2. Accounting standards adopted

Standards and scope of consolidation

The consolidated financial statements of the Salini Group include the statement of financial position, statement of income and financial position of the parent company, Salini S.p.A., and the Italian and foreign operating companies in which Salini S.p.A. has a direct or indirect controlling interest. The financial statements at 31 December 2013, approved by the corporate bodies of the entities included in the scope of consolidation, were used for the consolidation. The financial statements included in the consolidation process were prepared by adopting, for each entity, the same accounting standards as the parent company and making any consolidation adjustments necessary to harmonise items affected by the adoption of different accounting standards; intercompany balances, transactions, revenues and costs were all eliminated. Minority interests are reported in the consolidated statement of financial position, in shareholders' equity and separately from shareholders' equity attributable to the Group; the share of consolidated Group profit attributable to minority interests is also reported separately.

All assets and liabilities of foreign companies within the scope of consolidation and in a currency other than the Euro are converted using the exchange rates prevailing on the reporting date (current exchange rate method), while the corresponding revenues and costs are converted at the average exchange rates for the period. The different conversion rates resulting from the application of this method are classified under shareholders' equity until disposal of the investment.
Non-operating subsidiaries, or those that do not report amounts material for the purposes of the consolidated financial statements, are excluded from the scope of consolidation and are measured according to the equity method, since they are not relevant for the true and fair representation of the operating, financial and cash position of the Group.

Investments in associate companies and joint ventures in which Salini S.p.A. directly or indirectly has a significant influence and holds between 20% and 50% of the capital are measured according to the equity method as defined in IAS 28 and IAS 31 respectively, recognising the share of profits or losses accrued during the period in the statement of income. The risk arising from any losses exceeding the carrying amount of the equity investment is set aside in a special reserve under liabilities insofar as the investor is committed to fulfilling legal or constructive obligations towards the investee company or otherwise covering its losses.

Other equity investments are measured at fair value with the effects recognised in shareholders' equity; when the fair value can no longer be reliably estimated, equity investments are measured at cost. This value is adjusted where there is evidence of an impairment loss. If the reasons for the write-downs no longer apply, the value of equity investments are reinstated commensurate with the write-downs made and the corresponding effect carried in the statement of income. The list of Group companies can be found in section on Related Parties.

Regarding the Impregilo Group, which was included in the Group's consolidated financial statements effective 1 April 2013 (see section 5 for additional details), it consolidates the companies or businesses over which it exercises joint control using the proportional method as a function of the ownership interest or specific contractual provisions on the basis of IAS 31.
On the other hand, on the basis of the option provided in IAS 31, the standards adopted by the Group for the preparation of the financial statements as at 31 December 2012 specify that these companies must be measured using the equity method. In light of (i) the need to harmonise standards adopted by the parent company and its subsidiaries and (ii) the existence of companies or businesses over which joint control is exercised as a function of the ownership interests or specific contractual provisions only within the Impregilo Group (at 31 December 2012 there were cases of this in the Group's consolidated financial statements, but they were not significant), for the purposes of preparing these financial statements, management decided to adopt the option specified by IAS 31 which calls for proportional consolidation.

Business combinations

Business combinations are recognised using the acquisition method set out in IFRS 3 (revised in 2008). Accordingly, the consideration for a business combination is measured at fair value, being the sum of the fair value of the assets acquired and liabilities assumed or incurred by the group at the acquisition date and the equity instruments issued in exchange for control of the acquired entity. Transaction costs are recognised in profit or loss when incurred.
The contingent consideration, included as part of the transfer price, is measured at acquisition-date fair value. Any subsequent changes in fair value are recognised in profit or loss.

The identifiable assets acquired and the liabilities assumed are recognised at fair value at their acquisition date.
Goodwill is measured as the difference between the aggregate of the consideration transferred, the amount of any non-controlling interests (NCI) and the acquisition-date fair value of the acquirer's previously-held equity interest in the acquiree and the net fair value of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If the value of the net assets acquired and liabilities assumed at the acquisition date exceeds the aggregate of the consideration transferred, the amount of any non-controlling interests (NCI) and the acquisition-date fair value of the acquirer's previously-held equity interest in the acquiree, this excess is immediately recognised through profit or loss as income from the transaction completed.

NCI can be measured at fair value or at their proportionate share of the fair value of the net assets of the acquiree at the acquisition date. The measurement method is decided on a transaction by transaction basis.

Business combination achieved in stages (step acquisition)

In the case of step acquisitions, the Group's existing investment in the acquiree is measured at fair value on the date that control is obtained. Any resulting adjustments to previously recognised assets and liabilities are recognised in profit or loss. Therefore, the previously held investment is treated as if it had been sold and reacquired on the date that control is obtained.

