Interim Board of Directors’ Report for Q3 2016

Interpump Group S.p.A. and subsidiaries

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

Board of Directors

Fulvio Montipò
Chairman and Chief Executive Officer

Paolo Marinsek
Deputy Chairman and Chief Executive Officer

Giuseppe Ferrero
Non-executive Director

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

Marcello Margotto (b)
Independent Director

Giancarlo Mocchi
Non-executive Director

Stefania Petruccioli (a), (c)
Independent Director

Paola Tagliavini (a), (c)
Independent Director

Giovanni Tamburi (b)
Non-executive Director

Board of Statutory Auditors

Pierluigi De Biasi
Chairman

Paolo Scarioni
Statutory auditor

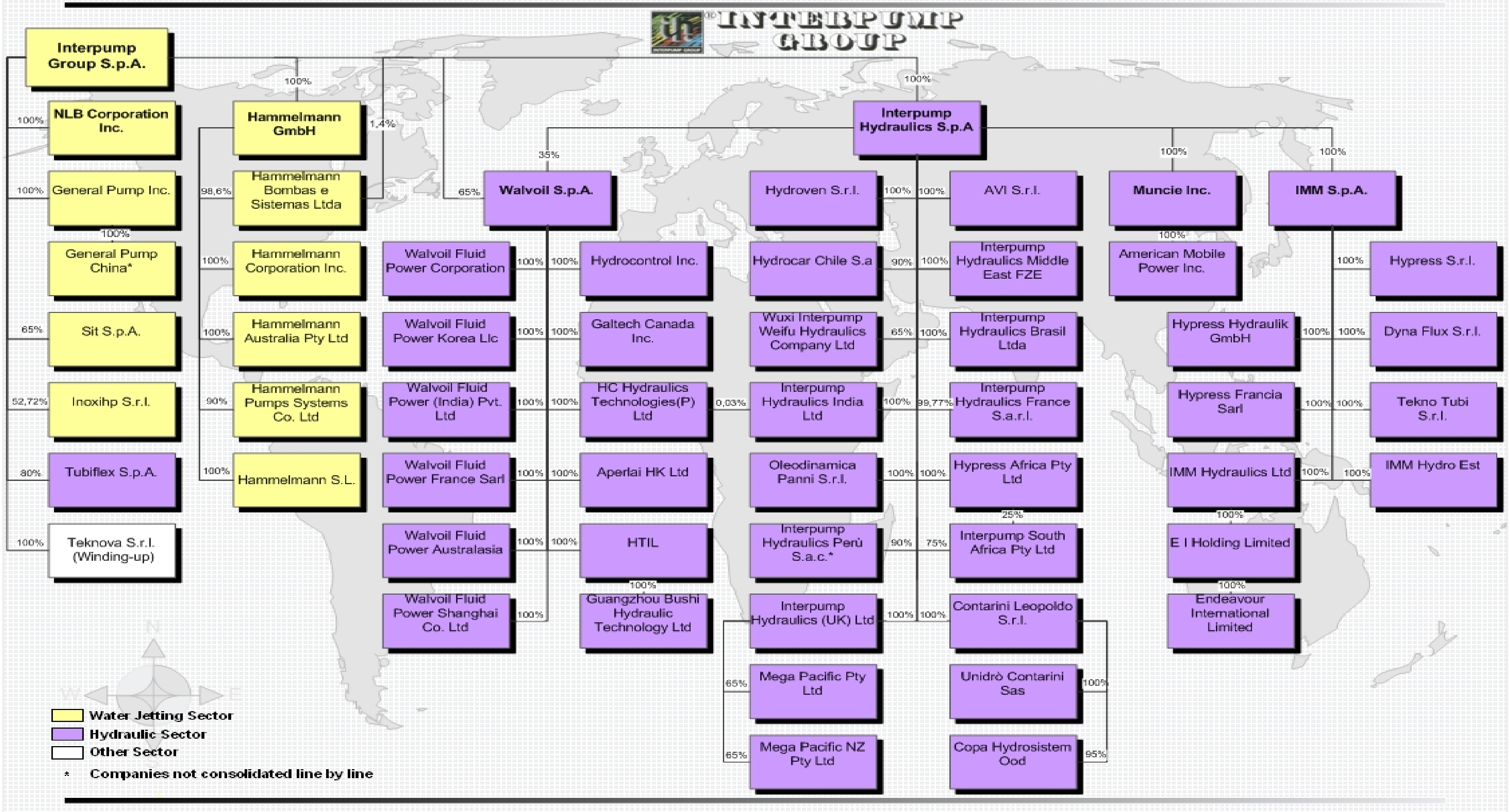
Alessandra Tronconi
Statutory auditor

Independent Auditors

Reconta Ernst & Young S.p.A.

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

Organizational chart as at 30/09/2016



Interim Board of Directors' Report

Directors' remarks on performance in 9M 2016

SIGNIFICANT EVENTS IN 9M 2016

Sales rose by 1.6% compared with 9M 2015 (-0.5% like-for-like and net of exchange differences). Analysis by sector shows a 3.8% increase in the sales in the Hydraulic Sector (+1.2% like-for-like and net of exchange differences) and a 2.0% decline in sales in the Water Jetting Sector (-3.3% like for like and net of exchange differences).

In geographical terms, there was 6.8% growth in Europe, including Italy, and 10.5% expansion in the Far East and Oceania, while North America declined by 5.0% and the Rest of the World fell by 8.2%. On a like-for-like basis, there was 2.2% growth in Europe, including Italy, and 3.7% expansion in the Far East and Oceania, while North America declined by 5.1% and the Rest of the World fell by 9.9%.

EBITDA reached 151.6 million euro, equivalent to 21.9% of sales. In 9M 2015 EBITDA totalled 141.3 million euro (20.7% of sales), with an improvement of 1.2 percentage points. Therefore, EBITDA has risen by 7.3%. On a like-for-like basis, EBITDA was 3.9% higher.

Net profit for 9M 2016 was 73.6 million euro. Net profit in the same period of 2015 included one-off financial income of 32.0 million euro, due to the early exercise of put options by entitled parties. Net of this phenomenon, the normalized net profit for 9M 2016 was 6.2% greater than its equivalent for 9M 2015.

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

80% of Tubiflex S.p.A., based in Orbassano (Turin), was acquired on 5 May 2016. This company is active in the production and sale of flexible metallic and non-metallic hoses, metallic expansion joints, metal bellows, corrugated pipe for heat exchangers, special products. The main sectors of application include: aerospace, shipyards, railways, automotive, air conditioning, medical, energy generation, steel and petro-chemicals. The acquisition of Tubiflex strengthens Interpump in the vast hose market, adding flexible metallic hoses to the flexible rubber hoses already produced by IMM, another member of the Group. The expansion of the range will release significant commercial synergies. Tubiflex reported net sales for 2015 of 22.8 million euro, with an EBITDA of 5.3 million euro (23.4% of sales). At 31/12/2015 Tubiflex had net liquidity of 3.9 million euro. The price paid, including the liquidity purchased, was 21.56 million euro in cash, plus 449,160 treasury shares. With regard to the remaining 20%, call and put options were exchanged, exercisable on the approval date of the financial statements as at 31/12/2018. The exercise price will depend on the 2018 results of Tubiflex. This company was consolidated for five of the first nine months of 2016.

Via IMM Hydraulics S.p.A., on 8 July 2016 Interpump Group acquired 100% of Tekno Tubi S.r.l. based in Sant’Agostino (Ferrara). This company is active in the shaping and assembly of rigid pipes in steel and other metals, as well as the joining of flexible hoses in rubber or plastic materials for the hydraulic and automotive sectors. The acquisition of Tekno Tubi further strengthens Interpump in the vast hoses and pipes market, adding rigid pipes to the flexible rubber hoses already produced by IMM, another member of the Group, and to the flexible metallic hoses made by Tubiflex. The broadening of the range will release significant synergies, mainly commercial. Sales in 2015 totalled €11.2 million and EBITDA was €1.4 million. Net financial indebtedness at 31 December 2015 was €4.5m. The agreed price was €4.1m.

On 29 July 2016, subsidiary Interpump Hydraulics UK Ltd acquired control (65%) of Mega Pacific Pty Ltd (Australia) and Mega Pacific NZ Pty Ltd (New Zealand), one of the largest distributors of hydraulic products in Oceania. Mega Pacific has a strong territorial presence, with 7 branches. In the latest fiscal year closed on 30 June 2016, Mega Pacific reported sales of AUD 20.5m, following 8% growth, with EBITDA of AUD 3.6m (17.7% of sales). The business was acquired for AUD 12.3m. In addition, put and call options were agreed on the remaining 35%, which are exercisable five years after the closing with reference to the results for the year ending on 31 December 2020. The acquisition of Mega Pacific represents a great leap forward for Interpump's organized distribution capability throughout Oceania.

Work has also continued on the rationalization of Group companies. The merger of Walvoil S.p.A. and Hydrocontrol S.p.A. was completed, while mergers are in progress in China and the USA between their subsidiaries in those countries. In addition, the absorptions of HS Penta S.p.A. by Interpump Hydraulics S.p.A. and of Bertoli S.r.l. by Interpump Group S.p.A. have been completed. The process of merging the four subsidiaries located in the UK is also well advanced. This rationalization work is intended to improve the efficiency of production systems and contain costs, aiming at a further profitability increase.

The following companies were consolidated for the first time during 9M 2016: Endeavour (Hydraulic Sector) acquired in January 2016 and consolidated for nine months, Tubiflex (Hydraulic Sector) acquired in May 2016 and consolidated for five months, Tekno Tubi (Hydraulic Sector), Mega Pacific Australia and Mega Pacific New Zealand (Hydraulic Sector) all acquired in July 2016 and consolidated for three months.

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

PERFORMANCE INDICATORS

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

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

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

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

The cash flow statement was prepared using the indirect method.

9M consolidated income statement

(€/000)	*2016*	*2015*
Net sales	**693,022**	**681,878**
Cost of products sold	(438,209)	(436,265)
Gross industrial margin	**254,813**	**245,613**
% on net sales	*36.8%*	*36.0%*
Other operating revenues	10,554	9,514
Distribution costs	(63,408)	(62,745)
General and administrative expenses	(80,662)	(79,314)
Other operating costs	(2,256)	(2,235)
EBIT	**119,041**	**110,833**
% on net sales	*17.2%*	*16.3%*
Financial income	5,157	40,779
Financial expenses	(10,060)	(12,431)
Adjustment of the value of investments carried at equity	4	(193)
Profit for the period before taxes	**114,142**	**138,988**
Income taxes	(40,591)	(37,645)
Consolidated net profit for the period	**73,551**	**101,343**
% on net sales	*10.6%*	*14.9%*
Pertaining to:		
Parent company's shareholders	73,005	100,964
Subsidiaries' minority shareholders	546	379
Consolidated net profit for the period	**73,551**	**101,343***
EBITDA	**151,598**	**141,313**
% on net sales	*21.9%*	*20.7%*
Shareholders' equity	641,820	595,714
Net debt	286,326	283,073
Payables for the acquisition of investments	39,818	25,007
Capital employed	967,964	903,794
Unannualised ROCE	**12.3%**	**12.3%**
Unannualised ROE	**11.5%**	**17.0%**
Basic earnings per share	**0.688**	**0.944**

* = as stated on page 17, the normalised net profit for 9M 2015 was 69.3 million euro.

