



AnsaldoSTS

A Finmeccanica Company

QUARTERLY REPORT
ANSALDO STS GROUP
-
CONSOLIDATED ACCOUNTS
AT
30 JUNE 2006

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Ansaldo STS Group

Report on operations at 30 June 2006

Introduction

The Ansaldo STS Group recorded improved results - net of stock exchange listing costs - at 30 June 2006, compared with the same period the previous year. Orders increased from EUR 674,366,000 in the first half of 2005 to EUR 821,932,000 in the same period of 2006. Revenue grew by 19%, from EUR 373,638,000 to EUR 444,798,000. The Group's profit margin (EBIT/PAR) went from 9.0% at 30 June 2005 to 8.0% at 30 June 2006 (net of non-recurring listing costs, the latter figure was 9.5%, a rise of 0.5 percentage points). Net profit and cash flow during the quarter - again, net of listing costs - were markedly improved.

Detailed analysis of the performance of the various components of the P&L account and of the balance sheet should be made in light of the following:

- In November 2005 Ansaldo STS SpA began operations following the decision of the sole shareholder, Finmeccanica, to revoke the liquidation status and convert Euroskyway Srl into a company limited by shares under the present name.
- In February 2006 Ansaldo STS SpA acquired from Finmeccanica the entire share capital of Ansaldo Trasporti Sistemi Ferroviari SpA and of Ansaldo Signal NV, itself the parent company of a group of 19 companies operating in the signalling sector in a number of countries.
The requisite financial resources were provided by Finmeccanica, partly through a capital increase and partly through a convertible loan.
- On 29 March 2006, the start of share trading marked the conclusion of the complex procedure begun in September 2005, which had brought Ansaldo STS

shares to be quoted with a “Star” rating on the MTAX market run by the Italian Stock Exchange. Finmeccanica made 60 million of the company’s shares, or 60% of its share capital, available to the market, retaining the remaining 40 million shares, or 40% of the share capital.

- The parent company, Ansaldo STS, has borne the costs relative to the stock exchange listing during the first half. These costs, which by definition are non-recurring, have had an impact on the Ansaldo STS Group’s results for the period.
- The share price declined from EUR 8.86 to EUR 7.96 during the period, down 10.2%, although it remained above its listing price. The overall macro-economic situation affected all private-sector companies and therefore the world’s stock markets. Ansaldo STS’s shares are considered to be “defensive” and the relative underperformance, arising from doubts about Italian infrastructure projects, was limited due to the good performance reported in the first quarter of 2006, a strong stream of new orders and the positive assessments of a number of analysts that began covering the Group. This performance was affected by the changing perception of Ansaldo STS by the market. Though initially considered to be excessively dependent upon the domestic high-speed rail sector, analysts are becoming more refined in their evaluations, identifying various parts of the business, both in terms of business areas (not just railways, but also metros, especially driverless systems) and geographical scope (the Italian market represents just over 50% of the Group’s total revenue). However, the liquidity of the stock still suffers from limited circulation and awareness in the market. The company is therefore committed to communicating and providing information in order to explain the Group’s true areas of expertise and business and to avoid being compared with competitors in not-quite-comparable positions.

Results for the first half of the year

The first half to 30 June 2006 ended with a net consolidated profit of EUR 15,960,000, down from EUR 16,999,000 at 30 June 2005.

To make a meaningful comparison between the two periods, it is necessary to bear in mind the effect of the listing costs, which come to EUR 6,806,000. Excluding the latter, the Ansaldo STS Group's net profit would be EUR 22,766,000, an improvement of EUR 5,767,000 on the same period last year.

The improvement is attributable to the increase in EBIT, which, excluding the above-mentioned costs, rose by EUR 8,859,000 and to a EUR 810,000 increase in financial income, offset by a EUR 3,902,000 increase in taxes.

Taxes at 30 June 2006 came to EUR 20,922,000 (EUR 17,020,000 at 30 June 2005). Of this figure, EUR 3,441,000 was IRAP (regional tax on productive activities), EUR 13,626,000 was IRES (corporate income tax), EUR 3,855,000 tax on overseas companies and others (deferred taxes and taxes from previous periods).

Second-quarter results

The second quarter ended with a net consolidated profit of EUR 11,280,000, down from EUR 11,490,00 for the same period of last year.

To make a meaningful comparison between the two periods, it is necessary to bear in mind the listing costs, which came to EUR 2,082,000.

Excluding these costs, the Ansaldo STS Group's net profit for the quarter would be EUR 13,362,000, an improvement of EUR 1,872,000 on the same period last year.

The overall improvement is due to the following changes: a decrease in EBIT (excluding the above-mentioned costs) of EUR 183,000, an increase in financial income of EUR 261,000, and a decrease in taxes of EUR 1,794,000.

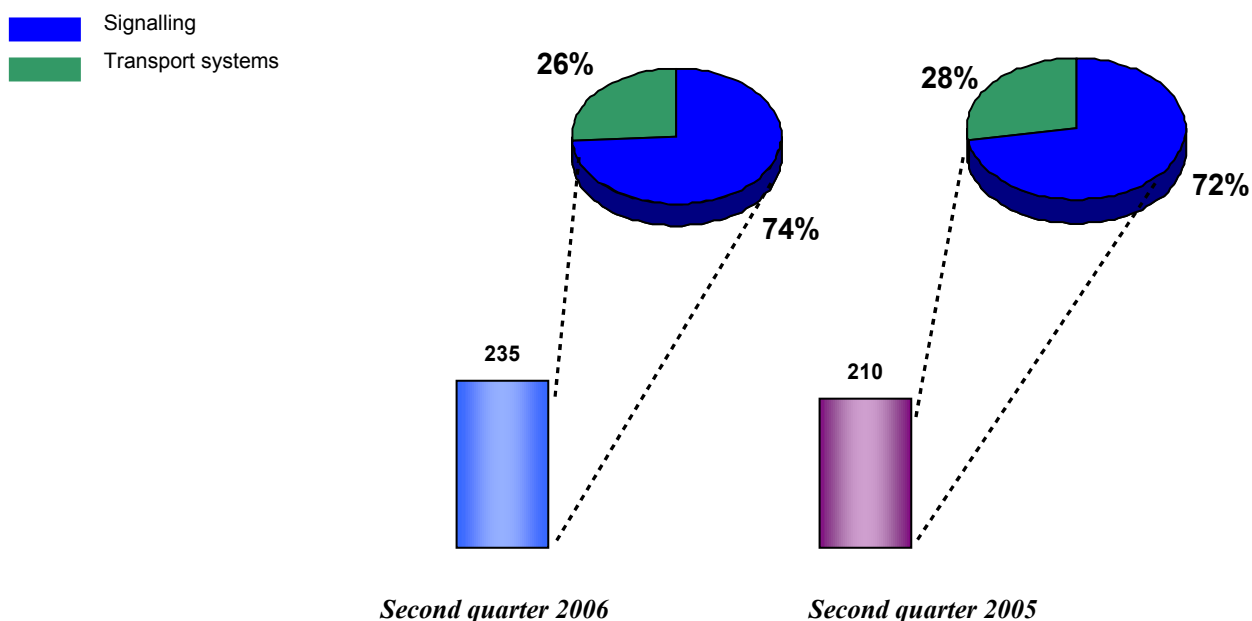
Taxes for the second quarter came to EUR 10,434,000 (EUR 12,228,000 for the second quarter of 2005). Of this figure, EUR 1,749,000 was IRAP, EUR 7,299,000 was IRES, EUR 1,386,000 tax on overseas companies and others (deferred taxes and taxes on previous periods).

In line with Group growth targets, the **value of production** increased by 12%, from EUR 210,320,000 for the second quarter of 2005 to EUR 235,728,000 for the same period of 2006; the increase in absolute terms came to EUR 25,408,000. The rise is

attributable essentially to the contribution of the signalling division during the two periods in question:

- Signalling (net of transactions with the transport systems division) expanded by EUR 21,166,000 compared with the same period the previous year,
- Transport systems (net of transactions with the signalling division) expanded by EUR 4,242,000 compared with the same period the previous year.

Value of production for the second quarter 2006 – 2005 (EUR millions)



Operating profit (EBIT) for the second quarter of 2006 was EUR 21,023,000 (EUR 23,105,000 excluding the above-mentioned costs) compared with EUR 23,288,000 for the second quarter of 2005, a decrease in absolute terms of EUR 2,265,000. During the period, non-recurring listing costs of EUR 2,082,000 were incurred.

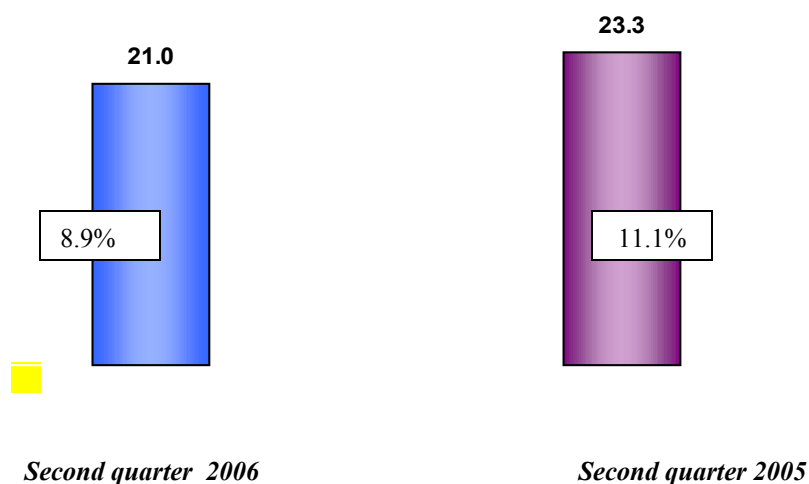
It should also be noted that in the second quarter R&D costs rose EUR 2,323,000 compared with the same period of last year. The profit margin, net of non-recurring costs alone, was 9.8% in 2006 compared with 11.1% in 2005.

Therefore:

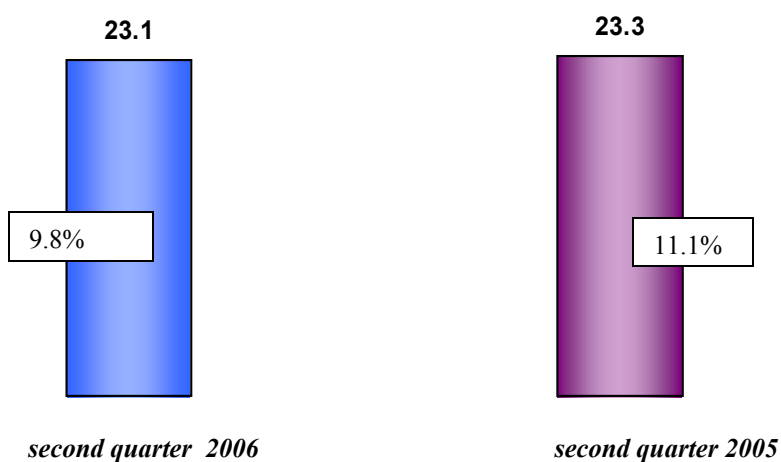
- Signalling ended the second quarter of 2006 with an operating profit of EUR 17,304,000 compared with EUR 16,965,000 for the same period last year, an increase of EUR 339,000.

- Transport systems for the second quarter of 2006 showed an operating profit of EUR 7,422,000 compared with EUR 6,323,000 the same period last year, an increase of EUR 1,099,000.

EBIT and ROS for the second quarter 2006- 2005 (EUR millions)



EBIT and ROS for the second quarter 2006 - 2005 (EUR millions – excluding listing costs)



At 30 June 2006, consolidated **net invested capital** was a negative EUR 85,328,000, compared with a positive figure of EUR 38,583,000 at 31 December 2005; the difference of EUR 123,911,000 is essentially attributable to **working capital**, which went from EUR (123,565,000) at 31 December 2005 to EUR (278,027,000) at 30 June 2006. The figure was positively affected by the reduction in net inventory due to the growth in progress billings, by the fall in trade receivables (higher receipts from

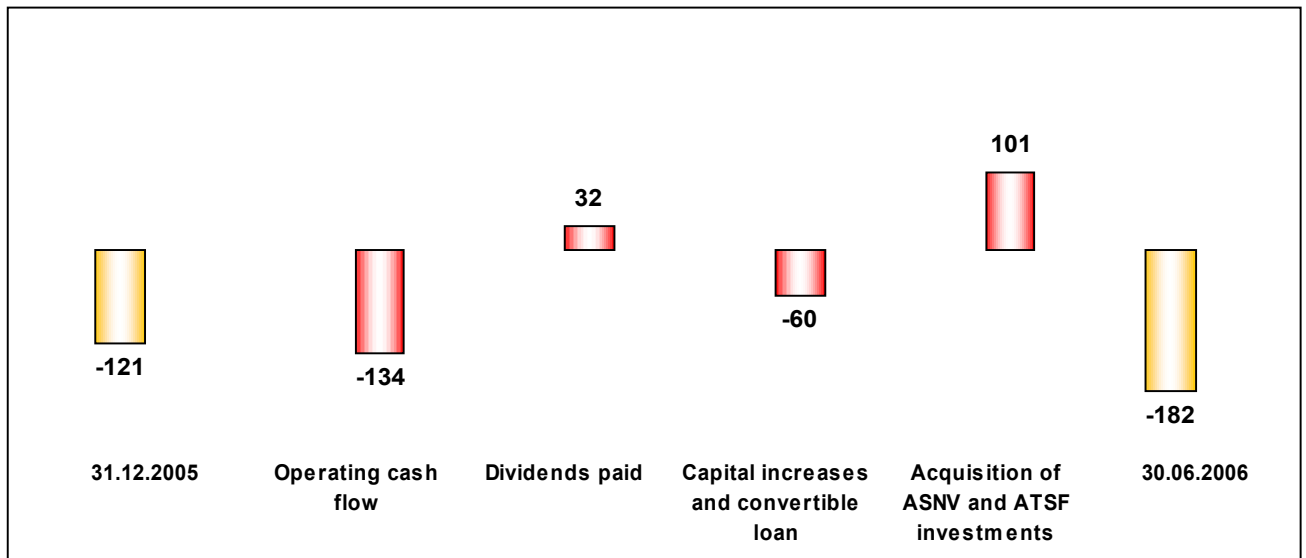
customers), and by the increase in current liabilities due to trade payables and taxes owed. It should be emphasised therefore that the Ansaldo STS Group turned in a good financial performance, thanks to its management of customer advances and collections and efficiency in dealing with customers and suppliers, to keep net invested capital at an optimum level. This approach has characterised the actions of management at the Ansaldo STS Group.