Transactions involving NCI

Changes to the investment percentage of a subsidiary that does not entail loss of control are treated as equity transactions. Therefore, any differences between the acquisition price and the related share of equity in subsequent acquisitions of investments in entities already controlled by the group are recognised directly in equity. With respect to partial disposals of an investment in a subsidiary while control is retained, any gain or loss is recognised in equity.

Property, plant and equipment

Property, plant and equipment are measured at historical cost, including any directly related ancillary expenses, in addition to financial expenses incurred during the period of construction of the assets. Assets acquired through business combinations prior to 1 January 2007 have been recognised at their carrying amount, determined based on the previous accounting standards used for these combinations, as a substitute for the cost.

The cost, as determined above, of assets used only during a certain period, is systematically depreciated on a straight-line basis each financial year based on their estimated technical and economic life, using depreciation rates intended to represent the estimated useful life of the assets. If material components of these assets have a different useful life, these components are recognised separately. The useful life estimated by the Group for the various asset classes is as follows:

	Years
Buildings	15-33
Plant and machinery	5-7
Equipment	3-9

Land, whether undeveloped or developed for civil or commercial buildings, is not depreciated since it has an indefinite useful life.
As previously mentioned, capital assets acquired under finance leases are recognised as tangible fixed assets and offset by the corresponding payable. The lease payment is broken down into its components of interest expense, recognised in the statement of income, and capital repayment, deducted from financial debt.

When the asset is sold or when there are no longer any expected future economic benefits from its use, it is derecognised from the statement of financial position and any profit or loss (calculated as the difference between the disposal value and carrying amount) is recognised in the statement of income in the year in which it is derecognised.

Intangible assets

Intangible assets acquired separately are initially recognised in assets at historical cost, determined according to the same procedures as those indicated for tangible assets. Intangible assets acquired through business combinations are recognised at fair value at the acquisition date, if this value can be determined reliably.

Intangible assets produced internally, excluding development costs, are not capitalised and are recorded in the statement of income for the period in which they are incurred.
Intangible fixed assets may have a finite or indefinite useful life. Within the Group, the following types of intangible assets are currently present:

	Years
Intellectual property rights	3
Concessions and licences	9
Other	9

The Group has no assets with an indefinite useful life other than goodwill.

Following initial recognition, intangible assets with a finite useful life are recognised at cost, net of depreciation and any accumulated impairment losses. The period and method of depreciation are reviewed at the end of each financial year, or more frequently if necessary.
Intangible assets with a finite useful life are amortised, from the point at which the asset is available for use, on the basis of their residual possibility of use, in relation to the useful life of the asset. The period and method of depreciation applied is reviewed at the end of each financial year, or more frequently if necessary.

Gains and losses arising from the disposal of an intangible asset are determined as the difference between the disposal value and the carrying amount of the asset and are recognised in the statement of income on disposal.

The excess of the purchase cost compared to the Group'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.

Rights to infrastructure under concession

These rights are covered by IFRIC 12 - Service concession arrangements, issued by the International Financial Reporting Interpretations Committee (IFRIC), which regulates the recognition and measurement of concession arrangements between public sector entities and private sector operators. It was endorsed by the European Commission with EC regulation 254/2009 dated 25 March 2009 and its application is mandatory for financial statements drawn up under IFRS beginning from the year after which it was endorsed. Therefore, Impregilo group has applied IFRIC 12 since 2010.

The criteria adopted by the group to apply the interpretation to its concessions are set out below.

Scope and measurement

Scope: IFRIC 12 is applicable to service concession arrangements when the grantor is a public body and the operator is a private entity, when the following conditions are met:

(a) the grantor controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and
(b) the grantor controls – through ownership, beneficial entitlement or otherwise – any significant residual interest in the infrastructure at the end of the term of the arrangement.

Measurement of the revenues arising from the concession arrangement: the operator acts as the service provider (construction and management of the work) and recognises the revenues for the construction and upgrade services in accordance with IAS 11 - Construction contracts and the revenues from management of the infrastructure in line with IAS 18 - Revenue.

The grantor pays the operator a consideration for the construction/upgrade services, to be recognised at fair value, which may consist of rights to:
(a) a financial asset (financial asset model);
(b) an intangible asset (intangible asset model).

The first model is applicable when the operator has an unconditional contractual right to receive a specified or determinable amount of cash. The second is applicable when the operator acquires the right to charge for use of a public sector asset that it constructs or upgrades. The amounts are contingent on the extent to which the public uses the service (demand risk).

The concession arrangements to which Impregilo group is party, thanks to the operators consolidated on a line-by-line or proportionate basis, fall under the intangible asset model. The financial asset model is applicable to certain associates, measured at equity.

