

## Notes to the consolidated financial statements

### Introduction

The Impregilo Group has prepared its 2013 consolidated financial statements on a going concern basis. As required by Regulation 1606/2002 issued by the European Parliament and Council, implemented in Italy by Legislative decree no. 38/2005, these consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union at 31 December 2013. They comprise a statement of financial position, an income statement, a statement of comprehensive income, a statement of cash flows, a statement of changes in equity and these notes.

The consolidated financial statements have been prepared using the historical cost principle, except for those items which are recognised at fair value in accordance with the IFRS, as described in the section on "Accounting policies". The carrying amounts of assets and liabilities, hedged with transactions which qualify for hedge accounting, are adjusted to reflect changes in fair value related to the hedged risks.

The statement of financial position, income statement, statement of comprehensive income, statement of cash flows and statement of changes in equity are presented in euros, the functional currency, and the amounts are shown in thousands of euros, unless stated otherwise.

### Changes in standards

The basis of consolidation, the translation criteria applied to translate foreign currency financial statements, the accounting policies, measurement criteria and estimates adopted by the Group are consistent with those used to prepare the consolidated financial statements at 31 December 2012, except for that set out below for the standards and amendments applied after 1 January 2013 as they have become mandatory following completion of the related endorsement procedures by the relevant authorities.

On the 12 May 2011 the IASB issued IFRS 13 - *Fair value measurement*, which clarifies in one standard how fair value should be determined and its use in the different measurement contexts set out in the IFRS.

The standard was published in the EU Official Journal on 29 December 2012 and is applicable to annual periods beginning on or after 1 January 2013.

On 16 June 2011, the IASB issued an amendment to IAS 1 - *Presentation of financial statements*. This amendment requires the grouping of statement of comprehensive income items depending on whether they can be subsequently reclassified to profit or loss. The amendment was published in the EU Official Journal on 6 June 2012 and is applicable to annual periods beginning on or after 1 July 2012.

On the same date, the IASB also published the revised IAS 19 - *Employee benefits*, which eliminates the corridor approach, requiring presentation of the plan deficit or surplus in its entirety in the statement of financial position and the recognition of the service cost and net interest expense in profit or loss. Actuarial gains and losses arising on remeasurement of the liabilities and assets are recognised under other comprehensive income (expense). Moreover, the return on plan assets recognised in net financial expense should be measured using the liability's discount rate rather than that of the expected return. The amendment also requires additional disclosures to be provided in the notes. The revised standard was published in the EU Official Journal on 6 June 2012 and is applicable to annual periods beginning on or after 1 January 2013. Early adoption is allowed. The application of this

standard led to the creation of a specific equity reserve, also for the comparative period.

On 16 December 2011, the IASB published an amendment to IFRS 7 - *Disclosures - Offsetting financial assets and financial liabilities* to introduce new disclosures in order to allow users of financial statements to assess the effects of offsetting. The disclosure relates to enforceable master netting arrangements and similar arrangements. The amendment was published in the EU Official Journal on 29 December 2012. It is applicable retrospectively to annual periods beginning on or after 1 January 2013.

IFRIC 20 - Stripping costs in the production phase of a surface mine (EU regulation 1255/2012 of 11 December 2012) provides guidance about when and how to account for stripping costs in the production phase as an asset and the initial recognition and subsequent measurement of the asset. It is applicable to annual periods beginning on or after 1 January 2013.

On 27 March 2013, EC Regulation 301-2013 was issued, which implemented certain Improvements to IFRS at EU level for the period 2009-2011. The improvements concern the following aspects in particular:

- IAS 1 - clarifications regarding the presentation of comparative information;
- IAS 16 - classification of spare parts and servicing equipment;
- IAS 32 - tax effect of the distribution to holders of equity instruments;
- IAS 34 - additional disclosure in interim financial statements regarding total segment assets and liabilities.

The adoption of the above accounting standards did not have significant effects on the Group's consolidated financial statements as at 31 December 2013.

The following standards, amendments and interpretations will be applied after the current reporting period and the Group has not adopted them early.

On 29 May 2013 the IASB published an amendment to IAS 36 "Impairment of non-financial assets - Recoverable Amount Disclosures for Non-Financial Assets" to provide guidance on the recoverable amount of assets, when this amount is based on fair value less costs of disposals, for impaired assets. The amendments establish that disclosure of the

recoverable amount for assets or cash generating units is only required when an impairment or a reversal of a previous impairment have been recognised. The amendment also provides guidance on the disclosure of the impairment of assets, when the recoverable amount has been determined on the basis of fair value less costs to sell.

It is applicable to annual periods beginning on or after 1 January 2014 and will not result in any significant changes for the Group.

On 12 November 2009, the IASB issued the first part of *IFRS 9 - Financial instruments*, which will replace IAS 39 - *Financial instruments: recognition and measurement*. This part covers the classification of financial instruments and is part of a three-phase project. The next parts will cover how to determine impairment of financial assets and application of hedge accounting, respectively. Issue of the new standard, designed to simplify and reduce the complexity of recognising financial instruments, provides for the classification of financial instruments into three categories which the Group will define based on its business model, contractual terms and the related cash flows of the instruments.

On 28 October 2010, the IASB issued new requirements for the recognition of financial liabilities. They will be integrated into IFRS 9 to complete the classification and measurement phase as part of the project to replace IAS 39.

On 16 December 2011, the IASB published the *Mandatory effective date and transition disclosures* (amendment to IFRS 9 and IFRS 7), which postpones the application date for IFRS 9 from 1 January 2013 to 1 January 2015. However, the standard may still be applied early.

IFRS 1 Amendment "First-time Adoption of International Financial Reporting Standards - Government loans (EU Regulation 185/2013 of 4 March 2013)" covers government loans with a below-market rate of interest. It is applicable to annual periods beginning on or after 1 January 2013.

On 12 May 2011, the IASB issued IFRS 10, IFRS 11 and IFRS 12 and amendments to IAS 27 and IAS 28. The main changes covered:

- *IFRS 10 - Consolidated financial statements*  
This standard replaces SIC 12 Consolidation - Special purpose entities and certain parts of IAS 27 - Consolidated and separate financial statements. The new standard identifies a single model of control and provides more detailed guidelines on checking its existence. This provision is particularly important for cases that qualify as "de facto control".
- *IFRS 11 - Joint arrangements*  
This standard replaces IAS 31 - Interests in joint ventures and SIC 13 - Jointly controlled entities - Non-monetary contributions by venturers. It defines the criteria for the identification of joint arrangements and how they should be accounted for based on the rights and obligations arising from the contract, regardless of its legal form. The new standard provides for different recognition depending on whether the transaction is a joint operation or a joint venture. It eliminates the possibility to treat the same types of arrangements differently and, vice versa, defines a single model based on the contractual rights and obligations.

- *IFRS 12 - Disclosure of interests in other entities*  
The standard sets out the disclosures to be provided about any type of interest in other entities, including joint arrangements, associates, special purpose entities and other entities not included in the financial statements. Its aim is to provide information to allow users of financial statements to best understand the nature of risks associated with interests in strategic entities (qualified or not) which the entity intends to hold on to for the medium to long-term.
- *IAS 27 - Separate financial statements*  
The standard defines how investments in subsidiaries, associates and joint ventures should be treated in the separate financial statements. Former standard IAS 27 has been amended following the changes introduced by IFRS 10 and IFRS 11.
- *IAS 28 - Investments in associates and joint ventures*  
The standard defines how investments in associates and joint ventures should be treated. The standard has been amended following the changes on former standard IAS 28 introduced by IFRS 10 and IFRS 11.

IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28 were published in the EU Official Journal on 29 December 2012. Their latest application date is the start of the first annual period beginning on or after 1 January 2014.

On 16 December 2011, the IASB published an amendment to IAS 32: - *Offsetting Financial Assets and Financial Liabilities* to clarify the rules for offsetting financial assets and liabilities. The amendment clarified that:

- the right of set-off shall exist at the reporting date instead of being contingent on a future event;
- this right shall be legally enforceable by the counterparties during the normal course of business or in the event of insolvency or bankruptcy of the entity and all of the counterparties.

The amendment was published in the EU Official Journal on 29 December 2012. It is applicable retrospectively to annual periods beginning on or after 1 January 2014.

