19. Equity investments

The analysis of equity investments is as follows:

(Values in €/000)	31 December 2013	31 December 2012	Change
Investments in associates, subsidiaries and joint ventures	1,295,800	355,853	939,947
Other equity investments	109	1,261	(1,152)
Total Equity Investments	**1,295,909**	**357,114**	**938,795**

Changes during the year are summarised below:

(Values in €/000)	Investments in associates, subsidiaries and joint ventures	Other equity investments
Balance at 31.12.2012	**355,853**	**1,261**
Change in consolidation method	0	0
Acquisitions, capital injections and disinvestments	975,570	(1,152)
Share of profit (loss) of equity-accounted investees	0	0
Dividends from equity-accounted investees and other investees	0	0
Other changes including changes in the translation reserve	30	0
Impairment losses	(35,653)	0
Total	**939,947**	**(1,152)**
Balance at 31 December 2013	**1,295,800**	**109**

Investments in associates, subsidiaries and joint ventures increased by €975,600 mainly due to:

- the increase in the value of the equity investment in the subsidiary Impregilo S.p.A., which, net of disposals during 2013, amounts to €956 million;
- the increase of €15 million in the value of the equity investment in the subsidiary CMT I/S, as a result of the conclusion of the agreement, finalised on 10 October 2013, for the sale of 39.995% of the interests attributable to CMT I/S held by Tecnimont Civil Construction S.p.A.;
- the increase of €2.8 million in the value of the equity investment in the wholly-owned subsidiary Salini Australia Pty Ltd;
- the increase of €1.1 million in the value of the equity investment in the Turkish associate Gaziantep Hastane Sag.Hizm.Isl.Yat.Anonim Sirketi.

The other equity investments decreased during the period by €(1,152). The change was due to the disposal of the equity investment in the company Autostrade Torino-Milano S.p.A. (€1,126) and the closure of the equity investment in the company Costruttori Romani Riuniti Grandi Opere (€26).

The impairment test of the item “Equity investments”, carried out also to assess any reversals of previously recognised impairment losses, has been carried out on a case–by-case basis, considering the specific objectives pursued by each investee during the performance of their operating activities.

Based on such approach, the item "Equity investments" can be analysed as follows:

Interests in special purpose entities (SPEs)	33,915	17,384	16,531
Other Equity investments in companies with indefinite lives	1,261,994	339,730	922,264
Equity investments	1,295,909	357,114	938,795

Special purpose entities (SPEs) are legal entities set up specifically and solely to carry out construction contracts which Salini will not carry out directly and in which Salini has an interest equal to its share of the tender. These entities have a corporate structure compliant with the clients' requirements as communicated during the tender procedure and considering the specific legal context of the country in which the contract will be performed. They are classified depending on whether they are: (i) SPEs, the profit or loss of which are allocated to their venturers in line with their interests as provided for by law (i.e.: Italian-based consortia and consortium companies which operate on a "recharges of costs" basis), and (ii) other SPEs for which this allocation is not provided for by law (e.g., foreign limited liability companies, companies limited by shares, etc.).
With respect to the SPEs that directly allocate their profit or loss to the venturers on whose behalf they operate, the company does not test them for impairment as any contract losses are passed on to the venturers.
The other SPEs are assessed for impairment as the profits or losses on the contracts they perform are not systematically reflected in the income statements of their venturers. Accordingly, their contracts are considered when testing for indication of impairment. Specifically, the SPEs' statements of financial position, which include the estimated contract costs or profits and are prepared in accordance with the relevant accounting standards interpreted by the Group's procedures, are considered as they show the estimated cash flows of the entity.
Other equity investments in companies with indefinite lives relate to non-consortium companies whose business object covers more than just one contract.
In compliance with the provisions of the current IAS 36 and as recommended by the Bank of Italy – CONSOB – ISVAP joint document no. 4 of 3 March 2010, the Company has conducted impairment tests to identify any impairment losses and reversals of previous impairment losses recognised, by analysing the individual investee companies considering the specific objectives pursued by each of them during the performance of their operating activities. This measurement was carried out based on the discounting of future cash flows forecast in the companies' business plans.

