

26. Financial instruments and risk management

Categories of financial instruments

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

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	4	17,420			10,867		28,287	25,705
Non-current intragroup loans and receivables	5	1,524					1,524	1,524
Trade receivables	10	338,872					338,872	338,872
Current intragroup loans and receivables	10	466,925					466,925	466,925
Derivatives	11		392				392	392
Cash and cash equivalents	14	304,032					304,032	304,032
Total		1,128,773	392		10,867		1,140,032	1,137,450

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	16	203,997			203,997	200,911
Finance lease payables	17	19			19	19
Derivatives	18					
Trade payables	22	99,145			99,145	99,145
Current intragroup payables	22	387,169			387,169	387,169
Total loans		690,330			690,330	687,244

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	4				4,960		4,960	4,960
Non-current intragroup loans and receivables	5	88,595					88,595	88,595
Trade receivables	10	240,969					240,969	240,969
Current intragroup loans and receivables	10	406,899					406,899	406,899
Derivatives	11		1,092				1,092	1,092
Cash and cash equivalents	14	876,983					876,983	876,983
Total		1,613,446	1,092		4,960		1,619,498	1,619,498

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	16	216,246			216,246	215,883
Finance lease payables	17	43			43	43
Derivatives	18		65		65	65
Trade payables	22	136,701			136,701	136,701
Current intragroup payables	22	376,267			376,267	376,267
Total		729,257	65		729,322	728,959

The note column gives the section in which the relevant item is described.

Reference should be made to the section on accounting policies for information on the fair value

measurement of these items. Specifically, their fair value is based on the present value of the estimated forecast cash flows.

Risk management

Impregilo is exposed to financial risks, including the following:

- **market risk** deriving from the company's exposure to interest rate fluctuations and exchange rate fluctuations;
- **credit risk** deriving from the company's exposure to potential losses arising from 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)
- Bolivar (Venezuela)
- Rand (South Africa)
- 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 company's net exposure at those deadlines.

Adoption of the above-mentioned policies has contained the company's exposure to currency risk, which only relates to the US dollar, the Bolivar, the Rand and the Dirham.

Given the regulated regime controlling the Bolivar and the company'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. 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 year end, the pre-tax profit for the year would have been respectively lower or greater by € 5.3 million, assuming that all other variables remained constant, mainly due to unrealised exchange rate losses (gains) on net assets in US dollars. A similar change at the end of the previous year would have led to a € 1.9 million decrease (increase in the case of depreciation) in the pre-tax profit for the year, mainly due to unrealised exchange rate losses (gains) on net assets in US dollars.

Had the Euro appreciated or depreciated by 5% against the Rand at year end, the pre-tax profit for the

year would have been respectively lower or greater by € 0.9 million, assuming that all other variables remained constant, mainly due to unrealised exchange rate losses (gains) on net assets in Rands. A similar change at the end of the previous year would have led to a € 0.1 million decrease (increase in the case of depreciation) in the pre-tax profit for the year, mainly due to the unrealised exchange rate losses (gains) on net assets in Rands.

With reference to the United Arab Emirates Dirham, had the Euro appreciated or depreciated by 5% against the AED at year end, the pre-tax profit for the year would have been respectively lower or greater by € 1.4 million, assuming that all other variables remained constant, mainly due to unrealised exchange rate losses (gains) on net assets in AED. Exposure in this currency at 31 December 2012 was immaterial.

Interest rate risk

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

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

Had interest rates increased or decreased by an average 75 basis points in 2013, the pre-tax profit for the year would have been respectively lower or greater by € 1.5 million (€ 2.3 million – greater/lower – in the income statement for the year 2012), assuming that all other variables remained constant and without considering cash and cash equivalents.

Credit risk

The credit risk is that deriving from the company'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	81,655	65,551
Other EU countries	(112,970)	(58,926)
Other non-EU countries	(2,716)	6,754
America	764,925	603,187
Asia	(64,040)	(23,042)
Rest of the world	(7,678)	–
Australia	(1,950)	(17,972)
Total	657,226	575,552

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

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

Separate financial statements of Impregilo S.p.A. at 31 December 2013

Client by contract location	Receivables	Positive WIP	Negative WIP and contractual advances	Total	Allowances
31 December 2013					
Italy	16,256	177,079	(11,231)	182,105	-
Other EU countries	53	22,821	(651)	22,222	-
America	288,444	228,923	(10,376)	506,991	9,175
Asia	34,071	8,737	(108,578)	(65,770)	-
Australia	48	-	-	48	-
Total	338,872	437,560	(130,837)	645,596	9,175
31 December 2012					
Italy	21,042	266,243	(13,186)	274,099	5,000
Other EU countries	10,110	31,603	(7,705)	34,008	-
America	188,379	185,491	(13,779)	360,091	-
Asia	21,419	7,421	(40,143)	(11,303)	-
Rest of the world	20	-	-	20	-
Total	240,970	490,758	(74,813)	656,915	5,000

Liquidity risk

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

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

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

(Values in €/000)	31 December 2014	31 December 2015	31 December 2018	After	Total
Current account facilities	85,172	-	-	-	85,172
Bank loans and borrowings and factoring payables	20,130	24,749	85,934	-	130,813
Finance lease payables	17	2	-	-	19
Gross financial liabilities	105,319	24,751	85,934	-	216,004
Trade payables	99,145	-	-	-	99,145
Total	204,464	24,751	85,934	-	315,149

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.

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	82,819	–	–	–	82,819
Bank loans and borrowings	32,689	103,571	–	–	136,260
Finance lease payables	28	15	–	–	43
Derivatives	65	–	–	–	65
Gross financial liabilities	115,601	103,586	–	–	219,187
Trade payables	136,701	–	–	–	136,701
Total	252,302	103,586	–	–	355,888

Liquidity risk management is mainly based on containing debt and maintaining a balanced financial position.

Loans (principal) and trade payables (net of advances to suppliers) falling due before 31 March 2014 are compared with the cash and cash equivalents that can be used to meet such obligations in the table below.

(Values in €/000)	
Total current financial commitments	(175,897)
of which: due before 31 March 2014	(74,636)
Cash and cash equivalents	304,043
Difference	229,407

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 company at fair value are classified at the following levels:

(Values in €/000)	Note	Level 1	Level 2	Level 3
Derivative assets	11	–	392	–
Derivative liabilities	18	–	–	–
Total		–	392	–

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