25. Financial instruments and risk management

Categories of financial instruments

The company's financial instruments are broken down by category in the following table, which also shows their fair value:

December 31, 2014 (Amounts in thousands of euros)	**Note**	**Loans and receivables**	**Financial assets at fair value through profit or loss**	**Hedging derivatives**	**Held-to-maturity investments**	**Available-for-sale financial assets**	**Total**	**Fair value**
Financial assets								
Non-current financial assets	4	20,344			18,739		39,083	39,083
Trade receivables	8	1,052,391					1,052,391	1,052,391
Other current financial assets	9	435,827			99		435,926	435,926
Derivatives	9							
Cash and cash equivalents	12	380,867					380,867	380,867
Total		**1,889,429**			**18,838**		**1,908,267**	**1,908,267**

December 31, 2014 (Amounts in thousands of euros)	**Note**	**Other liabilities at amortized cost**	**Financial liabilities at fair value through profit or loss**	**Hedging derivatives**	**Total**	**Fair value**
Financial liabilities						
Bank loans and other facilities	14	934,188			934,188	961,512
Bonds	15	404,529			404,529	427,120
Finance lease payables	16	125,415			125,415	125,415
Derivatives	17			293	293	293
Trade payables to suppliers	21	863,255			863,255	863,255
Total financial liabilities		**2,327,387**		**293**	**2,327,680**	**2,377,595**

December 31, 2013 (Amounts in thousands of euros)	**Note**	**Loans and receivables**	**Financial assets at fair value through profit or loss**	**Hedging derivatives**	**Held-to-maturity investments**	**Available-for-sale financial assets**	**Total**	**Fair value**
Financial assets								
Non-current financial assets	4	18,943			10,867		29,810	29,810
Trade receivables	8	840,046					840,046	840,046
Other current financial assets	9	226,597					226,597	226,597
Derivatives	9		392				392	392
Cash and cash equivalents	12	310,442					310,442	310,442
Total		**1,396,028**	**392**		**10,867**		**1,407,287**	**1,407,287**

December 31, 2013 (Amounts in thousands of euros)	**Note**	**Other liabilities at amortized cost**	**Financial liabilities at fair value through profit or loss**	**Hedging derivatives**	**Total**	**Fair value**
Financial liabilities						
Bank loans and other facilities	14	456,764			456,764	453,678
Bonds	15					
Finance lease payables	16	34			34	34
Derivatives	17					
Trade payables to suppliers	21	476,228			476,228	476,228
Total financial liabilities		**933,026**			**933,026**	**929,940**

The note column gives the section in which the relevant item is described.
Reference should be made to the section on accounting policies for information on the fair value measurement of these items. Specifically, their fair value is based on the present value of the estimated forecast cash flows.

Risk management

Impregilo is exposed to financial risks, including the following:

- ***market risk*** deriving from the company's exposure to interest rate fluctuations and exchange rate fluctuations;
- ***credit risk*** deriving from the company's exposure to potential losses arising from customers' non-compliance with their obligations;
- ***liquidity risk*** deriving from the risk that the financial resources necessary to meet obligations may not be available at the agreed terms and deadlines.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk and interest rate risk.

Currency risk

Salini Impregilo's international presence entails its exposure to the risk of fluctuations in exchange rates of the Euro and the currencies of the various countries in which it operates. Currency risk at December 31, 2014 mainly related to the following currencies:

- Dollar (United States)
- SICAD2 (Venezuela)
- Tenge (Kazakhstan)

The Group's currency risk management strategy is essentially based on the following policies:

- agreement of contractual considerations for works and projects in countries with weak currencies using a primarily multi-currency format, in which only a portion of the consideration is expressed in local currency;
- use of portions of the contractual considerations in local currency mainly to cover project expenses to be incurred in that currency;
- analysis of exposure in US dollars on a cumulative and prospective basis with consistent deadlines and setting up forward transactions in the same currency to hedge the company's net exposure at those deadlines.