Except for IFRS 10 and 11, adoption of the above amendments will not have significant effects on the Group's consolidated financial statements. In-depth assessments are still underway, including by the relevant authorities and technical bodies, with respect to the adoption of IFRS 10 and 11, considering the potential effects that the new standard may have on the consolidated financial statements of entities like Impregilo S.p.A. which hold significant investments, directly and indirectly. The Group is currently assessing this issue with utmost attention, in collaboration with the above-mentioned technical bodies. As at the date of preparation of these consolidated financial statements, on the basis of the above-mentioned assessments, which are still under way, no significant impacts are expected from an earnings perspective. There are, however, still some problems relating in particular to the classification of certain project entities (SPVs) with the various cases covered by IFRS 11.

On 12 December 2013, the IASB published the documents *Annual Improvements 2010-2012* and *Annual Improvements 2011-2013* as part of the program of annual improvements to the standards. Most of the changes are clarifications or corrections to existing IFRSs or amendments arising from changes previously made to the IFRS. As at the date of this annual report, the competent bodies of the European Union had not yet completed the process of endorsement of the amendment.

## Libya

Impregilo is active in Libya through its subsidiary Impregilo Lidco Libya General Contracting Company (Impregilo Lidco), in which it has a 60% interest. The other shareholder is Libyan.

In the past, the subsidiary had acquired important contracts for the construction of:

- infrastructural works in Tripoli and Misuratah;
- university campuses in Misuratah, Tarhunah and Zliten;
- a new Conference Hall in Tripoli.

With respect to the political upheaval in Libya from February 2011 to the date of this Report, it should be noted that the subsidiary has always acted in accordance with the contractual terms and the investments made up until the deterioration of the country's political situation are fully covered by the contractually provided for advances.

The works covered by the contracts agreed by the Libyan subsidiary are works of national interest which are currently expected to be continued. It is clear that there is considerable doubt about the subsidiary's effective ability to carry out the contracts compared to the forecasts made before the crisis exploded. Accordingly, Impregilo does not expect significant new growth in the production activities of its subsidiary Impregilo Lidco in the near future.

The Group commenced the procedures necessary to restart industrial activities in 2012, even though the local situation continues to be complicated and full security conditions are not guaranteed. However, it resumed commercial and contractual relations with the clients to open up the building sites again and restore the financial conditions originally provided for in the related contracts. In 2012, the Group obtained access to more precise information about the figures that impact its consolidated financial statements. As a result, Impregilo updated the carrying amounts of the Libyan subsidiary's assets, liabilities, revenue and expense in its consolidated financial statements as at 31 December 2012, in line with its accounting policies, based on the information gathered during the year and the valuations performed by the subsidiary's independent legal advisors. Compared to the situation presented in the Group's 2011 consolidated financial statements, which was based on the latest available figures at 31 March 2011, the subsidiary's net assets at 31 December 2013 have been progressively impaired up to approximately € 40.7 million (of which € 26.1 million as at 31 December 2012) to reflect the above events in relation to contract work in progress. These losses were included in contract work in progress as the Group deems them recoverable considering the renewed contacts with clients. Net cash and cash equivalents held in Libya decreased by roughly € 13.9 million due to costs incurred locally in the period from 31 March 2011 to 31 December 2013.

In early 2013, the Group carried out a physical count of the plant, machinery and supplies for the main building sites, recognised at € 29.9 million, although complete access to all the sites where the assets are held was not possible for safety reasons. Given that any additional costs that may arise following completion of the count would be covered by the clients as per the contractual terms for force majeure, as also assessed by the legal advisors assisting the subsidiary, the Group does not believe that any new significant risks will arise from the above valuations with respect to the recovery of the company's net assets, thanks in part to the actions taken and requests and claims presented to the client.

The Group is monitoring the situation closely and it cannot be excluded that events which cannot currently be foreseen may take place after the date of preparation of this Annual Report that would require changes to the assessments made to date.

## **Non-current assets held for sale and discontinued operations**

Based on information that came to light in previous years, in its previous annual financial statements the Group decided that the conditions continued to exist for application of IFRS 5 - Non-current assets held for sale and discontinued operations. Therefore, it has recognised the USW Campania project net assets and operations separately in the statement of financial position and income statement.

Due to reasons outside Impregilo's control, the period for completion of the sale has extended beyond the year allowed by IFRS 5. Despite this, the Group's commitment to finalising the sale as described in the Annual Report remains unchanged. Therefore, the directors have not deemed it necessary to change the accounting treatment of the assets in question as provided for in IFRS 5.9.

During the year, following the Supreme Court's ruling and the results of the enforcement procedures carried out by the Group in respect of the dispute about the claims made, the Group reversed the impairment losses on the disputed assets recognised in previous years and recognised

the legal interest accrued up to the date of this Annual Report. More information about this dispute and the overall situation is available in the section "Non-current assets held for sale" in the Directors' report.

## **Format and content of the consolidated financial statements**

The Group's consolidated financial statements include the financial statements of the parent, Impregilo S.p.A., and the Italian and foreign operating companies controlled directly or indirectly by Impregilo S.p.A.

The financial statements at 31 December 2013 approved, where applicable, by the internal bodies of the consolidated companies have been used for consolidation purposes.

The financial statements are prepared by adopting the parent's accounting policies. Where necessary, consolidation adjustments are made to make the items affected by different accounting policies consistent.

A list of the companies and other Impregilo Group entities included in the consolidation scope is set out in the annexes with the schedules showing changes therein during 2013.

## Format of the consolidated financial statements

The Group opted to present its consolidated financial statements at 31 December 2013 in line with previous years as follows:

- Current and non-current assets and current and non-current liabilities are presented separately in the consolidated statement of financial position. Current assets and liabilities are those expected to be realised, sold, used or settled in the Group's normal operating cycle, which usually exceeds 12 months. Non-current assets and liabilities include non-current assets, deferred tax assets, employee benefits, deferred tax liabilities and other balances expected to be realised, sold, used or settled after the Group's normal operating cycle, i.e., more than twelve months after the reporting date.
- The consolidated income statement gives a classification of costs by nature and shows the profit or loss before "Financing income (costs) and gains (losses) on investments" and income taxes. The profit or loss from continuing operations, the profit or loss from discontinued operations and the profit or loss attributable to non-controlling interests and that attributable to the owners of the parent are also presented.
- The consolidated statement of comprehensive income shows all non-owner changes in equity.
- The consolidated statement of cash flows presents the cash flows from operating, investing and financing activities separately. The indirect method is used.

## Basis of consolidation

The consolidated financial statements have been prepared by consolidating the financial statements at 31 December 2013 of Impregilo S.p.A., the parent, and the Italian and foreign companies which the parent directly or indirectly controls.

Control exists when the Group has the power to govern, directly or indirectly, the financial and operating policies of an entity so as to obtain benefits from its activities. Generally speaking, control is presumed to exist when the Group holds more than half of the voting rights either directly or indirectly.

Entities or companies over which Impregilo has joint control, by virtue of an investment therein or specific contractual arrangements, are consolidated using the proportionate method as established by IAS 31.

Investments in associates are measured using the equity method.

The financial statements used for consolidation are modified (made consistent) and reclassified to comply with the Group's accounting policies in line with the currently applicable IFRS.

The financial statements used are expressed in the functional currency, being the local currency or another currency in which most of the economic transactions and assets and liabilities are denominated. The functional currency for the parent's foreign branches is the euro as this is the main currency they use to operate.

Financial statements expressed in currencies other than the euro are translated into euros by applying the closing rates to the statement of financial position items and the average annual rates to the income statement items, as these approximate the spot rates.

Differences arising from the translation of the opening equity using the closing rates and from the translation of assets and liabilities at the spot rate and the income statement items at the average annual rate are taken to the translation reserve.