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NET SALES

Net sales for 9M 2016 totalled €693.0m, up by 1.6% with respect to sales in the equivalent period in 2015, when net sales totalled €681.9m (-0.5% like for like and net of exchange differences).

Breakdown of sales by business sector and geographical area:

(€/000)	Italy	Rest of Europe	North America	Far East & Oceania	Rest of World	Total
9M 2016						
Hydraulic Sector	91,132	161,044	110,125	31,988	51,955	446,244
Water Jetting Sector	22,459	68,721	103,292	37,499	14,807	246,778
Total	113,591	229,765	213,417	69,487	66,762	693,022
9M 2015						
Hydraulic Sector	79,644	149,329	116,770	30,585	53,692	430,020
Water Jetting Sector	23,664	68,899	107,937	32,299	19,059	251,858
Total	103,308	218,228	224,707	62,884	72,751	681,878
2016/2015 percentage changes						
Hydraulic Sector	+14.4%	+7.8%	-5.7%	+4.6%	-3.2%	+3.8%
Water Jetting Sector	-5.1%	-0.3%	-4.3%	+16.1%	-22.3%	-2.0%
Total	+10.0%	+5.3%	-5.0%	+10.5%	-8.2%	+1.6%

The like for like analysis net of exchange differences shows growth of 1.2% in the Hydraulic Sector and a decline of 3.3% in the Water Jetting Sector.

PROFITABILITY

The cost of sales accounted for 63.2% of turnover (64.0% in the first nine months of 2015). Production costs, which totalled €182.6 million (€176.4 million in the first nine months of 2015, which however did not include costs pertaining to Endeavour, Tubiflex, Tekno Tubi and Mega Pacific), accounted for 26.3% of sales (25.9% in the equivalent period of 2015). The purchase cost of raw materials and components sourced on the market, including changes in inventories, was €255.6m (€259.8m in the equivalent period of 2015, which however did not include Endeavour, Tubiflex, Tekno Tubi and Mega Pacific). The percentage incidence of purchase costs including changes in inventories was 36.9% versus 38.1% in 9M 2015, showing an improvement of 1.2 percentage points.

Like-for-like distribution costs were 3.0% lower than in 9M 2015, while the incidence on sales fell by 0.1 percentage points compared to 9M 2015.

Like-for-like general and administrative expenses were 1.4% lower than in 9M 2015, while their incidence on sales was in line with 9M 2015.

Payroll costs totalled €172.1 million (€164.5 million in the first nine months of 2015, which however did not include Endeavour, Tubiflex, Tekno Tubi and Mega Pacific). Like-for-like payroll costs rose by 4.6% (+1.5% net of exchange differences) due to a 1.2% per capita cost increase (+1.7% net of exchange differences) and a rise of 156 in the average headcount. The total average headcount of Group employees in 9M 2016 was 4,981 compared with 4,825 in the equivalent period of 2015. The like-for-like increase in average headcount during 9M 2016 (+15 persons) breaks down as follows: 22 more in Europe, 12 fewer in the US and 5 more in the Rest of the World.

EBITDA amounted to 151.6 million euro (21.9% of sales), compared with 141.3 million euro in 9M 2015 (20.7% of sales). This represents a growth of 7.3% and an increase in profitability of 1.2 percentage points. On a like-for-like basis, EBITDA was 3.9% higher. The following table shows EBITDA by business sector:

	9M 2016 €/000	*% on total sales**	*9M 2015 €/000*	*% on total sales**	*Growth/ Contraction*
Hydraulic Sector	87,901	19.7%	77,415	18.0%	+13.5%
Water Jetting Sector	63,714	25.7%	63,811	25.2%	-0.2%
Other Revenues Sector	(17)	n.s.	87	n.s.	n.s.
Total	***151,598***	***21.9%***	***141,313***	***20.7%***	***+7.3%***

* = Total sales include also include sales to other group companies, while the sales analysed previously are exclusively those external to the group (see Note 2 to the Consolidated Financial Statements at 30 September 2016). For comparability, the percentage is calculated on total sales, rather than the net sales shown earlier.

Like-for-like Hydraulic Sector EBITDA was up by 8.5% (19.5% of net sales). Like-for-like Water Jetting Sector EBITDA was down by 1.5% (25.8% of net sales).

EBIT stood at €119.0m (17.2% of sales) compared with €110.8m in 9M 2015 (16.3% of sales), reflecting an increase of 7.4%. Like-for-like EBIT rose by 3.9%.

The tax rate for the period was 35.6% (27.1% in 9M 2015). The comparison is influenced by the inclusion, in 2015 only, of income on the adjustment of the expected cost of acquiring residual stakes in subsidiaries as discussed later, originating exclusively in the consolidated financial statements and hence not taxable. Net of this non-recurring event the 9M 2015 tax rate would have been 35.7%.

The net profit for 9M 2016 was 73.6 million euro. Net profit in the same period of 2015 included one-off financial income of 32.0 million euro, due to the early exercise of put options by entitled parties. Taking account of the above, normalised net profit for 9M 2015 was 69.3 million euro. Therefore, the normalized net profit for 9M 2016 was 6.2% greater than its equivalent for 9M 2015. Basic earnings per share was 0.688 euro (0.944 euro in 9M 2015, partly as a result of the matters described above).

Capital employed increased from 900.8 million euro at 31 December 2015 to 968.0 million euro at 30 September 2016, principally due to the acquisitions made in 2016. Unannualised ROCE was 12.3% (12.3% also in the first nine months of 2015). Unannualised ROE was 11.5% (17.0% in 9M 2015, partly as a result of the one-off financial income described above).

CASH FLOW

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

	9M 2016	*9M 2015*
	€/000	*€/000*
Opening net financial position	**(254,987)**	**(151,969)**
Adjustment: opening net cash position of companies not consolidated line by line at the end of the prior year (a)	160	435
Adjusted opening net financial position	**(254,827)**	**(151,534)**
Cash flow from operations	112,829	106,432
Cash flow generated (absorbed) by the management of commercial working capital	(19,074)	(30,067)
Cash flow generated (absorbed) by other current assets and liabilities	(4,125)	2,683
Capital expenditure on tangible fixed assets	(25,733)	(20,875)
Proceeds from sales of tangible fixed assets	460	1,108
Increase in other intangible fixed assets	(2,029)	(1,771)
Financial income collected	310	453
Other	209	(81)
Free cash flow	***62,847***	***57,882***
Acquisition of investments, including received debt and net of treasury stock assigned	(39,008)	(144,935)
Proceeds from the sale of investments and lines of business	746	746
Dividends paid	(21,153)	(20,361)
Outlays for the purchase of treasury stock	(43,308)	(28,028)
Proceeds from the sale of treasury stock to beneficiaries of stock options	9,008	3,171
Change in other financial assets	6	(35)
Cash flow generated (used)	***(30,862)***	***(131,560)***
Exchange rate differences	(637)	21
Net financial position at period end	**(286,326)**	**(283,073)**

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

Net liquidity generated by operations totalled €112.8m (€106.4m in 9M 2015), reflecting an increase of 6.0%. Free cash flow amounted to €62.8m in 9M 2016 (€57.9m in 9M 2015), reflecting an increase of 8.6%.

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

	30/09/2016	31/12/2015	30/09/2015	01/01/2015
	€/000	€/000	€/000	€/000
Cash and cash equivalents	182,001	135,130	96,054	87,159
Bank payables (advances and STC amounts)	(3,083)	(5,735)	(21,072)	(27,770)
Interest-bearing financial payables (current portion)	(110,357)	(83,833)	(98,704)	(64,298)
Interest-bearing financial payables (non-current portion)	(354,887)	(300,549)	(259,351)	(147,060)
Total	**(286,326)**	**(254,987)**	**(283,073)**	**(151,969)**

The Group also has contractual commitments for the acquisition of residual interests in subsidiaries totalling €39.8m (€23.2m at 31 December 2015 and €25.0m at 30 September 2015). Of this amount, 4.5 million euro are payables for the acquisition of equity investments (4.9

million euro at 31 December 2015), while 35.3 million euro relates to contractual agreements for the acquisition of residual interests in subsidiaries (18.3 million euro at 31 December 2015). The change with respect to the comparative period was due to the new put options arranged on the acquisitions of Tubiflex and Mega Pacific.

CAPITAL EXPENDITURE

Expenditure on property, plant and equipment totalled €43.2m, of which €8.8m through the acquisition of equity investments (€98.2m in 9M 2015, of which €73.5m through the acquisition of equity investments). The companies belonging to the Very-High Pressure Systems business segment classify machinery manufactured and hired out to customers as tangible fixed assets (€8.5m at 30 September 2016 and €6.2m at 30 September 2015). Net of these latter amounts and those relating to the acquisition of equity investments, capital expenditure in the strictest sense amounted to €25.9m in 9M 2016 (€18.5m in 9M 2015) and mainly refers to the normal renewal and modernization of plant, machinery and equipment, with the exception of €1.4m, related to the construction of new plants in Romania and at Atessa (Italy), in order to increase the production capacity of the hydraulic hoses and fittings division, and expansion of a building owned by the Group Parent and another one owned by Hammelmann China. The difference with respect to the expenditure recorded in the cash flow statement is due to the timing of payments.

Increases in intangible fixed assets totalled €2.1m, mainly as a result of investment in the development of new products (€13.5m in 9M 2015, of which €11.7m reflected the acquisition of equity investments and, for the most part, allocation of the related price to trademarks, while €1.8m was invested in the development of new products).

INTERCOMPANY AND RELATED PARTY TRANSACTIONS

With regard to transactions entered into with related parties, including intercompany transactions, these cannot be defined as either atypical or unusual, as they are part of the normal activities of Group companies. These transactions are governed on arm's-length conditions, taking into account the characteristics of the assets transferred and services rendered. Information on relations with related parties is given in Note 9 to the consolidated financial statements at 30 September 2016.

CHANGES IN GROUP STRUCTURE IN 9M 2016

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

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

EVENTS OCCURRING AFTER THE CLOSE OF 9M 2016

No atypical or unusual transactions have occurred after 30 September 2016 such as to call for a change to the consolidated financial statements at 30 September 2016, or require mention in this report.

