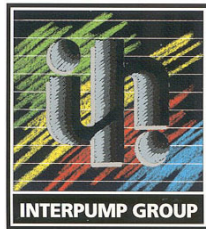


Interim Board of Directors' Report Q3 2017



Interpump Group S.p.A. and subsidiaries

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This document can be accessed on the Internet at:

www.interpumpgroup.it

Interpump Group S.p.A.

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

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

Reggio Emilia Companies Register - Tax Code 11666900151

Board of Directors

Fulvio Montipò
Chairman and Chief Executive Officer

Paolo Marinsek
Deputy Chairman

Angelo Busani (a)
Independent Director

Antonia Di Bella
Independent Director

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

Marcello Margotto (b)
Independent Director

Stefania Petruccioli (a), (c)
Independent Director

Paola Tagliavini (a), (c)
Independent Director

Giovanni Tamburi (b)
Non-executive Director

Board of Statutory Auditors

Fabrizio Fagnola
Chairman

Federica Menichetti
Statutory auditor

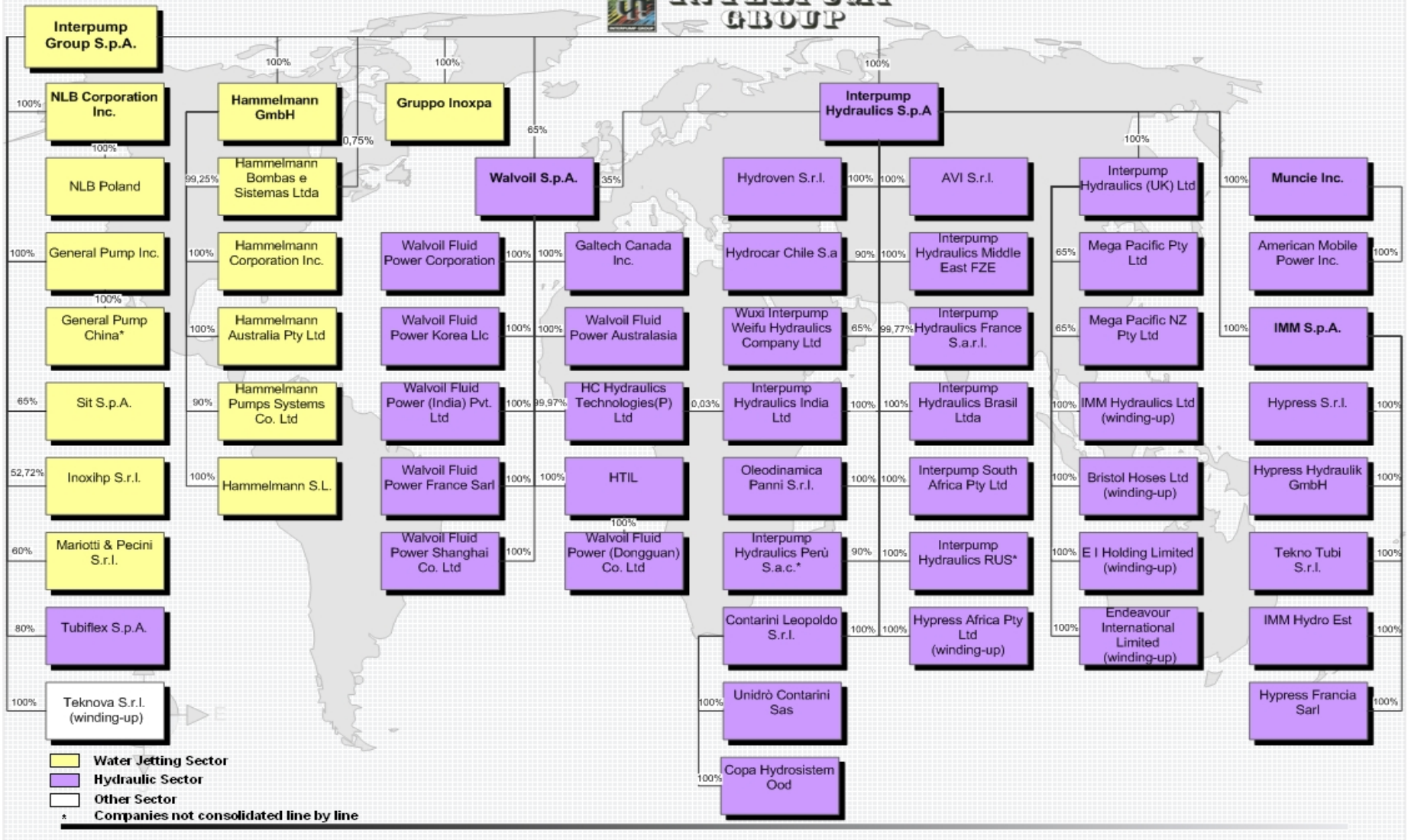
Alessandra Tronconi
Statutory auditor

Independent Auditors

EY S.p.A.

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

Organizational chart as at 30/09/2017



Interim Board of Directors' Report

**Directors' remarks on performance
in 9M 2017**

PERFORMANCE INDICATORS

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

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

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

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

The cash flow statement was prepared using the indirect method.

9M consolidated income statement

(€000)	<i>2017</i>	<i>2016</i>
Net sales	818,699	693,022
Cost of sales	(505,119)	(438,209)
Gross industrial margin	313,580	254,813
<i>% on net sales</i>	<i>38.3%</i>	<i>36.8%</i>
Other operating revenues	11,818	10,554
Distribution costs	(76,105)	(63,408)
General and administrative expenses	(92,247)	(80,662)
Other operating costs	(2,203)	(2,256)
EBIT	154,843	119,041
<i>% on net sales</i>	<i>18.9%</i>	<i>17.2%</i>
Financial income	10,819	5,157
Financial expenses	(17,315)	(10,060)
Equity method contribution	(186)	4
Profit for the period before taxes	148,161	114,142
Income taxes	(49,026)	(40,591)
Consolidated net profit for the period	99,135	73,551
<i>% on net sales</i>	<i>12.1%</i>	<i>10.6%</i>
Pertaining to:		
Parent company's shareholders	98,170	73,005
Subsidiaries' minority shareholders	965	546
Consolidated net profit for the period	99,135	73,551
 EBITDA	 191,898	 151,598
<i>% on net sales</i>	<i>23.4%</i>	<i>21.9%</i>
Shareholders' equity	731,997	641,820
Net debt	287,937	286,326
Payables for the acquisition of investments	51,797	39,818
Capital employed	1,071,731	967,964
Unannualized ROCE	14.4%	12.3%
Unannualized ROE	13.5%	11.5%
Basic earnings per share	0.919	0.688

EVENTS OCCURRING IN THE FIRST NINE MONTHS

Sales reached 818.7 million euro, up by 18.1% compared to 9M 2016 (+8.9% like for like). A breakdown by business sector shows a 16.6% sales increase in the Hydraulic Sector (+12.2% like for like) compared to the figure for 9M 2016; Water Jetting Sector sales were up in the same period by 20.8% (+2.9% like for like).

In geographical terms, growth in Europe including Italy was 24.7%, 5.6% in North America, 27.1% in the Far East and Oceania, and 15.1% in the Rest of the World. The geographical breakdown shows like for like growth of 11.0% in Europe, including Italy, 4.9% in North America, 15.3% in the Far East and Oceania and 4.2% in the Rest of the World.

EBITDA reached 191.9 million euro, equivalent to 23.4% of sales. In 9M 2016 EBITDA amounted to 151.6 million euro (21.9% of sales). EBITDA was therefore 26.6% higher, corresponding to a 1.5 percentage point improvement in terms of incidence on sales. On a like for like basis, EBITDA grew by 16.3%.

Net profit in 9M 2017 was 99.1 million euro (73.6 million euro in 9M 2016), up by 34.8%.

The Inoxpa Group (Water Jetting Sector), a world-famous brand in the manufacture and sale of process equipment and systems for fluid treatment in the food, cosmetics and pharmaceutical industry, was acquired on 3 February 2017 and hence was consolidated for the first time for eight months in 9M 2017. This acquisition significantly expands and supplements the products of the Water Jetting division, which will now be able to supply a vast range of pumps, valves, mixers, process plant and accessories alongside Bertoli homogenizers. All products are made from stainless steel, meeting the rigorous requirements demanded by the food industry. Inoxpa is based near Girona (north of Barcelona) in Spain. More than 75% of sales are generated by 21 branches in 16 countries, which will further strengthen the already solid international presence of the Interpump Group. In 2016 the Inoxpa Group recorded sales of around €60m. The agreed price was €90m, corresponding to an enterprise value of €76.2m and net cash of around €13.8m.

The range of products in the food, cosmetics and pharmaceutical industry was further expanded and supplemented by the acquisition of Mariotti & Pecini S.r.l. on 12 June 2017. This company, based in the province of Florence, is a leader in the design and production of mixers and agitators used in the chemical, pharmaceutical, cosmetics and food processing industries, and for environmental technologies. The synergies with the Inoxpa group, in particular, will expand opportunities for the sale of Mariotti & Pecini products in numerous foreign markets. The components developed by Mariotti & Pecini are also suitable for special applications with constraints imposed by pressure, temperature or hazardous liquids; in addition, employment of the Magna-Safe® magnetic drive technology means that these products can be used in production processes that require the fluids processed to be completely isolated from the external environment. Mariotti & Pecini reported net sales for 2016 of 8.1 million euro, with an EBITDA of 2.7 million euro (33% of sales). The price paid for 60% of the company was 5.3 million euro plus 150,000 treasury shares in Interpump Group S.p.A. On the closing date for the transaction, the net financial position of the company was 2.8 million euro. The entrepreneur-founders retain their roles in the company; mutual put & call options have been agreed with them for acquisition of the residual 40% interest from 2020.

Also, in January 2017, acting through the UK branch of the IMM Group, Interpump acquired 100% of Bristol Hose Ltd, specialised in sales and services in the hydraulic lines and fittings sector and based in Bristol. Bristol Hose operates with 2 sales warehouses and 9 mobile workshops for on-site assistance and repairs. The mobile units operate around the clock and can

typically reach customers' premises within sixty minutes from the call-out time. In 2016, Bristol Hose generated sales of around GBP 2.25m (approximately €2.6m). The price paid for the business was GBP 650k, with net financial debt of GBP 418k.

In addition, compared with 9M 2016, Teknotubi S.r.l. and Mega Pacific have been consolidated for the entire period in 2017 while, having been acquired in July 2016, they were only consolidated for three months in the financial statements at 30/09/2016. In addition, Tubiflex has been consolidated for all nine months of 2017, while it was only consolidated for 5 months last year, having been purchased in May 2016.