Recognition of the intangible asset: the intangible asset is recognised during construction of the infrastructure. The main identified cases are as follows:

a. arrangements that cover the construction of a new infrastructure; the operator recognises the intangible asset in line with the stage of completion of the construction project. During construction, the operator recognises revenues and costs in line with IAS 11 - Construction contracts.
b. Arrangements that cover management of an existing infrastructure and its extension or upgrading against which the operator acquires specific additional financial benefits; the operator recognises an increase in the intangible asset as the construction services are provided for these construction and/or upgrade services to be recognised under IAS 11 - Construction contracts.

c. Arrangements that cover management of an existing infrastructure and specific obligations to extend or upgrade it against which the operator does not acquire specific additional financial benefits; at initial recognition, the operator recognises a liability equal to the present value of the forecast outlay for the construction services to be provided in the future with, as a balancing item, an additional component of the intangible asset for the contract consideration, which begins to be amortised.

Contractual obligations for the infrastructure's efficiency levels: given that the operator does not meet the requirements for recognition of the infrastructure as "Property, plant and equipment", the accounting treatment differs depending on the nature of the work carried out and can be split into two categories: (i) work related to normal maintenance of the infrastructure; (ii) replacement and scheduled maintenance at a future date.

Amortisation of the intangible asset: amortisation of the intangible asset recognised for the rights acquired under the concession arrangement is calculated in line with paragraph 97 of IAS 38 - Intangible assets: "The amortisation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity. If that pattern cannot be determined reliably, the straight-line method shall be used".

Financial expenses

Financial expenses relating directly to the acquisition, construction or production of an asset that requires a fairly long period of time before being available for use are capitalised as part of the cost of the asset itself. All other financial expenses are recognised as a cost for the period in which they are incurred.

Assets held under finance or operating leases

Finance leases, which substantially transfer to the Group all risks and rewards incidental to ownership of the leased asset, are capitalised under tangible fixed assets on inception of the lease at the fair value of the leased asset, or at the present value of the lease payments, whichever is lower. This will be offset by a payable for an equal amount, which is gradually reduced based on the lease repayment plan.

Lease payments are divided between the principal and interest, so as to obtain the application of a constant interest rate on the residual balance (principal amount). Interest is charged to the statement of income. Assets are depreciated by applying the criterion and rates indicated in the previous paragraph on tangible fixed assets. Contracts in which the lessor substantially retains all risks and rewards incidental to ownership are classified as operating leases. Operating lease payments are charged to the statement of income over the term of the lease.

Any sale and leaseback transactions to repurchase – under a lease – an asset previously held are recognised as a financing transaction. The assets involved in the transaction remain classified in the Group's statement of financial position assets with consistent accounting treatment, and a liability is recognised to offset the financial flows arising from the sale. Any capital gain that should arise from the disposal is recognised in the statement of income on an accrual basis. This entails an entry under accrued liabilities and the gradual allocation to income in the statement of income, based on the term of the lease.

Impairment losses on non-financial assets

At the end of each reporting period, the Group assesses whether there is any evidence that the value of assets may have been subjected to impairment. If so, or if an annual impairment test is required, the Group estimates the value. The recoverable value is the fair value of the asset or cash-generating unit, less costs to sell, or, if higher, its value in use. Recoverable value is determined for each individual asset, unless its cash flows are not broadly independent of those generated by other assets or groups of assets. Impairment is recognised if the carrying amount of an asset exceeds its recoverable value and, accordingly, this amount is written down to its recoverable value.

When establishing value in use, the Group discounts estimated future cash flows to present value using a pre-tax discounting rate that reflects market assessments of the time value of money and the specific risks associated with the asset. When establishing fair value less costs to sell, a suitable valuation model is used. These calculations have been made using suitable valuation multipliers, prices of listed equity securities for equity investments in which securities are traded publicly and other fair value indicators available.

Impairment losses on operating assets are recognised in the statement of income in the cost category that best reflects the purpose of the asset affected by the impairment loss. This does not apply to assets that have previously been revalued, where the revaluation has been recognised in shareholders' equity. In this case the impairment loss is recognised in shareholders' equity for an amount equal to the previous revaluation.

At each reporting date, the Group assesses whether there is any evidence that the impairment loss previously recognised has ceased to apply (or has been reduced) and, if so, estimates the recoverable value. The value of an asset previously written down may be reversed only where there have been changes in the estimates on which the calculation of the recoverable value determined after the recognition of the last impairment loss was based.

The reversal may not exceed the carrying amount that would have been recorded, net of depreciation and amortisation, had an impairment loss not been recognised in prior periods. This reversal is recognised in the statement of income unless the asset is not recognised at the revalued amount, in which case the reversal is treated as a revaluation increase.

Contract works in progress

Construction agreements in the course of completion are measured based on the contractual payments accrued with reasonable certainty in relation to the progress of the works, according to the percentage of completion method, so as to allocate the revenues and net profit from the contract to the relevant period, in proportion to the progress of the works.Contract works in progress are reported net of any provisions for impairment losses and amounts invoiced at specific stages of the work (prepayments). The corresponding comparison is carried out for each contract and, if the differential is positive due to works in progress exceeding the amount of the prepayments, the difference is classified under assets in the "Amounts due from clients" item. If, on the other hand, this differential is negative, the difference is classified under statement of financial position liabilities in the "Amounts due to clients" item.