Directors' remarks on performance in Q3 2016

Q3 consolidated income statement

(€/000)	*2016*	*2015*
Net sales	**220,554**	**214,869**
Cost of products sold	(138,037)	(137,552)
Gross industrial margin	**82,517**	**77,317**
% on net sales	*37.4%*	*36.0%*
Other operating revenues	3,320	2,975
Distribution costs	(20,423)	(19,738)
General and administrative expenses	(26,291)	(25,275)
Other operating costs	(1,058)	(670)
EBIT	**38,065**	**34,609**
% on net sales	*17.3%*	*16.1%*
Financial income	1,190	1,219
Financial expenses	(2,570)	(4,471)
Adjustment of the value of investments carried at equity	43	(46)
Profit for the period before taxes	**36,728**	**31,311**
Income taxes	(12,312)	(10,597)
Consolidated net profit for the period	**24,416**	**20,714**
% on net sales	*11.1%*	*9.6%*
Pertaining to:		
Parent company's shareholders	24,137	20,614
Subsidiaries' minority shareholders	279	100
Consolidated net profit for the period	**24,416**	**20,714**
EBITDA	**49,262**	**44,762**
% on net sales	*22.3%*	*20.8%*
Shareholders' equity	641,820	595,714
Net debt	286,326	283,073
Payables for the acquisition of investments	39,818	25,007
Capital employed	967,964	903,794
Unannualised ROCE	**3.9%**	**3.8%**
Unannualised ROE	**3.8%**	**3.5%**
Basic earnings per share	**0.227**	**0.192**

For the first time, the scope of consolidation in Q3 2016 includes Endeavour, Tubiflex, Tekno Tubi ande Mega Pacific Australia and Mega Pacific New Zealand, all of which belong to the Hydraulic Sector.

NET SALES

Net sales in Q3 2016 totalled €220.6m, up by 2.6% with respect to the equivalent period in 2015 (€214.9m). In contrast, like-for-like sales net of exchange differences decreased by 2.3%.

Net sales in Q3 by business sector and geographical area:

(€/000)	Italy	Rest of Europe	North America	Far East & Oceania	Rest of World	Total
Q3 2016						
Hydraulic Sector	29,688	47,605	36,845	13,277	16,674	144,089
Water Jetting Sector	5,738	21,071	31,624	12,760	5,272	76,465
Total	35,426	68,676	68,469	26,037	21,946	220,554
Q3 2015						
Hydraulic Sector	23,262	44,629	38,400	9,229	16,650	132,170
Water Jetting Sector	7,035	23,811	33,789	10,831	7,233	82,699
Total	30,297	68,440	72,189	20,060	23,883	214,869
2016/2015 percentage changes						
Hydraulic Sector	+27.6%	+6.7%	-4.0%	+43.9%	+0.1%	+9.0%
Water Jetting Sector	-18.4%	-11.5%	-6.4%	+17.8%	-27.1%	-7.5%
Total	+16.9%	+0.3%	-5.2%	+29.8%	-8.1%	+2.6%

The like-for-like analysis net of exchange differences shows growth of 0.9% in the Hydraulic Sector and a decline of 7.3% in the Water Jetting Sector.

PROFITABILITY

The cost of sales accounted for 62.6% of turnover (64.0% in Q3 2015). Production costs, which totalled €58.3 million (€55.2 million in Q3 2015, which however did not include costs pertaining to Endeavour, Tubiflex, Tekno Tubi and Mega Pacific), accounted for 26.4% of sales (25.7% in the equivalent period of 2015). Like-for-like production costs rose by 0.9%, with a 1.0 percentage point rise in the incidence on sales. The purchase cost of raw materials and components sourced on the market, including changes in inventories, was €79.8m (€82.3m in the equivalent period of 2015, which however did not include Endeavour, Tubiflex, Tekno Tubi and Mega Pacific). The percent incidence of purchase costs, including the change in inventories, was 36.2% compared to the 38.3% in Q3 2015, reflecting a 2.1 percentage point improvement (the like-for-like percentage incidence of purchase costs is 36.1%).

On a like-for-like basis distribution costs fell by 3.8% with respect to Q3 2015, while the associated incidence on sales fell by 0.1 percentage points.

General and administrative expenses, like for like, fell by 1.2% with respect to Q3 2015, while the incidence on sales was 0.2 percentage points higher.

EBITDA totalled €49.3m (22.3% of sales) compared with €44.8m in Q3 2015, which accounted for 20.8% of sales, with an increase of 10.1%. On a like-for-like basis, EBITDA was 4.1% higher. The following table shows EBITDA by business sector:

	Q3 2016 €/000	*% on total sales**	*Q3 2015 €/000*	*% on total sales**	*Growth/ Contraction*
Hydraulic Sector	28,437	19.7%	23,586	17.8%	+20.6%
Water Jetting Sector	20,832	27.1%	21,158	25.5%	-1.5%
Other Revenues Sector	(7)	n.s.	18	n.s.	n.s.
Total	***49,262***	***22.3%***	***44,762***	***20.8%***	***+10.1%***

* = Total sales include also include sales to other group companies, while the sales analysed previously are exclusively those external to the group (see Note 2 to the Consolidated Financial Statements at 30 September 2016). For comparability, the percentage is calculated on total sales, rather than the net sales shown earlier.

EBIT stood at €38.1m (17.3% of sales) compared with €34.6m in Q3 2015 (16.1% of sales), reflecting an increase of 10.0%. Like-for-like EBIT rose by 3.7%.

Q3 closed with a consolidated net profit of €24.4m (€20.7m in Q3 2015), reflecting a rise of 17.9%.

Basic earnings per share were €0.227 (€0.192 in the third quarter of 2015), showing a 18.2% increase.

The free cash flow generated in Q3 was substantial (+17.7% with respect to Q3 2015), despite the higher capital expenditure. This was due to the increase in profitability and the containment of working capital, as shown in the following table:

	Q3 2016	*Q3 2015*
Cash flow from operations	39,056	34,755
Cash flow generated (absorbed) by the management of commercial working capital	7,028	54
Cash flow generated (absorbed) by other current assets and liabilities	(3,866)	(756)
Capital expenditure on tangible fixed assets	(8,465)	(6,069)
Proceeds from sales of tangible fixed assets	(80)	111
Increase in other intangible fixed assets	(512)	(426)
Financial income collected	94	181
Other	119	504
Free cash flow	***33,374***	***28,354***

Sant'Ilario d'Enza (RE), 10 November 2016

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

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

Sant'Ilario d'Enza (RE), 10 November 2016

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

Financial statements and notes

Consolidated statement of financial position

(€/000)	*Notes*	*30/09/2016*	*31/12/2015*
ASSETS			
Current assets			
Cash and cash equivalents		182,001	135,130
Trade receivables		195,100	178,129
Inventories	4	260,190	238,637
Tax receivables		10,596	14,361
Other current assets		8,800	7,811
Total current assets		**656,687**	**574,068**
Non-current assets			
Property, plant and equipment	5	296,344	286,066
Goodwill	1	383,773	347,388
Other intangible assets		30,499	33,193
Other financial assets		812	1,025
Tax receivables		1,830	1,934
Deferred tax assets		24,145	25,190
Other non-current assets		1,465	1,209
Total non-current assets		**738,868**	**696,005**
Total assets		***1,395,555***	***1,270,073***

(€/000)	*Notes*	*30/09/2016*	*31/12/2015*
LIABILITIES			
Current liabilities			
Trade payables		98,901	94,022
Payables to banks		3,083	5,735
Interest-bearing financial payables (current portion)		110,357	83,833
Derivative financial instruments		3	77
Tax payables		22,155	19,904
Other current liabilities		53,342	48,840
Provisions for risks and charges		3,449	4,423
Total current liabilities		**291,290**	**256,834**
Non-current liabilities			
Interest-bearing financial payables		354,887	300,549
Liabilities for employee benefits		18,373	17,264
Deferred tax liabilities		46,567	48,098
Other non-current liabilities		39,692	22,017
Provisions for risks and charges		2,926	2,683
Total non-current liabilities		**462,445**	**390,611**
Total liabilities		**753,735**	**647,445**
SHAREHOLDERS' EQUITY	6		
Share capital		55,380	56,032
Legal reserve		11,323	11,323
Share premium reserve		112,101	138,955
Reserve for the measurement of hedging derivatives at fair value		(1)	(13)
Reserve for restatement of defined benefit plans		(3,553)	(3,501)
Translation provision		18,201	22,657
Other reserves		444,707	391,704
Group shareholders' equity		**638,158**	**617,157**
Minority interests		3,662	5,471
Total shareholders' equity		**641,820**	**622,628**
Total shareholders' equity and liabilities		***1,395,555***	***1,270,073***

9M consolidated income statements

(€/000)	*Notes*	*2016*	*2015*
Net sales		**693,022**	**681,878**
Cost of products sold		(438,209)	(436,265)
Gross industrial margin		**254,813**	**245,613**
Other net revenues		10,554	9,514
Distribution costs		(63,408)	(62,745)
General and administrative expenses		(80,662)	(79,314)
Other operating costs		(2,256)	(2,235)
Ordinary profit before financial expenses		**119,041**	**110,833**
Financial income	7	5,157	40,779
Financial expenses	7	(10,060)	(12,431)
Adjustment of the value of investments at equity		4	(193)
Profit for the period before taxes		**114,142**	**138,988**
Income taxes		(40,591)	(37,645)
Consolidated net profit for the period		**73,551**	**101,343**
Pertaining to:			
Parent company's shareholders		73,005	100,964
Subsidiaries' minority shareholders		546	379
Consolidated net profit for the period		**73,551**	**101,343**
Basic earnings per share	8	0.688	0.944
Diluted earnings per share	8	0.685	0.924

9M comprehensive consolidated income statements

(€/000)	*2016*	*2015*
Consolidated profit for the first nine months of (A)	**73,551**	**101,343**
Other comprehensive profit (loss) that will be subsequently reclassified in consolidated profit for the period		
Accounting for exchange risk hedging derivatives recorded in accordance with the cash flow hedging method:		
- Profit (Loss) on derivative financial instruments for the period	(1)	6
- Minus: Adjustment for reclassification of profits (losses) to the income statement		-
- Minus: Adjustment for recognition of fair value to reserves in the prior period	19	27
Total	*18*	*33*
Profits (Losses) arising from the conversion to euro of foreign companies	*(4,685)*	*11,478*
Profits (losses) of companies carried at at equity	*(27)*	*(20)*
Related taxes	*(6)*	*(10)*
Total other profit (loss) that will be subsequently reclassified in consolidated profit for the period, net of the tax effect (B)	**(4,700)**	**11,481**
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	(72)	-
Related taxes	*20*	-
Total other comprehensive profit (loss) that will not be subsequently reclassified in consolidated profit for the period (C)	**(52)**	**-**
Comprehensive consolidated profit for 9M (A) + (B) + (C)	**68,799**	**112,824**
Pertaining to:		
Parent company's shareholders	68,466	112,348
Subsidiaries' minority shareholders	333	476
Comprehensive consolidated profit for the period	**68,799**	**112,824**