The Group's **net liquidity position** (excess of financial receivables and liquid assets over financial debts) at 30 June 2006 was EUR 181,641,000, compared with a positive liquidity position of EUR 120,760,000 at 31 December 2005: an increase of EUR 60,881,000. This is explained in detail in the notes. Cash management activities were positive, thanks to free operating cash flow (FOCF) during the period in question of EUR 133,810,000, or EUR 56,108,000 higher than the figure at 30 June 2005 (EUR 77,702,000).

The main factors that have affected the change in the Group's liquidity are the following:

- Acquisition of shareholdings for EUR 100,159,000
- Payment of dividends to the shareholder, Finmeccanica SpA, for EUR 32,000,000
- Receipt of proceeds from the increase in share capital of EUR 10,000,000 and capital contribution of EUR 50,169,000
- Receipt of VAT credit of EUR 19,155,000 relating to VAT positions arising during 2005 following acquisition from Finmeccanica SpA of the office premises at Via Mantovani 3/5, present headquarters of Ansaldo STS SpA, and of the licence for the use of the "Ansaldo" brand.
- payment of taxes of EUR 33,678,000.

Net liquidity position at 30 June 2006 (EUR 000)



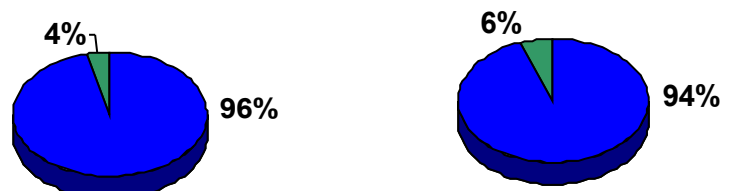
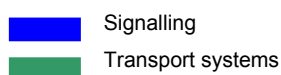
In the second quarter 2006, **R&D spending** stood at EUR 10,881,000 compared with EUR 8,588,000 at the second quarter of 2005 – an increase of about 27 %.

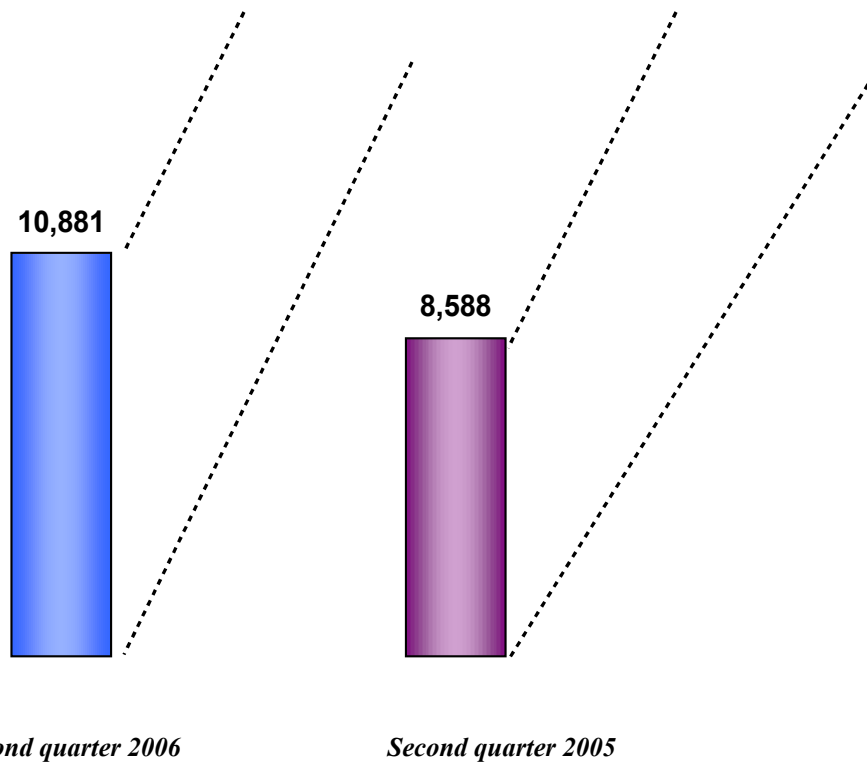
Work by the signalling division, worth EUR 10,447,000 or 96% of the total, is mainly attributable to the following companies (EUR 000):

- Ansaldo Segnalamento Ferroviario SpA (ASF) : 2,247
- CSEE Transport (CSEE) : 3,679
- Union Switch & Signal Inc. (US&S) : 1,808

Work by the transport systems division totalled EUR 434,000, a decrease of EUR 45,000 from the second quarter 2005.

R&D for the second quarter 2006-2005 (EUR 000) by division





Market conditions and business climate

Signalling division

During the first half of 2006 signalling reinforced its overall market position, with production volumes significantly higher than during the same period last year and with the value of contracts obtained falling slightly. The value of contracts benefited in the first half of 2005 from a considerable number of orders in Italy for the SCMT train control system (on-board and wayside), the signing of the UP CAD X contract in the United States and the signing of the four-year high-speed rail maintenance contract with the Spanish company Madrid Lerida.

The European market, in which our companies in Italy, France, UK and Sweden operate, is continuing to see substantial investment relating both to new high-speed lines and to the modernisation of national railway networks.

The market for urban railways is also vigorous, both as regards modernisation of existing lines and as regards new projects.

Most important during the period have been the Italian market, both in terms of production and in terms of acquisition of new orders - the last predominantly of the SCMT system, the Spanish market, where work continues on completing the Madrid-Lerida line and where a contract was signed in April to provide the signalling for the high-speed Perpignan – Figueras section of the line, and the market in the Nordic countries, where work continues on the possible introduction of the ERTMS system and where the first signalling system project has got under way in Finland. For this last, a subsidiary of Ansaldo Signal Sweden AB was set up.

Work in Italy includes: a high level of activity on the SCMT programme and on development of ERTMS systems for high speed lines, start-up of commercial operation on the Rome-Naples and Turin-Novara lines, and implementation of ACC technology within the programme for upgrading station interlocking.

Also worthy of note is the start of a recovery in the French market, which in the second half of last year saw Orders acquired from RATP as part of the Ouragan project and from RFF for the ERTMS system for the new TGV Est line. RFF has finished choosing the microprocessor interlocking systems, and has included the signalling division's

systems among the three shortlisted for modernising the station interlocking systems of the entire French rail network.

In the UK, after the suspension of the NMC project, the reorganisation of Network Rail has led to a revised signalling investment programme, now organised into five regions. Our companies, however, are not involved.

Opportunities remain in the CTC systems segment, and talks are under way to select the supplier of the ERTMS system for the Cambrian Line. Work on completing the CTRL high-speed line is continuing.

In the United States the domestic market still consists chiefly of signalling systems for urban railways; this market has seen a slowdown for a number of months.

After a quiet phase, the domestic market for rail components is picking up, as the main American railway companies find their infrastructure saturated by the growth in freight volumes.

Programmes to cut the cost of manufacturing are being extended across several product families.

Promotion and sales activity for automatically reprogrammable surveillance systems (of the OTP type), which rail operators value highly as they improve the use of existing infrastructure, is continuing.

The Far East market, particularly China, Taiwan and Korea, is especially important for the Group.

After the acquisition of a further share in the Chinese joint venture was finalised in June 2004, placing us in the position of management control, “localisation” of equipment and tools was implemented; this will allow us to carry out maintenance work on the Qin Shen line. Various projects will be discussed over the coming months, both for railways and for urban networks. During the first quarter, the French subsidiary CSEE secured an order worth about EUR 3 million to supply driver equipment with technology transfer. In China, bids have been submitted in the urban railways segment for new lines and extensions to existing ones; decisions should be taken during the second half.

In the Australasian market, delays and difficulties in Malaysia have been offset by higher volumes and acquisitions in Australia and in India. In the latter country, more

than 100 stations have now been equipped with the Microlock II interlocking system, and during the first quarter the contract for the Ghaziabad Kanpur line - the biggest signalling contract ever awarded by the Indian railways - was secured.

Systems

During the first half of 2006 a series of important initiatives begun by the company in previous years and in the first quarter of 2006 came to fruition, consolidating the position of Ansaldo Trasporti Sistemi Ferroviari (ATSF) as a leading player in transport systems, both in Italy and in Europe. Most important among these are the projects for the Rome metro's line C, the Milan metro's line 5, and the metro system in Thessaloniki, Greece. Especially significant was the decision by the Ørestad Development Corporation to exercise the option to extend ATSF's contract for operation and maintenance of Copenhagen's driverless metro by three years, until 2010. On exercising this option the customer took the opportunity to express its utmost satisfaction with the excellence and efficient functioning of the Copenhagen metro built by ATSF.

In the Italian market, the mass transit segment continues to be highly active. After the group of which ATSF is a part secured the contract for Rome's Line C, bidding began for Line D which, like Line C, is a driverless metro.

Line D will be another artery of the capital's transport system; the total contract value (works, electro-mechanical equipment, and vehicles) is estimated to be about EUR 2.8 billion. The contract will be of the project financing type, in which ATSF boasts considerable experience thanks to similar projects on the Florence tram system and Milan's Line 5.

In Italy, bidding will also begin within a few months on Milan's Line 4 which, once complete, will link Lorenteggio to Linate airport, via Piazza San Babila and the Duomo in the city centre. Once again, this is a driverless system, with the same features and capacity as Line 5.

In the rest of Europe, too, demand for transport systems continues to be decidedly healthy. Over the coming months bidding will begin for extending Dublin's tram system (the present network was built by ATSF), for which ATSF has already passed through

the pre-qualification stage. We are also awaiting the results of the pre-qualification stage of Edinburgh's Light Rail Transit (LRT). Bidding is due within the year.

Outside Europe, kicking off our strategy of taking advantage of the signalling division's worldwide presence to seize opportunities also in transport systems, a memorandum of understanding was signed with a Korean general contractor for broad co-operation in the sector, starting with bidding for the contract for the metro system of the city of Ui-Sinseol. ATSF will provide engineering and systems services, while US&S will supply Automatic Train Control (ATC) systems. This too is a driverless metro project, and its relatively limited scope will allow us to gradually acquire the knowledge needed to work in the promising South Korean market.

Other prospects concern high-speed rail lines, which will be turnkey projects. Most notably, ATSF is keeping a close eye on two important projects: the São Paulo-Rio de Janeiro line in Brazil, and the Mecca-Medina line in Saudi Arabia.

Orders acquired in the second quarter of 2006 came to a total of EUR 428,242,000, compared with EUR 391,495,000 during the same period the previous year - an increase of EUR 36,747,000, or 9.4%.

Orders acquired by the signalling division came to EUR 131,575,000, while transport systems won orders worth EUR 296,667,000.

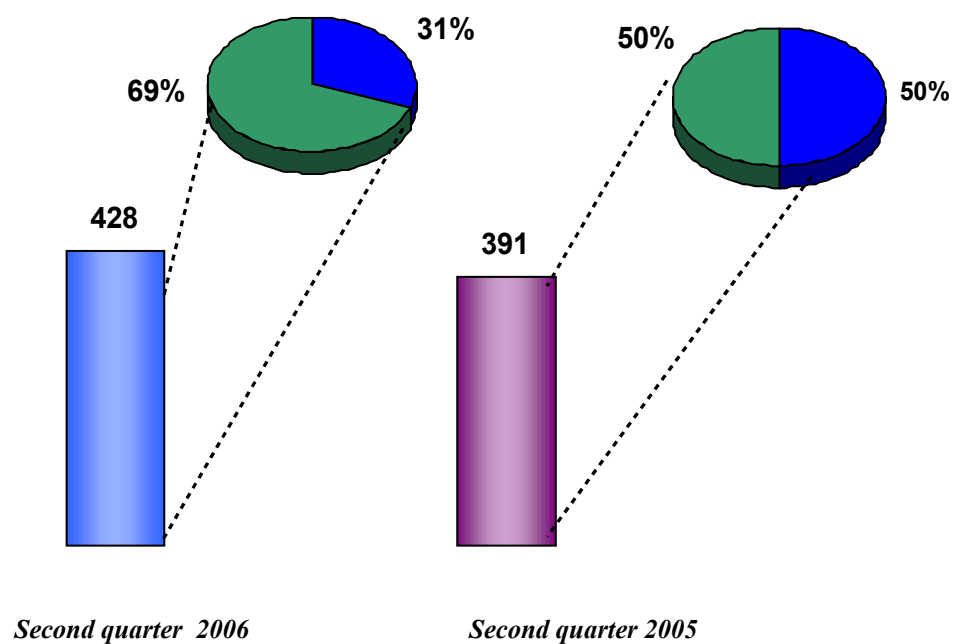
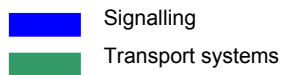
The main Orders acquired by the signalling division during the second quarter of 2006 were on the following projects:

Country	Project	Customer	Value (EUR millions)
Netherlands	Eurocab HSA	Ansaldo Breda	11.8
Spain	Eurocab CAF	CAF	5.9
Spain	HSL-Perpignan - Figueras	IFP Cobra	7.9
Australia	Line CTC	ARTC	11.1
Australia	ICSS Ioso Futout x 10	Pilbara Iron	3.4
India	Gooty - Pullanpet - Doubling of line	Leighton Emrail	10.7
Other	Components & Services	Various	51.4

The main Orders acquired by the transport systems division during the second quarter of 2006 were on the following projects:

Country	Project	Customer	Value (EUR millions)
Greece	Thessaloniki	Attiko Metpo A.E.	166
Italy	Milan Metro	Metro 5	118
Italy	High-speed rail	R.F.I.	8
Italy	Alifana	Metro Campania	4

Orders for the second quarter 2006-2005 (EUR millions) by division



The **order backlog** at 30 June 2006 totalled EUR 2,445,536,000, an increase of EUR 235,534,000 (or 11%) on the EUR 2,210,002,000 figure at 30 June 2005.

