Interim Board of Directors' Report
for Q4 2013

Interpump Group S.p.A. and subsidiaries

Contents

This folder can be consulted at:
www.interpumpgroup.it

Interpump Group S.p.A.
Registered head office in Sant'Ilario d'Enza (Reggio Emilia), Via Enrico Fermi, 25
Paid-up Share Capital: € 56,617,232.88
Reggio Emilia Business Register - Tax Code 11666900151

Board of Directors

Fulvio Montipò
Chairman and Chief Executive Officer

Paolo Marinsek
Deputy Chairman and Chief Executive Officer

Salvatore Bragantini (c)
Independent Director

Franco Cattaneo (a), (b), (c)
Independent Director

Sergio Erede
Non-executive Director

Giuseppe Ferrero
Non-executive Director

Giancarlo Mocchi (a)
Non-executive Director

Marco Reboa (a), (b), (c)
Independent Director

Giovanni Tamburi (b)
Non-executive Director

Board of Statutory Auditors

Enrico Cervellera
Chairman

Achille Delmonte
Statutory Auditor

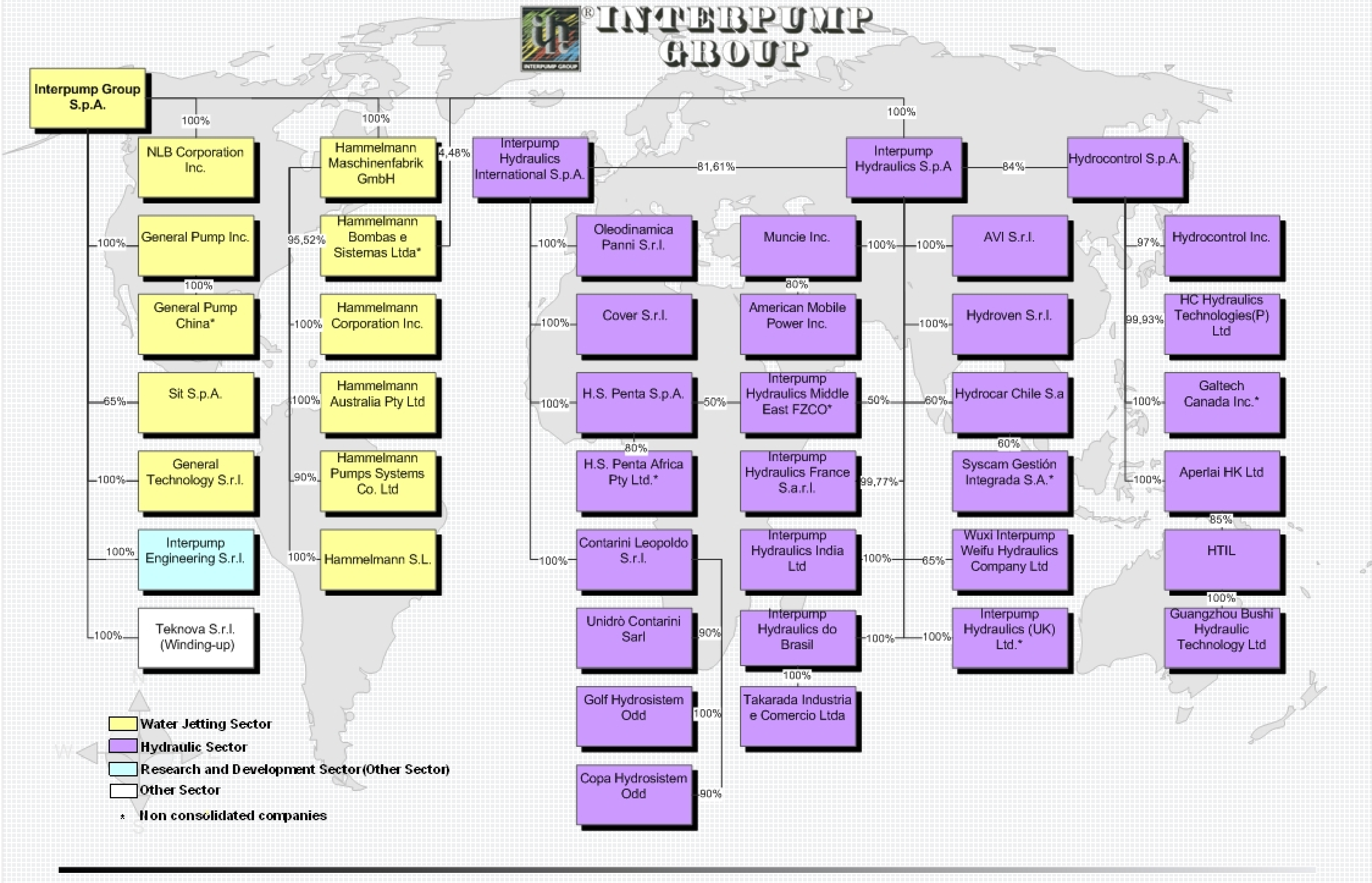
Paolo Scarioni
Statutory Auditor

Independent Auditors

PricewaterhouseCoopers S.p.A.

(a) Member of the Audit Committee
(b) Member of the Remuneration Committee
(c) Member of the Related Party Transactions Committee

Organizational chart as at 31/12/2013



Interim board of directors' report

Directors' remarks on performance in 2013

EVENTS OCCURRING SINCE THE CLOSE OF THE YEAR

On 6 May Interpump Group acquired 100% of Hydrocontrol through its subsidiary Interpump Hydraulics. With headquarters in the province of Bologna, Hydrocontrol is a leading manufacturer and distributor of directional controls and a range of other hydraulic valves. Hydrocontrol's business is highly complementary and synergic with respect to the operations of Interpump Group's Hydraulic Sector. With the recent acquisitions of Galtech and MTC, Interpump Hydraulics, a company 100% controlled by Interpump Group S.p.A and world leader in power take-offs for industrial vehicles, having already extended its product range by entering the valves and directional controls sector through the acquisition of Hydrocontrol, now strengthens its position by addressing significant new business segments while simultaneously laying the basis for the development of major production and distribution synergies. In 2013 Hydrocontrol consolidated sales were booked at €53.1 million with EBITDA of €6.1 million. Hydrocontrol's net financial indebtedness at 31 December 2013 totalled €20.8 million. Consolidated data for 2013 include Hydrocontrol values for eight months, although in order to provide a fair comparison with data for 2012 in which Hydrocontrol was not included, like for like information is provided below. Hydrocontrol was included in the Hydraulic Sector for sector information purposes.

On 9 December 2013 a resolution was passed for the merger of Galtech and MTC in Hydrocontrol with legal effect as from 31 December 2013, after which, by means of exchanges of stock between the shareholders of the three companies involved in the merger, Hydrocontrol assumed 100% control of Galtech, which in turn already controlled 100% of MTC. At the end of the concentration operation Interpump Hydraulics holds 84% of Hydrocontrol's capital. The merger between the three companies will make it possible to exploit synergies between companies working in the same market segment both in terms of products and organization and will therefore allow significant cost savings. The same aims were pursued with the transfer of all Galtech and MTC's production operations to a newly constructed plant that will bring clear benefits in terms of production layout and reduce the number of production units from the current 3 to just 1.

A resolution was passed on 17 December 2013 to merge Golf Hydrosystem Odd in Copa Hydrosystem Odd, with the aim of exploiting production synergies and creating a more efficient organization in Bulgaria. The merger will be operational as from 1 January 2014.

In addition, on 18 December 2013 an act was signed to merge Cover S.r.l. in Oleodinamica Panni S.r.l. in order to create a more efficient organization by concentrating several activities, namely planning of production and procurement activities and administration. The merger will be operational at the start of 2014.

The Hydraulic Sector reorganization activity in 2013 has also led to (i) the closure of the Nonantola plant (MO) and the associated concentration of the business of Interpump Hydraulics in the Calderara di Reno plant (BO), with a reduction of around 90 personnel, maintaining production capacities unchanged, (ii) closure of the Modenflex plant with the merger of Modenflex in HS Penta, resulting in the shedding of approximately 20 jobs, which, thanks to automation investments, will make it possible to achieve higher production potential to allow additional development of the company. These restructuring activities will also allow organizational streamlining and lead to efficiencies due to economies of scale.

The Hydraulic Sector expansion process continued in 2013 with the signing, on 2 August, of a preliminary contract for the acquisition of a 60% stake in the IMM Group, which has headquarters in Atessa (CH) and operates in the production of hydraulic pipes and unions, through the Interpump Hydraulics subsidiary. The IMM Group has a production subsidiary in Romania and distribution subsidiaries in the UK, France, Germany and South Africa. Preliminary 2013 results show sales of €57 million, EBITDA of around €9 million and net financial indebtedness of €25 million at 31 December 2013. The price was calculated on the basis of a multiplication factor of 5.58 applied to consolidated EBITDA (prudently estimated at €8 million), less net financial indebtedness and hence at €10.3 million. The closing date of the operation was 8 January 2014 and 70% of the preliminary price was paid by transferring 276,000 listed shares of Interpump Group S.p.A. and a cash payment of €5.4 million. The final price will be adjusted with reference to the year end results and will be established after approval of the 2013 consolidated financial statements. Group founder Candeloro will be entitled to sell the residual 40% stake as from the date of approval of the 2017 financial statements. IMM Group's business is highly synergic with respect to the activities of the Interpump Group's Hydraulic Sector. With the acquisition of IMM, Interpump Hydraulics further extends its range of products in the hydraulic sector. The arrival of IMM in the Interpump Group will also provide access to a series of important distribution synergies because IMM will be able to use the Group's worldwide distribution network.

In the Water Jetting Sector, the development of pumps for new applications is continuing, especially in the field of process pumps.

2013 sales were up by 5.6% compared to 2012 (-1.3% like for like). A breakdown by business sector shows the Hydraulic Sector growing by 14.1% (+0.1% like for like) and a decline of 2.6% for the Water Jetting Sector. A breakdown by geographical area shows growth of 15.2% in Europe with the exception of Italy (+4.2% like for like), growth of 2.4% in the Rest of the World (-2.7% like for like), and growth of 1.5% in North America (-1.3% like for like), while the Pacific Area was down by 5.9% (-15.0% like for like), mainly due to a slowdown of the Chinese economy. Italy recorded growth of 8.8% (-0.3% like for like), displaying cautious signs of recovery in Q4 following the downturns of the prior periods.

Profitability shaded slightly, also due to non-recurring costs arising from the Hydraulic Sector reorganization activities: EBITDA was booked at €105.2 million, equivalent to 18.9% of sales. Net of non-recurring costs EBITDA was €106.4 or 19.1% of sales (101.8% like for like, or 19.6% of sales). The non-recurring costs are mainly referred to expenses for moving machinery and inventories from the discontinued plants and early redundancy incentives. In contrast, the costs associated with inefficiencies caused by the transfers and closure of existing plants, which shaved the 2013 margins and will no longer be present in future years, were not estimated due to the difficulty of measuring them. Also in 2012, EBITDA, recorded at €105.9 million (20.1% of sales), was negatively impacted by one million euro of non-recurring costs arising from the termination of the Chairman then in office.

Net profit stood at €44.1 million (€53.2 million in 2012, which included one-off tax benefits of €5.4 million).

We also draw your attention to the fact that further to the retroactive application from 1 January 2013 of the amendment to IAS 19, the data of the income statement and cash flow statement for the full twelve months and fourth quarter of 2012, and the balance sheet at 31 December 2012, given for comparison purposes, were restated as required by IAS 1. For further details we invite you to refer to the section “New accounting principles and amendments in force from 1 January 2013 and adopted by the Group” of the Notes to this interim board of directors' report.