Q3 consolidated income statements

(€/000)		*2016*	*2015*
Net sales		**220,554**	**214,869**
Cost of products sold		(138,037)	(137,552)
Gross industrial margin		**82,517**	**77,317**
Other net revenues		3,320	2,975
Distribution costs		(20,423)	(19,738)
General and administrative expenses		(26,291)	(25,275)
Other operating costs		(1,058)	(670)
Ordinary profit before financial expenses		**38,065**	**34,609**
Financial income	7	1,190	1,219
Financial expenses	7	(2,570)	(4,471)
Adjustment of investments carried at equity		43	(46)
Profit for the period before taxes		**36,728**	**31,311**
Income taxes		(12,312)	(10,597)
Consolidated net profit for the period		**24,416**	**20,714**
Pertaining to:			
Parent company's shareholders		24,137	20,614
Subsidiaries' minority shareholders		279	100
Consolidated net profit for the period		**24,416**	**20,714**
Basic earnings per share	8	0.227	0.192
Diluted earnings per share	8	0.226	0.188

Q3 comprehensive consolidated income statements

(€/000)	*2016*	*2015*
Q3 consolidated profit (A)	**24,416**	**20,714**
Other comprehensive profit (loss) that will be subsequently reclassified in consolidated profit for the period		
Accounting for exchange risk hedging derivatives recorded in accordance with the cash flow hedging method:		
- Profit (Loss) on derivative financial instruments for the period	(1)	6
- Minus: Adjustment for reclassification of profits (losses) to the income statement	-	-
- Minus: Adjustment for recognition of fair value to reserves in the prior period	-	-
Total	*(1)*	*6*
Profits (Losses) arising from the conversion to euro of foreign companies	*(888)*	*(6,105)*
Profits (losses) of companies carried at at equity	*(13)*	*1*
Related taxes	*-*	*(2)*
Total other profit (loss) that will be subsequently reclassified in consolidated profit for the period, net of the tax effect (B)	**(902)**	**(6,100)**
Q3 comprehensive consolidated profit (A) + (B)	**23,514**	**14,614**
Pertaining to:		
Parent company's shareholders	23,264	14,688
Subsidiaries' minority shareholders	250	(74)
Comprehensive consolidated profit for the period	**23,514**	**14,614**

9M consolidated cash flow statements

(€/000)	*2016*	*2015*
Cash flow from operating activities		
Pre-tax profit	114,142	138,988
Adjustments for non-cash items:		
Capital losses (Capital gains) from the sale of fixed assets	(1,604)	(2,104)
Amortization and depreciation, impairment and reinstatement of value	32,310	29,703
Costs ascribed to the income statement relative to stock options that do not involve monetary outflows for the Group	1,278	1,024
Loss (Profit) from equity investments	(4)	193
Net change in risk funds and allocations for employee benefits	(808)	(536)
Outlays for tangible fixed assets destined for hire	(8,474)	(6,211)
Proceeds from the sale of fixed assets granted for hire	5,433	5,304
Financial expenses (Income), net	4,903	(28,348)
	147,176	138,013
(Increase) decrease in trade receivables and other current assets	(662)	(4,735)
(Increase) decrease in inventories	(13,874)	(10,736)
Increase (decrease) in trade payables and other current liabilities	(8,663)	(11,913)
Interest paid	(3,540)	(4,376)
Currency exchange gains realized	(1,541)	2,174
Taxes paid	(29,266)	(29,379)
Net cash from operating activities	**89,630**	**79,048**
Cash flows from investing activities		
Outlay for the acquisition of investments, net of received cash and including treasury stock assigned	(40,758)	(175,446)
Disposal of investments and lines of business including transferred cash	746	746
Capital expenditure on property, plant and equipment	(23,523)	(20,724)
Proceeds from sales of tangible fixed assets	460	1,108
Increase in intangible fixed assets	(2,029)	(1,771)
Financial income collected	310	453
Other	51	373
Net liquidity used in investing activities	**(64,743)**	**(195,261)**
Cash flows from financing activities		
Disbursals (repayments) of loans	77,232	118,736
Dividends paid	(21,153)	(20,361)
Outlays for purchase of treasury stock	(43,308)	(28,028)
Sale of treasury stock for the acquisition of equity investments	5,516	60,542
Proceeds from the sale of treasury stock to beneficiaries of stock options	9,008	3,171
Disbursals (repayments) of loans from (to) shareholders	(7)	(255)
Change in other financial assets	6	(35)
Payment of financial leasing installments (principal portion)	(2,103)	(2,638)
Net liquidity generated (used by) financing activities	**25,191**	**131,132**
Net increase (decrease) of cash and cash equivalents	**50,078**	**14,919**

(€/000)	*2016*	*2015*
Net increase (decrease) of cash and cash equivalents	**50,078**	**14,919**
Exchange differences from the translation of cash of companies in areas outside the EU	(715)	239
Opening cash and equivalents of companies consolidated for the first time using the line-by-line method	160	435
Cash and cash equivalents at the beginning of the year	129,395	59,389
Cash and cash equivalents at the end of the year	**178,918**	**74,982**

Cash and cash equivalents can be broken down as follows:

	30/09/2016 €/000	31/12/2015 €/000
Cash and cash equivalents from the balance sheet	182,001	135,130
Payables to banks (current account overdrafts and advances subject to collection)	(3,083)	(5,735)
Cash and cash equivalents from the cash flow statement	178,918	129,395

Statement of changes in consolidated shareholders' equity

	Share capital	*Legal reserve*	*Share premium reserve*	*Reserve for valuation of hedging derivatives at fair value*	*Reserve for restatement of defined benefit plans*	*Translation provision*	*Other reserves*	*Group shareholders' equity*	*Minority interests*	*Total*
Balances as at 1 January 2015	*53,871*	*11,323*	*101,237*	*(19)*	*(5,273)*	*3,809*	*295,747*	*460,695*	*5,855*	*466,550*
Recognition in the income statement of the fair value of the stock options assigned and exercisable	-	-	1,024	-	-	-	-	1,024	-	1,024
Purchase of treasury stock	(1,125)	-	-	-	-	-	(26,903)	(28,028)	-	(28,028)
Sale of treasury stock to the beneficiaries of stock options	278	-	2,893	-	-	-	-	3,171	-	3,171
Sale of treasury stock to pay for equity investments	2,549	-	57,993	-	-	-	-	60,542	-	60,542
Dividends paid	-	-	-	-	-	-	(19,321)	(19,321)	(925)	(20,246)
Purchase of residual interests in subsidiaries	-	-	-	-	-	-	(85)	(85)	(38)	(123)
Total profit (loss) for 9M 2015	-	-	-	23	-	11,361	100,964	112,348	476	112,824
Balances at 30 September 2015	*55,573*	*11,323*	*163,147*	*4*	*(5,273)*	*15,170*	*350,402*	*590,346*	*5,368*	*595,714*
Recognition in the income statement of the fair value of the stock options assigned and exercisable	-	-	346	-	-	-	-	346	-	346
Purchase of treasury stock	(197)	-	(32,709)	-	-	-	28,225	(4,681)	-	(4,681)
Sale of treasury stock to the beneficiaries of stock options	643	-	5,273	-	-	-	(921)	4,995	-	4,995
Sale of treasury stock to pay for equity investments	13	-	2,898	-	-	-	(2,562)	349	-	349
Purchase of residual interests in subsidiaries	-	-	-	-	-	-	(106)	(106)	(242)	(348)
Comprehensive profit (loss) for Q3 2015				(17)	1,772	7,487	16,666	25,908	345	26,253
Balances as at 31 December 2015	*56,032*	*11,323*	*138,955*	*(13)*	*(3,501)*	*22,657*	*391,704*	*617,157*	*5,471*	*622,628*
Recognition in the income statement of the fair value of the stock options assigned and exercisable	-	-	1,278	-	-	-	-	1,278	-	1,278
Purchase of treasury stock	(1,772)	-	(41,536)	-	-	-	-	(43,308)	-	(43,308)
Sale of treasury stock to the beneficiaries of stock options	886	-	8,122	-	-	-		9,008	-	9,008
Sale of treasury stock for payment of equity investments	234	-	5,282	-	-	-	-	5,516	-	5,516
Purchase of residual interests in subsidiaries	-	-	-	-	-	43	52	95	(1,040)	(945)
Dividends paid	-	-	-	-	-	-	(20,054)	(20,054)	(1,102)	(21,156)
Total profit (loss) for 9M 2016	-	-	-	12	(52)	(4,499)	73,005	68,466	333	68,799
Balances at 30 September 2016	*55,380*	*11,323*	*112,101*	*(1)*	*(3,553)*	*18,201*	*444,707*	*638,158*	*3,662*	*641,820*

Notes to the consolidated financial statements

General information

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

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

Sales are not affected by any significant degree of seasonality.

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

The consolidated financial statements at 30 September 2016 were approved by the Board of Directors on 10 November 2016.

Basis of preparation

The consolidated financial statements at 30 September 2016 were drawn up in compliance with the principles of 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 at 30 September 2016 should be consulted together with the annual consolidated financial statements for the year ending 31 December 2015.

The accounting principles and criteria adopted in the interim report at 30 September 2016 may conflict with IFRS provisions in force on 31 December 2016 due to the effect of future orientations of the European Commission with regard to the approval of international accounting standards or the issue of new standards, interpretations or implementing guidelines by the International Accounting Standards Board (IASB) or the International Financial Reporting Interpretation Committee (IFRIC).

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

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

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

- *Amendments to IAS 19 – Employee benefits.* On 21 November 2013 IASB published an amendment to IAS 19 limited to contributions to defined benefit plans for employees. The changes are aimed at simplifying the accounting of contributions that are unrelated to years of seniority, such as contributions calculated on the basis of a fixed percentage of salary.
- *Amendment to IAS 16 and 38 – Property, plant and equipment and Intangible assets.* On 12 May 2014 IASB published an amendment to the standards, specifying that a method of depreciation based on the revenues generated by the asset is inappropriate because it reflects solely the revenue flow generated by the asset and does not reflect the methods of consumption of the prospective future economic benefits embodied in the asset.
- *Amendment to IAS 27 – Separate financial statements*. On 12 August 2014, the IASB published an amendment to the standard that will allow entities to use the equity method to recognize investments in subsidiaries, joint ventures and associates in separate financial statements.
- *Amendment to IAS 1: disclosure initiative* - On 18 December 2014 IASB published the amendment in question, which is designed to provide clarifications to IAS 1 to address several perceived impediments to preparers exercising their judgment in presenting their financial statements.
- On 12 December 2012, the IASB issued a collection of amendments to IAS/IFRS standards: *Annual Improvements to IFRSs 2010–2012 Cycle. These amendments resulted in changes*: (i) to IFRS 2, clarifying the definition of “vesting condition” and introducing the definitions of the service and performance conditions; (ii) to IFRS 3, clarifying that the obligations to pay a contingent consideration other than those included in the definition of equity instrument, are to be measured at fair value at each reporting date, with the changes recognized in the income statement; (iii) to IFRS 8, requiring an entity to disclose the judgments made by management in applying the aggregation criteria to the operating segments, describing the segments that have been aggregated and the economic indicators that were assessed to determine that the aggregated segments have similar economic characteristics; (iv) to IAS 16 and IAS 38, clarifying the method of determining the carrying amount of assets, in the case of revaluation further to the application of the revaluation model; (v) to IAS 24, establishing the information to be supplied when there is a third-party entity that supplies services related to the administration of key management personnel of the reporting entity.

b) New accounting standards and amendments effective from 1 January 2016 but not relevant for the Group:

- *Amendment to IFRS 11 – Joint arrangements*. On 6 May 2014 IASB published an amendment to the standard adding a new guide to the recognition of the acquisition of an interest in joint operations when the operation constitutes a business.
- *Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment entities: applying the consolidation exception.* On 18 December 2014 IASB published the amendments in question concerning the problems deriving from application of the consolidation exception granted to investment entities.
- *Amendments to IFRS 10 and IAS 28: sale or contribution of assets between an investor and its associate or joint venture.*- On 11 September 2014 IASB published the amendments in question, which are designed to remove the conflict between the requirements of IAS 28 and those of IFRS 10 and clarify that in a transaction that involves an associate or a joint venture the extent to which it is possible to recognize a profit or a loss depends on whether the asset subject to sale or contribution is a business.