Conversely, invoicing for advances constitutes a financial transaction and does not count towards revenues recognition. Therefore, since they

represent a financial transaction, advances are always recognised as a liability since they are not received in respect of works carried out. These advances are however gradually reduced, usually based on contractual agreements, to offset the invoices raised under the contract.
Contractual revenues, in addition to contractual payments, include variants, price revisions and any claims insofar as it is likely that these represent revenues that can be estimated reliably.

In the event that a loss is expected from the performance of a contract, the full amount of the loss is recognised at the point at which it occurs, irrespective of the stage of completion of the contract.

Inventories

Inventories are carried at the lower of cost or net estimated realisable value. Cost is determined by applying the weighted average cost method. The item in question also includes buildings and assets under construction and held for sale.

Cash and cash equivalents

Cash and cash equivalents are recognised at nominal value and include cash instruments, i.e. are available on demand or in the very short term, have cleared and are free of redemption charges.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents are represented by cash funds as defined above net of bank overdrafts repayable on demand.

Non-current assets held for sale

Non-current assets, and groups of assets awaiting disposal, are classified as held for sale when it is expected that their carrying amount will be recovered through disposal rather than through continued use. These assets are recognised at their previous carrying amount and fair value net of costs attributable to the sale, whichever is lower. Revenues from discontinued operations, or in the course of disposal, is reported separately in the statement of income. In accordance with paragraph 34 of IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”, the comparative statement of income is restated based on the same assumptions.

Financial assets

IAS 39 makes provision for the following types of financial instruments: financial assets at fair value in the statement of income, loans and receivables, investments held to maturity and available-for-sale assets. All financial assets are initially recognised at fair value, plus, in the case of assets other than those at fair value in the statement of income, ancillary expenses.
The Group determines the classification of its financial assets after initial recognition and, where appropriate and permitted, reviews this classification at the end of each financial year.
All regular-way purchases and sales of financial assets are recognised on the trade date, or on the date on which the Group enters into a commitment to purchase the asset. Regular-way purchases and sales mean all transactions in financial assets involving the delivery of assets during the period envisaged by the regulations and by standard practice in the market in which the trade takes place.

Financial assets at fair value through Profit and Loss

This category includes assets held for trading and assets designated on initial recognition as financial assets at fair value in the statement of income.

Assets held for trading are all assets purchased with a view to their immediate sale. Derivatives, including separate derivatives, are classified as financial instruments held for trading unless they are designated as effective hedging instruments. Gains or losses on assets held for trading are recognised in the statement of income.

Where a contract contains one or more embedded derivatives, the Group assesses whether the derivative could be separated from the host contract when it becomes a party to the contract.

The revaluation is carried out only if there are changes in the contractual terms that significantly alter the cash flows that would be otherwise required.

Investments held to maturity

Financial assets that are not derivatives and that are characterised by fixed or determinable payments at maturity are classified as “investments held to maturity” when the Group plans and is able to hold them until maturity.

Following initial recognition, financial investments held to maturity are measured on the basis of amortised cost, using the effective interest rate method. Gains and losses are recognised in the statement of income once the investment is derecognised or following an impairment loss, as well as through amortisation.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed on an active market. Following initial recognition, these assets are measured on an amortised cost basis using the effective discount rate method net of any provisions for impairment losses. Gains and losses are recognised in the statement of income when the loans and receivables are derecognised or following an impairment loss, as well as through amortisation.

Available-for-sale financial assets

Available-for-sale financial assets are financial assets, other than derivative financial instruments, which are designated as such or are not classified in any of the three previous categories.

Following initial recognition, financial assets held for sale are measured at fair value and unrealised gains and losses are recognised as part of comprehensive income in the available-for-sale assets reserve until elimination of the investment, when the accumulated gains or losses are reclassified in the statement of income.

Fair value

For securities widely traded on regulated markets, fair value is determined with reference to the stock market price at the close of trading on the reporting date.
For investments without an active market, fair value is determined using measurement techniques based on: recent transaction prices between independent parties; the present market value of a substantially similar instrument; the analysis of discounted financial flows or option pricing models.

Amortised cost

Financial assets held to maturity and loans and receivables are measured at amortised cost. Amortised cost is calculated using the effective interest rate method net of any provisions for impairment losses. The calculation takes into account any premium or discount on the purchase and includes the transaction costs and commission that are an integral part of the effective interest rate.

Impairment loss on financial assets

The Group verifies at each reporting date whether a financial asset or a group of financial assets has been subjected to an impairment loss.