Consolidated income statement for the year

(€/000)	*2013*	*2012**
Net sales	**556,513**	**527,176**
Cost of sales	(353,753)	(326,833)
Gross industrial margin	**202,760**	**200,343**
% on net sales	*36.4%*	*38.0%*
Other operating revenues	8,765	8,775
Distribution costs	(58,107)	(53,233)
General and administrative expenses	(70,441)	(69,084)
Other operating costs	(3,643)	(2,752)
EBIT	**79,334**	**84,049**
% on net sales	*14.3%*	*15.9%*
Financial income	4,941	4,905
Financial charges	(12,865)	(12,756)
Adjustment of value of investments carried at equity	(338)	(147)
Profit for the period before taxes	**71,072**	**76,051**
Income taxes	(26,985)	(22,837)
Consolidated profit of continuing operations for the period	**44,087**	**53,214**
% on net sales	*7.9%*	*10.1%*
Result of assets held for sale and discontinued operations	-	12
Consolidated net profit for the period	**44,087**	**53,226**
Due to:		
Parent company's shareholders	43,201	52,303
Subsidiaries' minority shareholders	886	923
Consolidated net profit for the period	**44,087**	**53,226**
EBITDA**	**105,173**	**105,876**
% on net sales	*18.9%*	*20.1%*
Shareholders' equity	432,949	396,876
Net financial indebtedness	88,684	74,549
Payables for the acquisition of investments	32,700	28,003
Capital employed	554,333	499,428
ROCE	**14.3%**	**16.8%**
ROE	**10.2%**	**13.4%**
Basic earnings per share	**0.413**	**0.556**

EBITDA = EBIT + Depreciation/Amortization + Provisions
ROCE = EBIT/ Capital employed
ROE = Consolidated profit for the period / Consolidated shareholders' equity

* = Further to the application of the amendment to IAS 19, the 2012 data were restated. The associated impact on the originally published data was an increase in net profit for the period in the amount of €901 thousand, of which €1,244 thousand for lower payroll costs and €343 euro for higher tax costs.

** = Since EBITDA is not identified as an accounting measurement either in Italian accounting principles or in international principles (IAS/IFRS), the quantitative determination of this parameter may not be unequivocal. EBITDA is a parameter used by company management to monitor and assess the organization's operating performance. EBITDA is considered by management to be a significant parameter for company performance assessment since it is not influenced by the effects of different criteria for determination of taxable income, amount and characteristics of employed capital and related amortization policies. The criterion for the determination of EBITDA applied by the company may differ from that used by other companies/groups and hence the value of this parameter may not be directly comparable with the EBITDA values disclosed by other entities.

NET SALES

2013 net sales totalled €556.5 million, 5.6% higher than 2012 sales, which were recorded at 527.2 million (-1.3% like for like and +0.7% net of exchange differences).

The breakdown of sales by business sector and geographical area is as follows:

(€/000)	Italy	Rest of Europe	North America	Pacific Area	Rest of the World	Total
31/12/2013						
Hydraulic Sector	58,089	85,617	82,282	15,876	52,234	294,098
Water Jetting Sector	19,759	79,057	107,969	35,685	19,945	262,415
Total	77,848	164,674	190,251	51,561	72,179	556,513
31/12/2012						
Hydraulic Sector	52,358	65,195	77,027	12,170	50,986	257,736
Water Jetting Sector	19,185	77,707	110,419	42,612	19,517	269,440
Total	71,543	142,902	187,446	54,782	70,503	527,176
2013/2012 percentage change						
Hydraulic Sector	+10.9%	+31.3%	+6.8%	+30.5%	+2.4%	+14.1%
Water Jetting Sector	+3.0%	+1.7%	-2.2%	-16.3%	+2.2%	-2.6%
Total	+8.8%	+15.2%	+1.5%	-5.9%	+2.4%	+5.6%
Total like for like changes	-0.3%	+4.2%	-1.3%	-15.0%	-2.7%	-1.3%

On a like for like basis the Hydraulic Sector remained substantially unchanged (+0.1%). North American sales were negatively affected by the different Euro/USD exchange rate applied in 2013 (1.33) compared to 2012 (1.28). Net of exchange and consolidation differences North American sales increased by 2.0% (+3.4% in the Hydraulic Sector and +1.0% in the Water Jetting Sector).

PROFITABILITY

In 2013 non-recurring expenses were booked for €2.6 million, of which €1.2 million affecting EBITDA and EBIT and connected to the costs for transferring machinery and inventories from the discontinued plants and early redundancy incentives, while the remainder refer to provisions made in relation to labour union agreements following the restructuring operation, which affected exclusively EBIT; in 2012 non-recurring expenses were booked for 2.0 million, of which €1.0 million costs for the termination of office of the ex-Chairman (affecting both EBITDA and EBIT) and 1.0 million concerning provisions for Group company restructuring costs (affecting solely EBIT).

The cost of sales accounted for 63.6% of turnover (62.0% in 2012). Production costs, which totalled €136.6 million (€120.4 million in 2012, which however did not include the costs of the Hydrocontrol Group), accounted for 24.5% of sales (22.8% in 2012). Like for like production costs were up by 1.5%. The purchase cost of raw materials and components sourced on the market, including changes in inventories, was €217.2 million (€206.4 million in 2012, which however did not include Hydrocontrol). Like for like purchases, including the change in inventories, were down by 1.1%. The percent incidence of purchase costs, including the change in inventories, was 39.0% compared to the 39.2% in 2012, reflecting an 0.2 percentage point improvement (39.2% on a like for like basis).

Like for like distribution costs rose by 3.0% with respect to 2012, while their incidence on sales increased by 0.4 percentage points.

General and administrative expenses fell by 4.1% like for like with respect to 2012, while their incidence on sales was 0.4 percentage points lower.

Overall payroll costs stood at €133.0 million (€120.6 million in 2012, which however did not include Hydrocontrol). Like for like payroll costs were in line with 2012 in absolute terms. The total number of Group employees in 2013 was 2,998 (2,690 like for like) compared to 2,685 in 2012. The change in the average headcount on a like for like basis breaks down as follows: –18 in Europe, +27 in the US and –4 in the Rest of the World. The average headcount of Hydrocontrol is 463 although these personnel were only present for eight months and hence the incidence in the average headcount is 308, due to the fact that Hydrocontrol was only consolidated for eight months in 2013. There was an increase of 10 employees in 2013 due to the consolidation of GITOP following that company's merger with Oleodinamica Panni S.r.l.

EBITDA totalled €105.2 million (18.9% of sales) compared to the €105.9 million of 2012, which accounted for 20.1% of sales. On a like for like basis and net of non-recurring costs, EBITDA totalled 19.6%. The following table shows EBITDA for each business sector:

	31/12/2013 €/000	*% on total sales**	*31/12/2012 €/000*	*% on total sales**	*Growth/ Contraction*
Hydraulic Sector	41,387	14.1%	37,396	14.5%	+10.7%
Water Jetting Sector	63,747	24.2%	68,425	25.3%	-6.8%
Other	39	n.s.	46	n.s.	n.s.
Total	***105,173***	***18.9%***	***105,867***	***20.1%***	***-0.7%***

* = Total sales also include sales to other Group companies, while the sales analysed previously are exclusively those external to the group (see 2 in the notes to the interim consolidated financial statements at 31 December 2013). Therefore, for the purposes of comparability the percentage is calculated on total sales rather than the sales shown earlier.

Like for like EBITDA for the Hydraulic Sector was €36.8 million (14.4% of sales), reflecting a reduction of 1.5%.

EBIT stood at €79.3 million or 14.3% of sales compared to the €84.0 million of 2012 (15.9% of sales). On a like for like basis and net of non-recurring costs, EBIT totalled 15.5%.

The tax rate for the year was 38.0% (30.0% in 2012). The 2012 tax rate benefited from lower taxes in the amount of €5.4 million due to one-off events. Net of said events the 2012 tax rate would have been 37.3%. The increase in the 2013 tax rate of 0.7 percentage points is mainly caused by taxation of intercompany dividends, which were higher than in 2012.
Net profit for the year was €44.1 million (€53.2 million in 2012). Basic earnings per share were €0.413 (€0.556 in 2012).

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

Capital employed increased from €499.4 million at 31 December 2012 to €554.3 million at 31 December 2013. The increase was due to the acquisition of Hydrocontrol, which resulted in an

€56.3 million increase in the capital employed. ROCE was 14.3% (16.8% in 2012); the decrease is also due to the fact that in relation to the entire amount of capital employed for the acquisition of Hydrocontrol EBIT was consolidated for just eight months. Net of the situation described ROCE would have been 15.6%. ROE was 10.2% (13.4% in 2012), influenced like ROCE by the acquisition of Hydrocontrol, because, following the disposal of no.4,500,000 treasury shares for its acquisition, a capital increase of €30.1 million was recorded, while Hydrocontrol profit was consolidated for just eight months. Disregarding the situation described above ROE would have been 11.2%.

CASH FLOW

The change in net debt can be broken down as follows:

	2013 *€/000*	*2012* *€/000*
Opening net financial position	**(74,549)**	**(126,963)**
Adjustment: net cash position of newly consolidated companies	231	-
Adjusted opening net financial position	**(74,318)**	**(126,963)**
Cash flow from operations	64,667	65,572
Cash flow generated (absorbed) by the management of commercial working capital	(874)	(14,797)
Cash flow generated (absorbed) by other current assets and liabilities	(249)	2,513
Capital expenditure in tangible fixed assets	(27,794)	(16,860)
Proceeds from sales of tangible fixed assets	708	3,342
Increase in other intangible fixed assets	(2,665)	(2,321)
Received financial income	1,502	1,973
Other	(1,013)	(824)
Free cash flow	***34,282***	***38,598***
Acquisition of equity investments, inclusive of received debt and net of divested treasury stock	(23,836)	(20,430)
Net receipt from Hydrocontrol concentration operation	1,720	-
Receipts from the sale of investments, including disposal of the associated debt	1,277	1,378
Dividends paid	(18,524)	(11,731)
Outlays for purchase of treasury stock	(21,441)	(15,827)
Proceeds from sale of treasury stock to beneficiaries of stock options	11,995	2,025
Capital increase following exercise of warrants	-	56,881
Proceeds from sale of financial assets	919	1,634
Loans granted to (repayments from) non-consolidated subsidiaries	(41)	(90)
Cash flow generated (used)	***(13,649)***	***52,438***
Net cash flow generated (used) by discontinued operations	-	(20)
Exchange rate differences	(717)	(44)
Net financial position at end of period	**(88,684)**	**(74,549)**

The net cash flow from operations totalled €64.7 million, substantially in line with the €65.6 million of 2012. Free cash flow was €34.3 million (€38.6 million in 2012). We draw your attention to the fact that in 2013 higher expenditure, net of divestments, totalled €13.9, of which €6.5 million connected to the construction of the new Hammelmann plant. €0.9 million of commercial working capital was absorbed in 2013 (€14.8 million in 2012).

The disposal of investments in 2013 refers to the collection of the third and final tranche of the sale of the investment in Unielectric in the amount of €1.2 million and for the remainder, to the second instalment for the sale of Hydrocar Roma. In 2012 the sale of investments referred to the collection of the second tranche from the disposal of 70% of Unielectric S.p.A in the amount of €1.0 million, the disposal of 5% of Mega Pacific Pty Ltd in the amount of €0.3 million and, for the remainder, to the first instalment connected to the disposal of Hydrocar Roma S.r.l.

The net cash position breaks down as follows:

	31/12/2013 €/000	31/12/2012 €/000	01/01/2012 €/000
Cash and cash equivalents	105,312	115,069	109,068
Payables to banks	(20,932)	(10,614)	(8,762)
Interest-bearing financial payables (current portion)	(61,371)	(87,303)	(113,700)
Interest-bearing financial payables (non-current portion)	(111,693)	(91,701)	(113,569)
Total	**(88,684)**	**(74,549)**	**(126,963)**

At 31 December 2013 all financial covenants had been amply complied with.

The Group also has contractual commitments for the acquisition of residual interests in subsidiaries totalling €32.7 million (€28.0 million at 31/12/2012). In target company acquisition processes it is Group strategy to purchase majority packages, signing purchase commitments for the residual stakes, the price of which is set in accordance with the results that the company is able to achieve in the subsequent years, thus guaranteeing on the one hand the continuation in the company of the historic management and on the other hand maximizing the goal of increasing profitability.

	31/12/2013 *€/000*	*31/12/2012* *€/000*
Debt for deferred payments of AVI instalments	518	766
Debt for the acquisition of 20% of American Mobile	2,111	2,410
Commitments to exercise the options to sell on HS Penta Africa shares	325	-
Debt for payment of the residual debt for the purchase of Hydrocontrol	3,340	-
Commitments to exercise sale options on Hydrocontrol shares	12,670	-
Commitments to exercise the options to sell on Galtech and MTC shares	-	10,239
Commitments to exercise the options to sell on Interpump Hydraulics International S.p.A.	13,736	14,588
Total	**32,700**	**28,003**

On 2 November 2011 the Group acquired the remaining 49% of the subsidiary AVI S.r.l. for €1,350 thousand, of which €270 thousand paid at the same time as the acquisition of the holdings with the remainder to be settled in four annual instalments of €270 thousand each.
The contract for the acquisition of an 80% stake in American Mobile envisages the purchase of the remaining 20% in April of 2016 on the basis of the results achieved by the company in the two preceding years. We therefore proceeded to estimate the expected debt on the basis of a business plan.