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

- *IFRS 2 – Share-based payments.* On 21 June 2016 IASB published amendments to the standard with a view to clarifying the accounting for certain operations involving share-based payments. The amendments will be applicable from 1 January 2018, although early adoption is allowed.
- *IFRS 9 – Financial instruments*. On 12 November 2009, the IASB published the following standard, which was subsequently amended on 28 October 2010 and again in mid-December 2011. The new standard, which is applicable from 1 January 2018, constitutes the first part of a process in stages aimed at replacing IAS 39 and introduces new criteria for the classification and measurement of financial assets and liabilities, and for the derecognition of financial assets from the financial statements. Specifically, the new standard uses a single approach to financial assets based on the methods of management of financial instruments and on the characteristics of the contractual cash flows of financial assets in order to establish the measurement criterion, replacing the various rules contained in IAS 39. In contrast, for financial liabilities the main change concerns the accounting treatment for changes in the fair value of a financial liability designated as a financial liability measured at fair value in profit and loss, in the event wherein such changes are due to changes in the credit rating of the liabilities in question. In accordance with the new standard, such changes must be recorded in the comprehensive income statement and cannot thereafter be derecognised in profit and loss.
- On 30 January 2014, the IASB published IFRS 14 *Regulatory Deferral Accounts*, which is an interim standard related to the *Rate-regulated activities* project. IFRS 14 allows exclusively first-time adopters of IFRS to continue recognizing amounts associated with rate regulation in compliance with the accounting policies previously adopted. In order to improve comparability with entities that are already applying the IFRS standards and that do not therefore disclose these amounts, the standard requires the rate regulation effect to be presented separately from other captions.
- *IFRS 15 – Recognition of revenue from contracts with customers.* On 28 May 2014 IASB and FASB jointly issued IFRS 15 designed to improve the disclosure of revenues and the global comparability of financial statements in order to harmonize the recognition of economically similar transactions. The standard is effective for IFRS users from reporting periods starting after 1 January 2017 (early adoption is permitted). On 12 April 2016, the IASB published*"Clarification to IFRS 15"*, in order to clarify

certain requirements and provide further simplifications that reduce costs and complexity for first-time adopters of the new standard.

- *Annual Improvements to IFRSs 2012–2014 Cycle* - On 25 September 2014 IASB issued a collection of amendments to IASs/IFRSs. The aim of the annual improvements is to address necessary matters related to inconsistencies found in IFRSs or for clarifications of terminology, which are not of an urgent nature but which reflect issues discussed by the IASB during the project cycle. Among the amended standards, IFRS 5, in relation to which a clarification has been introduced concerning cases in which the method of disposal of an asset is changed from held for sale to held for distribution; IFRS 7, with a clarification to establish if and when a residual involvement in a transferred financial asset exists in the presence of an associated service contract, thus determining the required level of disclosure; IAS 19, which clarifies that the currency of securities used as a benchmark to estimate the discount rate, must be the same as the currency in which the benefits will be paid; and IAS 34 in which the meaning of "elsewhere" is clarified for the inclusion of information by cross-reference. These amendments will be effective for reporting periods starting after 1 January 2016. Early adoption is however permitted.
- *IFRS 16 – Leasing*. On 13 January 2016, the IASB published the new standard that replaces IAS 17. The new standard will make the financial statements of companies even more comparable, by abolishing the distinction between "finance leases" and "operating leases" and by requiring companies to recognise in their financial statements the assets and liabilities associated with all types of leasing contract. IFRS 17 is applicable from 1 January 2019. Early application is allowed for entities that also apply IFRS 15 "Revenue from contracts with customers".
- *Amendments to IAS 12 – Income taxes.* The IASB has published certain amendments to the standard. The document entitled *Recognition of deferred tax assets for unrealised losses (Amendments to IAS 12)* seeks to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendments are applicable from 1 January 2017. Early adoption is allowed.
- *Amendments to IAS 7 - Statement of cash flows.* On 29 January 2016, the IASB published an amendment to the standard entitled “*Disclosure initiative*” in order to improve the information provided about changes in financial liabilities. The amendments are applicable from 1 January 2017.

At today's date the competent bodies of the European Union have completed the approval process related to the new standards and amendments applicable to financial statements starting as from 1 January 2016, while the approval process required for adoption of the other standards and amendments is still under way. On the basis of analysis currently in progress no significant impacts are predicted from the 2017 adoption of the applicable new standards and amendments.

Notes to the consolidated financial statements at 30 September 2016

1. Scope of consolidation and goodwill

At 30 September 2016 the scope of consolidation includes the Parent company (which operates in the Water Jetting Sector) and the following subsidiaries:

Company	*Head office*	*Sector*	*Share capital €/000*	*% stake as at 30/09/16*
General Pump Inc.	Minneapolis (USA)	Water	1,854	100.00%
Hammelmann GmbH	Oelde (Germany)	Water	25	100.00%
Hammelmann Australia Pty Ltd (1)	Melbourne (Australia)	Water	472	100.00%
Hammelmann Corporation Inc (1)	Miamisburg (USA)	Water	39	100.00%
Hammelmann S. L. (1)	Zaragoza (Spain)	Water	500	100.00%
Hammelmann Pumps Systems Co Ltd (1)	Tianjin (China)	Water	871	90.00%
Hammelmann Bombas e Sistemas Ltda (1)	San Paolo (Brazil)	Water	739	100.00%
Inoxihp S.r.l.	Nova Milanese (MI)	Water	119	52.72%
NLB Corporation Inc.	Detroit (USA)	Water	12	100.00%
SIT S.p.A.	S.Ilario d'Enza (RE)	Water	105	65.00%
Interpump Hydraulics S.p.A.	Calderara di Reno (BO)	Hydr.	2,632	100.00%
AVI S.r.l. (2)	Varedo (MB)	Hydr.	10	100.00%
Contarini Leopoldo S.r.l. (2)	Lugo (RA)	Hydr.	47	100.00%
Unidro S.a.s. (3)	Barby (France)	Hydr.	8	100.00%
Copa Hydrosystem Ood (3)	Troyan (Bulgaria)	Hydr.	3	95.00%
Hydrocar Chile S.A. (2)	Santiago (Chile)	Hydr.	129	90.00%
Hydroven S.r.l. (2)	Tezze sul Brenta (VI)	Hydr.	200	100.00%
Hypress Africa Pty Ltd (2)	Boksburg (South Africa)	Hydr.	412	100.00%
Interpump Hydraulics Brasil Ltda (2)	Caxia do Sul (Brazil)	Hydr.	13,996	100.00%
Interpump Hydraulics France S.a.r.l. (2)	Ennery (France)	Hydr.	76	99.77%
Interpump Hydraulics India Private Ltd (2)	Hosur (India)	Hydr.	682	100.00%
Interpump Hydraulics Middle East FZCO (2)	Dubai (UAE)	Hydr.	326	100.00%
Interpump South Africa Pty Ltd (2)	Johannesburg (South Africa)	Hydr.	-	100.00%
Interpump Hydraulics (UK) Ltd. (2)	Kingswinford (United Kingdom)	Hydr.	13	100.00%
Mega Pacific Pty Ltd (4)	Newcastle (Australia)	Hydr.	335	65.00%
Mega Pacific NZ Pty Ltd (4)	Mount Maunganui (New Zealand)	Hydr.	557	65.00%
Muncie Power Prod. Inc. (2)	Muncie (USA)	Hydr.	784	100.00%
American Mobile Power Inc. (5)	Fairmount (USA)	Hydr.	3,410	100.00%
Oleodinamica Panni S.r.l. (2)	Tezze sul Brenta (VI)	Hydr.	2,000	100.00%
Wuxi Interpump Weifu Hydraulics Company Ltd (2)	Wuxi (China)	Hydr.	2,095	65.00%
IMM Hydraulics S.p.A. (2)	Atessa (Switzerland)	Hydr.	520	100.00%
Dyna Flux S.r.l. (6)	Bolzaneto (GE)	Hydr.	40	100.00%
Hypress France S.a.r.l. (6)	Strasbourg (France)	Hydr.	162	100.00%
Hypress Hydraulik GmbH (6)	Meinerzhagen (Germany)	Hydr.	52	100.00%
Hypress S.r.l. (6)	Atessa (Switzerland)	Hydr.	50	100.00%
IMM Hydro Est (6)	Catcau Cluj Napoca (Romania)	Hydr.	3,155	100.00%
IMM Hydraulics Ltd (6)	Halesowen (UK)	Hydr.	1	100.00%
E.I. Holdings Ltd (7)	Bath (United Kingdom)	Hydr.	127	100.00%
Endeavour International Ltd (8)	Bath (United Kingdom)	Hydr.	69	100.00%
Tekno Tubi S.r.l. (6)	Sant'Agostino (FE)	Hydr.	100	100.00%
Tubiflex S.p.A.	Orbassano (TO)	Hydr.	515	80.00%

Company	*Head office*	*Sector*	*Share capital €/000*	*% stake as at*
Walvoil S.p.A.	Reggio Emilia	Hydr.	7,692	100.00%
Aperlai HK Ltd (9)	Hong Kong	Hydr.	77	100.00%
HTIL (9)	Hong Kong	Hydr.	98	100.00%
Galtech Canada Inc. (9)	Terrebonne, Quebec (Canada)	Hydr.	76	100.00%
Guangzhou Bushi Hydraulic Technology Ltd (10)	Guangzhou (China)	Hydr.	3,720	100.00%
HC Hydraulics Technologies(P) Ltd (9)	Bangalore (India)	Hydr.	4,120	100.00%
Hydrocontrol Inc. (9)	Minneapolis (USA)	Hydr.	763	100.00%
Walvoil Fluid Power Corp. (9)	Tulsa (USA)	Hydr.	41	100.00%
Walvoil Fluid Power Shanghai Co. Ltd (9)	Shanghai (China)	Hydr.	1,872	100.00%
Walvoil Fluid Power Pvt Ltd (9)	Bangalore (India)	Hydr.	683	100.00%
Walvoil Fluid Power Korea (9)	Pyeongtaek (South Korea)	Hydr.	453	100.00%
Walvoil Fluid Power France S.a.r.l. (9)	Vritz (France)	Hydr.	10	100.00%
Walvoil Fluid Power Australasia (9)	Melbourne (Australia)	Hydr.	7	100.00%
Teknova S.r.l. (winding-up)	Reggio Emilia	Other	28	100.00%

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

E.I. Holdings Ltd and Endeavour International Ltd have been consolidated for nine months, while Tubiflex S.p.A. has been consolidated for 5 months since it was acquired in May. Tekno Tubi S.r.l., Mega Pacific Pty Ltd and Mega Pacific NZ Pty Ltd have been consolidated for 3 months, having been purchased in July.