NET SALES

Net sales for 9M 2017 totalled €18.7m, up by 18.1% with respect to the same period in 2016, when the figure stood at €93.0m (8.9% like for like).

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

(€000)	<u>Italy</u>	<u>Rest of Europe</u>	<u>North America</u>	<u>Far East and Oceania</u>	<u>Rest of the World</u>	<u>Total</u>
<i>9M 2017</i>						
Hydraulic Sector	114,935	180,219	125,163	48,400	51,761	520,478
Water Jetting Sector	<u>28,459</u>	<u>104,567</u>	<u>100,193</u>	<u>39,891</u>	<u>25,111</u>	<u>298,221</u>
Total	<u>143,394</u>	<u>284,786</u>	<u>225,356</u>	<u>88,291</u>	<u>76,872</u>	<u>818,699</u>
<i>9M 2016</i>						
Hydraulic Sector	91,132	161,044	110,125	31,988	51,955	446,244
Water Jetting Sector	<u>22,459</u>	<u>68,721</u>	<u>103,292</u>	<u>37,499</u>	<u>14,807</u>	<u>246,778</u>
Total	<u>113,591</u>	<u>229,765</u>	<u>213,417</u>	<u>69,487</u>	<u>66,762</u>	<u>693,022</u>
2017/2016 percentage changes						
Hydraulic Sector	+26.1%	+11.9%	+13.7%	+51.3%	-0.4%	+16.6%
Water Jetting Sector	+26.7%	+52.2%	-3.0%	+6.4%	+69.6%	+20.8%
Total	+26.2%	+23.9%	+5.6%	+27.1%	+15.1%	+18.1%
2017/2016 like for like changes (%)						
Hydraulic Sector	+14.6%	+9.4%	+13.5%	+34.8%	-0.4%	+12.2%
Water Jetting Sector	+6.7%	+11.1%	-4.3%	-1.3%	+20.5%	+2.9%
Total	+13.0%	+9.9%	+4.9%	+15.3%	+4.2%	+8.9%

PROFITABILITY

The cost of sales accounted for 61.7% of turnover (63.2% in 9M 2016), representing an improvement of 1.5 percentage points. Production costs, which totalled €10.5m (€18.2m in 9M 2016, which however did not include the costs of the Inoxpa Group and Bristol Hose for nine months, Teknotubi and Mega Pacific for six months, Mariotti & Pecini for four months and Tubiflex for 5 months), accounted for 25.7% of sales (26.3% in the equivalent period of 2016). The purchase cost of raw materials and components sourced on the market, including changes in inventories, was €94.7m (€55.6m in the equivalent period of 2016, which however did not include the costs of the Inoxpa Group and Bristol Hose for nine months, Teknotubi and Mega Pacific for six months, Mariotti & Pecini for four months and Tubiflex for 5 months). The percent incidence of purchase costs including changes in inventories was 36.0% versus the 36.9% of 9M 2016, showing an improvement of 0.9 percentage points. On a like for like basis, the incidence of cost of sales on sales fell by 0.8 percentage points.

Also on a like for like basis, distribution costs rose by 5.0% with respect to the first nine months of 2016, but the associated incidence on sales fell by 0.3 percentage points.

General and administrative expenses rose by 2.5% like for like with respect to 9M 2016, but their incidence on sales was 0.6 percentage points lower.

Total payroll costs were €93.5m (€72.1m in 9M 2016, which however did not include the payroll costs of the Inoxpa Group and Bristol Hose for nine months, Teknotubi and Mega

Pacific for six months, Mariotti & Pecini for four months and Tubiflex for 5 months). Like for like payroll costs rose by 3.5% due to a 0.8% per capita cost increase and an increase of 136 in the average headcount. The total average headcount of Group employees in 9M 2017 was 5,696 (5,117 like for like) compared to the figure of 4,981 in the equivalent period of 2016. The like-for-like increase in average headcount during 9M 2017 mainly occurred in Europe.

EBITDA amounted to 191.9 million euro (23.4% of sales), compared with 151.6 million euro in 9M 2016 (21.9% of sales). This represents growth of 26.6% and an improvement in profitability of 1.5 percentage points. Like for like EBITDA rose by 16.3%, also with an increase of 1.5 percentage points. The following table shows EBITDA by business sector:

	<i>9M 2017</i>	<i>% on</i>	<i>9M 2016</i>	<i>% on</i>	<i>Increase/</i>
	<i>€/000</i>	<i>total</i>	<i>€/000</i>	<i>total</i>	<i>Decrease</i>
		<i>sales*</i>		<i>sales*</i>	
Hydraulic Sector	112,438	21.6%	87,901	19.7%	+27.9%
Water Jetting Sector	79,464	26.5%	63,714	25.7%	+24.7%
Other Revenues Sector	(4)	n.s.	(17)	n.s.	n.s.
Total	<u>191,898</u>	23.4%	<u>151,598</u>	21.9%	+26.6%

* = Total sales include sales to other Group companies, while the sales analysed previously are exclusively those external to the Group (see Note 2 in the explanatory notes). For comparability, the percentage is calculated on total sales, rather than the net sales shown earlier.

The marked increase in profitability reflects the rationalisation work carried out in the current and prior years.

EBIT stood at €154.8m (18.9% of sales) compared with €119m in 9M 2016 (17.2% of sales), reflecting an increase of 30.1%.

The tax rate for the period was 33.1% (35.6% in 9M 2016). The decrease versus 9M 2016 is mainly due to the reduction of the corporate income tax (IRES) rate in Italy from 27.5% to 24%.

Net profit in 9M 2017 was 99.1 million euro (73.6 million euro in 9M 2016), up by 34.8%. Basic earnings per share rose from EUR 0.688 in 9M 2016 to EUR 0.919 in 9M 2017, reflecting growth of 33.6%.

Capital employed increased from €777.6m at 31 December 2016 to €1,071.7m at 30 September 2017, essentially due to the new acquisitions. Unannualized ROCE was 14.4% (12.3% in the first nine months of 2016). Unannualized ROE was 13.5% (11.5% in 9M 2016).

CASH FLOW

The change in net financial indebtedness breaks down as follows:

	9M 2017 €/000	9M 2016 €/000
Opening net financial position	(257,263)	(254,987)
Adjustment: opening net cash position of companies not consolidated line by line at the end of the prior period ^(a)	-	160
Adjusted opening net financial position	(257,263)	(254,827)
Cash flow from operations	143,590	112,829
Cash flow generated (absorbed) by the management of commercial working capital	(40,227)	(19,074)
Cash flow generated (absorbed) by other current assets and liabilities	1,436	(4,125)
Investment in tangible fixed assets	(29,623)	(25,733)
Proceeds from the sale of tangible fixed assets	516	460
Investment in other intangible fixed assets	(2,312)	(2,029)
Received financial income	336	310
Other	<u>(306)</u>	<u>209</u>
Free cash flow	73,410	62,847
Acquisition of investments, including received debt and net of treasury shares assigned	(84,141)	(39,008)
Proceeds from the sale of lines of business	-	746
Dividends paid	(21,783)	(21,153)
Outlays for the purchase of treasury shares	-	(43,308)
Receipts from the disposal of assets held for sale	2,714	-
Proceeds from the sale of treasury shares to beneficiaries of stock options	2,835	9,008
Change in other financial assets	<u>70</u>	<u>6</u>
Net cash generated (used)	(26,895)	(30,862)
Exchange differences	<u>(3,779)</u>	<u>(637)</u>
Net financial position at period end	<u>(287,937)</u>	<u>(286,326)</u>

^(a) = 2016: Interpump Hydraulics (UK).

Net liquidity generated by operations totalled €143.6m (€12.8m in 9M 2016), reflecting an increase of 27.3%. Free cash flow was €73.4m (€62.8m in 9M 2016), up 16.8%.

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

	30/09/2017 €000	31/12/2016 €000	30/09/2016 €000	01/01/2016 €000
Cash and cash equivalents	153,478	197,891	182,001	135,130
Bank payables (advances and STC amounts)	(7,354)	(2,396)	(3,083)	(5,735)
Interest-bearing financial payables (current portion)	(147,505)	(124,784)	(110,357)	(83,833)
Interest-bearing financial payables (non-current portion)	<u>(286,556)</u>	<u>(327,974)</u>	<u>(354,887)</u>	<u>(300,549)</u>
Total	<u>(287,937)</u>	<u>(257,263)</u>	<u>(286,326)</u>	<u>(254,987)</u>

The Group also has contractual commitments for the acquisition of residual interests in subsidiaries totalling €51.8m (€42.8m at 31 December 2016 and €39.8m at 30 September 2016). Of this amount, 8.4 million euro relates to the acquisition of equity investments (6.5 million

euro at 31 December 2016), while 43.4 million euro relates to contractual agreements for the acquisition of residual interests in subsidiaries (36.3 million euro at 31 December 2016).

CAPITAL EXPENDITURE

Expenditure on property, plant and equipment totalled €55.2m, of which €20.1m through the acquisition of equity investments (€43.2m in 9M 2016, of which €8.8m through the acquisition of equity investments). Certain companies in the Water Jetting Sector classify machinery manufactured and rented to customers as part of property, plant and equipment (€4.6m at 30 September 2017 and €8.5m at 30 September 2016). Net of these latter amounts, capital expenditure in the strictest sense stood at €30.0m in 9M 2017 (€25.9m in 9M 2016) and mainly refers to the normal renewal and modernisation of plant, machinery and equipment, with the exception of €2.5m in 2017 (€1.4m in 2016) related to the construction of new production facilities or their expansion. The difference with respect to the expenditure recorded in the cash flow statement is due to the timing of payments.

The increases in intangible assets totaled €15.0m, of which €2.6m from the acquisition of equity investments (€2.1m in 9M 2016) and refer mainly to allocation of the excess cost of purchasing Inoxpa to the trademark (€1.9m) and to investment for the development of new products.

INTERCOMPANY AND RELATED PARTY TRANSACTIONS

With regard to transactions entered into with related parties, including intercompany transactions, these cannot be defined as either atypical or unusual, as they are part of the normal course of activities of the Group companies. These transactions are regulated at arm's length conditions, taking into account the characteristics of the assets transferred and services rendered. Information on transactions carried out with related parties is given in Note 9 of the Interim Consolidated Financial statements at 30 September 2017.