# Consolidated financial statements at 31 December 2013

The exchange rates used to translate the foreign currency financial statements into euros are as follows:

Currency	31.12.2013 closing rate	2013 average	31.12.2012 closing rate	2012 average
Argentina - ARS	8,989136	7,27739	6,48641	5,84032
Australia - AUD	1,5423	1,3777	1,2712	1,24071
Brazil - BRL	3,2576	2,86866	2,7036	2,50844
Chile - CLP	724,768766	658,324	631,729	624,801
China - CNY	8,3491	8,16463	8,2207	8,10523
Colombia - COP	2.664,4212	2.483,37	2.331,23	2.309,61
Domenican Republic - DOP	1,701922	1,67976	1,66508	1,61407
Libya - LYD	220,886092	221,551	206,104	204,051
Nigeria - NGN	1,3791	1,32812	1,3194	1,28479
Panama - PAB	3,858653	3,5918	3,36777	3,39012
Peru - PEN	5,0211872	4,83561	4,80394	4,6779
Qatar - QAR	0,8337	0,849255	0,8161	0,810871
South Africa - ZAR	58,849369	55,3822	53,1206	50,361
Switzerland - CHF	1,3791	1,32812	1,3194	1,28479
UK - GBP	14,566	12,833	11,1727	10,5511
United States - USD	1,2276	1,23106	1,2072	1,20528
Venezuela - VEF	8,677435	8,00117	6,98411	6,878158306

With regard to Venezuela, on 8 February 2013 the Venezuelan government announced that the system for the purchase and sale of foreign currency known as SITME would no longer operate, whereas the "official" exchange rate set by the Government Central of Venezuela remains in force. Subsequently, on 18 March 2013, the Venezuelan government announced the creation of an alternative foreign currency mechanism called "Supplementary Foreign Currency Administration System" (SICAD). This mechanism, which is also subject to complete government control, is open only to certain production sectors and based solely on public auctions and is consequently completely subject to the actual relationship between demand and supply of local currency against foreign currencies at exchange rates that, although different from the "official" rate, are not yet comparable with the value assigned to the Venezuelan currency in the international currency markets. The new mechanism can be used to cover future transactions, in other words the company cannot participate in the SICAD auction system using the debtor/creditor amounts already existing at the date of the auction. In December 2013 the Venezuelan government allowed the Central Bank to publish a SICAD average rate. As result of the above, Venezuela is currently a country in which several exchange rates are available, and falls within the circumstances

envisaged by IAS 21. In preparing these Annual Financial Statements the CADIVI exchange rate has been used as the spot rate for the translation of the balance sheet items as at 31 December 2013 and the same rate has been used as the average rate for the translation of the income statement items, according to IAS 21.

When an investment in a consolidated entity is sold, the accumulated gain or loss recognised in equity is released to profit or loss.

The consolidation criteria used to prepare these consolidated financial statements may be summarised as follows:

- subsidiaries are consolidated on a line-by-line basis, whereby:
  - a) assets and liabilities, costs and revenue shown in the subsidiaries' financial statements are fully recognised, regardless of the size of the investment therein;
  - b) the carrying amount of the investment is eliminated against the Group's share of its equity;
  - c) the main transactions between consolidated entities, including dividends distributed among Group companies, are eliminated;
  - d) non-controlling interests are shown separately under equity and their share of the profit or loss for the year is similarly shown separately in the income statement.
  
- Investments in associates are measured using the equity method whereby the carrying amount of the investment is adjusted to consider:
  - a) the parent's share of the profits or losses of the associate realised after the acquisition date;
  - b) modifications arising from changes in equity of the associate that are not taken to profit or loss as per the relevant IFRS;
  - c) dividends distributed by the associates;
  - d) any greater value paid at acquisition (measured using the same criteria set out in the section on "Business combinations") and managed pursuant to the relevant standard;
  - e) the share of the profit or loss deriving from application of the equity method, which is taken to profit or loss;
  - f) standardisation to comply with the Group accounting policies, where necessary.
  
- Interests in joint ventures are consolidated using the proportionate method whereby the proportionate amount of the assets, liabilities, costs and revenue of the financial statements of the joint ventures are recognised.

Dividends, revaluations and impairment losses on investments in consolidated companies, gains and losses on the intragroup exchange of investments in consolidated entities are eliminated.

Gains and losses arising from transactions between consolidated companies, which are not realised directly or indirectly through transactions with third parties, are eliminated. Unrealised intragroup losses are recognised when the transaction shows an impairment of the transferred asset.

## **Business combinations**

Business combinations are recognised using the acquisition method set out in IFRS 3 (revised in 2008). Accordingly, the consideration for a business combination is measured at fair value, being the sum of the fair value of the assets acquired and liabilities assumed or incurred by the Group at the acquisition date and the equity instruments issued in exchange for control of the acquired entity. Transaction costs are recognised in profit or loss when incurred.

The contingent consideration, included as part of the transfer price, is measured at acquisition-date fair value. Any subsequent changes in fair value are recognised in profit or loss.

The identifiable assets acquired and the liabilities assumed are recognised at their acquisition-date fair value.

Goodwill is measured as the difference between the aggregate of the consideration transferred, the amount of any non-controlling interests (NCI) and the acquisition-date fair value of the acquirer's previously-held equity interest in the acquiree and the net fair value of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If the value of the net assets acquired and liabilities assumed at the acquisition date exceeds the aggregate of the consideration transferred, the amount of any non-controlling interests (NCI) and the acquisition-date fair value of the acquirer's previously-held equity interest in the acquiree, this excess is immediately recognised through profit or loss as income from the transaction completed.



NCI can be measured at fair value or at their proportionate share of the fair value of the net assets of the acquiree at the acquisition date. The measurement method is decided on a transaction by transaction basis.

## Business combination achieved in stages (step acquisition)

In the case of step acquisitions, the Group's existing investment in the acquiree is measured at fair value on the date that control is obtained. Any resulting adjustments to previously recognised assets and liabilities are recognised in profit or loss. Therefore, the previously held investment is treated as if it had been sold and reacquired on the date that control is obtained.

## Transactions involving NCI

Changes to the investment percentage of a subsidiary that does not entail loss of control are treated as equity transactions. Therefore, any differences between the acquisition price and the related share of equity in subsequent acquisitions of investments in entities already controlled by the Group are recognised directly in equity. With respect to partial disposals of an investment in a subsidiary while control is retained, any gain or loss is recognised in equity.

## Basis of preparation

The accounting policies adopted to draw up the Group's consolidated financial statements at 31 December 2013 comply with the IFRS and are consistent with those used to prepare the 2012 consolidated financial statements, except for the standards enacted after 1 January 2013, summarised in the section on the "Changes in standards".

## Accounting policies

### Property, plant and equipment

Impregilo Group has opted to recognise property, plant and equipment at purchase or production cost net of accumulated depreciation and any impairment losses.

Depreciation is calculated on a straight-line basis using rates determined based on the assets' residual possible use. The annual rates are as follows:

Category	Depreciation rate
Land	0%
Buildings	3%
Plant and machinery	from 10% to 20%
Industrial and commercial equipment	from 25% to 40%
Other assets	from 12% to 25%

Land and buildings, plant and machinery with a carrying amount to be recovered mainly through their sale (rather than the asset's continued use) are measured at the lower of their carrying amount and fair value less costs to sell. Assets held for sale shall be immediately available for sale and their sale shall be highly probable (i.e., the related commitments already exist). Their sales value shall be reasonable compared to their fair value.

Assets acquired as a result of business combinations are recognised at fair value at the acquisition date and remeasured within a year. Such amount reflects their purchase cost.

After their initial recognition, they are measured at cost, depreciated over their estimated useful lives and shown net of any impairment losses.

When an asset consists of different significant components with different useful lives, they are recognised and subsequently measured separately.

The carrying amount of property, plant and equipment is tested for impairment whenever events or changes in circumstances take place indicating that the carrying amount will not be recovered. Reference should be made to the section on “Impairment of non-financial assets” for details on impairment testing.

Borrowing costs directly related to the acquisition or construction of an asset are capitalised as part of the cost of the asset, to the extent of its recoverable amount. As established by IAS 23 - Borrowing costs, the Group has applied this method to all qualifying assets.

Borrowing costs are capitalised when the costs of the acquisition of the asset and borrowing costs are incurred, and the activities necessary to bring the asset to a condition for its use have been started.

The costs provided for but not yet paid related to qualifying assets are excluded from determination of the amount to be capitalised.

Capitalisation of borrowing costs is suspended during periods in which active development is interrupted.

Moreover, capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

Subsequent expenditure is only capitalised if it increases the future economic benefits of the related asset. All other expenditure is expensed when incurred.

Ordinary maintenance costs are fully expensed when incurred. Costs that increase the carrying amount of assets are allocated thereto and depreciated over their residual economic lives.

Dismantlement and restoration costs of assets used for contract work in progress are added to the cost of the related asset and depreciated in line with the

depreciation pattern of the asset to which they refer when they are foreseeable and objectively determinable.

Leasehold improvements are classified in the different items of property, plant and equipment on the basis of their nature. They are depreciated over the shorter of the estimated useful life of the relevant asset and the residual term of the lease.

### **Leased property, plant and equipment**

Assets held under finance leases whereby all the risks and rewards of ownership are substantially transferred to the Group are recognised as Group assets and classified as property, plant and equipment. The related payable to the lessor is shown under financial liabilities. The lease payment is split into the financial expense, taken to the income statement, and the principal repayment, offset against the financial liability. The carrying amount of the leased asset is determined considering its fair value or, if lower, the present value of the minimum future lease payments.