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

The minority shareholder of Inoxihp S.r.l. is entitled to dispose of its holdings starting from the approval of the 2025 financial statements up to the 2035 financial statements, on the basis of the average results of the company in the last two financial statements for the years ended before the exercise of the option. Similarly, the minority shareholder of Tubiflex S.p.A. is entitled and required to dispose of its holdings upon approval of the 2018 financial statements, on the basis of the results of the company reported in the 2018 financial statements. The minority shareholder of Mega Pacific Pty Ltd e di Mega Pacific NZ Pty Ltd is entitled and required to sell its shares within 90 days of 29 July 2021, based on the results of the financial statements prepared immediately prior to exercise of the option.

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

Changes in goodwill in 9M 2016 were as follows:

Company:	Balance as at 31/12/2015	Increases (Decreases) in the year	Changes due to foreign exchange differences	Balance as at 30/09/2016
Water Jetting Sector	159,258	-	(1,020)	158,238
Hydraulic Sector	188,130	36,833	572	225,535
Total goodwill	*347,388*	*36,833*	*(448)*	*383,773*

The increases in 9M 2016 relate to the acquisition of Endeavour International Ltd, Tubiflex S.p.A., Tekno Tubi S.r.l., Mega Pacific PTY Ltd and Mega Pacific NZ Pty. Ltd

2. Business sector information

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

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

Sector information includes directly attributable costs and costs allocated on the basis of reasonable estimates. The holding costs, i.e. remuneration of directors and statutory auditors of the parent company and functions of the Group's financial management, control and internal auditing department, 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:

Water Jetting Sector. This sector is mainly composed of high- and very-high-pressure pumps and pumping systems used in a wide range of industrial sectors for the conveyance of fluids. High pressure plunger pumps are the main component of professional high pressure cleaners. These pumps are also employed in a broad range of industrial applications including car wash installations, forced lubrication systems for machine tools, inverse osmosis systems for seawater desalination plants, and homogenizers for the food, chemicals, pharmaceutical and cosmetics industries. Very-high-pressure pumps and systems are used for cleaning surfaces, ship hulls, various types of hoses, and also for removing machining burr, cutting and removing cement, asphalt, and paint coatings from stone, cement and metal surfaces, and for cutting solid materials. Marginally, this sector also includes operations of drawing, shearing and pressing sheet metal and the manufacture and sales of cleaning machinery.

Hydraulic Sector. This sector includes the production and sale of power take-offs, hydraulic cylinders, pumps, valves and directional controls, hydraulic hoses and fittings and other hydraulic components. Power take-offs are mechanical devices designed to transmit drive from an industrial vehicle engine or transmission to power a range of ancillary services through hydraulic components. These products, combined with other hydraulic components (spool valves, controls, etc.) allow the execution of special functions such as lifting tipping bodies, operating truck-mounted cranes, operating truck mixer truck drums, and so forth.

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

Interpump Group business sector information
(Amounts shown in €/000)
<u>Cumulative to 30 September (nine months)</u>

	Hydraulic		Water Jetting		Other		Elimination entries		**Interpump Group**	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Net sales external to the Group	446,244	430,020	246,778	251,858	-	-	-	-	693,022	681,878
Sales between sectors	201	155	879	1,174	-	1,176	(1,080)	(2,505)	-	-
Total net sales	**446,445**	**430,175**	**247,657**	**253,032**	**-**	**1,176**	**(1,080)**	**(2,505)**	**693,022**	**681,878**
Cost of products sold	(297,799)	(291,747)	(141,496)	(145,699)	-	(163)	1,086	1,344	(438,209)	(436,265)
Gross industrial margin	**148,646**	**138,428**	**106,161**	**107,333**	**-**	**1,013**	**6**	**(1,161)**	**254,813**	**245,613**
% on net sales	*33.3%*	*32.2%*	*42.9%*	*42.4%*		*n.s.*			*36.8%*	*36.0%*
Other net revenues	6,791	7,047	3,771	2,651	-	17	(8)	(201)	10,554	9,514
Distribution costs	(36,536)	(35,930)	(26,874)	(26,819)	-	-	2	4	(63,408)	(62,745)
General and administrative expenses	(51,391)	(50,571)	(29,254)	(29,148)	(17)	(953)	-	1,358	(80,662)	(79,314)
Other operating costs	(1,915)	(2,019)	(341)	(216)	-	-	-	-	(2,256)	(2,235)
Ordinary profit before financial expenses	**65,595**	**56,955**	**53,463**	**53,801**	**(17)**	**77**	**-**	**-**	**119,041**	**110,833**
% on net sales	*14.7%*	*13.2%*	*21.6%*	*21.3%*	*n.s.*	*n.s.*			*17.2%*	*16.3%*
Financial income	4,353	39,155	2,180	3,152	1	-	(1,377)	(1,528)	5,157	40,779
Financial expenses	(7,031)	(9,161)	(4,406)	(4,794)	-	(4)	1,377	1,528	(10,060)	(12,431)
Dividends		-	29,201	14,000	-	-	(29,201)	(14,000)	-	-
Adjustment of investments carried at equity	(28)	(187)	32	(6)	-	-	-	-	4	(193)
Profit for the period before taxes	**62,889**	**86,762**	**80,470**	**66,153**	**(16)**	**73**	**(29,201)**	**(14,000)**	**114,142**	**138,988**
Income taxes	(23,028)	(19,878)	(17,589)	(17,355)	26	(412)	-	-	(40,591)	(37,645)
Consolidated profit for the period	**39,861**	**66,884**	**62,881**	**48,798**	**10**	**(339)**	**(29,201)**	**(14,000)**	**73,551**	**101,343**
Pertaining to:										
Parent company's shareholders	39,445	66,598	62,751	48,705	10	(339)	(29,201)	(14,000)	73,005	100,964
Subsidiaries' minority shareholders	416	286	130	93	-	-	-	-	546	379
Consolidated net profit for the period	**39,861**	**66,884**	**62,881**	**48,798**	**10**	**(339)**	**(29,201)**	**(14,000)**	**73,551**	**101,343**
<u>Further information required by IFRS 8</u>										
Amortization, depreciation and write-downs	22,233	19,917	10,077	9,776	-	10	-	-	32,310	29,703
Other non-monetary costs	1,285	2,008	1,279	2,096	-	-	-	-	2,564	4,104

Interpump Group business sector information
(Amounts shown in €/000)
<u>Q3</u>

	Hydraulic 2016	Hydraulic 2015	Water Jetting 2016	Water Jetting 2015	Other 2016	Other 2015	Elimination entries 2016	Elimination entries 2015	**Interpump Group** 2016	**Interpump Group** 2015
Net sales external to the Group	144,089	132,170	76,465	82,699	-	-	-	-	220,554	214,869
Sales between sectors	65	39	337	387	-	442	(402)	(868)	-	-
Total net sales	**144,154**	**132,209**	**76,802**	**83,086**	**-**	**442**	**(402)**	**(868)**	**220,554**	**214,869**
Cost of products sold	(95,864)	(89,859)	(42,578)	(48,020)	-	(101)	405	428	(138,037)	(137,552)
Gross industrial margin	**48,290**	**42,350**	**34,224**	**35,066**	**-**	**341**	**3**	**(440)**	**82,517**	**77,317**
% on net sales	*33.5%*	*32.0%*	*44.6%*	*42.2%*		*n.s.*			*37.4%*	*36.0%*
Other net revenues	2,343	2,058	982	979	-	1	(5)	(63)	3,320	2,975
Distribution costs	(12,192)	(11,109)	(8,233)	(8,629)	-	-	2	-	(20,423)	(19,738)
General and administrative expenses	(17,063)	(15,978)	(9,221)	(9,472)	(7)	(328)	-	503	(26,291)	(25,275)
Other operating costs	(996)	(593)	(62)	(77)	-	-	-	-	(1,058)	(670)
Ordinary profit before financial expenses	**20,382**	**16,728**	**17,690**	**17,867**	**(7)**	**14**	**-**	**-**	**38,065**	**34,609**
% on net sales	*14.1%*	*12.7%*	*23.0%*	*21.5%*	*n.s.*	*n.s.*			*17.3%*	*16.1%*
Financial income	1,034	1,015	641	760	-	-	(485)	(556)	1,190	1,219
Financial expenses	(2,063)	(3,288)	(992)	(1,737)	-	(2)	485	556	(2,570)	(4,471)
Dividends	-	-	1	-	-		(1)	-	-	-
Adjustment of investments carried at equity	3	(62)	40	16	-	-	-	-	43	(46)
Profit for the period before taxes	**19,356**	**14,393**	**17,380**	**16,906**	**(7)**	**12**	**(1)**	**-**	**36,728**	**31,311**
Income taxes	(6,956)	(5,170)	(5,356)	(5,391)	-	(36)	-	-	(12,312)	(10,597)
Consolidated profit for the period	**12,400**	**9,223**	**12,024**	**11,515**	**(7)**	**(24)**	**(1)**	**-**	**24,416**	**20,714**
Pertaining to:										
Parent company's shareholders	12,162	9,153	11,983	11,485	(7)	(24)	(1)	-	24,137	20,614
Subsidiaries' minority shareholders	238	70	41	30	-	-	-	-	279	100
Consolidated net profit for the period	**12,400**	**9,223**	**12,024**	**11,515**	**(7)**	**(24)**	**(1)**	**-**	**24,416**	**20,714**
<u>Further information required by IFRS 8</u>										
Amortization, depreciation and write-downs	8,072	6,768	3,359	3,315	-	4	-	-	11,431	10,087
Other non-monetary costs	257	386	(60)	670	-	-	-	-	197	1,056

Financial position
(Amounts shown in €/000)

