# 2012 FINANCIAL REPORT

Desining today the plants of the future

# PROFILE

As an industrial engineering group, Fives designs and supplies process equipment, production lines and turnkey plants for the world's largest industrial groups in the aluminium, steel, glass, automotive & logistics, cement, energy and sugar sectors.
Located in nearly thirty countries and with more than 6,500 employees across six continents, the Group is known for its technological expertise and competence in executing large-scale international projects.

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# Report of the executive board
## to the ordinary general meeting on June 25, 2013

### 1. GROUP ACTIVITY IN 2012

Following the sudden downturn in the outlook for the global economy during the last quarter of 2011, the first signs of a modest recovery that were observed at the beginning of 2012 faded rapidly. The problems encountered by European governments in making the necessary budgetary and structural changes, combined with the fragility of the Eurozone banking system, maintained a climate of uncertainty throughout the year, along with significant pressure on liquidity and access to funding. At the same time, the economic slowdown in leading emerging countries (China, India, Brazil and Russia) was confirmed, as these economies suffered the effects of higher interest rates at the beginning of the year, saw their exports exposed to the worsening external economic environment and experienced the inability of domestic markets to take up the slack. The Middle East, which has been very active in recent years, found itself disrupted by the transitional period that followed the Arab Spring throughout the region.

In its World Economic Outlook of January 2013, the IMF estimated the growth in world production for 2012 at 3.2%, which is 0.7 points lower than in 2011 (3.9%), and 1.9 points below the figure for 2010 (5.1%). The same trend was seen in the developed world (1.3% in 2012, compared with 1.6% in 2011 and 3.0% in 2010) and emerging countries alike (5.1% in 2012, compared with 6.3% in 2011 and 7.4% in 2010), reflecting the general economic slowdown at a global level.

Nevertheless, the Group's trading environment was affected only marginally by this wider macroeconomic picture in the first half of 2012. During this period, small and medium-sized order intake rose to a new record level, driven by the buoyant energy sector (combustion and cryogenics) on the one hand, and a continuation of the positive trend seen in the automotive industry during 2011 on the other, especially in the American and Chinese markets. A series of major contracts negotiated at the end of 2011 also came into force in 2012, mainly in the steel industry (China), and to a lesser extent, in the aluminium (Canada and the Middle East) and logistics (Europe, USA and Japan) sectors.

Nevertheless, the long-term issues over access to funding and the economic slowdown seen in emerging countries have imposed significant downward pressure on global industrial investment. The year was therefore marked not only by the postponement of the majority of projects previously announced by major industrial manufacturers, but also by an almost complete absence of new projects tenders. In addition, from summer onwards, the level of order intake was impacted by the increasing uncertainties over the trading environment in China (disappointing economic indicators, long-term overcapacity and changes to the Politburo) and, to a lesser degree, in the USA (a presidential election year, increased unemployment and fears over the "fiscal cliff"), which were the two most active markets for the Group during the first part of the year. Stronger difficulties also resurfaced in the European automotive industry.

After a record financial year in 2011 (€1,674 million in orders received), and against the background of a lackluster and uncertain economic and trading environment, Group order intake inevitably fell in 2012 to €1,324 million. Nevertheless, this performance is still superior to those achieved between 2008 and 2010.

On the other hand, the 2012 financial year was marked by a strong increase in sales, which ended the year at €1,508 million, setting a new Group record. This figure reflects the marked recovery seen in order intake during 2011, which ended with an all-time high order backlog of €1,552 million, as well as the sustained level of small and medium-sized orders (for isolated equipment, spare parts and technical support services), which continued to grow in the first half of 2012 despite the challenging economic environment. This high level of activity is reflected in the Group's results, where EBITDA broke through the €115 million barrier to end the year more than 16% above the 2011 level.

#### 1.1. Business overview

Total Group order intake for 2012 was €1,324 million, down €350 million (21%) on 2011. This variance includes a positive exchange rate effect of €41 million resulting from the rise in average exchange rates for the leading currencies used by Group companies outside the Eurozone, and especially the US dollar (€1 = $1.29 in 2012, compared with $1.39 in 2011), but also the pound sterling, yuan and yen. At €3 million, the consolidation scope effect was not significant. At like-for-like consolidation scope and foreign exchange rates, order intake was therefore down €394 million (24%) on 2011, reflecting the 2012 worsening global economic and industrial environment.

Order backlog at December 31, 2012 totaled €1,379 million; €173 million (11%) lower than the figure for 2011. This variance includes a consolidation scope effect of €11 million and a negative exchange rate effect of €13 million as a result of the euro's closing exchange rate appreciation against the yen and dollar between December 31, 2011 and December 31, 2012. Nevertheless, this order backlog remains a significant 23% higher than that reported for December 31, 2010, and gives the Group good forward visibility of business levels for 2013.

**Automotive & Logistics**

Despite a lower level of order intake from the automotive market compared with the record financial year of 2011, which saw an unprecedented catch-up effect generated by projects postponed as a result of the 2008/2009 global crisis, the Group achieved its second highest ever performance in 2012 as manufacturers continued to press ahead with investment programs until the summer, although at a pace that was certainly slower than in the previous year. The machining systems segment continued to benefit from new capacity growth in emerging countries (especially China) and the wave of powertrain replacement programs in the USA. In automated production systems, manufacturers completed through the first half of the year the final steps of the programs launched in national and international markets.

In logistics, the underlying trend towards growth in the volumes of goods transported in industrialized countries (as a result of e-commerce and home deliveries, increased travel and an aging population), combined with high labor costs, has driven the need to extend and upgrade existing infrastructures, providing good forward visibility for future investment. As a result, transportation and courier companies in North America, Japan and Europe have continued to automate their sorting centers, although the market paused slightly to regain its breath in 2012 after a record year in 2011.

**Metals**

Although the investment projects announced for the primary aluminium market at the end of 2011 were confirmed in the first quarter of the year, with the emphasis on Canada and the Middle East, the significant fall in prices, persistent uncertainties surrounding economic growth, sustained high stock levels and the overcapacity seen in almost all the world's production regions put the brakes on all new projects. After two particularly strong years in 2010 and 2011, order intake therefore fell significantly as major projects initially contemplated for 2012 were postponed.

In steel, the trading environment was marked by the slowdown in China, which has been the leading powerhouse behind growth in this market for many years. Combined with tighter access to credit, the desire of its government to reduce public expenditure led manufacturers to suspend almost all of those projects on the drawing board. Nevertheless, the Group was able to win and put into force before the summer three major contracts for which bid tenders had been issued in 2011, enabling it to report a level of order intake higher than that for the previous financial year.

**Energy**

In energy, where rising needs from emerging countries and increased demand from industrial companies worldwide for energy and environmental efficiency provided powerful impetus for growth, Group order intake rose to a record level in 2012. Order intake grew strongly in the cryogenics segment, driven by the recovery in Chinese industrial gas production and the confirmation of many hydrocarbon processing projects triggered by the rise

## ORDER INTAKE AND CLOSING ORDER BOOK

| (€Million) | 2010 | 2011 | 2012 |
|---|---|---|---|
| Order intake | 1,224.0 | 1,674.3 | 1,323.8 |
| Order book at Dec. 31 | 1,116.6 | 1,551.8 | 1,378.9 |

## SALES

| (€Million) | 2010 | 2011 | 2012 |
|---|---|---|---|
| Sales | 1,049.3 | 1,268.3 | 1,507.9 |

**ORDER INTAKE**
BY END MARKET

| (€Million) | 2010 | 2011 | 2012 |
|---|---|---|---|
| Automotive/Logistics | 399.1 | 607.2 | 479.8 |
| Metals (aluminium & steel) | 468.8 | 550.7 | 404.8 |
| Energy | 286.4 | 272.7 | 355.2 |
| Cement | 69.7 | 243.7 | 84.0 |
| **Total** | **1,224.0** | **1,674.3** | **1,323.8** |

BY GEOGRAPHICAL AREA

| (€Million) | 2010 | 2011 | 2012 |
|---|---|---|---|
| The Americas | 232.7 | 546.8 | 367.0 |
| The Middle East & Africa | 243.3 | 350.2 | 114.9 |
| Asia & Oceania | 392.4 | 338.9 | 422.6 |
| France | 234.8 | 241.2 | 256.3 |
| Europe (excluding France) | 120.8 | 197.2 | 163.0 |
| **Total** | **1,224.0** | **1,674.3** | **1,323.8** |
| Contribution from mature economies | 49% | 44% | 50% |
| Contribution from emerging countries | 51% | 56% | 50% |

in world demand for natural gas. In the combustion systems segment, the Group benefited from the sustained performance levels of North American industry, where the performance delivered by its equipment enabled it to contribute to many upgrade programs. Lastly, despite the deferment of major anticipated maintenance programs in the nuclear power industry for French nuclear power plants and the absence of new plant construction projects, the new restrictions imposed by safety authorities on construction projects already underway in France, especially the Flamanville EPR, led to an increase in order intake for the Group towards the end of the year.

**Cement**
The commercial environment remained distinctly unpretentious in the cement sector. After a slight recovery in 2010, the market for new cement production capacity fell for the second consecutive year, making 2012 the lowest performing year since 2009. Against the background of a still uncertain economy, leading international customers still preoccupied with managing their existing debt continued to postpone investment decisions, whilst in those regions where demand grew, local cement manufacturers were unable to secure the funding needed to initiate new projects. The Group's commercial effort was therefore focused on orders for equipment (combustion systems and isolated grinding units) and services in those regions of the world where its presence is traditionally strong (South America, Sub-Saharan Africa and the Middle East), as well as in Europe, where the quality of its technologies and its proximity to national producers have enabled it to contribute to the selective profitability improvement programs lauched on those sites that remain in production. Despite the sustained performance delivered by these areas of the business, Group order intake was inevitably compromised during 2012 by the absence of any large plant assembly orders (while two such orders came into force in 2011).

## 1.2. Highlights

**An organizational structure that adapts to Group growth**
The change in Fives' size and the new challenges now faced by the Group after several years of organic and external growth have created the need to evolve its organizational structure and governance in ways that focus on two major priorities. The first one is to continue with the division-based structure inside each of its four business divisions, with the goal of strengthening the middle management structures responsible for operational implementation of the Executive Board strategy. The second one is to put in place operating country management (beginning with North America and China), at the same time as strengthening local support functions to ensure consistent monitoring of cross-disciplinary regional issues.

This policy is reflected in the composition and operation of Group governance bodies, with each Executive Board member now having responsibility for closer supervision of one or more operational and/or functional departments. The Executive Committee has also been enlarged to address business line and operating country issues more effectively.

### An external growth policy that remains as active as ever

In 2012, the Group continued to pursue its acquisitions policy guided by two key strategic objectives: expanding its technology offer and applications portfolio, and strengthening its presence in major growth markets, with the emphasis on emerging countries.

The Group finalized the acquisition of Fives Combustion Systems Pvt. Ltd. in January 2012. This Indian company specializes in the design and supply of combustion equipment, the majority of which is used in the minerals sector (cement) and energy industry (burners for industrial boilers and heating plants). With its head office in Mumbai, Fives Combustion Systems also operates a production and assembly plant at Vadodara in the state of Gujarat, and employs around 100 people.

This acquisition enables the Group to:

- strengthen its position in the cement and energy sectors of the fast-growing Indian market by establishing a local operational base;
- provide Fives Pillard with a proprietary, low-cost sourcing platform for the manufacturing and assembly of certain equipment items.

In March 2012, the Group acquired the organic chemistry and distillation activities of Litwin, based in Mulhouse (France). This acquisition resulted in the formation of Solios Chemical, which employs around 30 people and generates a significant proportion of its sales from steelmaking customers in China.

Making this acquisition, the goal of the Group is to:

- complement the expertise of Fives Solios in the pre-baked anode production process in terms of pitch reception and storage as well as anode forming and baking. This will strengthen its market position relative to the leading aluminium manufacturing customers;
- provide a center of expertise in chemical engineering to complement its portfolio of proprietary technologies and expand its offer to the chemicals, pharmaceuticals and food manufacturing industries;
- open up new opportunities for growth in China and India by strengthening relationships with the Group's traditional customer base of leading steelmakers.

### An ambitious innovation policy

Innovation is the core to Fives strategy. The Group intensifies its Research and Development year after year, and in 2012, committed a record gross allocation of €22.7 million to R&D, a figure that represents an increase of 7% from 2011 and is nearly 95% higher than that for 2006 (compared with a rise of just under 50% in sales over the same period).

There are many programs in process, the majority of which focus on eco-design, process optimization and improved energy efficiency, led to Fives patenting 18 new innovations in 2012, bringing the total number of protected inventions (patent families) to 371, with 1,447 patents active worldwide.

## SALES

### BY END MARKET

| (€Million) | 2010 | 2011 | 2012 |
|---|---|---|---|
| Automotive/Logistics | 274.4 | 391.3 | 541.1 |
| Metals (aluminium & steel) | 365.3 | 474.9 | 527.3 |
| Energy | 284.5 | 290.2 | 317.3 |
| Cement | 125.1 | 111.9 | 122.2 |
| **Total** | **1,049.3** | **1,268.3** | **1,507.9** |

### BY GEOGRAPHICAL AREA

| (€Million) | 2010 | 2011 | 2012 |
|---|---|---|---|
| The Americas | 218.8 | 295.4 | 421.3 |
| The Middle East & Africa | 193.2 | 246.3 | 268.2 |
| Asia & Oceania | 306.3 | 331.8 | 373.4 |
| France | 205.4 | 223.3 | 268.9 |
| Europe (excluding France) | 125.6 | 171.5 | 176.1 |
| **Total** | **1,049.3** | **1,268.3** | **1,507.9** |
| Contribution from mature economies | 46% | 50% | 46% |
| Contribution from emerging countries | 54% | 50% | 54% |

## ORDER BOOK

### BY END MARKET

| (€Million) | Dec. 31, 2010 | Dec. 31, 2011 | Dec. 31, 2012 |
|---|---|---|---|
| Automotive/Logistics | 240.8 | 476.1 | 406.1 |
| Metals (aluminium & steel) | 571.6 | 656.5 | 555.7 |
| Energy | 234.8 | 217.4 | 249.9 |
| Cement | 69.4 | 201.8 | 167.2 |
| **Total** | **1,116.6** | **1,551.8** | **1,378.9** |

### BY GEOGRAPHICAL AREA

| (€Million) | Dec. 31, 2010 | Dec. 31, 2011 | Dec. 31, 2012 |
|---|---|---|---|
| The Americas | 186.4 | 448.7 | 392.2 |
| The Middle East & Africa | 236.4 | 350.4 | 195.3 |
| Asia & Oceania | 402.7 | 417.6 | 478.7 |
| France | 169.5 | 187.5 | 174.5 |
| Europe (excluding France) | 121.6 | 147.6 | 138.2 |
| **Total** | **1,116.6** | **1,551.8** | **1,378.9** |
| Contribution from mature economies | 39% | 37% | 33% |
| Contribution from emerging countries | 61% | 63% | 67% |

Fives also focused on enhancing its process expertise throughout 2012:

- development work continued in the area of process control and optimization using proprietary algorithms. The integration of advanced process control systems is an effective tool for improving the energy and environmental performance of the equipment manufactured by the Group;
- during the year, the Group acquired a small French metals processing consultancy called Kéods, whose expertise is based on extensive experience in, and detailed knowledge of, the steelmaking process, supported by the use of proprietary management software packages. This expertise extends the range of services offered by the Group to the carbon steel processing line market (galvanization and annealing lines) by enabling Fives customers to secure the "Automotive steel sheet" accreditation required by steel producers in order to supply the automotive industry.

Lastly, 2012 saw the Group successfully implement two internal initiatives designed to improve the quality of its products and stimulate the creativity of its teams:

- in accordance with the recommendations made in the ISO 14062, 14020 and 14021 international standards, Fives has continued deployment of its "Engineered Sustainability®" environmental label as the practical application of its eco-design policy. This label is designed to evaluate, improve where necessary, and convey precise and substantiated information regarding the environmental performance of the equipment supplied, in terms of issues such as reduced energy consumption, reduced greenhouse gas and pollutant emissions and reduced consumption of water and raw materials. 2012 saw the first award of this label to a Group technology: the CentriSpray washer from Fives Cinetic, which is designed to provide precisely-controlled washing and drying of engine components for the automotive industry;
- in its first year, the Fives Innovation Award was presented to two breakthrough innovations offering impressive growth potential: the first simplifies the treatment process for high-elasticity steel sheet, whilst the second applies an aluminium welding process to the filling and sealing of heat pipes.

## Outstanding commercial successes

### In the Americas

*Brazil*

In May, the Queiroz Galvão and Cornelio Brennand joint venture company Cimar placed an order with Fives FCB for process equipment to be installed in a new cement grinding center in São Luis in Maranhão State. The order includes a 3,400 kW ball mill, a latest-generation TSV™ 3200 HF dynamic separator and a 2,000 m² Sonair process filter. Following on from the contract signed with Holcim in 2011 to supply a new 4,500 ton per day production line for its Barroso cement plant in Minas Gerais State, this order confirms the ability of Fives FCB to respond effectively to demand in the fast-growing Brazilian cement market.

*Canada*

After Fives Solios was awarded the contract to provide the hot gas treatment centers for Rio Tinto Alcan's Jonquière pilot plant in 2011, it confirmed in March 2012 its orders for the supply of a green anode plant in the form of preassembled modules and three holding furnaces, as part of its project to convert the electrolysis pots of its Kitimat plant in British Columbia. The new anode plant will have a capacity of 42 tons per hour.

*United States*

In June, Fedex Ground awarded Fives Cinetic the contract to provide an integrated sorting system for its Windsor (Connecticut) center. Covering the installation of six shoe sorters as well as a dual LPS singulator with a capacity of 15,000 items per hour, this contract is a substantial strategic success, since it is the first major project for Fedex Ground, and therefore raises the profile of Fives in the freight transportation segment.

In that same month, Fives Cinetic received an order from General Motors for two assembly lines to be installed in its Toledo (USA) and Silao (Mexico) plants. The new lines will produce key components for use in 8-speed transmissions for rear-wheel drive vehicles. They will replace the current 6-speed lines in both plants, and have a target daily production capacity of 1,000 units.

In July, Fives North American secured an iron ore pelletization order from Essar Minnesota to supply combustion equipment for hardening furnaces with extremely low NOx emission characteristics. This contract marks the first sale of this equipment developed by the Group to reduce emissions by more than 95% compared with existing technologies. This initial success opened the way to further orders during the year in Brazil (for Vale) and India.

*Mexico*

In July, Fives Cryogenie received an order from a joint venture company led by Technip and Braskem to supply cold boxes for a 1.05 million ton per year ethylene project in the State of Veracruz. This project is the largest private investment in Mexico by a Brazilian company.

**In the Middle East and Africa**

*United Arab Emirates*

In February, Fives Solios signed a turnkey contract with Emal (Emirates Aluminium manufacturer) for the supply and installation of five melting and holding furnaces as part of the project to expand its Abu Dhabi plant.

*Africa*

Fives Pillard was contracted in June by the Indian cement manufacturer Wacem to supply two 50 MW hot gas generators for a new raw mix grinding plant in Togo. Fives Pillard also received a similar order from the same customer in October for its Ghana plant, followed by another in December for the Novaflam® technology to be installed in its new Ethiopian production lines.

**In Asia and Oceania**

*China*

In January, Chinese steel producer TCSS (Tiancheng Stainless Steel Products), a subsidiary of the Sichuan Jinguang Group, placed an order with Fives DMS for the supply of two ZR22-54 rolling mills for its new stainless steel cold rolling plant. This order follows an earlier contract to supply an annealing and pickling line for the Group's SWSS (South West Stainless Steel) subsidiary in 2011.

In February, General Motors Shanghai awarded Fives Cinetic the contract to supply four LT2e machines to grind the journal faces, crankpins and main bearings of 3- and 4-cylinder crankshafts. This order reflects the excellent and dynamic performance achieved since 2011 by the Group in the Chinese machining systems market.

In March, Fives DMS signed two contracts with STSS (Shanxi Taigang Stainless Steel), a subsidiary of the Tisco group (Taiyuan Iron and Steel), for the supply of combined stainless steel rolling and pickling/annealing lines. Each line incorporates a sequence of five rolling mills capable of reducing the thickness of incoming product by up to 70%, as well as a "cold" continuous annealing process line (CAPL). The sale of this type of CAPL with integrated rolling mills was a first for Fives DMS, and represents a seal of approval for the company as the supplier of high-capacity cold rolling lines. The order brings the total number of new installations and upgrades sold to 20 (10 lines and 10 rolling mills) since 1996 to the Tisco group, which is the world's largest producer of stainless steel.

In May, Fives Cryogenie signed a contract with Air Liquide China to supply heat exchangers for three major air separation projects on its Hanghzou site, representing a total brazed volume of 640 m3. This order allows the Group to benefit directly from the growing demand for oxygen and H2/CO units in this country. It also reinforces the cooperative relationship between Fives and Air Liquide, which has already resulted in a number of major projects in recent years. It further underlines the strong presence of Fives Cryo in China, and market recognition of its ability to supply exchangers for large-scale air separation units.

In July, VAMA (Valin ArcelorMittal Automotive), a joint venture of ArcelorMittal and Valin, awarded Fives Stein the only Chinese process line contract of 2012. The order includes two vertical furnaces, one for an automotive galvanizing line, and the other for a combined continuous annealing line whose great flexibility in finished product fabrication enables alternating production of annealed steel sheets and coated steel sheets; the first coating process for this type of product to be used in China by this customer.

*India*

In March, Fives Cryogenie commenced work on two cold box orders (one for an ethylene production unit and the other for a gas treatment unit) for GAIL (Gas Authority of India), the country's largest public-sector processor and distributor of natural gas. This is the first major cryogenics contract won by the Group in India.

*Japan*
Following on from the 2011 contract to automate its Yokohama warehouse, Sagawa Express placed a new order with Fives Cinetic in March for the automation of its Tokyo terminal. The proposed solution includes four multilevel steel belt sorters capable of handling 30,000 items per hour.

**In Europe**
*Germany*
In April, as part of a national program to upgrade and automate its facilities, including increasing the sorting throughput rates of its main centers to 40,000 items per hour, Germany's largest logistics operator contracted Fives Cinetic to work alongside Siemens on the pilot project, thusrecognizing the high-quality technology offered the Group. This installation, which will act as the benchmark site for deployment of the rest of the program, provides Fives with excellent visibility in the market and the opportunity to establish itself as a long-term partner of this customer.

*France*
Having supplied Caterpillar with a painting line incorporating a FrixLine friction conveyor in 2011, Fives Cinetic was awarded a contract by this customer in February to supply a wheeled excavator assembly line for installation in spring 2013. This clean, silent and extremely low-maintenance conveyor offers all the flexibility in use of a self-powered conveyor, but at lower initial investment and operating cost.
In July, Fives Cail received an order from Lesaffre Frères for the supply of equipment to increase the capacity of its Nangis sugar production plant: the order covers centrifuges, a falling film evaporator with a surface area of 4,500 m², and a multi-tube dryer with a capacity of 55 tons per hour. This contract follows a similar order for SVI in 2011, and marks the return of French sugar refiners to orders for new equipment in a market where Fives has historically held a very strong position.

*Hungary*
In March, Audi placed an order with Fives Cinetic for a special model of the Landis LT1 camshaft grinder, including two headstocks and an internal loader. This technology offers greater productivity by allowing a part to be ground whilst the other one is being unloaded, thus eliminating downtime for loading. Following in the footsteps of a similar order placed in 2011, this contract confirms the strategic breakthrough achieved with this customer, which had previously used a competitor technology, and which placed additional new orders with the Group in Hungary and China during the year. This new machine is also attracting attention from other automotive manufacturers.

*Russia*
In September, Fives Bronx received an order for finishing equipment to equip three complete steel tube production lines for the new Gazpromtrubinvest plant at Volgoretchensk (in the Kostroma region of Russia). This contract includes the supply of two straighteners, two hydro testing machines, leak testing equipment and two finishing machines. This order represents the first major contract for Fives in the Russian seamless tubes market, and marks an important step forward for the growth of the Group in this market and this country.