CHANGES IN GROUP STRUCTURE IN 9M 2017

In addition to the acquisition of the Inoxpa Group, Mariotti & Pecini and Bristol Hose, as described at the start of this report, the other operations that altered the Group's corporate structure were the absorption in the US of Hydrocontrol Inc. by Walvoil Fluid Power Corp., the absorption of Dyna Flux S.r.l. by IMM Hydraulics S.p.A., the absorption in the UK of IMM Hydraulics UK, E.I. Holdings Ltd, Endeavour Ltd and Bristol Hose Ltd by Interpump Hydraulics UK Ltd. and, lastly, the absorption in Spain of Inoxpa Grup S.L.U. and Suali S.L.U. by Inoxpa S.A..

Rationalisation of the Group structure following the recent acquisitions is proceeding in China, India, France, Portugal and Russia.

EVENTS OCCURRING AFTER THE END OF 9M 2017

Work continued during 9M 2017 on the rationalization of Group companies, as described above.

In addition, the entire equity interest in Fluid System 80 S.r.l., a company active in the design and production of hydraulic systems and power packs, was acquired on 3 October 2017. This strengthens the presence of Interpump in the hydraulic power pack sector, where the group has been present since 2001 with the Hydroven brand. Fluid System solutions are used in heavy

engineering, steel mills, plant for the cold processing of metals and non-ferrous materials, and construction equipment. Significant commercial synergies are therefore expected with other Group companies in the Hydraulic and Water Jetting Sectors that produce components for these applications. Sales in 2017 are expected to total about €6 million. The business was acquired for €0.9m.

No atypical or unusual transactions have been carried out subsequent to 30 September 2017 that would call for changes to the consolidated financial statements at that date.

**Directors' remarks on performance
Q3 2017**

Q3 consolidated income statement

(€000)	<u>2017</u>	<u>2016</u>
Net sales	259,948	220,554
Cost of sales	(161,277)	(138,037)
Gross industrial margin	98,671	82,517
<i>% on net sales</i>	<i>38.0%</i>	<i>37.4%</i>
Other operating revenues	3,705	3,320
Distribution costs	(23,547)	(20,423)
General and administrative expenses	(29,148)	(26,291)
Other operating costs	(831)	(1,058)
EBIT	48,850	38,065
<i>% on net sales</i>	<i>18.8%</i>	<i>17.3%</i>
Financial income	4,533	1,190
Financial expenses	(5,664)	(2,570)
Equity method contribution	(221)	43
Profit for the period before taxes	47,498	36,728
Income taxes	(14,623)	(12,312)
Consolidated net profit for the period	32,875	24,416
<i>% on net sales</i>	<i>12.6%</i>	<i>11.1%</i>
Pertaining to:		
Parent company's shareholders	32,546	24,137
Subsidiaries' minority shareholders	329	279
Consolidated net profit for the period	32,875	24,416
EBITDA	61,135	49,262
<i>% on net sales</i>	<i>23.5%</i>	<i>22.3%</i>
Shareholders' equity	731,997	641,820
Net debt	287,937	286,326
Payables for the acquisition of investments	51,797	39,818
Capital employed	1,071,731	967,964
Unannualized ROCE	4.6%	3.9%
Unannualized ROE	4.5%	3.8%
Basic earnings per share	0.304	0.227

The scope of consolidation in Q3 2017 includes the Inoxpa Group, Bristol Hose and Mariotti & Pecini, which were not present in Q3 2016.

NET SALES

Net sales for Q3 2017 totalled €259.9m, up by 17.9% with respect to Q3 2016, when the figure stood at €220.6m (+10.6% like for like).

Net sales in Q3 are shown in the following breakdown by business sector and geographical area:

(€000)	<u>Italy</u>	<u>Rest of Europe</u>	<u>North America</u>	<u>Far East and Oceania</u>	<u>Rest of the World</u>	<u>Total</u>
<i>Q3 2017</i>						
Hydraulic Sector	35,845	56,590	39,449	16,357	16,393	164,634
Water Jetting Sector	<u>11,111</u>	<u>33,822</u>	<u>28,705</u>	<u>14,442</u>	<u>7,234</u>	<u>95,314</u>
Total	<u>46,956</u>	<u>90,412</u>	<u>68,154</u>	<u>30,799</u>	<u>23,627</u>	<u>259,948</u>
<i>Q3 2016</i>						
Hydraulic Sector	29,688	47,605	36,845	13,277	16,674	144,089
Water Jetting Sector	<u>5,738</u>	<u>21,071</u>	<u>31,624</u>	<u>12,760</u>	<u>5,272</u>	<u>76,465</u>
Total	<u>35,426</u>	<u>68,676</u>	<u>68,469</u>	<u>26,037</u>	<u>21,946</u>	<u>220,554</u>
2017/2016 percentage changes						
Hydraulic Sector	+20.7%	+18.9%	+7.1%	+23.2%	-1.7%	+14.3%
Water Jetting Sector	+93.6%	+60.5%	-9.2%	+13.2%	+37.2%	+24.7%
Total	+32.5%	+31.7%	-0.5%	+18.3%	+7.7%	+17.9%
2017/2016 like for like changes (%)						
Hydraulic Sector	+20.7%	+18.9%	+7.1%	+23.2%	-1.7%	+14.3%
Water Jetting Sector	+29.2%	+18.5%	-10.4%	+7.9%	-9.7%	+3.7%
Total	+22.1%	+18.8%	-1.0%	+15.7%	-3.6%	+10.6%

As shown in the table, the growth of the Hydraulic Sector on a like for like basis was the same in percentage terms as that reflected in the full consolidation, since the contribution made by Bristol Hose during the quarter was not significant.

PROFITABILITY

The cost of sales accounted for 62.0% of turnover (62.6% in Q3 2016), representing an improvement of 0.6 percentage points. Production costs, which totalled €66.7 million (€58.3 million in Q3 2016, which however did not include the production costs of the Inoxpa Group, Bristol Hose and Mariotti & Pecini), accounted for 25.6% of sales (26.4% in the equivalent period of 2016) following an improvement of 0.8 percentage points. The purchase cost of raw materials and components sourced on the market, including changes in inventories, was €4.6m (€79.8m in the equivalent period of 2016, which however did not include the purchasing costs of the Inoxpa Group, Bristol Hose and Mariotti & Pecini). The incidence of purchase costs, including changes in inventories, was 36.4% with respect to 36.2% in the third quarter of 2016.

On a like for like basis distribution costs rose by 4.0% with respect to Q3 2016, while the associated incidence on sales fell by 0.6 percentage points.

Again on a like for like basis, general and administrative expenses rose by 1.2% with respect to the third quarter of 2016, although their incidence on sales fell by 1 percentage point.

EBITDA amounted to 61.1 million euro (23.5% of sales), compared with 49.3 million euro in Q3 2016 (22.3% of sales). This represents growth of 24.1% and an improvement in profitability of 1.2 percentage points. On a like for like basis, EBITDA grew by 15.4%.

The following table shows EBITDA by business sector:

	<i>Q3 2017</i>	<i>% on</i>	<i>Q3 2016</i>	<i>% on</i>	<i>Increase/</i>
	<i>€/000</i>	<i>total</i>	<i>€/000</i>	<i>total</i>	<i>Decrease</i>
		<i>sales*</i>		<i>sales*</i>	
Hydraulic Sector	36,085	21.9%	28,437	19.7%	+26.9%
Water Jetting Sector	25,051	26.2%	20,832	27.2%	+20.3%
Other Revenues Sector	(1)	n.s.	(7)	n.s.	n.s.
Total	<u>61,135</u>	23.5%	<u>49,262</u>	22.3%	+24.1%

* = Total sales include those to other Group companies, while the sales analysed previously are exclusively those external to the Group (see Note 2 in the explanatory notes). For comparability, the percentage is calculated on total sales, rather than the net sales shown earlier.

EBIT stood at €48.9m (18.8% of sales) compared with €38.1m in Q3 2016 (17.3% of sales), reflecting an increase of 28.3%.

Q3 closed with a consolidated net profit of €32.9m (€24.4m in Q3 2016), reflecting growth of 34.6%.

Basic earnings per share were €0.304 (€0.227 in Q3 2016), reflecting a 33.9% increase.

BUSINESS OUTLOOK

Considering the short span of time covered by the Group's order portfolio, it is impractical to formulate reliable forecasts about performance for the full year, although positive results are predicted for 2017 in terms of both sales and profitability. The Group will continue to devote special attention to controlling costs and to finance management in order to maximise the generation of free cash flow to be allocated to internal and external growth and to the remuneration of shareholders.

Sant' Ilario d'Enza (RE), 8 November 2017

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

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

Sant' Ilario d'Enza (RE), 8 November 2017

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

Financial statements and notes

Consolidated statement of financial position

(€000)	<u>Notes</u>	<u>30/09/2017</u>	<u>31/12/2016</u>
ASSETS			
Current assets			
Cash and cash equivalents		153,478	197,891
Trade receivables		234,705	200,018
Inventories	4	286,690	257,545
Tax receivables		17,710	11,140
Other current assets		11,523	7,686
Total current assets		<u>704,106</u>	<u>674,280</u>
Non-current assets			
Property, plant and equipment	5	313,573	300,921
Goodwill	1	426,496	390,708
Other intangible assets		38,889	30,039
Other financial assets		1,386	790
Tax receivables		1,743	1,740
Deferred tax assets		24,276	24,108
Other non-current assets		2,488	1,654
Total non-current assets		<u>808,851</u>	<u>749,960</u>
Assets held for sale		785	-
Total assets		<u>1,513,742</u>	<u>1,424,240</u>

(€000)	<u>Notes</u>	<u>30/09/2017</u>	<u>31/12/2016</u>
LIABILITIES			
Current liabilities			
Trade payables		127,051	109,004
Payables to banks		7,354	2,396
Interest-bearing financial payables (current portion)		147,505	124,784
Derivative financial instruments		-	36
Tax payables		30,062	18,126
Other current liabilities		59,180	49,772
Provisions for risks and charges		3,704	3,620
Total current liabilities		<u>374,856</u>	<u>307,738</u>
Non-current liabilities			
Interest-bearing financial payables		286,556	327,974
Liabilities for employee benefits		19,496	19,311
Deferred tax liabilities		49,518	47,755
Other non-current liabilities		48,066	41,058
Provisions for risks and charges		3,053	2,866
Total non-current liabilities		<u>406,689</u>	<u>438,964</u>
Liabilities held for sale		200	-
Total liabilities		<u>781,745</u>	<u>746,702</u>
SHAREHOLDERS' EQUITY			
	6		
Share capital		55,868	55,431
Legal reserve		11,323	11,323
Share premium reserve		119,787	112,386
Reserve for the measurement of hedging derivatives at fair value		-	(24)
Reserve for restatement of defined benefit plans		(5,022)	(5,022)
Translation reserve		1,438	33,497
Other reserves		543,074	466,153
Group shareholders' equity		<u>726,468</u>	<u>673,744</u>
Minority interests		5,529	3,794
Total shareholders' equity		<u>731,997</u>	<u>677,538</u>
Total shareholders' equity and liabilities		<u>1,513,742</u>	<u>1,424,240</u>