The commitments for the purchase of HS Penta Africa shares refer to the measurement of the put/call options that oblige/entitle HS Penta S.p.A., on the basis of a price that will be a function of the results achieved in the two years prior to the sale, to purchase the residual minority stakes. We therefore proceeded to evaluate this commitment on the basis of a business plan.

Commitments for the purchase of shares of Galtech S.p.A. and MTC S.r.l. referred to the measurement of put options awarded to minority shareholders of the companies, which allow them to sell their holdings to Interpump Hydraulics S.p.A. Further to the merger of Galtech and MTC in Hydrocontrol, in 2013 the options were replaced by options on the minority stakes in Hydrocontrol and were established on the basis of a price that will be a function of the results achieved in the two years preceding the sale. We therefore proceeded to evaluate this commitment on the basis of a business plan.

Commitments for the purchase of shares of Interpump Hydraulics International S.p.A. refer to the measurement of put options awarded to minority shareholders of the company, which allow them to sell their holdings to Interpump Hydraulics S.p.A. on the basis of a price that will depend on the results achieved in the two years prior to the sale. This commitment was therefore measured on the basis of a business plan.

Debts for the acquisition of investments were discounted to current value taking into account the temporal factor.

CAPITAL EXPENDITURE

Expenditure on property, plant and machinery totalled €60.5 million, of which €26.3 million through the acquisition of investments (€30.3 million in 2012, of which €9.4 million through the acquisition of investments). Note that the companies belonging to the very-high pressure systems segment record machinery manufactured and hired out to customers under tangible fixed assets (€6.4 million at 31/12/2013 and €4.4 million at 31/12/2012). Net of these latter amounts and expenditure related to the acquisition of equity investments, actual capital expenditure stood at €27.8 million in 2013 (€16.4 million in 2012) and refers to the normal renewal and modernization of plant, machinery and equipment, with the exception of €6.5 million for the construction of Hammelmann's new plant. The difference with respect to the expenditure recorded in the cash flow statement is due to the dynamics of payments.

Increases in intangible fixed assets totalled €6.5 million, of which €3.9 million through the acquisition of investments (€2.8 million in 2012, of which €0.5 million through the acquisition of investments) and refer mainly to expenditure for the development of new products.

INTERCOMPANY RELATIONS 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, inasmuch as they form part of the normal course of activities of the Group companies. These transactions are regulated at arm's length conditions, taking into account the characteristics of the assets transferred and services rendered. Information on transactions carried out with related parties is given in Note 8 of the Interim Consolidated Financial statements at 31 December 2013.

CHANGES IN THE GROUP STRUCTURE IN 2013

In addition to the acquisition of Hydrocontrol which occurred in Q2 2013 as described in the heading “Key events in the year”, in January 2013 an additional 28% of H.S. Penta Africa Pty Ltd was acquired for €/000 140 and a commitment was signed for the purchase of the remaining 20%. H.S. Penta Africa is the Group's distributor of HS Penta products in South Africa for hydraulic cylinders and other hydraulic components. The Group considers the South African market to be particularly important in consideration of the sustained economic growth of the country in recent years and in relation to the possibility of serving bordering countries.

Moreover, on 13 May 2013 the merger between HS Penta S.p.A. and Modenflex Hydraulics S.r.l. came into force, while 31 December 2013 saw the implementation of the merger of Galtech S.p.A. and MTC S.r.l. in Hydrocontrol S.p.A.

EVENTS OCCURRING AFTER 31 DECEMBER 2013

8 January 2014 was the closing date of the acquisition of the IMM Group, as described in the heading “Events occurring since the close of the year”.

On 30 January 2014 Interpump Hydraulics S.p.A. divested the ex-Hydrometal line of business, operating in the area of structural steelwork for industrial vehicles, which is no longer considered to be of strategic importance for the Hydraulic Sector business. In 2013 the division made sales in the amount of €5.5 million and recorded EBITDA of around 4%. The preliminary price for the sale, which will take effect as from 1 March 2014, was set at €2.3 million, to be adjusted following verification of the amount of inventories at the effective date. The amount will be paid in three adequately secured annual instalments.

After 31 December 2013 no events occurred such that would require inclusion in this report.

Directors' remarks on performance in Q4 2013

Consolidated income statement for Q4

(€/000)	*2013*	*2012**
Net sales	**139,020**	**121,669**
Cost of sales	(89,868)	(76,257)
Gross industrial margin	**49,152**	**45,412**
% on net sales	*35.4%*	*37.3%*
Other operating revenues	2,456	2,578
Distribution costs	(14,614)	(12,813)
General and administrative expenses	(17,520)	(18,402)
Other operating costs	(674)	(1,775)
EBIT	**18,800**	**15,000**
% on net sales	*13.5%*	*12.3%*
Financial income	(457)	638
Financial charges	(2,819)	(2,677)
Adjustment of value of investments carried at equity	(51)	(77)
Profit for the period before taxes	**15,473**	**12,884**
Income taxes	(6,329)	(2,265)
Consolidated profit for the period	**9,144**	**10,619**
% on net sales	*6.6%*	*8.7%*
Due to:		
Parent company's shareholders	8,990	10,643
Subsidiaries' minority shareholders	154	(24)
Consolidated profit for the period	**9,144**	**10,619**
EBITDA**	**25,539**	**21,410**
% on net sales	*18.4%*	*17.6%*
Shareholders' equity	432,949	396,876
Net financial indebtedness	88,684	74,549
Payables for the acquisition of investments	32,700	28,003
Capital employed	554,333	499,428
Unannualized ROCE	**3.4%**	**3.0%**
Unannualized ROE	**2.1%**	**2.7%**
Basic earnings per share	**0.085**	**0.109**

EBITDA = EBIT + Depreciation/Amortization + Provisions
ROCE = EBIT/ Capital employed
ROE = Consolidated profit for the period / Consolidated shareholders' equity

* = Further to the application of the amendment to IAS 19, the 2012 data were restated. The associated impact on the originally published data was an increase in net profit for the period in the amount of €901 thousand, of which €1,244 thousand for lower payroll costs and €343 euro for higher tax costs.

** = Since EBITDA is not identified as an accounting measurement either in Italian accounting principles or in international principles (IAS/IFRS), the quantitative determination of this parameter may not be unequivocal. EBITDA is a parameter used by company management to monitor and assess the organizations operating trend. EBITDA is considered by management to be a significant parameter for company performance assessment since it is not influenced by the effects of different criteria for determination of taxable income, amount and characteristics of employed capital and related amortization policies. The criterion for the determination of EBITDA applied by the company may differ from that used by other companies/groups and hence the value of this parameter may not be directly comparable with the EBITDA values disclosed by said other companies/groups.

NET SALES

The scope of consolidation in Q4 2013 includes Hydrocontrol, which was absent in 2012. The Notes to this interim report provide like for like information.

Net sales in 2013 Q4 totalled €139.0 million, up by 14.3% with respect to sales in the equivalent period of 2012, (€121.7 million). Net sales rose by 2.9% like for like (+5.9% net also of exchange differences). This is the first time in 2013 that like for like growth was recorded for a quarter, an event that reflects the initial signs of market recovery.

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

(€/000)	Italy	Rest of Europe	North America	Pacific Area	Rest of the World	Total
2013 Q4						
Hydraulic Sector	16,131	24,207	20,365	4,085	12,354	77,142
Water Jetting Sector	4,668	18,572	23,575	7,605	7,458	61,878
Total	20,799	42,779	43,940	11,690	19,812	139,020
2012 Q4						
Hydraulic Sector	11,970	15,542	16,852	2,622	12,388	59,374
Water Jetting Sector	4,520	18,735	26,328	7,907	4,805	62,295
Total	16,490	34,277	43,180	10,529	17,193	121,669
2013/2012 percentage change						
Hydraulic Sector	+34.8%	+55.8%	+20.8%	+55.8%	-0.3%	+29.9%
Water Jetting Sector	+3.3%	-0.9%	-10.5%	-3.8%	+55.2%	-0.7%
Total	+26.1%	+24.8%	+1.8%	+11.0%	+15.2%	+14.3%
Total like for like changes	+9.2%	+7.4%	-2.8%	-3.3%	+6.1%	+2.9%

On a like for like basis the Hydraulic Sector was up by 6.7%.
North American sales were negatively affected by the different Euro/USD exchange rate applied in 2013 (1.36) compared to 2012 (1.30). Net of exchange and consolidation differences North American sales increased by 2.1% (+14.7% in the Hydraulic Sector and -5.9% in the Water Jetting Sector).

PROFITABILITY

In Q4 2012 non-recurring expenses were booked for €1 million in respect of costs related to the end of office of the ex-Chairman and for €0.7 million connected with the allocation of restructuring costs of Group companies. The first item exerted a negative effect on EBITDA and EBIT while the second item only affected EBIT. Non-recurring costs totalling €0.3 million in Q4 2013 had an impact on both EBITDA and EBIT.

The cost of sales accounted for 64.6% of turnover (62.7% in Q4 2012). Production costs, which totalled €35.7 million (€29.3 million in Q4 2012, which however did not include Hydrocontrol), accounted for 25.7% of sales (24.1% in the equivalent period of 2012). On a like for like basis production costs rose by 3.0%. The purchase cost of raw materials and components sourced on the market, including changes in inventories, was €54.2 million (€46.9 million in the equivalent period of 2012, which however did not include Hydrocontrol). Like for like purchases, including the change in inventories, were 4.3% higher. The incidence of purchase costs, including changes in inventories, was 39.0%, compared to 38.6% in the fourth quarter of 2012.

On a like for like basis distribution costs rose by 4.4% with respect to the fourth quarter of 2012, with an 0.2 percentage point rise of the incidence on sales.

General and administrative expenses fell by 14.2% like for like with respect to Q4 2012, while their incidence on sales was 2.5 percentage points lower. We draw your attention to the fact that general and administrative expenses in 2012 included €1 million of non-recurring costs, as described earlier.

EBITDA totalled €25.5 million (18.4% of sales) compared to the €21.4 million of Q4 2012, which accounted for 17.6% of sales, reflecting an increase of 19.3%. On a like for like basis and net of non-recurring costs arising from the reorganization of the Hydraulic Sector, EBITDA was equivalent to 19.5% of sales. The following table shows EBITDA for each business sector:

	2013 Q4 €/000	*% on total sales**	*2012 Q4 €/000*	*% on total sales**	*Growth/ Contraction*
Hydraulic Sector	10,265	13.3%	6,668	11.2%	+53.9%
Water Jetting Sector	15,260	24.5%	14,805	23.7%	+3.1%
Other	14	n.s.	(72)	n.s.	n.s.
Total	***25,539***	***18.4%***	***21,401***	***17.6%***	***+19.3%***

* = Total sales also include sales to other Group companies, while the sales analysed previously are exclusively those external to the group (see 2 in the notes to the interim consolidated financial statements at 31 December 2013). Therefore, for the purposes of comparability the percentage is calculated on total sales rather than the sales shown earlier.

Like for like EBITDA of the Hydraulic Sector was €8.8 million, or 13.9% of sales.

EBIT stood at €18.8 million (13.5% of sales) compared to the €15.0 million of Q4 2012 (12.3% of sales), reflecting an increase of 25.3%. On a like for like basis and net of non-recurring costs, EBIT totalled 15.1% of sales.

The tax rate in Q4 2013 was 40.9% (17.6% in Q4 2012). Lower taxes were booked in Q4 2012 in the amount of €2.4 million, due to tax rebates for the deductibility of IRAP on employee salaries of prior years. Net of this non-recurring event the tax rate in Q4 2012 would have been 35.6%.

Q4 closes with consolidated net profit of €9.1 million or 6.6% of sales (net profit for Q4 2012 was €10.6 million).

In Q4 2013 the Group generated free cash flow of €15.2 million (€11.1 million in Q4 2012), with an increase of 37.6%, despite the liquidation in Q4 2013 of 3.8 million of additional net expenditure.

Basic earnings per share were €0.085 (€0.109 in Q4 2012).