*Sweden*
Having contracted Fives Cinetic to supply a pilot system as part of its network upgrade program that began in 2010, the Swedish post office awarded the company a contract in September to supply two new sorting systems for its facilities in Hallsberg and Rosersberg. The proposed solution is built around SBIR SD-2D cross-belt sorter technology, and is capable of handling 12,000 items per hour. The feeding system includes three ACCORD singulators. This order puts Fives Cinetic in a favorable position to contribute to future projects conducted as part of this ongoing program.

### Main deliveries

**In the steel sector,** 2012 was marked by the commissioning of many production lines and equipment installations with some of the Group's most important customers.

In the process lines segment, two grain-oriented silicon steel (FCL and DCL) lines were commissioned for Baosteel. As in 2011, Fives confirmed its status as the lead supplier to the country's top steelmaker Baosteel by achieving the start-up of these new lines ahead of the contractual schedule.

In the steel rolling segment, Fives DMS confirmed its ability to lead technological progress with the successful commissioning of the world's fastest cold rolling mill for TISCO in China. This line processed 1,200 meters per minute, compared with 1,000 meters per minute for the most efficient technologies previously available. The use of a special cage and patented new oil centrifuge system makes it possible to achieve this exceptional speed without compromising the quality of steel produced. This capability makes it possible for TISCO to fulfill its ambition of increasing productivity and achieving an annual production capacity of 133,000 tons.

The first coil was produced from this customer's new stainless steel bright annealing line in 2012. At 150,000 tons per year, this line delivers the highest production capacity in the world, positioning Fives as a top-tier manufacturer for high-quality bright annealing products.

Still in China, four 20-roll cold rolling mills were commissioned between May and December for JISCO (Jiuquan Iron and Steel), China's third-largest producer of stainless steel. This is the Group's first major project for this customer.

Lastly, the first coils were produced during the year from the two ZR22 monobloc cold rolling mills supplied by the Group to WISCO (Wuhan Iron and Steel), China's leading producer of silicon steel. These new rolling mills, added to the two previous ones supplied by Fives in 2006, will produce an annual total in excess of 180,000 tons of grain-oriented (GO) silicon steel,

whose excellent magnetic properties are achieved using a rolling process made particularly complex by the high silicon content of the metal.
In February, Posco VST in Vietnam produced its first coil of steel from the ZR21 cold rolling mill supplied by Fives DMS. This achievement has further strengthened the cooperative relationship between the Group and the world's third-largest steel producer, which has already led to completed projects in China over the last three years, another one being currently in progress in Turkey.

In the USA, the commissioning sequence which began in 2011 continued with acceptance of its final ZR22 rolling mill by ThyssenKrupp Steel Alabama, concluding the contract with this customer, which was the largest rolling mill project yet delivered by the Group (four rolling mills).

**In the aluminium sector,** Rio Tinto Alacan has completed acceptance of the electrolysis pot gas treatment center for its new pilot plant at Jonquière in Quebec; the first plant in the world to use 600 kA electrolysis pots. This center is fitted with the new Ozeos filters developed by the Group. Following several months of additional testing on its new electrolysis line, the customer expects to commence aluminium production in the first half of 2013.

At the end of the year, Fives Solios produced the first anode for the new Ma'aden Aluminium plant in Saudi Arabia; a joint venture between the state-owned Saudi Arabian Mining Co. and Alcoa. Since then, the carbon workshop has continued to keep pace with rising production demand from this customer. The plant, which will produce 740,000 tons per year, will be the world's largest integrated aluminum production facility.

**In the automotive sector,** Renault officially opened its new plant at Tangier (Morocco) in February, with a capacity to produce 170,000 vehicles per year. During the year, Fives Cinetic secured acceptance of the handling equipment supplied for the pressed steel and final assembly shops, as well as the fluid filling and testing equipment installed at this plant. In July, PSA Peugeot-Citroën officially opened the complete cycle assembly line at its Kaluga plant in Russia, for which Fives Cinetic supplied the assembly shop and fluid filling equipment.

In the USA, Chrysler began production in January at its Dundee plant in Michigan, for which Fives Cinetic has supplied the assembly and machining lines for the manufacturer's new "Tigershark" range of engines. In July, production began at the company's Kokomo plant, where nine new assembly and testing lines for key components used in its new-generation 8-speed transmissions have been supplied by Fives Cinetic.

**In the logistics sector,** Fives Cinetic commissioned the sorting terminal system produced by the company for Yamato Transport in Hyogo in July. The system includes four steel belt sorters and two slide sorters. Work began during the year on the contract for the Sagawa Express Tokyo terminal, with four sorters being delivered in December; an extremely short lead time for a project of this size.

Lastly, November saw DHL China begin operations in its new Shanghai hub that links Northern Asia with Europe and the Americas. This hub uses four Fives Cinetic cross-belt sorters for letters and packages.

## 1.3. Trends and outlook

### Fives looks confidently to the future

**Business growth set to continue in 2013**

Despite the worsening economic environment of 2012, the Group ended the year with a robust order backlog of €1,379 million, which provides good forward visibility of activity levels for 2013. Although lower than the previous year, this order backlog will be supplemented in 2013 by a solid base of small orders, and should ensure that Fives is able to report a higher level of sales than for 2012.

Although the Group reported record sales in 2012, this performance was achieved despite the fact that the order backlog at December 31, 2011 diminished only very moderately in 2012, since it included a number of major contracts signed only at the end of 2011. Significant amounts relating to these contracts are therefore still included in the order backlog at the end of 2012, and much greater progress will be made on their fulfillment during 2013.

Global growth is also likely to be more sustained in 2013, with the IMF forecasting growth of 3.5% (0.3 points higher than 2012). Much of this growth (5.5% reflecting an increase of 0.4 point) is likely to be driven by the world's emerging countries, where favorable signs were seen at the end of 2012. By the end of the year, China was showing the first signs of recovering investment in those sectors most favored by the Group, whilst prospects are also looking more encouraging in India and Brazil, both of which have recently been marking time.

**Positive prospects for future years**

The short- and medium-term prospects for the business environment in which the Group operates appear positive across all its business lines. After several difficult years, the situation is finally expected to improve in the cement sector, where growth in demand from emerging countries, the improving financial health of major international customers and the increasing market power exerted by new corporate players in the local markets of South America, the Middle East and Africa, which all make it reasonable to predict that this market will see a recovery in investment. In fact, a number of projects have already been announced in 2013.

The energy sector is expected to continue on its current very positive trend (especially in China, the USA and the Middle East), driven by growth in global energy demand, development of oil substitute products (coal liquefaction, natural gas processing and shale gas production) and increasingly restrictive environmental standards. The first post-Fukushima nuclear power plant maintenance programs are also expected to come on stream in France from 2013 onwards.

In the automotive sector, the Group should be affected only marginally by the problems currently faced by French manufacturers and the European market. In practical terms, China seems set to continue the trend of investing massively over the next 4 to 5 years in production lines for mechanical components (with the emphasis on engine and transmission production), where volumes fall far short of existing assembly capacity, whilst US and German manufacturers have ambitious growth plans for future years, both in their domestic markets and internationally. In logistics, the continuation of many existing sorting center automation programs in which Fives is already involved in North America, Japan and Europe offer excellent forward visibility.

In the steel sector, the Group should benefit from the recovery in investment forecast for China, as well as new opportunities for seamless tubes presented by shale gas production. In primary aluminium, although the market seems likely to remain lackluster in 2013, and the fact that many projects begun in 2008 will be fully commissioned and further absorb demand, many investment programs in new capacity are expected from 2014 onwards, especially in the Middle East (extensions to existing large-scale facilities, many of which involved contributions from Fives in their initial phases), as a result of growing demand from major end-user markets, led by aerospace.

### A growth strategy designed for the long term

The medium- and long-term prospects for the Group therefore appear very substantial. The demographics, urbanization, infrastructure needs and improving levels of education seen in emerging countries are positive and powerful underlying factors for driving demand, and therefore in industrial capital expenditure. Mature markets are showing significant potential in terms of upgrades for existing installations, further strengthened by rising demand for energy efficiency and a reduced environmental footprint. Designed to dovetail with these dynamic trends, the Fives growth strategy is built around a series of key priorities.

**Intensifying the commitment to innovation and R&D and diversifying Group products and services**

The very strong competitive positions occupied today by Fives are directly related to the development of innovative solutions that offer customers a real competitive edge. Furthermore, the Group has a substantial portfolio of projects in all its business lines, the majority of which focus on eco-design, process optimization and improved energy efficiency, with the twin goals of reducing time-to-market for distinctive breakthrough technologies, and ensuring that its range of products and services continually adapts to meet customer needs. Having risen by almost 12% year-to-year since 2006, the R&D budget will increase again in 2013 to support these programs. The Group is also focusing increasingly on developing its intellectual property policy, which not only protects its expertise, but also acts as a strategically-important device for advantageous market positioning.

Diversifying its range of products and services is a key challenge for Fives. Every Group company is encouraged to work on developing applications for its technologies and equipment in new industrial markets which they did not originally serve. At the Group level, two high-tech markets have been identified as priorities: the oil and gas industry (especially for acid gas burners) and aerospace (where machining technology is particularly relevant, for example). The adoption of technologies acquired from outside the Group offers a second tool for extending the scope of its skills. Traditionally focused on heat treatment and mechanical engineering, the Fives process portfolio has been extended into chemicals via the integration of a steel sheet chemical treatment, stripping and degreasing unit in the USA, and the acquisition of Solios Chemical, a specialist in organic chemistry, tar distillation and crystallization-based purification.

**Developing services business in all Group markets**

All over the world, customers operating systems and equipment designed and installed by Fives are facing increasing requirements in terms of reliability, technical performance and financial optimization. Given these challenges, the traditional maintenance services provided by all Group companies must be complemented by the development of service-based solutions that provide customers with tailor-made support. The development of these solutions is a major challenge for the Group in maintaining its competitive position and boosting sales. With a very significant installed base around the world, Fives has an extremely strong base from which to develop this highly profitable activity, which offers the added benefit of consistent revenue generation, since it is reducing its dependence on market cycles.

More comprehensive ranges of solutions have already been introduced in many segments to improve the way in which the knowledge and expertise of Fives teams are applied in the operational phase to generate added value. The initiatives implemented in 2012 (in the cryogenic pumps segment in China, for example) have been very well received by customers, and generated a rapid return on investment for the Group.

This approach was further strengthened by external growth during the year. In the cement sector, Fives FCB acquired the business portfolio of CLE, the cement plant specialist division of the Technip Group. For more than 40 years, CLE has been a recognized force in the cement industry, and has completed installation and revamping projects for many cement manufacturing customers. This acquisition strengthens the position of Fives FCB in the services market, expanding its installed base by nearly 80 more customer installations worldwide, and extending its range of upgrade, maintenance and spare parts services. In the aluminium sector, the Group acquired 100% of Bahrain-based Solios Services Gulf, which was previously owned 50/50 with the local company AMA. This move adds extra weight to its services business in the Middle East, where the largest investments in aluminium over recent years have been concentrated.

Lastly, the Group created a new Services Department at the beginning of 2013 tasked with strengthening the action plans of individual Group companies through a coordinated approach to services and a cross-disciplinary overview to encourage the development of comprehensive solutions tailored to the needs of customers.

**Strengthening the Group's sales and operational structure**

With their significant requirements for industrial equipment, the world's emerging countries represent one of the most important sources of growth for Fives. With a presence in nearly 30 countries through nearly 80 subsidiary companies, the Group also has a network of representative offices in Brazil, China, India, Japan, Mexico, Russia, Thailand and Turkey: a clear illustration of its commitment to strengthening its local operating presence in all these markets. Through their knowledge of the regional industrial fabric, experience of local markets, relationships with official bodies, and local commercial presence with major manufacturers, these offices provide sales and administrative support for Group companies, giving them a clear understanding of regional challenges and dynamics, and helping them to establish a long-term presence in these growth markets. Encouraged by the positive results achieved in recent years, the Group intends to pursue this strategy and apply it to new regions of the world beginning in 2013: the sales office that opened in Dubai during 2012 to cover all the Gulf states will be fully operational by the middle of the year, and consideration is currently being given to establishing new offices in Africa and Southeast Asia, as well as strengthening the Group's high-profile commercial presence in India.

Fives has long adopted the policy of retaining full control over the production and assembly of all the key components in its product range, subcontracting only the fabrication of complementary components. As a result, it has been investing for many years in highly qualified machining and assembly workshops in the USA and Europe. In 2012, Group capital expenditure totaled €28.6 million, representing nearly 25% of EBITDA for the year, including a particularly large investment in extending and upgrading the specialist machining systems workshop of Fives Cinetic in the UK (Cinetic Landis). Fives is also actively pursuing the development of its production resources in China, where the construction of a second brazing furnace is planned for 2013 to serve the cryogenics segment, and in India, where, since its acquisition of Fives Combustion Systems, it operates a production workshop specializing in combustion systems for the cement and energy industries.

Lastly, having structured its production subsidiary companies in China and India over many years, the need for a local presence in Brazil and Russia has encouraged the Group to now develop its subsidiaries in these countries with the ability to handle local content to major export contracts.

**Extending the Group's footprint in the USA**

For nearly 15 years, the Group has grown in the USA through acquisitions made in a number of segments: automotive (automated production systems and machining systems), logistics, combustion systems and steel (seamless tubes). These successive acquisitions have all contributed to the growth of Fives, delivering a remarkable level of operating performance, at the same time as expanding its portfolio of new technology businesses. The Group's American subsidiary companies now employ nearly 1,100 people, or 17% of its total labor force.

Having been severely shaken by the global economic crisis, the country has recovered spectacularly since 2009 to see its leading companies return to an economic growth rate higher than any other developed country. For example, General Motors, which regained its position as the world's leading automobile manufacturer in 2012 barely 3 years after filing for Chapter 11 bankruptcy protection. This dramatic recovery has been particularly marked in the manufacturing industry, where the USA is able to rely on two major strengths: a very large domestic market on the one hand, and impressively competitive costs on the other (both labor costs - with lower social contributions - and energy costs that continue to fall as a result of shale gas production).

In this high-potential market now experiencing full-blown re-industrialization and with excellent prospects, the Group announced at the beginning of 2013 that it had reached an agreement for the acquisition of MAG Americas, the world's leading player in large-scale machine tools and composite processing. MAG Americas operates chiefly in the aerospace, energy, mining and off-road vehicles industries, and employs approximately 1,000 people, most of whom are in the USA, although the company also owns subsidiaries in France, Canada, China, and South Korea. It reported sales of approximately $400 million in 2012. This acquisition forms part of the Group strategy for international development in its existing operating areas of high added value technologies that offer strong technical and operational synergies with its existing businesses. This acquisition makes the Group one of the world's leading suppliers of high-performance machining solutions.
Completion of the deal is subject to the standard conditions regarding competition and government authorizations.

The Group also continues to pay close attention to opportunities for further growth in the American market.

## 2. FINANCIAL PERFORMANCE

### 2.1. Accounting principles and consolidation scope

The Group consolidated financial statements have been prepared in accordance with IFRS since January 1, 2011. Although the consolidated financial statements prepared under French GAAP remain the official financial statements for the 2010 financial year, the figures presented below have been restated to IFRS for the purposes of comparison.
Fives Engineering (Shanghai) Co. Ltd., Fives North American Combustion Spain S.L. and Solios Services Gulf SPC., which extend Group activities in China, the combustion market in Spain and the aluminium market in the Middle East respectively, have been included within the consolidation scope with effect from January 1, 2012. Fives Cail KCP Ltd., which extends the Group presence in the Indian sugar refining market, and was proportionately consolidated in 2011, is now accounted for using the equity method.
Fives Combustion Systems Private Ltd. (India) and Solios Chemical (France), which were acquired in January and March 2012 respectively, have been included within the consolidation scope with effect from April 1, 2012.

Only those companies entering the consolidation scope as a result of external growth are excluded from like-for-like analyses. Companies that extend Group activities into new regions of the world are considered by definition as forming part of the organic consolidation scope.

In 2012, the Group benefited from a positive foreign exchange rate effect resulting from appreciation against the euro of the average rates of most functional currencies used by Group companies outside the Eurozone. The majority of this effect comes from companies using the US dollar and British pound as functional currencies, and to a lesser extent from those using the yuan and yen.

### 2.2. Summary of results

**Sales**
In 2012, sales totaled €1,508 million, a new record high for the Group, and a €240 million (19%) improvement on the 2011 figure. This increase includes a consolidation scope effect of  €12 million and a positive foreign exchange rate effect of €47 million. At like-for-like consolidation scope and foreign exchange rates, sales were therefore up by €181 million (14%).

The majority of this increase is attributable to the higher level of opening order backlog (up 39%), as well as to the good level of small and medium-sized order intake seen in the first half of the year, with some of these orders delivered during the financial year.

**EBITDA**
EBITDA refers to Earnings Before Interest, Taxes, Depreciation and Amortization of property, plant and equipment and intangible assets. Group EBITDA for 2012 totaled €115.1 million, reflecting a €16.1 million (16%) increase over the figure for 2011. This increase includes a positive foreign exchange rate effect of €5.3 million. The consolidation scope effect was not significant.

At like-for-like consolidation scope and foreign exchange rates, EBITDA was up by 12%, remaining virtually unchanged as a proportion of sales at 7.7%, compared with 7.8% in 2011.

**Net financial result**
The Group's net cash position at December 31, 2012 was €266 million; a level €27 million higher than that at December 31, 2011 (€239 million). The €115 million in EBITDA has funded the payment of corporate income tax (€36 million), net capital expenditure (€26 million) and dividend payments (€41 million). In addition, €15 million in short-term liquidity recognized under financial assets in 2011 has been restated as cash and cash equivalent following the disposal of these investments at their maturity in 2012.

Net financial result includes the cost of net financial debt, the financial expenses relating to defined benefits pension schemes (discount effect on obligation net of expected return on fund assets), exchange rate gains or losses, as well as forward points on foreign exchange derivatives and change in fair value of derivative instruments not eligible for hedge accounting.

Negative at -€4.1 million, net financial result fell by €3.5 million relative to 2011. This reduction includes +€0.4 million in the cost net financial debt as a result of higher interest income generated by the improved net cash position of the Group throughout the year, and -€3.9 million as a result of other financial income and expenditure.

The main reason for this €3.9 million reduction was the change in the exchange rate gain/loss position on the funding put in place to structure the North American and Bronx group acquisitions in 2008 and 2010 respectively. Since these acquisitions were financed by US dollar loans granted by Fives to its American subsidiaries, Group financial income is automatically affected by the euro/dollar exchange rate over the full life of the loans concerned. Whereas an exchange rate gain of €3.1 million was recognized in 2011 as a result of the appreciation against the euro of the US dollar's closing rate between December 31, 2010 (€1 = $1.34) and December 31, 2011 (€1 = $1.29), an exchange rate loss of -€1.1 million was recognized in 2012 as a result of the stronger position of the euro on December 31, 2012 (€1 = $1.32). The variance of the exchange gains or losses recognized on these operations between 2011 and 2012 is therefore -€4.2 million.

However, it is important to note that the exchange rate loss for the year (-€1.1 million) breaks down into a gain of €1.6 million realized through the hedging operations put in place and an unrealized loss of €2.7 million. Since the loans were granted, the Group has recognized a cumulative exchange rate gain of €16.3 million (€10.0 million unrealized and €6.3 million realized).

### Net profit

The total income tax expense, both current and deferred, for the financial year was €35.9 million, and therefore €2.5 million higher than the figure for 2011 (€33.4 million). This figure includes €33.4 million of current tax due (of which €13.3 million relates to those companies within the French tax relief group, with the remaining €20.1 million attributable to those French and international companies not included in that group), plus a deferred tax charge of €0.4 million.

The nominal tax rate was thus 40.7% in 2012. This is explained chiefly by recognition of CVAE (the French added-value-based corporate tax) as an income tax expense (which imposes a 3.4% effect on the tax rate), and the absence of recognition of a deferred tax asset in respect of tax losses for the year incurred by the French holding company.

## SUMMARY OF CONSOLIDATED FIGURES

| (€Million) | 2010 | 2011 | 2012 |
|---|---|---|---|
| Sales | 1,049.3 | 1,268.3 | 1,507.9 |
| Gross Margin | 242.5 | 280.3 | 324.2 |
| EBITDA | 86.3 | 99.0 | 115.1 |
| EBITA | 71.7 | 83.5 | 97.3 |
| Current operating profit (EBIT) | 68.3 | 76.2 | 92.7 |
| Operating profit | 63.7 | 75.0 | 92.4 |
| Net financial result | 4.1 | (0.6) | (4.1) |
| Profit before tax | 67.8 | 74.4 | 88.2 |
| Net profit of consolidated companies | 43.0 | 41.0 | 52.3 |
| Net profit (Group Share) | 42.5 | 40.4 | 50.8 |
| Shareholders' equity attributable to owners of the Group | 223.2 | 244.8 | 244.8 |
| Cash and cash equivalents at December 31 | 214.0 | 239.2 | 265.6 |

Net profit of consolidated companies was therefore €52.3 million. This figure was €11.3 million higher than that for 2011 (€41.0 million), with the increase in EBITDA (+€16.1 million) being partly offset by lower financial income and a higher income tax expense.

## 2.3. Contribution of each division to Group results

### AUTOMOTIVE/LOGISTICS

| (€Million) | 2010 | 2011 | 2012 |
|---|---|---|---|
| Order intake | 399.1 | 607.2 | 479.8 |
| Order book at Dec. 31 | 240.8 | 476.1 | 406.1 |
| Sales | 274.4 | 391.3 | 541.1 |
| EBITDA | 19.3 | 33.1 | 53.2 |
| Headcount at Dec.31 | 1,710 | 1,978 | 2,191 |

***Activity: the automotive division designs, manufactures and installs equipment, integrated tooling systems and automated production systems for the automotive industry. In logistics, the Group offers an extensive range of automated sorting systems. All these equipment and systems items are marketed under the Fives Cinetic brand.***

**In the automotive sector,** global production continued to grow in 2012 (+ 6.5%). During the year, Japan made up for ground lost in the challenging year of 2011 (tsunami and extensive flooding in Thailand), whilst the USA regained its position as the world's most dynamic market ahead of the BRIC countries, which nevertheless maintained their 2011 impetus. On the other hand, the situation in the European market continued to worsen.
This market background was reflected in manufacturer investment decisions, which followed the pattern set in 2011, which was a particularly strong year, although sales weakened somewhat in the second half of the year. American manufacturers continued to rationalize and upgrade production capacity in their domestic markets, at the same time as strengthening their international presence, especially in Brazil, Mexico and China. In excellent financial health and with the benefit of a still-buoyant domestic market, German manufacturers confirmed a number of investment projects during the year, particularly in the BRIC countries. Conversely, other European manufacturers - and especially those in France - were forced to restrain investment as a result of remaining highly exposed to the depressed markets of the Eurozone.

Despite lower sales levels than in 2011, which benefited from an unprecedented catch-up effect generated by projects postponed as a result of the 2008/2009 global crisis, the Group was able to maintain high order levels in 2012. The market for machining systems remained strong in emerging countries, led by China via projects initiated by leading international manufacturers, especially Volkswagen, General Motors, Ford and Honda, and by national market players, whilst in the USA, development of new production lines for more fuel-efficient engines and robotized transmissions continued. In automated production systems, business levels were commendable in most respects, with the Group's American and French companies contributing to many mechanical component upgrade programs for their traditional customers, although these same customers suspended a series of projects originally scheduled for the second half of the year, both in domestic markets and emerging regions of the world. The end of the year saw an accelerating rate of order intake from the aerospace sector, where the medium-term outlook seems very promising. Lastly, business volumes from filling systems continued to grow, not only in China and Brazil, but also in Europe, where the market benefited from previously-postponed investment by several manufacturers in order to comply with new environmental standards.