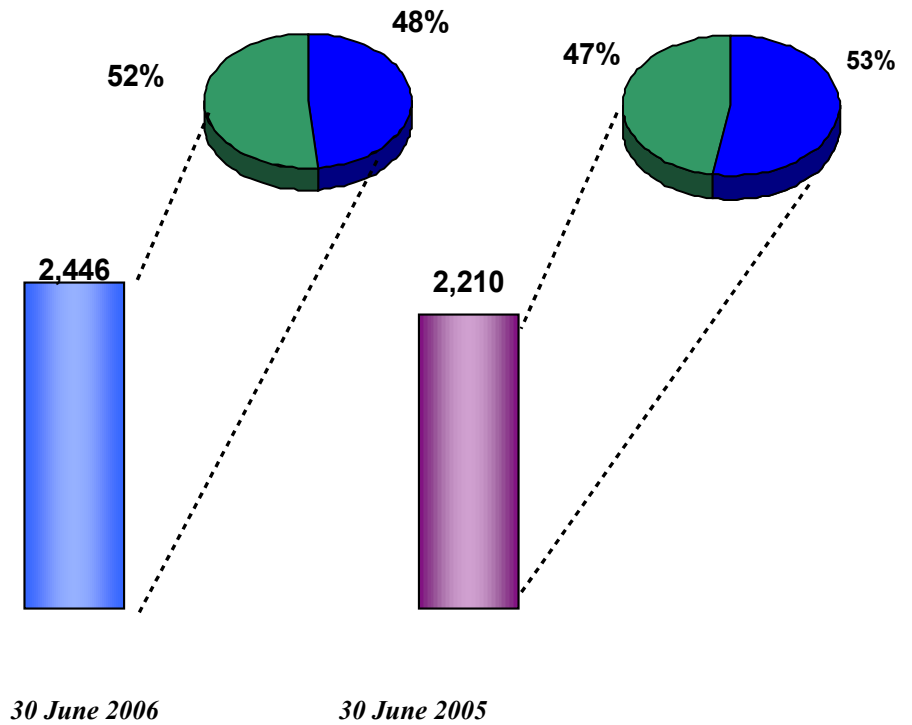
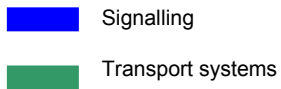
The signalling division's order backlog at 30 June 2006 stood at EUR 1,184,838,000 (net of transactions with the transport systems division).

Of this figure, EUR 645,553,000 related to the Italian subsidiary ASF, EUR 250,709,000 to the US subsidiary US&S, EUR 203,008,000 to the French subsidiary CSEE, and EUR 151,481 to the subsidiaries in the Asia/Pacific region.

The transport systems division's order backlog at 30 June 2006 came to EUR 1,260,698,000, chiefly relating to the following projects:

- High speed trains (EUR 138,000,000)
- Copenhagen metro (EUR 214,000,000)
- Concessions relating to the building of the Naples, Rome, and Genoa metros (EUR 290,000,000)
- Brescia and Milan driverless metro (EUR 327,000,000)
- Thessaloniki (EUR 164,000,000)
- Alifana (EUR 63,000,000)

Orders backlog at 30 June 2006-2005 (EUR millions) by division

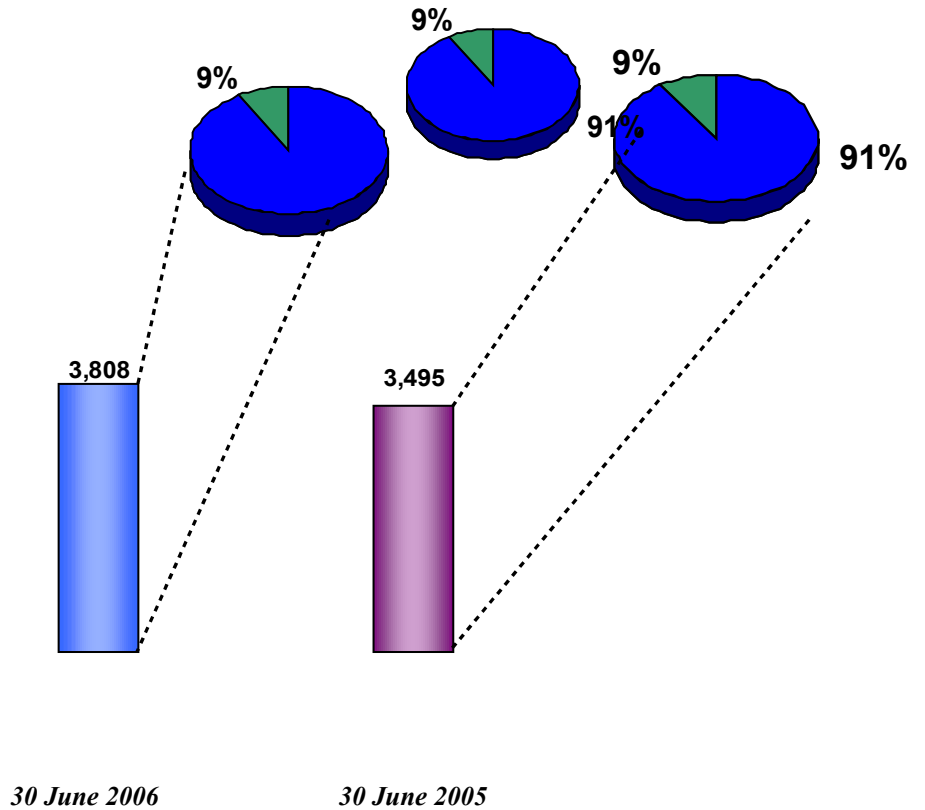
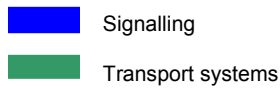


The Group's **headcount** at 30 June 2006 stood at 3,808, an increase of 313, or 9%, on the 3,495 of 30 June 2005.

By company, this broke down as follows:

- Signalling division: 3,481 staff
- Transport systems division: 327 staff

Headcount at 30 June 2006-2005 by division



Main transactions during the quarter and subsequent events

The second quarter of 2006 saw projects of great importance to both Ansaldo STS divisions (signalling and transport systems) come to fruition.

As for transport systems, the project for the Line C of the Rome metro is now in the process of being formalised, despite the complex nature of these types of contracts. April saw the formation of the company running the project, which be awarded the work by the customer.

As to the effect of the new provisions introduced by Decree Law 223/06 (the “Bersani Decree”), the amendments introduced while the Decree was being ratified into law on the taxation of real estate sales have eliminated the refund of VAT on the purchase of the building located at Via P. Mantovani, 3/5, Genoa, in December 2005. The refund would have had a considerable impact on the company’s results. As a result, the only effect that

the provisions should have on the company's accounts is an insignificant reduction of the portion of the tax deductible depreciation of the building as a result of separating the value of the land from the overall value of the property.

Analysis of the Group's operating performance and financial conditions

Accounts	<i>Second quarter 2006</i>	<i>Second quarter 2005</i>	<i>First half 2006</i>	<i>First half 2005</i>
<i>Profit and loss account (EUR 000)</i>				
Revenue	235,89 1	205,801	442,363	369,385
Changes in work in progress, semi-finished products and finished goods	(163) 2,40	4,519	2,435	4,253
Other operating revenues	4 64,03	2,988	5,044	4,539
Purchases	5 89,84	63,004	116,505	101,852
Service costs	2 57,22	70,906	170,549	135,368
Staff costs	5 2,47	51,492	115,774	99,306
Amortisation, depreciation and write-down	8	2,546	4,957	4,707
Other operating costs	3,60	2,098	6,688	3,628

	8			
	7			
Capitalised costs of assets produced internally	9	26	197	197
	<u>21,02</u>	<u>23,28</u>	<u>35,56</u>	<u>33,51</u>
EBIT	<u>3</u>	<u>8</u>	<u>6</u>	<u>3</u>
	69			
Financial income and charges, net	1	430	1,316	506
Effects of valuation of shareholdings with equity method	0	0	0	0
	<u>21,714</u>	<u>23,718</u>	<u>36,882</u>	<u>34,019</u>
Profit (loss) before tax				
Income tax	(10,434)	(12,228)	(20,922)	(17,020)
	<u>11,280</u>	<u>11,490</u>	<u>15,960</u>	<u>16,999</u>
Net profit				
<i>Group</i>				
	11,25		15,9	17,0
<i>Minority interest</i>	9	11,494	44	08
	2			
	1	(4)	16	(9)
Earnings per share				
<i>Basic</i>				
	0.1		0.	
<i>Diluted</i>	1	-	16	-
	0.1		0.	
Financial income and charges, net	1	-	16	-
Balance sheet (EUR 000)	<u>30.06.06</u>	<u>31.12.05</u>	<u>30.06.05</u>	
Non-current assets				
	41,8	41,1	42,4	
Intangible fixed assets	10	52	87	
	92,9	91,8	26,8	
Tangible fixed assets	54	16	01	
	28,5	1,4	1,4	
Equity investments	03	55	07	
	8,4	8,6	8,4	
Receivables	13	67	44	
	32,5	31,5	29,8	
Deferred taxes	40	77	83	
	30,2	30,5		
Other assets	99	90	-	
	<u>234,5</u>	<u>205,2</u>	<u>109,0</u>	
	<u>19</u>	<u>57</u>	<u>22</u>	
Current assets				
	89,0	91,4	82,1	
Inventory	41	55	16	
	90,0	64,8	82,6	
Work in progress under contract	47	25	35	
	233,3	342,2	248,3	
Trade receivables	73	28	70	
	19,4	25,0	7,6	
Tax credits	46	24	15	

	134,3	176,9	121,6
Financial receivables	97	32	92
	17,3	26,9	24,8
Other current assets	25	03	89
	61,8	35,9	52,9
Cash and cash equivalents	47	73	87
	<u>645,4</u>	<u>763,3</u>	<u>620,3</u>
	76	40	04
	<u>879,9</u>	<u>968,5</u>	<u>729,3</u>
Total Assets	95	97	26

<i>Balance sheet (EUR 000)</i>	<u>30.06.06</u>	<u>31.12.05</u>	<u>30.06.05</u>
Shareholders' equity			
Share capital	49,95	39,95	0
	0	0	0
Other reserves	45,99	119,01	90,13
	2	6	0
	<u>95,94</u>	<u>158,96</u>	<u>90,13</u>
<i>Group's shareholders' equity</i>	<u>2</u>	<u>6</u>	<u>0</u>
	37	37	32
<i>Minority interests</i>	<u>1</u>	<u>7</u>	<u>1</u>
	<u>96,31</u>	<u>159,34</u>	<u>90,45</u>
<i>Total shareholders' equity</i>	<u>3</u>	<u>3</u>	<u>1</u>
Non-current liabilities			
Financial debt	10,27	9,73	10,11
	2	5	0
Severance pay and other staff funds	29,81	28,93	28,29
	6	5	1
Provisions for risks and charges		2,73	2,73
		2	5
Deferred taxes	5,81	4,94	3,88
	1	3	4
Other liabilities	6,19	6,49	6,24
	3	9	4
	<u>52,09</u>	<u>52,84</u>	<u>51,26</u>

	<u>2</u>	<u>4</u>	<u>4</u>
<i>Current liabilities</i>			
Advances from customers	431,17	406,09	337,28
	2	9	9
Trade payables	179,73	173,50	170,61
	0	9	9
Short-term receivables	4,33	82,41	3,30
	1	0	3
Taxes payable	26,35	14,87	14,76
	2	8	7
Provisions for risks	25,45	19,85	10,83
	4	3	1
Other current liabilities	64,55	59,66	50,80
	1	1	2
	<u>731,59</u>	<u>756,41</u>	<u>587,61</u>
	0	0	1
	<u>783,68</u>	<u>809,25</u>	<u>638,87</u>
<i>Total liabilities</i>	<u>2</u>	<u>4</u>	<u>5</u>
	<u>879,99</u>	<u>968,59</u>	<u>729,32</u>
<i>Total liabilities and shareholders' equity</i>	<u>5</u>	<u>7</u>	<u>6</u>