During the year the values expressed in Venezuelan currency were adjusted to the official exchange rate ("SICAD 2") adopted by the Group from June 30, 2014, which led to a substantial depreciation compared to the values using the prior official exchange rate ("CENCOEX", formerly known as "CADIVI").
Adoption of the above-mentioned policies has contained Salini Impregilo S.p.A.'s exposure to currency risk, which only relates to the US dollar (USD), the Venezuelan currency (SICAD2) and the Kazakh currency (KZT).
Given the above description of Salini Impregilo S.p.A.'s strategy to hedge currency risk on currencies other than the US dollar or other strong currencies, whereby they are hedged directly in the contract, it did not perform a sensitivity analysis of the Venezuelan currency, the depreciation of which had impacts on the income statement for the year, as has already been adequately disclosed in the preceding sections.
Had the Euro appreciated or depreciated by 5% against the US dollar at year end, the pre-tax profit for the year would have been respectively lower or greater by €6.2 million, assuming that all other variables remained constant, mainly due to unrealized exchange rate losses (gains) on net assets in US dollars. A similar change at the end of the previous year would have led to a €5.3 million decrease (increase in the case of depreciation) in the pre-tax profit for the year, mainly due to unrealized exchange rate losses (gains) on net assets in US dollars.
Had the Euro appreciated or depreciated by 15% against the SICAD2 at year end, the pre-tax profit for the year would have been respectively

lower or greater by €1.7 million, assuming that all other variables remained constant, mainly due to unrealized exchange rate losses (gains) on net assets in Venezuelan currency. An equivalent change at December 31, 2013 cannot be measured as this currency was introduced in 2014.
With regard to the Kazakh currency, if the Euro, at December 31, 2014, had appreciated (or depreciated) by 5% against that currency, assuming all other variables as constant, the consolidated earnings before tax for the year would have been higher (or lower in the case of depreciation) by €13.9 million, mainly due to unrealized exchange rate losses (gains) on net liabilities in KZT. Exposure to this currency was not material at December 31, 2013.

Interest rate risk

Impregilo has adopted a combined strategy of streamlining operations by disposing of non-strategic assets, containing debt and hedging interest rate risks on a portion of the non-current structured loans through interest rate swaps (IRSs).

The financial risks arising from market interest rate fluctuations to which the company is potentially exposed and which are monitored by the relevant company personnel relate to non-current floating rate loans. Such risk is mitigated by interest accrued on short-term investments of liquidity available at the Italian-based consortia and consortium companies and foreign subsidiaries, which are used to support the company's operations.

Had interest rates increased or decreased by an average 75 basis points in 2014, the pre-tax profit for 2014 would have been respectively lower or greater by €9.0 million, assuming that all other variables remained constant and without considering cash and cash equivalents. A similar change in 2013 would have led to a €1.6 million decrease or increase in the pre-tax profit for the year, assuming that all other variables remained constant.

Credit risk

The credit risk is that deriving from the company's exposure to potential losses arising from customers' (which are mostly governments or state bodies) non-compliance with their obligations.
Management of this risk is complex, starting as early as the assessment of bids, through a careful analysis of the characteristics of the countries in which the Group's activities should be carried out and the customers, which are usually state or similar bodies, requesting a bid.

Therefore, this risk can be essentially assimilated to the country risk. An analysis of this risk based on the age of the outstanding amounts is not very meaningful, since the receivables should be assessed together with the related working capital items, especially those reflecting the net exposure to customers (positive and negative work in progress, contractual advances and progress payments and advances) in relation to contract work in progress as a whole.
A breakdown of working capital by country, as shown in the section on segment reporting, is set out below:

Working capital by country (Amounts in thousands of euros)	**December 31, 2014**	**December 31, 2013**
Italy	775,445	73,095
Other EU countries	(44,850)	(112,970)
Other non-EU countries	(1,826)	(2,716)
America	(62,638)	764,925
Asia/ME	(223,446)	(64,040)
Rest of the world	118,642	(7,678)
Australia	(14,545)	(1,950)
Elimination	(87,043)	-
Total	**459,739**	**648,666**

The reconciliation of the reclassified consolidated statement of financial position details the items included in working capital.

