4. Financial risk management

The Group recognises financial risk factors with regard to foreign exchange rate, interest rate, price, credit and liquidity. These financial risks are not exceptionally or different in nature from those that are customary in the industry. The Group applies a stringent policy designed to manage and mitigate these risks to the extent possible. This involves using general management measures, such as internal procedures and instructions, as well as specific measures and/or financial instruments. These measures are accompanied by efficient reporting systems and short lines of communication. The Group's financial risk factors, control measures and residual risk are described below.

4.1 Financial risk factors

a) Market risks

Foreign exchange risks
The Group has substantial activities in the United Kingdom and, to a limited extent, in other non-euro countries. The Group's results and shareholders' equity are therefore affected by foreign exchange rates. Generally, the Group is active in the above mentioned markets through local subsidiaries. The exchange risk is therefore limited, because income and expenditure are largely in the same currency. The associated translation risk is not hedged.

A limited number of subsidiaries are active in markets where contracts are denominated in a different currency than their functional currency. Group policy is that costs and revenues from these projects are mainly expressed in the same currency, thus limiting foreign exchange risks. The Group hedges the residual exchange risk on a project-by-project basis, using forward exchange contracts.
This involves hedging of unconditional project-related exchange risks in excess of €1 million as soon as they occur. Additional exchange risks in the tender stage and arising from contractual amendments are assessed on a case-by-case basis.

Procedures have been established for proper recording of hedge transactions. Systems are in place to ensure the regular performance and analysis of the requisite hedge effectiveness measurements.

Once costs and revenues in the same currency have been balanced against each other and any residual exchange risk has been hedged using forward exchange contracts, exchange rate fluctuations have a limited effect on the Group's results and capital base.

With regard to financial instruments, the Group predominantly faces an exchange rate risk for current account transactions in pound sterling. This risk is covered by forward exchange contracts. The residual effect of the exchange rate risk with regard to financial instruments in British sterling and other currencies on the Group's result and equity, is limited.

Interest rate risks
The Group's interest rate risk is associated with interest-bearing receivables and cash and cash equivalents, on the one hand, and interest-bearing borrowings, on the other. If the interest is variable, it presents the Group with a cash flow interest rate risk. If the interest rate is fixed, there is a fair value interest rate risk.

The Group mitigates the cash flow interest rate risk to the extent possible through the use of interest rate swaps, under which interest liabilities based on a variable rate are converted into fixed rates. The Group does not use interest rate swaps under which fixed-rate interest liabilities are converted into variable rates in order to hedge the fair value interest rate risk.

The analysis of the cash flow interest rate risk takes into account cash and cash equivalents, the debt position and the usual fluctuations in the Group's working capital requirements. Various alternatives are being studied and hedges are being considered.
Under Group policy, cash flow interest rate risks with regard to long-term borrowings (mainly subordinated and PPP borrowings) are largely hedged by interest swaps. As a result, the Group is not entirely insensitive to movements in interest rates. At year-end 2009, 62 percent of the interest on the Group's net debt position was fixed (2008: 48 percent). The part not covered consists almost entirely of short-term project financing.

If the interest rates (EURIBOR and LIBOR) had been an average of 100 basis points higher or lower during 2009, the Group's net result (assuming that all other variables remained equal) would have been about €2 million lower (€2008: 2 million lower).
If the interest rates (EURIBOR and LIBOR) had been an average of 100 basis points higher or lower during 2009, the Group's fair value cash flow hedge reserve in Group equity (assuming that all other variables remained equal) would have been about €138 million higher respectively €106 million lower (2008: €70 million higher).

Price risks
The price risk run by the Group relates to the procurement of land and materials and subcontracting of work, and consists of the difference between the market price at the point of tendering or offering on a contract and the market price at the time of actual performance.
The Group's policy is to agree a price indexation reimbursement clause with the customer at the point of tendering or offering on major projects. The Group also endeavours to manage the price risk by using framework contracts, suppliers' quotations and high-value sources of information.

If the Group is awarded a project and no price indexation reimbursement clause is agreed with the customer, the costs of land and materials, as well as the costs for subcontractors, are fixed at an early stage by establishing prices and conditions in advance with the main suppliers and subcontractors.
While it is impossible to exclude the impact of price fluctuations altogether, the Group takes the view that its method of operating reflects the optimum economic balance between decisiveness and predictability.
The Group does therefore not use financial instruments to hedge the (residual) price risks.

b) Credit risks
The Group has credit risks with regard to financial assets including PPP receivables, derivative instruments, trade receivables, cash and cash equivalents and bank deposits.