Cash flow

<i>(EUR 000)</i>	<u>30.06.06</u>	<u>31.12.05</u>	<u>30.06.05</u>
<i>Cash flow from operations</i>			
Gross cash flow from operations	3	102	4
	8,730	,882	6,222
Change in working capital	13	33	4
	3,969	,107	3,189
Changes in other operating assets and liabilities, taxes, and interest	<u>(25,445)</u>	<u>(30,088)</u>	<u>(5,742)</u>
	14	105	8
Cash flow for operations	<u>7,254</u>	<u>,901</u>	<u>3,669</u>
<i>Cash flow from investing activities</i>			
Company acquisitions, net of cash acquired	(6,790)	(281)	(281)
Investments in tangible and intangible fixed assets	(7,486)	(76,122)	(6,018)
Sale of tangible and intangible fixed assets	17	1,003	281
Dividends received	397	0	0
Other investments	418	(32,177)	51

Cash flow for investing activities	<u>(13,444)</u>	<u>(107,577)</u>	<u>(5,967)</u>
<i>Cash flow from financing activities</i>			
Net change in other financial debts	(136,416)	(46,133)	(68,678)
Capital increases	6	39	0
New non-current debts	0,169	,895	0
Dividends paid	821	0	0
	<u>(32,000)</u>	<u>-</u>	<u>-</u>
Cash flow for financing activities	<u>(107,426)</u>	<u>(6,238)</u>	<u>(68,678)</u>
	2		
Net cash decrease	6,384	(7,914)	9,024
Foreign exchange translation differences	(510)	(375)	(299)
	3	44	4
Cash and cash equivalents at 1 January	<u>5,973</u>	<u>,262</u>	<u>4,262</u>
Cash and cash equivalents and period-end	<u>61,847</u>	<u>35,973</u>	<u>52,987</u>

Shareholders' equity

Shareholders' equity	Share capital	Retained earnings/losses carried forward	Other reserves	Total Group shareholders' equity	Minority interests	Total shareholders' equity
(EUR 000)						
Shareholders' equity at 31 December 2004		(99,909)	165,157	65,248	294	65,542
Foreign exchange translation differences			6,385	6,385	(17)	6,368
Income (charges) booked directly under net assets			1,490	1,490		1,490
Net profit (loss) 30 June 2005		17,007		17,007	(8)	16,999
Dividends						0
Capital increases						0
Changes in the basis of consolidation and other minor factors					52	52
Shareholders' equity at 30 June 2005	-	(82,902)	173,032	90,130	321	90,451
Shareholders' equity at 31 December 2005	39,950	(54,896)	173,912	158,966	377	159,343
Foreign exchange translation differences			(4,637)	(4,637)	22	(4,615)
Income (expenses) booked directly in equity			(1,634)	(1,634)		(1,634)
Net profit (loss) at 30 June 2006		15,944		15,944	16	15,960
Dividends		(32,000)		(32,000)		(32,000)
Capital increases	57,679	2,490		60,169		60,169
Changes in the basis of consolidation and other minor factors	(47,679)		(53,187)	(100,866)	(44)	(100,910)
Shareholders' equity at 30 June 2006	49,950	(68,462)	114,454	95,942	371	96,313

General information

Ansaldo STS is a company limited by shares based at Via Paolo Mantovani 3/5, Genoa, and has been listed on the Italian stock exchange (Star segment) since 19 March 2006. Ansaldo STS SpA is a subsidiary of Finmeccanica SpA, whose headquarters are at Piazza Monte Grappa 4, Rome, is listed on the Italian stock exchange (S&P/MIB), and directs and supervises the activities of Ansaldo STS.

The Ansaldo STS Group is a major player in the signalling and rail transport systems market segments. Ansaldo STS SpA is the parent company, carrying out the functions of business and strategic management, co-ordinating the operations of its subsidiaries (which together are known as “Ansaldo STS Group” or “the Group”).

The Ansaldo STS Group grew out of the transport signalling and systems operations which, until the second half of the 1990s, were carried out by Ansaldo Trasporti within the Finmeccanica group. The formation of Ansaldo Signal in 1996 and of Ansaldo Trasporti Sistemi Ferroviari in 2001 (together with the formation of AnsaldoBreda, for the vehicles segment, the same year) produced a reorganisation of the entire transport division, as a result of which Finmeccanica held a 100% stake in Ansaldo Signal, Ansaldo Trasporti Sistemi Ferroviari and AnsaldoBreda.

Meanwhile, in 1996 Finmeccanica had acquired SIC Società Italiana Comunicazioni Srl (SIC), renamed EuroSkyway Srl in 1997. In April 2005 the company was put into liquidation.

Following Finmeccanica’s strategic decision in the second half of 2005 to list its signalling and transport systems companies on the stock exchange (having previously put in place a unitary management structure to enhance their business and commercial synergies) the EuroSkyway Srl shareholders’ meeting, through its sole shareholder, Finmeccanica, decided at the end of 2005 to revoke the company’s state of liquidation and transform it into a company limited by shares, to change its own name to Ansaldo STS SpA, and to change its business object, focusing on signalling and transport systems for railways and urban rail systems.

To complete the above reorganisation, in February 2006 Ansaldo STS, as already stated, acquired from Finmeccanica the entire share capital of Ansaldo Signal NV and Ansaldo Trasporti Sistemi Ferroviari SpA. From 29 March 2006 Ansaldo STS was listed on the stock exchange.

Finmeccanica placed on the market 60 million shares in the company, or 60% of its share capital, at EUR 7.80 per share, retaining the remaining 40 million, equal to 40% of the share capital. The greenshoe option was exercised to the full, in view of the extremely large number of requests to purchase the shares.

In organisational terms, Ansaldo STS SpA operates through two business divisions: Ansaldo Signal N.V. (“signalling division”), and Ansaldo Trasporti-Sistemi Ferroviari SpA (“transport systems division”).

The signalling division designs and builds signalling systems, subsystems and components, whereas the transport systems division designs and builds integrated transport systems, of which signalling is an essential part. Moreover, the transport systems division studies, designs and plans how to integrate the activities of designing and building the technological equipment that goes to make up a system - that is, the track, signalling, power supply, telecommunications, and vehicles (whether for inter-city or urban railways) as well as any other technological works which, collectively, constitute an integrated transport system. The final product - an integrated transport system, whether an inter-city line or an urban one - is then delivered as a “turnkey” project to the customer. However, the Group can also offer the expertise of the signalling or transport systems division separately, according to specific customer needs.

Basis of preparation

In compliance with Regulation (EC) no. 1606/2002 of 19 July 2002, the Ansaldo STS Group’s consolidated accounts at 31 December 2006 will be the first drawn up in conformity with the IAS/IFRSs (hereafter IFRSs) adopted by the European Union. The first financial statements drawn up in accordance with IFRSs were the aggregate financial statements at 31 December 2004 and 31 December 2005 drawn up for

inclusion in the Prospectus prepared for the listing on the Milan stock exchange, which occurred on 29 March 2006. The accounts at 30 June 2005 and 31 December 2005 were prepared in aggregate form since the business being listed was expanded in 2004 and 2005 through companies wholly-owned by Finmeccanica, though no company owned a stake in another. Specifically, on 24 February 2006, Ansaldo STS acquired, for the purposes of the listing process, equity interests in Ansaldo Signal and in Ansaldo Trasporti-Sistemi Ferroviari. Therefore the aggregate financial statements for the Group were drawn up for 2004 and 2005 for comparative purposes only to show the Group's performance and financial position prior to the listing as if it had always operated as a single group.

The consolidated quarterly report at 30 June 2006, as required by Article 82 of the Regulation implementing Legislative Decree no. 58 of 24 February 1998 and subsequent amendments, adopted by CONSOB on 14 May 1999 (resolution no. 11971), concerning the rules governing issuers, has been prepared in accordance with Appendix 3D of the Regulation. The numerical information provided herein was calculated in accordance with the International Financial Reporting Standards (hereinafter "IFRSs") adopted by the European Union.

The use of the term "IFRSs" encompasses all the International Financial Reporting Standards, all the International Accounting Standards ("IASs"), all the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC", formerly called the Standing Interpretations Committee ("SIC")) adopted by the European Union and contained in the relevant EU Regulations published up through 2 August 2006, the date on which Ansaldo STS's Board of Directors approved the draft quarterly consolidated report. ■

The IFRSs, which are used for drawing up consolidated accounts, have been integrated with the IFRIC interpretations in force as at June 2006. In some respects, at the time of writing, the harmonisation and interpretation work being carried out by the relevant official bodies, and the process of endorsement by the European Commission, are still in progress. Consequently, possible further modifications or additions to these principles and interpretations cannot be ruled out; these may allow, or oblige, the Ansaldo STS Group to modify accounting policies, standards and estimates used in drawing up the present consolidated quarterly report.

All figures are in thousands of euros unless otherwise indicated

In order to draw up the consolidated quarterly report to 30 June 2006, management used estimates. The main areas where such estimates and assumptions are particularly significant, and such estimates as have important effects on the situations presented, are described later in this report.

This consolidated quarterly report at 30 June 2006, drawn up according to IFRSs is unaudited.

Method used in presenting comparable consolidated accounts at 31 December 2005 and at 30 June 2006.

Ansaldo STS's acquisition of 100% of Ansaldo Signal and of Ansaldo Trasporti-Sistemi Ferroviari was, under IFRS 3, a "common control" transaction, that is, a business combination in which all the companies or operations concerned are controlled by the same company or companies both before and after the merger, and in which this control is not temporary. The way such transactions appear in the accounts is not, at present, regulated by IFRSs, and therefore, as indicated by international financial reporting standards, we have adopted a "similar" set of accounting standards. In the event, it was decided that such operation should be recognised in the accounts of the company surviving the merger, using the figures in the accounts of the controlling company. Therefore, consolidated accounts reflect those for the three above-mentioned companies that appear in Finmeccanica's accounts at the date of acquisition. In calculating these combined financial figures, the following accounting operations were carried out:

- The accounts as at 31 December 2005 and 30 June 2005 of Ansaldo STS SpA, Ansaldo Signal, and Ansaldo Trasporti-Sistemi Ferroviari, drawn up for the purposes of the listing process in compliance with the IFRSs adopted by the European Union, have been combined.
- Consolidation adjustments have been made to eliminate assets and liabilities, costs and revenues arising from transactions between the combined companies

during each of the periods in question, as well as any unrealised profit or loss deriving from transactions between the merged companies and third parties;

- Other adjustments have been made to reflect in the combined accounts to December 2005 and 30 June 2005 the figures in Finmeccanica's consolidated accounts to 31 December 2004, which were drawn up in accordance with IFRSs adopted by the European Union. Specifically, attention is called to the following adjustments made in the Finmeccanica accounts and reflected in the calculation of the new consolidated financial data;
- Derecognition of goodwill of EUR 12,687,000 in 2001 relating to the transfer of the systems division by Ansaldo Trasporti SpA (a Finmeccanica group company) to Ansaldo Trasporti-Sistemi Ferroviari;
- Recognition of goodwill relating to the acquisition of Ansaldo Signal by the parent company, Finmeccanica.

Accounting standards adopted

Consolidation method

For the purposes of consolidation, the accounts of the companies controlled, directly or indirectly, by Ansaldo STS were used, starting from the date on which control was gained and ending with the date on which the control ceased. In this instance control may be exercised either through the possession - direct or indirect - of a majority of shares with voting rights, or through the exercise of a dominant influence, the power to determine, even indirectly via legal or contractual agreements, companies' financial and management decisions and thus enjoy the relevant benefits, even without any shareholding being involved. The existence of potential voting rights that may be exercised as at the reporting date is taken into account in determining where control lies. The criteria adopted for consolidation of subsidiary companies are the following:

Assets and liabilities, costs and revenues of the consolidated companies are incorporated line by line in the consolidated accounts allotting, where applicable, to minority shareholders the portion of shareholders' equity and net profit due to them in the period in question. Minority interests are listed separately in the consolidated shareholders' equity and income statement.

Business combinations that result in the gaining of control of a given entity are entered using the purchase method. The cost of acquisition corresponds to fair value, as at the date of acquisition, of the assets taken over, the liabilities taken on, the equity securities issued and all other charges applicable. The difference between the cost of acquisition and the current value of the assets and liabilities obtained at the date of acquisition, if a positive figure, is entered as an asset under "goodwill"; if it is a negative figure, after the current values of assets and liabilities acquired are re-checked, it is entered in the profit and loss account.

Unrealised profits and losses deriving from transactions conducted between Group companies and third parties are eliminated if they are significant, as are reciprocal debts and credits, costs and revenues, and financial charges and income deriving from transactions between fully consolidated companies.

Profits or losses deriving from the sale of shareholdings in consolidated companies are entered in the profit and loss account. The amount entered is the difference between the sale price and the corresponding shareholding sold.

Shareholdings in associated companies, over which the merged companies have significant influence (which is assumed to exist where a shareholding is between 20% and 50%), are valued with the equity method (IAS 28). This method is as follows:

the accounting value of such shareholdings corresponds to the shareholders' equity as adjusted, where necessary, to reflect the application of IFRSs, and includes any goodwill identified at the time of acquisition;

Group profits or losses are entered in the profit and loss account of the consolidated accounts from the date when significant influence began until the date when it ceased. In the event that the loss attributable to the Group exceeds the shareholding of the associated company, taking account of any non-secured credits, the carrying value of the shareholding is eliminated and any excess is allocated to a special fund, if the shareholding company is committed to meeting legal or other obligations of the investee

company, or at least to covering its losses. Variations in the value of companies valued with the equity method and not reflected in the profit and loss account are entered directly as an adjustment to equity reserves;

Unrealised profits and losses generated by transactions conducted between the parent company or its subsidiaries and associated companies are eliminated in proportion to the value of the Group's shareholding in the associated company. Unrealised losses are eliminated except where they represent an impairment.

