26. Financial instruments and risk management

Categories of financial instruments

The Group'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	71,320			17,804		89,124	89,124
Trade receivables	8	1,680,303					1,680,303	1,680,303
Other current financial assets	9	145,475			11,433		156,908	156,908
Derivatives	9							
Cash and cash equivalents	**12**	**1,030,925**					**1,030,925**	**1,030,925**
Total		**2,928,023**			**29,237**		**2,957,260**	**2,957,260**

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	15	703,730			703,730	729,859
Finance lease payables	17	162,541			162,541	162,541
Bonds	16	560,618			560,618	577,120
Derivatives	18			5,244	5,244	5,244
Trade payables to suppliers	22	1,426,744			1,426,744	1,426,744
Total financial liabilities		**2,853,633**		**5,244**	**2,858,877**	**2,901,508**

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	40,624			8,285		48,909	48,909
Trade receivables	8	1,767,620					1,767,620	1,767,620
Other current financial assets	9	302,923			590		303,513	303,513
Derivatives	9			1,016			1,016	1,016
Cash and cash equivalents	12	1,127,276					1,127,276	1,127,276
Total		**3,238,443**		**1,016**	**8,875**		**3,248,334**	**3,248,334**

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	15	993,755			993,755	993,279
Finance lease payables	17	173,830			173,830	173,830
Bonds	16	563,696			563,696	563,696
Derivatives	18			4,354	4,354	4,354
Trade payables to suppliers	22	1,263,495			1,263,495	1,263,495
Total financial liabilities		**2,994,776**		**4,354**	**2,999,130**	**2,998,654**

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

Risk management

Salini Impregilo Group is exposed to financial risks, including the following:

- **market risk** deriving from the Group's exposure to interest rate fluctuations and exchange rate fluctuations;
- **credit risk** deriving from the Salini Impregilo Group'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 for the Salini Impregilo Group 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

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)
- Naira (Nigeria)
- SICAD2 (Venezuela)
- Dirham (United Arab Emirates)
- Tenge (Kazakhstan)
- Ringgit (MYR)

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 Group'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 the Salini Impregilo Group's exposure to currency risk, which only relates to the US dollar (USD), the Venezuelan currency (SICAD2), the Nigerian currency (Naira), the United Arab Emirates Dirham (AED), the Kazakh currency (KZT) and the Malaysian currency (MYR).

Given the above description of the Group'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.

With regard to the US Dollar, 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 €7.2 million, mainly due to unrealized exchange rate losses (gains) on net liabilities in US Dollars. A similar change at December 31, 2013 would have led to a €3.6 million decrease (increase in the case of depreciation) in the pre-tax profit for the year.

With regard to the Nigerian 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 €6.3 million, mainly due to unrealized exchange rate losses (gains) on net liabilities in Naira. An equivalent change at December 31, 2013 would have led to a €5.2 million decrease (increase in the case of depreciation) in the pre-tax profit for the year.

With regard to the Venezuelan currency, if the Euro, at December 31, 2014, had appreciated (or depreciated) by 15% 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 €1.7 million, mainly due to unrealized exchange rate losses (gains) on net liabilities in SICAD2. An equivalent change for the year ended December 31, 2014 cannot be calculated since this currency was introduced in 2014.

With regard to the United Arab Emirates 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 lower (or higher in the case of depreciation) by €2.5 million, mainly due to unrealized exchange rate losses (gains) on net assets in AED. An equivalent change at December 31, 2013 would have led to a €3.4 million decrease (increase in the case of depreciation) in the pre-tax profit for the year.

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 assets in KZT. At December 31, 2013, the Group's exposure to this currency was not material.

With regard to the Malaysian 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 lower (or higher in the case of depreciation) by €2.6 million, mainly due to unrealized exchange rate losses (gains) on net assets in MYR. At December 31, 2013, the Group's exposure to this currency was not material.