**In the logistics sector,** Japanese, European and North American courier companies continued to automate their sorting centers in a still-promising market driven by strong growth in the volumes of goods carried, largely as a result of e-commerce and home deliveries.

This business environment is encouraging postal operators to invest in technologies designed for the parcels market, which is gradually overtaking traditional letter post services. As a result, many national operators have announced ambitious programs in recent years to upgrade existing facilities in Western Europe (Germany, the UK and Sweden) and North America (Canada) and/or expand their networks into emerging countries, with the emphasis on Eastern Europe. Group order intake highlights for 2012 include two new facilities awarded by the Swedish post office (as part of a program initiated in 2010) and a pilot project for Germany's largest logistics operator, which has announced a major investment plan.

In courier services, market players' commitment to strengthen their domestic networks has generated new opportunities for small-scale projects with major international companies (the Group was awarded a contract by FedEx in the USA during the year) as well as smaller national players (in Turkey, Brazil and Mexico). In Asia (Japan and Korea), where the market is particularly strong as a result of an aging profile and high population density, the Group's traditional customer base of major transportation companies has continued to invest substantially in airport and railroad station sorting centers.

**In overall terms,** although 21% lower than the record figure of 2011 (driven by post-crisis catch-up of projects postponed from 2008/2009), order intake remained at a high level in 2012, ending the year at €480 million; the second-highest performance ever from the Group's automotive and logistics division.

At €541 million, the 2012 sales total for this division represents a very significant increase (+38%) over the previous year, supported by an order backlog twice the size of the 2011 figure. EBITDA rose even more dramatically (+61%), benefiting from the falling proportion of fixed costs relative to increased sales.

Ending the year with a substantial order backlog of €406 million, and steady margins on orders received in 2012, Fives began the 2013 financial year with excellent forward visibility of activity levels and financial results.

After two exceptionally good years in the automotive sector, the Group foresees the possibility of a slowdown in its business activity during 2013, as the trend seen in the second half of 2012 continues against the background of a still-uncertain global economy and the problems faced by some manufacturers. Nevertheless, the market for machining systems is expected to remain buoyant, especially in China, where, although a lot of investment has been made on the downstream side of the production process, such as assembly lines, local production remains hampered by a shortage of upstream capacity, especially in terms of engines and transmission systems. The Group also hopes to reap the benefits of the diversification initiatives implemented in recent years for automated production systems to accelerate its growth in industries other than the automotive sector, in particular aerospace.

In the logistics sector, the market outlook remains very positive, supported by a series of favorable underlying trends. The Group should therefore continue to benefit from the ongoing programs of European and North American postal operators, Japanese transportation companies and international courier companies. The retail segment also offers growing opportunities, especially in Europe.

## METALS (ALUMINIUM, STEEL & GLASS)

| (€Million) | 2010 | 2011 | 2012 |
|---|---|---|---|
| Order intake | 468.8 | 550.7 | 404.8 |
| Order book at Dec. 31 | 571.6 | 656.5 | 555.7 |
| Sales | 365.3 | 474.9 | 527.3 |
| EBITDA | 35.7 | 40.0 | 36.2 |
| Headcount at Dec. 31 | 1,377 | 1,420 | 1,435 |

*Activity: the metals division supplies key processes and equipment, mainly for aluminium and steel production.*
*For aluminium, the equipment covers key manufacturing processes in the carbon, electrolysis and casthouse sectors. All equipment in this sector is marketed under the Fives Solios brand name.*
*In steel, the Group has both mechanical and thermal expertise and supplies rolling mills, large capacity reheat furnace surface treatment lines as well as finishing equipement and mechanical processing for pipes and tubes. The division also serves the glass industry where its thermal technology has found new applications.*
*The division's activities are carried out under the Fives DMS, Fives Stein, Fives Celes and Fives Bronx brand names in steel and under the Fives Stein brand name in the glass sector.*

**In the aluminium sector,** although global consumption continued to grow in 2012 (by 5% to its current level of over 46 million tons), the extent of this increase remained limited outside China. Having recovered strongly in 2010 and 2011, global production increased at a more modest pace overall (around 3% to 45 million tons), and actually fell back by 3% outside China, as leading producers decided to improve profitability by closing those plants with the highest production costs.

The year was also marked by a steep decline in the price of aluminium: after maintaining a high level in 2011 (averaging around $2,300 per ton, peaking to nearly $2,800 in May), prices fell back drastically from spring 2012 to settle sustainably at between $1,900 and $2,000 per ton; a level at which half of the world's production plants are unable to cover their production costs. Already facing financial difficulties, a number of major aluminium producers therefore saw their positions deteriorate during the year. Coupled with the ongoing uncertainty surrounding economic growth, high levels of inventories and production overcapacity in almost all producing regions (in western countries, as well as in the BRIC countries, with the notable exception of the Middle East), this wider context put the brakes on all new investment plans.

Nevertheless, thanks to the more favorable conditions that still prevailed in the early months of 2012, those investments announced in 2011 were confirmed in the first quarter, enabling Fives to secure contracts in Canada (green anode plant and melting furnaces for Rio Tinto Alcan) and the Middle East (melting furnaces for Emal). However, the downturn in the market then impacted the Group's trading activity, and no other capital project emerged during the year. After two particularly strong years in 2010 and 2011, order intake from the primary aluminium market therefore fell significantly.

**In the steel sector** the market slowdown that began in 2011 continued into 2012. Although global consumption continued to grow (+2%), it remained at just over 1.4 billion tons; a level below that of production, nearly 1.55 billion tons. This amount is substantially below existing capacity at nearly 2 billion tons at the end of 2011. This level of overcapacity, which has persisted since the 2008/2009 global crisis, was hardly favorable to the practical development of new projects, or to investment in production facility upgrades and maintenance against a background of scheduled site closures.

Until 2011, this situation had affected China only slightly, and the country had continued to invest despite high inventories levels, but the slowdown seen in the Chinese economy in 2012 has changed the market. The clearly stated the desire of the Chinese government at the beginning of the year to reduce public expenditure, combined with the political immobility that preceded recent changes to the Politburo, which resulted in the plans of leading national steelmakers to be put on hold. At the same time, tighter access to credit made it impossible for private manufacturers to put together the funding deals they needed. It is against this background that almost all the projects previously announced in China have been abandoned, or at least suspended.

Nevertheless, the Group has brought into effect three major projects in China for which the bid invitations were issued in 2011. This includes stainless steel pickling/annealing lines and rolling mills, and furnaces for carbon steel annealing and galvanization lines. This resulted in a higher order intake for 2012, despite the worsening economic environment and the significant slowdown seen in trading activity during the year.

In seamless tubes for end-user customers in the gas, oil and energy transmission industries, the growth in demand for crude oil (the main underlying driver for investment), which fell back in 2009 after five years of spectacular increases (averaging 17% year-to-year), recovered only slightly in 2012. Although relatively few projects came to fruition compared with the period between 2004 and 2009, the Group was awarded a major contract in Russia for a new Gazprom plant, and capitalized on its extensive base of installed equipment to ensure continued strong growth in its services business. As a result, order intake showed strong growth after the low point of 2011.

**In the glass sector,** the imbalance between supply and demand (directly related to overcapacity in China), the slowdown in the construction industry, and the problems encountered by independent glassmakers in accessing funding in emerging countries all had a negative effect on the commercial environment in which the Group operates. As a result, no major order was received in 2012, after a very good year in 2011.

**In overall terms,** order intake for the metals division totaled €405 million; a figure 26% lower than in the previous year. Despite benefiting from the good prospection performance of 2011 which ended up in the 2012 pre-summer period with bringing into effect several projects initiated in the previous year (especially in steel, which performed well despite a lackluster market), the Group was impacted by the absence of new metals capacity projects in 2012, especially in aluminium, where 2010 and 2011 had been particularly strong years.

Divisional sales totaled €527 million: a level 11% higher than that for 2011 as a result of a 15% higher opening order backlog. EBITDA however fell (-9%) as a result of the Group being impacted by some project execution issues in the aluminium sector and by the downward pressure imposed since 2011 by major manufacturers on order margins in the steel sector as a result of difficult market conditions.

With a year-end order backlog of €556 million, the Group has good forward visibility of activity levels for 2013, although results could be impacted by lower project margins.

In practical terms, the market outlook does not appear to be improving in 2013. In the aluminium sector, the financial difficulties experienced by major manufacturers are limiting their ability to fund the necessary upgrading of their facilities in the historic production regions of Canada and Russia. At the same time, the ramp-up of recently commissioned plants and the future production commissioning of current expansion projects are likely to absorb all growth in demand between now and 2016. It is therefore likely that confirmation of new and significant capacity expansion projects will be deferred until 2014, even in the Middle East, where low energy costs have encouraged the development of major projects in recent years.

In the steel sector, although the Group benefited in 2012 from commencement of work on projects initiated during the previous financial year, sales were particularly quiet during the year in a market still struggling at the global level. Nevertheless, the greater policy flexibility recently introduced in China and new opportunities created by shale gas production (in the seamless tubes segment) hold out the hope of a recovery in investment during 2013.

## ENERGY

| (€Million) | 2010 | 2011 | 2012 |
|---|---|---|---|
| Order intake | 286.4 | 272.7 | 355.2 |
| Order book at Dec. 31 | 234.8 | 217.4 | 249.9 |
| Sales | 284.5 | 290.2 | 317.3 |
| EBITDA | 21.4 | 14.6 | 28.3 |
| Headcount at Dec. 31 | 1,953 | 2,106 | 2,092 |

***Activity: the division designs and supplies a variety of industrial equipment for the energy sector (in particular nuclear piping, cryogenic equipment for hydrocarbon processing and air separation, high-performance combustion systems and bioenergy equipment), which is marketed under the Fives Nordon, Fives Cryogenie, Fives North American and Fives Cail brands.***

**In the area of high value-added industrial pipes,** the Group business streams are driven by demand from the nuclear power industry. The market for power plant maintenance is expected to grow in the short or medium term when feedback from the Fukushima disaster has been fully analyzed. Nevertheless, the major programs currently in preparation have been deferred until 2013 and beyond, because the leading customers in this industry are awaiting the final conclusions and recommendations of the inspection authorities before finalizing the preparation of their tenders' specifications. Group order intake was therefore limited to recurring maintenance contracts, where the volume of business remained very similar to that of 2011.

The absence of new construction projects continued, especially in industrialized countries. On the other hand, new restrictions imposed by nuclear safety authorities on projects already underway in France (especially the Flamanville EPR) have required the scheduling of additional work, which fed through into an increasing order intake for the Group at the end of the year, after nearly two years of serious disruption in project progress.

**In the cryogenic equipment segment,** 2012 was marked by a significant recovery of investment in air separation and industrial gas production in China, where the dynamic trend that began at the end of 2011 continued and intensified. As a result, the Group was able to secure a number of orders from leading industrial players (such as Air Liquide), as well as national customers. In addition, confirmation of the first coal liquefaction (coal-to-liquid) projects as part of China's twelfth five-year plan for the period 2012-2017 highlighted the development of oil substitute products and the consequent emergence of new opportunities.

At the same time, the growth in global demand for natural gas encouraged the launch of many hydrocarbon processing projects, for which Fives has won contracts all around the world, from Europe and the USA to India, South America and the Middle East. The Group has also seen practical evidence of the first significant investments in natural gas liquefaction (LNG) and shale gas processes. Against this background, Group order intake rose strongly compared with the previous year.

**In the industrial combustion systems segment,** the Group benefited from a favorable commercial environment in the USA, where it is most active in this market segment. Fives saw an increasing order intake from its traditional end-user markets in the wake of a positive upward trend of 2.4% in the manufactured goods production index, compared with 2011, which was itself a buoyant year. On the other hand, the European market remained uneventful with little investment, even in the maintenance of existing installations.

The tightening of energy and environmental regulations in many countries also continues to attract industrial companies to the combustion technologies offered by Fives. The offer differs from competitor offerings in its ability to achieve the emissions limits set without the need for additional external solutions (thereby reducing installation costs and operational energy consumption), at the same time as maintaining the thermal performance of production facilities. Against this background, the success of the breakthrough technology developed by the Group in iron ore pelletization, which has been marketed widely since 2012, has achieved an excellent level of market penetration, with many orders from North America, Brazil and India. Order intake was therefore higher than that seen in 2011.

**In the area of sugar refining equipment and bioenergy,** the commercial environment was impacted by the slowdown seen in both of the traditional major markets: Brazil, where production levels fell as a result of a mediocre harvest, and India, where the macro-economic context is not particularly favorable to investment, with the result that Group order intake fell. However, these market conditions have supported the price of sugar, which, although lower than the peaks seen in 2011, remained at relatively high levels until the summer of 2012, encouraging the emergence of capacity and energy efficiency improvement projects in other sugar producing countries.

As a result, many industrial investments received the go-ahead in the cane sugar producing countries of South America and Africa after a year in 2011 where priority had been given to agricultural performance, whilst the sustained price of white sugar and a broader price "spread" (the difference between the prices of white sugar and brown sugar) justified new investment in refinery projects (especially in Asia), as well as higher levels of investment from beet sugar producers in Europe generally, and France in particular. The energy performance delivered by its technologies has made it possible for the Group to build market positions in the most active regions of the world to offset the effect of lackluster markets in India and Brazil, and maintain its order intake at the same level as in 2011.

**In overall terms,** Group order intake in the energy market totaled €355 million, representing a marked increase of 30% over its 2011 performance. The market was driven largely by the cryogenic equipment and industrial pipelines segments, but with a solid contribution from industrial combustion systems.

At €317 million, total sales for 2012 showed a 9% increase on the figure for 2011. The majority of this growth came from the cryogenic equipment segment, which benefited simultaneously from a higher opening order backlog and the advancement of work on the larger number of contracts won during the year. The good level of order intake achieved in 2012 by the industrial pipelines segment had the effect of limiting the reduction in sales that originated in a much lower opening order backlog (this segment alone explains the dip seen in the division's order backlog at the end of 2011). The impressive growth of 94% seen in EBITDA reflects the improved level of productivity achieved by this division as a result of several factors: higher margins on orders received, improved absorption of overheads as a result of higher business volumes, and a return to operational breakeven in the nuclear segment, where the 2011 results had been severely affected by the industry-wide problems encountered on construction sites for new power plants underway in France.

The outlook for 2013 looks extremely positive in the energy segment, where Fives ended 2012 with an order backlog 15% higher than in 2011, providing good forward visibility of future activity levels. Since this increase comes from the cryogenic and combustion segments where the margins are highest, the Group should also benefit from a more favorable mix.

Underlying trends also look very promising in this sector. Supported by the increasing need to develop oil substitution products on a global scale, the cryogenics segment should benefit in future years from the introduction of many coal liquefaction and natural gas projects, as well as from increasing investment in shale gas production.In developed countries, increasing demand for greater energy efficiency and a smaller environmental footprint for industrial installations should continue to play to the strengths of Fives technologies, especially in the combustion and sugar refining equipment segments. Lastly, the Group should benefit in France from the intensification of nuclear maintenance operations, with the first post-Fukushima "major refit" contracts and the introduction by nuclear safety authorities of increasingly demanding criteria for existing nuclear power plants.

## CEMENT

| (€Million) | 2010 | 2011 | 2012 |
|---|---|---|---|
| Order intake | 69.7 | 243.7 | 84.0 |
| Order book at Dec. 31 | 69.4 | 201.8 | 167.2 |
| Sales | 125.1 | 111.9 | 122.2 |
| EBITDA | 18.3 | 20.1 | 10.3 |
| Headcount at Dec. 31 | 509 | 500 | 596 |

***Activity: the cement division's offer ranges from supplying isolated equipment such as burners (marketed under the Fives Pillard brand name), grinders and materials separators, to complete grinding shops and turnkey cement plants (under the Fives FCB brand name).***

The Group's commercial environment remained extremely downbeat in the cement sector. Although the leading cement manufacturers saw the volume growth that began in 2011 confirmed during the year, it was not sufficient to trigger any new capacity investment. In South America and Southeast Asia, two of the world's most dynamic regions in terms of infrastructure development that deliver the strongest volume growth, major international customers have continued to defer all decisions. They have opted for prudence given the need to manage their existing debt and the fear of a lower return on investment as a result of the uncertainty that still haunts the global macro-economic environment. Furthermore, much more segmented local cement manufacturers often struggled to secure funding.

In the Middle East and North Africa, demand has fallen below expectations in many cases due to geopolitical instability against an environment of transition in the wake of the Arab Spring, despite a potentially easier access to funding. As a result, only Algeria has initiated an investment program, which has generated many bid invitations, although administrative complexity is slowing down the practical implementation of projects.

The market for new cement plant capacity (excluding China) represented only 40 million additional tons in 2012, which is less than in 2011, when the figure was 46 million tons. After the recovery seen in 2010 (65 million tons), it has therefore fallen back to its 2009 level, which is the lowest level for nearly 10 years, and remains very far below pre-crisis levels (120 to 150 million tons between 2006 and 2008). It is in this context that the Group received no plant assembly orders in 2012.

In equipment and services, Fives was impacted by the slowdown seen in China and India, to which it supplies cement industry combustion systems and individual grinding units. Group sales activity therefore focused on those regions of the world where growth remains dynamic or where its presence has traditionally been strong, with particular emphasis on Latin America, Sub-Saharan Africa and the Middle East.

In the USA and Europe, both of which are still gripped by significant overcapacity, demand for services remained limited: since many plants are still underused, component wear is reduced and producers are not threatened by potential production stoppages. However, in today's more demanding market, the trend of major companies to focus selectively on certain existing lines to improve profitability continued. The Group therefore capitalized on the quality of its technologies and strong presence amongst national producers in Europe to secure a number of orders.

**In overall terms,** order intake for the cement division totaled €84 million, reflecting a very significant reduction on the previous financial year (€244 million). Despite the sustained performance achieved by equipment and services, the Group was impacted by the absence of any plant assembly orders during 2012 (two plant assembly orders came into force in 2011).

At €122 million (up 9% on the previous financial year), sales only partially reflected the much higher opening order backlog. The main reason for this was the fact that although work had commenced on a major order at the end of 2011, relatively little progress had been made by the end of 2012. On the other hand, EBITDA ended the year significantly lower compared with the figures for 2010 and 2011, when the Group completed work on several plant assembly contracts with excellent outcomes.

At €167 million, the closing order backlog - although lower than that at the end of 2011 - remains significantly higher than the levels reported for 2009 and 2010, and represents more than one year of sales for the cement division. Furthermore, leading industry players are forecasting a recovery in investment during 2013, with estimates that additional cement production capacity (excluding China) should achieve a sustainable level of between 60 and 75 million tons per year after two particularly difficult years in 2011 and 2012.

The strong growth in demand seen in recent years has led to the emergence of new market players supported by local markets (in South America, Southeast Asia, Sub-Saharan Africa and the Middle East), which seem to have the ability to invest. Some also appear to have ambitions beyond their national borders. Having severely cut back on investment and worked to drive down their debt over recent years, the major international cement manufacturers are now announcing new projects to strengthen their presence in the fastest-growing regions of the world. Lastly, plant upgrade opportunities are emerging as a result of new environmental regulations in the USA, and to a lesser extent in Europe, despite the persistent level of overcapacity. The Group therefore remains confident about the recovery in the cement market and its sales prospects within that market.

## THE EXECUTIVE BOARD

Fives is headed by an Executive Board overseen by the Supervisory Board; the number of Executive Board members is established by the Supervisory Board, which has set a minimum of two members and a maximum of five.

The Executive Board currently has four members and is responsible for the management of the company. It has the most extensive powers to act on behalf of Fives under all circumstances, limited only by the company purpose and powers expressly vested by the Supervisory Board and shareholder meetings.

Every member of the Executive Board also have personal responsibility for supervising one or more of the Group's Operational Divisions and one or several functional Fives departments.

With regard to the Supervisory Board, the Executive Board:

- presents a quarterly report on the Group's performance, together with a revised budget for the current year and, at each year end, an initial budget for the following year;
- within the three months following the financial year end, closes the annual company and consolidated financial statements and provides the same to the Supervisory Board;
- provides the Supervisory Board with the Executive Board report that will be presented to the Annual Ordinary General Meeting ;
- reports on specific issues that could be of major importance for the Group.

The Executive Board meets as often as the company's interests require.

Executive Board members are appointed and remunerated as provided for by law. Their term of office is terminated by the General Meeting of shareholders. The Executive Board is appointed for a term of six years. Each Executive Board member shall cease his/her functions on the date of his/her 65th birthday.

### Composition of the Executive Board

**Frédéric Sanchez**, 53 years old, Chairman of the Executive Board.
Appointed on October 3, 2002, his term of office was renewed by the Supervisory Board on September 30, 2008 and will expire on September 29, 2014.
*Main positions held:*
Various positions in companies affiliated to the Fives group.
Member of the Board of Directors of Compagnie des Gaz de Pétrole Primagaz.
Chairman of the Supervisory Board of Cameron France Holding SAS.

**Martin Duverne**, 56 years old, member of the Executive Board, in charge of the Energy and Logistics divisions.
Appointed on October 3, 2002, his term of office was renewed by the Supervisory Board on September 30, 2008 and will expire on September 29, 2014.
*Main positions held:*
Various positions in companies affiliated to the Fives group.

**Lucile Ribot**, 46 years old, member of the Executive Board.
Appointed on October 3, 2002, her term of office was renewed by the Supervisory Board on September 30, 2008 and will expire on September 29, 2014.
*Main positions held:*
Various positions in companies affiliated to the Fives group.

**Jean-Camille Uring**, 62 years old, member of the Executive Board.
Appointed on March 28, 2012, his term of office will expire on September 29, 2014.
*Main positions held:*
Various positions in companies affiliated to the Fives group.

## THE SUPERVISORY BOARD

The Supervisory Board is composed of at least three and at most eighteen members, except in the case of a merger, in accordance with applicable law.

With four members at December 31, 2012, the Supervisory Board exercises permanent control over the management of the company by the Executive Board. It meets at least four times per year to consider the quarterly report submitted by the Executive Board. It inspects and verifies the documents associated with the corporate and consolidated financial statements submitted to it by the Executive Board within three months of the financial year end.

Throughout the year, it performs the checks and controls it considers appropriate and may request any documents it deems useful in the accomplishment of its role.

In 2012, the Supervisory Board met on: March 28, June 27, September 28, October 17 and December 20.

The members of the Supervisory Board are appointed and removed from office in the conditions provided for by law. Supervisory Board members are appointed for a term of six years expiring at the end of the Ordinary General Meeting of shareholders called to approve the financial statements for the year ended and held in the year in which the term of office expires.

The General Meeting shall determine the remuneration, if any, paid to Supervisory Board members. The number of Supervisory Board members aged 70 or over may not exceed one third of the number of Board members.

## Composition of the Supervisory Board

**Jacques Lefèvre**, 75 years old, Honorary Chairman of the Supervisory Board. Appointed on December 20, 2012.

**Dominique Gaillard**, 53 years old, Chairman of the Supervisory Board. Appointed on October 17, 2012, his term of office will expire at the end of the General Meeting called to approve the 2012 financial statements.
*Main positions held:*
Various positions in companies affiliated to Axa Private Equity.

**Lise Fauconnier**, 48 years old, Vice-Chairman of the Supervisory Board. Appointed on October 17, 2012, her term of office will expire at the end of the General Meeting called to approve the 2014 financial statements.
*Main positions held:*
Various positions in companies affiliated to Axa Private Equity.

**Alexandra Goltsova**, 32 years old, member of the Supervisory Board. Appointed on October 17, 2012, her term of office will expire at the end of the General Meeting called to approve the 2017 financial statements.
*Main positions held:*
Various positions in companies affiliated to Axa Private Equity.

**Laurent Roquette**, 39 years old, member of the Supervisory Board. Appointed on October 17, 2012, his term of office will expire at the end of the General Meeting called to approve the 2017 financial statements.
*Main positions held:*
Various positions in companies affiliated to Axa Private Equity.

Fives' governing bodies are assisted in their decision making by various committees, as follows:

# THE EXECUTIVE COMMITTEE

To support it in its decision-making, the Executive Board has introduced an Executive Committee whose members include the Group's key operational and central services managers.