The standards for the translation of company accounts in foreign currency other than the euro, which is our functional currency, are the following:

Assets and liabilities are translated using the exchange rates prevailing at the reporting date of the relevant consolidated accounts;

Costs and revenues are translated using the average exchange rate during the year;

The "translation reserve" covers exchange rate differences generated by both the translation of operating results at an exchange rate different from the closing exchange rate and the translation of opening shareholders' equity at an exchange rate different from the exchange rate prevailing at the closing of the reporting period;

Goodwill and adjustments deriving from fair value relating to the acquisition of a foreign company are treated as assets and liabilities of the foreign company, and converted at the closing exchange rate for the period;

In preparing the consolidated accounts, average exchange rates for the period have been used for translating cash flows of foreign subsidiaries.

The exchange rates applied in the translation of financial statements in currencies other than the euro at 30 June 2005 and 2006 were as follows:

	30 June		Average over six months to 30 June	
	2005	2006	2005	2006
US\$	1.2092	1.2713	1.2855	1.2292
GBP	0.6742	0.6921	0.6861	0.6872
HK\$	9.3990	9.8745	10.0187	9.5362
SEK	9.4259	9.2385	9.1408	9.3258
AUS\$	1.5885	1.7117	1.6634	1.6546
INR	52.2500	58.0000	55.8502	54.9683
MYR	4.5960	4.6714	4.8847	4.5303
BRL	2.8415	2.7535	3.3100	2.6905
CNY	10.0063	10.1895	10.6353	9.8734
VEB	2,591.53	2,734.37	2,651.85	2,637.32

The companies that have been fully consolidated in the Ansaldo STS Group accounts at 30 June 2006 are the following:

Company	Country	Currency	Share capital (000)	Shareholding %
Ansaldo Trasporti-Sistemi Ferroviari S.p.A.	Naples (Italy) Amsterdam	EURO	30,300	100
Ansaldo Signal NV	(Netherlands)	EURO	100	100
Acelec S.A.	Les Ulis (France)	EURO	168	100
Ansaldo Segnalamento Ferroviario S.p.A.	Tito (Italy)	EURO	45,240	100
Ansaldo Signal Sweden AB	Spanga (Sweden)	SEK	4,000	100
Ansaldo Signal Finland Oy	Helsinki (Finland)	EURO	10	100
Ansaldo Signal UK Ltd	London (UK)	GBP	1,000	100
Ansaldo Signal Ireland Ltd	Tralee (Ireland)	EURO	100	100
Beijing CS. Signal Contr. Syst. Co. Ltd	Beijing (China)	YUAN	7,558	80
Csee Hong Kong Ltd	Hong Kong	\$HK	100	100
Csee Transport S.A.	Les Ulis (France)	EURO	5,000	100
Ansaldo Signal Espana S.A.	Madrid (Spain)	EURO	1,500	100
Transcontrol Corporation	Wilmington (USA) Kuala Lumpur	\$USD	1	100
Union Switch & Signal Sdn Bhd	(Malaysia)	RM	300	100
Union Switch & Signal Inc. Canada	Burlington (Canada)	\$CAN	350	100
Union Switch & Signal Inc.	Delaware (USA)	\$USD	1	100
Union Switch & Signal Int. Co	Delaware (USA)	\$USD	1	100
Union Switch & Signal Int. Projects Co.	Delaware (USA)	\$USD	25	100
Union Switch & Signal Private Ltd	Bangalore (India)	RUPIA	12,915	100
Union Switch & Signal Pty Ltd	Eagle Farm (Australia)	\$AUS	5,026	100

Summary of accounting policies and estimate criteria

The Group's consolidated quarterly report has been drawn up using the cost principle, except in cases specifically mentioned in the following notes, where fair value has been applied, quoted in euros.

The following are the main accounting policies adopted.

Tangible fixed assets

These are valued at cost or production cost, net of accumulated depreciation and any impairment. The cost includes every charge directly incurred in using them, as well as any charges relating to decommissioning or removal that will be sustained as a result of contractual obligations that demand that the asset be returned to its original state. Any interest charges relating to the construction of tangible fixed assets are charged to the profit and loss account.

Charges incurred for routine and/or regular maintenance and repair are directly entered in the profit and loss account for the year when they were incurred. Capitalisation of the costs relating to expansion, modernisation, or improvement of elements owned or leased by the Group is carried out only in so far as these meet the requirements for being classified separately as assets or parts of assets when the "component approach" criterion is applied. Any capital grants that relate to buildings, plant, and machinery are entered as a direct deduction from the asset to which they relate.

The value of tangible fixed assets entered is depreciated on a straight-line basis from the date when the asset is available and ready for use, in accordance with its estimated useful life.

The depreciation periods used are as follows:

Buildings:	20-33 years
Plant and machinery:	5-10 years
Equipment:	3-7 years
Other assets:	3-8 years

The useful life and residual value of tangible fixed assets are reviewed annually and updated, where applicable, at the end of every year.

Land is not subject to depreciation.

If an asset to which depreciation is applied is made up of identifiable elements whose useful life is significantly different from that of other parts that make up the asset, depreciation is calculated separately for each part that makes up the asset, in keeping with the “component approach”.

Profits and losses deriving from the sale or disposal of assets are calculated as the difference between the proceeds from the sale and the net accounting value of the asset disposed of, and are entered in the profit and loss account for the year in question.

Civilian buildings are valued according to the revalued cost method stipulated by IAS16. This consists of revaluing assets so that they are brought in line with fair value at the date of the revaluation, less accumulated depreciation and any loss of value. The revaluation is entered in an equity reserve and transferred directly to retained earnings when the revalued amount is realised.

Intangible fixed assets

These are made up of non-monetary elements, which are identifiable and not physical, and which are capable of generating future economic benefits. These elements are entered as their cost of acquisition and/or production, including expenses directly attributable to preparing the asset for use, net of accumulated amortisation and any loss of value. Any interest charges accrued during and as a result of development of

intangible fixed assets are charged to the profit and loss account. Amortisation begins when the asset is ready for use and, and is expensed out on a straight-line basis in accordance with its estimated useful life.

Goodwill

Goodwill is the cost of acquisition less net fair value, at the date of acquisition, of the assets and liabilities of companies or company assets. It is not subject to amortisation but it is tested for impairment periodically. In order to conduct the impairment test, goodwill is allocated to individual cash generating units (CGUs), that is, to the smallest financially independent business units through which the Group operates.

Licences and similar rights

For licences and similar rights amortisation is calculated on a straight-line basis, so that the cost borne in acquiring a right is allocated over the shorter between the period of expected use and the duration of the relevant contracts, starting from the time the acquired right can be exercised.

Licences that are acquired and relate to software are capitalised on the basis of the costs sustained in acquiring them. Amortisation is calculated on a straight-line basis over their expected useful life (3 to 5 years).

Software costs

The costs related to the development and maintenance of software programs are recognised as costs when incurred. Costs that are directly connected with the production of unique, identifiable software controlled by the Group that generate future financial benefits over a period exceeding one year are entered as intangible assets. Direct costs include the costs related to employees who develop the software as well as any appropriate share of the general costs. Amortisation is calculated on a straight-line basis over the expected useful life of the software (3 years) beginning when the asset is available and ready for use.

Research and development costs

Research costs are entered in the profit and loss account for the year in which they are sustained.

An intangible fixed asset that is generated internally and relates to development costs is entered in the accounts only if all the following conditions are simultaneously met:

- The asset can be identified;
- It is capable of generating future economic benefits;
- Its development cost can be reliably measured;
- There is a market for the product generated by such development.

If these conditions are not met, development costs are expensed as incurred. Capitalised development costs are amortised at on a straight-line basis over their entire useful life.

Leased assets

Assets held via finance leases, through which the risks and benefits pertaining to ownership are essentially transferred to the Group, are recognised as assets belonging to the Group at their current value or at the present value of the minimum payments owed to the lessor, whichever is lower. The corresponding liability towards the lessor is entered in the accounts as a financial debt. These goods are depreciated in accordance with the methods and criteria applicable to tangible fixed assets.

Leases in which the lessor essentially retains the risks and benefits incidental to ownership of the assets are recognised as operating leases. The costs relating to operating leases are entered on a straight-line basis in the profit and loss account throughout the leasing contract's duration.

Impairments of assets

At the date of each set of accounts, tangible and intangible fixed assets with a fixed lifespan are analysed, so as to establish whether there are any indications, whether from within the Group or from outside sources, of a value impairment. In the event that such indications are identified, the recoverable value of such assets is estimated, and any fall in value entered in the profit and loss account. An asset's recoverable value is the greater of two figures: either its fair value minus sales costs, or its value in use, where the latter is the present value of future cash, that is expected to flow from an asset or a cash-generating unit. In determining its value in use, expected future cash flow is discounted to present value using a pre-tax discount rate that reflects the current market value of the cost of money relating to the period of the investment and to the asset's specific risks. For an asset that does not generate independent cash flow, the value is calculated in relation to the cash-generating unit to which such asset belongs. An asset is written down via a charge to the profit and loss account if the book value of such asset, or of the cash-generating unit of which it is a part, is greater than the recoverable value. If the conditions for a previous write-down no longer apply, the asset's accounting value is reinstated by an entry in the profit and loss account, provided that such reinstated value does not exceed the net book value that the asset would have had if it had not been written down and depreciation had been applied.

Financial instruments

These include financial assets and liabilities whose classification is determined when they are first entered in the accounts according to the purpose for which they were acquired. Acquisitions and sales of financial instruments are entered in the accounts on the date of the transaction, or on the date on when the Group committed itself to buying or selling the assets.

Financial assets

Financial assets are classified, when first entered into the accounts, in one of the following categories, and valued as explained below:

Loans and receivables: these financial instruments chiefly relate to trade receivables, are non-derivative, are not listed on an organised exchange and do not yield fixed or foreseeable payments. They are reported as current assets, with the exception of those due beyond 12 months after the reporting date, which are classified as non-current assets. Such assets are valued at amortised cost on the basis of the effective interest rate method. If there has been objective evidence of loss of value, the asset is written down so as to equal the discounted value of future income. Losses of value are entered in the profit and loss account. If in succeeding years the reasons for previous write-downs no longer apply, the value of such assets is restored to what it would have been if the amortised cost had been applied and the asset had not been written down.

Investments available for sale: these are non-derivative financial instruments that are a category to themselves, and fit in none of the above categories. Such instruments are reported at fair value, and the gains or losses from valuation are charged to an equity reserve and are reversed to profit and loss account only when the financial asset is effectively sold or, in the event of cumulative negative change, when it is clear that the loss of value already entered in the equity reserve cannot be recovered. Whether such assets are classified as current or non-current depends on strategic choices regarding the length of time the asset is owned and on whether it can be traded; assets that are expected to be sold within 12 months of the date of the accounts are reported as current.

Financial assets are removed from the balance sheet when the right to receive cash flow from an instrument expires and the Group has effectively transferred all the risks and benefits relating to the instrument, as well as control over it.

Financial liabilities

These relate to financing, trade payables, and other obligations to pay; they are valued at amortised cost, using the criterion of the effective interest rate. If there is a change in the expected cash flow and it is possible to estimate these reliably, the value of the loans is recalculated to reflect this change on the basis of the present value of the new expected cash flows and of the internal rate of return originally determined. Financial liabilities

are classified as current liabilities, except where the Group has an unconditional right to defer their payment for at least 12 months after the reporting date.

Financial liabilities are removed from the accounts when they are repaid, and the Group has transferred all the risks and charges relating to them.

Derivative instruments

The Group enters into contracts for derivatives operations in order to cover for exchange rate risks.

According to the financial policies adopted, the Group uses derivative contracts to manage exchange rate risks. Specifically, the Group uses derivative instruments as part of the hedging strategies that aim to mitigate the risk of cash flow variations caused by the future execution of obligations contractually entered into by a given reporting date. Essentially this is the risk connected to the variations in exchange rates relating to orders and purchase and sale orders denominated in currencies other than the company's functional currency (known also as a "cash flow hedge").

The note explains the procedures for identifying and hedging risks to which the Group has exposure.

Derivative instruments are initially entered in the accounts at fair value, on the date the contract was entered into. Subsequent variations in the derivative instruments' fair value which do not meet the requirements for being entered into the accounts as instruments for hedging risk are entered as financial income or expenses. In the case of derivative instruments that do meet these requirements, subsequent variations in fair value are entered in the accounts according to the specific criteria explained below. In order for the derivative instruments that qualify as instruments for hedging risk to be identified, each comes with special documentation which makes clear the relationship between the hedging instrument and the risk itself, including the goals of risk management, the hedging strategy, and the methods for verifying effectiveness. The effectiveness of each hedge must be checked when each derivative instrument is established as well as during

its life. In general, a hedge is considered to be highly effective if, at the start of its life and during its life, changes in the expected future cash flows of the underlying asset are essentially offset by changes in the fair value of the hedging instrument.

In the case of a cash flow hedge, the variations in a derivative instrument's fair value that occur after initial measurement are recognized— up to the extent of the effective portion—in a special equity reserve, the “cash flow hedge reserve”. The reserve is reversed to the profit and loss account when the economic effects of the risk hedged materialise. The economic effects of the release of the reserve are recognised where the corresponding effects originating from the underlying asset are entered. If the hedge is not perfectly effective, the variation in the fair value of the hedging instrument attributable to the ineffective portion is immediately recognised under financial income and expense.