Assets measured according to the amortised cost method

If there is objective evidence that a loan or receivable recognised at amortised cost has been impaired, the amount of the impairment loss is measured as the difference between the carrying amount and the present value of the estimated future cash flows (excluding future losses not yet incurred) discounted at the original effective interest rate of the financial asset (i.e. the effective interest rate calculated at the initial recognition date).

The carrying amount of the asset will be reduced through the use of a provision. The amount of the loss will be recognised in the statement of income. If the amount of the impairment loss is subsequently reduced and this reduction can objectively be traced to an event occurring after the impairment was recognised, this value may be reinstated. Any subsequent reversals are recognised in the statement of income, provided that the carrying amount of the asset does not exceed the amortised cost at the reversal date.

For trade receivables, provisions for impairment losses are established when there is objective evidence (such as the probability of the debtor becoming insolvent or having serious financial difficulties) that the Group will be unable to recover the entire amount due according to the original terms of the invoice. The carrying amount of the receivable is reduced through recourse to a special reserve. Receivables subjected to impairment are cancelled once these are confirmed as irrecoverable.

Available-for-sale financial assets

At each reporting date, the Group assesses whether there are any impairment losses on available-for-sale financial assets. In the case of equity instruments, this consists of a material and prolonged reduction in the fair value of the instrument to less than its cost. In the event of impairment of an available-for-sale financial asset, a value equal to the difference between its cost (net of the repayment of principal and amortisation) and its present fair value, net of any previous impairment losses recognised in the statement of income, will be reversed from other components of comprehensive income to the statement of income.

Reversals relating to equity instruments classified as available for sale are not recognised in the statement of income. Reversals relating to debt instruments are recognised in other components of comprehensive income. If the increase in the fair value of the instrument can be objectively attributed to an event occurring after the loss had been recognised in the statement of income.

Financial liabilities

Loans and interest-bearing finance

Financial liabilities, other than derivative financial instruments, are initially recognised at the fair value of the payment received, net of the transaction costs that are directly attributable to the issuance of the financial liability itself; these are subsequently measured at amortised cost, in other words at the initial value, net of the capital repayments already made, adjusted (up or down) by the amortisation (using the effective interest rate method) of any differences between initial value and value at maturity.

Financial liabilities at fair value through Profit and Loss

Financial liabilities at fair value in the statement of income include liabilities held for trading and financial liabilities designated at fair value with changes carried in the statement of income at the time of initial recognition.

Liabilities held for trading are all those acquired with a view to their immediate sale. Derivatives, including separate derivatives, are classified as financial instruments held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of income.

Financial guarantees given

Financial guarantees given by the Group are contracts that require an outflow to reimburse the holder for a loss incurred following a default by a debtor on a payment due at maturity based on the contractual terms of the debt instrument. Financial guarantee contracts are initially recognised as liabilities at fair value, plus transaction costs that are directly attributable to the issuance of the guarantee. Liabilities are subsequently measured at the best estimate of the outflow required to meet the effective obligation at the reporting date, or, if higher, the amount initially recognised.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement.

The Group only uses derivative financial instruments for some interest rate swaps to hedge the risks arising mainly from interest rate fluctuations. These derivative financial instruments are initially recognised at fair value on the date on which the contract is signed and are subsequently measured at fair value. They are recognised as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives are recognised directly in the statement of income, except for the effective part of cash flow hedges, which is recognised in shareholders' equity.

For the purposes of hedge accounting, hedges are classified as:

- fair value hedges, if they hedge the risk of a change in fair value of the underlying asset or liability or an irrevocable commitment not recognised (except for foreign exchange risk);
- cash flow hedges, if they hedge exposure to changes in cash flows attributable to a specific risk associated with an asset or liability recognised or a transaction that is extremely likely to take place, or a foreign exchange risk linked to an irrevocable commitment that has not been recognised;
- hedges of a net investment in a foreign operation.

On establishing a hedge, the Group designates and formally documents the hedge to which it intends to apply hedge accounting, its risk management objectives and the strategy pursued. The documentation includes identifying the hedging instrument, the item or transaction to be hedged, the nature of the risk and the procedures whereby the company intends to measure the effectiveness of the hedge in offsetting exposure to changes in fair value of the hedged item or cash flows linked to the hedged risk. These hedges are expected to be highly effective in offsetting exposure of the hedged item to changes in fair value or financial flows attributable to the hedged risk; the assessment of whether these hedges are in fact highly effective is carried out on a continuous basis during the periods for which they were designated.

Transactions that satisfy the hedge accounting criteria are recognised as follows:

- **Fair value hedges**
  The change in fair value of interest rate hedges is recognised in the statement of income under financial expenses. The change in fair value of hedging instruments attributable to the hedged item is recognised as part of the carrying amount of the hedged item and is also recognised in the statement of income under financial expenses.
  With regard to fair value hedges for items recognised according to the amortised cost method, the adjustment of the carrying amount is amortised in the statement of income over the remaining period to maturity. The amortisation may begin as soon as an adjustment is made, but no later than the date on which the hedged item ceases to be adjusted by the changes in its fair value attributable to the hedged risk.
  If the hedged item is cancelled, the unamortised fair value is recognised immediately in the statement of income.
  The Group has no fair value hedges.