As the body responsible for consultation, recommendation and implementation, the Executive Committee meets to consider issues submitted to it, and to support the Executive Board in reaching those decisions that fall within its scope of competence. It also examines the proposals for improvement put forward by the Steering Committee and Coordination Committee. Its tasks include coordinating and monitoring the implementation of Group policies.

The Executive Committee meets at least four times per year in larger or smaller session, depending on the issues to be addressed.

In 2012, the Executive Committee met on the following dates: March 30, June 25, September 21, November 8 and December 14 and examined the following subjects:
- establishment of consolidated results;
- human resources;
- development of the Group's international sales force;
- internal and external communication / bicentennial Group;
- marketing policy;
- research and development policy;
- progress report of trade efficiency work;
- social Corporate Responsibility (CSR) actions follow-up.

## Composition of the Executive committee

**Daniel Brunelli-Brondex**, 52 years old,
Head of the Aluminium Division.

**Benoît Caratgé**, 59 years old,
Head of the Steel/Glass Division.

**Jean-Marie Caroff**, 51 years old,
Head of the International Development Departement.

**Alain Cordonnier**, 52 years old,
Head of the Cement Division.

**Michel Dancette**, 59 years old,
Head of the Innovation and Corporate Social Responsability Department.

**Sylvain Dulude**, 50 years old,
Head of the North American Region.

**Denis Hugelmann**, 55 years old,
Head of the Automotive Division.

**Jean-Paul Sauteraud**, 61 years old,
Head of the Group Legal Department.

**Michelle XY Shan**, 47 years old,
Head of the Chinese Region.

**Paule Viallon**, 47 years old,
Head of the Group Human Resources Department.

## THE HEAD OF COUNTRY

All Group Companies operating in the same country (or region) form part of a matrix structure reporting to a Head of Country, whose tasks include:

- chairing the Steering Committee (where appropriate);
- acting as the initial point of contact for Fives' central functional services;
- ensuring that Fives' instructions and directives are understood and enforced;
- informing Fives of any difficulties encountered in applying its instructions and directives as a result of specific regional issues;
- support Fives in the process of integrating newly acquired companies;
- managing the relationship between Fives and local stakeholders and coordinating the relationship between these stakeholders and subsidiary companies;
- contributing proactively to regional synergies.

## THE STEERING COMMITTEES

As part of its commitment to give a say to those on the front line of the business, the Executive Board is forming a series of regional Steering Committees whose prime purpose is to act as the crucible of creativity for the Group.

Their task is to create regional crossdisciplinarity and ensure that the Group's management bodies are fully in touch with operational needs. In each major region, their membership includes subsidiary company CEOs and functional departmental heads from within Fives and/or the region concerned.

Steering Committee members are appointed for one year by the Chairman of the Executive Board at the beginning of each year on the basis of current strategic challenges and priorities.

Introduced in 2012 in France, North America and China, similar committees will be formed at a future date in other countries to support the Group as it grows.

The Steering Committees meet three or four times per year.

## THE COORDINATION COMMITTEE

The Executive Board is forming the Coordination Committee with the intention of boosting cross-functional interaction. This new body is being formed specifically to:

- provide overall development support and assistance to Group companies;
- act as a channel for informal communication;
- ensure consistency between the policies and the recommended measures.

The Coordination Committee meets twice or three times per year.

## THE ACCOUNTS COMMITTEE

The role of the Accounts committee is to provide information to the Supervisory Board. It is composed of the following Supervisory Board members:

**Dominique Gaillard,** Chairman of the Accounts committee.
**Lise Fauconnier,** member of the Accounts committee.
**Laurent Roquette,** member of the Accounts committee.

The Chairman of the Executive Board, the Chief Financial Officer, the Director of Consolidation and Corporate Accounting, the Financial Control Director, the Group Treasurer and the company's Statutory Auditors also attend Accounts committee meetings.

Its role is primarily to:

- examine and assess the financial documents issued by Fives in connection with the preparation of the annual and interim company and consolidated financial statements;
- advise the Supervisory Board on any changes in accounting principles and policies applied;
- examine the manner in which internal and external controls are performed in respect of the company's consolidated financial statements.

The Accounts committee meets at least twice a year. In 2012, it met on March 28, and on September 28.

## THE APPOINTMENTS AND REMUNERATION COMMITTEE

The appointments and remuneration Committee is responsible for making proposals to the Supervisory Board concerning appointments to the Executive Board and the renewal of Executive Board members' terms of office together with the amount of their remuneration.

It is composed of the following Supervisory Board members:
**Dominique Gaillard,** Chairman of the appointments and remuneration Committee;
**Lise Fauconnier,** member of the appointments and remuneration Committee.

In 2012, the appointments and remuneration committee met on March 28.

## INTERNAL CONTROL

The internal control procedures applied within the Group are intended:

- to ensure that management actions and the conduct of transactions, as well as the conduct of the Group employees, comply with applicable laws and regulations, the guidelines issued by the Group's governing bodies and its values, standards and internal rules, and
- to ensure that the accounting, financial and management information provided to the Group's governing bodies gives a fair and accurate picture of the Group's activities and position.

With the prevention and management of the risks deriving from the Group's activities and the conduct of its staff, the Group's organization is based on:

- the quality, personal involvement and accountability of management teams at each Group company;
- coordination by business division;
- the implementation, as part of concerted action by all Group companies, of the "Directives and Guidelines Policy Book". This manual is a major risk management tool and provides the basis for the internal limitations set by the Boards of Directors of Group companies on the powers of their Chief Executive Officers and Deputy Chief Executive Officers (or equivalent position).

Every material binding offer is subjected to an in-depth review intended to avoid exposure to risks that could have a significant adverse effect on the financial outcome of the proposed contract or an adverse impact on the business or reputation of the company in a given business sector or geographic region.

Similarly, each material contract in progress is reviewed in detail at least once each quarter by the main managers of each Group company so as to make a detailed assessment of contract progress, review the technical, financial and contractual issues involved, and make any relevant decisions.

With regard to the preparation and processing of accounting and financial information, internal control is based on:

- implementing professional accounting and financial procedures throughout the Fives group by building on the experience of its staff;
- uniform guidelines, accounting methods and consolidation rules;
- a common integrated consolidation and management application, thus ensuring the consistency of accounting data and management information.

## EXTERNAL CONTROL

The Company's Independent Auditors are:

- Ernst & Young et Autres, represented by Marc Stoessel. Statutory Auditor, appointed on June 27, 2012.
- Deloitte & Associés, represented by Pascal Colin. Statutory Auditor, whose term of office was renewed on June 27, 2012.
- Auditex, Substitute Statutory Auditor, whose term of office was renewed on June 27, 2012.
- Beas, Substitute Statutory Auditor, whose term of office was renewed on June 27, 2012.

Their terms of office will expire after the General Meeting of shareholders which will approve the 2017 financial statements.

In the context of their legal assignment, the Statutory Auditors carry out a limited review of the consolidated interim financial statements and a detailed audit of the annual company and consolidated financial statements. The company and consolidated financial statements have, to date, been approved without qualifications.

## FINANCIAL INFORMATION

### Share capital

At December 31, 2012, Fives had a share capital of €102,723,764, composed of 2,185,612 fully paid-up shares with a par value of €47 each.
The shares are registered shares.
There are no other securities giving access to the capital.

### Changes in the share capital

In 2012 the share capital is not subject to any evolution.
For the record, on December 15, 2011, the share capital was increased by €78,682,032 (from €24,041,732 to €102,723,764) following a €36 rise in the nominal share value.

### Share ownership

Fives' main shareholder at December 31, 2012 was FL Investco, which held 99.99% of the share capital.

### Stock options and allocation of bonus shares

The company had not set in place any stock option plan or allocation of bonus shares at December 31, 2012.

### Dividends / Distribution of reserves

No dividends were paid in 2010.
The combined general meeting of shareholders held on December 15, 2011 resolved to distribute an extraordinary dividend of €98,352,540, or €45 per share.
€78,682,032 of this total was paid on December 15 into a current account, with the remaining balance of €19,670,508 paid on December 16. This current account was paid out in full to settle the liability created by the capital increase transacted on December 15, 2011.
Ordinary General Assembly of December 20, 2012 has decided to make a special distribution for a total amount of €39,996,699.60 or €18.30 per share.

## LEGAL INFORMATION

### Company name and registered office

Fives, 27-29 rue de Provence, 75009 Paris - France

### Legal form

A French limited company (Société anonyme) with an Executive Board and Supervisory Board since September 13, 2001.

### Term

The term of the company is set at January 1, 2039, unless the company is wound-up early or the term is extended.

### Trade and companies registry

542 023 841 RCS Paris

### Financial year

January 1 to December 31.

### Purpose (summary of Article 3 of the Memorandum and Articles of Association)

The Company's object is, directly or indirectly, in France and abroad, all engineering activities in the areas of industry and in particular in the areas linked to the production and to the use of energy, the production of aluminium, cement, glass, steel, sugar and chemical products, the manufacturing industry (automotive, aeronautics, logistics, etc.) and, in this context, all activities relating to the design, development of and completion of projects of all kinds in the form of the provision of services, design offices and engineering advice as well as the design, development and acquisition of all property rights, processes and all industrial manufacturing resources, entering into all licensing agreements or any agreements relating to these assets.

### Distribution of profits (summary of Article 23 of the Memorandum and Articles of Association)

The General Meeting of shareholders shall have the power to grant each shareholder the option of receiving all or part of the dividend in cash or in shares in accordance with the applicable statutory and regulatory provisions.
Dividends or interim dividends shall be paid under the conditions provided for by law.

### Conditions for the holding of General Meetings (summary of Articles 18, 19 and 21 of the Memorandum and Articles of Association)

General Meetings shall be convened under the conditions laid down by law and chaired by the Chairman of the Supervisory Board or, if unavailable, by whichever member has been designated by the Board.
The agenda shall be prepared as provided for by law.
General Meetings shall deliberate and decide in the conditions of quorum and majority provided for by law.
Voting rights shall be exercised by usufructuaries at Ordinary General Meetings and by bare owners at Extraordinary General Meetings.
Shareholders may appoint proxies under the conditions provided for by law.

Decisions made by General Meetings, in accordance with the Memorandum and Articles of Association, shall be binding on all shareholders without exception. They shall be recorded in the minutes signed by the officers of the meeting and kept in a special register initialed and signed as provided for by law, held at the registered office.

## Legal documents

All legal documents relating to the company and notably the Memorandum and Articles of Association, minutes of General Meetings and Statutory Auditors' reports may be consulted by the shareholders at the company's registered office.

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# CONSOLIDATED INCOME STATEMENT

| In thousands of euros | *Notes* | 2012 | 2011 |
|---|---|---|---|
| **Sales** | *6.2* | **1,507,878** | **1,268,312** |
| Cost of sales | | (1,183,727) | (988,045) |
| **Gross profit** | | **324,151** | **280,267** |
| Selling expenses | | (76,305) | (65,205) |
| Administrative expenses | | (127,932) | (111,000) |
| Research and development expenses | *6.4* | (20,673) | (19,240) |
| Employee profit sharing and bonus schemes | | (3,748) | (4,105) |
| Other operating income and expenses | | 1,762 | 456 |
| Amortization of intangible assets related to acquisitions | *6.5* | (4,584) | (4,945) |
| **Profit from recurring operations** | | **92,671** | **76,228** |
| Restructuring costs | | (698) | (723) |
| Impairment of fixed assets | | | (846) |
| Gain (loss) on disposals and acquisition costs | | 389 | 330 |
| **Operating profit** | | **92,362** | **74,989** |
| Cost of net financial debt | *6.6* | (160) | (560) |
| Other financial income and expense | *6.6* | (3,988) | (29) |
| **Net financial income (expense)** | | **(4,148)** | **(589)** |
| **Profit before income tax** | | **88,214** | **74,400** |
| Income tax expense | *6.7* | (35,890) | (33,413) |
| **Profit for the year** | | **52,324** | **40,987** |
| Attributable to owners of the Group | | 50,811 | 40,419 |
| Attributable to non-controlling interests | | 1,513 | 568 |
| **Earnings per share (in euros)** | *6.19* | **23.25** | **18.49** |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| In thousands of euros | 2012 | 2011 |
|---|---|---|
| **Profit for the year** | **52,324** | **40,987** |
| Net change in fair value of available-for-sale financial assets | (74) | 272 |
| Net change in fair value of cash flow hedges | (12) | 18 |
| Actuarial gains (losses) | (9,015) | (6,785) |
| Foreign currency translation differences | (2,802) | 4,110 |
| Income tax on other comprehensive income | 2,519 | 1,422 |
| **Other comprehensive income for the year, net of income tax** | **(9,384)** | **(963)** |
| **Total comprehensive income for the year** | **42,940** | **40,024** |
| Attributable to: | | |
| - Owners of the Group | 41,254 | 39,449 |
| - Non-controlling interests | 1,686 | 575 |
| Income tax on other comprehensive income: | | |
| Income tax on net change in fair value of available-for-sale financial assets | 39 | (97) |
| Income tax on net change in fair value of cash flow hedges | 5 | (6) |
| Income tax on actuarial gains and losses | 2,475 | 1,525 |
| **Total** | **2,519** | **1,422** |

# CONSOLIDATED BALANCE SHEET

## Assets

| In thousands of euros | *Notes* | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|---|
| Goodwill | *6.8* | 124,774 | 122,352 |
| Intangible assets | *6.9* | 30,710 | 33,334 |
| Property, plant and equipment | *6.10* | 116,942 | 108,293 |
| Non-current financial assets | *6.11* | 7,276 | 9,734 |
| Deferred tax assets | *6.7* | 20,577 | 18,941 |
| **Non-current assets** | | **300,279** | **292,654** |
| Inventories and work in progress | *6.12* | 167,415 | 143,714 |
| Construction contracts in progress, assets | *6.13* | 90,539 | 118,232 |
| Trade receivables | *6.14* | 334,866 | 312,152 |
| Other current assets | *6.15* | 72,200 | 72,451 |
| Current financial assets | *6.11* | 2,575 | 20,460 |
| Current tax assets | | 5,653 | 3,909 |
| Cash and cash equivalents | *6.16* | 266,848 | 240,358 |
| **Current assets** | | **940,096** | **911,276** |
| **Total assets** | | **1,240,375** | **1,203,930** |

The information at December 31, 2011 was restated following the change in presentation of contracts (see note 4.)

## Shareholders' equity and liabilities

| In thousands of euros | Notes | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|---|
| Share capital | | 102,724 | 102,724 |
| Share premium and reserves | | 83,716 | 90,936 |
| Foreign currency translation reserve | | 7,518 | 10,717 |
| Profit attributable to owners of the Group | | 50,811 | 40,419 |
| **Shareholders' equity attributable to owners of the Group** | | **244,769** | **244,796** |
| Non-controlling interests | | 2,389 | 848 |
| **Shareholders' equity** | *6.18* | **247,158** | **245,644** |
| Non-current provisions | *6.20* | 53,338 | 43,426 |
| Non-current financial liabilities | *6.21* | 30,984 | 41,398 |
| Other non-current liabilities | *6.22* | 2,038 | 1,331 |
| Deferred tax liabilities | *6.7* | 6,321 | 4,523 |
| **Non-current liabilities** | | **92,681** | **90,678** |
| Current provisions | *6.20* | 94,045 | 90,383 |
| Current financial liabilities | *6.21* | 56,972 | 45,292 |
| Construction contracts in progress, liabilities | *6.13* | 261,103 | 310,400 |
| Trade and related payables | | 251,497 | 212,809 |
| Current tax liabilities | | 13,814 | 14,207 |
| Other current liabilities | *6.22* | 223,105 | 194,518 |
| **Current liabilities** | | **900,536** | **867,609** |
| **Total shareholders' equity and liabilities** | | **1,240,375** | **1,203,930** |

The information at December 31, 2011 was restated following the change in presentation of contracts (see note 4.)

# CONSOLIDATED CASH FLOW STATEMENT

| In thousands of euros | *Notes* | 2012 | 2011 |
|---|---|---|---|
| **Cash and cash equivalents at January 1** | | **239,238** | **214,031** |
| **Operating activities** | | | |
| **Profit for the year** | | **52,324** | **40,987** |
| Adjustments for: | | | |
| Change in non-current provisions | | (269) | (2,310) |
| Amortization, depreciation and impairment | | 22,447 | 20,998 |
| Net (gain) loss on disposals of assets | | (944) | (1,019) |
| Other non-cash income and expense items | | (1,486) | 1,406 |
| Income tax expense | 6.7 | 35,892 | 33,413 |
| Cost of net financial debt | 6.6 | 160 | 560 |
| **Operating cash flow before change in working capital and income tax** | | **108,124** | **94,035** |
| Change in working capital | *6.17* | 4,655 | 29,477 |
| Income tax paid | | (35,828) | (21,262) |
| **Net cash provided by operating activities** | | **76,951** | **102,250** |
| **Investing activities** | | | |
| Acquisitions of property, plant and equipment and intangible assets | | (28,534) | (19,025) |
| Disposals of property, plant and equipment and intangible assets | | 3,435 | 1,156 |
| Change in financial assets | | 16,116 | (15,182) |
| Effect of change in consolidation scope | | (696) | (1,062) |
| **Net cash used in investing activities** | | **(9,679)** | **(34,113)** |
| **Financing activities** | | | |
| Transactions with non-controlling interests | | (625) | |
| Dividends paid by parent company | | (39,998) | (19,670) |
| Dividends paid to non-controlling interests | | (593) | |
| Grants received | | | 98 |
| Net increase (decrease) in borrowings | | 3,459 | (22,970) |
| Net interest paid | | (627) | (826) |
| **Net cash used in financing activities** | | **(38,384)** | **(43,748)** |
| Effect of exchange rate fluctuations | | (2,563) | 818 |
| **Net increase in cash and cash equivalents** | | **26,325** | **25,207** |
| **Cash and cash equivalents at December 31** | *6.16* | **265,563** | **239,238** |

# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

| In thousands of euros | Share capital | Retained earnings and reserves | Actuarial gains (losses) on pensions | Foreign currency translation reserve | Hedging reserve | Available-for-sale financial assets - fair value reserve | Equity attributable to owners of the Group | Non-controlling interests | Shareholders' equity |
|---|---|---|---|---|---|---|---|---|---|
| **Shareholders' equity at January 1, 2011** | **24,042** | **197,899** | **(4,923)** | **6,270** | **(12)** | **(118)** | **223,158** | **2,175** | **225,333** |
| Profit for the year | | 40,419 | | | | | 40,419 | 568 | 40,987 |
| Other comprehensive income | | | (5,281) | 4,124 | 12 | 175 | (970) | 7 | (963) |
| **Profit and other comprehensive income** | | 40,419 | (5,281) | 4,124 | 12 | 175 | **39,449** | 575 | **40,024** |
| Dividends paid | | (98,352) | | | | | (98,352) | (380) | (98,732) |
| Share capital increase | 78,682 | | | | | | 78,682 | | 78,682 |
| Other changes | | 1,537 | | 322 | | | 1,859 | (1,522) | 337 |
| **Shareholders' equity at December 31, 2011** | **102,724** | **141,503** | **(10,204)** | **10,716** | | **57** | **244,796** | **848** | **245,644** |

| In thousands of euros | Share capital | Retained earnings and reserves | Actuarial gains (losses) on pensions | Foreign currency translation reserve | Hedging reserve | Available-for-sale financial assets - fair value reserve | Equity attributable to owners of the Group | Non-controlling interests | Shareholders' equity |
|---|---|---|---|---|---|---|---|---|---|
| **Shareholders' equity at January 1, 2012** | **102,724** | **141,503** | **(10,204)** | **10,716** | | **57** | **244,796** | **848** | **245,644** |
| Profit for the year | | 50,811 | | | | | 50,811 | 1,513 | 52,324 |
| Other comprehensive income | | | (6,345) | (3,170) | (7) | (35) | (9,557) | 173 | (9,384) |
| **Profit and other comprehensive income** | | 50,811 | (6,345) | (3,170) | (7) | (35) | **41,254** | 1,686 | **42,940** |
| Dividends paid | | (39,998) | | | | | (39,998) | (593) | (40,591) |
| Other changes | | (1,268) | 14 | (29) | | | (1,283) | 448 | (835) |
| **Shareholders' equity at December 31, 2012** | **102,724** | **151,048** | **(16,535)** | **7,517** | **(7)** | **22** | **244,769** | **2,389** | **247,158** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. GENERAL PRINCIPLES

Fives (hereinafter Fives or "the Group") is a private limited liability company (Société Anonyme) with a Management Board and Supervisory Board, incorporated in France and subject to all French legislation governing commercial companies, in particular the legal provisions of the French Commercial Code. The registered office of Fives is located at 27-29 rue de Provence, 75009 Paris, France.

The Group's companies design and supply process equipment and turnkey production lines and plant facilities for major industrial players worldwide. The Group is uniquely positioned due to its command of proprietary technologies and its expertise in engineering and complex project management.

The consolidated financial statements of the Group comprise the financial statements of companies over which the Group has direct or indirect exclusive control, which are fully consolidated, and the financial statements of companies over which the Group exercises significant influence (associates), which are accounted for using the equity method. The single economic entity is referred to as "the Group".

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), under the responsibility of the Management Board, which approved them on March 26, 2013. They will be final when approved by the shareholders at their General Meeting on June 25, 2013. The main accounting methods used to prepare the consolidated financial statements are described hereafter.

## 2. ACCOUNTING POLICIES

### 2.1. Statement of compliance

The consolidated financial statements of Fives for the financial year ended December 31, 2012 have been prepared in accordance with the international standards issued by the International Accounting Standards Board (IASB) and adopted by the European Union as at December 31, 2012. The international standards comprise International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and SIC and IFRIC interpretations.

The accounting policies and valuation methods used by the Group to prepare the consolidated financial statements for the year ended December 31, 2012 are identical to those used to prepare the IFRS consolidated financial statements for the year ended December 31, 2011, with the exception of the accounting standards adopted by the European Union that are mandatory for financial years beginning on or after January 1, 2012.

The standards that are mandatory for financial years beginning on or after January 1, 2012 are the following:

- Amendments to IFRS 7 "Transfers of Financial Assets" effective for financial years beginning on or after July 1, 2011.

The adoption of this standard has no effect on the Group's financial statements.

The Group has not opted for the early adoption of standards and interpretations that are not mandatory for the consolidated financial statements at December 31, 2012.

- Amendments to IAS 1 "Presentation of Items of Other Comprehensive Income (OCI)", effective for financial years beginning on or after July 1, 2012. For Fives the effective date is January 1, 2013.
- Amendments to IAS 19 "Employee Benefits", effective for financial years beginning on or after January 1, 2013.
- Amendments to IAS 12 "Deferred Tax: Recovery of Underlying Assets" effective as of January 1, 2013.

Moreover, the Group has not opted for the early adoption of the following standards, which should be approved by the European Union in 2013 at the earliest:

- IFRS 9 and additions "Financial Instruments" (Phase 1: Classification and measurement of financial assets and financial liabilities) effective as of January 1, 2015.
- IFRS 10: "Consolidated Financial Statements" effective as of January 1, 2013.
- IFRS 11: "Joint Arrangements" effective as of January 1, 2013.
- IFRS 12: "Disclosure of Interests in Other Entities" effective as of January 1, 2013.
- IAS 27 R: "Separate Financial Statements" effective as of January 1, 2013.
- IAS 28 R: "Investments in Associates and Joint Ventures" effective as of January 1, 2013.
- IFRS 13: "Fair Value Measurement" effective as of January 1, 2013.
- Amendments to IFRS 7: "Disclosures - Offsetting Financial Assets and Financial Liabilities" effective as of January 1, 2013.
- Amendments to IAS 32: "Disclosures - Offsetting Financial Assets and Financial Liabilities" effective as of January 1, 2014.
- Annual improvements 2009-2011 effective as of January 1, 2013.
- Amendments to IFRS 1: "Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters" and "Government Loans" effective as of January 1, 2013.