If during the life of a derivative financial instrument the expected cash flows being hedged are no longer considered highly likely to materialise, the portion of the cash flow hedge reserve relating to that instrument is immediately reversed to the profit and loss account as financial income or expense. Conversely, if the derivative instrument is sold, or no longer qualifies as an effective hedge, the cash flow hedge reserve recognised until then is kept as an equity component and is reversed to the profit and loss account according to the classification criterion described above as the effects of the underlying assets materialise.

Determining fair value of financial instruments

The fair value of financial instruments listed on markets is set using the bid price on the last day of the reporting period. In the absence of an active market, fair value is set with reference to the prices provided by outside suppliers and using valuation models based chiefly on objective financial variables, while also taking into account, where possible, the prices paid in recent transactions and the listed prices of comparable financial instruments.

Inventory

Inventory is valued at the lower of cost or production cost and net realisable value. Cost is determined using the weighted average cost method. The cost of finished goods and semi-finished products includes the cost of raw materials, direct labour costs, and indirect costs incurred in the course of normal production.

The net realisable value is determined on the basis of the estimated sale price under normal market conditions, net of direct sale costs.

Based on the value of inventory as determined above, provisions are made to allow for inventory that is considered obsolete or slow-moving.

Work in progress

Work in progress is entered using the degree of completion (or percentage of completion) method, in which revenue is counted on the basis of how far advanced work is. The criterion applied by the Group is that of the percentage of completion in the “cost to cost” application procedure.

The valuation reflects the best estimate of work programmes carried out at the reporting date. The assumptions on which the valuations are based are updated periodically. Any economic effects are entered into the accounts for the year in which the updating takes place. If it is felt that completion of an order may lead to a loss that affects operating margins, this is entered in its entirety in the year in which it can reasonably be foreseen to happen.

Work in progress under contract is shown net of any allowance for inventory obsolescence, as well as of any advances and instalments paid relating to such contract work. This analysis is made contract by contract. Positive differences (when the value of the work in progress exceeds that of the advances paid) are shown on the asset side. Negative differences are reported as liabilities, in the entry “advances from customers”. Any amount entered in the advances still uncollected at the time the accounts (or interim reports) are drawn up, is offset by an entry under trade receivables.

Contracts for which payment is in foreign currency are valued by converting the portion that has been paid, determined using the percentage of completion method and the exchange rate at the end of the period in question.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits with banks, other highly liquid short-term investments (which can be converted into cash within 90 days) and the current account overdraft (the last is entered among current liabilities).

Employee benefits

The Group has several types of defined-benefit and defined-contribution pension plans, in line with local conditions and practices in the countries where it operates.

Payments to defined-contribution plans during the year are recognized in the profit and loss account.

Defined-benefit pension plans, including severance pay owed to employees in compliance with Article 2120 of the Civil Code are based on the length of service and the salary an employee earns over a given period. The liability representing benefits due to employees is recognised in the accounts on the basis of its actuarial value.

The recognition of defined-benefit plans requires the use of actuarial techniques to estimate the amount of benefits employees have earned in exchange for the work they have done during this and prior periods as well as the discounting to present value of such benefits to determine the current value of the Group's pension commitments. The present value of the Group's commitments is established by an outside consultant using the projected unit credit method. This considers every year of service by company staff as an additional credit unit; the actuarial liability must therefore be quantified on the basis only of pension benefits earned as at the valuation date. Therefore, the total liability is normally adjusted on the basis of the years of service completed at the valuing date and the total pension benefits earned at the time they are to be paid. Moreover, this method also takes into consideration future cost increases, for whatever reason (inflation, promotion, contract renewal, etc.) until the end of employment.

The cost of defined-benefit plans for the year, which is recognised in the profit and loss account under staff costs, is equal to the sum of the average present value of benefits earned by employees for work carried out during the year and of the annual interest

accrued on the present value of the Group's commitments as at the beginning of the year. Such interest is calculated using the discount rate for determining the present value of future disbursements adopted at the end of the previous year. The annual discount rate used for these calculations is assumed to be equal to the market rate at the end of the period for zero coupon bonds with an expiry date equal to the average residual life of the liability.

Actuarial gains and losses, defined as the difference between the book value of liabilities and the present value of the Group's commitments at the end of the period, due to the change in the actuarial assumptions used previously, are entered in the accounts using the "corridor" method, that is, only when they exceed 10% of the present value of the Group's commitments at the end of the preceding period. In these circumstances, the excess over the 10% is entered in the profit and loss account in line with the residual average working life of employees starting from the following year.

Provisions for risks and charges

These are entered as a result of losses and charges of a particular type. These are either certain or probable but cannot, at the reporting date, be quantified, and/or their timing cannot be foreseen.

These are entered only when there is a current obligation (legal or implicit) for future cash outlays as a result of past events and it is likely that such outlays will be demanded in fulfilment of the obligation. The provision made represents the best estimate of the present value of the expenditure required to meet the obligation. The discount rate used in setting the present value of the liability reflects current market values and includes the further effects of the specific risk associated with each liability.

Risks for which a liability is only a possibility are mentioned in the relevant information section on commitments and risks. No provision is made for these.

Translation of accounting entries in currencies other than the euro

Transactions in foreign currency are translated into euros using the exchange rates prevailing on the date they were made. Gains and losses on foreign exchange transactions and resulting from the translation at end-of-year exchange rates of foreign-denominated assets and liabilities are entered in the profit and loss account.

Revenue recognition

Revenue is recognised at the fair value of the payment received, net of VAT, discounts, and quantity discounts. Revenue also includes changes to work in progress. Specifically, the Group enters into the accounts revenue from sale of goods at the moment that all the risks and benefits incidental to ownership are transferred to customers; in many cases, this moment coincides with the transfer of title or ownership to the buyer. Revenue from services rendered is entered, when it can be reliably estimated, on the basis of the percentage that has been completed.

Grants

If there is a formal document of attribution, contributions are recognised on the basis of the matching principle, in direct correlation with the costs sustained. Operating grants are entered in the profit and loss account as a direct reduction of the charge to which they refer. Capital grants are entered in the profit and loss account in direct correlation to the amortisation/depreciation process to which the goods or projects refer, and are deducted from amortisation/depreciation itself.

Dividends

These are entered when the shareholders' right to receive payment is exercised; this normally happens when the shareholders' meeting passes the motion for the distribution of dividends. Distribution of dividends is thus entered as an asset in the year in which it is approved by the shareholders' meeting.

Taxes

Current taxes are assessed on the basis of the year's taxable income, applying the rates in force at the reporting date.

Deferred taxes are assessed on all the temporary differences that arise between the taxable amount of an asset or liability and its book value, with the exception of goodwill and those relating to temporary differences resulting from shareholdings in subsidiaries, when the timescale governing the reversal of such differences is within the Group's control and it is likely that they will not be reversed within a reasonable time. Deferred tax assets, including tax loss carryforwards, for the portion that is not offset by deferred tax liabilities, are recognised to the extent that it is probable that there will be future taxable income against which they can be applied. Deferred taxes are assessed using tax rates that will be applicable to the years in which temporary differences will be realised or cancelled out.

Current and deferred taxes are entered in the profit and loss account, with the exception of those relating to accounting entries that are directly debited or credited to equity, in which case the tax effect is applied directly to shareholders' equity. Current and deferred taxes are offset when the income tax is applied by the same tax authority, there is a legal set-off right and the net balance is expected to be collected.

Other taxes, not relating to income, such as property taxes, are entered under "operating charges".

Estimates

The drawing up of interim accounts requires that directors apply methods and principles which, in some circumstances, are founded upon difficult and subjective valuations, and estimates based on experience and assumptions that are considered reasonable and realistic case by case, according to the circumstances. Such estimates and assumptions have a bearing on the amounts entered in accounts, such as the balance sheet, the profit and loss account, the cash flow statement, as well as the accompanying information supplied with these. The final figures for the items in accounts to which these estimates and assumptions have been applied may differ from carrying values because of the

uncertainty that characterises assumptions and the conditions on which estimates are based.

Critical accounting estimates and assumptions

Described below are the accounting principles that demand greater subjectivity on the part of the directors in making estimates. For these principles a change in the principles underlying the assumptions made could have a significant impact on consolidated quarterly figures:

Risk provisions and estimates of final costs of long-term contracts: the Group operates in business segments with especially complex contractual frameworks, which are entered in the accounts via the percentage of completion method. The operating margins in the profit and loss account are a function both of the progress on a particular contract and of the operating margins that are expected to be recognised once the whole project is complete. Therefore, the correct assessment of work in progress and the operating margins expected from unfinished work requires a correct estimate on the part of management of the final costs and the estimated increases, as well as of the delays, cost overruns, and penalties that may reduce the expected operating margins. To provide a sounder basis for management estimates, the Group has equipped itself with procedures for managing and analysing contract risks, which aim to identify, monitor, and quantify the risks relating to the carrying out of these contracts. The figures entered in the accounts are management's best estimate at the time, made with the help of the above-mentioned procedures. Moreover, the Group operates in segments and markets where many problems are resolved only after a significant time-lag, especially in cases where the customer is a public body, which obliges management to forecast the results of such disputes. Estimates of final costs depend on factors that may change over time and which could therefore produce a significantly different outcome from that expected by directors at the time the quarterly consolidated figures are drawn up.

Goodwill: in accordance with the accounting standards adopted for the consolidated accounts, directors check goodwill annually, to establish whether there are any impairments to be entered in the profit and loss account. Most importantly, this check includes the allocation of goodwill to cash generating units, and the subsequent determination of the relative fair value. If fair value is lower than the accounting value of

the cash generating units, the value of goodwill allocated is brought into line with the recoverable written-down value. The allocation of goodwill to cash generating units and the determination of the fair value of such CGUs involves making estimates that depend on factors that may change over time and which could therefore produce a significantly different outcome from that expected by directors at the time the quarterly consolidated accounts are drawn up.

Write-down of fixed assets: in accordance with the accounting standards applied by the Group, fixed assets are tested for impairment, which must be recorded via a write-down, when there are indicators that point to difficulties in recovering their net book value. Establishing whether such indicators exist demands that directors make subjective judgments based upon information available within the Group and in the market, as well as on experience. Moreover, if it is established that an impairment may have occurred, the Group proceeds to assess this, using the valuation techniques that are deemed appropriate. Proper identification of the elements that indicate a potential reduction in value, as well as the estimates for assessing such a reduction, depend on factors that may change over time and which could therefore produce a significantly different outcome from that expected by directors at the time the quarterly consolidated accounts are drawn up.

Deferred tax assets are entered in the accounts on the basis of the expectation of taxable income in future years. The estimation of the expected taxable income, for the entering of deferred taxes into the accounts, depends on factors that may change over time and have a considerable effect on the extent to which deferred tax assets may be recoverable.

SEGMENT REPORTING

Primary segment

The Group operates in two segments: signalling in railways and urban railways through the **signalling division**, and in transport systems through the **transport systems division**.

For more detailed analysis of the main programmes, outlook, and management indicators for each division, see the report on operations by segment.

The results of the divisions for the second quarter of 2006, compared with those for the same period the previous year, are as follows:

Second quarter ended 30 June 2006				
	<i>Signalling division</i>	<i>Transport systems division</i>	<i>Other operation s</i>	<i>Total</i>
<i>(EUR 000)</i>				
Revenue	174,510	61,381	0	235,891
Changes in work in progress, semi-finished products, finished products, and goods	(163)	0	0	(163)
Other operating revenue	1,980	786	(362)	2,404
Purchasing costs	54,978	9,617	(560)	64,035
Service costs	49,334	38,227	2,281	89,842
Staff costs	50,855	6,370	0	57,225
Amortisation, depreciation and write-downs	1,978	158	342	2,478
Other operating costs	1,957	373	1,278	3,608
Capitalised costs of internally produced assets	79	0	0	79
	17,30			
(EBIT)	4	7,422	(3,703)	21,023
Net financial income and charges	(162)	1,493	(640)	691
Effects of valuation of shareholdings with equity method	0	0	0	0
Profit (loss) before taxes	17,142	8,915	(4,343)	21,714
Income tax	(7,022)	(3,412)	0	(10,434)
Net profit	10,120	5,503	(4,343)	11,280
	10,0			1
<i>of which: Group</i>	99	5,503	0	5,602
<i>Minority interests</i>	21	0	0	21
	3,3			
<i>Investments</i>	47	296	485	4,128

Second quarter ended 30 June 2006					
	<i>Signalling division</i>		<i>Signalling division</i>		
<i>(EUR 000)</i>	<i>(EUR 000)</i>		<i>(EUR 000)</i>		
Revenue	148,66	2	57,139	0	205,801
Changes in work in progress, semi-finished products, finished products, and goods	4,519	2,48	0	0	4,519
Other operating revenue	4	4	504	0	2,988
Purchasing costs	40,92	2	22,082	0	63,004
Service costs	49,05	9	21,847	0	70,906
Staff costs	45,09	8	6,394	0	51,492

	1,74			
Amortisation, depreciation and write-downs	6	800	0	2,546
	1,90			
Other operating costs	1	197	0	2,098
Capitalised costs of internally produced assets	26	0	0	26
(EBIT)	16,965	6,323	0	23,288
				11.1%
Net financial income and charges	(339)	769	0	430
Effects of valuation of shareholdings with equity method	0	0	0	0
Profit (loss) before taxes	16,626	7,092	0	23,718
Income tax	(9,443)	(2,785)	0	(12,228)
Net profit	7,183	4,307	0	11,490
	7,18			
<i>Of which: Group</i>	6	4,307	0	11,493
<i>Minority interests</i>	(3)	0	0	(3)
	2,47			
<i>Investments</i>	8	298	0	2,776