- **Cash flow hedges**
  The portion of profit or loss on the hedged instrument relating to the effective hedge is recognised under other comprehensive income in the "cash flow hedge" reserve, while the ineffective portion is recognised directly in the statement of income under financial expenses. Amounts recognised as other comprehensive income are transferred to the statement of income during the period in which the hedged transaction influences the statement of income, for example when the financial income or expense is recognised or when a planned sale takes place. When the hedged item is the cost of a non-financial asset or liability, the amounts recognised under other comprehensive income are transferred at the initial carrying amount of the asset or liability.
  If the proposed transaction or irrevocable commitment is no longer expected to take place, the accumulated gains or losses recognised in the cash flow hedge reserve are transferred to the statement of income. If the hedging instrument reaches maturity or is sold, cancelled or exercised without being replaced, or if its designation as a hedge is revoked, amounts previously recognised in the cash flow hedge reserve remain there until the proposed transaction or irrevocable commitment have an impact on the statement of income.
  At the reporting date, the Group had 10 cash flow hedge derivatives outstanding. See Note 39 for more information.

- **Hedging a net investment in a foreign operation**
  The hedging of a net investment in a foreign operation, including the hedging of a monetary item recognised as part of a net investment, are recognised in the same way as cash flow hedges. Gains or losses on the hedging instrument are recognised under other comprehensive income for the effective part of the hedge, while the remainder (ineffective) are recognised in the statement of income. On the disposal of the foreign asset, the accumulated value of such comprehensive gains or losses is transferred to the statement of income.
  The Group does not have any hedges of net investments in foreign operations.

Derecognition of financial assets and liabilities

Financial assets

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

- the rights to receive financial flows from the asset are extinguished;
- the Group retains the right to receive financial flows from the asset, but has assumed a contractual obligation to pay them immediately and in full to a third party;
- the Group has transferred the right to receive financial flows from the asset and (a) has substantially transferred all risks and rewards incidental to ownership of the financial asset, or (b) has neither transferred nor substantially retained all risks and rewards incidental to ownership, but has transferred control of the asset.

In cases where the Group has transferred the right to receive financial flows from an asset and has neither transferred nor substantially retained all risks and rewards and has not lost control over the asset, the asset is recognised by the Group to the extent of its residual interest therein. The residual interest, which takes the form of a guarantee on the transferred asset, is measured at the lower of the initial carrying amount of the asset and the maximum value of the consideration that the Group could be required to pay. In cases where the residual interest takes the form of an option issued and/or acquired on the transferred asset (including options settled in cash or similar), the measurement of the Group's interest corresponds to the amount of the transferred asset that the Group could repurchase; however, in the case of a put option issued on an asset measured at fair value (including options settled in cash or using similar instruments), the measurement of the Group's residual interest is limited to the fair value of the asset transferred or the exercise price of the option, whichever is lower.

Financial liabilities

A financial liability is derecognised when the underlying obligation is extinguished, cancelled or fulfilled. In cases where an existing financial liability is replaced by another from the same provider, under substantially different conditions, or the conditions of an existing liability are substantially modified, such exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, with any differences between the carrying amounts recognised in the statement of income.

Employee benefits

The liability relating to short-term benefits guaranteed to employees, paid during the period of employment, is recognised based on the amount accrued at the end of the reporting period.
Liabilities relating to employment benefits paid during or after the period of employment under defined benefit plans, represented by the employee termination benefits plan and the loyalty bonus scheme provided by Article 66 of the national collective agreement of 5 July 1995 for the building industry, are recognised during the vesting period, net of any assets used to service the plan and advances paid, and are determined based on actuarial assumptions and recognised on an accrual basis in line with the period of service necessary to qualify for benefits; the liabilities are measured by independent actuaries.
The method used to measure defined benefit plans is the Projected Unit Credit Method (PUCM).
With regard to termination benefits, this method consists of calculating the average present value of obligations under the plan, accrued based on the employee's length of service prior to the measurement date, taking into account the employee's future contributions. The calculation method, applied on an individual basis for the population measured, can be divided into the following stages: 1) projection of the fund already set aside and future contributions, which will accrue whenever payment takes place; 2) calculation of the probable payments that will have to be made if the employee leaves the company due to dismissal, resignation, disability, death or retirement, or in the event of taxes or an advance payment request; 3) discounting, at the measurement date, of each probable payment; and 4) recalculation of the probable benefits discounted based on the length of service at the measurement date, compared with the total length of service whenever settlement takes place. The same method is used to measure the loyalty bonus, the calculation of which does not include future contributions from the employee, nor the possibility of advances.