The PPP receivables and a substantial part of the trade receivables consist of contracts with governments or government bodies. Therefore, credit risk inherent in these contracts is limited.
Furthermore, a significant part of the trade receivables is based on contracts involving prepayments or payments proportionate to progress of the work, which limits the credit risks, in principle, to the balances outstanding.

The credit risk from PPP receivables and trade receivables is monitored by the relevant subsidiaries. Clients' creditworthiness is analysed in advance and then monitored during the performance of the project. This involves taking account of the client's financial position, previous collaborations and other factors.
Group policy is designed to mitigate these credit risks through the use of various instruments, including retaining ownership until payment has been received, prepayments and the use of bank guarantees.

The Group's cash and cash equivalents and bank deposits are held in various banks. The Group limits the credit risk associated with cash and cash equivalents and bank deposits held in these banks as a result of the Group's policy to work only with respectable banking institutions. This involves cash and cash equivalents as well as bank deposits in excess of €10 million being held in banks with at least an 'A' rating. The Group's policy aims to minimise any concentration of credit risks involving cash and cash equivalents and bank deposits.

The book value of the financial assets involving a credit risk is as follows.

		2009	2008
	Non-current assets		
10	PPP receivables	**498,293**	421,348
12	Non-current receivables	**61,100**	55,413
20	Derivatives	**2,108**	3,717
	Current assets		
14	Net trade receivables	**1,082,928**	1,223,243
14	Retentions	**127,100**	101,241
14	PPP receivables	**8,332**	7,682
12	Other financial assets	**5,415**	6,264
15	Cash and cash equivalents	**718,700**	651,018
		2,503,976	2,469,926

Impairments are included in the non-current receivables and the net trade receivables. Please refer to Note 12 and 14. None of the other financial assets included in this overview were overdue at year-end 2009 and included a provision for impairment.

c) Liquidity risks

Liquidity risks may occur if the performance of new projects stagnates and less payments (and prepayments) are received, or if investments in land or property development would have a too large effect on the available financing resources and/or operational cash flow. The size of individual transactions can cause relatively large short-term fluctuations in the liquidity position. The Group has sufficient credit and current account facilities to manage these fluctuations.

Partly to manage liquidity risks, subsidiaries prepare monthly detailed cash flow projections for the ensuing twelve months. The analysis of the liquidity risk takes into account the amount of cash and cash equivalents, credit facilities and the usual fluctuations in the Group's working capital requirements. This provides the Group with sufficient opportunities to use its available liquidities and credit facilities as flexible as possible, and to indicate any shortfalls in a timely manner.

The first possible expected outgoing cash flows from financial liabilities as at the end of the year and settled on a net basis, consist of (contractual) repayments and (estimated) interest payments. The total expected net outflow is made up as follows.

The composition of the expected net outflow is made up as follows:

	Carrying amount	Contractual cash flow	Not later than 1 year	1-5 years	Later than 5 years
2009					
Subordinated loan	200,000	230,880	7,720	223,160	-
Preference shares	1,721	2,098	442	1,656	-
Non-recourse PPP loans	670,406	844,507	51,461	234,240	558,806
Non-recourse project financing	503,416	532,370	277,585	217,020	37,765
Other project financing	302,439	306,868	62,909	216,964	26,995
Bank financing	360,000	388,224	8,064	380,160	-
Financial lease liabilities	47,581	56,190	22,168	23,714	10,308
Derivatives (forward exchange contracts)	(2,108)	(181,613)	(180,606)	(1,007)	-
Derivatives (forward exchange contracts)	1,884	182,024	180,813	1,211	-
Derivatives (interest swaps)	95,162	144,841	26,251	78,500	40,090
Other loans	17,714	18,740	6,892	11,824	24
Bank overdrafts	3,548	3,690	3,690	-	-
Other current liabilities	3,361,352	3,361,353	3,344,757	16,596	-
	5,563,115	**5,890,172**	**3,812,146**	**1,404,038**	**673,988**
2008					
Subordinated loan	200,000	252,000	13,000	239,000	-
Preference shares	1,773	2,147	479	1,667	-
Third party shareholders AM	49,000	50,308	50,308	-	-
Non-recourse PPP loans	558,121	878,434	37,572	233,282	607,580
Non-recourse project financing	489,522	561,353	111,259	449,328	766
Other project financing	267,783	308,220	38,985	251,902	17,333
Loan Terra Amstel	137,500	150,870	32,700	118,170	-
Loan AM	220,000	240,944	7,480	233,464	-
Financial lease liabilities	50,784	59,993	20,983	25,615	13,395
Derivatives (forward exchange contracts) [1]	1,497	1,497	1,497	-	-
Other loans	14,184	16,252	1,834	14,310	108
Bank overdrafts	141,283	145,521	145,521	-	-
Other current liabilities	3,217,569	3,217,569	3,187,284	30,285	-
	5,349,015	5,885,108	3,648,903	1,597,024	639,182