The depreciation method and subsequent measurement are consistent with those applied to non-leased assets.

Leases where the lessor retains all the risks and rewards of ownership are treated as operating leases. The initial negotiation costs incurred for this type of lease increase the value of the related lease and are recognised over the lease term netted against the revenue generated by the lease. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

## Rights to infrastructure under concession

These rights are covered by IFRIC 12 - Service concession arrangements, issued by the International Financial Reporting Interpretations Committee (IFRIC), which regulates the recognition and measurement of concession arrangements between public sector entities and private sector operators. It was endorsed by the European Commission with EC regulation 254/2009 dated 25 March 2009 and its application is mandatory for financial statements drawn up under IFRS beginning from the year after which it was endorsed. Therefore, Impregilo Group has applied IFRIC 12 since 2010.

The criteria adopted by the Group to apply the interpretation to its concessions are set out below.

### Scope and measurement

Scope: IFRIC 12 is applicable to service concession arrangements when the grantor is a public body and the operator is a private entity, when the following conditions are met:

- (a) the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and
- (b) the grantor controls – through ownership, beneficial entitlement or otherwise – any significant residual interest in the infrastructure at the end of the term of the arrangement.

Measurement of the revenue arising from the concession arrangement: the operator acts as the service provider (construction and management of the work) and recognises the revenue for the construction and upgrade services in accordance with IAS 11 – Construction contracts and the revenue from management of the infrastructure in line with IAS 18 – Revenue.

The grantor pays the operator a consideration for the construction/upgrade services, to be recognised at fair value, which may consist of rights to:

- a) a financial asset (financial asset model);
- b) an intangible asset (intangible asset model).

The first model is applicable when the operator has an unconditional contractual right to receive a specified or determinable amount of cash. The second is applicable when the operator acquires the right to charge for use of a public sector asset that it constructs or upgrades. The amounts are contingent on the extent to which the public uses the service (demand risk).

The concession arrangements to which Impregilo Group is party, thanks to the operators consolidated on a line-by-line or proportionate basis, fall under the intangible asset model. The financial asset model is applicable to certain associates, measured at equity.

Recognition of the intangible asset: the intangible asset is recognised during construction of the infrastructure. The main identified cases are as follows:

- a. *arrangements that cover the construction of a new infrastructure;* the operator recognises the intangible asset in line with the stage of completion of the construction project. During construction, the operator recognises revenue and costs in line with IAS 11 - Construction contracts.
- b. *arrangements that cover management of an existing infrastructure and its extension or upgrading against which the operator acquires specific additional financial benefits;* the operator recognises an increase in the intangible asset as the construction services are provided for these construction and/or upgrade services to be recognised under IAS 11 - Construction contracts.
- c. *arrangements that cover management of an existing infrastructure and specific obligations to extend or upgrade it against which the operator does not acquire specific additional financial benefits;* at initial recognition, the operator recognises a liability equal to the present value of the forecast outlay for the construction services to be provided in the future with, as a balancing item, an additional component of the intangible asset for the contract consideration, which begins to be amortised.

Contractual obligations for the infrastructure's efficiency levels: given that the operator does not meet the requirements for recognition of the infrastructure as "Property, plant and equipment", the accounting

treatment differs depending on the nature of the work carried out and can be split into two categories: (i) work related to normal maintenance of the infrastructure; (ii) replacement and scheduled maintenance at a future date.

The first category relates to normal ordinary maintenance of the infrastructure, the cost of which is recognised in profit or loss when incurred, also under IFRIC 12. Given that the interpretation does not provide for the recognition of the physical asset but of a right, the second category is recognised in line with IAS 37 - Provisions, contingent liabilities and contingent assets, which requires: (i) recognition of an accrual to a provision in profit or loss; and (ii) recognition of a provision for charges in the statement of financial position.

Amortisation of the intangible asset: amortisation of the intangible asset recognised for the rights acquired under the concession arrangement is calculated in line with paragraph 97 of IAS 38 - Intangible assets: "The amortisation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. If that pattern cannot be determined reliably, the straight-line method shall be used".

## **Goodwill and intangible assets with indefinite lives**

Goodwill and other intangible assets with indefinite lives are recognised at cost net of impairment losses.

At 31 December 2013, Impregilo Group did not have any intangible assets with indefinite lives other than goodwill.

Goodwill acquired as part of a business combination is measured as the difference between the aggregate of the acquisition-date fair value of the consideration transferred, the amount of any NCI and the acquisition-date fair value of the acquirer's previously-held equity interest in the acquiree, and the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill deriving from acquisitions is not amortised. It is tested annually for impairment or whenever conditions arise that presume impairment as per IAS 36 - Impairment of assets.

For impairment testing purposes, goodwill acquired as part of a business combination is allocated at the acquisition date to each of the cash-generating units (or groups of cash-generating units - CGU) that will benefit from the acquisition. The carrying amount of goodwill is monitored at cash-generating unit level for internal management purposes.

Impairment is determined by defining the recoverable amount of the cash-generating unit (or group of units) to which the goodwill is allocated. When the recoverable amount of the CGU (or group of CGUs) is lower than the carrying amount, an impairment loss is recognised. When goodwill is allocated to a CGU (or group of CGUs), the asset of which has been partly disposed of, the goodwill allocated to the disposed of asset is considered to determine any gain or loss deriving from the transaction. In this case, the transferred goodwill is measured using the amounts related to the disposed of asset compared to the asset still held by the unit.

## Other intangible assets

Other intangible assets purchased or generated internally are recognised under assets in accordance with IAS 38 - Intangible assets when it is probable that the use of the asset will generate future economic benefits and the cost of the asset can be measured reliably. Those assets with finite useful lives are measured at purchase or development cost and amortised on a straight-line basis over their estimated useful lives. Recoverability of their carrying amount is checked by using the criteria set out in the section on "Impairment of non-financial assets".

The excess of the purchase cost compared to the Group's share of the net fair value of the high capacity business units acquired in the past is classified as other intangible assets and mainly refers to acquisition costs of the business units purchased. The related amortisation is calculated in line with the stage of completion and duration of the work.

## Other non-current assets

Other non-current assets mainly consist of loans and receivables and claims related to completed or nearly completed contracts and companies in liquidation when their liquidation plan provides for the realisation of the assets after twelve months from the reporting date.

These assets are measured at their estimated realisable value, by recognising allowances to adjust their carrying amount accordingly. Claims are only recognised for the amounts matured and that part which is held to be reasonably recoverable. The estimated realisable value is discounted if the time value of money is material depending on when settlement is expected to take place.

## Impairment of non-financial assets

If there is any indication that an intangible asset or an item of property, plant and equipment is impaired, the recoverable amount of the asset is estimated to determine the amount of the impairment loss. Goodwill is tested at least annually for impairment.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

If a binding sales agreement does not exist, fair value is estimated using the observable prices of an active market, recent transactions or the best information available to reflect the amount the Group could obtain by disposing of the asset.

Value in use is determined by discounting to present value the estimated future cash flows expected to arise from the continuing use of an asset, net of taxes, and, if reasonably determinable, from its disposal at the end of its useful life. Discounting is applied by using a post-tax discount rate which reflects the present market value of the time value of money and specific risks.

The assessment is made for individual assets or the smallest identifiable Group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets from its continuing use (cash-generating unit). An impairment loss is recognised when the recoverable amount is lower than the carrying amount. If the reasons for the impairment loss are no longer valid, the impairment loss (except in the case of goodwill) is reversed and the adjustment is taken to profit or loss as a reversal of impairment losses. A reversal of impairment losses is recognised to the extent of the lower of the recoverable amount and original carrying amount less depreciation/ amortisation that would have been recognised had the impairment loss not been recognised.

## Inventories of goods

Inventories of goods are measured at the lower of average purchase cost and net realisable value.

Cost includes the directly related costs and estimated realisable value is determined using the replacement cost of the asset or similar assets.

Any write-downs are eliminated in subsequent years when the reasons therefore are no longer valid.

## Contract work in progress and revenue from construction contracts

Contract work in progress consists of work performed net of progress billings issued to clients. When final payment of the consideration is made, the related progress billings and advances are recognised under “Operating revenue” in the income statement, with the related variation in inventories. The provision for contractual risks directly offsets inventories and is set up to cover possible charges and losses on contracts performed either directly by the Group or as part of a joint venture.

Contract work in progress is measured considering the consideration agreed with the client and the stage of completion of the work.

Revenue related to contract work in progress is recognised using the stage of completion method.

