31. 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:

31 December 2013 (Values in €/000)	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	6	48,124			10,867		58,991	56,409
Non-current intragroup loans and receivables	7	2,791					2,791	2,791
Trade receivables	12	926,465					926,465	926,465
Current intragroup loans and receivables	12	241,653					241,653	241,653
Other current financial assets	13	80,482			590		81,072	81,072
Derivatives	13		1,016				1,016	1,016
Cash and cash equivalents	16	813,290					813,290	813,290
Total		**2,112,805**	**1,016**	**–**	**11,457**	**–**	**2,125,278**	**2,122,696**

31 December 2013 (Values in €/000)	Note	Other liabilities at amortised cost	Financial liabilities at fair value through profit or loss	Hedging derivatives	Total	Fair value
Financial liabilities						
Bank and other loans	19	340,281			340,281	335,442
Finance lease payables	21	38,123			38,123	38,123
Bonds	20	150,164			150,164	160,735
Derivatives	22			4,350	4,350	4,350
Trade payables	27	676,108			676,108	676,108
Current intragroup payables	27	72,722			72,722	72,722
Total		**1,277,398**	**–**	**4,350**	**1,281,748**	**1,287,480**

31 December 2012 (Values in €/000)	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	6	39,332			16,335		55,667	55,667
Non-current intragroup loans and receivables	7	3,478					3,478	3,478
Trade receivables	12	809,180					809,180	809,180
Current intragroup loans and receivables	12	253,685					253,685	253,685
Other current financial assets	13	7,313			10,590		17,903	17,903
Derivatives	13		1,091				1,091	1,091
Cash and cash equivalents	16	1,243,086					1,243,086	1,243,086
Total		**2,356,074**	**1,091**	**–**	**26,925**	**–**	**2,384,090**	**2,384,090**

31 December 2012 (Values in €/000)	Note	Other liabilities at amortised cost	Financial liabilities at fair value through profit or loss	Hedging derivatives	Total	Fair value
Financial liabilities						
Bank and other loans	19	373,760			373,760	370,748
Finance lease payables	21	62,813			62,813	62,813
Bonds	20	262,529			262,529	262,529
Derivatives	22		65	5,200	5,265	5,265
Trade payables	27	731,484			731,484	731,484
Current intragroup payables	27	87,115			87,115	87,115
Total		**1,517,701**	**65**	**5,200**	**1,522,966**	**1,519,954**

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

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 Group's exposure to potential losses arising from clients' non-compliance with their obligations;
- **liquidity risk** deriving from the risk that the financial resources necessary to meet obligations may not be available at the agreed terms and deadlines.

Market risk

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

Currency risk

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 31 December 2013 mainly related to the following currencies:

- Dollar (United States)
- Real (Brazil)
- Naira (Nigeria)
- Peso (Argentina)
- Peso (Santo Domingo)
- Peso (Colombia)
- Peso (Chile)
- Bolivar (Venezuela)
- Rand (South Africa)
- Swiss franc (Switzerland)
- Dirham (United Arab Emirates)

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.

Adoption of the above-mentioned policies has contained the Impregilo Group's exposure to currency risk, which only relates to the US dollar, the Bolivar, the Rand, the Swiss franc and the United Arab Emirates Dirham.

Given the regulated regime controlling the Bolivar and the Group's strategy in place 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. In February 2013, the Bolivar was depreciated against the US dollar from 4.30 to 6.30. The related exchange rate gains and losses, which moreover were not material, were recognised in 2013.

Had the euro appreciated or depreciated by 5% against the US dollar at 31 December 2013, the pre-tax profit for the year would have been respectively greater or lower by € 3.2 million, assuming that all other variables remained constant, mainly due to unrealised exchange rate losses (gains) on net liabilities in US dollars. A similar change at 31 December 2012 would have led to a € 1.7 million decrease (increase in the case of depreciation) in the pre-tax profit for the year.

Had the euro appreciated or depreciated by 5% against the Rand at 31 December 2013, the pre-tax profit for the year would have been respectively greater or lower by € 0.9 million, assuming that all other variables remained constant, mainly due to unrealised exchange rate losses (gains) on net liabilities in Rands. A similar change at 31 December 2012 would have led to a € 0.1 million decrease (increase in the case of depreciation) in the pre-tax profit for the year.

Had the euro appreciated or depreciated by 5% against the Swiss franc at 31 December 2013, the pre-tax profit for the year would have been respectively lower or higher by € 1.2 million, assuming that all the other variables remained constant, mainly due to unrealised exchange rate losses (gains) on net assets in Swiss francs. A similar change at 31 December 2012 would have led to a € 1.8 million decrease (increase in the case of depreciation) in the pre-tax profit for the year.

