasbourg (France)	Hydr.	162	100.00%
Hypress Hydraulik GmbH (6)	Meinerzhagen (Germany)	Hydr.	52	100.00%
Hypress S.r.l. (6)	Atessa (Switzerland)	Hydr.	50	100.00%
IMM Hydro Est (6)	Catcau Cluj Napoca (Romania)	Hydr.	3,155	100.00%
IMM Hydraulics Ltd (6)	Halesowen (UK)	Hydr.	1	100.00%
E.I. Holdings Ltd (7)	Bath (United Kingdom)	Hydr.	127	100.00%
Endeavour International Ltd (8)	Bath (United Kingdom)	Hydr.	69	100.00%
Tekno Tubi S.r.l. (6)	Sant'Agostino (FE)	Hydr.	100	100.00%
Tubiflex S.p.A.	Orbassano (TO)	Hydr.	515	80.00%

<u>Company</u>	<u>Head office</u>	<u>Sector</u>	<u>Share capital €/000</u>	<u>% stake as at</u>
Walvoil S.p.A.	Reggio Emilia	Hydr.	7,692	100.00%
Aperlai HK Ltd (9)	Hong Kong	Hydr.	77	100.00%
HTIL (9)	Hong Kong	Hydr.	98	100.00%
Galtech Canada Inc. (9)	Terrebonne, Quebec (Canada)	Hydr.	76	100.00%
Guangzhou Bushi Hydraulic Technology Ltd (10)	Guangzhou (China)	Hydr.	3,720	100.00%
HC Hydraulics Technologies(P) Ltd (9)	Bangalore (India)	Hydr.	4,120	100.00%
Hydrocontrol Inc. (9)	Minneapolis (USA)	Hydr.	763	100.00%
Walvoil Fluid Power Corp. (9)	Tulsa (USA)	Hydr.	41	100.00%
Walvoil Fluid Power Shanghai Co. Ltd (9)	Shanghai (China)	Hydr.	1,872	100.00%
Walvoil Fluid Power Pvt Ltd (9)	Bangalore (India)	Hydr.	683	100.00%
Walvoil Fluid Power Korea (9)	Pyeongtaek (South Korea)	Hydr.	453	100.00%
Walvoil Fluid Power France S.a.r.l. (9)	Vritz (France)	Hydr.	10	100.00%
Walvoil Fluid Power Australasia (9)	Melbourne (Australia)	Hydr.	7	100.00%
Teknova S.r.l. (in liquidation)	Reggio Emilia	Other	28	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 have been consolidated for twelve months, while Tubiflex S.p.A. has been consolidated for 8 months since it was acquired in May. Tekno Tubi S.r.l., Mega Pacific Pty Ltd and Mega Pacific NZ Pty Ltd have been 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 e di 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 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.

The changes in goodwill in 2016 were as follows:

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

The increases in 2016 relate to the acquisition of Endeavour International Ltd, Tubiflex S.p.A., Tekno Tubi S.r.l., Mega Pacific PTY Ltd and Mega Pacific NZ Pty. Ltd

2. Business sector information

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

The values of components or products transferred between sectors are the effective sales price between Group companies, which correspond to the selling prices applied to the best customers.

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

Business sectors

The Group is composed of the following business sectors:

Water Jetting Sector. This sector is mainly composed of high- and very-high-pressure pumps and pumping systems used in a wide range of industrial sectors for the conveyance of fluids. High pressure plunger pumps are the main component of professional 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. Includes the production and sale of power take-offs, hydraulic cylinders, pumps, valves and directional controls, hydraulic hoses and fittings and other hydraulic components. Power take-offs are mechanical devices designed to transmit drive from an industrial vehicle engine or transmission to power a range of ancillary services through hydraulic components. These products, combined with other hydraulic components (spool

valves, controls, etc.) allow the execution of special functions such as lifting tipping bodies, operating truck-mounted cranes, operating truck mixer truck drums, and so forth. Hydraulic cylinders are components of the hydraulic system of various vehicle types employed in a wide range of applications depending on the type. Front-end and underbody cylinders (single acting) are fitted mainly on industrial vehicles in the building construction sector, while double acting cylinders, valves and directional controls are employed in several applications: earth-moving machinery, agricultural machinery, cranes and truck cranes, waste compactors, etc. The hydraulic hoses and fittings are designed for use in a broad range of hydraulic systems and also for very high pressure water systems.