The stage of completion is determined using the cost to cost method whereby the percentage of completion (the ratio between costs incurred and total estimated costs) is applied to the total estimated revenue.

Given the technical complexity, size and length of time involved in completing contracts, the additional considerations are measured before an agreement is reached with the client. Claims for additional considerations are considered when measuring contract work in progress when they can be quantified and they are reasonably certain to be made.

In the case of events that take place after the reporting date but before the financial statements are approved, which provide additional information about expected profits or losses on the contract, this additional information is considered when determining the contractual revenue or costs to be incurred to complete the contract and for the recognition of any profits or losses.

When it is probable that total contract costs will exceed total contract revenue, the loss to complete the contract is recognised as an expense immediately.

The contract costs, included in the cost to cost calculation, may be classified as:

- pre-operating costs, which include costs incurred during the start-up stage of the contract, before construction starts, such as the costs of design and specific studies carried out for the contract; organisation and production start-up costs; building site start-up costs. These pre-operating costs are included in the stage of completion calculation and in the cost to cost calculation once they have been incurred. During the initial stage of the contract, they are included in the carrying amount of contract work in progress, if recoverable, without recognising any profit margin when the contract profit or loss cannot be reliably estimated;
- contract operating costs, which include those directly attributable to the contract (e.g., materials, subcontracting, labour, amortisation and depreciation, compulsory purchases, any directly attributable borrowing costs, etc.). They are recognised on an accruals basis and included in the calculation of the stage of completion;
- post-operating costs, which include site dismantlement costs generally incurred after the contract has been closed to remove the installations (or entire sites) and to return the machinery or plant to the Group’s premises or transfer them to another site. This category also includes losses on abandoned materials and the cost of transporting unused materials. They are included in the contract estimate and, therefore, if incurred during the contract term, they are comprised in the calculation of the progress billings. Therefore, no specific accruals are made to the income statement;

- costs for services to be rendered after completion of the contract, which mainly relate to services rendered after the contract has been completed. They may include assistance and supervision provided in the early stages of use of the plant or scheduled maintenance. If the contract does not include specific additional considerations for these services and the contract may be “closed” for accounting purposes (contracts are usually closed once work is completed and the client has accepted the end result), the costs to be incurred to render these services when the contract is closed in the accounting records should be estimated and provided for in the specific items. These costs are included in the calculation to determine the contract revenue.

## Real estate projects

Closing inventories of real estate projects are those real estate areas developed with a view to selling them. They are measured at the lower of cost and estimated realisable value. Costs incurred consist of the consideration paid to purchase the areas and related charges, construction costs and borrowing costs related to the project up to and not exceeding its completion.

## Financial assets and liabilities

Measurement and presentation of financial instruments are covered by IAS 39 and IAS 32, respectively. The Group introduced the disclosure required by IFRS 7 in 2007.

The financial instruments used by the Group are classified as follows: financial assets or financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets.

## Financial assets or financial liabilities at fair value through profit or loss

This category includes derivatives that do not meet hedge accounting requirements.

Fair value gains or losses on derivatives in this category are recognised as “Financing income (costs)” in profit or loss when they arise.

## Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are measured at amortised cost, as detailed further on, and any gains or losses arising therefrom are recognised as “Financing income (costs)” in profit or loss under the amortised cost method.

This category includes the following items:

- **Trade receivables and payables and other receivables and payables**

Trade and other receivables are recognised at amortised cost, net of impairment losses determined on the basis of their estimated recoverable amount calculated by analysing each position and the total non-collection risk.

If the collection date is postponed and exceeds normal collection times for the sector, these receivables are discounted.

All factored receivables that do not meet the requirements for derecognition under IAS 39 continue to be recognised in the Group’s consolidated financial statements even when they have been legally transferred. They are thus included as assets and a financial liability of the same amount is recognised.

Trade and other payables are recognised at amortised cost, allocating interest to the income statement based on the effective interest rate, being the rate that exactly discounts estimated future cash payments through to the carrying amount of the related asset.

- **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term, highly liquid investments with a term of less than three months. This item is shown in the statement of cash flows net of bank borrowings at the reporting date.

- **Loans and bonds**

Loans and bonds are initially recognised at cost, being the fair value of the consideration received less transaction costs.

After initial recognition, loans are measured at amortised cost, whereby repayments are determined using the effective interest method with a rate which matches, at initial recognition, the expected cash flows with the initial carrying amount.

Loan transaction costs are classified under liabilities decreasing the loan; amortised cost is calculated considering these costs and any discounts or premiums expected at settlement.

The effects arising from the recognition at amortised cost are taken to "Financing income (costs)".

### **Held-to-maturity investments**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity. They are recognised at amortised cost and interest accrued thereon is taken to profit or loss under "Financial income" using the effective interest method.

### **Available-for-sale financial assets**

Available-for-sale financial assets are non-derivatives that are not classified in the other categories. They include the following items:

- **Equity investments**

Investments in entities other than subsidiaries, associates and interests in joint ventures (reference for which should be made to the section on "Consolidation scope") are classified as "Equity investments" at the time of their acquisition and are included in the available-for-sale financial assets category required by IAS 39.

Since they mainly relate to consortia and consortium companies of which the Group holds less than 20%, in accordance with IAS 39, such investments are stated as non-current assets measured at cost, adjusted for impairment, since their fair value cannot be determined.

Investments in listed companies belonging to this category are measured at fair value and the related fair value gains or losses are recognised in equity. Material or prolonged decreases in their fair value that are evidence of impairment are transferred from equity to profit or loss and offset against the relevant reserve.

Dividend income from such financial instruments is recognised in profit or loss under financial income when the Group companies holding the investments are given the right to such dividend.

### **Fair value of financial instruments**

The fair value of financial instruments has been estimated as follows:

- The fair value of financial instruments traded on an active market is based on the market price at the reporting date. This method has been applied especially to listed financial instruments classified as "Available-for-sale financial assets" and financial instruments classified as "Held-to-maturity investments".



- The fair value of the derivatives classified as “Hedging derivatives” and “Financial assets and financial liabilities at fair value through profit or loss” has been measured using the Discounted Cash Flow Model. With respect to interest rate swaps, future cash flows have been estimated using the implicit forward rate of the market euro curve at 31 December 2013 and 2012, while the forward exchange rate market prices at the relevant reporting date have been used for currency forward transactions.
- The fair value of loans and receivables has been determined, for disclosure purposes in the notes, on the basis of the present value of their future cash flows discounted at a rate equal to the current interest rates applicable in the relevant markets and the average spread agreed by the Group. The fair value measurement of the loans takes account of the Group’s credit risk and uses the rate curves in the different currencies with reference to the reporting date.

## Derecognition of financial assets and liabilities

### (a) Financial assets

A financial asset (or, where applicable, part of a financial asset or parts of a Group of similar financial assets) is derecognised when:

- i) the contractual rights to the cash flows from the financial asset expire;
- ii) the Group retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in full and immediately;
- iii) the Group transfers the contractual rights to receive the cash flows of the asset and has transferred substantially all the risks and rewards of ownership of the financial asset and the related control.

When the Group has transferred the contractual rights to receive the cash flows of the financial asset and has neither transferred nor retained substantially all the risks and rewards or has retained control, it continues to recognise the asset to the extent of its continuing involvement in the asset. Continuing involvement that takes the form of guaranteeing the transferred asset is measured at the lower of the initial carrying amount of the asset and the maximum amount of the consideration that the Group could be required to pay.

### (b) Financial liabilities

Financial liabilities are derecognised when the underlying obligation is discharged, cancelled or expires.

When an existing financial liability is exchanged with another by the same lender at substantially different terms, or the terms of an existing liability are substantially modified, this exchange or modification is treated as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amounts is recognised in profit or loss.

## Impairment of financial assets

If there is any indication that a financial asset is impaired, the recoverable amount of the asset is estimated to determine the amount of the impairment loss.

## Derivatives and hedging transactions

Impregilo Group has derivatives recognised at fair value when the related agreement is signed and for subsequent fair value changes. The treatment of the related fair value gains or losses changes depending on whether the conditions for hedge accounting are met, as described below.

Impregilo Group has derivatives to hedge currency and financial risks. At the inception of the transaction, it documents the hedging relationship, its risk management and strategy objectives in entering into the transaction, the hedging instrument and hedged item or transaction and the nature of the hedged risk. Moreover, at the inception of the transaction and thereafter on an ongoing basis, the Group documents whether or not the hedge meets the effectiveness requirements to offset its exposure to changes in the fair value of the hedged item or cash flows attributable to the hedged risk.