Sant'Ilario d’Enza (RE), 14 February 2014

For the Board of Directors
Fulvio Montipò
Chairman

The manager responsible for drafting company accounting documents, Carlo Banci, declares, pursuant to the terms of section 2 article 154(2) of the Financial Services 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 2014

Carlo Banci
Manager responsible for drafting
company accounting documents

Financial statements and notes*

* = Further to the retroactive application from 1 January 2013 of the amendment to IAS 19, the data of the income statement and cash flow statement for the full twelve months and fourth quarter of 2012 and the balance sheet at 31 December 2012, given for comparison purposes, were restated as required by IAS 1. For further details we invite you to refer to the section "New accounting principles and amendments in force from 1 January 2013 and adopted by the Group" of the Notes to this interim board of directors' report.

Consolidated balance sheet

	Notes	*31/12/2013*	*31/12/2012**
ASSETS			
Current assets			
Cash and cash equivalents		105,312	115,069
Trade receivables		113,726	96,371
Inventories	3	145,994	131,692
Tax receivables		5,840	6,705
Derivative financial instruments		42	306
Other current assets		5,661	6,675
Total current assets		**376,575**	**356,818**
Non-current assets			
Property, plant and equipment	4	150,668	112,527
Goodwill	1	234,792	225,921
Other intangible assets		23,755	22,146
Other financial assets		2,072	1,840
Tax receivables		3,071	2,802
Deferred tax assets		19,525	16,707
Other non-current assets		565	971
Total non-current assets		**434,448**	**382,914**
Assets held for sale		**-**	*2,121*
Total assets		***811,023***	***741,853***

	Notes	31/12/2013	31/12/2012*
LIABILITIES			
Current liabilities			
Trade payables		69,985	53,612
Payables to banks		20,932	10,614
Interest-bearing financial payables (current portion)		61,371	87,303
Derivative financial instruments		279	781
Taxes payable		5,613	6,655
Other current liabilities		45,524	27,342
Provisions for risks and charges		3,972	4,653
Total current liabilities		**207,676**	**190,960**
Non-current liabilities			
Interest-bearing financial payables		111,693	91,701
Liabilities for employee benefits		11,942	11,008
Deferred tax liabilities		26,458	22,456
Non-current taxes payable		-	17
Other non-current liabilities		18,774	27,496
Provisions for risks and charges		1,531	1,339
Total non-current liabilities		**170,398**	**154,017**
Total liabilities		**378,074**	**344,977**
SHAREHOLDERS' EQUITY	5-7		
Share capital		55,004	52,796
Legal reserve		11,323	10,157
Share premium reserve		125,039	105,514
Reserve for valuation of hedging derivatives at fair value		(27)	(333)
Reserves from restatement of defined benefit plans		(3,396)	(2,850)
Translation provision		(19,084)	(8,243)
Other reserves		257,827	234,002
Shareholders' equity for the Group		**426,686**	**391,043**
Minority interests		6,263	5,833
Total shareholders' equity		**432,949**	**396,876**
Total shareholders' equity and liabilities		***811,023***	***741,853***

Consolidated income statement for the year

(€/000)	*Notes*	*2013*	*2012*
Net sales		**556,513**	**527,176**
Cost of sales		(353,753)	(326,833)
Gross industrial margin		**202,760**	**200,343**
Other net revenues		8,765	8,775
Distribution costs		(58,107)	(53,233)
General and administrative expenses		(70,441)	(69,084)
Other operating costs		(3,643)	(2,752)
Ordinary profit before financial charges		**79,334**	**84,049**
Financial income	6	4,941	4,905
Financial charges	6	(12,865)	(12,756)
Adjustment of the value of investments carried at equity		(338)	(147)
Profit for the period before taxes		**71,072**	**76,051**
Income taxes		(26,985)	(22,837)
Consolidated profit of continuing operations for the year		**44,087**	**53,214**
Result of discontinued operations and businesses destined for sale		-	12
Net profit for the year		**44,087**	**53,226**
Due to:			
Parent company's shareholders		43,201	52,303
Subsidiaries' minority shareholders		886	923
Consolidated profit for the year		**44,087**	**53,226**
Continuing operations basic earnings per share		0.413	0.555
Discontinued operations basic earnings per share		-	0.001
Basic earnings per share	7	0.413	0.556
Continuing operations diluted earnings per share		0.408	0.548
Discontinued operations diluted earnings per share		-	-
Diluted earnings per share	7	0.408	0.548

Comprehensive consolidated income statements for the year

(€/000)	*2013*	*2012*
Consolidated profit for the year (A)	**44,087**	**53,226**
Other comprehensive profit (loss) that will be subsequently reclassified in consolidated profit for the period		
Accounting of interest rate hedging derivatives recorded in accordance with the cash flow hedging method:		
- Profit (Loss) on derivative financial instruments for the period	-	-
- Minus: Adjustment for reclassification of profits (losses) to the income statement	-	-
- Minus: Adjustment for recognition of fair value to reserves in the previous period	495	623
Total	*495*	*623*
Accounting of exchange risk derivative hedges recorded in accordance with the cash flow hedging method:		
- Profit (Loss) on derivative financial instruments for the period	14	91
- Minus: Adjustment for reclassification of profits (losses) to the income statement	(91)	367
- Minus: Adjustment for recognition of fair value to reserves in the previous period	-	-
Total	*(77)*	*458*
Profits (Losses) arising from the conversion to euro of the financial statements of foreign companies	*(11,049)*	*(5,277)*
Profits (Losses) of companies carried at equity	*(126)*	*27*
Related taxes	*(112)*	*(328)*
Total other profit (loss) that will be subsequently reclassified in consolidated profit for the period, net of the tax effect (B)	**(10,869)**	**(4,497)**
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	*(774)*	*(1,244)*
Related taxes	*212*	*343*
Total Other comprehensive profit (loss) that will not be subsequently reclassified in consolidated profit for the period, net of the tax effect (C)	**(562)**	**(901)**
Comprehensive consolidated profit for the year (A) + (B) + (C)	**32,656**	**47,828**
Due to:		
Parent company shareholders	32,120	46,836
Subsidiaries' minority shareholders	536	992
Comprehensive consolidated profit for the period	**32,656**	**47,828**

Consolidated income statement for Q4

(€/000)	*2013*	*2012*
Net sales	**139,020**	**121,669**
Cost of sales	(89,868)	(76,257)
Gross industrial margin	**49,152**	**45,412**
Other net revenues	2,456	2,578
Distribution costs	(14,614)	(12,813)
General and administrative expenses	(17,520)	(18,402)
Other operating costs	(674)	(1,775)
Ordinary profit before financial charges	**18,800**	**15,000**
Financial income	(457)	638
Financial charges	(2,819)	(2,677)
Adjustment of investments carried at equity	(51)	(77)
Profit for the period before taxes	**15,473**	**12,884**
Income taxes	(6,329)	(2,265)
Consolidated profit for the period	**9,144**	**10,619**
Due to:		
Parent company shareholders	8,990	10,643
Subsidiaries' minority shareholders	154	(24)
Consolidated profit for the period	**9,144**	**10,619**
Basic earnings per share	0.085	0.109
Diluted earnings per share	0.084	0.108

Comprehensive consolidated income statement for Q4

(€/000)	*2013*	*2012*
Consolidated profit of the fourth quarter (A)	**9,144**	**10,619**
Other comprehensive profit (loss) that will be subsequently reclassified in consolidated profit for the period		
Accounting of interest rate hedging derivatives recorded in accordance with the cash flow hedging method:		
- Profit (Loss) on derivative financial instruments for the period	-	-
- Minus: Adjustment for reclassification of profits (losses) to the income statement	-	-
- Minus: Adjustment for recognition of fair value to reserves in the previous period	66	212
Total	*66*	*212*
Accounting of exchange risk derivative hedges recorded in accordance with the cash flow hedging method:		
- Profit (Loss) on derivative financial instruments for the period	13	(36)
- Minus: Adjustment for reclassification of profits (losses) to the income statement	-	-
- Minus: Adjustment for recognition of fair value to reserves in the previous period	-	-
Total	*13*	*(36)*
Profits (Losses) arising from the conversion to euro of the financial statements of foreign companies	*(4,464)*	*(4,119)*
Profits (Losses) of companies carried at equity	*(47)*	*(24)*
Related taxes	*(23)*	*(47)*
Total other profit (loss) that will be subsequently reclassified in consolidated profit for the period, net of the tax effect (B)	**(4,455)**	**(4,014)**
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	*(774)*	*(1,244)*
Related taxes	*212*	*343*
Total Other comprehensive profit (loss) that will not be subsequently reclassified in consolidated profit for the period, net of the tax effect (C)	**(562)**	**(901)**
Comprehensive consolidated profit for Q4 (A) + (B) + (C)	**4,127**	**5,704**
Due to:		
Parent company shareholders	4,118	5,863
Subsidiaries' minority shareholders	9	(159)
Total consolidated profit for Q4	**4,127**	**5,704**

Consolidated cash flow statement for the year

(€/000)	*2013*	*2012*
Cash flow from operating activities		
Pre-tax profit	71,072	76,051
Adjustments for non-cash items:		
Capital losses (Capital gains) from the sale of fixed assets	(1,543)	(1,958)
Capital losses (Capital gains) from the sale of fixed assets	-	(155)
Amortization, depreciation and impairment losses	23,719	20,143
Costs ascribed to the income statement relative to stock options that do not involve monetary outflows for the Group	1,047	872
Loss (Profit) from investments	338	147
Net change of risk reserves and allocations to provisions for employee benefits	(1,902)	382
Outlays for tangible fixed assets destined for hire	(6,413)	(4,413)
Proceeds from the sale of fixed assets granted for hire	3,354	4,703
Change in medium-/long-term tax receivables	-	(1,881)
Net financial charges	7,924	7,851
Other	(47)	(23)
	97,549	101,719
(Increase) decrease in trade receivables and other current assets	(6,254)	2,608
(Increase) decrease in inventories	(3,112)	(9,882)
Increase (decrease) in trade payables and other current liabilities	8,243	(5,010)
Interest paid	(5,697)	(8,052)
Currency exchange gains realized	(50)	(632)
Taxes paid	(27,135)	(27,463)
Net liquidity generated by operating activities	**63,544**	**53,288**
Cash flows from investing activities		
Outlay for the acquisition of investments, net of received cash and including treasury stock assigned	(41,225)	(19,216)
Sale of investments	1,277	1,378
Net receipt from Hydrocontrol concentration operation	1,720	-
Capital expenditure in property, plant and equipment	(27,321)	(16,860)
Proceeds from sales of tangible fixed assets	708	3,342
Increase in intangible fixed assets	(2,665)	(2,321)
Proceeds from sale of financial assets	919	1,634
Received financial income	1,502	1,973
Other	(118)	(321)
Net liquidity used in investing activities	**(65,203)**	**(30,391)**

(€/000)	*2013*	*2012*
Cash flow of financing activities		
Disbursals (repayments) of loans	(17,043)	(49,010)
Dividends paid	(18,524)	(11,731)
Outlays for purchase of treasury stock	(21,441)	(15,827)
Sale of treasury stock for the acquisition of equity investments	30,132	1,704
Proceeds from sale of treasury stock to beneficiaries of stock options	11,995	2,025
Capital increase following exercise of warrants	-	56,881
Loans repaid (granted) by/to non-consolidated subsidiaries	(41)	(90)
Disbursal (repayment) of loans from (to) shareholders	(172)	-
Payment of financial leasing instalments (principal portion)	(2,503)	(2,490)
Net liquidity obtained through (utilized in) financing activities	**(17,597)**	**(18,538)**
Net increase (decrease) of cash and cash equivalents	**(19,256)**	**4,359**
Cash and cash equivalents of GITOP, merged in Oleodinamica Panni and hence consolidated for the first time with the full consolidation method	231	-
Increase (decrease) of cash from discontinued operations	-	20
Exchange differences from the translation of cash of companies in areas outside the EU	(1,050)	(230)
Cash and cash equivalents at the beginning of the period	104,455	100,306
Cash and cash equivalents at the end of the period	**84,380**	**104,455**

Cash and cash equivalents can be broken down as follows:

	31/12/2013 €/000	31/12/2012 €/000
Cash and cash equivalents from the balance sheet	105,312	115,069
Payables to banks (for current account overdrafts and advances subject to	(20,932)	(10,614)
Cash and cash equivalents from the cash flow statement	84,380	104,455