The Group's consolidated financial statements at December 31, 2012 do not account for the possible effects of the above-mentioned standards. The Group is currently assessing the potential impact on the financial statements.

All the accounting standards adopted by the European Union are available for viewing on the European commission's website at the following address: http://ec.europa.eu/internal_market/accounting/ias/index_fr.htm#adopted-commission.

## 2.2. Basis of preparation of the consolidated financial statements

The Group's consolidated financial statements have been prepared using historical costs, with the exception of the following assets and liabilities, which are stated at fair value:

- Financial assets held for trading;
- Available-for-sale financial assets;
- Derivative financial instruments.

## 2.3. Presentation of the financial statements

In accordance with IAS 1 revised: "Presentation of Financial Statements", current and non-current items are presented separately in the consolidated balance sheet. Generally, assets expected to be realized and liabilities due for settlement in the operating cycle or within twelve months after the reporting date are classified as current. Other assets and liabilities are classified as non-current.

## 2.4. Consolidation methods

Subsidiaries are companies that are controlled by the Group. They are fully consolidated. Control is the direct or indirect power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control is presumed when the Group holds, either directly or indirectly, more than 50% of voting rights. In assessing control, the Group takes into consideration all potential voting rights that are exercisable at the reporting date, including those held by another party.

Joint ventures are economic activities over which the Group has joint control. They are proportionately consolidated, based on the ownership interest held by the Group. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

Associates are entities in which the Group has significant influence but not control over the financial and operating policies. Significant influence is presumed when the Group holds 20% or more of the voting power of the entity. Associates are accounted for using the equity method. Investments in associates are initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets in the investee, less any accumulated impairment losses. Where appropriate, the Group's share of the investee's net income for the financial year is presented in the line item "Share income from associates" in the income statement.

Companies are consolidated on the basis of their separate financial statements at December 31, restated to comply with Group accounting principles. All transactions between consolidated companies are eliminated.

The list of subsidiaries, joint ventures and associates is provided in note 6.30.

## 2.5. Changes in accounting principles

The same accounting principles are applied for all reporting periods presented.

## 2.6. Significant estimates and judgments

The preparation of the consolidated financial statements requires Group and division management to use judgments, estimates and assumptions, including expectations of future events, which affect the reported amounts of certain financial statement items.

These assessments and estimates are reviewed at each reporting date and the underlying assumptions are adjusted, where appropriate, based on actual results, experience and any other relevant factors given the economic circumstances. The effects of such adjustments are recognized when made.

The items reported in the Group's future consolidated financial statements may differ from current estimates due to changes in the assumptions made and economic circumstances at the reporting date.

The main assumptions relating to future events and other sources of estimation uncertainty at the reporting date that may have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities are presented below.

**Recognition of revenue and profit from construction contracts and long-term service contracts and related provisions**

Revenue and profit from construction contracts and long-term service contracts are recognized on the percentage-of-completion basis of costs incurred over estimated final costs. If the contract review reveals a negative profit margin, any expected loss on incomplete work is recognized immediately.

Revenue and profit are recognized on the basis of estimated contract revenue and costs on completion, which are reviewed regularly as the contract work is performed.

Total expected revenue and costs reflect management's most reliable estimate of the expected future economic benefits and obligations arising from the contract.

**Estimates of provisions for litigation**

The Group regularly identifies and analyzes ongoing litigation and assesses any provisions required, where appropriate, based on the most reliable

estimate of the outflow of economic benefits required to settle such obligations at the reporting date.
These estimates take into account information available and the range of possible outcomes.

#### Impairment of non-financial assets

Goodwill and other intangible assets with indefinite useful lives are tested for impairment at least once a year and whenever there is an indication of impairment.

Other non-financial assets are tested for impairment when there is an indication that their carrying amount may exceed their recoverable amount.

In assessing value in use, management estimates the future cash flows that the entity expects to obtain from the asset or cash generating unit, and applies an appropriate discount rate to calculate their present value.

The main assumptions used by the Group are described in note 2.15 "Impairment of property, plant and equipment, intangible assets and goodwill".

#### Deferred tax assets

Deferred tax assets relating to tax losses carried forward are recognized to the extent of the following two criteria: (i) the net amount of deferred tax liabilities for temporary differences and (ii) the probability that future taxable profit will be available against which the benefits of the tax losses can be utilized. To determine the amount of deferred tax assets to be recognized, management is required to estimate the amount and probability of future taxable profit.

#### Employee benefits

Costs related to defined benefit plans are estimated using the actuarial valuation method. Actuarial valuations are based on assumptions with regard to the discount rate, salary increases, mortality and pension increases. Due to the long-term nature of these plans, there is significant uncertainty with regard to the estimates.

## 2.7. Foreign currency transactions

Transactions denominated in foreign currencies are translated at the exchange rates effective at the dates of the transactions. In accordance with IAS 21 on "Effects of Changes in Foreign Exchange Rates", monetary items are translated using the closing rate effective at the reporting date. The corresponding foreign currency translation gains or losses are recognized in the income statement.

## 2.8. Translation of the financial statements of entities outside the eurozone

The Group's financial statements are presented in euros, which is the parent company's reporting and functional currency. All financial data are rounded to the nearest thousand euro.

An entity's functional currency is the currency used in the primary economic environment in which it operates. In the majority of cases, the functional currency is the local currency.

However, an entity may use a functional currency that differs from the local currency if its main transactions are denominated in a foreign currency.

The financial statements of foreign entities whose functional currency is not the euro are translated into euros as follows:

- balance sheet items are translated into euros using the exchange rate effective at the reporting date;
- income statement and cash flow items are translated using the average exchange rate for the financial year;
- foreign currency translation differences are recognized directly in equity in the line item "Foreign currency translation reserve".

## 2.9. Operating segment information

The operating segments chosen to present reportable segment information have been identified on the basis of the internal management reports used by the Management Board to allocate resources and assess performance. There are no aggregated operating segments.

The Management Board is the Group's Chief Operating Decision Maker (CODM), as defined in IFRS 8.

The methods used to measure each segment's key performance indicators for the purposes of the internal management report are the same as those used to prepare the consolidated financial statements.

## 2.10. Business combinations and goodwill

In accordance with IFRS 3, business combinations are accounted for using the acquisition method. Under this method, upon the initial consolidation of an entity over which the Group has acquired exclusive control:

- the identifiable assets acquired and liabilities assumed are measured at their fair value at the acquisition date;
- non-controlling interests are measured either at fair value (full goodwill) or at the proportionate share of the acquiree's identifiable net assets (partial goodwill).

The accounting policy choice is made on a transaction-by-transaction basis.

At the first consolidation date, goodwill is measured as the difference between:

- the fair value of the consideration transferred;
- the proportionate share in the net amount of identifiable assets acquired and liabilities assumed at the acquisition date.

Where appropriate, measuring non-controlling interests at fair value results in the recognition of full goodwill, as goodwill is adjusted to reflect the amount attributable to non-controlling interests.

The purchase price must be finalized and allocated within 12 months of the acquisition date.
In the event of a bargain purchase where the consideration paid is lower than the fair value of the net assets acquired and liabilities assumed, the resulting gain is recognized directly in the income statement in the line item "Other operating income and expense".

Goodwill is not amortized. In accordance with IAS 36 "Impairment of Assets", goodwill is tested for impairment at least once a year and more frequently if there is an indication of impairment. Any impairment losses are recognized in the income statement in the line item "Impairment of fixed assets".

The methods used to test for impairment are described in note 2.15.

In addition, the following principles apply to business combinations:
- where possible, goodwill is allocated to each cash-generating unit likely to benefit from the business combination as of the acquisition date;
- contingent consideration in a business combination is recorded at fair value as of the acquisition date and any subsequent adjustment occurring after the purchase price allocation period is recognized in the income statement;
- acquisition-related costs are recognized as expenses when incurred;
- any acquisition or disposal of ownership interests that does not affect control subsequent to a business combination is accounted for as an equity transaction and recognized directly in equity, in accordance with IAS 27;
- in the event of the acquisition of additional ownership interests in an associate without obtaining control, the Group maintains the assets acquired and liabilities assumed previously at their carrying amount in the consolidated financial statements.

In the event that control is obtained in a step acquisition, the cost of the business combination includes the previously held equity interest in the acquiree remeasured at its acquisition-date fair value.

## 2.11. Research and development costs

Research and development costs are expensed in the period they are incurred.

Expenditure on development activities is only capitalized if the following criteria required by IAS 38 are met:
- the product or process has been clearly identified and the associated costs can be measured reliably;
- the product is technically feasible;
- the resources required to complete development are available;
- there is a market for the product or the product will be used internally;
- the product will generate future economic benefits for the Group either through its sale or internal use.

No development costs were capitalized in the financial years presented, as the development projects under way did not meet all the conditions.
The Group has tax credits relating to its subsidiaries' research activities, including the research tax credit in France. These tax credits are accounted for as grants and recognized in profit from recurring operations.

## 2.12. Other intangible assets

Separately acquired intangible assets are recognized at their acquisition cost.

Intangible assets (technologies, brands, customer relationships and order book) acquired as part of business combinations are reported on the balance sheet at fair value, which is determined on the basis of external valuations for the most significant assets and internal appraisals for other assets. The valuation process is performed in accordance with generally accepted accounting principles, based on the income approach. Intangible assets, with the exception of brands and goodwill, are amortized on a straight-line basis over their useful lives, including, where appropriate, any period of protection provided by law or regulations.

The value of amortizable intangible assets is tested whenever there is an indication of impairment. The value of non-amortizable intangible assets (such as brands) is tested at least once a year at the reporting date and whenever there is an indication of impairment.

Allowances for amortization and impairment of intangible assets acquired as part of a business combination are shown as a separate line item in the consolidated income statement.

Software and IT licenses are amortized on a straight-line basis over their expected useful lives (between one and five years).

## 2.13. Property, plant and equipment

Property, plant and equipment are measured at acquisition cost. A depreciation schedule is established for each depreciable asset over its useful life, defined as the period during which the Group expects to draw future economic benefits from its use. In the case of buildings and certain heavy equipment, if several significant components of these assets bring the company economic benefits at different rates, then each component is recognized separately and given its own depreciation schedule. The straight-line depreciation method is generally used.

The useful lives are generally the following:
- main structure of buildings (shell and brickwork), depending on the type of construction: 30 to 50 years;
- facades, roofing and secondary construction: 20 to 30 years;
- Technical and general improvements: 15 to 20 years;

- fixtures and fittings: 10 to 15 years;
- heavy industrial equipment, depending on the type of machinery: 15 to 25 years;
- other components and light industrial equipment, machinery and tools: 5 to 15 years.

## 2.14. Finance leases

Assets acquired under finance leases are capitalized when the leases transfer substantially all the risks and rewards incidental to ownership of such assets to the Group. A financial liability is recognized as an offsetting entry for the capitalized asset. Assets held under finance leases are depreciated over their useful lives.

## 2.15. Impairment of property, plant and equipment, intangible assets and goodwill

The carrying amount of non-current assets (excluding financial assets) is reviewed using impairment testing to identify any impairment losses:

- for non-amortizable intangible assets and goodwill, impairment testing is performed at each reporting date, or more frequently when there is an indication of impairment;
- for all other assets, impairment testing is performed whenever there is an indication of impairment.

The indicators that trigger impairment testing are external and include factors such as market value and significant changes in the company's business environment.

Cash Generating Units (CGUs) are homogeneous groups of assets that generate cash inflows.

For management purposes, goodwill from business combinations is monitored at business segment level, as described in note 6.1. Goodwill is tested for impairment at the level of the CGU representing each segment.

The recoverable amount of a CGU or group of CGUs is based on its value in use. Value in use for the Group corresponds to the value of the expected future economic benefits arising from the use of the CGUs. It is measured by discounting the expected future cash flows of each CGU or group of CGUs.

The discounted future cash flows are determined on the basis of management's economic assumptions and operating forecasts in accordance with the following principles:

- the cash flows (pretax) are derived from the business plan;
- the discount rate is determined on the basis of the Group's weighted average cost of capital (WACC) by an independent expert;
- the terminal value is calculated by summing the discounted cash flows to infinity, on the basis of a normative cash flow and perpetual growth rate. The growth rate reflects the potential expansion of markets in which the Group operates and the Group's competitive position.

Details of the assumptions used are provided in note 6.8.

Goodwill impairment cannot be reversed.

## 2.16. Financial assets and liabilities

### Initial measurement

Financial assets and liabilities are initially measured at fair value, which is generally the acquisition cost.

### Classification and measurement at the reporting date

Financial assets and liabilities (excluding derivative hedging instruments) are classified under one of the following categories in the balance sheet:

| Category | Measurement | Recognition of change in value |
|---|---|---|
| Financial assets measured at fair value | Fair value | Profit and loss |
| Loans and receivables | Amortized cost | N/A |
| Available-for-sale assets | Fair value | Equity |
| Held-to-maturity financial assets | Amortized cost | N/A |
| Financial liabilities | Amortized cost | N/A |

### Change in fair value of financial assets recognized in the income statement

This category of assets includes:

- assets held for trading, which were acquired by the company in order to generate short-term profit;
- derivative instruments that are not designated as hedging instruments.

Marketable securities, such as money market funds and mutual funds, are measured at fair value at the reporting date on the basis of their latest quoted market price or net asset value. Any changes in their fair value are recognized in net financial income or expense.

### Loans and receivables

Loans and receivables are measured and recognized at amortized cost less any impairment losses, at the transaction date.

### Available-for-sale assets

Investments in non-consolidated associates are accounted for as available-for-sale assets and measured at fair value with unrealized gains and losses recorded under shareholders' equity, with the exception of long-term unrealized losses, which are recognized in the income statement.

Fair value is based on quoted market prices, when available. When quoted market prices are not available, the Group determines fair value through valuation techniques, such as over-the-counter transactions, discounted cash flow analysis and revalued net assets.

**Loans and borrowings**

Loans and borrowings are initially recognized under financial liabilities at fair value, which corresponds to their issue price net of any transaction costs incurred.

Subsequently, the difference between the net carrying amount initially recognized and the redemption value is amortized on an actuarial basis using the effective interest rate method. The effective interest rate is the rate that exactly discounts the cash flows associated with the loans and borrowings to the net carrying amount at initial recognition.

**Derivative instruments**

The Group uses derivative instruments to hedge its exposure to market risk.

To cover its exposure to interest rate risk, it primarily uses swaps that change floating rate debt to fixed rate debt.

Foreign exchange risk is hedged by currency forward sales and purchases and by insurance contracted with the French export credit insurance company (Compagnie française d'assurance pour le commerce extérieur – COFACE) for French subsidiaries.

Derivative financial instruments are measured at fair value. Fair value is provided by the financial institutions that are counterparties to transactions for interest rate derivatives or calculated using standard valuation methods under market conditions at the reporting date for foreign exchange derivatives. Changes in the fair value of derivative instruments are recognized in the income statement, except for the effective portion of derivatives designated as cash flow hedges, which is recognized in equity.

**Derivative instruments eligible for hedge accounting**

The Group uses the criteria prescribed by IAS 39 to assess whether a derivative instrument qualifies for hedge accounting:

- the hedging relation is clearly identified and documented at the inception date of the hedging instrument;
- hedging relation effectiveness is demonstrated at the inception of the hedge and at each reporting date, both prospectively and retrospectively.

The majority of the interest rate and foreign exchange derivatives used by Fives qualify as hedging instruments.

The Group classifies hedges by the following types:

**Fair value hedges**

Fair value hedges cover exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment to acquire or sell an asset. Changes in the fair value of the hedged item attributable to the hedged risk adjust the carrying amount of the hedged item and are recognized in the income statement. The ineffective portion of the hedge is recognized in the operating income and expense or financial income and expense according to the nature of the hedged item; the forward points adjustment is always recognized in net financial income or expense.

**Cash flow hedges**

Cash flow hedges cover highly probable forecast transactions (forecast cash flows) that have not yet been invoiced. If they fulfill the criteria to qualify for cash flow hedge accounting, the changes in cash flows generated by the hedged item are offset by the changes in value of the hedging instrument.

The cumulative changes in the fair value of the effective portion of the hedge are recognized as a component of equity and the cumulative changes in the fair value of the ineffective portion (corresponding to an "overhedge" where changes in the fair value of the hedging instrument are greater than changes in the fair value of the hedged item) are recognized in earnings. When the hedged cash flows occur, the amounts recognized in equity are transferred to the income statement, matching the cash flows with the hedged item.

Cash flow hedging is used to account for interest rate hedges.

**Derivative instruments not eligible for hedge accounting**

Changes in the fair value of derivatives that are not eligible for hedge accounting are recognized directly in net financial income or expense.

Such instruments include derivative financial instruments that are used as economic hedges, but which have not been or are no longer documented as hedge accounting relationships.

## 2.17. Revenue recognition

The Group generates revenue through construction contracts, sales of goods, and services rendered in connection with its business activities.

**Construction contracts**

IAS 11 defines a construction contract as a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose. Construction contracts are complex and/ or require a high degree of integration, usually involving research work. Contract revenue is conditional on the fulfillment of contractually-agreed performance obligations.

Profit on completion of long-term contracts is estimated based on analyses of costs and revenue at completion, which are revised periodically and regularly over the life of the contract.

Revenue and profit are recognized on a percentage-of-completion basis, as the contract is performed. The stage of completion of each contract is determined by measuring the costs incurred to date over estimated costs to complete.
Penalties for late fulfillment or non-fulfillment of performance obligations are charged to revenue.

Losses at completion are fully recognized as soon as they are foreseen.

For each construction contract, the accumulated costs incurred at the reporting date, plus profit recognized, less progress billings and any losses at completion recognized, is determined on a contract by contract basis. If the amount is positive, it is recorded as an asset under "Construction contracts in progress, assets". If it is negative, it is recorded as a liability under "Construction contracts in progress, liabilities".

The excess of progress billings over cash received is recognized in trade receivables.

Completion is recognized upon provisional acceptance (or equivalent event) for contracts involving integrated systems subject to overall performance obligations. A provision is recognized for any remaining expenses that may be incurred to secure full acceptance. A contingency provision is recognized for future warranty costs.

**Sales of goods and rendering of services**
Sales of goods and the rendering of services are recognized in accordance with IAS 18, which sets out the revenue recognition criteria:

- revenue from the sale of goods such as individual items of equipment or machinery is recognized when the company has transferred to the buyer the significant risks and rewards incidental to ownership of the equipment;
- revenue from the rendering of services is recognized by reference to the stage of completion of the service rendered.

Sales of single pieces of equipment or machinery are considered as sales of goods.

## 2.18. Inventories and work in progress (excluding construction contracts)

Inventories and work in progress (excluding construction contracts) are measured using the weighted average cost method, at the lower of acquisition or production cost and net realizable value.

An impairment loss is recognized, where appropriate, to reduce their carrying amount to net realizable value.

## 2.19. Cash and cash equivalents

Cash and cash equivalents comprise highly-liquid financial instruments and short-term investments. They include bank balances, cash on hand, demand deposits, short-term investments that are subject to an insignificant risk of change in value, and money market funds.

## 2.20. Provisions

In accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", provisions are recognized when the Group has a legal or constructive present obligation toward a third party as a result of a past event, which will probably result in an outflow of resources embodying economic benefits, which can be estimated reliably, without any associated future consideration. The amount of provisions recognized corresponds to the best estimate of the outflow of resources that will probably be required to settle the obligation.

While construction contracts are in progress, the associated obligations are included in the measurement of profit at completion and are recorded in the line items "Construction contracts, assets" or "Construction contracts, liabilities".

Upon contract completion, the obligations are recognized as separate line items under liabilities.

Obligations resulting from transactions other than construction contracts are recognized directly under provisions if they meet the above-mentioned criteria.

If the time value of money is significant, the provisions are measured at their present value.

## 2.21. Retirement benefits

In accordance with local law and practices, the Group participates in retirement plans in the countries in which it operates. For basic retirement plans and other defined contribution plans, the Group expenses the contributions payable when they are due and does not recognize any provisions, as the Group's commitments do not extend beyond the contributions paid.

For defined benefit plans, the provisions are determined in the following manner:

- the actuarial valuation method used is the Projected Unit Credit Method, which assumes that each period of service gives rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The calculations include assumptions regarding mortality, employee turnover and salary increase rates, as appropriate;

- actuarial gains or losses net of deferred tax are recognized immediately in other comprehensive income, with an offsetting entry in shareholders' equity, in accordance with IAS 19 "Employee Benefits".

The expense for the year relating to the current and past service cost and the gains or losses on plan curtailments or settlements is recognized in operating profit.

The interest cost, net of the expected return on plan assets, is recognized in net financial income or expense.

## 2.22. Provisions for long-service awards

Provisions for long-service awards are calculated by combining all award levels, in accordance with IAS 19. The provision is measured for all current employees at the reporting date, based on actuarial assumptions with regard to factors such as seniority, life expectancy and employee turnover. The effects of changes in actuarial assumptions are recognized in earnings.

## 2.23. Income tax

Income tax comprises current tax expense (income) and deferred tax, calculated in accordance with the tax law effective in the country where earnings are taxable.

Current and deferred tax are recognized in earnings (in the income statement) or in equity if they concern items recognized directly in equity. The effects of changes in the tax rate are recognized in equity or earnings in the financial year the change is adopted or substantially adopted, according to the initial recognition method for the associated deferred taxes.

Current tax expense (income) is the estimated amount of tax payable on taxable profit for the financial year. It is determined using the tax rate effective at the reporting date.

**French value added business tax (CVAE)**
For the Group, the value added base used to calculate value added business tax is an intermediary aggregate of net income. Therefore, value added business tax is accounted for in the same way as corporate income tax.

**Deferred taxes**
Deferred taxes are recognized based on temporary differences between the carrying amount and tax bases of assets and liabilities, and for tax losses carried forward. However, no deferred tax is recognized for temporary differences generated by:

- goodwill that is not tax-deductible;
- the initial recognition of an asset or liability in a transaction that is not a business combination, which does not affect accounting profit or taxable profit (tax loss) at the transaction date;
- investments in subsidiaries, joint ventures and associates if the Group controls the date at which the temporary differences reverse and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets are recognized only if the company's medium-term earnings forecasts provide reasonable assurance that they can be used to offset future liabilities. Deferred tax liabilities are factored into the amount recognized. The Group ensures that the forecasts used for the recognition of deferred tax assets and liabilities and those used to calculate impairment are consistent.

Deferred tax assets and liabilities are offset if the entity has a legal right to offset current tax assets and liabilities and if the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

## 2.24. Earnings per share

Basic earnings per share are calculated by dividing profit for the year by the weighted average number of shares outstanding during the year.

## 3. SIGNIFICANT EVENTS OF THE YEAR

**Economic environment**

Financial year 2012 was marked by strong growth in Group sales, which reached a record high of €1,508 million. The figures reflect the robust recovery in orders in 2011, with order intake rising to €1,552 million at year end. Smaller recurrent orders for single pieces of equipment, spare parts and technical assistance also contributed, increasing again in 2012 despite the sluggish economic environment.

After an upturn late 2010, the outlook for the world economy has rapidly deteriorated since late 2011. In 2012, industrial investment was strongly impacted by scarcer financing and the slowdown in the emerging countries. The uncertain environment affected purchasers, who decided to postpone most of their major projects. After a record year in 2011 (€1,674 million), the Group's order intake remained robust in 2012 at €1,324 million, performing better than in the period between 2008 and 2010.

The economic environment was factored into the accounting estimates and assessments. The results of the impairment tests performed in 2012 and 2011 confirmed that there was no impairment in the Group's goodwill and intangible assets.

**External growth**

On January 10, 2012, the Group acquired CBL Combustion Systems Pvt. Ltd (which is now called Fives Combustion Systems Pvt. Ltd.), an Indian company specializing in the design and manufacture of combustion equipment, particularly for the energy and mineral industries. The acquisition is a new step in the Group's development and expansion of local operations in India.

On March 1, 2012, the Group acquired the carbon chemistry and distillation activities of Litwin, an entity based in Mulhouse, France. The acquisition triggered the creation of Solios Chemical, which generates a significant share of its sales with the steel industry in China.