9M consolidated income statement

(€000)	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Net sales		818,699	693,022
Cost of sales		(505,119)	(438,209)
Gross industrial margin		313,580	254,813
Other net revenues		11,818	10,554
Distribution costs		(76,105)	(63,408)
General and administrative expenses		(92,247)	(80,662)
Other operating costs		(2,203)	(2,256)
Ordinary profit before financial expenses		154,843	119,041
Financial income	7	10,819	5,157
Financial expenses	7	(17,315)	(10,060)
Equity method contribution		(186)	4
Profit for the period before taxes		148,161	114,142
Income taxes		(49,026)	(40,591)
Consolidated net profit for the period		99,135	73,551
Pertaining to:			
Parent company's shareholders		98,170	73,005
Subsidiaries' minority shareholders		965	546
Consolidated net profit for the period		99,135	73,551
Basic earnings per share	8	0.919	0.688
Diluted earnings per share	8	0.910	0.685

9M comprehensive consolidated income statement

(€000)	<u>2017</u>	<u>2016</u>
9M consolidated profit (A)	99,135	73,551
Other comprehensive profit (loss) that will be subsequently reclassified in consolidated profit for the period		
<i>Accounting for exchange risk hedging derivatives recorded in accordance with the cash flow hedging method:</i>		
- Profit (Loss) on derivative financial instruments for the period	-	(1)
- Minus: Adjustment for reclassification of profits (losses) to the income statement	-	-
- Minus: Adjustment for fair value recognition of reserves in the prior period	<u>33</u>	<u>19</u>
<i>Total</i>	<u>33</u>	<u>18</u>
<i>Profits (Losses) arising from the translation to euro of the financial statements of foreign companies</i>	(32,420)	(4,685)
<i>Profits (Losses) of companies carried at equity</i>	(6)	(27)
<i>Related taxes</i>	<u>(9)</u>	<u>(6)</u>
Total other profit (loss) that will be subsequently reclassified in consolidated profit for the period, net of the tax effect (B)	<u>(32,402)</u>	<u>(4,700)</u>
Other comprehensive profit (loss) that will not be subsequently reclassified in consolidated profit for the period		
<i>Profit (Loss) deriving from the restatement of defined benefit plans</i>	-	(72)
<i>Related taxes</i>	-	<u>20</u>
Total other comprehensive profit (loss) that will not be subsequently reclassified in consolidated profit for the period (C)	<u>-</u>	<u>52</u>
9M comprehensive consolidated profit (A) + (B) + (C)	<u>66,733</u>	<u>68,799</u>
Pertaining to:		
Parent company's shareholders	66,135	68,466
Subsidiaries' minority shareholders	<u>598</u>	<u>333</u>
Comprehensive consolidated profit for the period	<u>66,733</u>	<u>68,799</u>

Q3 consolidated income statement

(€000)		<u>2017</u>	<u>2016</u>
Net sales		259,948	220,554
Cost of sales		(161,277)	(138,037)
Gross industrial margin		98,671	82,517
Other net revenues		3,705	3,320
Distribution costs		(23,547)	(20,423)
General and administrative expenses		(29,148)	(26,291)
Other operating costs		(831)	(1,058)
Ordinary profit before financial expenses		48,850	38,065
Financial income	7	4,533	1,190
Financial expenses	7	(5,664)	(2,570)
Equity method contribution		(221)	43
Profit for the period before taxes		47,498	36,728
Income taxes		(14,623)	(12,312)
Consolidated net profit for the period		32,875	24,416
Pertaining to:			
Parent company's shareholders		32,546	24,137
Subsidiaries' minority shareholders		329	279
Consolidated net profit for the period		32,875	24,416
Basic earnings per share	8	0.304	0.227
Diluted earnings per share	8	0.301	0.226

Q3 comprehensive consolidated income statement

(€000)	<u>2017</u>	<u>2016</u>
Q3 consolidated profit (A)	32,875	24,416
Other comprehensive profit (loss) that will be subsequently reclassified in consolidated profit for the period		
<i>Accounting for exchange risk hedging derivatives recorded in accordance with the cash flow hedging method:</i>		
- Profit (Loss) on derivative financial instruments for the period	-	(1)
- Minus: Adjustment for reclassification of profits (losses) to the income statement	-	-
- Minus: Adjustment for fair value recognition of reserves in the prior period		=
<i>Total</i>	-	(1)
<i>Profits (Losses) arising from the translation to euro of the financial statements of foreign companies</i>	(10,071)	(888)
<i>Profits (Losses) of companies carried at equity</i>	21	(13)
<i>Related taxes</i>		=
Total other profit (loss) that will be subsequently reclassified in consolidated profit for the period, net of the tax effect (B)	<u>(10,050)</u>	<u>(902)</u>
Other comprehensive profit (loss) that will not be subsequently reclassified in consolidated profit for the period		
<i>Profit (Loss) deriving from the restatement of defined benefit plans</i>	-	-
<i>Related taxes</i>	=	
Total other comprehensive profit (loss) that will not be subsequently reclassified in consolidated profit for the period (C)		=
Q3 comprehensive consolidated profit (A) + (B) + (C)	<u>22,825</u>	<u>23,514</u>
Pertaining to:		
Parent company's shareholders	22,553	23,264
Subsidiaries' minority shareholders	<u>272</u>	<u>250</u>
Comprehensive consolidated profit for the period	<u>22,825</u>	<u>23,514</u>

9M consolidated cash flow statement

(€000)	<u>2017</u>	<u>2016</u>
Cash flow from operating activities		
Pretax profit	148,161	114,142
Adjustments for non-cash items:		
Capital losses (Capital gains) from the sale of fixed assets	(2,465)	(1,604)
Amortization, depreciation and impairment losses	35,996	32,310
Costs ascribed to the income statement relative to stock options that do not involve monetary outflows for the Group	1,318	1,278
Loss (Profit) from investments	186	(4)
Net change in risk funds and allocations for employee benefits	180	(808)
Outlays for tangible fixed assets destined for hire	(4,604)	(8,474)
Proceeds from the sale of fixed assets granted for hire	6,047	5,433
Financial expenses (Income), net	6,496	4,903
	<u>191,315</u>	<u>147,176</u>
(Increase) decrease in trade receivables and other current assets	(36,269)	(662)
(Increase) decrease in inventories	(26,804)	(13,874)
Increase (decrease) in trade payables and other current liabilities	24,282	(8,663)
Interest paid	(2,539)	(3,540)
Currency exchange differences realised	(2,078)	(1,541)
Taxes paid	(43,108)	(29,266)
Net cash from operating activities	<u>104,799</u>	<u>89,630</u>
Cash flows from investing activities		
Outlay for the acquisition of investments, net of received cash and including treasury shares assigned	(77,121)	(40,758)
Disposal of lines of business	-	746
Capital expenditure on property, plant and equipment	(29,126)	(23,523)
Proceeds from the sale of tangible fixed assets	516	460
Receipts from the disposal of assets held for sale	2,714	-
Capital expenditure on intangible fixed assets	(2,312)	(2,029)
Received financial income	336	310
Other	(153)	51
Net liquidity used in investing activities	<u>(105,146)</u>	<u>(64,743)</u>
Cash flows of financing activity		
Disbursals (repayments) of loans	(28,063)	77,232
Dividends paid	(21,783)	(21,153)
Outlays for purchase of treasury shares	-	(43,308)
Sale of treasury shares for the acquisition of equity investments	3,685	5,516
Proceeds from the sale of treasury shares to beneficiaries of stock options	2,835	9,008
Disbursals (repayments) of loans from (to) shareholders	(50)	(7)
Change in other financial assets	70	6
Payment of financial leasing installments (principal portion)	(1,731)	(2,103)
Net liquidity generated (used by) financing activities	<u>(45,037)</u>	<u>25,191</u>
Net increase (decrease) of cash and cash equivalents	<u>(45,384)</u>	<u>50,078</u>

(€000)	<u>2017</u>	<u>2016</u>
Net increase (decrease) of cash and cash equivalents	(45,384)	50,078
Exchange differences from conversion of cash of companies in areas outside the EU	(3,987)	(715)
Opening cash and equivalents of companies consolidated for the first time using the line-by-line method	-	160
Cash and cash equivalents at beginning of period	195,495	129,395
Cash and cash equivalents at end of period	<u>146,124</u>	<u>178,918</u>

Cash and cash equivalents can be broken down as follows:

	30/09/2017	31/12/2016
	€000	€000
Cash and cash equivalents from the balance sheet	153,478	197,891
Payables to banks (current account overdrafts and advances subject to collection)	<u>(7,354)</u>	<u>(2,396)</u>
Cash and cash equivalents from the cash flow statement	<u>146,124</u>	<u>195,495</u>

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 reserve	Other reserves	Group shareholders' equity	Minority interests	Total
<i>Balances at 1 January 2016</i>	56,032	11,323	138,955	(13)	(3,501)	22,657	391,704	617,157	5,471	622,628
Recognition in the income statement of the fair value of stock options assigned and exercisable	-	-	1,278	-	-	-	-	1,278	-	1,278
Purchase of treasury shares	(1,772)	-	(41,536)	-	-	-	-	(43,308)	-	(43,308)
Sale of treasury shares to the beneficiaries of stock options	886	-	8,122	-	-	-	-	9,008	-	9,008
Sale of treasury shares 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 comprehensive profit (loss) for 9M 2016	-	-	-	12	(52)	(4,499)	73,005	68,466	333	68,799
<i>Balances at 30 September 2016</i>	55,380	11,323	112,101	(1)	(3,553)	18,201	444,707	638,158	3,662	641,820
Recognition in the income statement of the fair value of stock options assigned and exercisable	-	-	455	-	-	-	-	455	-	455
Purchase of treasury shares	-	-	(1,772)	-	-	-	1,772	-	-	-
Sale of treasury shares to the beneficiaries of stock options	51	-	1,368	-	-	-	(937)	482	-	482
Sale of treasury stock to pay for equity investments	-	-	234	-	-	-	(234)	-	-	-
Total comprehensive profit (loss) for Q4 2016	-	-	-	(23)	(1,469)	15,296	20,845	34,649	132	34,781
<i>Balances at 31 December 2016</i>	55,431	11,323	112,386	(24)	(5,022)	33,497	466,153	673,744	3,794	677,538
Recognition in the income statement of the fair value of stock options assigned and exercisable	-	-	1,318	-	-	-	-	1,318	-	1,318
Sale of treasury shares to the beneficiaries of stock options	250	-	2,585	-	-	-	-	2,835	-	2,835
Sale of treasury shares for payment of equity investments	187	-	3,498	-	-	-	-	3,685	-	3,685
Purchase of Inoxpa Group	-	-	-	-	-	-	-	-	2,320	2,320
Purchase of residual interests in subsidiaries	-	-	-	-	-	-	107	107	(257)	(150)
Dividends paid	-	-	-	-	-	-	(21,356)	(21,356)	(427)	(21,783)
Dividends declared by third parties	-	-	-	-	-	-	-	-	(499)	(499)
Total comprehensive profit (loss) for 9M 2017	-	-	-	24	-	(32,059)	98,170	66,135	598	66,733
<i>Balances at 30 September 2017</i>	55,868	11,323	119,787	-	(5,022)	1,438	543,074	726,468	5,529	731,997

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, France, Portugal, Brazil, Bulgaria, Romania 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 2017 were approved by the Board of Directors on this day (8 November 2017).