Changes in shareholders' equity

	Share capital	*Legal reserve*	*Share premium reserve*	*Reserve for valuation of hedging derivatives at fair value*	*Reserves from restatement of defined benefit plans*	*Translation provision*	*Other reserves*	*Group shareholders' equity*	*Minority interests*	*Total*
Balances at 31 December 2011	*47,936*	*10,157*	*64,719*	*(1,086)*	*(1,965)*	*(2,908)*	*192,844*	*309,697*	*5,463*	*315,160*
Recognition in the income statement of the fair value of assigned and exercisable stock options	-	-	872	-	-	-	-	872	-	872
Purchase of treasury stock	(1,406)	-	(14,421)	-	-	-	-	(15,827)	-	(15,827)
Sale of treasury stock to the beneficiaries of stock options	280	-	1,745	-	-	-	-	2,025	-	2,025
Sale of treasury stock for payment of equity investments	157	-	1,547	-	-	-	-	1,704	-	1,704
Capital increase following exercise of warrants	5,829	-	51,052	-	-	-	-	56,881	-	56,881
Dividends paid	-	-	-	-	-	-	(11,145)	(11,145)	(426)	(11,571)
Disposal of investment in Hydrocar Roma	-	-	-	-	-	-	-	-	(196)	(196)
Comprehensive Profit (loss) for 2012	-	-	-	753	(885)	(5,335)	52,303	46,836	992	47,828
Balances at 31 December 2012	*52,796*	*10,157*	*105,514*	*(333)*	*(2,850)*	*(8,243)*	*234,002*	*391,043*	*5,833*	*396,876*
Recognition in the income statement of the fair value of assigned and exercisable stock options	-	-	1,047	-	-	-	-	1,047	-	1,047
Purchase of treasury stock	(1,441)	-	(20,000)	-	-	-	-	(21,441)	-	(21,441)
Sale of treasury stock to the beneficiaries of stock options	1,309	-	10,686	-	-	-	-	11,995	-	11,995
Sale of treasury stock for payment of equity investments	2,340	-	27,792	-	-	-	-	30,132	-	30,132
Dividends paid	-	-	-	-	-	-	(18,029)	(18,029)	(495)	(18,524)
Allocation of the residual profit of 2012	-	1,166	-	-	-	-	(1,166)	-	-	-
Purchase of additional stakes in Penta Africa	-	-	-	-	-	-	(193)	(193)	-	(193)
Acquisition of residual stake in Golf	-	-	-	-	-	-	12	12	(102)	(90)
Acquisition of Hydrocontrol	-	-	-	-	-	-	-	-	491	491
Comprehensive Profit (loss) for 2013	-	-	-	306	(546)	(10,841)	43,201	32,120	536	32,656
Balances at 31 December 2013	*55,004*	*11,323*	*125,039*	*(27)*	*(3,396)*	*(19,084)*	*257,827*	*426,686*	*6,263*	*432,949*

Notes to the consolidated financial statements

General information

Interpump Group S.p.A. is a company incorporated under Italian law, domiciled in Sant'Ilario d'Enza (RE). 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, directional controls, valves and other hydraulic products. The Group has production facilities in northern Italy, the US, Germany, China, India, Brazil and Bulgaria.

The sales trend is unaffected by significant seasonality: historically approximately 55% are made in H1 as a natural consequence of the traditional shut-down of Italian manufacturing plants in August.

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

The consolidated financial statements at 31 December 2013 were approved by the Board of Directors on this day (14 February 2014).

Basis of preparation

The consolidated financial statements for 2013 Q4 were drawn up in compliance with the international accounting standards (IAS/IFRS) 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 consolidated financial statements for 2013 Q4 should be consulted together with the annual consolidated financial statements for the year ending 31 December 2012.

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. We further draw your attention to the fact that some evaluation processes, notably those that are more complex, such as the determination of any impairments of non-current assets, are generally performed in a comprehensive manner only at the time of drafting of the annual financial statements when all the necessary information is available, except in cases in which indicators of impairment exist, calling for immediate evaluation of any losses in value. Likewise, the actuarial evaluations required for determination of Liabilities for benefits due to employees are normally processed at the time of drafting of the annual financial statements.

The consolidated financial statements are drafted in thousands of euro. The Group adopts the function-based income statement (COGS - cost of goods sold) 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 carried at fair value.

Accounting standards

The accounting standards adopted are those described in the consolidated financial statements at 31 December 2012, with the exception of those adopted as from 1 January 2013 as described hereunder, and they were uniformly applied to all Group companies and all periods presented.

a) New accounting standards and amendments taking effect as from 1 January 2013 and adopted by the Group

As from 2013 the Group has applied the following new accounting standards, amendments and interpretations, reviewed by IASB:

- *Amendments to IAS 1 - Presentation of financial statements.* On 16 June 2011 IASB published this amendment, which requires all components presented in the comprehensive income statements (OCI or Other Comprehensive Income) to be grouped depending on whether or not they can be reclassified in the future to profit and loss. The amendment was implemented also by FASB in order to improve the comparability between international financial reporting standards (IFRS) and the U.S. generally accepted accounting principles (US GAAP). The adoption of this amendment produced no effect from the standpoint of measurement of the captions in the financial statements and it had limited effects on the disclosure provided in this Quarterly report;
- *Amendments to IAS 19 – Employee benefits.* On 16 June IASB published the revised version of IAS 19. The most important changes concern the elimination of the so-called "corridor approach" for recording of actuarial profit and loss (not utilized by Interpump Group), presentation of changes in the assets and liabilities deriving from defined benefit plans, including the relative re-determination, in the comprehensive income statements, and an increased requirement for information relative to the characteristics and risks associated with defined benefits. The amendments were aimed at providing readers of financial statements with a clearer overview of the company's obligations arising from defined benefit plans, and the way in which such obligations may affect the company's economic performance, cash flow and net financial position. In compliance with the transition rules introduced by IAS 19 in paragraph 173, the Group has applied the amendments to IAS 19 retroactively as from 1 January 2013. The application did not involve any changes to the opening values of the balance sheet at 1 January 2012 and at 1 January 2013. Specifically, application of the amendment did not involve any changes to the 2012 interim balance sheet and income statements because the Group generally performs a precise recalculation of liabilities for employee benefits at the time of closure of the reporting period rather than at the time of presentation of the quarterly report. In contrast, application of the amendments to IAS 19 led to higher consolidated net profit for the period in the amount of €/000 901 net of the relative tax effect on the income statement for 2012;
- *IFRS 13 – Fair value measurement.* On 12 May 2011 IASB, in agreement with FASB, issued a fair value measurement guide. The guide is an important support tool for fair value measurements, an element to aid the harmonization of European and US accounting principles, and a response from IASB and FASB to markets aimed at alleviating the global financial crisis. The adoption of the new principle had no significant effects on the measurement of the captions in the financial statements included in this Quarterly report;
- *IFRS 7 – Financial instruments: Additional disclosures.* On 16 December 2011 IASB and FASB issued shared provisions concerning the disclosures required in the case of offsetting of financial assets and financial liabilities. The provisions in question are set down in an amendment to IFRS 7 entitled "*Disclosures — Offsetting Financial Assets and Financial Liabilities*". The required disclosures must be supplied retroactively. The

adoption of the new principle has had no significant effects on the Group's financial statements;

- On 17 May 2012 IASB issued a raft of amendments to IAS/IFRS standards ("Annual improvements to the 2009-2011 cycle") which are applicable retroactively from 1 January 2013; below we mention only the amendments that could impose a change in the presentation, recognition and measurement of the captions in the financial statements, disregarding any amendments that result exclusively in different terminology or editorial changes with minimal effects on the accounts, or those that impact on principles or interpretations that are not applicable to the Interpump Group:
  - IAS 1 – Presentation of financial statements: the amendment clarifies the method of presentation of comparative information in the event in which an entity changes its accounting principles and in the cases wherein the entity performs a retroactive disclosure or reclassification and in the cases wherein the entity provides additional balance sheet information with respect to the matters required by the standard;
  - IAS 16 – Property, Plant and Equipment: the amendment clarifies that replacement parts and equipment must be capitalized only if they comply with the definition of Property, plant and equipment, otherwise they must be classified as Inventories;
  - IAS 32 – Financial instruments: Presentation: the amendment eliminates an inconsistency between IAS 12 – Income taxes and IAS 32 concerning the recognition of taxes deriving from distributions to shareholders, establishing the principle that such amounts must be recognized in profit and loss in the measure in which the distribution is referred to income generated by operations originally recorded in profit and loss.

b) New accounting principles and amendments taking effect as from 1 January 2013 but not relevant for the Group

- *IFRS 1 – First adoption of International Financial Reporting Standards (IFRS).* On 13 March 2012 IASB published an amendment entitled "Government Loans" which allows companies that are the recipients of government loans below market rates to dispense with the retroactive modification of the recognition of said loans at the time of initial adoption of IAS/IFRS standards.

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

- *IFRS 10 – Consolidated Financial Statements.* On 12 May 2011 IASB issued the following principle, which will become applicable from 1 January 2014. IFRS 10 supplies a guide to assess the presence of control, this being a decisive factor for consolidation of an entity, in such cases wherein its identification is not immediate;
- *IFRS 11 – Joint arrangements.* On 12 May 2011 IASB issued the following principle, which will become applicable from 1 January 2014. Apart from regulating joint arrangements, the new principle supplies the criteria for their identification based on the rights and obligations that arise from the contract rather than relying merely on the legal aspects of the arrangement. IFRS 11 excludes the faculty of using the proportional method for the consolidation of joint arrangements;
- *IFRS 12 – Disclosure of interests in other entities.* On 12 May 2011 IASB issued the following principle, which will become applicable from 1 January 2014. The new principle specifies a series of information that the company must disclose in relation to interests in other entities, associated companies, special purpose vehicles and other off balance sheet vehicles;

- *IFRS 27 – Separate financial statements.* On 12 May 2011 IASB issued the following principle, which will become applicable from 1 January 2014 and will regulate the accounting treatment of equity investments in the separate financial statements. The new version of IAS 27 confirms that investments in subsidiaries, associates and joint venture are booked at cost or alternatively in compliance with IFRS 9; the entity must apply a uniform criterion for each category of investments. Moreover, if an entity decides to measure investments in associates or joint ventures at fair value (in application of IFRS 9) in its consolidated financial statements, it must use the same principle also in the separate financial statements. The principle must be applied retroactively, at the latest from years starting from or after 1 January 2014;
- *IAS 28 – Investments in associated companies and joint ventures.* Further to the issue of IFRS 11, IASB amended IAS 28 on 12 May 2011 to embrace within its scope of application, from the date of enforcement of the new standard, also investments in jointly controlled entities;
- *Amendments to IFRS 10, to IFRS 12 and to IAS 27 – Investment entities.* In October 2012 IASB issued the following set of amendments, introducing the concept of *Investment entity*. With this expression IASB intends to identify those parties that invest their funds exclusively in order to obtain remuneration of the capital, revaluation of the capital, or both results. IAS 10 has been amended to require investment entities to measure subsidiaries at the fair value recorded in the income statement rather than consolidating them, in order to better reflect their business model. IFRS 12 was amended to require the presentation of specific information concerning the subsidiaries of investment entities. The amendments to IAS 27 also eliminated the possibility for investment entities to opt for the measurement of investments in some subsidiaries at cost or for measurement at fair value in their separate financial statements. The changes are applicable as from 1 January 2014;
- *IAS 32 – Financial Instruments: presentation.* On 16 December 2011 IASB clarified the requirements to allow financial instrument assets to be offset with financial instrument liabilities by publishing an amendment to IAS 32 entitled "*Offsetting Financial Assets and Financial Liabilities*". The changes are applicable, retroactively, as from 1 January 2014;
- *Amendments to IAS 36 – Supplementary disclosures concerning the recoverable amount of non-financial assets.* In October 2012 IASB issued this amendment in order to clarify the disclosures required concerning the recoverable value of assets when said value is based on the fair value net of divestment costs, exclusively with regard to assets whose value has been reduced. The amendment is applicable from 1 January 2014;
- *Amendments to IAS 39 – Novation of derivatives and continuation of hedge accounting.* The amendments are designed to regulate situations wherein a derivative designated as a hedge is the subject of novation from a counterparty to a central counterparty as a result of legislation or regulations. Hedge accounting can thus continue regardless of the novation, although this would not be permitted without the amendment. The amendment is applicable from 1 January 2014;
- *IFRS 9 – Financial instruments.* On 12 November 2009 IASB published the following principle, which was subsequently amended on 28 October 2010 with a further amendment in mid-December 2011. The principle, which is applicable as from 1 January 2017, constitutes the first part of a process in stages aimed at replacing IAS 39 and introduces new criteria for classification and evaluation of financial assets and liabilities for derecognition of the financial assets from the financial statements. Specifically, for financial assets the new principle utilizes a single approach 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 that has occurred 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 principle such changes must be recorded in the comprehensive income statement and cannot thereafter be derecognized in profit and loss;

- *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 aim of changes implemented is to simplify the accounting of contributions that are unrelated to the number of years of seniority, such as contributions calculated on the basis of a fixed percentage of salary. These amendments are applicable from the years starting after 1 July 2014. Early adoption is however permitted;
- On 12 May 2012 IASB issued a raft of amendments to IAS/IFRS standards ("Improvements concerning the 2010-2012 and 2011-2013 cycle"). These amendments are applicable from the years starting after 1 July 2014. Early adoption is however permitted.