## 4. YEAR-ON-YEAR COMPARISON

**Presentation method for construction contracts**

In order to comply with industry best practice and fulfill the requirements of the users of financial statements, the presentation of construction contracts in the balance sheet has been changed.

The Group believes that the new presentation, which is in compliance with IAS 11, provides better information to the users of financial statements. The line items "Construction contracts in progress, assets" and "Construction contracts in progress, liabilities" present the costs incurred at the reporting date plus the profit margin recognized, less any losses at completion and progress billings.

For previous periods, the line items presented the costs incurred at the reporting date plus the profit margin recognized less any losses at completion and cash received.

The calculations are made on a contract-by-contract basis (see note 2.17).

The effect of the change in presentation on the balance sheet at December 31, 2011 is as follows:

# ASSETS

| In thousands of euros | Dec. 31, 2011 | Presentation impact | Dec. 31, 2011 restated |
|---|---|---|---|
| **Non-current assets** | **292,654** | | **292,654** |
| Inventories and work in progress | 143,714 | | 143,714 |
| Construction contracts in progress, assets | 142,481 | (24,249) | 118,232 |
| Trade receivables | 184,733 | 127,419 | 312,152 |
| Other current assets | 72,451 | | 72,451 |
| Current financial assets | 20,460 | | 20,460 |
| Current tax assets | 3,909 | | 3,909 |
| Cash and cash equivalents | 240,358 | | 240,358 |
| **Current assets** | **808,106** | **103,170** | **911,276** |
| **Total assets** | **1,100,760** | **103,170** | **1,203,930** |

# SHAREHOLDERS' EQUITY AND LIABILITIES

| In thousands of euros | Dec. 31, 2011 | Presentation impact | Dec. 31, 2011 restated |
|---|---|---|---|
| **Shareholders' equity** | **245,644** | | **245,644** |
| **Non-current liabilities** | **90,678** | | **90,678** |
| Current provisions | 90,383 | | 90,383 |
| Current financial liabilities | 45,292 | | 45,292 |
| Construction contracts in progress, liabilities | 202,178 | 108,222 | 310,400 |
| Trade and related payables | 212,809 | | 212,809 |
| Current tax liabilities | 14,207 | | 14,207 |
| Other current liabilities | 199,570 | (5,052) | 194,518 |
| **Current liabilities** | **764,439** | **103,170** | **867,609** |
| **Total shareholders' equity and liabilities** | **1,100,760** | **103,170** | **1,203,930** |

## 5. CONSOLIDATION SCOPE

The list of companies included in the consolidation scope is provided in note 6.30.

### 5.1. Changes in consolidation scope in 2012

**Newly consolidated**

- Fives Engineering (Shanghai) Co., Ltd.;
- Fives North American Combustion Spain SL;
- Solios Services Gulf SPC;
- Solios Chemical S.A.;
- Fives Combustion Systems Pvt Ltd.

Fives Engineering Shanghai, Fives North American Combustion Spain and Solios Services Gulf reflect the expansion of the Group's business in China, in the energy industry in Spain and the aluminium industry in the Middle East.

Solios Chemical (metals industry) and Fives Combustion System (cement industry) were consolidated following their acquisition.

**Deconsolidations**

- penelectro, a dormant company, is being wound up.

**Other changes**

- since January 1, 2012, Fives Cail KCP has been accounted for using the equity method. Previously it was consolidated proportionately;
- on October 18, 2012, following the purchase of additional interests in Solios Thermal Ltd, the ownership interests in the subsidiary increased from 75% to 100%.

The effects of obtaining controlling interests on the Group's balance sheet are the following:

| In thousands of euros | Solios Chemical | Fives Combustion Systems |
|---|---|---|
| Intangible assets | 2,666 | 53 |
| Property, plant and equipment | | 210 |
| Financial assets | | 308 |
| Inventories | | 1,254 |
| Trade receivables | | 1,563 |
| Other receivables | 117 | 325 |
| Cash and cash equivalents | | 31 |
| **Total assets** | **2,783** | **3,744** |
| Provisions | 2,029 | 151 |
| Financial liabilities | | 1,009 |
| Trade payables | 151 | 684 |
| Other payables | 473 | 658 |
| **Total liabilities** | **2,653** | **2,502** |
| **Net assets** | **130** | **1,242** |
| **Purchase price** | **2,000** | **3,287** |
| **Goodwill** | **1,870** | **2,046** |

# 6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (IN THOUSANDS OF EUROS)

## 6.1. Operating segment information

The Group has identified the following operating segments:

- **Automotive/Logistics:** activity mainly serving the automobile and logistics industries;
- **Cement:** activity mainly targeting the cement industry;
- **Energy:** activity mainly serving the energy production industry (all forms including nuclear, fossil and renewable);
- **Metals:** activity mainly serving the steel, glass and aluminium industries;
- **Other:** non-operational or holding activities.

### Operating segment information

| | 2012 | 2011 |
|---|---|---|
| Automotive/Logistics | 479,871 | 607,198 |
| Cement | 83,979 | 243,768 |
| Energy | 355,179 | 272,677 |
| Metals | 404,797 | 550,682 |
| **Total order intake** | **1,323,826** | **1,674,325** |
| Automotive/Logistics | 541,075 | 391,271 |
| Cement | 122,202 | 111,926 |
| Energy | 317,255 | 290,205 |
| Metals | 527,346 | 474,910 |
| **Total sales** | **1,507,878** | **1,268,312** |
| Automotive/Logistics | 47,037 | 27,779 |
| Cement | 9,210 | 18,989 |
| Energy | 21,035 | 7,909 |
| Metals | 28,753 | 30,692 |
| Other | (13,364) | (9,141) |
| **Total profit from recurring operations** | **92,671** | **76,228** |
| Automotive/Logistics | 6,144 | 5,318 |
| Cement | 1,147 | 1,082 |
| Energy | 7,277 | 6,736 |
| Metals | 7,418 | 6,935 |
| Other | 461 | 372 |
| **Total amortization, depreciation and provisions (*)** | **22,447** | **20,443** |

(*) included in profit from recurring operations.

The breakdown of assets by operating segment is as follows:

| 31.12.12 | Automotive / Logistics | Cement | Energy | Metals | Other | Total |
|---|---|---|---|---|---|---|
| Goodwill | 39,062 | 1,942 | 61,158 | 22,612 | | 124,774 |
| Intangible assets, property, plant and equipment | 57,298 | 4,191 | 53,411 | 29,892 | 2,860 | 147,652 |
| **Total allocated assets** | **96,360** | **6,133** | **114,569** | **52,504** | **2,860** | **272,426** |
| Other assets | | | | | | 967,949 |
| **Total assets** | | | | | | **1,240,375** |

| 31.12.11 | Automotive / Logistics | Cement | Energy | Metals | Other | Total |
|---|---|---|---|---|---|---|
| Goodwill | 38,971 | | 62,288 | 21,093 | | 122,352 |
| Intangible assets, property, plant and equipment | 49,996 | 3,580 | 55,614 | 30,172 | 2,265 | 141,627 |
| **Total allocated assets** | **88,967** | **3,580** | **117,902** | **51,265** | **2,265** | **263,979** |
| Other assets | | | | | | 939,951 |
| **Total assets** | | | | | | **1,203,930** |

## 6.2. Sales

Sales comprised the following:

| | 2012 | 2011 |
|---|---|---|
| Construction contract revenue | 740,615 | 678,274 |
| Services rendered | 154,450 | 117,318 |
| Sales of goods | 612,813 | 472,720 |
| **Sales** | **1,507,878** | **1,268,312** |

**Sales by destination country**

| | 2012 | 2011 |
|---|---|---|
| France | 268,898 | 223,324 |
| Europe (excluding France) | 176,066 | 171,451 |
| Africa and the Middle East | 268,168 | 246,295 |
| The Americas | 421,355 | 295,412 |
| Asia and Oceania | 373,391 | 331,830 |
| **Total** | **1,507,878** | **1,268,312** |

### Sales by origin country

| | 2012 | 2011 |
|---|---|---|
| France | 767,879 | 687,732 |
| Europe (excluding France) | 217,151 | 150,414 |
| Africa and the Middle East | 87,085 | 45,568 |
| The Americas | 306,565 | 266,536 |
| Asia and Oceania | 129,198 | 118,062 |
| **Total** | **1,507,878** | **1,268,312** |

### Information on major customers

The Group did not have any customers representing over 10% of its sales in financial years 2012 and 2011.

## 6.3. Personnel expenses and headcount

### Personnel expenses

| | 2012 | 2011 |
|---|---|---|
| Personnel expenses | **384,367** | **337,805** |

### Headcount at December 31

| By category | 2012 | 2011 |
|---|---|---|
| Engineers and management | 2,523 | 2,295 |
| Supervisory and office staff | 2,435 | 2,383 |
| Other employees | 1,563 | 1,430 |
| **Total** | **6,521** | **6,108** |

| By type of contract | 2012 | 2011 |
|---|---|---|
| Permanent contract | 5,763 | 5,485 |
| Fixed-term contract | 651 | 500 |
| Apprenticeships and internships | 107 | 123 |
| **Total** | **6,521** | **6,108** |

## 6.4. Research and development costs

| | 2012 | 2011 |
|---|---|---|
| Research and development expenses, gross | (22,711) | (21,173) |
| Research tax credits and grants received | 2,038 | 1,933 |
| **Total** | **(20,673)** | **(19,240)** |

## 6.5. Amortization and depreciation included in profit from recurring operations

Profit from recurring operations includes the following amortization items:

| | 2012 | 2011 |
|---|---|---|
| Included in cost of sales | (10,795) | (9,487) |
| Included in overheads and other operating items | (7,068) | (6,011) |
| Amortization of intangible assets related to acquisitions | (4,584) | (4,945) |
| **Total** | **(22,447)** | **(20,443)** |

## 6.6. Financial income and expense

### Cost of net financial debt

| | 2012 | 2011 |
|---|---|---|
| Financial expenses relating to: | | |
| - bank loans and interest rate swaps | (664) | (1,591) |
| - finance leases | (105) | (141) |
| Other interest expense | (1,986) | (899) |
| **Interest and related expenses** | **(2,755)** | **(2,631)** |
| Income from marketable securities | 539 | 690 |
| Other interest income | 2,055 | 1,381 |
| **Interest and related income** | **2,595** | **2,071** |
| **Total** | **(160)** | **(560)** |

### Other financial income and expense

| | 2012 | 2011 |
|---|---|---|
| **Income from associates** | **54** | **193** |
| Foreign exchange gains/(losses) | (1,682) | 2,351 |
| Impact of forward points on changes in fair value of foreign exchange | (133) | (1,214) |
| Change in fair value of derivative instruments not eligible for hedge accounting | 501 | (352) |
| **Foreign exchange gains (losses)** | **(1,314)** | **785** |
| Expenses for retirement and related benefits | (1,094) | (1,099) |
| Change in net financial provisions | (998) | 641 |
| Other financial items | (636) | (549) |
| **Total** | **(3,988)** | **(29)** |

As in 2011, the foreign exchange gains and losses generated in 2012 mainly reflect the unrealized gains and losses on the USD financing granted to the North American subsidiaries for the acquisition of the North American businesses in 2008 and Bronx business in 2010 (see note 6.24).

## 6.7. Income tax expense

### Analysis of income tax expense

| | 2012 | 2011 |
|---|---|---|
| French companies in the consolidated tax group | (13,310) | (18,414) |
| French companies outside the consolidated tax group | (1,901) | (1,121) |
| Foreign companies | (18,176) | (14,301) |
| **Current tax** | **(33,387)** | **(33,836)** |
| **Deferred tax** | **(2,503)** | **423** |
| **Total** | **(35,890)** | **(33,413)** |

### Effective tax rate

| | 2012 | 2011 |
|---|---|---|
| **Profit before income tax** | **88,214** | **74,400** |
| *Parent company tax rate* | *34.43%* | *33.33%* |
| Theoretical tax expense | (30,372) | (24,800) |
| Effect of: | | |
| Tax rate differences | 1,745 | (696) |
| Change of unrecognized deferred tax assets | (2,252) | (4,030) |
| Permanent differences and other items | (2,018) | (1,002) |
| **Income tax expense** | **(32,897)** | **(30,528)** |
| **Effective tax rate** | **37.29%** | **41.03%** |
| French value added business tax (CVAE) | (2,993) | (2,885) |
| **Income tax expense** | **(35,890)** | **(33,413)** |

### French companies' current tax

Fives and the French subsidiaries that are directly or indirectly more than 95%-owned are included in the tax group established in 2007 by FL Investco, which is described in note 6.30. The tax savings resulting from offsetting the taxable losses of loss-making companies with the taxable profit of profit-making companies included in the calculation of consolidated tax are recognized in FL Investco's financial statements.

### Deferred tax

The breakdown of deferred tax assets and liabilities is as follows:

| | Dec. 31, 2011 Deferred tax assets | Dec. 31, 2011 Deferred tax liabilities | Change recognized in profit and loss | Change recognized in equity | Scope | Translation differences and other | Dec. 31, 2012 Deferred tax assets | Dec. 31, 2012 Deferred tax liabilities |
|---|---|---|---|---|---|---|---|---|
| Provisions for retirement benefits | 10,910 | | (320) | 2,475 | 60 | 86 | 13,211 | |
| Goodwill [1] | 597 | (7,706) | (2,601) | | | 181 | 601 | (10,130) |
| Other temporary differences [2] | 16,833 | (3,757) | 1,703 | 77 | 42 | (580) | 18,347 | (4,029) |
| **Deferred tax assets (liabilities), gross** | **28,340** | **(11,463)** | **(1,218)** | **2,552** | **102** | **(313)** | **32,159** | **(14,159)** |
| Limitation of deferred tax assets | (2,459) | | (1,285) | | | | (3,744) | |
| Offset | (6,940) | 6,940 | | | | | (7,838) | 7,838 |
| **Recognized deferred tax assets** | **18,941** | **(4,523)** | **(2,503)** | **2,552** | **102** | **(313)** | **20,577** | **(6,321)** |
| **Net deferred tax** | **14,418** | | | | | | **14,256** | |

(1) Tax amortization of goodwill of the North American companies recognized locally.

(2) Mainly on provisions for non-deductible contracts and current assets.

The offsetting methods are described in note 2.23.

Deferred tax assets are only recognized when it is sufficiently likely that they can be used to offset future liabilities. Unrecognized deferred tax assets amounted to €3,744 thousand at December 31, 2012.

## 6.8. Goodwill

| | Dec. 31, 2011 Net | Change in consolidation scope | Transfers | Impairment | Translation differences | Dec. 31, 2012 Net |
|---|---|---|---|---|---|---|
| Automotive/Logistics | 38,971 | | 235 | | (144) | 39,062 |
| Cement | | 2,046 | | | (104) | 1,942 |
| Energy | 62,288 | | | | (1,130) | 61,158 |
| Metals | 21,093 | 1,870 | | | (351) | 22,612 |
| **Total** | **122,352** | **3,916** | 235 | | **(1,729)** | **124,774** |

| | 31.12.2011 | 31.12.2012 |
|---|---|---|
| Gross | 122,538 | 124,774 |
| Accumulated impairment | (186) | |
| **Net** | **122,352** | **124,774** |

In 2012, acquisitions generated goodwill of €1,870 thousand for Solios Chemical and €2,046 thousand for Fives Combustion Systems.

In compliance with IAS 36, an impairment test was performed at December 31, 2012 on the CGU for each industry.

The following assumptions were used:
- 2013-2016 medium-term plan;
- terminal value growth rate: 2%;
- discount rate: 10%;
- income tax rate: 33.33%;

No impairment was necessary.

### Sensitivity analysis

**Interest rate sensitivity**

The tests were performed based on the following assumptions:
- discount rate: 11% (or 1% increase);
- terminal value growth rate: 1% (or 1% decrease).

On this basis, no impairment losses were required.

**Cash flow sensitivity**

If the estimated future cash flows from any of the Group's four divisions decreased by 15%, no impairment losses would be recognized.

## 6.9. Intangible assets

| | Dec. 31, 2012 | | | Dec. 31, 2011 | | |
|---|---|---|---|---|---|---|
| | Gross | Accumulated amortization/ impairment | Net | Gross | Accumulated amortization/ impairment | Net |
| Internally developed patents | 118 | (83) | 35 | 81 | (40) | 41 |
| Technologies, research and development acquired | 21,148 | (9,207) | 11,941 | 21,307 | (6,303) | 15,004 |
| Brands acquired | 5,628 | (3) | 5,625 | 5,739 | (2) | 5,737 |
| Customer relationships and other intangibles acquired | 6,973 | (1,245) | 5,728 | 7,110 | (254) | 6,856 |
| Order book acquired | 6,371 | (5,335) | 1,036 | 5,797 | (4,486) | 1,311 |
| Concessions, patents and licenses | 16,970 | (12,278) | 4,692 | 13,886 | (11,304) | 2,582 |
| Other intangible assets | 4,549 | (2,896) | 1,653 | 6,690 | (4,887) | 1,803 |
| **Total** | **61,757** | **(31,047)** | **30,710** | **60,610** | **(27,276)** | **33,334** |

At December 31, 2012, the analysis of changes in intangible assets was as follows:

| | Gross | Accumulated amortization/ impairment | Net |
|---|---|---|---|
| **Balance at Dec. 31, 2011** | **60,610** | **(27,276)** | **33,334** |
| Acquisitions | 2,120 | | 2,120 |
| Deconsolidations and disposals | (857) | 857 | |
| Amortization/impairment | | (6,771) | (6,771) |
| Reclassified items | (2,182) | 1,948 | (234) |
| Change in consolidation scope | 2,846 | (129) | 2,717 |
| Translation differences | (780) | 324 | (456) |
| **Balance at Dec. 31, 2012** | **61,757** | **(31,047)** | **30,710** |

At December 31, 2011, the analysis of changes in intangible assets was as follows:

| | Gross | Accumulated amortization/ impairment | Net |
|---|---|---|---|
| **Balance at Dec. 31, 2010** | **57,771** | **(20,224)** | **37,547** |
| Acquisitions | 1,918 | | 1,918 |
| Deconsolidations and disposals | (335) | 335 | |
| Amortization/impairment | | (6,835) | (6,835) |
| Reclassified items | 12 | (14) | (2) |
| Change in consolidation scope | | | |
| Translation differences | 1,244 | (538) | 706 |
| **Balance at Dec. 31, 2011** | **60,610** | **(27,276)** | **33,334** |

## 6.10. Property, plant and equipment

| | Dec. 31, 2012 | | | Dec. 31, 2011 | | |
|---|---|---|---|---|---|---|
| | Gross | Accumulated depreciation/ impairment | Net | Gross | Accumulated depreciation/ impairment | Net |
| Land and developments | 11,746 | (428) | 11,318 | 11,812 | (400) | 11,412 |
| Leasehold land | 1,260 | | 1,260 | 1,260 | | 1,260 |
| Buildings | 94,923 | (48,465) | 46,458 | 86,533 | (45,180) | 41,353 |
| Leasehold buildings | 9,647 | (3,176) | 6,471 | 9,647 | (2,767) | 6,880 |
| Plant, equipment and machinery | 123,684 | (86,614) | 37,070 | 115,450 | (80,152) | 35,298 |
| Leasehold plant, equipment and machinery | 668 | (466) | 202 | 668 | (395) | 273 |
| Other assets | 40,268 | (28,565) | 11,703 | 37,115 | (28,119) | 8,996 |
| Assets under construction | 1,373 | (56) | 1,317 | 2,659 | (610) | 2,049 |
| Advances on fixed assets | 1,143 | | 1,143 | 772 | | 772 |
| **Total** | **284,712** | **(167,770)** | **116,942** | **265,916** | **(157,623)** | **108,293** |

At December 31, 2012, the analysis of changes in property, plant and equipment was as follows:

| | Gross | Accumulated depreciation/ impairment | Net |
|---|---|---|---|
| **Balance at Dec. 31, 2011** | **265,916** | **(157,623)** | **108,293** |
| Acquisitions | 25,885 | | 25,885 |
| Deconsolidations and disposals | (6,448) | 4,641 | (1,807) |
| Depreciation/impairment | | (15,116) | (15,116) |
| Reclassified items | (4) | 3 | (1) |
| Change in consolidation scope | 855 | (564) | 291 |
| Translation differences | (1,492) | 889 | (603) |
| **Balance at Dec. 31, 2012** | **284,712** | **(167,770)** | **116,942** |

At December 31, 2011, the analysis of changes in property, plant and equipment was as follows:

| | Gross | Accumulated depreciation/ impairment | Net |
|---|---|---|---|
| **Balance at Dec. 31, 2010** | **251,836** | **(146,597)** | **105,239** |
| Acquisitions | 16,704 | | 16,704 |
| Deconsolidations and disposals | (5,820) | 4,403 | (1,417) |
| Depreciation/impairment | | (14,708) | (14,708) |
| Reclassified items | (620) | 993 | 373 |
| Change in consolidation scope | 16 | (8) | 8 |
| Translation differences | 3,800 | (1,706) | 2,094 |
| **Balance at Dec. 31, 2011** | **265,916** | **(157,623)** | **108,293** |

## 6.11. Current and non-current financial assets

Financial assets comprise:

- available-for-sale securities (unconsolidated investments in associates, investments);
- loans and receivables carried at amortized cost, receivables from associates, loans for social housing, guarantees and sureties given;
- the positive fair value of derivative financial instruments.

### Non-current financial assets

| | Dec. 31, 2012 | | | Dec. 31, 2011 | | |
|---|---|---|---|---|---|---|
| | Gross | Impair. | Net | Gross | Impair. | Net |
| Available-for-sale securities | 4,474 | (529) | 3,945 | 2,694 | (634) | 2,060 |
| Loans related to investments in associates | 1,036 | (621) | 415 | 673 | | 673 |
| Other financial assets | 4,190 | (1,274) | 2,916 | 8,280 | (1,279) | 7,001 |
| **Total** | **9,700** | **(2,424)** | **7,276** | **11,647** | **(1,913)** | **9,734** |

The change in fair value of available-for-sale financial assets at December 31, 2012 amounted to €35 thousand, net of tax.

At December 31, 2012, the repayment and maturity schedule (excluding available-for-sale securities) was as follows:

| | Dec. 31, 2012 | | |
|---|---|---|---|
| | Carrying amount | Between 1 and 5 years | More than 5 years |
| Loans related to investments in associates | 1,036 | 366 | 670 |
| Other financial assets | 4,190 | 2,288 | 1,902 |
| **Total** | **5,226** | **2,654** | **2,572** |

At December 31, 2011, the repayment and maturity schedule was as follows:

| | Dec. 31, 2011 | | |
|---|---|---|---|
| | Carrying amount | Between 1 and 5 years | More than 5 years |
| Loans related to investments in associates | 673 | 673 | |
| Other financial assets | 8,280 | 6,694 | 1,586 |
| **Total** | **8,953** | **7,367** | **1,586** |

### Current financial assets

| | Dec. 31, 2012 | | | Dec. 31, 2011 | | |
|---|---|---|---|---|---|---|
| | Gross | Impair. | Net | Gross | Impair. | Net |
| Derivatives | 2,161 | | 2,161 | 4,214 | | 4,214 |
| Other loans related to investments in associates | 641 | (379) | 262 | 840 | (1) | 839 |
| Loans | 139 | | 139 | 200 | | 200 |
| Accrued interest | 6 | | 6 | 9 | | 9 |
| Other | 7 | | 7 | 15,198 | | 15,198 |
| **Total** | **2,954** | **(379)** | **2,575** | **20,461** | **(1)** | **20,460** |

The current financial assets of €15.2 million recognized in the “Other” line item in 2011, reflect investments that did not qualify as cash and cash equivalents. The Group disposed of these investments at their maturity date in 2012. The Group did not make any new investments of this type.