	Hydraulic		Water Jetting		Other		Elimination entries		**Interpump Group**	
	30 September 2016	31 December 2015	30 September 2016	31 December 2015	30 September 2016	31 December 2015	30 September 2016	31 December 2015	30 September 2016	31 December 2015
Assets of the sector (A)	**797,917**	**725,674**	**595,059**	**566,031**	**549**	**577**	**(179,971)**	**(157,339)**	**1,213,554**	**1,134,943**
Cash and cash equivalents									182,001	135,130
Total assets									**1,395,555**	**1,270,073**
Subtotal of liabilities of the sector (B)	**345,584**	**308,674**	**79,415**	**82,187**	**562**	**597**	**(179,971)**	**(157,339)**	**245,590**	**234,119**
Debts for the payment of investments									39,818	23,209
Payables to banks									3,083	5,735
Interest-bearing financial payables									465,244	384,382
Total liabilities									**753,735**	**647,445**
Total assets, net (A-B)	**452,333**	**417,000**	**515,644**	**483,844**	**(13)**	**(20)**	**-**	**-**	**967,964**	**900,824**
Further information required by IFRS 8										
Investments carried at equity	74	106	292	283					366	389
Non-current assets other than financial assets and deferred tax assets	459,528	415,225	254,383	254,565					713,911	669,790

The 9M and Q3 comparison of the Hydraulic Sector on a like-for-like basis is as follows:

Hydraulic Sector	**9M**		**Q3**	
(amounts shown in €/000)	2016	2015	2016	2015
Net sales external to the Group	429,781	430,020	132,342	132,170
Sales between sectors	201	155	65	39
Total net sales	**429,982**	**430,175**	**132,407**	**132,209**
Cost of products sold	(288,216)	(291,747)	(88,836)	(89,859)
Gross industrial margin	**141,766**	**138,428**	**43,571**	**42,350**
% on net sales	*33.0%*	*32.2%*	*32.9%*	*32.0%*
Other net revenues	6,407	7,047	2,116	2,058
Distribution costs	(34,574)	(35,930)	(10,763)	(11,109)
General and administrative expenses	(49,313)	(50,571)	(15,736)	(15,978)
Other operating costs	(1,895)	(2,019)	(981)	(593)
Ordinary profit before financial expenses	**62,391**	**56,955**	**18,207**	**16,728**
% on net sales	*14.5%*	*13.2%*	*13.7%*	*12.7%*
Financial income	4,171	39,155	937	1,015
Financial expenses	(6,893)	(9,161)	(1,946)	(3,288)
Adjustment of investments carried at equity	(28)	(187)	3	(62)
Profit for the period before taxes	**59,641**	**86,762**	**17,201**	**14,393**
Income taxes	(21,997)	(19,878)	(6,276)	(5,170)
Consolidated profit for the period	**37,644**	**66,884**	**10,925**	**9,223**
Pertaining to:				
Parent company's shareholders	37,228	66,598	10,687	9,153
Subsidiaries' minority shareholders	416	286	238	70
Consolidated net profit for the period	**37,644**	**66,884**	**10,925**	**9,223**

Cash flows by business sector for M9 are as follows:

€/000	Sector Hydraulic		Sector Water Jetting		Sector Other		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Cash flows from:								
Operating activities	63,058	41,419	26,570	37,655	2	(26)	89,630	79,048
Investing activities	(29,751)	(46,701)	(34,993)	(148,564)	1	4	(64,743)	(195,261)
Financing activities	(19,754)	8,749	44,945	122,213	-	170	25,191	131,132
Total	13,553	3,467	36,522	11,304	3	148	50,078	14,919

The investing activities of the Hydraulic Sector in 9M 2016 included €19,257k associated with the acquisition of equity investments (€33,972k in 9M 2015). The investing activities of the Water Jetting Sector in 9M 2016 included €27,502k associated with the acquisition of equity investments (€141,474k in 9M 2015).

Financing activities in 9M 2016 included intercompany loans from the Water Jetting Sector to the Hydraulic Sector totalling €11,850k (€35,001k in 9M 2015). Moreover, cash flows from the financing activities of the Water Jetting Sector in 9M 2016 included the purchase of treasury shares for 43,308 thousand euro (28,028 thousand euro in 9M 2015) and proceeds from the sale of treasury shares to the beneficiaries of stock options totalling 9,008 thousand euro (3,171 thousand euro in 9M 2015). The financing activities of the Water Jetting Sector during 9M 2016 included the value of the treasury shares assigned on the acquisition of equity investments totalling 5,516 thousand euro (60,542 thousand euro in 9M 2015). The cash flows deriving from the financing activities of the Water Jetting Sector included the payment of dividends totalling €20,150k (€19,396k in 9M 2015).

3. Acquisition of investments

Tekno Tubi and Mega Pacific were acquired in Q3. The purchase price allocations are analyzed below.

Tekno Tubi S.r.l.

€/000	Amounts acquired	Adjustments to fair value	Carrying values in the acquiring company
Cash and cash equivalents	161	-	161
Trade receivables	5,472	-	5,472
Inventories	2,182	-	2,182
Tax receivables	27	-	27
Other current assets	297	-	297
Property, plant and equipment	3,807	42	3,849
Other intangible assets	5	-	5
Deferred tax assets	101	-	101
Other non-current assets	17	-	17
Trade payables	(2,892)	-	(2,892)
Payables to banks	(2,468)	-	(2,468)
Interest-bearing financial payables (current portion)	(730)	-	(730)
Tax payables	(589)	-	(589)
Other current liabilities	(585)	-	(585)
Interest-bearing financial payables (medium-/long-term portion)	(1,869)	-	(1,869)
Liabilities for employee benefits (severance indemnity provision)	(700)	-	(700)
Deferred tax liabilities	(220)	(13)	(233)
Net assets acquired	2,016	29	2,045
Goodwill related to the acquisition			3,875
Total net assets acquired			**5,920**
Total amount paid in cash			3,601
Amount due in the short term			1,981
Amount due in the medium/long term			338
Total acquisition cost (A)			**5,920**
Net financial indebtedness (cash) (e) acquired (e) (B)			4,906
Total amount paid in cash			3,601
Debt discounted for extended payment of equity investments			2,319
Total change in the net financial position including changes in debt for the acquisition of investments			**10,826**
Capital employed (A) + (B)			**10,826**

The fair value of land, plant and machinery was appraised by an independent professional.

Mega Pacific PTY Ltd and Mega Pacific NZ Pty Ltd (pro forma consolidation)

Amounts are shown in thousands of euro (the exchange rates used for translation of the financial statements were AUD 1.4929 / euro and NZD 1.5616 / euro, corresponding to the exchange rates in force on the acquisition date).

€/000	Amounts acquired	Adjustments to fair value	Carrying values in the acquiring company
Cash and cash equivalents	487	-	487
Trade receivables	2,573	-	2,573
Inventories	3,729	-	3,729
Other current assets	208	-	208
Property, plant and equipment	578	-	578
Deferred tax assets	174	-	174
Other non-current assets	76	-	76
Trade payables	(1,683)	-	(1,683)
Payables to banks	(1)	-	(1)
Interest-bearing financial payables (current portion)	(191)	-	(191)
Tax payables	(343)	-	(343)
Other current liabilities	(304)	-	(304)
Interest-bearing financial payables (medium-/long-term portion)	(209)	-	(209)
Deferred tax liabilities	(6)	-	(6)
Other medium/long-term liabilities	(87)	-	(87)
Net assets acquired	5,001	-	5,001
Goodwill related to the acquisition			10,686
Total net assets acquired			**15,687**
Total amount paid in cash			8,191
Amount due in the short term			176
Total discounted amount due in the medium/long term			7,320
Total acquisition cost (A)			**15,687**
Net financial indebtedness (cash) (e) acquired (e) (B)			(86)
Total amount paid in cash			8,191
Debt discounted for extended payment of equity investments and exercise of option on residual shares			7,496
Total change in the net financial position including changes in debt for the acquisition of investments			**15,601**
Capital employed (A) + (B)			**15,601**

The half-year report at 30 June 2016 presented an analysis of the allocation of the purchase price paid on the acquisition of Endeavour and Tubiflex. This analysis is presented again below, as a result of changes made following the receipt of improved information subsequent to that date.

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

€/000	Amounts acquired	Adjustments to fair value	Carrying values in the acquiring company
Cash and cash equivalents	386	-	386
Trade receivables	294	-	294
Inventories	333	-	333
Tax receivables	13	-	13
Other current assets	37	-	37
Property, plant and equipment	15	-	15
Trade payables	(306)	-	(306)
Tax payables	(42)	-	(42)
Other current liabilities	(32)	-	(32)
Deferred tax liabilities	(3)	-	(3)
Net assets acquired	695	-	695
Goodwill related to the acquisition			772
Total net assets acquired			**1,467**
Total amount paid in cash			1,467
Total acquisition cost (A)			**1,467**
Net financial indebtedness (cash) (e) acquired (e) (**B**)			(386)
Total amount paid in cash			1,467
Total change in net financial position			**1,081**
Capital employed (A) + (B)			**1,081**

The acquisition of 100% of Endeavour took place on 22 January 2016. The company has accordingly been consolidated in 2016 for nine months.

Tubiflex S.p.A.

€/000	Amounts acquired	Adjustments to fair value	Carrying values in the acquiring company
Cash and cash equivalents	5,811	-	5,811
Trade receivables	7,221	-	7,221
Inventories	3,539	-	3,539
Tax receivables	193	-	193
Other current assets	279	-	279
Property, plant and equipment	2,182	2,236	4,418
Other intangible assets	59	-	59
Deferred tax assets	455	-	455
Other non-current assets	216	-	216
Trade payables	(3,038)	-	(3,038)
Interest-bearing financial payables (current portion)	(200)	-	(200)
Tax payables	(588)	-	(588)
Other current liabilities	(1,156)	-	(1,156)
Provisions for risks and charges (current portion)	(119)	-	(119)
Interest-bearing financial payables (non-current portion)	(567)	-	(567)
Employee benefits (severance indemnity provision)	(661)	-	(661)
Deferred tax liabilities	(9)	(645)	(654)
Provisions for risks and charges (non-current portion)	(354)	-	(354)
Net assets acquired	13,263	1,591	14,854
Goodwill related to the acquisition			21,500
Total net assets acquired			**36,354**
Amount paid in treasury stock			5,516
Total amount paid in cash			21,560
Amount due in the medium/long term			9,278
Total acquisition cost (A)			**36,354**
Net financial indebtedness (cash) (e) acquired (e) (**B**)			(5,044)
Total amount paid in cash			21,560
Payable for commitment to acquire minority interests			9,278
Total change in the net financial position including changes in debt for the acquisition of investments			**25,794**
Capital employed (A) + (B)			**31,310**

The fair value of plant and machinery was appraised by an independent professional.