[1] At year-end 2008 the first possible expected outgoing cash flow from derivatives settled on a gross basis amounts to €155 million and €156 million. These derivatives relate to forward exchange contracts with terms to maturity of less than one year. These cash flows are directly related to the cash flows from the Group's operational activities.

The expected outgoing cash flows are offset by the incoming cash flows from operational activities and (re-)financing. Besides that, the Group has syndicated and bilateral credit facilities available of €550 million and €170 million, respectively.

4.2 Capital risks

The Group's aim is for a financing structure that ensures continuing operations and minimises cost of equity. For this, flexibility and access to the financial markets are important conditions.

As usual within the industry, the Group monitors its financing structure using a solvency ratio, among other factors. Solvency is calculated as the capital base divided by total assets. The Group's capital base consists of equity attributable to the company's shareholders, the subordinated loan and the preference shares (2008: including third party shareholders AM). Please refer to Notes 19.

The solvency ratio was 15.8 percent at the end of 2009 (2008: 16.3 percent).

4.3 Financial instruments by categories

The Group has four categories of financial instruments. A significant number of these are inherent to the Group's normal commercial operations and are included in the category of borrowings and receivables/obligations. A few other financial instruments are presented in various other line items of the balance sheet. The following summary indicates the values for which financial instruments are included for each relevant balance sheet item.

		Financial instruments				
		Loans and receivables / liabilities	Fair value through profit and loss	Derivatives used for hedging	No financial instruments	Total
	2009					
10	PPP receivables	498,293	-	-	-	640,508
12	Other financial fixed assets	61,100	3,782	-	1,278	66,160
20	Derivatives	-	-	2,108	-	2,108
14	Trade and other receivables	1,218,360	-	-	891,989	2,110,349
15	Cash and cash equivalents	718,700	-	-	-	718,700
19	Borrowings	2,103,277	-	-	3,548	2,106,825
20	Derivatives	-	-	97,046	-	97,046
24	Trade and other payables	1,098,818	-	-	2,262,534	3,361,352
		5,698,548	**145,997**	**99,154**	**3,159,349**	**9,103,048**
	2008					
10	PPP receivables	421,348	-	-	-	421,348
12	Other financial fixed assets	55,413	3,886	-	1,278	60,577
20	Derivatives	-	-	3,717	-	3,717
14	Trade and other receivables	1,332,166	-	-	926,711	2,258,877
15	Cash and cash equivalents	651,018	-	-	-	651,018
19	Borrowings	1,988,667	-	-	141,283	2,129,950
20	Derivatives	-	-	138,498	-	138,498
24	Trade and other payables	1,130,073	-	-	2,087,496	3,217,569
		5,578,685	3,886	142,215	3,156,768	8,881,554

About 35 percent (2008: 36 percent) of the total balance sheet position of €9.1 billion (2008: €8.9 billion) does not qualify as financial instruments. The majority of the 65 percent (2008: 64 percent) which can be classified as financial instruments relates to balance sheet positions that are inherent to the Group's normal course of business.

4.4 Fair value estimation

The fair value of financial instruments not quoted in an active market is measured using valuation techniques. The Group uses various techniques and makes assumptions based on market conditions on balance sheet date.

One of these techniques is the calculation of the net present value of the expected cash flows (DCF-method). The fair value of the interest rate swaps is calculated as the net present value of the expected future cash flows. The fair value of the forward exchange contracts is measured based on the 'forward' currency exchange rates on balance sheet date. In addition, valuations from bankers are requested for interest rate swaps.

At fair value valuated financial instruments consist of only interest rate swaps and foreign exchange contracts. In line with the current accounting policies the derivatives are classified as 'level 2'.
It is assumed that the nominal value (less estimated adjustments) of borrowings, trade receivables and trade payables approximate to their fair value.