The divisions' assets and liabilities at 30 June 2006 and 30 June 2005 are as follows:

30 June 2006				
	<i>Signalling division</i>	<i>Transport systems division</i>	<i>Other operations</i>	<i>Total</i>
Total assets	340,946	219,851	319,198	879,995
Total liabilities	330,261	210,990	242,431	783,682

31 December 2005				
	<i>Signalling division</i>	<i>Transport systems division</i>	<i>Other operations</i>	<i>Total</i>

<i>Total assets</i>	487,756	377,749	103,0 92	968,59 7
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<i>Total liabilities</i>	403,433	329,536	76,2 85	809,25 4
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30 June 2005

	<i>Signalling division</i>	<i>Transport systems division</i>	<i>Other operations</i>	<i>Total</i>
<i>Total assets</i>	374,868	354,458	-	729,32 6
<i>Total liabilities</i>	327,402	311,473	-	638,87 5

Secondary segment

Geographically, Group revenues break down as follows (according to the countries where customers are based):

	<i>Second quarter 2006</i>	<i>Second quarter 2005</i>	<i>First half 2006</i>	<i>First half 2005</i>
Italy	131,753	116,936	244,082	197,041
Rest of Western Europe	48,458	44,337	92,785	93,700
North American	33,719	31,408	61,763	56,661
Asia / Pacific	21,007	14,438	41,502	22,619
Others	3,389	2,935	4,666	3,617
Total	238,326	210,054	444,798	373,638

Geographically, operations break down as follows:

	<i>First half</i> <i>2006</i>	<i>First half</i> <i>2005</i>
Italy	593,736	406,924
Rest of Western Europe	112,518	157,130
North American	119,525	136,057
Asia / Pacific	54,216	29,188
Others	0	27
Total	879,995	729,326

Investments are broken down on the basis of where they are made as follows:

	<i>Second quarter</i> <i>2006</i>	<i>Second quarter</i> <i>2005</i>	<i>First half</i> <i>2006</i>	<i>First half</i> <i>2005</i>
Italy	1,492	3,955	2,511	3,955
Rest of Western Europe	245	936	1,156	936
North American	1,671	628	3,025	628
Asia / Pacific	721	499	794	499
Others	0	0	0	0
Total	4,129	6,018	7,486	6,018

Notes to the quarterly accounts at 30 June 2006

In order to provide additional information on the Group's operating results, financial condition and cash flow, the restated profit and loss account, balance sheet, net financial debt, and cash flow are provided below.

The following table gives consolidated profit and loss amounts for the second quarter of 2006, the same period in 2005, and the year to 31 December 2005:

	<i>Second quarter</i> <i>2006</i>	<i>Second quarter</i> <i>2005</i>	<i>First half</i> <i>2006</i>	<i>First half</i> <i>2005</i>
<i>Profit and loss account</i> <i>(EUR 000)</i>				
Revenue	235,891	205,801	442,363	369,385

Changes in work in progress, semi-finished products, finished products, and goods	<u>(163)</u>	<u>4,519</u>	<u>2,435</u>	<u>4,253</u>
	<u>235,728</u>	<u>210,320</u>	<u>444,798</u>	<u>373,638</u>
Purchasing and staff costs	(211,023)	(185,376)	(402,631)	(336,329)
Amortisation/depreciation	(2,343)	(2,366)	(4,807)	(4,527)
Write-downs	(135)	(180)	(150)	(180)
Reorganisation costs	0	0	0	0
Other net operating revenues (costs)	(1,204)	890	(1,644)	911
(EBIT)	<u>21,023</u>	<u>23,288</u>	<u>35,566</u>	<u>33,513</u>
Net financial income and charges	691	430	1,316	506
Income tax	(10,434)	(12,228)	(20,922)	(17,020)
NET PROFIT	<u>11,280</u>	<u>11,490</u>	<u>15,960</u>	<u>16,999</u>
<i>Of which: Group</i>	11,259	11,493	15,944	17,007
<i>Minority interests</i>	21	(3)	16	(8)

Total “**value of production**” for the second quarter of 2006 stood at EUR 235,728,000, an increase of EUR 25,408,000 or 12% on the same period the previous year, when the comparable amount was EUR 210,320,000. The change was due to an increase of EUR 21,166,000 in the signalling division, which breaks down as follows:

- EUR 10,765,000 at the Asia/Pacific area subsidiaries (Union Switch & Signal PTY, Union Switch & Signal Malaysia and Union Switch & Signal Pvt) due to the following projects: O’Donnell Griffin – Southern for EUR 1,638,000, Botswana Railways – Safeworking System for EUR 1,402,00, ARTC for EUR 1,846,000 and ERTMS – South and North India for EUR 5,879,000.
- EUR 7,984,000 at the US subsidiary US&S, partly due to the following projects: the UP CAD X project for EUR 2,550,000, the Charlotte Area Transit project for EUR 3,423,000 and the Chicago Transit project for EUR 2,358,000.
- EUR 1,679,000 at the French subsidiary CSEE, due to increased component maintenance work
and to an increase of EUR 4,242,000 at the transport systems division related to projects for the Naples Municipality.

“Purchasing and staff costs” went from EUR 185,376,000 in the second quarter of 2005 to EUR 211,417,000 in the same period of 2006. These broke down as follows:

	<i>Second quarter 2006</i>	<i>Second quarter 2005</i>	<i>First half 2006</i>	<i>First half 2005</i>
Materials	62,225	65,293	114,377	106,101
Change in work in progress	1,810	(2,289)	2,128	(4,249)
Services	86,910	67,155	163,535	128,895
Rent and operating leases	2,932	3,751	7,014	6,473
Total purchasing and service costs	153,877	133,910	287,054	237,220
Payroll	43,919	38,098	88,727	75,274
Pension and social security expenses	11,227	11,975	22,166	21,542
Severance pay fund	633	1,146	1,488	1,840
Costs relating to other defined-benefit plans	126	64	343	170
Other costs	1,320	209	3,050	480
Total staff costs	57,225	51,492	115,774	99,306
Capitalised costs for internally produced assets	(79)	(26)	(197)	(197)
Total	211,023	185,376	402,631	336,329

The increase in purchasing costs (up by about 14.9%), like the value of production, is due to the above-mentioned increase in production by the divisions.

“Staff costs”, which stood at EUR 57,225,000 in the second quarter of 2006 compared with EUR 51,492,000 for the same period in 2005, were higher largely because of an increase in the staff numbers and, to a lesser extent, a rise in average unit costs.

The average headcount during 2006 was 3,688, compared with 3,399 during the same period the previous year, an average increase of 289, attributable to the signalling division for 286 persons and the transport systems division for 3 persons.

The headcount at 30 June 2006 came to 3,808, an increase of 313 on the 3,495 registered at 30 June 2005, of which 302 attributable to the signalling division and 11 to the transport systems division.

The average unit staff cost for Italy increased, essentially because of the renewal of collective labour agreements. Abroad, the increase was chiefly attributable to the higher percentage of skilled personnel out of total staff.

“Amortisation and depreciation” showed a decrease over the period compared with the same period the previous year of EUR 23,000, broken down as follows: an increase of EUR 97,000 attributable to the signalling division and a decrease of EUR 462,000 due to the transport systems division, which was almost offset by an increase at the parent company, Ansaldo STS, of EUR 342,000 in respect of the depreciation relating to the acquisition of the premises at Via Mantovani. Amortisation and depreciation for the year stood at EUR 2,343,000 (EUR 2,366,000 for the same period in 2005), of which EUR 2,003,000 related to tangible fixed assets (EUR 1,601,000 for the same period in 2005) and EUR 340,000 to intangible fixed assets (EUR 765,000 for the same period in 2005).

Write-downs came to EUR 135,000, and related to receivables.

Other costs exceeded other revenues by EUR 1,204,000 (EUR 890,000 of net revenues for the same period in 2005) and related to:

	<i>Second quarter 2006</i>	<i>Second quarter 2005</i>	<i>First half 2006</i>	<i>First half 2005</i>
Research and development spending	454	110	530	152
Royalties	614	0	1,355	0
Net exchange rate differences on operating items	8	(327)	(13)	(327)
Indirect taxes	(904)	(1,071)	(1,598)	(1,821)
Revenues from property investments	4	0	369	0
Settlement of insurance claims	34	18	34	19
Use of (allocations to) provisions	(1,244)	652	(2,049)	1,370
Other operating revenues (costs)	(170)	1,508	(272)	1,518
Total	(1,204)	890	(1,644)	911

“**EBIT**” for the second quarter 2006 was EUR 21,023,000 (EUR 23,105,000, if the costs above are excluded), compared with EUR 23,288,000 at the second quarter of 2005, a decrease in absolute terms of EUR 2,265,000. Non-recurring listing costs of EUR 2,082 were also incurred during the period.

It should also be noted that in the second quarter R&D costs rose EUR 2,323,000 compared with the same period of last year. The profit ratio, net of non-recurring costs alone, was 9.8% in 2006 compared with 11.1% in 2005.

Therefore:

- The signalling division ended the second quarter 2006 with an operating profit of EUR 17,304,000, compared with a figure for the same period the previous year of EUR 16,965,000, an increase of EUR 339,000 (+2%)
- The transport systems division ended the second quarter 2006 with an operating profit of EUR 7,422,000 compared with a figure for the same period the previous year of EUR 6,323,000, and increase of EUR 1,099,000 (+17%).

Net financial income exceeded financial expense by EUR 691,000, an increase of EUR 261,000 on the same period the previous year (when the figure was EUR 430,000 of net income). The details are as follows:

	Second quarter 2006	Second quarter 2005	First half 2006	First half 2005
Interest income from Parent company/associated companies	1,180	496	1,598	621
Dividends	397	0	397	0
Bank interest	(375)	(845)	(375)	(845)
Gains on foreign exchange transactions	(1,437)	(1,112)	(1,130)	(1,105)
Foreign exchange derivatives	(161)	(116)	(106)	(91)
Other net financial income (charges)	1,087	2,007	932	1,926
Total	691	430	1,316	506

The increase in net financial income was essentially due to the improvement in the net creditor position at 30 June 2006 from 31 December 2005.

Income tax came to EUR 10,434,000, compared with EUR 12,228,000 for the same period in 2005.

In detail, the entry represents the algebraic sum of:

<i>Second</i>	<i>Second</i>	<i>First half</i>	<i>First half</i>
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	<i>quarter</i> <u>2006</u>	<i>quarter</i> <u>2005</u>	<u>2006</u>	<u>2005</u>
IRES (corporate income tax)	7,299	7,816	13,626	11,688
IRAP (regional tax on productive activities)	1,749	2,714	3,441	3,110
Other taxes on profit	3,692	2101	4,500	3,448
Taxes relating to previous years	(2,292)	(196)	(2,122)	(196)
Provisions for disputes over taxes	264	(862)	264	393
Net deferred taxes	(278)	655	1,213	(1,423)
Total	<u><u>10,434</u></u>	<u><u>12,228</u></u>	<u><u>20,922</u></u>	<u><u>17,020</u></u>

Relating to the Parent Company, no current taxes have been recognised in the consolidated profit and loss account, because no taxable income has arisen during the period in question. Furthermore, no deferred tax assets have been recognised, given the lack of reasonable certainty regarding future taxable income against which they can be recovered and, with specific reference to tax loss carryforwards, in the absence of the conditions indicated by the relevant accounting standard.

The following table gives a breakdown of the consolidated financial position at 30 June 2006 :

<i>(EUR 000.)</i>	<u>30.06.06</u>	<u>31.12.05</u>	<u>30.06.05</u>
	234,51	205,25	109,02
Non-current assets	9	7	2
	41,82	43,10	41,15
Non-current liabilities	0	9	4
	<u>192,69</u>	<u>162,14</u>	<u>67,86</u>
	<u>9</u>	<u>8</u>	<u>8</u>
	89,04	91,45	82,11
Inventory	1	5	6
	90,04	64,82	82,63
Work in progress under contract	7	5	5
	233,37	342,22	248,37
Trade receivables	3	8	0
	179,73	173,50	170,61
Trade payables	0	9	9
	431,17	406,09	337,28
Advances from customers	2	9	9
	25,45	19,85	10,83
Short-term provisions for risks and charges	4	3	1
Other net current assets (liabilities)	<u>(54,132)</u>	<u>(22,612)</u>	<u>(33,065)</u>

Net working capital	<u>(278,027)</u>	<u>(123,565)</u>	<u>(138,683)</u>
Net invested capital	<u>(85,328)</u>	<u>38,583</u>	<u>(70,815)</u>
	95,94	158,96	90,13
Group's shareholders' equity	2	6	0
	37	37	32
Minority interests	1	7	1
Shareholders' equity	<u>96,313</u>	<u>159,343</u>	<u>90,451</u>
Financial debt (liquidity), net	<u>(181,641)</u>	<u>(120,760)</u>	<u>(161,266)</u>

Non-current assets (EUR 234,519,000 at 30 June 2006 compared with EUR 205,257,000 at 31 December 2005) showed a net increase of EUR 29,262,000.