Note that from the 2007 financial year, the Group absorbed the effects of changes introduced by the 2007 Finance Act and subsequent decrees and regulations relating to the allocation of termination benefits accrued from 1 January 2007, applicable for companies with an average of more than 50 employees in 2006. It follows from this that, for Group companies affected by the changes:

- the termination benefits accrued at 31 December 2006 remain a defined benefit plan;
- the termination benefits allocated to a supplementary pension from the date of this option (or at the end of the six-month statutory period, unless otherwise indicated) represent a defined contribution plan;
- the termination benefits allocated after 1 January 2007 to the treasury fund represent a defined contribution plan.

For termination benefits accrued at 31 December 2006, while maintaining the status of a defined benefit plan, the calculation method has changed due to the absence of future contributions; in fact, the liability linked to accrued termination benefits is measured for actuarial purposes at 1 January 2007 (or the date on which the decision was made to allocate these to a supplementary pension) without using the Projected Unit Credit Method (PUCM), since the employee benefits accrued prior to 31 December 2006 (or the date on which the decision was made to allocate these to a supplementary pension) could be considered almost entirely vested (with the sole exception of the revaluation) in accordance with paragraph 67(b) of IAS 19.
Conversely, the accounting treatment of amounts accrued from 1 January 2007 is similar to that for other contribution payments, both in the case of the

supplementary pension option, and in the event of allocation to the INPS treasury fund.
In addition, in accordance with IAS 19, these changes entail the recalculation of the termination benefits accrued at 31 December 2006; this recalculation (“curtailment”, as defined in paragraph 109 of IAS 19) is essentially based on the exclusion of future payments and the related assumed increases from the actuarial calculation.

Gains and losses arising from the actuarial calculation for both defined benefit plans are recognised in comprehensive income during the period in which they occur. These actuarial gains and losses are classified immediately under retained earnings and are not reclassified in the statement of income in subsequent periods.

Provisions for risks and charges

Provisions for risks and charges are recognised when there is a present (legal or constructive) obligation towards third parties arising from a prior event, if an outflow of resources is probable to satisfy the obligation and the amount of the obligation can be reliably estimated.

Provisions are recognised at the value representing the best estimate of the amount that the company would pay to extinguish the obligation or to transfer it to third parties at the reporting date. If the impact of discounting the value of money is significant, the provisions are determined by discounting expected future financial flows at a discount rate that reflects the current market valuation of the time value of money. When the discounting is carried out, the increase in the provision due to the passage of time is recorded as a financial expense.

Revenues

Revenues other than from work in progress under contract are recognised insofar as it is possible to determine their fair value reliably and it is probable that the related economic benefits will materialise.

Depending on the type of transaction, revenues are recognised on the basis of the following specific criteria:

- revenues from sales of goods are recognised when the material risks and rewards of ownership of the assets are transferred to the buyer;
- revenues from the provision of services are recognised with reference to the stage of completion of the assets based on the same criteria as for work in progress under contract. If it is not possible to determine the amount of revenues reliably, this is recognised based on the costs incurred which are expected to be recovered;
- revenues from lease payments and royalties are recognised during the accrual period, based on the contractual agreements signed.

Interest revenues (and interest expenses) are recognised based on interest accrued on the value of the corresponding financial assets and liabilities, using the effective interest rate method.

Dividends received from companies other than subsidiaries, associate companies or joint ventures are recognised on the vesting of the shareholders’ right to receive them, following a resolution by shareholders of investee companies to distribute dividends.

Income tax

This is recognised based on a realistic estimate of the tax expenses due, in accordance with the prevailing regulations, taking into account any applicable exemptions. The tax rates and legislation used to calculate the amount are those issued or substantially in force at the reporting date in countries where the Group operates and generates its taxable income.

The liability for regional income tax (IRAP) and corporate income tax (IRES) to be paid directly to the tax administration is reported in the statement of financial position under current liabilities in the “Current tax liabilities” item, net of payments on

account made. Any positive difference is recognised under current assets in the “Current tax assets” item.
Deferred and prepaid taxes are calculated using the liability method on temporary differences between assets recognised in the financial statements and the corresponding values recognised for tax purposes. Prepaid tax assets are also recognised on tax losses carried forward by the company.

Deferred tax liabilities are recognised against all taxable temporary differences, except for:
a) when deferred tax liabilities arise from the initial recognition of goodwill or of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction itself, has no impact either on net profit calculated for the purposes of the financial statements, or on profit or loss calculated for tax purposes;
b) with reference to taxable temporary differences associated with equity investments in subsidiaries, associate companies and joint ventures, in the event that the reversal of temporary differences can be verified and it is likely that this will not occur in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences and for tax assets and liabilities carried forward, insofar as it is probable that there will be adequate future taxable income to justify the use of deductible temporary differences and of tax assets and liabilities carried forward, except for cases where:
- the deferred tax asset associated with the deductible temporary differences derives from the initial recognition of an asset or liability in a transaction which is not a business combination and which, at the time of the transaction, has no influence either on net profit calculated for the purposes of the financial statements, or on profit or loss calculated for tax purposes;
- with reference to taxable temporary differences associated with equity investments in subsidiaries, associate companies and joint ventures, deferred tax assets are recognised only to the extent that it is probable that the deductible temporary differences will be reversed in future and there is adequate taxable income against which the temporary differences could be used.