Basis of preparation

The consolidated financial statements as at 30 September 2017 were drawn up in compliance with international accounting standards (IAS/IFRS) endorsed by the European Union 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 should be consulted together with the annual consolidated financial statements for the year ending 31 December 2016.

The accounting principles and criteria adopted in the interim report at 30 September 2017 may conflict with IFRS provisions in force on 31 December 2017 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 drafted according to the cost method, with the exception of financial instruments, which are measured at fair value.

Accounting standards

The accounting standards adopted are those described in the consolidated financial statements at 31 December 2016, with the exception of those adopted as from 1 January 2017 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 2017 and adopted by the Group

As from 2017 the Group has applied the following new accounting standards, amendments and interpretations, reviewed by IASB:

- *IFRS Annual improvements cycle 2012–2014* – On 25 September 2014 IASB issued a raft of amendments to IAS/IFRS standards. The aim of the annual improvements is to address necessary matters related to inconsistencies found in IFRSs or for clarifications of terminology, which are not of an urgent nature but which reflect issues discussed by IASB during the project cycle. Among the amended standards, IFRS 5, in relation to which a clarification has been introduced concerning cases in which the method of disposal of an asset is changed from held for sale to held for distribution; IFRS 7, with a clarification to establish if and when a residual involvement in a transferred financial asset exists in the presence of an associated service contract, thus determining the required level of disclosure; IAS 19, which clarifies that the currency of securities used as a benchmark to estimate the discount rate, must be the same as the currency in which the benefits will be paid; and IAS 34 in which the meaning of "elsewhere" is clarified for the inclusion of information by cross-reference.
- *Amendments to IAS 12 – Income taxes*. The IASB has published certain amendments to the standard. The document entitled *Recognition of deferred tax assets for unrealised losses (Amendment to IAS 12)* seeks to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.
- *Amendments to IAS 7 - Statement of cash flows*. On 29 January 2016, IASB published an amendment to the standard entitled "*Disclosure initiative*" in order to improve the information provided about changes in financial liabilities.

b) New accounting standards and amendments effective from 1 January 2017 but not relevant for the Group:

- *IFRS Annual improvements cycle 2014–2016* - On 8 December 2016 the IASB issued several minor changes to IFRS 12 (*Disclosure of interests in other entities*). 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 IASB during the project cycle.
- On 30 January 2014, IASB published IFRS 14 *Regulatory Deferral Accounts*, which is an interim standard related to the *Rate-regulated activities* project. IFRS 14 allows exclusively first-time adopters of IFRS to continue recognising 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.

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

- *IFRS 2 – Share-based payments.* On 21 June 2016 IASB published amendments to the standard with a view to clarifying the accounting for certain operations involving share-based payments. The amendments will be applicable from 1 January 2018, although early adoption is allowed.
- *IFRS 9 – Financial instruments.* On 12 November 2009 IASB published the following standard, which was subsequently amended on 28 October 2010 in a further amendment in mid-December 2011. The new standard, which is applicable from 1 January 2018, constitutes the first part of a process in stages aimed at replacing IAS 39 and introduces new criteria for the classification and measurement of financial assets and liabilities, and for 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.
- *IFRS 15 – Recognition of revenue from contracts with customers.* On 28 May 2014 IASB and FASB jointly issued IFRS 15 designed to improve the disclosure of revenues and the global comparability of financial statements in order to harmonize the recognition of economically similar transactions. The standard is effective for IFRS users from reporting periods starting after 1 January 2017 (early adoption is permitted). On 12 April 2016, IASB published “*Clarification to IFRS 15*”, in order to clarify certain requirements and provide further simplifications that reduce costs and complexity for first-time adopters of the new standard.
- *IFRS Annual improvements Cycle 2014–2016* – On 8 December 2016 IASB issued several minor changes to IFRS 1 (*First-Time Adoption of IFRS*), and IAS 28 (*Investments in Associates and Joint Ventures*), as well as an IFRIC interpretation (*Interpretation 22 Foreign Currency Transactions and Advance Consideration*). The aim of the annual improvements is to address necessary matters related to inconsistencies found in IFRSs or for clarifications of terminology, which are not of an urgent nature but which reflect issues discussed by IASB during the project cycle. Among the principal amendments, IFRIC 22 provides guidance on the use of exchange rates in transactions in which the foreign currency consideration is paid or received in advance. These amendments will be effective for reporting periods starting after 1 January 2018.
- *IFRS 16 – Leasing.* On 13 January 2016, 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 the assets and liabilities associated with all types of leasing contracts in their financial statements. IFRS 16 is applicable from 1 January 2019. Early application is allowed for entities that also apply IFRS 15 "Revenue from contracts with customers".

- *Amendments to IAS 40 – Transfer of Investment Property.* On 8 December 2016, IASB published an amendment to IAS 40 to clarify when it is possible to recognise the change of use of investment property.
- *IFRS 17 – Insurance Contracts.* On 18 May 2017, IASB published a new standard to replace IFRS 4, which was issued in 2004. The new standard seeks to improve the understanding of investors and others about the risk exposure, profitability and financial position of insurers. IFRS 17 is applicable from 1 January 2021, although early adoption is permitted.
- *IFRIC 23 – Uncertainty over Income Tax Treatment.* On 8 June 2017 IASB published IFRIC 23 to clarify how to account for uncertainties in the treatment of certain phenomena for income tax purposes. The interpretation will take effect as from 1 January 2019.

At today's date the competent bodies of the European Union have yet to complete the approval process related to the new standards and amendments applicable to financial statements starting as from 1 January 2017.

The analysis of the effects of application of IFRS 15 (*Revenue recognition*) is proceeding, although at this point in time no significant effects have emerged further to application of the new standard. With regard to the application of IFRS 16 (*Leasing*), the effects on payables before discounting are reported in note 34 to the consolidated financial statements at 31 December 2016. On the basis of analyses currently in progress, no significant effects on the economic and financial position are expected from the 2018 adoption of other applicable new standards and amendments.

Notes to the consolidated financial statements as at 30 September 2017

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1. Perimeter of consolidation and goodwill

<u>Company</u>	<u>Head office</u>	<u>Share capital</u> <u>€/000</u>	<u>Sector</u>	<u>% stake</u> <u>at 30/09/17</u>
General Pump Inc.	Minneapolis (USA)	1,854	Water Jetting	100.00%
Hammelmann GmbH	Oelde (Germany)	25	Water Jetting	100.00%
Hammelmann Australia Pty Ltd (1)	Melbourne (Australia)	472	Water Jetting	100.00%
Hammelmann Corporation Inc (1)	Miamisburg (USA)	39	Water Jetting	100.00%
Hammelmann S. L. (1)	Zaragoza (Spain)	500	Water Jetting	100.00%
Hammelmann Pumps Systems Co Ltd (1)	Tianjin (China)	871	Water Jetting	90.00%
Hammelmann Bombas e Sistemas Ltda (1)	San Paolo (Brazil)	765	Water Jetting	100.00%
Inoxihp S.r.l.	Nova Milanese (MI)	119	Water Jetting	52.72%
NLB Corporation Inc.	Detroit (USA)	12	Water Jetting	100.00%
NLB Poland (2)	Warsaw (Poland)	1	Water Jetting	100.00%
Inoxpa S.A.	Banyoles (Spain)	23,000	Water Jetting	100.00%
Suministros Tecnicos Y Alimentarios S.L. (3)	Bilbao (Spain)	96	Water Jetting	66.25%
Inoxpa India Private Ltd (3)	Pune (India)	6,779	Water Jetting	100.00%
Candigra Vision Process Equipment PVT Ltd (4)	Maharashtra (India)	403	Water Jetting	99.98%
Inoxpa Solutions France (3)	Gleize (France)	1,451	Water Jetting	100.00%
Inoxpa Solution Portugal Lda (3)	Vale de Cambra (Portugal)	600	Water Jetting	100.00%
STA Portuguesa Maquinas Para Industria Alim. Lda (3)	Vale de Cambra (Portugal)	160	Water Jetting	100.00%
Inoxpa (UK) Ltd (3)	Eastbourne (UK)	1,942	Water Jetting	100.00%
Inoxpa Solutions Moldova (3)	Chisinau (Moldova)	317	Water Jetting	66.67%
Inoxpa Australia Pty. Ltd (3)	Capalaba (Australia)	584	Water Jetting	100.00%
Inoxpa Colombia SAS (3)	Bogotá (Colombia)	133	Water Jetting	83.29%
Inoxpa Italia S.r.l. (3)	Mirano (VE)	100	Water Jetting	100.00%
Inoxpa Middle East FZCO (3)	Dubai (UAE)	253	Water Jetting	60.00%
Inoxpa Skandinavien A/S (3)	Horsens (Denmark)	134	Water Jetting	100.00%
Inoxpa South Africa Proprietary Ltd (3)	Gauteng (South Africa)	104	Water Jetting	100.00%
Inoxpa Special Processing Equipment Co. Ltd (3)	Jianxing (China)	1,647	Water Jetting	100.00%
Inoxpa Ukraine (3)	Kiev (Ukraine)	113	Water Jetting	100.00%
Inoxpa USA Inc (3)	Santa Rosa (USA)	1,426	Water Jetting	100.00%
Inoxrus (3)	Saint Petersburg (Russia)	814	Water Jetting	100.00%
STARINOX (5)	Moscow (Russia)	1,242	Water Jetting	55.00%
SCI Suali (3)	Gleize (France)	503	Water Jetting	100.00%
Mariotti & Pecini S.r.l.	Sesto Fiorentino (FI)	100	Water Jetting	60.00%
SIT S.p.A.	S.Illario d'Enza (RE)	105	Water Jetting	65.00%
Interpump Hydraulics S.p.A.	Calderara di Reno (BO)	2,632	Hydraulic	100.00%
AVI S.r.l. (6)	Varedo (MB)	10	Hydraulic	100.00%
Contarini Leopoldo S.r.l. (6)	Lugo (RA)	47	Hydraulic	100.00%
Unidro S.a.r.l. (7)	Barby (France)	8	Hydraulic	100.00%
Copa Hydrosystem Ood (7)	Troyan (Bulgaria)	3	Hydraulic	95.00%
Hydrocar Chile S.A. (6)	Santiago (Chile)	129	Hydraulic	90.00%
Hydroven S.r.l. (6)	Tezze sul Brenta (VI)	200	Hydraulic	100.00%
Interpump Hydraulics Brasil Ltda (6)	Caxia do Sul (Brazil)	13,996	Hydraulic	100.00%
Interpump Hydraulics France S.a.r.l. (6)	Ennery (France)	76	Hydraulic	99.77%