Interest rate risk

The Salini Impregilo Group 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 Group 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 Group'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 €12.4 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 €9.0 million decrease or increase in the pre-tax profit for the year, assuming that all other variables remained constant. The sensitivity test on the interest rate derivative of Impregilo Parking Glasgow was only performed on cash flows generated during the year; fair value was not analyzed as the derivative qualifies for hedge accounting and the effects of a change in interest rates would only impact equity.

Credit risk

Credit risk is that deriving from the Group'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	923,445	295,412
Other EU countries	(157,827)	(514,337)
Other non-EU countries	1,206	(7,017)
America	(81,278)	199,736
Asia/ME	(386,391)	(140,121)
Rest of the world	124,660	(75,778)
Australia	(19,829)	540
Elimination	(72,675)	495,662
Total	**331,311**	**254,097**

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

The Group'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	772,943	364,167	(149,012)	988,098	85,219
Other EU countries	57,337	80,466	(144,822)	(7,019)	1,271
Other non-EU countries	34,132	16,715	(11,896)	38,951	54
America	297,280	348,819	(170,027)	476,072	4,862
Asia/ME	84,420	64,531	(352,829)	(203,878)	3,978
Rest of the world	425,627	378,071	(877,949)	(74,251)	5,931
Australia	8,564	-	(19,349)	(10,785)	-
Total	**1,680,303**	**1,252,769**	**(1,725,884)**	**1,207,188**	**101,315**
December 31, 2013					
Italy	944,398	317,102	(110,516)	1,150,984	114,368
Other EU countries	19,048	78,471	(254,145)	(156,626)	1,574
Other non-EU countries	14,958	3,698	(2,717)	15,939	-
America	351,987	309,188	(176,865)	484,310	9,002
Asia/ME	85,066	111,395	(188,038)	8,423	-
Rest of the world	352,115	337,160	(1,001,707)	(312,432)	5,931
Australia	48	-	-	48	-
Total	**1,767,620**	**1,157,014**	**(1,733,988)**	**1,190,646**	**130,875**

Liquidity risk

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

The Group'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	27,711				27,711
1Bond issues	181,026	24,567	438,797		644,390
Bank loans and borrowings	297,169	400,074	34,919	17,293	749,455
Finance lease payables	60,231	40,604	56,233	5,473	162,541
Interest rate derivatives	293			4,951	5,244
Gross financial liabilities	**566,430**	**465,245**	**529,949**	**27,717**	**1,589,341**
Trade payables	1,426,743				1,426,743
Total	**1,993,173**	**465,245**	**529,949**	**27,717**	**3,016,084**

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	126,624				126,624
Bond issues	11,154	159,535	393,007		563,696
Bank loans and borrowings	217,324	476,547	119,874	60,728	874,473
Finance lease payables	63,954	57,480	49,174	3,222	173,830
Interest rate derivatives	4			4,350	4,354
Gross financial liabilities	**419,060**	**693,562**	**562,055**	**68,300**	**1,742,977**
Trade payables	1,263,495				1,263,495
Total	**1,682,555**	**693,562**	**562,055**	**68,300**	**3,006,472**

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.
Liquidity risk management is mainly based on containing debt and maintaining a balanced financial position. This strategy is pursued by each of the Group's operating companies.
Loans 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.

	Total financial commitments falling due by March 31, 2015	Cash and cash equivalents	Difference
Salini Impregilo S.p.A.	198,255	379,261	181,006
company	114,614	198,864	84,250
Special purpose vehicles (SPVs)	76,811	1,541	(75,270)
Consortia	57,935	112,088	54,153
SPVs consolidated line-by-line	115,871	149,942	34,071
Joint Operation	98,573	84,541	(14,032)
Consolidated total	**662,059**	**926,237**	**264,178**

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 the Salini Impregilo Group at fair value are classified at the following levels:

(Amounts in thousands of euros)	Note	Level 1	Level 2	Level 3
Derivative assets	13		-	
Derivative liabilities	22		(5,244)	
Total		**-**	**(5,244)**	**-**

There were no movements from Level 1 to Level 2 during 2014 or vice versa.