Based on the above-mentioned documentation, derivatives used for specific hedging purposes are classified and recognised as follows:

- a) **Fair value hedges** - If a derivative is designated as a hedge of exposure to changes in the fair value of an asset or liability due to a specific risk that may affect profit or loss, the gain or loss deriving from the subsequent measurement of the fair value of the hedging instrument is taken to profit or loss. The gain or loss on the hedged item, related to the hedged risk, changes the carrying amount of this item and is taken to profit or loss.
- b) **Cash flow hedges** - If a derivative is designated as a hedge of exposure to changes in cash flows of an asset or liability or a highly probable transaction and could affect profit or loss, the effective part of the gains or losses on the financial instrument is taken to equity. The cumulative gain or loss is derecognised from equity and taken to profit or loss in the same period in which the hedged transaction is recognised. The gain or loss related to a hedge or part of a hedge which has become ineffective is taken to profit or loss immediately. If a hedging instrument or a hedging relationship is closed, but the hedged transaction has not yet taken place, the cumulative gains and losses, recognised in equity up to then, are reclassified to profit or loss when the transaction takes place. If it is unlikely the hedged transaction will take place, the unrealised gains and losses recognised in equity are immediately recognised in profit or loss.

“Hedging purposes” are assessed in strategic terms. When they do not meet the requirements of IAS 39 for hedge accounting, the derivatives are classified as “Financial assets or financial liabilities at fair value through profit or loss”.

## Employee benefits

### • Short-term and long-term benefits

Short-term employee benefits, that is, payable within twelve months of the end of the year in which the employees rendered the service, are recognised as a cost and as a liability for the undiscounted amount of benefits expected to be paid in exchange for that service. Long-term benefits, such as remuneration to be paid after twelve months of the end of the year in which the employees rendered the service, are recognised as liabilities for an amount equal to the present value of the benefits at the reporting date.

### • Post-employment benefits

Post-employment benefits are recognised at the actuarial value of the Group's liability determined in line with ruling legislation and national and in-house labour agreements. The actuarial method, based on demographic, financial and turnover assumptions, is applied by independent actuaries. The gains and losses resulting from the actuarial calculation are recognised in profit or loss for the cost items related to work service and financial expenses, whereas the actuarial gains and losses resulting from the remeasurement of the liabilities and assets are recognised in comprehensive income.

The 2007 Finance Act and related implementing decrees introduced significant changes to legislation governing Italian post-employment benefits, effective as from 1 January 2007. These include the option given to employees, to be exercised before 30 June 2007, of where to allocate their future benefits. Specifically, employees can opt to allocate them to selected pension funds or maintain them with the company, in which case, the latter shall pay the contributions to the treasury fund of INPS (the Italian social security institution).

Following these changes, the Italian post-employment benefits accruing after the date of the employees' decision and, in any case, after 30 June 2007, are considered part of a defined contribution plan and treated like all other social security contributions.

## • Share-based payments

The Group has adhered to the guidelines of IFRS 2 - Share-based payment.

Share-based payments are measured at fair value of the option at the grant date. This amount is recognised in the income statement on a straight-line basis over the vesting period. This treatment is based on an assessment of the stock options that will effectively vest in favour of the qualifying employees. Fair value is determined using the Black-Scholes model.

## Income taxes

Current taxes are provided for using the tax rates and applying the tax laws ruling in Italy and other countries in which the Group operates, based on the best estimate of the taxable profit for the year.

Group companies net tax assets and liabilities when this is legally allowed.

Beginning from 2004, the parent, Impregilo S.p.A., and certain of its Italian subsidiaries have joined the national tax consolidation system, which is regulated by the conditions set out in agreements drawn up by the participating companies.

Deferred tax assets and liabilities are calculated on the basis of the temporary differences between the tax base of an asset or liability and their carrying amount in the statement of financial position. Deferred tax assets are recognised when the Group holds their recovery to be probable.

The carrying amount of deferred tax assets is reviewed at each reporting date and, to the extent necessary, is decreased when it is no longer probable that sufficient taxable profits will be available in the future to use all or part of the related benefit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantially enacted by the reporting date.

Deferred tax assets and liabilities are classified as non-current assets and liabilities, respectively, and are netted at company level if related to taxes that may be compensated. If the balance is positive, it is recognised as "Deferred tax assets", if not, as "Deferred tax liabilities".

Taxes that could arise from the transfer of undistributed profits by subsidiaries are only calculated when the subsidiary has the positive intention to transfer such profits.

In the case of transactions recognised directly in equity, the related deferred tax asset or liability also affects equity.

## Provisions for risks and charges

In accordance with IAS 37, the Group makes accruals to provisions for risks and charges when the following conditions exist:

- the Group or a Group company has a present obligation (legal or constructive) at the reporting date as a result of a past event where an outflow of resources embodying economic benefits will be required to settle the obligation;
- it is probable that the obligation (through an outflow of resources) will have to be settled;
- a reliable estimate can be made of the amount of the obligation.

When the time value of money is material and the obligation payment dates can be estimated reliably, the amount recognised as the provision equals the pre-tax future cash flows (i.e., forecast outflows) discounted at a rate that reflects the present market value and risks specific to the liability.

The increase in the provision due to discounting is recognised as a financial expense.

When the expected cash flows are included in an estimate range with the same probability of occurrence, the median value is discounted to measure the liability.

Provision for restructuring costs is recognised when the parent or relevant Group company has approved a detailed formal plan that has been implemented and communicated to the third parties involved.

### **Translation criteria for foreign currency items and translation of financial statements of consolidated companies or companies measured using the equity method expressed in currencies other than the euro**

The translation criteria for foreign currency items adopted by the Group are as follows:

- foreign currency monetary assets and liabilities, excluding property, plant and equipment, intangible assets and equity investments measured at cost are measured at the closing spot rate with any exchange rate gains or losses taken to the income statement;
- property, plant and equipment and intangible assets (non-monetary assets) are recognised at historical cost denominated in the foreign currency and translated using the historical exchange rate;
- revenue and costs related to foreign currency transactions are recognised in profit or loss at the exchange rate ruling on the date of the transaction;
- any material effects deriving from changes in exchange rates after the reporting date are disclosed in the notes.

With respect to the translation of financial statements of consolidated companies or companies measured using the equity method and expressed in currencies other than the presentation currency (functional currency), reference should be made to the section on “Consolidation criteria”.

The Group has applied IAS 29 - Financial reporting in hyperinflationary economies for its subsidiaries and associates that prepare their financial statements in a functional currency of a hyperinflationary economy. This standard requires that the financial statements of an entity, whose functional currency is that of a hyperinflationary economy, be translated at the closing spot rate. The statement of financial position items not yet translated into euros at the reporting date are redetermined using a general price index. All the income statement items are translated into euros at the exchange rate ruling on the date the revenue and costs were initially recognised.

### **Non-current assets held for sale and discontinued operations**

Non-current assets (and disposal groups) are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use.

Assets held for sale are recognised as such when the following events take place:

- signing of a binding sales agreement;
- approval and communication of a formal sales plan by directors.

In order to be correctly measured, the assets shall be:

- available for immediate sale in their present condition;
- subject only to terms that are usual and customary for sales of such assets, and
- the sale must be highly probable and expected to take place within twelve months.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

A discontinued operation is a component of an entity that either has been disposed of or classified as held for sale and that meets any of the following criteria: i) it represents a separate major line of business or geographical area of operations; ii) it is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or iii) it is a subsidiary acquired exclusively with a plan to resell.

The results of discontinued operations are disclosed separately in the income statement. As required by IFRS 5.34 - Non-current assets held for sale and discontinued operations, the corresponding prior year figures are restated accordingly.

## Revenue recognition

### • Operating and other revenue

Revenue is measured to the extent it is probable that the economic benefits will flow to the Group and the related amount can be determined reliably.

Revenue from the sale of goods is recognised when the Group has shipped the goods and has transferred all the material risks and rewards of ownership to the buyer. Revenue from construction contracts is recognised as provided for in the related Standard, described below.

When the outcome of a construction contract can be estimated reliably, contract revenue is recognised by reference to the stage of completion of the contract activity at the reporting date based on the ratio of the costs incurred up to the reporting date to the total estimated contract costs, unless this is held to not represent the stage of completion of the contract.

Changes in the contract, claims and incentive payments are recognised to the extent that they are reasonably certain.

Revenue is recognised only to the extent of contract costs incurred that it is probable will be recovered. Contract costs are recognised as an expense in the year in which they are incurred.