Impregilo's exposure to customers, broken down by contract location, is analyzed below:

Customer by contract location	Receivables	Positive WIP	Negative WIP and contractual advances	Total	Allowances
December 31, 2014					
Italy	454,285	289,315	(33,396)	710,204	
Other EU countries	9,463	44,993	(21,927)	32,529	
Other non-EU countries	117	-	-	117	
America	233,196	232,978	(11,812)	454,362	
Asia/ME	63,544	43,367	(242,291)	(135,380)	
Rest of the world	221,489	155,139	(480,914)	(104,286)	
Australia	4,344	-	(12,829)	(8,485)	
Total	**986,438**	**765,792**	**(803,169)**	**949,061**	**-**
December 31, 2013					
Italy	458,262	188,119	(77,002)	569,379	
Other EU countries	6,566	22,216	(651)	28,130	
America	294,011	219,158	(11,770)	501,399	9,175
Asia/ME	35,268	8,067	(108,578)	(65,243)	
Rest of the world		3,884	(482)	3,402	
Australia	1,395			1,395	
Total	**795,502**	**441,444**	**(198,483)**	**1,038,462**	**9,175**

Liquidity risk

Liquidity risk derives from the risk that the financial resources necessary to meet obligations may not be available to the company at the agreed terms and deadlines.

The company's strategy aims at ensuring that each ongoing contract is financially independent. This strategy is strictly monitored centrally.

A breakdown of financial liabilities by composition and due date (based on undiscounted future cash flows) is set out below:

(Amounts in thousands of euros)	December 31, 2015	December 31, 2016	December 31, 2019	After	Total
Current account facilities	11,436				11,436
Bond issues	24,500	24,567	438,797		487,864
Bank and other loans	593,101	378,281	18,164	-	989,546
Finance lease payables	36,742	36,317	52,343	14	125,416
Interest rate derivatives	293				293
Gross financial liabilities	**666,072**	**439,165**	**509,304**	**14**	**1,614,555**
Trade payables	863,255				863,255
Total	**1,529,327**	**439,165**	**509,304**	**14**	**2,477,810**

Future interest has been estimated based on the market interest rates at the date of preparation of these Consolidated financial statements, summarized in the notes.

The prior year figures are given below for comparative purposes:

(Amounts in thousands of euros)	December 31, 2014	December 31, 2015	December 31, 2018	After	Total
Current account facilities	85,172				85,172
Bank and other loans	272,897	24,749	85,934		383,580
Finance lease payables	22	12			34
Gross financial liabilities	**358,091**	**24,761**	**85,934**	**-**	**468,786**
Trade payables	476,228				476,228
Total	**834,319**	**24,761**	**85,934**	**-**	**945,014**

Liquidity risk management is mainly based on containing debt and maintaining a balanced financial position.
Loans (principal) and trade payables (net of advances to suppliers) falling due before March 31, 2015 are compared with the cash and cash equivalents that can be used to meet such obligations in the table below.

(Amounts in thousands of euros)	
Total current financial commitments	*349,123*
of which: due before March 31, 2015	198,255
Cash and cash equivalents	379,261
Difference	**181,006**

Fair value measurement hierarchy

IFRS 7 requires that the fair value of financial instruments recognized in the statement of financial position be classified using a fair value hierarchy that reflects the significance of the inputs used to determine fair value. There are three different levels:

- Level 1 - Fair values measured using quoted prices in active markets;
- Level 2 - Fair values measured using valuation techniques for which inputs significant to the fair value measurement are based on observable market data;
- Level 3 - Fair values measured using valuation techniques for which inputs significant to the fair value measurement are based on unobservable market data.

Financial instruments recognized by Salini Impregilo S.p.A. at fair value are classified at the following levels:

(Amounts in thousands of euros)	Note	Level 1	Level 2	Level 3
Derivative assets	9		-	
Derivative liabilities	17		(293)	
Total		**-**	**(293)**	**-**

There were no movements from Level 1 to Level 2 during the year.