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

4. Inventories and breakdown of changes in the allowance for inventories

	30/09/2016	*31/12/2015*
	€/000	€/000
Inventories gross value	288,497	265,791
Allowance for inventories	(28,307)	(27,154)
Inventories	260,190	238,637

Changes in the allowance for inventories were as follows:

	9M 2016	*Year 2015*
	€/000	€/000
Opening balances	27,154	17,936
Exchange rate difference	(167)	655
Change in scope of consolidation	1,373	8,601
Provisions for the period	1,295	2,525
Utilized in the period due to surpluses	-	-
Utilized in the period due to losses	(1,348)	(2,563)
Closing balance	28,307	27,154

5. Property, plant and equipment

Purchases and disposals

In 9M 2016 Interpump Group acquired assets for €43,243k, of which €8,869k via the acquisition of equity investments (€98,207k in 9M 2015, of which €73,486k via the acquisition of equity investments). Assets with a net book value of €4,228k were divested in 9M 2016 (€3,795k in 9M 2015). A net capital gain was realized on the divested assets of €1,604k (€2,104k in 9M 2015).

Contractual commitments

At 30 September 2016 the Group had contractual commitments for the purchase of tangible fixed assets totalling €3,135k (€2,670k at 30 September 2015).

6. Shareholders' equity

Share capital

The share capital is composed of 108,879,294 ordinary shares with a nominal value of 0.52 euro each, for a total amount of €56,617,232.88. The share capital reported in the financial statements amounts to 55,380 thousand euro, because the nominal value of purchased treasury shares, net of those sold, has been deducted from share capital in compliance with the applicable accounting standards. At 30 September 2016 Interpump S.p.A. held 2,380,752 treasury shares in the portfolio, corresponding to 2.1866% of capital acquired at an average unit cost of 12.4967 euro.

Treasury shares purchased

The amount corresponding to the treasury shares held by Interpump Group S.p.A. is recorded in an equity reserve. In 9M 2016 the Group acquired 3,407,000 treasury shares for €43,308k (2,162,729 treasury shares purchased in 9M 2015 for €28,028k).

Treasury shares sold
In the context of the stock option plans, a total of 1,703,000 options were exercised during the period, resulting in the receipt of €9,008k (a total of 534,533 options were exercised in 9M 2015, with the collection of €3,171k). Moreover, 449,160 treasury shares were divested during 9M 2016 as partial payment for equity investments (4,901,685 treasury shares divested in 9M 2015).

Assigned options
The Shareholders' Meeting held on 28 April 2016 approved the adoption of a new incentive plan named “2016/2018 Interpump Incentive Plan”. The plan consists in the free assignment of options that grant the beneficiaries the right, upon achievement of specified objectives, to (i) purchase or subscribe for the Company’s shares up to a maximum number of 2,500,000 or, (ii) at the discretion of the Board of Directors, receive the payment of a differential equivalent to any increase in the market value of the Company’s ordinary shares. Beneficiaries of the plan can be employees or directors of the Company and/or its subsidiaries, identified among the subjects with significant roles or functions. The exercise price has been set at € 12.8845 per share. The options can be exercised between 30 June 2019 and 31 December 2022. The Board of Directors, at its following meeting held on 12 May 2016, set a figure of 2,500,000 for the number of options to be assigned, divided the total number of options among the different tranches (625,000 for the first tranche, 875,000 for the second tranche and 1,000,000 for the third tranche) and established the terms for the exercise of the options, which are connected to the achievement of specific accounting parameters and the performance of the Interpump Group stock. The Board, during the same meeting, also assigned 1,620,000 options, exercisable subject to the conditions described above, and granted mandates to the Chairman and the Deputy Chairman of Interpump Group, acting separately, to identify the beneficiaries of a further 880,000 options.
On 6 and 29 July 2016 a total of 513,800 options were assigned to other beneficiaries identified within the Interpump Group.

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

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

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

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

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

Dividends

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

7. Financial income and expenses

A breakdown of the first nine months is shown below:

	2016 €/000	2015 €/000
Financial income		
Interest income from liquid funds	280	367
Interest income from other assets	43	74
Financial income due to lower payments compared to the estimate of the debt for the purchase of residual stakes in subsidiaries	-	32,056
Foreign exchange gains	4,737	8,088
Earnings from valuation of derivative financial instruments	70	181
Other financial income	27	13
Total financial income	5,157	40,779
Financial expenses		
Interest expense on loans	3,162	4,533
Interest expense on put options	441	460
Financial expenses for adjustment of estimated debt for commitment to purchase residual stakes in subsidiaries	784	86
Tobin Tax	107	268
Foreign exchange losses	5,428	6,830
Losses from valuation of derivative financial instruments	26	77
Other financial charges	112	177
Total financial expenses	10,060	12,431
Total financial expenses (income), net	4,903	(28,348)

The breakdown for Q3 is as follows:

	2016 €/000	2015 €/000
Financial income		
Interest income from liquid funds	98	102
Interest income from other assets	20	33
Financial income due to lower payments compared to the estimate of the debt for the purchase of residual stakes in subsidiaries	-	97
Foreign exchange gains	1,065	962
Earnings from valuation of derivative financial instruments	5	22
Other financial income	2	3
Total financial income	1,190	1,219
Financial expenses		
Interest expense on loans	946	1,388
Interest expense on put options	145	208
Foreign exchange losses	1,460	2,832
Losses from valuation of derivative financial instruments	5	-
Other financial charges	14	43
Total financial expenses	2,570	4,471
Total financial expenses (income), net	1,380	3,252

For a comment on the financial income deriving from adjustment of the estimated liability for the purchase of residual stakes in subsidiaries, please refer to the "Directors' remarks on performance in 9M 2016" on page 17.

8. Earnings per share

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

9M	2016	2015
Consolidated net profit for the period attributable to Parent company shareholders (€/000)	73,005	100,964
Average number of shares in circulation	106,086,476	106,915,164
Basic earnings per share for the period (€)	0.688	0.944

Q3		
Consolidated net profit for the period attributable to Parent company shareholders (€/000)	24,137	20,614
Average number of shares in circulation	106,350,419	107,301,562
Basic earnings per share for the quarter (€)	0.227	0.192

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

9M	2016	2015
Consolidated net profit for the period attributable to Parent company shareholders (€/000)	73,005	100,964
Average number of shares in circulation	106,086,476	106,915,164
Number of potential shares for stock option plans (*)	464,126	2,352,442
Average number of shares (diluted)	106,550,602	109,267,606
Diluted earnings per share for the period (€)	0.685	0.924

Q3		
Consolidated net profit for the period attributable to Parent company shareholders (€/000)	24,137	20,614
Average number of shares in circulation	106,350,419	107,301,562
Number of potential shares for stock option plans (*)	661,710	2,412,717
Average number of shares (diluted)	107,012,129	109,714,278
Diluted earnings per share for the quarter (€)	0.226	0.188

(*) calculated as the number of shares corresponding to in-the-money stock option outstanding multiplied by the ratio between: the difference between the average value of the share in the period and the exercise price (as the numerator), and the average value of the share in the period (as the denominator).

9. Transactions with related parties

The Group has established business relationships with unconsolidated subsidiaries, associates and other related parties on arm's-length conditions considered to be normal in the relevant reference markets, taking into account 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, do not appear in the interim consolidated financial statements and are not detailed in these notes.

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

	9M 2016					
(€/000)	Consolidated Total	Non-consolidated subsidiaries	Associates	Other related parties	Total related parties	% incidence on line item
Net sales	693,022	892	-	880	1,772	0.3%
Cost of products sold	438,209	434	-	8,495	8,929	2.0%
Other revenues	10,554	44	-	16	60	0.6%
Distribution costs	63,408	44	-	460	504	0.8%
G&A expenses	80,662	-	-	25	725	0.9%

	9M 2015					
(€/000)	Consolidated Total	Non-consolidated subsidiaries	Associates	Other related parties	Total related parties	% incidence on line item
Net sales	681,878	1,263	-	1,317	2,580	0.4%
Cost of products sold	436,265	385	-	14,018	14,403	3.3%
Other revenues	9,514	3	-	-	3	0.0%
Distribution costs	62,745	29	-	1,018	1,047	1.7%
G&A expenses	79,314	-	-	670	670	0.8%
Financial income	40,779	5	-	-	5	0.0%
Financial expenses	12,431	-	-	2	2	0.0%

The effects on the consolidated balance sheet at 30 September 2016 and 2015 are described below:

	30 September 2016					
(€/000)	Consolidated Total	Non-consolidated subsidiaries	Associates	Other related parties	Total related parties	% incidence on line item
Trade receivables	195,100	1,097	-	434	1,531	0.8%
Trade payables	98,901	54	-	361	415	0.4%

	30 September 2015					
(€/000)	Consolidated Total	Non-consolidated subsidiaries	Associates	Other related parties	Total related parties	% incidence on line item
Trade receivables	182,188	1,486	-	448	1,934	1.1%
Other current assets	9,476	1	-	-	1	0.0%
Other financial assets	1,070	217	-	-	217	20.3%
Trade payables	94,118	46	-	1,981	2,027	2.2%
Interest-bearing financial payables (current portion)	98,704	-	-	161	161	0.2%

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

(€/000)	Receivables		Revenues	
	30/09/2016	30/09/2015	2016	2015
Interpump Hydraulics (UK)*	-	931	-	512
Interpump Hydraulics Perù	881	436	521	439
General Pump China Inc.	216	120	415	315
Total subsidiaries	*1,097*	*1,487*	*936*	*1,266*

(€/000)	Payables		Costs	
	30/09/2016	30/09/2015	2016	2015
General Pump China Inc.	54	46	478	414
Total subsidiaries	*54*	*46*	*478*	*414*

* = fully consolidated at 30 September 2016

Relations with associates
The Group does not hold investments in associated companies.

Transactions with other related parties
Transactions with other related parties regard the leasing of facilities owned by companies controlled by current shareholders and directors of Group companies for the amount of €3,103k (€3,918k in 9M 2015) and consultancy services provided by entities connected with directors and statutory auditors of the Parent company for €69k (€118k in 9M 2015). The reduction in rentals with respect to the prior period was due to the elimination of certain related parties on the purchase of 15% of HTIL, as well as to the resignation of certain persons as directors of subsidiaries. Costs for rentals were recorded under the cost of sales in the amount of €2,319k (€2,921k in 9M 2015), under distribution costs in the amount of €238k (€666k in 9M 2015) and under general and administrative expenses in the amount of €546k (€331k in 9M 2015). Consultancy costs were allocated to distribution costs in the amount of €45k (€45k also in 9M 2015) and to general and administrative expenses in the amount of €24k (€73k in 9M 2015). Revenues from sales at 30 September 2016 included revenues from sales to companies owned by Group shareholders or directors in the amount of €880k (€1,317k at 30 September 2015). In addition, the cost of sales includes purchases from companies controlled by minority shareholders or Group company directors in the amount of €5,886k (€10,846 in 9M 2015).

Moreover, further to the signing of building rental contracts with other related parties, at 30 September 2016 the Group has commitments of €16,934k (€20,278k at 30 September 2015).

10. Disputes, contingent liabilities and contingent assets

The Parent company and some of its subsidiaries are directly involved in lawsuits for limited amounts. The settlement of said lawsuits is not expected to generate any significant liabilities for the Group that are not covered by the risk provisions already made. There were no substantial changes with respect to the situation of disputes or potential liabilities existing as at 31 December 2015.