### • Interest income

Interest income is recognised on an accruals basis, considering the principal and applicable effective interest rate, i.e., the rate that discounts the estimated future inflows over the expected life of the financial asset to return it to its carrying amount.

### • Dividends

Dividends are recognised when the investors' right to receive payment arises in line with local ruling legislation.

## Earnings per share

Basic earnings per share are calculated as the ratio of the profit or loss for the year attributable to the holders of the ordinary shares of the parent to the weighted number of ordinary shares outstanding during the year. Diluted earnings per share are calculated considering the potential diluting effect of the shares to be allocated to the beneficiaries of vested stock options when calculating the number of outstanding shares.

## Operating segments

The operating segments comply with the reporting system provided to Group management which is in charge of allocating the resources and assessing the results obtained by the segments. The Group's management and organisational structure reflects the business segments, which are Construction, Concessions, Engineering & Plant Construction and USW Campania projects.

The intrasegment transfer prices related to the exchange of goods and services are agreed at normal market conditions.

## Significant accounting estimates

Preparation of financial statements and the related notes in accordance with the IFRS requires management to make judgements and estimates that affect the carrying amount of assets and liabilities and financial statements disclosures. The estimates are used to:

- determine amortisation and depreciation (see the "Property, plant and machinery", "Leased property, plant and equipment", "Rights to infrastructure under concession" and "Other intangible assets" paragraphs of the "Accounting policies" section);
- recognise impairment losses (see the "Impairment of non-financial assets" paragraph of the "Accounting policies" section);
- recognise employee benefits (see the "Employee benefits" paragraph of the "Accounting policies" section);
- recognise taxes (see the "Income taxes" paragraph of the "Accounting policies" section);

- recognise provisions for risks and charges (see the "Provisions for risks and charges" paragraph of the "Accounting policies" section);
- determine total contract costs and the related stage of completion (see the "Contract work in progress and revenue from construction contracts" paragraph of the "Accounting policies" section). A significant part of the Group's activities is typically performed on the basis of contracts which provide that a specific consideration is agreed when the contract is awarded. This implies that the profits on these contracts may undergo change compared to the original estimates depending on the recoverability of greater expenses and/or costs the Group may incur during performance of such contracts.

The actual results may differ from those estimated due to uncertainties underlying the assumptions and the conditions on which the estimates are based.

Fundamental assumptions about the future and other reasons for uncertainty when making the estimates at the reporting date that may lead to material adjustments to the carrying amount of the assets and liabilities are described in the specific section of the Directors' report which gives an analysis of the risk areas of each segment.

## Business combinations

### Acquisition of the company Autostrada Broni-Mortara S.p.A. (S.A.BRO.M.)

On 27 May 2013 Impregilo entered into a private agreement with the consortium "Cooperative Costruzioni" and the consortium "Società Cooperativa Muratori e Braccianti di Carpi" for the purchase of 19.8% of the shares held by them in the company Autostrada Broni-Mortara.

The purchase price was a total of € 4.9 million, paid in full upon signature of the agreement.

# Consolidated financial statements at 31 December 2013

The table below shows the value of Impregilo's share in the balance sheet of S.A.BRO.M. at the time of acquisition and the corresponding fair value set

preliminarily at the acquisition date for the Purchase Price Allocation (PPA) process:

(Values in €/000)	Carrying amounts	Fair value
Non-current assets	39,827	39,827
<i>of which:</i>		
– Intangible assets	39,827	39,827
– Property, plant and equipment		
– Goodwill		
Cash and cash equivalents	116	116
Trade receivables		
Other current assets	5,503	5,503
<b>Total assets</b>	<b>45,446</b>	<b>45,446</b>
Bank loans and borrowings due after one year		
Other non-current liabilities		
Bank loans and borrowings due within one year	(20,000)	(20,000)
Trade payables	(1,245)	(1,245)
Other current liabilities	(4)	(4)
<b>Total liabilities</b>	<b>(21,249)</b>	<b>(21,249)</b>
<b>Net assets acquired</b>	<b>24,197</b>	<b>24,197</b>
Price paid for the acquisition of the 19.8% stake		4,950
Fair Value of the investment held previously (40%)		9,703
Value assigned to Non-controlling interests		9,727
Net assets acquired (net liabilities assumed)		(24,197)
<b>Difference between price and fair value acquired</b>		<b>183</b>

## Segment reporting

The operating segments identified by the Group in accordance with IFRS 8 are Construction, Concessions, Engineering & Plant Construction and USW Campania projects.

Impregilo S.p.A. heads the Construction business segment, which encompasses all projects relating to the construction of large-scale infrastructure, such as dams, hydroelectric plants, motorways, railways, metros, underground works, bridges and similar works.

Group activities in the Concessions business segment relate to the management of investments in numerous subsidiaries and other investees, almost entirely abroad, which hold concessions mainly for the management of motorway networks, plants that generate energy from renewable sources, electricity

transmission, integrated cycle water systems and the management of non-medical hospital service activities.

The Engineering & Plant Construction segment, headed by FISIA Italmimpianti and FISIA Babcock Environment (Germany), includes the operation of plants for the desalination of sea water, fume treatment and waste-to-energy processes, as well as environmental services (contamination clean-up) and urban solid waste (USW) disposal.

The USW Campania projects segment includes the remaining USW disposal projects in the Province of Naples and other provinces in Campania.

The fair values shown above have been determined preliminarily using the information available. The Group has opted to use the 12-month period allowed by IFRS 3 (revised) for establishing the Purchase Price Allocation (PPA) procedure. As a consequence, the preliminary

values shown will be definitively determined by the first half of 2014.

The cash used for the acquisition, net of cash acquired, is set out below:

(Values in €/000)

Cash and cash equivalents	116
Property, plant and equipment and intangible assets	40,010
Other assets	5,503
Bank loans and borrowings	(20,000)
Other liabilities	(1,249)
<b>Total</b>	<b>24,380</b>
Net of cash acquired	(116)
Net of non-controlling interests and fair value held previously	(19,431)
<b>Cash net of cash used for the acquisition</b>	<b>4,833</b>

The effects on the income statement that would have occurred if the Group had acquired control on 1 January 2013 are shown below:

(Values in €/000)

Operating costs	(261)
Financial income	4
<b>Profit (loss) for the Group and non-controlling interests</b>	<b>(257)</b>
	61
<b>Profit (loss) attributable to the Group</b>	<b>(196)</b>

Costs incurred for activities carried out at corporate level related to the following are not allocated to the operating segments:

- coordination, control and strategic planning of the Group's activities;
- centralised planning and management of human and financial resources;
- management of administrative, tax, legal/corporate and institutional communications requirements;
- administrative, tax and management support to Group companies.

Management measures the segments' results by considering their operating profit, which complies with the accounting policies applied to the Group's consolidated financial statements. The only items requiring reconciliation are the corporate costs and elimination of intra-segment items.

The segments are measured based on net invested capital.

Disclosures on the Group's performance by business segment are set out in the second part of the Directors' report. The consolidated financial statements figures as at 31 December 2013 are summarised below by business segment.

The parent's registered office is in Italy. Total revenue earned in Italy and other geographical segments in 2013 and 2012 is shown in the following table "Performance by geographical segment".

Total non-current assets, excluding deferred tax assets, include € 363.9 million based in Italy.