Prepaid tax assets are recognised when their recovery is deemed probable, based on the estimated future availability of sufficient taxable income for the realisation of the prepaid taxes themselves. The recoverable nature of the prepaid tax assets is reviewed at each reporting date.
Deferred tax assets and liabilities are measured based on the tax rates expected to apply to the financial year in which such assets are realised or liabilities extinguished, considering the prevailing rates and those already published or substantially published at the reporting date.
Current taxes relating to items recognised outside profit and loss are recognised in shareholders’ equity or in the statement of comprehensive income in line with the recognition of the item to which they relate. Deferred tax assets and liabilities are offset, when there is a legal right to offset current tax assets against current tax liabilities and the deferred taxes relate to the same fiscal entity and the same tax authority.

Conversion of items and translation of financial statements in foreign currency

The consolidated financial statements are presented in Euros, which is the functional and presentation currency of the parent company.
Balances included in the financial statements of each Group company are entered in the currency of the primary economic environment in which the entity operates (functional currency). Items expressed in a different currency from the functional currency, whether monetary (cash, assets and liabilities to be collected or paid with fixed or determinable amounts, etc.) or non-monetary (inventories, work in progress, advances to suppliers of goods and/or services, goodwill, intangible assets, etc.) are initially recognised at the exchange rate in force on the date on which the transaction takes place. Thereafter the monetary elements are converted into the functional currency based

on the prevailing exchange rate at the reporting date and differences arising from the conversion are recognised in the statement of income. Non-monetary items are maintained at the conversion rate on the transaction date, except in the event of a persistent unfavourable trend in the reference exchange rate. Exchange rate differences relating to non-monetary items receive the accounting treatment (statement of income or shareholders' equity) provided for changes in value of such items.

The rules for the translation of financial statements expressed in foreign currency are as follows:

- assets and liabilities included in the financial statements, even if only for comparison purposes, are translated at the exchange rate in force on the reporting date;
- costs and revenues and income and expenses included in the financial statements, even if only for comparison purposes, are translated at the average exchange rate for the reporting period, or at the exchange rate on the date of the transaction, if this differs significantly from the average rate;
- components of shareholders' equity, excluding net profit, are converted at historical exchange rates;
- the "translation reserve" contains both exchange rate differences generated by the conversion of amounts at a different rate from the closing rate, and those generated from the translation of shareholders' equity at a different exchange rate from the rate used at year-end;
- exchange rate differences arising from conversion are recognised in the statement of comprehensive income.

The exchange rates in use at 31 December 2013 were as follows (source: Bank of Italy):

Currency	Period end rate	Average rate
Aed - United Arab Emirates Dirham	5.07	4.88
All - Albanian Lek	140.53	140.30
Ars - Argentine Peso	8.99	7.28
Azn - Azerbaijani Manat	1.08	1.04
Bgn - New Bulgarian Lev	1.96	1.96
Dzd - Algerian Dinar	107.79	105.61
Etb - Ethiopian Birr	26.40	24.86
Gel - Georgian Lari	2.39	2.21
Gnf - Guinean Franc	9695.07	9175.70
Jos - Jordanian Dinar	0.98	0.94
Kzt - Kazakhstani Tenge	212.44	202.14
Lyd - Libyan Dinar	1.70	1.68
Mad - Moroccan Dirham	11.25	11.17
Mdl - Moldovan Leu	18.01	16.72
Myr - Malaysian Ringgit	4.52	4.19
Ngn - Nigerian Naira	220.89	211.55
Ron - New Romanian Leu	4.47	4.42
Sll - Sierra Leone Leone	5944.51	5744.48
Tnd - Tunisian Dinar	2.27	2.16
Try - New Turkish Lira	2.96	2.53
Uah - Ukrainian Hryvnia	11.33	10.79
Ugx - Ugandan Shilling	3484.63	3434.87
Pln - Polish Zloty	4.15	4.20
Usd - Us Dollar	1.38	1.33
Pes - Chilean Peso	724.77	658.32
Inr - Rupia Indiana	85,37	77,93
Sar - Riyal Arabia Saudita	5,17	4,98
Sgd - Singapore Dollar	1,74	1,66
Rub - Russian Ruble	45,32	42,34
Aud - Australian Dollar	1,54	1,38
Pab - Panamanian Balboa	1,38	1,33
Iqd - Iraqi Dinar	1.606,65	1.547,26
Nam - Namibian Dollar	14,57	12,83