Notes to the separate financial statements of Impregilo S.p.A.

Introduction

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

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

The statement of financial position, income statement and statement of comprehensive income are presented in Euros, whereas the amounts in the statement of cash flows, statement of changes in equity and these notes are shown in thousands of Euros, unless stated otherwise.

Changes in standards

The following accounting standards, amendments and interpretations have been adopted since 1 January 2013.

On the 12 May 2011 the IASB issued IFRS 13 - *Fair value measurement*, which clarifies in one standard how fair value should be determined and its use in the different measurement contexts set out in the IFRS.
The standard was published in the EU Official Journal on 29 December 2012 and is applicable to annual periods beginning on or after 1 January 2013.

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

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

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

retrospectively to annual periods beginning on or after 1 January 2013.

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

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

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

The adoption of the above accounting standards did not have significant effects on the separate financial statements at 31 December 2013.

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

On 29 May 2013 the IASB published an amendment to IAS 36 “Impairment of non-financial assets - Recoverable Amount Disclosures for Non-Financial Assets” to provide guidance on the recoverable amount of assets, when this amount is based on fair value less costs of disposals, for impaired assets. The amendments establish that disclosure of the recoverable amount for assets or cash generating units in only required when an impairment or a reversal of a previous impairment have been recognised. The amendment also provides guidance on the disclosure of the impairment of assets, when the recoverable amount has been determined on the basis of fair value less costs to sell. The amendment is applicable to annual periods beginning on or after 1 January 2014, and will not result in significant changes for the Company.

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

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

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

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

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

- *IFRS 10 - Consolidated financial statements*
  This standard replaces SIC 12 Consolidation - Special purpose entities and certain parts of IAS 27 - Consolidated and separate financial statements. The new standard identifies a single model of control and provides more detailed guidelines on checking its existence. This provision is particularly important for cases that qualify as “de facto control”.

- *IFRS 11 - Joint arrangements*
  This standard replaces IAS 31 - Interests in joint ventures and SIC 13 - Jointly controlled entities - Non-monetary contributions by venturers. It defines the criteria for the identification of joint arrangements and how they should be accounted for based on the rights and obligations arising from the contract, regardless of its legal form. The new standard provides for different recognition depending on whether the transaction is a joint operation or a joint venture. It eliminates the possibility to treat the same types of arrangements differently and, vice versa, defines a single model based on the contractual rights and obligations.

- *IFRS 12 - Disclosure of interests in other entities*
  The standard sets out the disclosures to be provided about any type of interest in other entities, including joint arrangements, associates, special purpose entities and other entities not included in the financial statements. Its aim is to provide information to allow users of financial statements to best understand the nature of risks associated with interests in strategic entities (qualified or not) which the entity intends to hold on to for the medium to long-term.

- *IAS 27 - Separate financial statements*
  The standard defines how investments in subsidiaries, associates and joint ventures should be treated in the separate financial statements. The standard has been amended following the changes introduced by IFRS 10 and IFRS 11.

- *IAS 28 - Investments in associates and joint ventures*
  The standard defines how investments in associates and joint ventures should be treated. The standard has been amended following the changes introduced by IFRS 10 and IFRS 11.

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

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

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

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

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

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

Format and content of the separate financial statements

Format of the consolidated financial statements

Impregilo S.p.A. opted to present its separate financial statements at 31 December 2013 as follows:

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

Accounting policies

The accounting policies adopted to draw up Impregilo S.p.A.'s separate financial statements at 31 December 2013 comply with IFRS/IAS and are consistent with those used to prepare the 2012 separate financial statements, except for the standards coming into force after 1 January 2013, summarised in the section on the "Changes in standards".

Property, plant and equipment

Property, plant and equipment are recognised at purchase or production cost, net of accumulated depreciation and any impairment losses.

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

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

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

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

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

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

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

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

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

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

Dismantlement and restoration costs of assets used for contract work in progress are added to the cost of the related asset and depreciated in line with the depreciation pattern of the asset to which they refer when they are foreseeable and objectively determinable.