Had the euro appreciated or depreciated by 5% against the United Arab Emirates Dirham at 31 December 2013, the pre-tax profit for the year would have been respectively lower or higher by € 3.1 million, assuming that all the other variables remained constant, mainly due to unrealised exchange rate losses (gains) on net assets in Dirham. Exposure in this currency at 31 December 2012 was immaterial.

Interest rate risk

Impregilo Group has adopted a combined strategy of streamlining Group 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 2013, the pre-tax profit for 2013 would have been respectively lower or greater by € 4.4 million, assuming that all other variables remained constant and without considering cash and cash equivalents. A similar change in 2012 would have led to a € 8.6 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 analysed 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 clients' (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 clients, 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 clients (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 (Values in €/000)	**31 December 2013**	**31 December 2012**
Italy	340,680	235,297
Other EU countries	(202,045)	(88,035)
Other non-EU countries	(10,751)	(19,984)
America	(27,819)	(73,518)
Asia	(56,648)	4,369
Rest of the world	(28,601)	(55,427)
Australia	(1,950)	–
Elimination	564,309	412,754
Total	**577,175**	**415,456**

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

The Group's exposure to clients, broken down by contract location, is analysed below:

Client by contract location	**Receivables**	**Positive WIP**	**Negative WIP and contractual advances**	**Total**	**Allowances**
31 December 2013					
Italy	467,924	261,736	(108,713)	620,948	4,186
Other EU countries	13,518	44,787	(32,812)	25,493	1,574
Other non-EU countries	9,635	4,002	(25,792)	(12,155)	–
America	373,495	454,988	(365,990)	462,492	8,913
Asia	34,075	(171)	(135,907)	(102,004)	–
Rest of the world	27,771	110,844	(172,906)	(34,291)	–
Australia	48	–	–	48	–
Total	**926,465**	**876,186**	**(842,120)**	**960,531**	**14,673**
31 December 2012					
Italy	440,885	352,453	(96,895)	696,443	5,140
Other EU countries	24,741	51,131	(47,481)	28,391	–
Other non-EU countries	3,681	4,219	(40,255)	(32,355)	–
America	289,486	291,202	(430,757)	149,931	–
Asia	23,740	61,494	(48,439)	36,795	–
Rest of the world	26,647	103,869	(180,613)	(50,097)	–
Total	**809,180**	**864,368**	**(844,440)**	**829,108**	**5,140**

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:

(Values in €/000)	31 December 2014	31 December 2015	31 December 2018	After	Total
Current account facilities	93,839	–	–	–	93,839
Bonds	9,925	158,973		–	168,898
Bank loans and borrowings	113,378	12,251	87,754	9,963	223,346
Factoring payables	19,579	20,165	–	–	39,744
Finance lease payables	24,729	12,670	724	–	38,123
Interest rate derivatives				4,350	4,350
Gross financial liabilities	**261,450**	**204,059**	**88,478**	**14,313**	**568,300**
Trade payables	676,108				676,108
Total	**937,558**	**204,059**	**88,478**	**14,313**	**1,244,408**

The prior year figures are given below for comparative purposes:

(Values in €/000)	31 December 2013	31 December 2014	31 December 2017	After	Total
Current account facilities	83,935	–	–	–	83,935
Bonds	126,399	9,925	158,973	–	295,297
Bank loans and borrowings	146,988	127,233	1,523	10,285	286,029
Factoring payables	7,946	3,466	–	–	11,412
Finance lease payables	22,785	26,109	13,919	–	62,813
Interest rate derivatives	65	–	–	5,200	5,265
Gross financial liabilities	**388,118**	**166,733**	**174,415**	**15,485**	**744,751**
Trade payables	731,484				731,484
Total	**1,119,602**	**166,733**	**174,415**	**15,485**	**1,476,235**

Future interest has been estimated based on the market interest rates at the date of preparation of these consolidated financial statements, summarised 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 31 March 2014 are compared with the cash and cash equivalents that can be used to meet such obligations in the table below:

	Total financial commitments due before 31 March 2014	Cash and cash equivalents	Difference
Impregilo S.p.A.	(74,636)	304,043	229,407
Subsidiaries	(91,538)	239,889	148,351
Special purpose entities	(215,126)	178,962	(36,164)
Total	**(381,300)**	**722,894**	**341,594**

Fair value measurement hierarchy

IFRS 7 requires that the fair value of financial instruments recognised 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 recognised by the Group at fair value are classified at the following levels:

(Values in €/000)	Note	Level 1	Level 2	Level 3
Derivative assets	13		1,016	
Derivative liabilities	22		(4,350)	
Total		–	**(3,334)**	–

There were no movements from Level 1 to Level 2 during 2013 or vice versa.