<i>Company</i>	<i>Head office</i>	<i>Share capital</i> <i>€/000</i>	<i>Sector</i>	<i>% stake</i> <i>at 30/09/17</i>
Interpump Hydraulics India Private Ltd (6)	Hosur (India)	682	Hydraulic	100.00%
Interpump Hydraulics Middle East FZCO (6)	Dubai (UAE)	326	Hydraulic	100.00%
Interpump South Africa Pty Ltd (6)	Johannesburg (South Africa)	-	Hydraulic	100.00%
Interpump Hydraulics (UK) Ltd. (6)	Kidderminster (United Kingdom)	13	Hydraulic	100.00%
Mega Pacific Pty Ltd (8)	Newcastle (Australia)	335	Hydraulic	65.00%
Mega Pacific NZ Pty Ltd (8)	Mount Maunganui (New Zealand)	557	Hydraulic	65.00%
Muncie Power Prod. Inc. (6)	Muncie (USA)	784	Hydraulic	100.00%
American Mobile Power Inc. (9)	Fairmount (USA)	3,410	Hydraulic	100.00%
Oleodinamica Panni S.r.l. (6)	Tezze sul Brenta (VI)	2,000	Hydraulic	100.00%
Wuxi Interpump Weifu Hydraulics Company Ltd (6)	Wuxi (China)	2,095	Hydraulic	65.00%
IMM Hydraulics S.p.A. (6)	Atessa (Switzerland)	520	Hydraulic	100.00%
Hypress France S.a.r.l. (10)	Strasbourg (France)	162	Hydraulic	100.00%
Hypress Hydraulik GmbH (10)	Meinerzhagen (Germany)	52	Hydraulic	100.00%
Hypress S.r.l. (10)	Atessa (Switzerland)	50	Hydraulic	100.00%
IMM Hydro Est (10)	Cateau Cluj Napoca (Romania)	3,155	Hydraulic	100.00%
Tekno Tubi S.r.l. (10)	Terre del Reno (FE)	100	Hydraulic	100.00%
Tubiflex S.p.A.	Orbassano (TO)	515	Hydraulic	80.00%
Walvoil S.p.A.	Reggio Emilia	7,692	Hydraulic	100.00%
Walvoil Fluid Power Corp. (11)	Tulsa (USA)	137	Hydraulic	100.00%
Walvoil Fluid Power Shanghai Co. Ltd (11)	Shanghai (China)	1,872	Hydraulic	100.00%
Walvoil Fluid Power Pvt Ltd (11)	Bangalore (India)	683	Hydraulic	100.00%
Walvoil Fluid Power Korea (11)	Pyeongtaek (South Korea)	453	Hydraulic	100.00%
Walvoil Fluid Power France S.a.r.l. (11)	Vritz (France)	10	Hydraulic	100.00%
Walvoil Fluid Power Australasia (11)	Melbourne (Australia)	7	Hydraulic	100.00%
Galtech Canada Inc. (11)	Terrebonne, Quebec (Canada)	76	Hydraulic	100.00%
HC Hydraulics Technologies (P) Ltd (11)	Bangalore (India)	4,120	Hydraulic	100.00%
HTIL (11)	Hong Kong	98	Hydraulic	100.00%
Walvoil Fluid Power Dongguan Co. Ltd (12)	Dongguan (China)	3,720	Hydraulic	100.00%
IMM Hydraulics Ltd (in liquidation) (8)	Kidderminster (United Kingdom)	1	Hydraulic	100.00%
Bristol Hose Ltd (in liquidation) (8)	Bristol (United Kingdom)	18	Hydraulic	100.00%
E.I. Holdings Ltd (in liquidation) (8)	Bath (United Kingdom)	127	Hydraulic	100.00%
Endeavour International Ltd (in liquidation) (8)	Bath (United Kingdom)	69	Hydraulic	100.00%
Hypress Africa Pty Ltd (in liquidation) (6)	Boksburg (South Africa)	-	Hydraulic	100.00%
Teknova S.r.l. (in liquidation)	Reggio Emilia	28	Other Revenues	100.00%

(1) = controlled by Hammelmann GmbH

(2) = controlled by NLB Corporation

(3) = controlled by Inoxpa S.A.

(4) = controlled by Inoxpa India Private Ltd

(5) = controlled by Inoxrus

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

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

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

(8) = controlled by Interpump Hydraulics (UK) Ltd.

(9) = controlled by Muncie Power Inc.

(10) = controlled by IMM Hydraulics Ltd

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

(12) = controlled by HTIL

The companies of the Inoxpa Group (Water Jetting Sector) were consolidated for the first time for eight months, having been acquired on 3 February; Mariotti & Pecini S.r.l. was consolidated for 4 months, having been acquired on 12 June, while Bristol Hose (Hydraulic Sector) was consolidated for the entire period.

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. Likewise, the minority shareholder of Tubiflex S.p.A. is entitled and required to dispose of its holdings upon approval of the 2018 financial statements, on the basis of the results of the company reported in the 2018 financial statements. The minority shareholder of Mega Pacific Pty Ltd and of Mega Pacific NZ Pty Ltd is entitled and required to sell its shares within 90 days of 29 July 2021, based on the results of the financial statements prepared immediately prior to exercise of the option. The minority shareholder of Mariotti & Pecini S.r.l. is entitled and required to dispose of its holdings, starting from approval of the financial statements as at 31 December 2020 up to approval of the financial statements as at 31 December 2022, on the basis of the results reported in the latest financial statements prior to exercise of the option. The minority shareholder of Inoxpa Solution Moldova is entitled to dispose of its holdings from October 2020, based on the most recent balance sheet of that company.

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

Changes in goodwill in the first nine months of 2017 were as follows:

	Balance at 31/12/2016	Increases (Decreases) in the period	Changes due to foreign exchange differences	Balance at 30/09/2017
Water Jetting Sector	160,621	42,624	(4,596)	198,649
Hydraulic Sector	<u>230,087</u>	<u>1,046</u>	<u>(3,286)</u>	<u>227,847</u>
<i>Total goodwill</i>	<u>390,708</u>	<u>43,670</u>	<u>(7,882)</u>	<u>426,496</u>

The increases in the Water Jetting Sector in 9M 2017 refer to the acquisition of the Inoxpa Group and Mariotti & Pecini, while increases in the Hydraulic Sector refer to the acquisition of Bristol Hose and the adjustment of the price paid for Teknotubi.

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 utilised for a broad range of industrial applications including car wash installations, forced lubrication systems for machine tools, and inverse osmosis systems for water desalination plants. Very high-pressure pumps and systems are used for cleaning surfaces, ships, various types of pipes, and also for removing machining burr, cutting and removing cement, asphalt, and paint coatings from stone, cement and metal surfaces, and for cutting solid materials. . The Sector also includes high pressure homogenizers, mixers, agitators, piston pumps, valves and other machines produced mainly for the food processing industry and also used in the chemicals and cosmetics sectors.

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)

Cumulative accounts at 30 September (nine months)

	Hydraulic		Water Jetting		Other Revenues		Elimination entries		Interpump Group	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Net sales external to the Group	520,478	446,244	298,221	246,778	-	-	-	-	818,699	693,022
Sales between sectors	276	201	1,276	879	-	-	(1,552)	(1,080)	-	-
Total net sales	520,754	446,445	299,497	247,657	-	-	(1,552)	(1,080)	818,699	693,022
Cost of sales	(342,081)	(297,799)	(164,596)	(141,496)	-	-	1,558	1,086	(505,119)	(438,209)
Gross industrial margin	178,673	148,646	134,901	106,161	-	-	6	6	313,580	254,813
<i>% on net sales</i>	<i>34.3%</i>	<i>33.3%</i>	<i>45.0%</i>	<i>42.9%</i>					<i>38.3%</i>	<i>36.8%</i>
Other net revenues	7,926	6,791	3,987	3,771	-	-	(95)	(8)	11,818	10,554
Distribution costs	(41,568)	(36,536)	(34,623)	(26,874)	-	-	86	2	(76,105)	(63,408)
General and administrative expenses	(54,406)	(51,391)	(37,840)	(29,254)	(4)	(17)	3	-	(92,247)	(80,662)
Other operating costs	(1,637)	(1,915)	(566)	(341)	-	-	-	-	(2,203)	(2,256)
Ordinary profit before financial expenses	88,988	65,595	65,859	53,463	(4)	(17)	-	-	154,843	119,041
<i>% on net sales</i>	<i>17.1%</i>	<i>14.7%</i>	<i>22.0%</i>	<i>21.6%</i>	<i>n.s.</i>	<i>n.s.</i>			<i>18.9%</i>	<i>17.2%</i>
Financial income	4,239	4,353	7,815	2,180	-	1	(1,235)	(1,377)	10,819	5,157
Financial expenses	(8,279)	(7,031)	(10,271)	(4,406)	-	-	1,235	1,377	(17,315)	(10,060)
Dividends	-	-	35,500	29,201	-	-	(35,500)	(29,201)	-	-
Equity method contribution	(188)	(28)	2	32	-	-	-	-	(186)	4
Profit for the period before taxes	84,760	62,899	98,905	80,470	(4)	(16)	(35,500)	(29,201)	148,161	114,142
Income taxes	(27,814)	(23,028)	(21,212)	(17,589)	-	26	-	-	(49,026)	(40,591)
Consolidated profit for the period	56,946	39,861	77,693	62,881	(4)	10	(35,500)	(29,201)	99,135	73,551
Pertaining to:										
Parent company's shareholders	56,453	39,445	77,221	62,751	(4)	10	(35,500)	(29,201)	98,170	73,005
Subsidiaries' minority shareholders	493	416	472	130	-	-	-	-	965	546
Consolidated net profit for the period	56,946	39,861	77,693	62,881	(4)	10	(35,500)	(29,201)	99,135	73,551
Further information required by IFRS 8										
Amortization, depreciation and write-downs	23,241	22,233	12,755	10,077	-	-	-	-	35,996	32,310
Other non-monetary costs	1,350	1,285	1,231	1,279	-	-	-	-	2,581	2,564