## 6.12. Inventories and work in progress

| | Dec. 31, 2012 | | | Dec. 31, 2011 | | |
|---|---|---|---|---|---|---|
| | Gross | Impair. | Net | Gross | Impair. | Net |
| Raw materials | 55,717 | (10,481) | 45,236 | 54,497 | (10,377) | 44,120 |
| Work in progress under completed-contract method | 104,453 | (1,198) | 103,255 | 86,826 | (2,358) | 84,468 |
| Semi-finished and finished goods | 25,131 | (6,207) | 18,924 | 19,889 | (4,763) | 15,126 |
| **Total** | **185,301** | **(17,886)** | **167,415** | **161,212** | **(17,498)** | **143,714** |

## 6.13. Construction contracts

| | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Construction contracts in progress, assets | 90,539 | 118,232 |
| Construction contracts in progress, liabilities | (261,103) | (310,400) |
| **Net** | **(170,564)** | **(192,168)** |

Cumulative information on construction contracts in progress was as follows:

| | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Costs incurred and profit recognized | 1,467,887 | 1,329,863 |
| Progress billings | (1,635,838) | (1,520,250) |
| Provisions for loss at completion | (2,613) | (1,781) |
| **Net** | **(170,564)** | **(192,168)** |

## 6.14. Trade receivables

| | Dec. 31, 2012 | | | Dec. 31, 2011 | | |
|---|---|---|---|---|---|---|
| | Gross | Impair. | Net | Gross | Impair. | Net |
| Trade receivables | 344,085 | (9,219) | 334,866 | 323,010 | (10,857) | 312,152 |
| **Total** | **344,085** | **(9,219)** | **334,866** | **323,010** | **(10,857)** | **312,152** |

Changes in the impairment of trade receivables can be analyzed as follows:

| | Opening balance | Allowances | Reversals | Translation differences | Other | Closing balance |
|---|---|---|---|---|---|---|
| **2012** | **(10,857)** | **(964)** | **1,658** | **42** | **902** | **(9,219)** |
| 2011 | (11,363) | (2,401) | 2,511 | 83 | 313 | (10,857) |

At December 31, 2012 the trade receivables aging schedule was as follows:

| | Total | Not overdue | Less than 30 days overdue | Between 30 days and 90 days overdue | More than 90 days overdue |
|---|---|---|---|---|---|
| **2012** | **334,866** | **263,781** | **37,483** | **13,783** | **19,820** |

The Group's policy for managing trade receivables risk is based on the following principles:

- upstream risk management processes entailing the analysis of receivables risk during the project bid and selection stage;
- specific provisions for major contracts, including the obligation to hedge risk (commercial and/or political risk) according to criteria relating to contract size, type of receivable, and country category;
- regular monitoring of overdue payments during contract performance and early implementation of collection procedures for receivables due.

Given the nature of the Group's activities, often receivables still unpaid after the contractual due date have been confirmed by clients but are only paid once the requirements notified during the work acceptance inspection have been fulfilled and full acceptance has been secured. Such receivables are fully recoverable; the remaining expenses incurred to secure full acceptance are included in the calculation of the related contract's profit margin at completion.

Allowances for impairment are measured on a case-by-case basis taking into account collection risk.

## 6.15. Other current assets

| | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| VAT and related tax receivables | 20,995 | 18,622 |
| Advances and progress payments | 30,691 | 20,546 |
| Other receivables | 10,090 | 17,454 |
| Prepaid expenses | 10,424 | 15,829 |
| **Total** | **72,200** | **72,451** |

## 6.16. Cash and cash equivalents

| | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Cash equivalents | 139,182 | 140,907 |
| Cash | 127,666 | 99,451 |
| **Total cash and cash equivalents** | **266,848** | **240,358** |

Cash equivalents comprise money market funds, negotiable certificates of deposit and term deposits of less than three months.
Cash includes interest-bearing current accounts.

**Breakdown of cash and cash equivalents per currency**

| | Euro | USD | GBP | CNY | JPY | Other | Total |
|---|---|---|---|---|---|---|---|
| Cash equivalents | 127,747 | 10,493 | | | | 943 | 139,183 |
| Cash | 46,366 | 11,866 | 14,188 | 20,143 | 4,522 | 30,580 | 127,665 |
| **Total at Dec. 31, 2012** | **174,113** | **22,359** | **14,188** | **20,143** | **4,522** | **31,523** | **266,848** |
| Foreign exchange swaps | (65,407) | 34,322 | 11,195 | | 19,890 | | |
| **Total at Dec. 31, 2012 (before swaps)** | **108,706** | **56,681** | **25,383** | **20,143** | **24,412** | **31,523** | **266,848** |

At December 31, 2011, the breakdown of cash and cash equivalents was as follows:

| | Euro | USD | GBP | CNY | JPY | Autres | Total |
|---|---|---|---|---|---|---|---|
| Cash equivalents | 110,084 | 29,563 | | | | 1,260 | 140,907 |
| Cash | 21,279 | 4,272 | 9,943 | 14,314 | 14,557 | 35,086 | 99,451 |
| **Total at Dec. 31, 2011** | **131,363** | **33,835** | **9,943** | **14,314** | **14,557** | **36,346** | **240,358** |
| Foreign exchange swaps | (50,589) | 29,313 | 8,740 | | 12,536 | | |
| **Total at Dec. 31, 2011 (before swaps)** | **80,774** | **63,148** | **18,683** | **14,314** | **27,093** | **36,346** | **240,358** |

Cash and cash equivalents are mainly held in OECD countries and are available for use by the Group. The cash-generating wholly-owned subsidiaries in China provide the Group with a substantial share of cash denominated in CNY through distributions.

## 6.17. Consolidated cash flow statement

### Cash and cash equivalents, net

| | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Cash equivalents | 139,182 | 140,907 |
| Cash | 127,666 | 99,451 |
| **Total cash and cash equivalents** | **266,848** | **240,358** |
| Bank overdrafts | (1,285) | (1,120) |
| **Total** | **265,563** | **239,238** |

### Change in WCR

| | | | Changes | |
|---|---|---|---|---|
| | Dec. 31, 2012 | Dec. 31, 2011 | Operating activities | Other* |
| Inventories and work in progress | (167,415) | (143,714) | (25,023) | 1,322 |
| Construction contracts in progress, assets | (90,539) | (118,232) | 28,634 | (941) |
| Trade receivables | (334,866) | (312,152) | (28,121) | 5,407 |
| Other current/non-current assets included in working capital | (72,754) | (72,047) | 1,782 | (2,489) |
| Construction contracts in progress, liabilities | 261,103 | 310,400 | (49,258) | (39) |
| Trade and related payables | 251,497 | 212,809 | 47,262 | (8,574) |
| Other current/non-current liabilities included in working capital | 223,618 | 192,350 | 26,847 | 4,421 |
| **Working capital requirements before current provisions** | **70,644** | **69,414** | **2,123** | **(893)** |
| Current provisions | 94,045 | 90,383 | 2,532 | 1,130 |
| **Working capital requirements** | **164,689** | **159,797** | **4,655** | **237** |

* resulting mainly from changes in consolidation scope and foreign currency translation differences

## 6.18. Shareholders' equity

### Financial capital management policy

The Group implements a stringent, prudent financial capital management policy to ensure satisfactory returns for shareholders.
There are no financial covenants involving the Group's consolidated equity or the equity of the parent company.

### Share capital

Share capital at December 31, 2012 was divided into 2,185,612 shares with a par value of €47. The shares were fully paid either in cash or in kind. Share capital amounted to €102,723,764.

### Shareholding structure

The majority shareholder of Fives is FL Investco, which held 99.99% of Fives' share capital at December 31, 2012, and also at December 31, 2011. FL Investco is controlled by Novafives.

## 6.19. Earnings per share

| | 2012 | 2011 |
|---|---|---|
| Profit attributable to owners of the Group | 50,811 | 40,419 |
| Weighted average number of shares | 2,185,612 | 2,185,612 |
| **Earnings per share (in euros)** | **23.25** | **18.49** |

There are no dilutive instruments.

## 6.20. Current and non-current provisions

| | Dec. 31, 2011 | Allowance | Utilization | Unutilized reversals | Translation differences | Other | Dec. 31, 2012 |
|---|---|---|---|---|---|---|---|
| Warranties | 45,848 | 34,316 | (10,165) | (21,852) | (657) | 2,345 | 49,835 |
| Contract litigation | 13,886 | 1,938 | (543) | (2,524) | 7 | (1,265) | 11,499 |
| Future losses on contracts | 945 | 3,973 | (4,003) | (99) | | 817 | 1,633 |
| Completed contract expenses | 22,518 | 16,879 | (12,504) | (4,499) | (71) | 359 | 22,682 |
| Other contingency and expense provisions | 7,186 | 5,402 | (2,980) | (809) | (197) | (206) | 8,396 |
| **Total current provisions** | **90,383** | **62,508** | **(30,195)** | **(29,781)** | **(918)** | **2,050** | **94,045** |
| Retirement benefits | 41,897 | 4,646 | (4,569) | | 337 | 6,694 | 49,005 |
| Other post-employment benefits | 491 | 168 | (327) | (60) | (63) | 3,210 | 3,419 |
| Restructuring | 753 | 379 | (154) | (64) | | | 914 |
| Other litigation | 285 | | (273) | (12) | | | |
| **Total non-current provisions** | **43,426** | **5,193** | **(5,323)** | **(136)** | **274** | **9,904** | **53,338** |

### Current provisions

Current provisions mainly comprise provisions for warranties, future losses on contracts excluding construction contracts, and litigation concerning completed contracts.

Provisions for warranties cover the estimated future costs to be incurred over contract warranty periods, after provisional acceptance (or an equivalent event).

Known litigation and claims that could affect the Group's companies were examined at the reporting date and, on the advice of legal counsel, the provisions judged necessary were recognized to cover known risks.

### Non-current provisions

Non-current provisions mainly comprise provisions for restructuring, provisions for employee benefits and provisions for litigation other than litigation relating to contracts.

The provision for retirement obligations reflects the Group's defined benefit plans currently in place, which include:

- french retirement benefits;
- british, German, Japanese, Indian and French supplementary retirement plans; the British (except for Cinetic Landis Ltd.), German and French pension funds have been closed to further accrual and the vested rights thereunder were frozen as of the respective closure dates.

### Actuarial assumptions

| Dec. 31, 2012 | France | United Kingdom | Japan | Germany | India |
|---|---|---|---|---|---|
| Discount rate | 2.9% | 4.1% | 0.3% | 2.9% | 8.35% |
| Expected return on plan assets | N/A | 5.34 - 6.93% | N/A | N/A | 9.15% |
| Salary increase rate | 2.0 - 2.5% | N/A | 2% | N/A | 5 - 6.25% |
| **Dec. 31, 2011** | **France** | **United Kingdom** | **Japan** | **Germany** | **India** |
| Discount rate | 4.18% | 4.6 - 4.7% | 2% | 4.66% | 8.60% |
| Expected return on plan assets | N/A | 5.25 - 6.89% | 2.5 % | N/A | N/A |
| Salary increase rate | 2.0 - 2.5% | N/A | 3% | N/A | 5% |

The present value of defined benefit obligations amounted to €92,442 thousand at December 31, 2012. Given the fair value of all plan assets, the net liability at December 31, 2012 totaled €51,727 thousand.

Income or expense recognized for the financial year reflects the current service cost, the interest cost of the obligation less the expected return on plan assets, the amortization of past service costs, and gains or losses on plan curtailments or settlements. In total, expenses and changes in provisions for retirement benefit obligations resulted in a net expense of €4,646 thousand for the financial year, of which an expense of €3,552 thousand was recognized in profit from recurring operations, and €1,094 thousand was recognized in financial expense.

Net actuarial gains and losses recognized directly in equity for the year amounted to €9,015 thousand, excluding tax.

Other post-employment benefit obligations included Italian contractual retirement benefits (TFR), French long-service awards and benefits granted to employees of a Japanese company.

| | Retirement benefits | | Supplementary retirement obligations | | | | |
|---|---|---|---|---|---|---|---|
| | France | Italy | United Kingdom | Eurozone | Japan | India | Total |
| **Change in present value of obligation** | | | | | | | |
| Present value of obligation at January 1 | 18,110 | 2,529 | 56,961 | 2,818 | 876 | 134 | 81,428 |
| Current service cost | 1,129 | | 2,326 | 17 | 86 | 44 | 3,602 |
| Interest cost | 763 | | 2,717 | 122 | | 25 | 3,627 |
| Employee contributions paid | | | 819 | | | | 819 |
| Plan curtailments / settlements | (186) | | | | | (16) | (202) |
| Newly consolidated | 128 | | | (1) | | 236 | 363 |
| Benefits paid | (1,358) | | (4,067) | (235) | | (17) | (5,677) |
| Actuarial (gain) loss | 3,798 | | 6,273 | 492 | (99) | 49 | 10,513 |
| Foreign exchange gains and losses | | (2,529) | 633 | | (102) | (33) | (2,031) |
| **Present value of obligation at Dec. 31,2012** | **22,384** | | **65,662** | **3,213** | **761** | **422** | **92,442** |
| **Change in fair value of plan assets** | | | | | | | |
| Fair value of plan assets at January 1 | | | 36,588 | | | 68 | 36,656 |
| Net return on plan assets | | | 4,014 | | | 17 | 4,031 |
| Employer contributions paid | | | 3,213 | | | 31 | 3,244 |
| Employee contributions paid | | | 819 | | | | 819 |
| Plan curtailments / settlements | | | | | | | |
| Newly consolidated | | | | | | 151 | 151 |
| Benefits paid | | | (4,352) | | | | (4,352) |
| Foreign exchange gains and losses | | | 180 | | | (14) | 166 |
| **Fair value of plan assets at Dec. 31, 2012** | | | **40,462** | | | **253** | **40,715** |
| **Components of amounts recognized in the financial statements** | | | | | | | |
| Net obligation (obligation less plan assets) | 22,384 | | 25,200 | 3,213 | 761 | 170 | 51,727 |
| Unrecognized past service costs | (2,723) | | | | | | (2,723) |
| **Net provision recognized in the balance sheet at Dec. 31, 2012** | **19,661** | | **25,200** | **3,213** | **761** | **170** | **49,005** |
| **Components of net expense recognized for financial year 2012** | | | | | | | |
| Current service cost | 1,129 | | 2,326 | 17 | 86 | 44 | 3,602 |
| Interest cost | 763 | | 2,717 | 122 | | 25 | 3,627 |
| Expected return on plan assets | | | (2,516) | | | (17) | (2,533) |
| Amortization of past service costs | 152 | | | | | | 152 |
| (Gains) losses related to plan curtailments/settlements | (186) | | | | | (16) | (202) |
| **Net expense recognized in the income statement for financial year 2012** | **1,858** | | **2,527** | **139** | **86** | **36** | **4,646** |
| **Change in provisions for retirement and other benefits** | | | | | | | |
| Provisions recognized in the balance sheet at January 1 | 15,235 | 2,529 | 20,374 | 2,818 | 876 | 65 | 41,897 |
| Employer contributions paid | | | (3,213) | | | (31) | (3,244) |
| Net expense recognized | 1,858 | | 2,527 | 139 | 86 | 36 | 4,646 |
| Benefits paid directly by the employer | (1,358) | | 285 | (235) | | (17) | (1,325) |
| Newly consolidated | 128 | | | (1) | | 85 | 212 |
| Net actuarial (gains) and losses | 3,798 | | 4,775 | 492 | (99) | 49 | 9,015 |
| Foreign exchange gains and losses | | (2,529) | 452 | | (102) | (17) | (2,197) |
| **Provisions recognized in the balance sheet at Dec. 31, 2012** | **19,661** | | **25,200** | **3,213** | **761** | **170** | **49,005** |

In 2011, the breakdown of the change was as follows:

| | Retirement benefits | | Supplementary retirement obligations | | | | |
|---|---|---|---|---|---|---|---|
| | France | Italy | United Kingdom | Germany | Japan | India | Total |
| **Change in present value of obligation** | | | | | | | |
| Present value of obligation at January 1 | 16,878 | 2,668 | 49,363 | 3,006 | 6,057 | 154 | 78,126 |
| Current service cost | 998 | | 1,851 | 59 | 92 | 19 | 3,019 |
| Interest cost | 771 | 77 | 2,737 | 130 | 27 | 8 | 3,750 |
| Employee contributions paid | | | 637 | | | | 637 |
| Plan curtailments / settlements | | | | | (3,420) | | (3,420) |
| Newly consolidated | | | | | | (21) | (21) |
| Benefits paid | (1,246) | (216) | (856) | (367) | (1,336) | (56) | (4,077) |
| Actuarial (gain) loss | 709 | | 2,056 | (10) | (2) | 50 | 2,803 |
| Foreign exchange gains and losses | | | 1,173 | | (542) | (20) | 611 |
| **Present value of obligation at Dec. 31, 2011** | **18,110** | **2,529** | **56,961** | **2,818** | **876** | **134** | **81,428** |
| **Change in fair value of plan assets** | | | | | | | |
| Fair value of plan assets at January 1 | | | 35,249 | | 2,452 | 64 | 37,765 |
| Net return on plan assets | | | (1,326) | | (10) | 6 | (1,330) |
| Employer contributions paid | | | 2,360 | | | 15 | 2,375 |
| Employee contributions paid | | | 637 | | | | 637 |
| Plan curtailments / settlements | | | | | (1,055) | | (1,055) |
| Newly consolidated | | | | | | | |
| Benefits paid | | | (856) | | (1,336) | (23) | (2,215) |
| Foreign exchange gains and losses | | | 524 | | (51) | 6 | 479 |
| **Fair value of plan assets at Dec. 31, 2011** | | | **36,588** | | | **68** | **36,656** |
| **Components of amounts recognized in the financial statements** | | | | | | | |
| Net obligation | 18,110 | 2,529 | 20,374 | 2,818 | 876 | 65 | 44,772 |
| Unrecognized past service costs | (2,875) | | | | | | (2,875) |
| **Net provision recognized in the balance sheet at Dec .31, 2011** | **15,235** | **2,529** | **20,374** | **2,818** | **876** | **65** | **41,897** |
| **Components of net expense recognized for financial year 2011** | | | | | | | |
| Current service cost | 998 | | 1,851 | 59 | 92 | 19 | 3,019 |
| Interest cost | 771 | 77 | 2,737 | 130 | 27 | 8 | 3,750 |
| Expected return on plan assets | | | (2,628) | | (16) | (6) | (2,650) |
| Amortization of past service costs | 152 | | | | | | 152 |
| (Gains) losses related to plan curtailments/settlements | | | | | (2,365) | | (2,365) |
| **Net expense (income) recognized in the income statement for financial year 2011** | **1,921** | **77** | **1,960** | **189** | **(2,262)** | **21** | **1,906** |
| **Change in provisions for retirement and other benefits** | | | | | | | |
| Provisions recognized in the balance sheet at January 1 | 13,851 | 2,668 | 14,114 | 3,006 | 3,604 | 90 | 37,333 |
| Employer contributions paid | | | (2,360) | | | (15) | (2,375) |
| Net expense (income) recognized | 1,921 | 77 | 1,960 | 189 | (2,262) | 21 | 1,906 |
| Benefits paid directly by the employer | (1,246) | (216) | | (367) | | (33) | (1,862) |
| Newly consolidated | | | | | | | |
| Net actuarial (gains) and losses | 709 | | 6,011 | (10) | 24 | 50 | 6,784 |
| Foreign exchange gains and losses | | | 649 | | (490) | (48) | 111 |
| **Provisions recognized in the balance sheet at Dec. 31, 2011** | **15,235** | **2,529** | **20,374** | **2,818** | **876** | **65** | **41,897** |

### Plan assets investment types

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| Shares | | | | |
| Bonds and other debt securities | 24,422 | 59.98% | 19,601 | 53.47% |
| Real estate investments | 1,150 | 2.83% | 2,517 | 6.87% |
| Money market investments | 4,409 | 10.83% | 4,761 | 12.99% |
| Diversified funds | 1,200 | 2.95% | 2,251 | 6.14% |
| Fair value of invested plan assets | 9,534 | 23.42% | 7,527 | 20.53% |
| **Fair value of invested plan assets** | **40,715** | **100.00%** | **36,657** | **100.00%** |

### Present value of obligation

| | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Present value of obligation | | |
| Fair value of invested plan assets | 92,442 | 81,428 |
| Present value of obligation | (40,716) | (36,656) |
| **Present value of obligation** | **51,726** | **44,772** |

### Sensitivity analysis

The present value of post-employment benefits is sensitive to discount rates. The following table presents the impact of a 25 basis point decrease in discount rates on the obligation's present value:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | In thousands of euros | DBO as a% | In thousands of euros | DBO as a% |
| France | 653 | 2.91% | 447 | 2.00% |
| United Kingdom | 3,392 | 5.17% | 3,044 | 4.64% |
| Eurozone | 78 | 2.42% | 105 | 3.27% |
| Japan | 5 | 0.66% | 33 | 4.34% |
| India | 6 | 1.42% | 3 | 0.71% |

## 6.21. Current and non-current financial liabilities

| | Dec. 31, 2012 | | | Dec. 31, 2011 | | |
|---|---|---|---|---|---|---|
| | Non-current | Current | Total | Non-current | Current | Total |
| Bank loans | | | | 29,744 | 24,556 | 54,300 |
| Finance leases | 5,775 | 633 | 6,408 | 6,392 | 770 | 7,162 |
| Other financial liabilities | 25,209 | 51,930 | 77,139 | 5,262 | 13,232 | 18,494 |
| Accrued interest | | 299 | 299 | | 273 | 273 |
| Derivative instruments, liabilities | | 2,824 | 2,824 | | 5,341 | 5,341 |
| Bank overdrafts | | 1,286 | 1,286 | | 1,120 | 1,120 |
| **Total financial liabilities** | **30,984** | **56,972** | **87,956** | **41,398** | **45,292** | **86,690** |

**Breakdown of fixed and floating rate loans and borrowings (before hedging)**

| | Dec. 31, 2012 | | | Dec. 31, 2011 | | |
|---|---|---|---|---|---|---|
| | Fixed rate | Floating rate | Total | Fixed rate | Floating rate | Total |
| Bank loans | | | | 8 | 54,292 | 54,300 |
| Finance leases | | 6,408 | 6,408 | | 7,162 | 7,162 |
| Other financial liabilities | 46,950 | 30,189 | 77,139 | 17,955 | 539 | 18,494 |
| Accrued interest | 299 | | 299 | 273 | | 273 |
| **Total loans and borrowings** | **47,249** | **36,597** | **83,846** | **18,236** | **61,993** | **80,229** |

At December 31, 2011, bank loans consisted mainly of the loan for the acquisition of the North American sub-group in 2008 and loans to Fives Cinetic from the bank syndicate led by the Royal Bank of Scotland (RBS). The loan was repaid on October 17, 2012. A loan contracted from FL Investco replaced the external loan.

Other fixed rate financial liabilities include a loan from the parent company, FL Investco (€42 million), and a USD credit facility from the sellers of Bronx International Inc. ($4 million) at December 31, 2012.

Other floating rate financial liabilities include the loan from FL Investco (€29.7 million) to refinance the repayment of the loans contracted by Fives and Fives Cinetic from RBS.