At the date of this quarterly report the competent bodies of the European Union have terminated the approval process related to the new standards and amendments applicable as from 1 January 2014, while for the other standards and amendments the approval process required for their application is still under way. On the basis of analysis currently in progress no significant impacts are predicted from the 2014 adoption of the new applicable standards and amendments.

Notes to the consolidated Financial Statements as at 31 December 2013

1. Consolidation basis and goodwill

At 31 December 2013 the scope of consolidation includes the Parent company (which is part of the Water Jetting Sector) and the following subsidiaries:

Company	*Registered office*	*Sector*	*Share capital €/000*	*% stake at*
General Pump Inc.	Minneapolis (USA)	Water Jetting	1,854	100.00%
General Technology S.r.l.	Reggio Emilia	Water Jetting	100	100.00%
Hammelmann Maschinenfabrik GmbH	Oelde (Germany)	Water Jetting	25	100.00%
Hammelmann Australia Pty Ltd (1)	Melbourne (Australia)	Water Jetting	472	100.00%
Hammelmann Corporation Inc (1)	Dayton (USA)	Water Jetting	39	100.00%
Hammelmann S. L. (1)	Zaragoza (Spain)	Water Jetting	500	100.00%
Hammelmann Pumps Systems Co Ltd (1)	Tianjin (China)	Water Jetting	871	90.00%
NLB Corporation Inc.	Detroit (USA)	Water Jetting	12	100.00%
SIT S.p.A.	S.Ilario d'Enza (RE)	Water Jetting	105	65.00%
Interpump Hydraulics S.p.A.	Calderara di Reno (BO)	Hydraulics	2,632	100.00%
Interpump Hydraulics International S.p.A. (2)	Calderara di Reno (BO)	Hydraulics	14,162	81.61%
HS Penta S.p.A (3)	Faenza (RA)	Hydraulics	4,244	100.00%
Oleodinamica Panni S.r.l. (3)	Tezze sul Brenta (VI)	Hydraulics	2,000	100.00%
Cover S.r.l. (3)	Gazzo Veronese (VR)	Hydraulics	41	100.00%
Contarini Leopoldo S.r.l. (3)	Lugo (RA)	Hydraulics	47	100.00%
Unidro S.a.r.l. (4)	Barby (France)	Hydraulics	8	90.00%
Copa Hydrosystem Odd (4)	Troyan (Bulgaria)	Hydraulics	3	90.00%
Golf Hydrosystem Odd (4)	Sofia (Bulgaria)	Hydraulics	3	100.00%
AVI S.r.l. (2)	Varedo (MB)	Hydraulics	10	100.00%
Hydrocar Chile S.A. (2)	Santiago (Chile)	Hydraulics	37	60.00%
Hydroven S.r.l. (2)	Tezze sul Brenta (VI)	Hydraulics	200	100.00%
Interpump Hydraulics France S.a.r.l. (2)	Ennery (France)	Hydraulics	76	99.77%
Interpump Hydraulics India Private Ltd (2)	Hosur (India)	Hydraulics	423	100.00%
Interpump Hydraulics do Brasil Partecipacoes Ltda (2)	San Paolo (Brazil)	Hydraulics	12,308	100.00%
Takarada Industria e Comercio Ltda (6)	Caxia do Sul (Brazil)	Hydraulics	2,892	100.00%
Muncie Power Prod. Inc. (2)	Muncie (USA)	Hydraulics	784	100.00%
American Mobile Power Inc. (5)	Fairmount (USA)	Hydraulics	3,410	80.00%
Wuxi Interpump Weifu Hydraulics Company Ltd (2)	Wuxi (China)	Hydraulics	2,095	65.00%
Hydrocontrol S.p.A. (2)	Osteria Grande (BO)	Hydraulics	1,350	84.00%
Hydrocontrol Inc. (7)	Minneapolis (USA)	Hydraulics	763	97.00%
HC Hydraulics Technologies(P) Ltd (7)	Bangalore (India)	Hydraulics	2,090	99.93%
Aperlai HK Ltd (7)	Hong Kong	Hydraulics	77	100.00%
HTIL (8)	Hong Kong	Hydraulics	98	85.00%
Guangzhou Bushi Hydraulic Technology Ltd (9)	Guangzhou (China)	Hydraulics	3,720	100.00%
Interpump Engineering S.r.l.	Reggio Emilia	Other	76	100.00%
Teknova S.r.l. (in liquidation)	Reggio Emilia	Other	362	100.00%

(1) = controlled by Hammelmann Maschinenfabrik GmbH
(2) = controlled by Interpump Hydraulics S.p.A.
(3) = controlled by Interpump Hydraulics International S.p.A.
(4) = controlled by Contarini Leopoldo S.r.l.
(5) = controlled by Muncie Power Inc.
(6) = controlled by Interpump Hydraulics do Brasil Partecipacoes Ltda
(7) = controlled by Hydrocontrol S.p.A.
(8) = controlled by Aperlai HK Ltd
(9) = controlled by HTIL
The other companies are controlled directly by Interpump Group S.p.A.

The minority shareholders of Interpump Hydraulics International S.p.A. are entitled to sell their holdings starting from the approval of the consolidated financial statements for the years 2013 or 2014 depending on the case, at a price established in accordance with the results of the Interpump Hydraulics International Group in the last two financial statements closed before the year in which the option is exercised. In accordance with the prescriptions of IFRS 3, Interpump Hydraulics International S.p.A. was 100% consolidated, recording a debt associated with the estimate of the current value of the exercise price of the options, determined on the basis of a business plan. Since the business combination was formed prior to 1 January 2010 it is measured in accordance with the preceding version of IFRS 3; therefore, any subsequent changes in the debt relative to the estimate of the current value of the options exercise price will be recorded as an adjustment of the original goodwill.

Also the minority shareholders of Hydrocontrol S.p.A. are entitled to dispose of their holdings starting from the approval of the 2014 financial statements up to the 2025 financial statements on the basis of the average results of the company in the last two consolidated financial statements for periods closed before the exercise of the option. Likewise, the minority shareholders of American Mobile Power Inc. are obliged to sell – and Muncie is obliged to purchase – their holdings in April 2016 at a price that will be determined on the basis of the company's results as reported in the last two financial statements for the years closed prior to this term. Further to the agreement entered into at the time of the acquisition of the additional 28% of HS Penta Africa the minority shareholders of HS Penta Africa have the right to sell their residual interests (20%), and HS Penta is obliged to purchase them as from September 2013 until September 2017 on the basis of the average results of the company in the last two financial statements for the years ending before the exercise of the option. If the minority shareholders do not exercise the put option by the established expiration dates, at that time HS Penta will have a call option to purchase the stakes at the same conditions.

In accordance with the prescriptions of IFRS 3 and IAS 32 Hydrocontrol S.p.A. and American Mobile Power Inc. were 100% consolidated, recording a debt equivalent to the estimate of the current value of the exercise price of the options established on the basis of a business plan. Any subsequent changes in the debt relative to the estimate of the current value of the outlay that occur within 12 months from the date of acquisition and that are due to greater or lesser levels of information, will be recorded as an adjustment of goodwill, while after 12 months from the date of acquisition any changes will be recognized in profit and loss. Due to its modest size HS Penta Africa is not consolidated with the full consolidation method.

With respect to 2012 Hydrocontrol was consolidated for eight months in 2013, having been acquired at the beginning of May. Hydrocontrol has been allocated to the Power take-offs and other hydraulic components division cash generating unit (CGU).

Assets held for sale and discontinued operations of 2012 reflect the six-month data of Hydrocar Roma, which was divested in July 2012.

Changes in goodwill in 2013 were as follows:

Divisions:	Balance at 31/12/2012	Increases (Decreases) for the period	Changes for foreign exchange differences	Balance at 31/12/2013
- High pressure pumps division	37,406	-	(212)	37,194
- Very high pressure pumps division	90,079	-	(1,272)	88,807
Total Water Jetting Sector	*127,485*	-	*(1,484)*	*126,001*
- Power take-offs and other hydraulic components division	53,401	13,496	(2,039)	64,858
- Cylinders Division	45,035	(1,102)	-	43,933
Total Hydraulic Sector	*98,436*	*12,394*	*(2,039)*	*108,791*
Total goodwill	*225,921*	*12,394*	*(3,523)*	*234,792*

Increases in the year are due to the acquisition of Hydrocontrol in the amount of €/000 13,370 and to the consolidation of GITOP for the remaining amount. Decreases are due to a different measurement of the put options of the companies in the Cylinders Division resulting from a revision of the business plan used as a basis for the measurement.

The impairment test was conducted using the Discounted Cash Flow method (DCF) net of taxation. Expected cash flows utilized in the calculation of DCF were determined on the basis of 5-year business plans that take account of the various reference scenarios and on the basis of growth forecasts in the various markets. Notably, given the extreme uncertainty regarding the evolution of markets and in consideration of the feeble signs of a stable recovery of the world economy and the modest – negative in some cases – growth of industrialized countries (Italy, for example, has suffered a significant downturn of the economy), it was prudentially decided to adopt moderate growth percentages of around 2% for the "High pressure pumps division" and around 3% - 4% for the other CGUs. For periods after 2018 a perpetual growth rate of 1% was used for the power take-offs and hydraulic pumps division and for the cylinders division CGUs, while perpetual growth of 1.5% was applied to the high pressure and very high pressure pumps division CGUs because of the greater defensibility of these latter business areas. The forecast cash flows determined in this manner were reduced by a discount factor in order to take into consideration the risk that the future plans could prove to be impracticable. WACC, *after tax*, was measured for the various CGUs as follows:

CGU	*WACC*
High pressure pumps division	6.44%
Very high pressure pumps division	4.75%
Power take-offs and hydraulic pumps division	5.86%
Cylinders division	6.83%
Weighted average cost of capital	5.56%

The WACC utilized in 2012 was 6.63%. In addition, a sensitivity analysis was carried out in compliance with the requirements of the joint document issued by Banca d'Italia, Consob, and ISVAP on 3 March 2010. Reducing the expected cash flows of each CGU by 10% would not have resulted in the need to write down goodwill, and nor would increasing the cost of capital utilized to actualize the predicted flows by 50 basis points. Moreover, as an additional positive element supporting the recoverability of goodwill, Interpump Group's stock market capitalization is higher than the Group's Shareholder's equity throughout 2013.

2. Business sector information

Business sector information is supplied with reference to operating sectors. We also present the information required by IFRS by geographical area. Information on operating sectors reflects the Group 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 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, statutory auditors and functions of the Group's financial management, control and internal auditing, and also consultancy costs and other related costs, were booked to the sectors on the basis of sales.

Business sectors

The Group is composed of the following business sectors:

Hydraulic Sector. Includes the production and sale of power take-offs, hydraulic cylinders, pumps, spool valves, general hydraulic valves 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, moving truck-mounted cranes, operating mixer truck drums, and so forth. Hydraulic cylinders are components of the hydraulic system of various vehicle types, utilized in a wide range of applications depending on the type. Front-end and underbody cylinders (single acting) are utilized mainly on industrial vehicles in the construction sector, while double acting cylinders are utilized in a range of applications: earthmoving machinery, agricultural machinery, cranes and truck cranes, waste compactors, etc. The valves and directional controls are designed for oil flow control in hydraulic circuits and they are employed in a similar range of applications to those of the double acting cylinders. With the acquisitions of companies operating in the field of hydraulic cylinders, valves and directional controls starting in 2008, the Group gained access to additional markets with respect to the industrial vehicles market, which is cyclic by nature; approximately half of current Hydraulic Sector sales are to the industrial vehicles market while the other half are absorbed by the other markets.