Interpump Group business sector information

(Amounts shown in €000)

Q3

	Hydraulic		Water Jetting		Other Revenues		Elimination entries		Interpump Group	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Net sales external to the Group	164,634	144,089	95,314	76,465	-	-	-	-	259,948	220,554
Sales between sectors	80	65	375	337	-	-	(455)	(402)	-	-
Total net sales	164,714	144,154	95,689	76,802	-	-	(455)	(402)	259,948	220,554
Cost of sales	(108,505)	(95,864)	(53,230)	(42,578)	-	-	458	405	(161,277)	(138,037)
Gross industrial margin	56,209	48,290	42,459	34,224	-	-	3	3	98,671	82,517
<i>% on net sales</i>	<i>34.1%</i>	<i>33.5%</i>	<i>44.4%</i>	<i>44.6%</i>					<i>38.0%</i>	<i>37.4%</i>
Other net revenues	2,564	2,343	1,141	982	-	-	-	(5)	3,705	3,320
Distribution costs	(12,773)	(12,192)	(10,771)	(8,233)	-	-	(3)	2	(23,547)	(20,423)
General and administrative expenses	(17,137)	(17,063)	(12,010)	(9,221)	(1)	(7)	-	-	(29,148)	(26,291)
Other operating costs	(760)	(996)	(71)	(62)	-	-	-	-	(831)	(1,058)
Ordinary profit before financial expenses	28,103	20,382	20,748	17,690	(1)	(7)	-	-	48,850	38,065
<i>% on net sales</i>	<i>17.1%</i>	<i>14.1%</i>	<i>21.7%</i>	<i>23.0%</i>	<i>n.s.</i>	<i>n.s.</i>			<i>18.8%</i>	<i>17.3%</i>
Financial income	1,280	1,034	3,666	641	-	-	(413)	(485)	4,533	1,190
Financial expenses	(2,280)	(2,063)	(3,797)	(992)	-	-	413	485	5,664	(2,570)
Dividends	-	-	-	1	-	-	-	(1)	-	-
Equity method contribution	(156)	3	(65)	40	-	-	-	-	(221)	43
Profit for the period before taxes	26,947	19,356	20,552	17,380	(1)	(7)	-	(1)	47,498	36,728
Income taxes	(8,555)	(6,956)	(6,068)	(5,356)	-	-	-	-	(14,623)	(12,312)
Consolidated profit for the period	18,392	12,400	14,484	12,024	(1)	(7)	-	(1)	32,875	24,416
Pertaining to:										
Parent company's shareholders	18,240	12,162	14,307	11,983	(1)	(7)	-	(1)	32,546	24,137
Subsidiaries' minority shareholders	152	238	177	41	-	-	-	-	329	279
Consolidated net profit for the period	18,392	12,400	14,484	12,024	(1)	(7)	-	(1)	32,875	24,416
Further information required by IFRS 8										
Amortization, depreciation and write-downs	7,965	8,072	4,162	3,359	-	-	-	-	12,127	11,431
Other non-monetary costs	493	257	115	(60)	-	-	-	-	608	197

Financial position
(Amounts shown in €000)

	Hydraulic		Water Jetting		Other Revenues		Elimination entries		Interpump Group	
	30 September 2017	31 December 2016	30 September 2017	31 December 2016	30 September 2017	31 December 2016	30 September 2017	31 December 2016	30 September 2017	31 December 2016
Assets by sector	842,214	812,397	690,009	587,459	549	549	(173,293)	(174,056)	1,359,479	1,226,349
Assets held for sale	-	-	785	-	-	-	-	-	785	-
Total assets of the sector (A)	842,214	812,397	690,794	587,459	549	549	(173,293)	(174,056)	1,360,264	1,226,349
Cash and cash equivalents									153,478	197,891
Total assets									1,513,742	1,424,240
Liabilities of the sector	362,918	341,131	98,148	81,148	560	564	(173,293)	(174,056)	288,333	248,787
Liabilities held for sale	-	-	200	-	-	-	-	-	200	-
Total liabilities of the sector (B)	362,918	341,131	98,348	81,148	560	564	(173,293)	(174,056)	288,533	248,787
Debts for the payment of investments									51,797	42,761
Payables to banks									7,354	2,396
Interest-bearing financial payables									434,061	452,758
Total liabilities									781,745	746,702
Total assets, net (A-B)	479,296	471,266	592,446	506,311	(11)	(15)	-	-	1,071,731	977,562
Further information required by IFRS 8										
Investments carried										
at equity	86	72	246	272	-	-	-	-	332	344
Non-current assets other than financial assets and deferred tax assets	463,611	466,820	319,203	258,242	-	-	-	-	782,814	725,062

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

	Hydraulic		Water Jetting	
	2017	2016	2017	2016
Net sales external to the Group	500,544	446,244	254,005	246,778
Sales between sectors	276	201	1,272	879
Total net sales	500,820	446,445	255,277	247,657
Cost of sales	(330,886)	(297,799)	(141,648)	(141,496)
Gross industrial margin	169,934	148,646	113,629	106,161
<i>% on net sales</i>	33.9%	33.3%	44.5%	42.9%
Other net revenues	7,606	6,791	2,596	3,771
Distribution costs	(38,711)	(36,536)	(27,955)	(26,874)
General and administrative expenses	(51,782)	(51,391)	(30,884)	(29,254)
Other operating costs	(1,626)	(1,915)	(526)	(341)
Ordinary profit before financial expenses	85,421	65,595	56,860	53,463
<i>% on net sales</i>	17.1%	14.7%	22.3%	21.6%
Financial income	4,279	4,353	3,221	2,180
Financial expenses	(7,991)	(7,031)	(5,182)	(4,406)
Dividends	748	-	35,500	29,201
Equity method contribution	(188)	(28)	(12)	32
Profit for the period before taxes	82,269	62,899	90,387	80,470
Income taxes	(26,743)	(23,028)	(18,129)	(17,589)
Consolidated profit for the period	55,526	39,861	72,258	62,881
Pertaining to:				
Parent company's shareholders	55,033	39,445	72,100	62,751
Subsidiaries' minority shareholders	493	416	158	130
Consolidated net profit for the period	55,526	39,861	72,258	62,881

The Q3 comparison of the Sector on a like for like basis is as follows:

	Hydraulic		Water Jetting	
	2017	2016	2017	2016
Net sales external to the Group	164,646	144,089	79,259	76,465
Sales between sectors	80	65	376	337
Total net sales	164,726	144,154	79,635	76,802
Cost of sales	(108,592)	(95,864)	(45,201)	(42,578)
Gross industrial margin	56,134	48,290	34,434	34,224
<i>% on net sales</i>	<i>34.1%</i>	<i>33.5%</i>	<i>43.2%</i>	<i>44.6%</i>
Other net revenues	2,563	2,343	901	982
Distribution costs	(12,780)	(12,192)	(8,451)	(8,233)
General and administrative expenses	(17,065)	(17,063)	(9,529)	(9,221)
Other operating costs	(760)	(996)	(61)	(62)
Ordinary profit before financial expenses	28,092	20,382	17,294	17,690
<i>% on net sales</i>	<i>17.1%</i>	<i>14.1%</i>	<i>21.7%</i>	<i>23.0%</i>
Financial income	1,415	1,034	2,171	641
Financial expenses	(2,380)	(2,063)	(2,240)	(992)
Dividends	(24)	-	-	1
Equity method contribution	(156)	3	(64)	40
Profit for the period before taxes	26,947	19,356	17,161	17,380
Income taxes	(8,554)	(6,956)	(5,152)	(5,356)
Consolidated profit for the period	18,393	12,400	12,009	12,024
Pertaining to:				
Parent company's shareholders	18,241	12,162	11,916	11,983
Subsidiaries' minority shareholders	152	238	93	41
Consolidated net profit for the period	18,393	12,400	12,009	12,024

Cash flows by business sector for 9M are as follows:

€000	Sector		Sector		Sector Other	Total			
	Hydraulic		Water Jetting			2017	2016	2017	2016
	2017	2016	2017	2016					
Cash flows from:									
Operating activities	61,201	63,058	43,606	26,570	(8)	2	104,799	89,630	
Investing activities	(31,799)	(29,751)	(73,347)	(34,993)	-	1	(105,146)	(64,743)	
Financing activities	(40,298)	(19,754)	(4,739)	44,945	-	-	(45,037)	25,191	
Total	(10,896)	13,553	(34,480)	36,522	(8)	3	(45,384)	50,078	

The investing activities of the Hydraulic Sector in 9M 2017 included €7,281k associated with the acquisition of equity investments (€19,257k in 9M 2016). The investing activities of the Water Jetting Sector in 9M 2017 included €69,840k associated with the acquisition of equity investments (€27,502k in 9M 2016).

Financing activities in 9M 2017 included repayments of intercompany loans from the Hydraulic Sector to the Water Jetting Sector totalling €5,600k (by contrast, intercompany loans from the Water Jetting Sector to the Hydraulic Sector in 9M 2016 amounted to €1,850k). The cash flows deriving from the financing activities of the Hydraulic Sector included the payment of dividends totalling €26,500k (zero in 9M 2016). Moreover, cash flows from the financing activities of the Water Jetting Sector in 9M 2016 included the purchase of treasury shares for €43,308k (zero in 9M 2017) and proceeds from the sale of treasury shares to the beneficiaries of stock options totalling €9,008k (€2,835k in 9M 2017).

The financing activities of the Water Jetting Sector during 9M 2017 included the value of the treasury shares assigned on the acquisition of equity investments totalling €3,685k (€5,516k in 9M 2016). The cash flows deriving from the financing activities of the Water Jetting Sector included the payment of dividends totalling €21,744k (€20,150k in 9M 2016).