# Consolidated financial statements at 31 December 2013

## 2013 performance by business segment

(Values in €/000)	Construction	Concessions	Engineering & Plant Construction	USW Campania projects	Eliminations	Corporate costs (unallocated items)	Total Group
Operating revenue	2,101,823	19,118	141,810	–	(1,345)		2,261,406
Other revenue	53,593	1,679	7,435	821	(1,600)		61,928
<b>Total revenue</b>	<b>2,155,416</b>	<b>20,797</b>	<b>149,245</b>	<b>821</b>	<b>(2,945)</b>	<b>–</b>	<b>2,323,334</b>
<i>– of which: intrasegment revenue</i>	<i>2,273</i>	<i>389</i>	<i>283</i>		<i>(2,945)</i>		<i>–</i>
<b>Costs</b>							
Purchases, sub-contracts and other operating expenses	(1,527,229)	(19,315)	(105,702)	(2,357)	2,257	(25,448)	(1,677,794)
Personnel expenses	(316,153)	(6,629)	(43,953)	(241)	688	(18,131)	(384,419)
Provisions and impairment losses	(12,757)	–	3,648	–		(1,082)	(10,191)
<b>Total costs</b>	<b>(1,856,139)</b>	<b>(25,944)</b>	<b>(146,007)</b>	<b>(2,598)</b>	<b>2,945</b>	<b>(44,661)</b>	<b>(2,072,404)</b>
<b>Gross operating profit (loss)</b>	<b>299,277</b>	<b>(5,147)</b>	<b>3,238</b>	<b>(1,777)</b>	<b>–</b>	<b>(44,661)</b>	<b>250,930</b>
<i>Gross operating profit (loss) %</i>	<i>13.9%</i>	<i>n.a.</i>	<i>2.2%</i>	<i>n.a.</i>			<i>10.8%</i>
Amortisation and depreciation	(89,261)	(825)	(2,918)	(2)		(46)	(93,052)
<b>Operating profit (loss) before non-recurring items</b>	<b>210,016</b>	<b>(5,972)</b>	<b>320</b>	<b>(1,779)</b>	<b>–</b>	<b>(44,707)</b>	<b>157,878</b>
<i>Return on Sales</i>	<i>9.7%</i>	<i>n.a.</i>	<i>0.2%</i>	<i>n.a.</i>			<i>6.8%</i>
Non-recurring items							
<b>Operating profit (loss)</b>	<b>210,016</b>	<b>(5,972)</b>	<b>320</b>	<b>(1,779)</b>	<b>–</b>	<b>(44,707)</b>	<b>157,878</b>
<b>Financing income (costs) and gains (losses) on investments</b>							
Financial income						20,411	20,411
Financial expense						(70,506)	(70,506)
Net exchange rate gains						50,830	50,830
Share of profit (loss) of equity-accounted investees	401	2,197	–	–	–	–	2,598
Other items of net gains on investments						(52)	(52)
<b>Net financing costs and net gains on investments</b>						<b>683</b>	<b>3,281</b>
<b>Profit (loss) before tax</b>							<b>161,159</b>
Income tax expense						(53,728)	(53,728)
<b>Profit (loss) from continuing operations</b>							<b>107,431</b>
Profit (loss) from discontinued operations		(766)		81,401			80,635
<b>Profit for the year</b>							<b>188,066</b>

## 2012 performance by business segment

(Values in €/000)	Construction	Concessions	Engineering & Plant Construction	USW Campania projects	Eliminations	Corporate costs (unallocated items)	Total Group (\$)
Operating revenue	1,971,861	16,846	213,127	2	(1,454)	–	2,200,382
Other revenue	72,098	1,597	8,826	198	(2,110)	–	80,609
<b>Total revenue</b>	<b>2,043,959</b>	<b>18,443</b>	<b>221,953</b>	<b>200</b>	<b>(3,564)</b>	<b>–</b>	<b>2,280,991</b>
<i>– of which: intrasegment revenue</i>	<i>3,035</i>	<i>315</i>	<i>214</i>	<i>–</i>	<i>(3,564)</i>	<i>–</i>	<i>–</i>
<b>Costs</b>							
Purchases, sub-contracts and other operating expenses	(1,616,813)	(11,812)	(150,880)	(1,348)	2,485	(23,168)	(1,801,536)
Personnel expenses	(316,498)	(6,431)	(45,696)	(696)	1,079	(29,116)	(397,358)
Provisions and impairment losses	(3,719)	–	(1,302)	–	–	7,628	2,607
<b>Total costs</b>	<b>(1,937,030)</b>	<b>(18,243)</b>	<b>(197,878)</b>	<b>(2,044)</b>	<b>3,564</b>	<b>(44,656)</b>	<b>(2,196,287)</b>
<b>Gross operating profit (loss)</b>	<b>106,929</b>	<b>200</b>	<b>24,075</b>	<b>(1,844)</b>	<b>–</b>	<b>(44,656)</b>	<b>84,704</b>
<i>Gross operating profit (loss) %</i>	<i>5.2%</i>	<i>1.1%</i>	<i>10.8%</i>	<i>n.a.</i>	<i>–</i>	<i>–</i>	<i>3.7%</i>
Amortisation and depreciation	(105,801)	(805)	(3,099)	(5)	–	(45)	(109,755)
<b>Operating profit (loss) before non-recurring items</b>	<b>1,128</b>	<b>(605)</b>	<b>20,976</b>	<b>(1,849)</b>	<b>–</b>	<b>(44,701)</b>	<b>(25,051)</b>
<i>Return on Sales</i>	<i>0.1%</i>	<i>n.a.</i>	<i>9.5%</i>	<i>n.a.</i>	<i>–</i>	<i>–</i>	<i>n.a.</i>
Non-recurring items							
<b>Operating profit (loss)</b>	<b>1,128</b>	<b>(605)</b>	<b>20,976</b>	<b>(1,849)</b>	<b>–</b>	<b>(44,701)</b>	<b>(25,051)</b>
<b>Financing income (costs) and gains (losses) on investments</b>							
Financial income						40,925	40,925
Financial expense						(75,032)	(75,032)
Net exchange rate gains						3,387	3,387
Share of profit (loss) of equity-accounted investees	89	1,271	(1)	–	–	–	1,359
Other items of net gains on investments						72	72
<b>Net financing costs and net gains on investments</b>						<b>(30,648)</b>	<b>(29,289)</b>
<b>Profit (loss) before tax</b>							<b>(54,340)</b>
Income tax expense						(59,270)	(59,270)
<b>Profit (loss) from continuing operations</b>							<b>(113,610)</b>
Profit (loss) from discontinued operations		720,717		(3,681)			717,036
<b>Profit for the year</b>							<b>603,426</b>

(S) Figures restated following the application of IAS 19 revised.

# Consolidated financial statements at 31 December 2013

## Consolidated statement of financial position as at 31 December 2013 by business segment

(Values in €/000)	Construction	Concessions	Engineering & Plant Construction	USW Campania projects	Eliminations and unallocated items	Total Group
Total non-current assets	547,727	83,721	13,129	791	(288,286)	357,082
Assets held for sale, net		–		5,683		5,683
Provisions for risks, post-employment benefits and employee benefits and other non-current assets (liabilities)	(47,602)	(1,519)	(6,441)	(30,433)	(15,607)	(101,602)
Net tax assets					139,225	139,225
Working capital	479,659	19,355	28,016	50,158	(13)	577,175
<b>Net invested capital</b>	<b>979,784</b>	<b>101,557</b>	<b>34,704</b>	<b>26,199</b>	<b>(164,681)</b>	<b>977,563</b>
<b>Other information</b>						
Total increase in non-current assets	49,516	2,594	1,120	–		53,230
Amortisation and depreciation	(89,260)	(825)	(2,918)	(3)	(46)	(93,052)
Impairment losses recognised in profit or loss	(12,758)	–	3,648	–	(1,081)	(10,191)

## Consolidated statement of financial position as at 31 December 2012 by business segment

(Values in €/000)	Construction	Concessions	Engineering & Plant Construction	USW Campania projects	Eliminations and unallocated items	Total Group (\$)
Total non-current assets	599,198	78,117	49,691	791	(289,132)	438,665
Assets held for sale, net		186,386		121,202		307,588
Provisions for risks, post-employment benefits and employee benefits and other non-current assets (liabilities)	(50,613)	(1,895)	(7,642)	(30,432)	(16,278)	(106,860)
Net tax assets					137,576	137,576
Working capital	244,800	22,293	134,108	13,322	933	415,456
<b>Net invested capital</b>	<b>793,385</b>	<b>284,901</b>	<b>176,157</b>	<b>104,883</b>	<b>(166,901)</b>	<b>1,192,425</b>
<b>Other information</b>						
Total increase in non-current assets	70,970	790	1,376			73,136
Increase in non-current assets held for sale				(411,653)		(411,653)
Amortisation and depreciation	(105,801)	(805)	(3,099)	(5)	(45)	(109,755)
Impairment losses recognised in profit or loss	(3,719)		(1,302)		7,628	2,607

(§) Figures restated following the application of IAS 19 revised.

**2013 performance  
by geographical segment**

(€m)	Italy	Other EU countries	Other European (non-EU) countries	North America	Central and South America	Middle East and Asia	Rest of the world	Eliminations	Total
Revenue by geographical segment	681.1	160.9	126.5	102.1	996.7	161.5	105.5	(11.0)	<b>2,323.3</b>

**2012 performance  
by geographical segment**

(€m)	Italy	Other EU countries	Other European (non-EU) countries	North America	Central and South America	Middle East and Asia	Rest of the world	Eliminations	Total
Revenue by geographical segment	522.6	238.8	127.6	77.2	903.3	239.4	173.6	(1.5)	<b>2,281.0</b>