Water Jetting Sector. 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 washers. These pumps are also utilized 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 pipes, 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.

On a marginal level the Water Jetting Sector also includes operations of drawing, shearing and pressing sheet metal and the manufacture and sale of cleaning machinery.

Interpump Group business sector information
(amounts shown in €/000)
<u>Progressive accounts at 31 December (twelve months)</u>

	Hydraulic Sector		Water Jetting Sector			Other	Elimination entries		**Interpump Group**	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Net sales external to the Group	294,098	257,736	262,415	269,440	-	-	-	-	556,513	527,176
Sales between sectors	50	15	935	836	2,646	2,922	(3,631)	(3,773)	-	-
Total net sales	**294,148**	**257,751**	**263,350**	**270,276**	**2,646**	**2,922**	**(3,631)**	**(3,773)**	**556,513**	**527,176**
Cost of sales	(201,036)	(172,195)	(153,778)	(155,518)	(1,745)	(1,837)	2,806	2,717	(353,753)	(326,833)
Gross industrial margin	**93,112**	**85,556**	**109,572**	**114,758**	**901**	**1,085**	**(825)**	**(1,056)**	**202,760**	**200,343**
% on net sales	*31.7%*	*33.2%*	*41.6%*	*42.5%*	*n.s.*	*n.s.*			*36.4%*	*38.0%*
Other net revenues	5,851	5,524	3,178	3,538	103	42	(367)	(329)	8,765	8,775
Distribution costs	(29,622)	(25,817)	(28,485)	(27,416)	-	-	-	-	(58,107)	(53,233)
General and administrative expenses	(40,887)	(38,635)	(29,773)	(30,743)	(973)	(1,091)	1,192	1,385	(70,441)	(69,084)
Other operating costs	(3,266)	(2,313)	(377)	(439)	-	-	-	-	(3,643)	(2,752)
Ordinary profit before financial charges	**25,188**	**24,315**	**54,115**	**59,698**	**31**	**36**	**-**	**-**	**79,334**	**84,049**
% on net sales	*8.6%*	*9.4%*	*20.5%*	*22.1%*	*n.s.*	*n.s.*			*14.3%*	*15.9%*
Financial income	2,153	892	4,023	5,092	1	13	(1,236)	(1,092)	4,941	4,905
Financial charges	(8,025)	(4,913)	(6,070)	(8,922)	(6)	(13)	1,236	1,092	(12,865)	(12,756)
Dividends	-	-	5,500	3,000	-	-	(5,500)	(3,000)	-	-
Adjustment of investments carried at equity	(263)	69	(75)	(216)	-	-	-	-	(338)	(147)
Profit for the period before taxes	**19,053**	**20,363**	**57,493**	**58,652**	**26**	**36**	**(5,500)**	**(3,000)**	**71,072**	**76,051**
Income taxes	(9,818)	(8,575)	(17,032)	(14,175)	(135)	(87)	-	-	(26,985)	(22,837)
Consolidated profit of continuing operations for the period	**9,235**	**11,788**	**40,461**	**44,477**	**(109)**	**(51)**	**(5,500)**	**(3,000)**	**44,087**	**53,214**
Result of discontinued operations	-	-	-	-	-	-	-	-	-	12
Consolidated profit for the period	**9,235**	**11,788**	**40,461**	**44,477**	**(109)**	**(51)**	**(5,500)**	**(3,000)**	**44,087**	**53,226**
Due to:										
Parent company's shareholders	8,376	10,965	40,434	44,377	(109)	(51)	(5,500)	(3,000)	43,201	52,303
Subsidiaries' minority shareholders	859	823	27	100	-	-	-	-	886	923
Consolidated profit for the period	**9,235**	**11,788**	**40,461**	**44,477**	**(109)**	**(51)**	**(5,500)**	**(3,000)**	**44,087**	**53,226**
<u>Further information required by IFRS 8</u>										
Amortization, depreciation and write-downs	14,696	11,896	9,015	8,227	8	9	-	-	23,719	20,132
Other non-monetary costs	3,088	2,598	2,387	1,968	-	-	-	-	5,475	4,566

Interpump Group business sector information
(amounts shown in €/000)
Q4

	Hydraulic Sector		Water Jetting Sector		Other		Elimination entries		**Interpump Group**	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Net sales external to the Group	77,142	59,374	61,878	62,295	-	-	-	-	139,020	121,669
Sales between sectors	27	5	304	138	1,909	2,077	(2,240)	(2,220)	-	-
Total net sales	**77,169**	**59,379**	**62,182**	**62,433**	**1,909**	**2,077**	**(2,240)**	**(2,220)**	**139,020**	**121,669**
Cost of sales	(53,508)	(39,906)	(36,718)	(36,422)	(1,680)	(1,838)	2,038	1,909	(89,868)	(76,257)
Gross industrial margin	**23,661**	**19,473**	**25,464**	**26,011**	**229**	**239**	**(202)**	**(311)**	**49,152**	**45,412**
% on net sales	*30.7%*	*32.8%*	*41.0%*	*41.7%*	*n.s.*	*n.s.*			*35.4%*	*37.3%*
Other net revenues	1,695	1,519	843	1,159	11	7	(93)	(107)	2,456	2,578
Distribution costs	(7,975)	(6,511)	(6,639)	(6,302)	-	-	-	-	(14,614)	(12,813)
General and administrative expenses	(10,607)	(10,084)	(6,980)	(8,414)	(228)	(322)	295	418	(17,520)	(18,402)
Other operating costs	(533)	(1,495)	(141)	(280)	-	-	-	-	(674)	(1,775)
Ordinary profit before financial charges	**6,241**	**2,902**	**12,547**	**12,174**	**12**	**(76)**	**-**	**-**	**18,800**	**15,000**
% on net sales	*8.1%*	*4.9%*	*20.2%*	*19.5%*	*n.s.*	*n.s.*			*13.5%*	*12.3%*
Financial income	(803)	(99)	725	945	-	5	(379)	(213)	(457)	638
Financial charges	(1,941)	(1,152)	(1,253)	(1,730)	(4)	(8)	379	213	(2,819)	(2,677)
Adjustment of investments carried at equity	(43)	(20)	(8)	(57)	-	-	-	-	(51)	(77)
Profit for the period before taxes	**3,454**	**1,631**	**12,011**	**11,332**	**8**	**(79)**	**-**	**-**	**15,473**	**12,884**
Income taxes	(2,430)	77	(3,847)	(2,356)	(52)	14	-	-	(6,329)	(2,265)
Consolidated profit for the period	**1,024**	**1,708**	**8,164**	**8,976**	**(44)**	**(65)**	**-**	**-**	**9,144**	**10,619**
Due to:										
Parent company's shareholders	867	1,740	8,167	8,968	(44)	(65)	-	-	8,990	10,643
Subsidiaries' minority shareholders	157	(32)	(3)	8	-	-	-	-	154	(24)
Consolidated profit for the period	**1,024**	**1,708**	**8,164**	**8,976**	**(44)**	**(65)**	**-**	**-**	**9,144**	**10,619**
Further information required by IFRS 8										
Amortization, depreciation and write-downs	4,061	3,022	2,631	2,369	2	3	-	-	6,694	5,394
Other non-monetary costs	456	1,331	804	750	-	-	-	-	1,260	2,081

Balance sheet at 31 December
(amounts shown in €/000)

	Hydraulic Sector		Water Jetting Sector		Other		Elimination entries		**Interpump Group**	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Assets by sector	**396,350**	**323,798**	**379,298**	**337,331**	**1,722**	**1,758**	**(71,659)**	**(38,224)**	**705,711**	**624,663**
Non-current assets held for sale	**-**	**-**	**-**	**2,121**	**-**	**-**	**-**	**-**	**-**	**2,121**
Subtotal of assets of the sector (A)	**396,350**	**323,798**	**379,298**	**339,452**	**1,722**	**1,758**	**(71,659)**	**(38,224)**	**705,711**	**626,784**
Cash and cash equivalents									105,312	115,069
Total assets									**811,023**	**741,853**
Subtotal of liabilities of the sector (B)	**160,438**	**102,187**	**60,880**	**61,686**	**1,719**	**1,707**	**(71,659)**	**(38,224)**	**151,378**	**127,356**
Payables for payment of investments									32,700	28,003
Payables to banks									20,932	10,614
Interest-bearing financial payables									173,064	179,004
Total liabilities									**378,074**	**344,977**
Total assets, net (A-B)	**235,912**	**221,611**	**318,418**	**277,766**	**3**	**51**	**-**	**-**	**554,333**	**499,428**
<u>Further information required by IFRS 8</u>										
Investments carried at equity	990	1,307	158	205	-	-	-	-	1,148	1,512
Non-current assets other than financial assets and deferred tax assets	217,668	181,056	194,957	183,156	173	155	-	-	412,798	364,367

On a like for like basis the comparison of the Hydraulic Sector is as follows:

Hydraulic Sector
(amounts shown in €/000)

	Twelve months		Q4	
	2013	2012	2013	2012
Net sales external to the Group	258,121	257,736	63,375	59,374
Sales between sectors	-	15	-	5
Total net sales	**258,121**	**257,751**	**63,375**	**59,379**
Cost of sales	(173,630)	(172,195)	(42,799)	(39,906)
Gross industrial margin	**84,491**	**85,556**	**20,576**	**19,473**
% on net sales	*32.7%*	*33.2%*	***32.5%***	***32.8%***
Other net revenues	5,525	5,524	1,604	1,519
Distribution costs	(26,332)	(25,817)	(6,735)	(6,511)
General and administrative expenses	(36,691)	(38,635)	(8,876)	(10,084)
Other operating costs	(3,204)	(2,313)	(508)	(1,495)
Ordinary profit before financial charges	**23,789**	**24,315**	**6,061**	**2,902**
% on net sales	*9.2%*	*9.4%*	***9.6%***	***4.9%***
Financial income	1,359	892	666	(99)
Financial charges	(5,227)	(4,913)	(873)	(1,152)
Adjustment of investments carried at equity	(263)	69	(43)	(20)
Profit for the period before taxes	**19,658**	**20,363**	**5,811**	**1,631**
Income taxes	(9,331)	(8,575)	(2,143)	77
Consolidated profit	**10,327**	**11,788**	**3,668**	**1,708**
Due to:				
Parent company shareholders	9,538	10,965	3,510	1,740
Subsidiaries' minority shareholders	789	823	158	(32)
Consolidated profit for the period	**10,327**	**11,788**	**3,668**	**1,708**

Cash flows by business sector are as follows:

€/000	Hydraulic Sector		Water Jetting Sector		Other		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
Cash flows from:								
Operating activities	26,327	18,583	36,924	34,515	293	190	63,544	53,288
Investing activities	(50,146)	(25,921)	(14,979)	(4,608)	(78)	138	(65,203)	(30,391)
Financing activities	24,585	5,521	(41,682)	(24,059)	(500)	-	(17,597)	(18,538)
Total	766	(1,817)	(19,737)	5,848	(285)	328	(19,256)	4,359

2013 investing activities of the Hydraulic Sector include €/000 41,199 for the acquisition of equity investments (€/000 19,216 in 2012), and €/000 1,830 connected with the disposal of equity investments and net receipts from concentration operations (€/000 421 in 2012). The cash flows of the Water Jetting Sector investing activity include €/000 1,167 of receipts for the sale of investments (€/000 957 in 2012). Financing activities for 2013 include intercompany loans from the Water Jetting Sector to the Hydraulic Sector in the amount of €/000 34,132 to finance new acquisitions (€/000 7,204 in 2012). Moreover, cash flows of Water Jetting Sector financing activities in 2013 include outlays for the purchase of treasury shares in the amount of €/000 21,441 (€/000 15,827 in 2012) and proceeds from the sale of treasury shares to the beneficiaries of stock options in the amount of €/000 11,995 (€/000 2,025 in 2012), the value of treasury shares transferred for the acquisition of Hydrocontrol in the amount of €/000 30,132 (€/000 1,704 in 2012 for the acquisition of Galtech) and the payment of dividends by the Parent company, which operates in this sector, in the amount of €/000 18,066 (€/000 11,174 in 2012). The cash flows of Water Jetting Sector financing activities for 2012 include the capital increase further to the exercise of warrants in the amount of €/000 56,881 (no value recorded in 2013).