Interpump Group business sector information
(Amounts shown in €000)
Cumulative 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 products sold	(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
<i>% on net sales</i>	<i>33.1%</i>	<i>31.5%</i>	<i>42.9%</i>	<i>42.0%</i>	-	-	-	-	<i>36.6%</i>	<i>35.5%</i>
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
<i>% on net sales</i>	<i>14.3%</i>	<i>12.1%</i>	<i>20.9%</i>	<i>20.6%</i>	<i>n.s.</i>	<i>n.s.</i>	-	-	<i>16.6%</i>	<i>15.3%</i>
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

Interpump Group business sector information

(Amounts shown in €000)

Q4

	Hydr.		Water		Other		Elimination entries		Interpump Group	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Net sales external to the Group	150,567	130,251	79,229	82,799	-	-	-	-	229,796	213,050
Sales between sectors	71	80	468	480	-	-	(539)	(560)	-	-
Total net sales	150,638	130,331	79,697	83,279			(539)	(560)	229,796	213,050
Cost of products sold	(101,795)	(92,351)	(45,354)	(49,229)	-	-	542	535	(146,607)	(141,045)
Gross industrial margin	48,843	37,980	34,343	34,050	-	-	3	(25)	83,189	72,005
<i>% on net sales</i>	<i>32.4%</i>	<i>29.1%</i>	<i>43.1%</i>	<i>40.9%</i>	-	-			<i>36.2%</i>	<i>33.8%</i>
Other net revenues	2,721	2,384	1,152	1,258	-	-	(55)	(23)	3,818	3,619
Distribution costs	(12,940)	(12,200)	(10,109)	(9,376)	-	-	32	-	(23,017)	(21,576)
General and administrative expenses	(18,339)	(16,382)	(9,990)	(10,012)	(2)	(10)	20	48	(28,311)	(26,356)
Other operating costs	(738)	(1,144)	(449)	(485)	-	-	-	-	(1,187)	(1,629)
Ordinary profit before financial expenses	19,547	10,638	14,947	15,435	(2)	(10)	-	-	34,492	26,063
<i>% on net sales</i>	<i>13.0%</i>	<i>8.2%</i>	<i>18.8%</i>	<i>18.5%</i>	<i>n.s.</i>	<i>n.s.</i>			<i>15.0%</i>	<i>12.2%</i>
Financial income	2,033	1,145	1,179	1,043	-	-	(507)	(551)	2,705	1,637
Financial expenses	(2,094)	(2,439)	(1,215)	(1,368)	-	(1)	507	551	(2,802)	(3,257)
Adjustment of investments carried at equity	(15)	(66)	(29)	(3)	-	-	-	-	(44)	(69)
Profit for the year before taxes	19,471	9,278	14,882	15,107	(2)	(11)	-	-	34,351	24,374
Income taxes	(8,476)	(2,754)	(4,953)	(4,662)	-	5	-	-	(13,429)	(7,411)
Consolidated profit for the year	10,995	6,524	9,929	10,445	(2)	(6)	-	-	20,922	16,963
Pertaining to:										
Parent company's shareholders	10,939	6,282	9,908	10,399	(2)	(6)	-	-	20,845	16,675
Subsidiaries' minority shareholders	56	242	21	46	-	-	-	-	77	288
Consolidated net profit for the year	10,995	6,524	9,929	10,445	(2)	(6)	-	-	20,922	16,963
Further information required by IFRS 8										
Amortization, depreciation and write-downs	7,676	8,718	4,058	3,465	-	-	-	-	11,734	12,183
Other non-monetary costs	1,537	496	657	890	-	-	-	-	2,194	1,386

Financial position
(Amounts shown in €000)

	<u>Hydraulic Sector</u>		<u>Water Jetting Sector</u>		<u>Other Revenues Sector</u>		<u>Elimination entries</u>		<u>Interpump Group</u>	
	<u>31 December 2016</u>	<u>31 December 2015</u>	<u>31 December 2016</u>	<u>31 December 2015</u>	<u>31 December 2016</u>	<u>31 December 2015</u>	<u>31 December 2016</u>	<u>31 December 2015</u>	<u>31 December 2016</u>	<u>31 December 2015</u>
Assets of the sector (A)	812,338	725,674	587,972	566,031	549	577	(174,056)	(157,339)	1,226,803	1,134,943
Cash and cash equivalents									197,891	135,130
Total assets									1,424,694	1,270,073
Liabilities of the sector (B)	341,072	308,674	81,661	82,187	564	597	(174,056)	(157,339)	249,241	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									747,156	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 full year and Q4 comparison of the Hydraulic Sector on a like for like basis is as follows:

Hydraulic Sector (amounts shown in €000)	Year		Q4	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Net sales external to the Group	570,467	560,271	140,686	130,251
Sales between sectors	<u>272</u>	<u>235</u>	<u>71</u>	<u>80</u>
Total net sales	570,739	560,506	140,757	130,331
Cost of products sold	<u>(383,781)</u>	<u>(384,098)</u>	<u>(95,565)</u>	<u>(92,351)</u>
Gross industrial margin	186,958	176,408	45,192	37,980
<i>% on net sales</i>	<i>32.8%</i>	<i>31.5%</i>	<i>32.1%</i>	<i>29.1%</i>
Other net revenues	8,956	9,431	2,549	2,384
Distribution costs	(46,178)	(48,130)	(11,604)	(12,200)
General and administrative expenses	(66,150)	(66,953)	(16,837)	(16,382)
Other operating costs	<u>(2,586)</u>	<u>(3,163)</u>	<u>(691)</u>	<u>(1,144)</u>
Ordinary profit before financial expenses	81,000	67,593	18,609	10,638
<i>% on net sales</i>	<i>14.2%</i>	<i>12.1%</i>	<i>13.2%</i>	<i>8.2%</i>
Financial income	6,122	40,300	1,951	1,145
Financial expenses	(8,477)	(11,600)	(1,584)	(2,439)
Adjustment of investments carried at equity	<u>(43)</u>	<u>(253)</u>	<u>(15)</u>	<u>(66)</u>
Profit for the year before taxes	78,602	96,040	18,961	9,278
Income taxes	<u>(30,250)</u>	<u>(22,632)</u>	<u>(8,253)</u>	<u>(2,754)</u>
Consolidated profit for the year	48,352	73,408	10,708	6,524
Pertaining to:				
Parent company's shareholders	47,880	72,880	10,652	6,282
Subsidiaries' minority shareholders	<u>472</u>	<u>528</u>	<u>56</u>	<u>242</u>
Consolidated net profit for the year	48,352	73,408	10,708	6,524

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

€000	Sector Hydr.		Sector Water		Sector Other		Total	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Cash flows from:								
Operating activities	84,677	58,618	41,129	55,194	2	(208)	125,808	113,604
Investing activities	(37,064)	(52,141)	(37,088)	(151,048)	1	-	(74,151)	(203,189)
Financing activities	<u>(28,220)</u>	<u>25,755</u>	<u>41,142</u>	<u>132,102</u>	-	<u>170</u>	<u>12,922</u>	<u>158,027</u>
Total	<u>19,393</u>	<u>32,232</u>	<u>45,183</u>	<u>36,248</u>	<u>3</u>	<u>(38)</u>	<u>64,579</u>	<u>68,442</u>

The investing activities of the Hydraulic Sector in 2016 included €13,563k associated with the acquisition of equity investments (€34,696k in 2015). The investing activities of the Water Jetting Sector in 2016 included €27,739k associated with the acquisition of equity investments (€141,531k in 2015).

Financing activities in 2016 included net repayments of intercompany loans from the Hydraulic Sector to the Water Jetting Sector totaling 10,243 thousand euro (loans of 57,348 thousand euro from the Water Jetting Sector to the Hydraulic Sector in 2015). Moreover, cash flows from the financing activities of the Water Jetting Sector in 2016 included the purchase of treasury shares for 43,308 thousand euro (32,709 thousand euro in 2015), proceeds from the sale of treasury shares to the beneficiaries of stock options totaling 9,490 thousand euro (8,166 thousand euro in 2015) and 5,516 thousand euro relating to the value of treasury shares assigned on the acquisition of equity investments (60,891 thousand euro

in 2015). The cash flows deriving from the financing activities of the Water Jetting Sector included the payment of dividends totalling €20,150k (€19,396k in 2015).

3. Inventories and breakdown of changes in the Allowance for inventories

	31/12/2016	31/12/2015
	€000	€000
Inventories gross value	286,141	265,791
Allowance for inventories	<u>(28,596)</u>	<u>(27,154)</u>
Inventories	<u>257,545</u>	<u>238,637</u>

Changes in the allowance for inventories were as follows:

	2016	2015
	€000	€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
Utilizations in the period due to surpluses	-	-
Utilizations in the year due to losses	<u>(2,314)</u>	<u>(2,563)</u>
Closing balance	<u>28,596</u>	<u>27,154</u>

4. Property, plant and equipment

Purchases and disposals

In 2016 Interpump Group acquired assets for €54,723k, of which €8,869k through the acquisition of equity investments (€12,372k in 2015, of which €73,938k through the acquisition of equity investments). Assets were disposed of in 2016 for a net book value of €000 4,845 (€000 5,703 in 2015). Divested assets produced a net capital gain of €000 2,099 (€000 3,076 in 2015).