## 6.22. Other current and non-current liabilities

**Other non-current liabilities**

| | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Other liabilities | 1,369 | 426 |
| Prepaid income | 669 | 905 |
| **Total** | **2,038** | **1,331** |

**Other current liabilities**

| | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Tax and social security payables | 95,398 | 88,031 |
| Amounts due on acquisitions of fixed assets | 1,524 | 3,498 |
| Advances received on contracts | 87,028 | 66,054 |
| Other liabilities | 30,006 | 30,980 |
| Prepaid income | 9,149 | 5,955 |
| **Total** | **223,105** | **194,518** |

## 6.23. Leases

### Finance leases

Property, plant and equipment held under finance leases comprised the following:

| | Dec. 31, 2012 | | | Dec. 31, 2011 | | |
|---|---|---|---|---|---|---|
| | Gross | Accumulated depreciation/ impairment | Net | Gloss | Accumulated depreciation/ Impairment | Net |
| Leasehold land | 1,260 | | 1,260 | 1,260 | | 1,260 |
| Leasehold buildings | 9,647 | (3,176) | 6,471 | 9,647 | (2,767) | 6,880 |
| Leasehold plant, equipment and machinery | 668 | (466) | 202 | 668 | (395) | 273 |
| **Total location-financement** | **11,575** | **(3,642)** | **7,933** | **11,575** | **(3,162)** | **8,413** |

The schedule of future minimum finance lease payments is the following:

| | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Less than one year | 678 | 770 |
| Between one and five years | 3,944 | 4,330 |
| More than five years | 1,786 | 2,062 |
| **Value of future minimum lease payments** | **6,408** | **7,162** |

### Operating leases

The schedule of future minimum operating lease payments is the following:

| | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Less than one year | 9,322 | 8,578 |
| Between one and five years | 19,444 | 16,391 |
| More than five years | 2,778 | 3,142 |
| **Value of future minimum lease payments** | **31,544** | **28,111** |

## 6.24. Financial risk management

Financial risk is managed in accordance with the risk management policy established by the Group's Management Board. Each operating entity is responsible for identifying, assessing and hedging its exposure to financial risk, in compliance with Group policies.

To manage its exposure to market risk, the Group uses derivative financial instruments, which are recognized in the balance sheet at their fair value.

The fair value of derivative financial instruments recognized at December 31, 2012 comprised the following:

| | Dec. 31, 2012 | | Dec. 31, 2011 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| **Interest rate derivative instruments** | | | | |
| Cash flow hedging derivative instruments | | 70 | 32 | 31 |
| Derivative instruments not eligible for hedge accounting | | | | 305 |
| **Foreign exchange derivative instruments** | | | | |
| Fair value hedging derivative instruments | 2,161 | 2,754 | 4,126 | 4,592 |
| Derivative instruments not eligible for hedge accounting | | | 56 | 413 |

### Interest rate risk

At December 31, 2012, the Group's bank loans bearing interest at floating rates, representing the majority of its net debt, had been repaid.

The remaining outstanding floating rate debt is the loan from FLI contracted in October 2012 to refinance the loans contracted by Fives and Fives Cinetic from RBS. The interest rate risk on these loans is offset by the yield on cash invested at floating rates.

### Foreign exchange (currency) risk

**Loans and borrowings denominated in foreign currencies**

Loans and borrowings are mainly issued in the functional currency of each company. There is no material foreign exchange risk related to the foreign currency-denominated loans.

Moreover, the Group financed the acquisition of the North American companies in euros, its reporting currency. The associated payments have been refinanced by long-term loans denominated in USD contracted by the operating companies acquired.

The Group uses derivative instruments to hedge the majority of the EUR/USD exchange risk generated by forecast cash flows relating to these loans for the financial year. The remaining nominal amount exposed to exchange rate risk, which was translated at the EUR/USD exchange rate effective at the reporting date for the purposes of the financial statements, amounted to $119.1 million net of hedges at December 31, 2012.

In December 2012, the Group restructured its activities in the United Kingdom, particularly by reclassifying its operating assets under the holding company, Fives UK. Fives UK contracted a loan from Fives for £66.8 million to purchase these assets.

**Exchange rate risk on operating profit**

The Group is mainly exposed to exchange rate risk on its net sales positions arising from export contracts denominated in currencies other than the functional currency of the contracting companies.

The main currency pairs subject to exchange rate risk are EUR/USD, GBP/EUR, GBP/USD and USD/CAD.

The Group uses natural hedges to limit its exposure to exchange rate risk on operating profit by purchasing in the currency or currencies used for sales, on a contract by contract basis.

The net residual exchange rate risk is hedged when the risks arise mainly through currency futures and/or by entering into insurance contracts with the French export credit insurance company (Compagnie française d'assurance pour le commerce extérieur – COFACE) for its French subsidiaries.

**Analysis of exchange rate risk sensitivity**

This analysis excludes the effects of translating the financial statements of Group entities into the reporting currency (euros).

The nominal value of the acquisition loans denominated in USD, after hedging, amounted to $119.1 million at December 31, 2012, which corresponds to €90.3 million after translation using the exchange rate effective at the reporting date. Total exposure in terms of principal and annual interest, net of hedges amounted to $123.2 million in 2013, which corresponds to €93.4 million after translation using the exchange rate effective at December 31, 2012.

***Exposure at December 31, 2012 of USD and GBP loans, estimated nominal amount and interest for 2013***

An increase of 10 basis points in the EUR/USD and/or EUR/GBP exchange rates would have the following impact on profit for 2013:

| | ER-10bp | ER | ER+10bp |
|---|---|---|---|
| **USD loans** | | | |
| Exchange rate at Dec. 31 | 1.2194 | 1.3194 | 1.4194 |
| Net debt after hedging | 101,057 | 93,398 | 86,818 |
| **Effect on profit for 2013** | **7,658** | | **(6,580)** |
| **GBP loans** | | | |
| Exchange rate at Dec. 31 | 0.7161 | 0.8161 | 0.9161 |
| Net debt after hedging | 95,486 | 83,785 | 74,639 |
| **Effect on profit for 2013** | **11,700** | | **(9,146)** |
| **Total effect on profit for 2013** | **19,358** | | **(15,726)** |

***Estimated exposure at December 31, 2012 of USD and GBP loan cash flows for 2013***

Expected cash flows relating to these loans for 2013 (semi-annual interest payments and repayment of principal) net of hedges amounted to £4.4 million and $10.9 million respectively, or €13.7 million after translation using the exchange rate effective at December 31, 2012. A 10 basis point increase or decrease in the EUR/USD and EUR/GBP exchange rates would have the following impact on cash flows for the year:

| | ER-10bp | ER | ER+10bp |
|---|---|---|---|
| **USD loans** | | | |
| Exchange rate at Dec. 31 | 1.2194 | 1.3194 | 1.4194 |
| 2013 cash flows after hedging | 8,955 | 8,276 | 7,693 |
| **Effect on 2013 profit impacting cash flows** | **679** | | **(583)** |
| **GBP loans** | | | |
| Exchange rate at Dec. 31 | 0.7161 | 0.8161 | 0.9161 |
| 2013 cash flows after hedging | 6,179 | 5,422 | 4,830 |
| **Effect on 2013 profit impacting cash flows** | **757** | | **(592)** |
| **Total effect on 2013 profit impacting cash flows** | **1,436** | | **(1,175)** |

Foreign exchange risk on sales contracts is usually hedged by financial instruments that are eligible for fair value hedge accounting. The hedged items relating to such contracts are measured at the hedge coverage rates.

Companies regularly measure the effectiveness of foreign exchange (currency) hedges in relation to changes in the underlying.

### Liquidity Risk

Fives closely monitors liquidity risk for the Group and each of its subsidiaries by the regular implementation of Group financial reporting procedures.

The following analysis concerns the contractual obligations relating to loans and borrowings in terms of interest payable and Group commitments arising from the interest rate derivatives recognized under balance sheet assets and liabilities.

Expected future cash flows are calculated on the basis of the remaining contractual maturities of the associated financial liabilities.

The future cash flows reported have not been discounted.

| | Carrying amount | < 1 year | Between 1 and 2 years | Between 2 and 3 years | Between 3 and 4 years | Between 4 and 5 years | > 5 years |
|---|---|---|---|---|---|---|---|
| **Non-derivative financial instruments** | | | | | | | |
| Bank loans | | | | | | | |
| Other loans and borrowings | 77,139 | 51,930 | 6,180 | 6,408 | 6,353 | 6,268 | |
| Finance leases | 6,408 | 633 | 701 | 705 | 2,306 | 276 | 1,787 |
| **Total non-current loans and borrowings** | **83,547** | **52,563** | **6,881** | **7,113** | **8,659** | **6,544** | **1,787** |
| **Interest on non-current loans and borrowings** | | 1,095 | 843 | 627 | 412 | 216 | |

Based on data available at the reporting date, future cash flows are not expected to occur earlier or the amounts to differ significantly from those indicated in the maturity schedule.

This analysis excludes non-derivative financial assets recognized in the balance sheet, such as cash and cash equivalents and trade receivables, which amounted to €266.8 million and €334.9 million respectively at December 31, 2012.

### Credit risk

Credit risk is the risk that one party to a financial liability will cause a loss for the other party by defaulting on its obligations. The Group is exposed to credit risk in its operating activities (mainly trade receivables) and financing activities due to the deposits, foreign exchange hedges and other financial instruments contracted with banks and financial institutions.

#### Risks relating to trade receivables

The Group believes that there is limited risk that counterparty default could significantly affect its financial position and profit. Its counterparties generally have high credit ratings and sufficient financial capacity to meet their contractual obligations.

In certain circumstances the Group uses insurance to cover up to 90% of counterparty risk on contracts.

#### Risks relating to other financial assets

The Group uses derivatives solely to reduce its overall exposure to the foreign exchange risk and interest rate risk arising from its ordinary business activities. Derivative transactions are only entered into on organized markets or over-the-counter markets with leading operators.

#### Risks relating to cash and cash equivalents

At December 31, 2012 and December 31, 2011 all cash and cash equivalents were invested through the top-ranking commercial banks that finance the Group's activities.

## 6.25. Value of financial assets and liabilities, by category

The methods used to measure financial assets and liabilities are described in the accounting policies. The Group did not identify any differences between the carrying amount and market value of the balance sheet items, for all categories and levels of fair value.

The Group distinguishes three categories of financial instruments based on two fair value measurement methods (quoted prices and other valuation techniques):

- level 1: financial instruments with quoted prices traded in active markets;
- level 2: financial instruments the fair value of which is determined based on valuation techniques using observable inputs;
- level 3: financial instruments the fair value of which is determined using a valuation technique that is not based on or only partially based on observable market data (input based on assumptions and not on observable prices or other market data).

Available-for-sale financial assets and money market funds are classified as level one financial instruments and exchange rate and interest rate derivative instruments are classified as level two.

## 6.26. Off-balance sheet commitments

### Guarantees and sureties

| | Dec. 31, 2012 | Dec. 31, 2011 |
|---|---|---|
| Commitments given | 245,685 | 319,745 |
| Commitments received | 58,259 | 110,033 |

The guarantees and sureties reported above refer to commitments given or received to finance contracts in progress, and performance bonds..

### Pledges

All pledges to lending banks represented by the Royal Bank of Scotland expired on October 17, 2012, as the debt owed to the bank syndicate had been repaid.

## 6.27. Related parties

Related parties mainly comprise:

- Fives shareholders;
- associates;
- unconsolidated entities.

There were no material transactions with related parties other than those described herein.

### Remuneration of the executive officers

In 2012, the aggregate direct and indirect remuneration paid by Fives and its subsidiaries to the eleven members of the Group’s Executive Committee amounted to €4,602 thousand.

None of the members of the Executive Committee have defined benefit retirement plans set up by the Group’s entities.

## 6.28. Auditors' fees

Total fees charged by the statutory auditors of Fives and its subsidiaries for financial years 2012 and 2011, as presented in the consolidated financial statements, amounted to:

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | Statutory audit | Other work | Total | Statutory audit | Other work | Total |
| Deloitte | 478 | 132 | 610 | 475 | 112 | 587 |
| Ernst & Young | 687 | 31 | 718 | 638 | 289 | 927 |
| Grant Thornton | 329 | 54 | 382 | 282 | 214 | 497 |
| **Total** | **1,494** | **217** | **1,710** | **1,395** | **615** | **2,010** |

## 6.29. Subsequent events

No events occurred between the reporting date and the approval date that could have a significant impact on the consolidated financial statements for financial year 2012.

## 6.30. Consolidated companies at December 31, 2012

| Consolidated companies | Location | Consolidation method | Percentage of controlling interest | Percentage of ownership interest |
|---|---|---|---|---|
| Fives* | Paris, France | FC | 100.00 | 100.00 |
| Fives UK Holding Ltd. | United Kingdom | FC | 100.00 | 100.00 |
| Fives Engineering (Shanghai) Co., Ltd. | China | FC | 100.00 | 99.99 |
| **AUTOMOTIVE/LOGISTICS** | | | | |
| Fives Cinetic * | Paris, France | FC | 99.99 | 99.99 |
| Cinetic Assembly * | Montévrain, France | FC | 99.99 | 99.99 |
| Cinetic Automation * | Héricourt, France | FC | 99.96 | 99.96 |
| Cinetic Automation Corp. | United States | FC | 100.00 | 99.99 |
| Cinetic Decker Filling K.K. | Japan | FC | 100.00 | 99.99 |
| Cinetic DyAG Corp. | United States | FC | 100.00 | 99.99 |
| Cinetic Filling * | Le Bignon, France | FC | 99.99 | 99.99 |
| Cinetic Giustina S.r.l. | Italy | FC | 100.00 | 99.99 |
| Cinetic Landis Corp. | United States | FC | 100.00 | 99.99 |
| Cinetic Landis Ltd. | United Kingdom | FC | 100.00 | 99.99 |
| Cinetic Machining * | Saint-Laurent-les-Tours, France | FC | 99.99 | 99.99 |
| Cinetic Service * | Montévrain, France | FC | 100.00 | 99.99 |
| Cinetic Conveying Iberica | Spain | FC | 100.00 | 99.99 |
| Cinetic Service Slovakia s.r.o. | Slovakia | FC | 100.00 | 99.99 |
| Cinetic Sorting Corp. | United States | FC | 100.00 | 99.99 |
| Cinetic Sorting K.K. | Japan | FC | 100.00 | 99.99 |
| Cinetic Sorting S.p.a. | Italy | FC | 100.00 | 99.99 |
| Cinetic Transitique * | Grigny, France | FC | 99.98 | 99.98 |
| Fives Cinetic S.r.l. | Italy | FC | 100.00 | 99.99 |
| Fives Inc. | United States | FC | 100.00 | 99.99 |
| **CEMENT** | | | | |
| Fives FCB * | Villeneuve-d'Ascq, France | FC | 99.99 | 99.99 |
| Fives FCB Services Mexico S.A. de C.V. | Mexico | FC | 99.90 | 99.90 |
| Cement Process Technologies Egypt | Egypt | FC | 99.00 | 99.00 |
| Fives Pillard | Marseille, France | FC | 85.18 | 85.18 |
| Fives Pillard España S.A. | Spain | FC | 67.00 | 57.07 |
| Fives Pillard (Tianjin) International Trading Co., Ltd. | China | FC | 100.00 | 85.18 |
| Pillard Feuerungen GmbH | Germany | FC | 47.50 | 40.46 |
| Fives Combustion Systems Pvt. Ltd. | India | FC | 100.00 | 100.00 |
| **ENERGY** | | | | |
| Fives Cail * | Villeneuve-d'Ascq, France | FC | 99.99 | 99.99 |
| Fives Cail KCP Ltd. | India | EM | 50.00 | 40.00 |
| Fives Fletcher Ltd. | United Kingdom | FC | 100.00 | 99.99 |
| Fives Lille do Brasil Ltda. | Brazil | FC | 100.00 | 99.99 |
| Fletcher Smith Inc. | United States | FC | 100.00 | 99.99 |
| Fives North American Combustion France, SAS * | Marseille, France | FC | 100.00 | 100.00 |
| Fives North American Combustion Netherlands B.V. | Netherlands | FC | 100.00 | 100.00 |
| Fives North American Combustion Spain, S.L. | Spain | FC | 100.00 | 100.00 |
| Fives North American Combustion UK, Ltd. | United Kingdom | FC | 100.00 | 100.00 |

| Consolidated companies | Location | Consolidation method | Percentage of controlling interest | Percentage of ownership interest |
|---|---|---|---|---|
| Fives North American Combustion, Inc. | United States | FC | 100.00 | 99.99 |
| Fives North American Combustion Canada, Inc. | Canada | FC | 100.00 | 99.99 |
| North American Construction Services, Ltd. | United States | FC | 100.00 | 99.99 |
| Fives Cryo * | Golbey, France | FC | 99.80 | 99.80 |
| Fives Cryo (Suzhou) Co., Ltd. | China | FC | 100.00 | 99.80 |
| Fives Cryomec A.G. | Switzerland | FC | 100.00 | 99.80 |
| Fives Nordon * | Nancy, France | FC | 99.99 | 99.99 |
| **METALS** | | | | |
| F.L. Métal * | Seclin, France | FC | 99.99 | 99.99 |
| Fives DMS * | Seclin, France | FC | 99.99 | 99.99 |
| Fives Industries * | Seclin, France | FC | 99.99 | 99.99 |
| F.L. Industries Inc. | United States | FC | 100.00 | 99.99 |
| Fives Bronx, Inc. | United States | FC | 100.00 | 99.99 |
| Fives Bronx Ltd. | United Kingdom | FC | 100.00 | 99.99 |
| Fives Stein * | Maisons-Alfort, France | FC | 99.99 | 99.99 |
| Fives Celes * | Lautenbach, France | FC | 99.99 | 99.99 |
| Fives Stein Belgium | Belgium | FC | 100.00 | 99.99 |
| Fives Stein Bilbao S.A. | Spain | FC | 100.00 | 99.99 |
| Fives Stein Inc. | United States | FC | 100.00 | 99.99 |
| Fives Stein India Projects Private Ltd. | India | FC | 100.00 | 99.99 |
| Fives Stein (Shanghai) Industrial Furnace Co., Ltd. | China | FC | 100.00 | 99.99 |
| Fives Stein Ltd. | United Kingdom | FC | 100.00 | 99.99 |
| Fives Stein Manufacturing * | Bar-Le-Duc, France | FC | 100.00 | 99.99 |
| Stein Heurtey Australia PTY Ltd. | Australia | FC | 100.00 | 99.99 |
| Solios Environnement * | Saint-Germain-en-Laye, France | FC | 99.99 | 99.99 |
| FI 2006 * | Paris, France | FC | 100.00 | 100.00 |
| Fives India Engineering & Projects Pvt. Ltd. | India | FC | 100.00 | 100.00 |
| PSA 2000 * | Saint-Germain-en-Laye, France | FC | 100.00 | 99.99 |
| PSA 2000 Saudi Arabia Ltd. | Saudi Arabia | FC | 100.00 | 99.99 |
| Solios Services Gulf SPC | Bahrain | FC | 100.00 | 99.99 |
| Solios Carbone * | Givors, France | FC | 99.99 | 99.99 |
| Solios Environment Corp. | United States | FC | 100.00 | 99.99 |
| Solios Environnement Inc. | Canada | FC | 100.00 | 99.99 |
| Solios Services Southern Africa (Proprietary) Ltd. | South Africa | FC | 100.00 | 99.99 |
| Solios Chemical * | Mulhouse, France | FC | 99.99 | 99.99 |
| Solios Thermal Ltd. | United Kingdom | FC | 100.00 | 100.00 |

* Companies included in the tax group of FL Investco

FC: fully consolidated

EM: equity method

# Statutory Auditors' Report Consolidated financial statements

## Year Ended December 31, 2012

ERNST & YOUNG ET AUTRES
1-2 place des Saisons - 92400 Courbevoie - Paris-La Défense 1
S.A.S. à capital variable
Statutory Auditors
Member of the Compagnie Régional de Versailles

DELOITTE & ASSOCIÉS
185 avenue Charles-de-Gaulle - 92524 Neuilly-sur-Seine Cedex
S.A. au capital de 1 723 040 €
Statutory Auditors
Member of the Compagnie Régional de Versailles

To the Shareholders,

In compliance with the appointment entrusted to us by your annual general meeting, we hereby report to you, for the year ended 31 December 2012, on:

- the audit of the accompanying consolidated financial statements of FIVES, as attached to this report;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Executive Board. Our role is to express an opinion on these consolidated financial statements based on our audit.

## I. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, using sampling techniques or other methods of selection, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at 31 December 2012 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Without further question, we draw your attention to the note 4 of the financial statements which describes the change of presentation reflected in the balance sheets relating to construction contracts.

## II. Justification of our assessments

In accordance with the requirements of article L.823-9 of the French Commercial Code (Code de commerce) relating to the justification of our assessments, we bring to your attention the following matters:

- Goodwill is tested using the method described in the notes 2.6, 2.15 and 6.8 to the consolidated financial statements. We have examined the implementation of this impairment test, the estimation of the future cash flows and the assumptions made, and we have ensured that notes 2.6, 2.15 and 6.8 to the consolidated financial statements provide adequate information in this regard.

- Income or losses on construction contracts and long-term service contracts are recognized using to the percentage of completion method, based on the estimated costs at completion that are reviewed periodically and regularly throughout the life of the contract following to the principles detailed in notes 2.6 and 2.17 to the consolidated financial statements. These estimates are made project by project under the supervision of the companies' general management. Based on the information we received, our work consisted in reviewing the processes set up, assessing the data and assumptions used as a basis for these estimates and comparing the accounting estimates of the previous periods with corresponding actual figures.

- Deferred tax assets are recognized when mid-term forecasts ensure the reasonableness of recoverability as indicated in notes 2.6 and 2.23 to the consolidated financial statements. We have examined the financial forecasts and the assumptions used, and we have ensured that notes 2.6 and 2.23 to the financial statements provide adequate information in this regard.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

## III. Specific verification

As required by law we have also verified, in accordance with professional standards applicable in France, the information presented in the group's management report. We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Neuilly-sur-Seine and Paris-La Défense, March 28, 2013
The Statutory auditors

| | |
|---|---|
| ERNST & YOUNG ET AUTRES | DELOITTE & ASSOCIÉS |
| Marc Stoessel | Pascal Colin |

# Draft resolutions (extract)

# Draft resolutions (extract)

## FIRST RESOLUTION

The General Meeting,

- having heard the reports of the Executive Board and Supervisory Board reports, as well as the Statutory Auditors' general report;
- and after reviewing the company financial statements;

approves the company's financial statements for the year ended December 31, 2012 as presented to the Meeting and the transactions reflected in such financial statements or described in the reports and which show a net profit of €93,606,911.07.

The General Meeting also approves the non tax-deductible expenses and costs amounting to €54,326.

## SECOND RESOLUTION

The General Meeting, acting on a proposal from the Executive Board, resolves to allocate the period's profit of €93,606,911.07 as follow:

| | |
|---|---|
| ■ to the legal reserve | €4,680,345.55 |
| ■ the balance to retained earnings | €88,926,565.52 |
| Total | €93,606,911.07 |

The General Meeting notes that the dividends paid in respect of the previous three years were as follow:

| Year | Number of share | Dividend per share | Total dividend paid |
|---|---|---|---|
| 2009 | 2,185,612 | - | - |
| 2010 | 2,185,612 | - | - |
| 2011 | 2,185,612 | 45.00 (*) | €98,352,540 |

(*) extraordinary dividend decided by the combined general meeting held on December 15, 2011

In addition, it is to be noted that the ordinary general meeting of shareholders held on December 20, 2012 resolved to distribute an extraordinary dividend of €39,996,699.60 or €18.30 per share.

## THIRD RESOLUTION

The General Meeting,

- having heard the reports of the Executive Board and the Supervisory Board as well as the Statutory Auditors' report on the consolidated financial statements for the year ended December 31, 2012;
- and after reviewing the consolidated financial statements;

approves the consolidated financial statements for the year ended December 31, 2012 as presented to the meeting and the transactions reflected in such financial statements or described in the reports, showing net profit, Group share of €50,811.

## FOURTH RESOLUTION

Having heard the Statutory Auditors' special report on regulated agreements governed by Article L. 225-86 of the French commercial code, the General Meeting approves the report and the agreements referred to in the report.

## FIFTH RESOLUTION

On the basis of the preceding resolutions, the General Meeting fully and unreservedly discharges the Members of the Executive Board from their management duties in respect of the financial year ended December 31, 2012, and the members of the Supervisory Board in respect of their appointments and duties.

## SIXTH RESOLUTION

The General Meeting renews the appointment of Dominique Gaillard, member of the Supervisory Board, for a period of six years; that the period ending on completion of the Ordinary Annual General Meeting convened to approve the financial statements for the 2018 financial year.

**Fives**

French limited company (Société Anonyme)
with Executive Board and Supervisory Board
Share capital €102,723,764
Registered office: 27-29 rue de Provence, 75009 Paris (France)
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Edited by the Communication Department of Fives

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