3. Inventories and breakdown of changes in the Inventories allowance

	31/12/2013	*31/12/2012*
	€/000	€/000
Inventories gross value	161,233	143,584
Allowance for inventories	(15,239)	(11,892)
Inventories	145,994	131,692

Changes in the inventory write-down provision were as follows:

	2013	*2012*
	€/000	€/000
Opening balances	11,892	11,309
Exchange rate difference	(217)	(71)
Change to consolidation basis	3,269	1,001
Allocations for the period	1,727	1,719
Utilizations in the period due to surpluses	(365)	(25)
Utilizations in the period due to losses	(1,067)	(2,041)
Closing balance	15,239	11,892

4. Property, plant and equipment

Purchases and disposals

In 2013 Interpump Group acquired assets for €/000 60,479, of which €/000 26,272 through the acquisition of equity investments (€/000 30,296 in 2012, of which €/000 9,441 acquired through the acquisition of equity investments). In addition, a building having a net book value of €/000 2,121 has been reclassified from assets held for sale. Assets were divested in 2013 for a net book value of €/000 2,519 (€/000 3,482 in 2012, of which €/000 245 through the sale of Hydrocar Roma). Divested assets generated a net capital gain of €/000 1,543 (€/000 1,958 in 2012).

Contractual commitments

At 31 December 2013 the Group had contractual commitments for the purchase of tangible fixed assets for €/000 11,739 (€/000 6,969 at 31 December 2012), of which €/000 10,200 related to construction of the new Hammelmann production plant.

5. Shareholders' equity

Share capital

The share capital at 31 December 2013 was composed of 108,879,294 ordinary shares with a unit par value of €0.52 for a total amount of €56,617,232.88. In contrast, share capital recorded in the financial statements amounts to €/000 55,004 because the nominal value of purchased treasury shares, net of divested treasury stock, was deducted from the share capital in compliance with the reference accounting principles. At 31 December 2013 Interpump S.p.A. held 3,103,503 treasury shares in the portfolio corresponding to 2.85% of the capital stock, acquired at an average unit cost of € 6.7946.

Purchased treasury stock

The amount of treasury stock held by Interpump Group S.p.A. is recorded in an equity provision. The Group acquired 2,771,426 treasury shares in 2013 for €/000 21,441 at an average price of €7.3655 (the Group purchased 2,703,490 treasury shares in 2012 for €/000 15,827).

Treasury stock sold
In the framework of the exercise of stock options a total of 2,517,162 options were exercised, resulting in a receipt of €/000 11,995 (537,700 options were exercised for €/000 2,025 in 2012). Moreover, 4,500,000 treasury shares were divested in 2013 to pay for the equity investment in Hydrocontrol (300,831 treasury shares divested in 2012 for payment of part of the stake held in Galtech).

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

The fair value of the stock options assigned with the new stock option plan designated "Interpump 2013/2015 Incentives Plan" and the actuarial assumptions utilized in the binomial lattice model are as follows:

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

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

The expected volatility of the underlying (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 of €0.17 per share was distributed on 16 May 2013 (coupon clipping date of 13 May); the dividend was €0.12 in 2012.

6. Financial income and charges

	2013 €/000	2012 €/000
Financial income		
Interest income	1,541	2,130
Other financial income	44	30
Foreign exchange gains	2,258	1,591
Earnings from valuation of derivative financial instruments	1,098	1,154
Total financial income	4,941	4,905
Financial charges		
Interest payable	7,992	8,994
Other financial charges	78	211
Foreign exchange losses	4,361	2,620
Losses from valuation of derivative financial instruments	434	931
Total financial charges	12,865	12,756
Total financial charges, net	7,924	7,851

7. Earnings per share

Basic earnings per share

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

	2013	2012
Consolidated profit for the period attributable to Parent company shareholders (€/000)	43,201	52,303
Average number of shares in circulation	104,502,653	94,134,090
Basic earnings per share (€)	0.413	0.556

Diluted earnings per share

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

	2013	2012
Consolidated profit for the period attributable to Parent company shareholders (€/000)	43,201	52,303
Average number of shares in circulation	104,502,653	94,134,090
Number of potential shares for stock option plans (*)	1,350,773	1,345,560
Average number of shares (diluted)	105,853,426	95,479,650
Diluted earnings per share (€)	0.408	0.548

(*) 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 in the interim consolidated financial statements and are not described in these notes.

The effects on the Group's consolidated income statements for 2013 and 2012 are shown below:

	2013					
(€/000)	Consolidated total	Non-consolidated subsidiaries	Associates	Other related parties	Total related parties	% incidence on financial statements caption
Net sales	556,513	6,471	-	1,744	8,215	1.5%
Cost of sales	353,753	392	-	14,575	14,967	4.2%
Other revenues	8,765	9	-	5	14	0.2%
Distribution costs	58,107	357	-	1,273	1,630	2.8%
General and administrative expenses	70,441	-	-	927	927	1.3%
Financial income	4,941	44	-	-	44	0.9%
Financial charges	12,865	-	-	16	16	0.1%

	2012					
(€/000)	Consolidated total	Non-consolidated subsidiaries	Associates	Other related parties	Total related parties	% incidence on financial statements caption
Net sales	527,176	4,339	-	48	4,387	0.8%
Cost of sales	326,833	683	-	16,245	16,928	5.2%
Other revenues	8,775	56	-	3	59	0.7%
Distribution costs	53,233	436	-	1,294	1,730	3.2%
General and administrative expenses	69,084	-	-	1,012	1,012	1.5%
Financial income	4,905	31	-	-	31	0.6%
Financial charges	12,756	-	-	17	17	0.1%

The effects on the consolidated statement of financial position at 31 December 2013 and 2012 are described below:

	31 December 2013					
(€/000)	Consolidated total	Non-consolidated subsidiaries	Associates	Other related parties	Total related parties	% incidence on financial statements caption
Trade receivables	113,726	4,520	-	949	5,469	4.8%
Other financial assets	2,072	1,495	-	26	1,521	73.4%
Trade payables	69,985	101	-	5,021	5,122	7.3%
Interest bearing financial payables (current portion)	61,371	-	-	240	240	0.4%
Provision for risks and charges	5,503	739	-	-	739	13.4%

(€/000)	Consolidated total	Non-consolidated subsidiaries	Associates	Other related parties	Total related parties	% incidence on financial statements caption
	31 December 2012					
Trade receivables	96,371	2,367	-	7	2,374	2.5%
Other financial assets	1,840	1,822	-	-	1,822	99.0%
Trade payables	53,612	356	-	1,499	1,855	3.5%
Interest bearing financial payables (current portion)	87,303	-	-	344	344	0.4%
Provision for risks risks and charges	4,653	350	-	-	350	7.5%

Relations with non-consolidated subsidiaries
Relations with non-consolidated subsidiaries are as follows:

(€/000)	Receivables		Revenues	
	31/12/2013	31/12/2012	2013	2012
HS Penta Africa Pty Ltd	1,069	823	2,044	1,606
Interpump Hydraulics Middle East	2,188	804	1,892	835
Galtech Canada Inc.	277	341	1,095	1,221
Interpump Hydraulics (UK)	583	53	721	21
General Pump China Inc.	135	86	551	416
Hammelmann Bombas e Sistemas Ltda	266	238	140	162
Syscam Gestione Integrada	2	1	37	95
GITOP S.r.l.	-	21	-	39
Total subsidiaries	*4,520*	*2,367*	*6,480*	*4,395*

(€/000)	Payables		Costs	
	31/12/2013	31/12/2012	2013	2012
General Pump China Inc.	54	58	423	426
Hammelmann Bombas e Sistemas Ltda	47	88	326	393
GITOP S.r.l.	-	209	-	300
HS Penta Africa Pty Ltd	-	1	-	-
Total subsidiaries	*101*	*356*	*749*	*1,119*

(€/000)	Loans		Financial income	
	31/12/2013	31/12/2012	2013	2012
Interpump Hydraulics (UK)	192	49	6	-
Interpump Hydraulics Middle East	105	105	2	2
General Pump China Inc.	20	127	-	-
Hammelmann Bombas e Sistemas Ltda	30	29	-	-
Syscam Gestione Integrada	-	-	36	29
Total subsidiaries	*347*	*310*	*44*	*31*

Relationships with associates
The Group does not hold any associated companies.

Transactions with other related parties

Transactions with other related parties regard the leasing of facilities owned by companies controlled by current shareholders and directors of Group companies in the amount of €4,875 thousand (€4,279 thousand in 2012) and legal consultancy services provided by entities connected with directors and statutory auditors of the Group for €156 thousand (€306 thousand in 2012). Costs for rentals were ascribed in the amount of €3,768 thousand (€3,202 thousand in 2012) to the cost of sales, €880 thousand (€854 thousand in 2012) to distribution costs, and €227 thousand (€223 thousand in 2012) to general and administrative expenses. The increase in rentals is due to the acquisition of Hydrocontrol, because the plants in Italy are owned by the sellers of the investment who are the current directors of the company. Consultancy costs were booked in the amount of €60 thousand to distribution costs (€60 thousand also in 2012) and in the amount of €96 thousand to general and administrative expenses (€246 thousand in 2012).

Moreover, further to the signing of building rental contracts with other related parties, the Group has commitments for €16,395 thousand (€9,790 thousand at 31 December 2012). The increase is due, in addition to the acquisition of Hydrocontrol as described above, to the renewal of rental contracts which therefore extended the period of commitment for the Group.

9. Disputes, potential liabilities and assets

The Parent company and several of its subsidiaries are directly involved in several lawsuits in respect of limited amounts. It is however considered that the settlement of said lawsuits will not generate any significant liabilities for the Group that cannot be covered by the risk provisions that have already been created. Compared to the situation at 31 December 2012, an additional allocation was made to the restructuring provision in the amount of €1.4 million.

On 23 December 2013 a tax audit was performed on the Brazilian subsidiary Takarada Industria e Comercio Ltda, acquired on 15 February 2012, for the amount of approximately 7 million reais (approximately 2 million euro). On the basis of the Takarada acquisition contract, in the event of an adverse outcome of the dispute with the Brazilian tax authorities which started with an appeal submitted on 22 January 2014, the associated expense will be borne by the sellers of the investment, who have accepted the commitment. To guarantee the indemnification obligations the seller issued a specific guarantee composed of an escrow account which amounted to 3.6 million reais on 31 December 2013 (approximately 1 million euro). The possible default of the sellers of the investment for an amount in excess of the guarantee, if the company loses the tax dispute, is considered to be remote and therefore no form of provision has been set up to cover this eventuality.

There were further no substantial changes with respect to the situation of disputes or potential liabilities existing at the end of 2013.

10. Fair value measurements

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

- Level 1 quotations recorded on an active market for assets and liabilities subject to measurement;

- Level 2 inputs other than the listed prices mentioned in the prior point, which are directly (prices) or indirectly (price derivatives) observable on the market;
- Level 3 inputs that are not based on observable market data.

The following table shows the financial instruments measured at fair value at 31 December 2013, broken down by level.

(€/000)	Level 1	Level 2	Level 3	Total
Active derivatives:				
- Plain vanilla forwards	-	42	-	42
Other financial assets available for sale	23	-	-	23
Total assets	**23**	**42**	**-**	**65**
Derivatives payable:				
- Interest rate swaps	-	111	-	111
- Interest rate collars	-	168	-	168
Total liabilities	**-**	**279**	**-**	**279**

No transfers between levels were carried out in 2013.

All fair value measurements shown in the above table are to be considered as recurrent; the Group did not perform any non-recurrent fair value measurements in 2013.

The fair value of derivative financial instruments is calculated considering market parameters at the date of this interim Board of Directors' report and using the measurement models widely disseminated in the financial sector. Specifically:

- the fair value of plain vanilla forwards is calculated considering the exchange rate and interest rates of the two currencies at 31 December 2013 (last available trading day);
- the fair value of the interest rate swaps is calculated utilizing the discounted cash flow model: the input data used by this model are interest rate curves at 31 December 2013 and the current interest rate fixings;
- the fair value of interest rate collars is calculated utilizing an option pricing model (Black & Scholes): the input data used by this model are interest rate curves, the current interest rate fixings and the implied volatility surface calculated starting from caps and floors quoted at 31 December 2013.

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