Contractual commitments

At 31 December 2016 the Group had contractual commitments for the purchase of tangible fixed assets totaling €3,201k (€3,509k at 31 December 2015).

5. Shareholders' equity

Share capital

The share capital is composed of 108,879,294 ordinary shares with a unit face value of 0.52 euro for a total amount of €6,617,232.88. Conversely, share capital recorded in the financial statements amounts to 55,431 thousand euro, because the nominal value of purchased treasury shares, net of those sold, has been deducted from share capital in compliance with the reference accounting standards. At 31 December 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 12.4967 euro.

Treasury shares purchased

The amount of the treasury shares held by Interpump Group S.p.A. is recorded in an equity reserve. 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 €32,709k).

Treasury shares sold

In the framework of the exercise of stock options a total of 1,802,000 options were exercised during 2016, resulting in the collection 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 were divested in 2015 for the acquisition of equity investments).

Assigned options

The Shareholders' Meeting held on 28 April 2016 approved the adoption of a new incentive plan denominated “2016/2018 Interpump Incentive Plan”. The plan, which is based on the free assignment of options that grant the beneficiaries the right, on the achievement of specified objectives, to (i) purchase or subscribe the Company’s shares up to the maximum number of 2,500,000 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 the subjects with significant roles or functions. The exercise price has been set at €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.

The fair value of the stock options assigned with the new stock option plan designated “Interpump 2016/2018 Incentives Plan” and the actuarial assumptions utilized in the binomial lattice model are as follows:

	Unit of measurement	
Number of shares assigned	no.	1,620,000
Grant date		12 May 2016
Exercise price		12.8845
<i>Vesting date</i>		1 July 2019
Fair value per option at the grant date	€	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 by means of a linear interpolation of Euro Swap rates at 12 May 2016)	%	From 0.11 to 0.22

	Unit of measurement	
Number of shares assigned	no.	483,800
Grant date		6 July 2016
Exercise price		12.8845
<i>Vesting date</i>		1 July 2019
Fair value per option at the grant date	€	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 by means of a linear interpolation of Euro Swap rates at 6 July 2016)	%	From -0.094 to -0.004
	Unit of measurement	
Number of shares assigned	no.	30,000
Grant date		29 July 2016
Exercise price		12.8845
<i>Vesting date</i>		1 July 2019
Fair value per option at the grant date	€	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 by means of a linear interpolation of Euro Swap rates at 29 July 2016)	%	From -0.082 to -0.002
	Unit of measurement	
Number of shares assigned	no.	6,000
Grant date		13 December 2016
Exercise price		12.8845
<i>Vesting date</i>		1 July 2019
Fair value per option at the grant date	€	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 by means of 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.

Dividends

An ordinary dividend (ex-dividend date: 23 May) of 0.19 euro per share was distributed on 25 May 2016 (0.18 euro paid in 2015).

6. Financial income and expenses

The analysis is as follows:

	2016 €000	2015 €000
<u>Financial income</u>		
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	<u>32</u>	<u>43</u>
Total financial income	<u>7,862</u>	<u>42,416</u>
<u>Financial expenses</u>		
Interest expense on loans	4,119	5,944
Interest expense on put options	610	475
Financial expenses for adjustment of 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	<u>211</u>	<u>248</u>
Total financial expenses	<u>12,862</u>	<u>15,688</u>
Total financial expenses (income), net	<u>5,000</u>	<u>(26,728)</u>

The breakdown for Q4 is as follows:

	2016 €000	2015 €000
<u>Financial income</u>		
Interest income from liquid funds	133	141
Interest income from other assets	22	(4)
Financial income to adjust debt estimate for commitment to purchase residual interests in subsidiaries	-	-
Foreign exchange gains	2,546	1,445
Earnings from valuation of derivative financial instruments	-	25
Other financial income	<u>4</u>	<u>30</u>
Total financial income	<u>2,705</u>	<u>1,637</u>
<u>Financial expenses</u>		
Interest expense on loans	957	1,411
Interest expense on put options	169	15
Foreign exchange losses	1,260	1,456
Financial expenses for adjustment of estimated debt for commitments to purchase residual interests in subsidiaries	316	304
Losses from valuation of derivative financial instruments	1	4
Other financial charges	<u>99</u>	<u>67</u>
Total financial expenses	<u>2,802</u>	<u>3,257</u>

Total financial expenses (income), net	<u>97</u>	<u>1,620</u>
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For the comment related to financial income to adjust the estimated debt for the commitment to acquire residual interests in subsidiaries, refer to the "Directors' remarks on performance in 2016" on page 18.