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

Leased property, plant and equipment

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

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

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

Other intangible assets

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

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

Equity investments

Investments in subsidiaries and associates and interests in joint ventures are measured at cost and tested regularly for impairment. This test is carried out whenever there is an indication that the investment may be impaired. The method used is described in the section on “Impairment of non-financial assets”. When an impairment loss is required, this is recognised immediately in profit or loss. When the reasons for a previous impairment loss no longer exist, the carrying amount of the investment is restated to the extent of its original cost. Reversals of impairment losses are recognised in profit or loss.

Impairment of non-financial assets

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

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

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

Value in use is determined by discounting to present value the estimated future cash flows expected to

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

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

Inventories of goods

Inventories of goods are measured at the lower of average purchase cost and net realisable value. Cost includes the directly related costs and estimated realisable value is determined using the replacement cost of the assets or similar assets. Any write-downs are eliminated in subsequent years when the reasons therefore are no longer valid.

Contract work in progress and revenue from construction contracts

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

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

Revenue related to contract work in progress is recognised using the stage of completion method. The stage of completion is determined using the cost to cost method whereby the percentage of completion (the ratio between costs incurred and total estimated costs) is applied to the total estimated revenue.

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

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

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

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

- pre-operating costs, which include costs incurred during the start-up stage of the contract, before construction starts, such as the costs of design and specific studies carried out for the contract; organisation and production start-up costs; building site start-up costs. These pre-operating costs are included in the stage of completion calculation and in the cost to cost calculation once they have been incurred. During the initial stage of the contract, they are included in the carrying amount of contract work in progress, if recoverable, without recognising any profit margin when the contract profit or loss cannot be reliably estimated;
- contract operating costs, which include those directly attributable to the contract (e.g., materials, subcontracting, labour, amortisation and depreciation, compulsory purchases, any directly attributable borrowing costs, etc.). They

are recognised on an accruals basis and included in the calculation of the stage of completion;
- post-operating costs, which include site dismantlement costs generally incurred after the contract has been closed to remove the installations (or entire sites) and to return the machinery or plant to the company's premises or transfer them to another site. This category also includes losses on abandoned materials and the cost of transporting unused materials. They are included in the contract estimate and, therefore, if incurred during the contract term, they are comprised in the calculation of the progress billings. Therefore, no specific accruals are made to the income statement;
- costs for services to be rendered after completion of the contract, which mainly relate to services rendered after the contract has been completed. They may include assistance and supervision provided in the early stages of use of the plant or scheduled maintenance. If the contract does not include specific additional considerations for these services and the contract may be "closed" for accounting purposes (contracts are usually closed once work is completed and the client has accepted the end result), the costs to be incurred to render these services when the contract is closed in the accounting records should be estimated and provided for in the specific items. These costs are included in the calculation to determine the contract revenue.

Real estate projects

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

Financial assets and liabilities

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

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

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

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

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

Loans and receivables

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

This category includes the following items:

- Trade receivables and payables and other receivables and payables

Trade and other receivables are recognised at amortised cost, net of impairment losses determined on the basis of their estimated recoverable amount

calculated by analysing each position and the total non-collection risk.

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

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

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

- Cash and cash equivalents

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

- Loans and bonds

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

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

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

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

Held-to-maturity investments

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are not classified in the other categories. They mainly relate to consortia and consortium companies of which the company holds less than 20%. In accordance with IAS 39, such investments are stated as non-current assets measured at cost, adjusted for impairment, since their fair value cannot be determined. Dividend income from such financial instruments is recognised in profit or loss under financial income when the company is given the right to such dividend.