As a result of these measurements, impairment losses totalling €(69,452) were recognised for the year 2013, relating to:

- Todini S.p.A. – €69,000;
- Salini India Private Limited – €240;
- SALINI RUS OOO – €74;
- TB Metro S.r.l. – €138.

Specifically, for the measurement of the value in use of Todini S.p.A., in accordance with the procedures established by the applicable accounting standards, the following Cash Generating Units have been identified, according to geographic area, as announced in the Business Plan approved by the Board of Directors of the Company in 2013 as part of the merger plan:

- Italy
- European Union (excluding Italy)
- European countries outside of the European Union
- Asia
- Africa
- America

In line with previous years, certain prudent adjustments were made to the assumptions underlying the Plan and in particular:

a) a lower growth rate for revenues;
b) EBITDA and EBIT around 3% lower.

Moreover, the company has considered the

following assumptions in its calculation of value in use based on the expected cash flows taken from the Plan:

- the terminal value was calculated by developing an assumption of sustainable earnings that enabled the estimation of stable net operating cash flow over the long term on a going concern basis. The assumptions underlying the estimate of the sustainable net operating cash flow are:
  - EBITDA equal to the average for the years 2016/2018;
  - EBIT equal to around 5.5% of revenues (vs 8.5% in the Salini 2013-2016 Business plan);
  - depreciation and amortisation aligned to investments for maintenance of the level of fixed capital (i.e. 4% of revenues);
  - balance of working capital of 0.
- The operating cash flows used are net of theoretical tax expense calculated based on Italian taxation (IRES corporate income tax 27.5%, IRAP regional business tax 4.82%). This is a prudential approach because the company operates in countries operates in countries with lower tax rates than in Italy.
- Risk Free
  - Mature countries: calculated by taking the corresponding ten-year government bond (six-month average) as the reference for the risk-free return;
  - Emerging countries: calculated by taking the ten-year German government bond (AAA rating, six-month average) as the reference for the risk-free return;
- Beta: calculated based on the average volatility of Salini Impregilo and the main comparable listed companies in the last 2 years, taking into account the differential effects related to the level of debt and the tax rate (source: Bloomberg).
- Equity market risk premium: equal to 5%, commensurate with the yield differential (historic and long-term) between equities and bonds on international financial markets.
- Country Risk Premium:
  - Sovereign risk: calculated according to the rating associated with the country of reference on the basis of default risk (source: Damodaran/Moody's).
  - Long-term inflation differential between Germany (Mature country) and the country of reference: reflecting the expected depreciation of the local currency against the Euro. This approach is conservative because it assumes that the future cash flows are fully exposed to currency risk, whereas in practice also a significant part of the cash flows is governed by contracts in "hard" currency (i.e. Euro).
- The cost of debt has been estimated, based on the risk-free market rate (including the Country Risk Premium) and an average corporate spread of 300 basis points, expressed net of the tax shield.
- Structure of objective sources of funding (D/D+E): equal to 30%, in line with the average debt, at market values, of the Salini Impregilo Group and the main comparable listed companies.
- The overall weighted average cost (WACC) of Todini has been calculated by considering the underlying risk specific to the countries in which Todini operates ("blended discount rate"); the weighting factor has been set on the basis of the average exposure of the business reflected in the business plan for the different countries.
- he rate of growth in operating cash flows after the explicit period and in perpetuity, which is used to calculate the residual value (rate 'g'), has been estimated at 2%. The rate has been estimated taking into account the macroeconomic parameters of reference (relative GDP growth) of the countries in which Todini operates; this value of approximately 4% was prudently estimated at 2% (value aligned to the growth rate of Salini used for the purposes of the exchange).

Based on the above assumptions applied to analyse the Plan's cash flows, the resulting value in use for Todini S.p.A. is €196 million. This value, when compared to the overall investment held by the Company in Todini S.p.A., of €265 million, consisting of the carrying amount of the equity investment held by the Company of €35.2 million and financial receivables due to the Company from Todini S.p.A. of €230 million, showed an impairment loss of €69,000.

Accordingly the Company fully wrote-down the carrying amount of the equity investment in Todini S.p.A. by €35,201 and recognised an amount of €33,799 under the risk provision to cover losses on equity investments.