7. 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:

<i>Year (12 months)</i>	<u>2016</u>	<u>2015</u>
Consolidated net profit for the year attributable to Parent company	<u>93,850</u>	<u>117,639</u>
to Parent company shareholders (€000)		
Average number of shares in circulation	106,196,360	106,854,067
Basic earnings per share for the year (€)	<u>0.884</u>	<u>1.101</u>

Q4

Consolidated net profit for the period attributable to Parent company	<u>20,845</u>	<u>16,675</u>
to Parent company shareholders (€000)		
Average number of shares in circulation	106,556,011	106,668,835
Basic earnings per share for the quarter (€)	<u>0.196</u>	<u>0.156</u>

Diluted earnings per share

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

<i>Year (12 months)</i>	<u>2016</u>	<u>2015</u>
Consolidated net profit for the year attributable to Parent company	<u>93,850</u>	<u>117,639</u>
to Parent company shareholders (€000)		
Average number of shares in circulation	106,196,360	106,854,067
Number of potential shares for stock option plans (*)	<u>419,088</u>	<u>1,491,735</u>
Average number of shares (diluted)	<u>106,615,448</u>	<u>108,345,802</u>
Diluted earnings per share for the year (€)	<u>0.880</u>	<u>1.086</u>

Q4

Consolidated net profit for the period attributable to Parent company		<u>20,845</u>	<u>16,675</u>
to Parent company shareholders (€000)			
Average number of shares in circulation		106,556,011	106,668,835
Number of potential shares for stock option plans (*)		<u>623,078</u>	<u>1,489,373</u>
Average number of shares (diluted)		<u>107,179,089</u>	<u>108,158,568</u>
Earnings per diluted share for the quarter (€)		<u>0.194</u>	<u>0.154</u>

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

8. Transactions with related parties

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

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

	2016					
	Consolidated Total	Non-consolidated subsidiaries	Associates	Other related parties	Total related parties	% incidence on line item
(€000)						
Net sales	922,818	1,304	-	1,016	2,320	0.3%
Cost of products sold	584,816	499	-	10,609	11,108	1.9%
Other revenues	14,372	64	-	23	87	0.6%
Distribution costs	86,425	54	-	643	697	0.8%
G&A expenses	108,973	-	-	1,049	1,049	1.0%
	2015					
	Consolidated Total	Non-consolidated subsidiaries	Associates	Other related parties	Total related parties	% incidence on line item
(€000)						
Net sales	894,928	1,893	-	1,710	3,603	0.4%
Cost of products sold	577,310	447	-	17,888	18,335	3.2%
Other revenues	13,133	18	-	-	18	0.1%
Distribution costs	84,321	38	-	1,284	1,322	1.6%
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:

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

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

Relations with non-consolidated subsidiaries

Relations with non-consolidated subsidiaries are as follows:

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

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

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

* = fully consolidated at 31 December 2016

Relations with associates

The Group does not hold investments in associated companies.

Transactions with other related parties

Transactions with other related parties regard the leasing of facilities owned by companies controlled by current shareholders and directors of Group companies for 4,319 thousand euro (4,899 thousand euro in 2015), and consultancy services provided by entities

connected with directors and statutory auditors of the Parent company for 84 thousand euro (140 thousand euro in 2015). The reduction in leasing costs with respect to the prior year was due to fact that certain parties are no longer related in 2016, having left the Group subsequent to 2015. These leasing costs have been recognized as follows: cost of sales, €3,195k (€3,572k in 2015); distribution costs, €335k (€796k in 2015), and general and administrative expenses, €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 in 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).

9. Disputes, Contingent liabilities and Contingent assets

The Parent company and some of its subsidiaries are directly involved in lawsuits for limited amounts. The settlement of said lawsuits is not expected to generate any significant liabilities for the Group that are not covered by the risk provisions already made. There have not been any substantial changes in relation to the disputes or contingent liabilities existing at 31 December 2015.