Fair value of financial instruments

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

- The fair value of financial instruments traded on an active market is based on the market price at the reporting date. This method has been applied especially to listed financial instruments classified as "Available-for-sale financial assets" and financial instruments classified as "Held-to-maturity investments".
- The fair value of the derivatives classified as "Hedging derivatives" and "Financial assets and financial liabilities at fair value through profit or loss" has been measured using the Discounted Cash Flow Model. With respect to interest rate swaps, future cash flows have been estimated using the implicit forward rate of the market Euro curve at 31 December 2013 and 2012, while the forward exchange rate market prices at the relevant reporting date have been used for currency forward transactions.
- The fair value of loans and receivables has been determined, for disclosure purposes in the notes, on the basis of the present value of their future cash flows discounted at a rate equal to the current interest rates applicable in the relevant markets and the average spread agreed by the company.

Derecognition of financial assets and liabilities

(a) Financial assets

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

(i) the contractual rights to the cash flows from the financial asset expire;

(ii) the company retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in full and immediately;

(iii) the company transfers the contractual rights to receive the cash flows of the asset and has transferred substantially all the risks and rewards of ownership of the financial asset and the related control.

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

(b) Financial liabilities

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

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

Impairment of financial assets

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

Derivatives and hedging transactions

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

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

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

a) Fair value hedge - If a derivative is designated as a hedge of exposure to changes in the fair value of an asset or liability due to a specific risk that may affect profit or loss, the gain or loss deriving from the subsequent measurement of the fair value of the hedging instrument is taken to profit or loss. The gain or loss on the hedged item, related to the hedged risk, changes the carrying amount of this item and is taken to profit or loss.
b) Cash flow hedge - If a derivative is designated as a hedge of exposure to changes in cash flows of an asset or liability or a highly probable transaction and could affect profit or loss, the effective part of the gains or losses on the financial instrument is taken to equity. The cumulative gain or loss is derecognised from equity and taken to profit or loss in the same period in which the hedged transaction is

recognised. The gain or loss related to a hedge or part of a hedge which has become ineffective is taken to profit or loss immediately. If a hedging instrument or a hedging relationship is closed, but the hedged transaction has not yet taken place, the cumulative gains and losses, recognised in equity up to then, are reclassified to profit or loss when the transaction takes place. If it is unlikely the hedged transaction will take place, the unrealised gains and losses recognised in equity are immediately recognised in profit or loss.

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

Employee benefits

- Post-employment benefits

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

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

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

Income taxes

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

Beginning from 2004, the company has joined the national tax consolidation system, which is regulated by the conditions set out in agreements drawn up by the participating companies, as the consolidating party.

The agreements provide that tax losses transferred by the subsidiaries give rise to a benefit for them to the extent to which they could have been used had the national tax consolidation system not existed. Otherwise, the parent benefits, except for a partial payment to the companies transferring the losses, in proportion to the effective use in the national tax consolidation system. Moreover, the smaller taxes paid by Impregilo following the national tax consolidation system are prudently provided for when it is probable that the tax losses will be paid in the future to the subsidiaries that transferred them.

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

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

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

enacted or substantially enacted by the reporting date.

Deferred tax assets and liabilities are classified as non-current assets and liabilities, respectively.

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

Provisions for risks and charges

In accordance with IAS 37, Impregilo S.p.A. makes accruals to provisions for risks and charges when the following conditions exist:

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

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

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

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

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

Translation criteria for foreign currency items

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

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

The foreign branches' function currency is the Euro, as it is the primary currency they use in their operations.

Non-current assets held for sale and discontinued operations

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

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

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

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

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

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

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

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

Revenue recognition

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

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

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

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

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

Interest income

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

Dividends

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

Risks relating to clients and the countries in which Impregilo S.p.A. operates

The company is active in sectors where most of the contracts are with state-owned clients. Therefore, its results are strictly related to the amount and term of investments in large-scale infrastructure works scheduled and awarded by governments or public bodies of the countries in which the company carries out its ongoing activities. Impregilo is also exposed to a series of country risks, such as changes in political or social conditions and developments in economic policies.

Significant accounting estimates

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

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

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

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

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