3. Acquisition of investments

The purchases of equity investments during 9M 2017 are described in the interim Board of Directors' Report for Q3. The fair value of the assets and liabilities acquired in July 2016 through the acquisition of Tekno Tubi and Mega Pacific that, as permitted by IFRS 3, was measured provisionally on 31 December 2016, can now be considered final at 30 September 2017.

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

	30/09/2017	31/12/2016
	€000	€000
Inventories gross value	319,420	286,141
Allowance for inventories	<u>(32,730)</u>	<u>(28,596)</u>
Inventories	<u>286,690</u>	<u>257,545</u>

Changes in the allowance for inventories were as follows:

	<i>First nine months 2017</i>	<i>Year 2016</i>
		€000
Opening balances	28,596	27,154
Exchange rate difference	(846)	171
Change to consolidation basis	5,017	1,256
Provisions for the period	595	2,329
Drawdowns in the period to cover losses	(632)	(2,314)
Drawdowns in the period due to surpluses	-	-
Closing balance	<u>32,730</u>	<u>28,596</u>

5. Property, plant and equipment

Purchases and disposals

In 9M 2017 Interpump Group acquired assets for €55,179k, of which €20,107k via the acquisition of equity investments (€43,243k in 9M 2016, of which €8,869k via the acquisition of equity investments). Assets with a net book value of €4,096k were divested in 9M 2017 (€4,228k in 9M 2016). A net capital gain was realized on the divested assets of €2,465k (€1,604k in 9M 2016).

Contractual commitments

At 30 September 2017 the Group had contractual commitments for the purchase of tangible fixed assets totalling €4,111k (€3,135k at 30 September 2016).

6. Shareholders' equity

Share capital

The share capital is composed of 108,879,294 ordinary shares with a unit face value of EUR 0.52 for a total amount of EUR 56,617,232.88. Conversely, share capital recorded in the

financial statements amounts to 55,868 thousand euro, because the nominal value of purchased treasury shares, net of those sold, has been deducted from share capital in compliance with the reference accounting standards. At 30 September 2017 Interpump S.p.A. held 1,651,752 shares in the portfolio, corresponding to 1.5170% of the capital stock, acquired at an average unit cost of 12.4967 euro.

Treasury shares purchased

The amount of the treasury shares held by Interpump Group S.p.A. is recorded in an equity reserve. The Group did not acquire any treasury shares during 9M 2017 (3,407,000 treasury shares were purchased in 9M 2016 for €43,308k).

Treasury shares sold

In the context of the stock option plans, a total of 480,000 options were exercised during the period, resulting in the receipt of €2,835k (a total of 1,703,000 options were exercised in 9M 2016, with the collection of €9,008k). Moreover, 150,000 treasury shares were divested in 9M 2017 to pay for part of the equity investment in Mariotti & Pecini (449,160 treasury shares divested in 9M 2016 for the acquisition of equity investments).

Dividends

An ordinary dividend (coupon clipping date of 15 May) of 0.20 euro per share was distributed on 17 May 2017 (0.19 euro in 2016).

7. Financial income and expenses

A comparative breakdown of the 9M periods is shown below:

	2017	2016
	€000	€000
<u>Financial income</u>		
Interest income from liquid funds	248	280
Interest income from other assets	30	43
Foreign exchange gains	10,359	4,737
Earnings from valuation of derivative financial instruments	113	70
Other financial income	<u>69</u>	<u>27</u>
Total financial income	<u>10,819</u>	<u>5,157</u>
<u>Financial expenses</u>		
Interest expense on loans	2,628	3,162
Interest expense on put options	451	441
Financial expenses for adjustment of estimated debt for commitment to purchase residual interests in subsidiaries	178	784
<i>Tobin Tax</i>	-	107
Foreign exchange losses	13,989	5,428
Losses from valuation of derivative financial instruments	-	26
Other financial charges	<u>69</u>	<u>112</u>
Total financial expenses	<u>17,315</u>	<u>10,060</u>
Total financial charges, net	<u>6,496</u>	<u>4,903</u>

The breakdown for Q3 is as follows:

	2017 €000	2016 €000
<u>Financial income</u>		
Interest income	84	98
Interest income from other assets	7	20
Foreign exchange gains	4,455	1,065
Earnings from valuation of derivative financial instruments	(15)	5
Other financial income	<u>2</u>	<u>2</u>
Total financial income	<u>4,533</u>	<u>1,190</u>
<u>Financial expenses</u>		
Interest expense on loans	795	946
Interest expense on put options	170	145
Foreign exchange losses	4,693	1,460
Losses from valuation of derivative financial instruments	-	5
Other financial charges	<u>6</u>	<u>14</u>
Total financial expenses	<u>5,664</u>	<u>2,570</u>
Total financial charges, net	<u>1,131</u>	<u>1,380</u>

8. Earnings per share

Basic earnings per share

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

<i>9M</i>	<u>2017</u>	<u>2016</u>
Consolidated net profit for the period attributable to Parent company shareholders (€000)	<u>98,170</u>	<u>73,005</u>
Average number of shares in circulation	106,872,982	106,086,476
Basic earnings per share in 9M (€)	<u>0.919</u>	<u>0.688</u>
<i>Q3</i>	<u>2017</u>	<u>2016</u>
Consolidated net profit for the period attributable to Parent company to Parent company shareholders (€000)	<u>32,546</u>	<u>24,137</u>
Average number of shares in circulation	107,107,542	106,350,419
Basic earnings per share for the quarter (€)	<u>0.304</u>	<u>0.227</u>

Diluted earnings per share

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

<i>9M</i>	<u>2017</u>	<u>2016</u>
Consolidated net profit for the period attributable to Parent company shareholders (€000)	<u>98,170</u>	<u>73,005</u>
Average number of shares in circulation	106,872,982	106,086,476
Number of potential shares for stock option plans (*)	<u>1,031,828</u>	<u>464,126</u>
Average number of shares (diluted)	<u>107,904,810</u>	<u>106,550,602</u>
Diluted earnings per share in 9M (€)	<u>0.910</u>	<u>0.685</u>
<i>Q3</i>	<u>2017</u>	<u>2016</u>
Consolidated net profit for the period attributable to Parent company shareholders (€000)	<u>32,546</u>	<u>24,137</u>
Average number of shares in circulation	107,107,542	106,350,419
Number of potential shares for stock option plans (*)	<u>1,132,128</u>	<u>661,710</u>
Average number of shares (diluted)	<u>108,239,670</u>	<u>107,012,129</u>
Earnings per diluted share for the quarter (€)	<u>0.301</u>	<u>0.226</u>

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

9. Transactions with related parties

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

The effects on the Group's consolidated income statements for the first nine months of 2017 and 2016 are illustrated below:

	First nine months 2017					% incid. on caption in financial statements
	Total	Non- consolidated subsidiaries	Associates	Other related parties	Total related parties	
(€000)						
Net sales	818,699	825	-	660	1,485	0.2%
Cost of sales	505,119	584	-	8,503	9,087	1.8%
Other revenues	11,818	43	-	10	53	0.4%
Distribution costs	76,105	31	-	714	745	1.0%
G&A expenses	92,247	4	-	1,068	1,072	1.2%

First nine months 2016						
(€000)	Total	Non-consolidated subsidiaries	Associates	Other related parties	Total related parties	% incid. on caption in financial statements
Net sales	693,022	892	-	880	1,772	0.3%
Cost of sales	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	-	-	725	725	0.9%

The effects on the consolidated balance sheet at 30 September 2017 and 2016 are described below:

30 September 2017						
(€000)	Total	Non-consolidated subsidiaries	Associates	Other related parties	Total related parties	% incid. on caption in financial statements
Trade receivables	234,705	1,371	-	509	1,880	0.8%
Other financial assets	1,761	2	-	-	2	0.1%
Trade payables	127,051	47	-	1,698	1,745	1.4%

30 September 2016						
(€000)	Total	Non-consolidated subsidiaries	Associates	Other related parties	Total related parties	% incid. on caption in financial statements
Trade receivables	195,100	1,097	-	434	1,531	0.8%
Trade payables	98,901	54	-	361	415	0.4%

Relations with non-consolidated subsidiaries

Relations with non-consolidated subsidiaries are as follows:

(€000)	Receivables		Revenues	
	<u>30/09/2017</u>	<u>30/09/2016</u>	<u>2017</u>	<u>2016</u>
Interpump Hydraulics Perù	986	881	263	521
General Pump China Inc.	289	216	509	415
Interpump Hydraulics Rus	<u>96</u>	<u>-</u>	<u>96</u>	<u>-</u>
<i>Total subsidiaries</i>	<u>1,371</u>	<u>1,097</u>	<u>868</u>	<u>936</u>

(€000)	Payables		Costs	
	<u>30/09/2017</u>	<u>30/09/2016</u>	<u>2017</u>	<u>2016</u>
Interpump Hydraulics Perù	5	-	116	-
Interpump Hydraulics Rus	1	-	-	-
General Pump China Inc.	<u>42</u>	<u>54</u>	<u>499</u>	<u>478</u>
<i>Total subsidiaries</i>	<u>48</u>	<u>54</u>	<u>615</u>	<u>478</u>

(€000)	Loans		Financial income	
	<u>30/09/2017</u>	<u>30/09/2016</u>	<u>2017</u>	<u>2016</u>
Inoxpa Poland Sp ZOO	<u>2</u>	=	=	=
<i>Total subsidiaries</i>	<u>2</u>	=	=	=

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 €3,553k (€3,103k in 9M 2016) and consultancy services provided by entities connected with directors and statutory auditors of the Parent company for €92k (€69k in 9M 2016). Costs for rentals were recorded under the cost of sales in the amount of €2,525k (€2,319k in 9M 2016), under distribution costs in the amount of €503k (€238k in 9M 2016) and under general and administrative expenses in the amount of €25k (€46k in 9M 2016). Consultancy costs were allocated to distribution costs in the amount of €45k (€45k also in 9M 2016) and to general and administrative expenses in the amount of €247k (€24k in 9M 2016). Revenues from sales in the period to 30 September 2017 included revenues from sales to companies owned by Group shareholders or directors in the amount of €660k (€880k in the period to 30 September 2016). In addition, the cost of sales includes purchases from companies controlled by minority shareholders or Group company directors in the amount of €5,560k (€5,886k in 9M 2016).

Moreover, further to the signing of building rental contracts with other related parties, at 30 September 2017 the Group has commitments of €13,566k (€16,934k at 30 September 2016).

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 have not been any substantial changes in relation to the disputes or contingent liabilities existing at 31 December 2016.