	<u>30.06.06</u>	<u>31.12.05</u>	<u>30.06.05</u>
Intangible fixed assets	41,810	41,152	53,177
Tangible fixed assets	92,954	91,816	26,801
Equity investments	28,503	1,455	1,407
Receivables	8,413	8,667	8,444
Deferred taxes	32,540	31,577	29,883
Other assets	30,299	30,590	0
Total	<u>234,519</u>	<u>205,257</u>	<u>119,712</u>

The details are as follows:

- The EUR 27,048,000 increase in equity investments attributable primarily to transport systems as follows: EUR 21,000,000 for the purchase of a 14% stake in Metro C SpA, formed on 3 April 2006 for the purpose of designing and building the new Line C of the Rome metro; an increase of EUR 6,150,000 for the purchase of a 24.6% stake in Metro 5 SpA, formed on 5 June 2006 for the purpose of designing, building and operating the new Line 5 of the Milan metro; and a EUR 100,000 decrease in equity investments due to the closure of the “Consorzio Opera”.

Finally, both the subsidiary Intermetro S.p.A. and most of the consortiums in which the Group took part at the start of 2002 converted their share capital/consortium endowment into euros using the truncation method, resulting in a reduction in the legal reserve. In these cases, the previous value of the investment in Italian lira converted into euros at the official exchange rate of 1 euro = 1,936.27 was left in the financial statements.

- The EUR 963,000 increase in deferred taxes is essentially due to the restatement of accounts resulting from the exit of our Italian subsidiaries Ansaldo Segnalamento Ferroviario Spa and Ansaldo Trasporti-Sistemi Ferroviari Spa from Finmeccanica’s IRES national tax consolidation system, following the listing of the shares of the parent company Ansaldo STS on the stock exchange, and the consequent change in

Finmeccanica's shareholding in the latter by more than 50% as from 29 March 2006.

“Non-current liabilities” were EUR 41,820,000 at 30 June 2006 compared with EUR 43,109,000 at 31 December 2005—an increase of EUR 1,289,000. Specifically:

	<u>30.06.06</u>	<u>31.12.05</u>	<u>30.06.05</u>
Severance pay and other liabilities towards staff	29,816	28,935	28,291
Provisions for risks and charges	0	2,732	2,735
Deferred taxes	5,811	4,943	3,884
Other liabilities	<u>6,193</u>	<u>6,499</u>	<u>6,244</u>
Total	<u><u>41,820</u></u>	<u><u>43,109</u></u>	<u><u>41,154</u></u>

The details are as follows:

- Of the net increase of EUR 409,000 for the entry “Severance pay and other liabilities towards staff”, a total of EUR 1,831,000 is accounted for by net benefit expenses, EUR 970,000 to payments made during the year and EUR 20,000 for exchange rate differences.
- The EUR 2,732,000 net decrease in provisions for risks and charges is essentially due to the transport systems division and is attributable the reclassification of the latter from non-current liabilities to current liabilities.
- The EUR 868,000 increase in the deferred taxes is mainly due to the restatement of accounts following the exit of our Italian subsidiaries Ansaldo Segnalamento Ferroviario Spa and Ansaldo Trasporti-Sistemi Ferroviari Spa from Finmeccanica's IRES national tax consolidation system, following the listing of the shares of the parent company Ansaldo STS on the stock exchange, and the consequent change in Finmeccanica's shareholding in the latter by more than 50% as from 29 March 2006.

Net working capital stood at EUR (278,027,000), as against a net figure of EUR (123,565,000) at 31 December 2005. The details are:

- Inventories stood at EUR 89,041,000, compared with EUR 91,455,000 the previous year:

	<u>30.06.06</u>	<u>31.12.05</u>	<u>30.06.05</u>
Raw, ancillary and consumable materials	28,837	31,604	29,891
Work in progress and semi-finished products	18,524	15,872	15,484
Finished products and goods	6,877	7,595	9,034
Advances to suppliers	34,803	36,384	27,707
Total	<u>89,041</u>	<u>91,455</u>	<u>82,116</u>

- Work in progress under contract stood at EUR 90,047,000, compared with EUR 64,825,000 at 31 December 2005. Advances from customers amounted to EUR 431,172,000 compared with EUR 406,099,000 at 31 December 2005 :

	<u>30.06.06</u>	<u>31.12.05</u>	<u>30.06.05</u>
Work in progress (gross)	1,016,234	962,125	1,167,274
Advances from customers	(926,187)	(897,300)	(1,084,639)
Work in progress (net)	<u>90,047</u>	<u>64,825</u>	<u>82,635</u>
Advances from customers (gross)	3,035,676	2,797,984	2,382,287
Work in progress	(2,604,504)	(2,391,885)	(2,044,998)
Advances from customers (net)	<u>431,172</u>	<u>406,099</u>	<u>337,289</u>

- Trade receivables and payables, at EUR 233,373,000 and EUR 179,730,000 respectively, compared with EUR 342,228,000 and EUR 173,509,000, show a negative balance of EUR 115,076,000:

	30.06.06		31.12.05		30.06.05	
	Credits	Debits	Credits	Debits	Credits	Debits
Due to associated companies and subsidiaries not consolidated on a line-by-line basis	2,783	1,672	7,504	6,426	3,203	4,147
Receivables from Group companies	2,052	6,254	998	5,321	1,417	6,962
Other third parties	228,538	171,804	333,726	161,762	243,750	159,510
Total	233,373	179,730	342,228	173,509	248,370	170,619

- Provisions for risks and charges, at EUR 25,454,000, show a net increase of EUR 5,601,000 from the EUR 19,853,000 at 31 December 2005. EUR 2,732,000 was reclassified from non-current liabilities to current liabilities of the transport systems division. EUR 2,244,000 is the net value between allocations and uses during the period and the rest of the difference is attributable to the exchange rate differences generated during the period. As regards provisions for risks, it should be pointed out that the companies of the Ansaldo STS Group work in sectors and markets where many issues – both when they sue or are sued - are resolved only after a considerable time-lag, especially where the party being dealt with is a government body.

We believe that, at the current state of knowledge, the various problems we are confronted with, for which no specific provisions have been made, can be satisfactorily resolved without a significant impact on profits.

Clearly, in compliance with the relevant accounting standards, provisions have been made for any liabilities that may arise from probable, quantifiable risks.

- Other net liabilities amounted to EUR 54,132,000, an increase of EUR 31,520,000 from the EUR 22,612,000 of net liabilities recorded at 31 December 2005:

	30.06.06		31.12.05		30.06.05	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Due to staff	653	23,895	678	20,980	720	21,297
Deferred income	6,832	0	10,024	111	6,380	83
For direct taxes and other payments to tax authorities	19,446	26,352	25,024	14,878	7,615	14,767
To social security institutions	1,036	10,240	699	9,601	628	8,602
Research grants	2,164	0	2,152	0	1,029	0
To associated companies, subsidiaries and consortia not consolidated on a line-by-line basis	288	207	3,936	19,941	4,360	3,632
Derivatives	1,331	3,052	3,546	2,670	3,906	2,404
Others	5,021	27,157	5,868	6,358	7,866	14,784
Total	36,771	90,903	51,927	74,539	32,504	65,569

The details of the main changes are as follows:

- The amount receivable for direct taxes and other amounts due by the tax authorities fell from EUR 25,024,000 at 31 December 2005 to EUR 19,446,000 at 30 June 2006, as a result of the receipt of VAT credits by the parent company, Ansaldo STS. These were received via the Finmeccanica group's VAT procedure. As a result, as already envisaged by the IRES (corporate income tax) consolidation, as well as for the above-mentioned group VAT procedure, following the listing of more than 50% of Ansaldo STS's shares on the stock exchange, the Ansaldo STS Group's Italian subsidiaries will no longer be able to take advantage of this procedure.

Net invested capital was negative for EUR 85,328,000, and positive for EUR 38,583,000 at 31 December 2005. Shareholders' equity stood at EUR 96,313,000 (EUR 159,343,000 at 31 December 2005) and net financial receivables exceeded financial debt by EUR 181,641,000, compared with EUR 120,760,000 at 31 December 2005.

Below is the consolidated net financial position at 31 March 2006, with those at 30 June 2005 and 31 December 2005 for comparison.

	30.06.06	31.12.05	30.06.05
Short-term financial debts	4,167	8,616	3,303
Medium- and long-term financial debt	10,218	9,672	9,944

Cash and cash equivalents	<u>(61,847)</u>	<u>(35,973)</u>	<u>(52,987)</u>
BANK DEBT	<u>(47,462)</u>	<u>(17,685)</u>	<u>(39,740)</u>
Financial receivables from Group companies	(134,397)	(176,932)	(121,692)
Other financial receivables	<u> </u>	<u> </u>	<u> </u>
FINANCIAL RECEIVABLES	<u>(134,397)</u>	<u>(176,932)</u>	<u>(121,692)</u>
Financial debts to Group companies	0	73,480	0
Other short-term financial debt	164	314	6
Other medium- and long-term financial debt	<u>54</u>	<u>63</u>	<u>0</u>
OTHER FINANCIAL DEBT	<u>218</u>	<u>73,857</u>	<u>16</u>
			<u>6</u>
FINANCIAL DEBT (FINANCIAL RECEIVABLES), NET	<u>(181,641)</u>	<u>(120,760)</u>	<u>(161,266)</u>

At 30 June 2006, Ansaldo STS Group had a net financial creditor position of EUR 181,641,000, up from EUR 120,760,000 at 31 December 2005.

The net financial position was affected by the following main transactions:

- Acquisition of the entire share capital of Ansaldo Signal NV for EUR 61,946,000 and of Ansaldo Trasporti Sistemi Ferroviari for EUR 38,213,000.
- Payment of dividends to Finmeccanica SpA to the tune of EUR 32,000,000 (EUR 22,000,000 from Ansaldo Signal NV and EUR 10,000 from Ansaldo Trasporti Sistemi Ferroviari).
- Increase in share capital to the tune of EUR 10,000,000 and non-interest-bearing convertible loan of EUR 50,169,000 (to complete the equity injection into Ansaldo STS carried out in 2005 for EUR 40,000,000).
- Substantial receipts by the signalling division regarding the projects “SCMT on-board and wayside” for EUR 98,900,000 and by the Italian subsidiary Ansaldo Segnalamento Ferroviario SpA regarding ACS RV for EUR 34,000,000.
- Receipt of VAT credits of EUR 19,155,000 relating to disbursements made in relation to the acquisition of the office premises at Via Mantovani 3/5 in Genoa (about EUR 62,000,000) and of the licence for the use of the “Ansaldo” brand. (about EUR 32,000,000).
- Payment of taxes in the amount of EUR 33,678,000.

30.06.06

31.12.05

30.06.05

Cash and cash equivalents at 1 January	<u>35,973</u>	<u>44,262</u>	<u>44,262</u>
Cash flow from operations	54,690	102,882	46,222
Change in working capital	124,080	18,385	51,219
Change in other assets and liabilities	<u>(31,516)</u>	<u>(15,366)</u>	<u>(13,772)</u>
Cash flow from (for) operations	<u>147,254</u>	<u>105,901</u>	<u>83,669</u>
Cash flow from (for) ordinary investing activities	(13,444)	(107,577)	(5,967)
Free operating cash flow	<u>133,810</u>	<u>(1,676)</u>	<u>77,702</u>
Strategic investments			
Cash flow from (for) investing activities	<u>(13,444)</u>	<u>(107,577)</u>	<u>(5,967)</u>
Dividends paid	(32,000)		
Cash flow from financing activities	<u>(75,426)</u>	<u>(6,238)</u>	<u>(68,678)</u>
Cash flow from (for) financing activities	<u>(107,426)</u>	<u>(6,238)</u>	<u>(68,678)</u>
Exchange rate translation differences	<u>(510)</u>	<u>(375)</u>	<u>(299)</u>
Cash and cash equivalents at 30 June	<u>61,847</u>	<u>35,973</u>	<u>52,987</u>

The first half of 2006 ended with a net increase in cash and cash equivalents of EUR 25,874,000, due to the following factors:

- Positive operating cash flow stood at EUR 147,254,000, a marked increase on the same period the preceding year (when operating cash flow stood at EUR 83,669,000), chiefly due to the high volume of receipts at the signalling division.
- Cash flow for investing activities amounted to EUR 13,444,000 (vs. a negative EUR 5,967,000 at 30 June 2005). The change was due to the advance payment for the acquisition of the shareholding in the company “Metro C Roma SpA” for EUR 5,250,000 and the advance payment for the acquisition of the shareholding of the company “Metro 5 Milano” for EUR 1,538,000, as well as dividends from associated companies for EUR 397,000. EUR 468,000 is almost entirely attributable to the capitalisation of the costs relating to the SAP implementation within the

signalling division of the US subsidiary Union Switch & Signal and other changes for EUR 382,000.

- Cash flow for financing amounted to a negative EUR 107,426,000 (EUR 68,678,000 at 30 June 2005), because of the following:
 - Acquisition of subsidiaries, EUR 100,159,000.
 - Payment of dividends to Finmeccanica SpA, EUR 32,000,000.
 - Increase in share capital, EUR 10,000,000, and convertible non-interest-bearing loan of EUR 50,169,000.
 - Payment of taxes, EUR 33,678,000.

Management of financial risks

In order not to be exposed to changes in cash inflows and outflows relating to long-term construction contracts denominated in currencies other than the euro, the Group specifically hedges the individual cash flows expected from a contract. The management of exchange rate risk is regulated by policies that envisage the systematic hedging of cash inflows and outflows deriving from contractual obligations that are certain, so as to guarantee the exchange rates prevailing on the date long-term contracts are signed and neutralise the effects of exchange rate variations. Hedges are put in place at the time commercial contracts are signed, through plain vanilla (swap and forward) instruments which are eligible for hedge accounting in accordance with IAS 39. These instruments are recognised on the basis of the cash flow hedge accounting model, considering the part relating to the premium or the discount as an ineffective component in the case of forward instruments and the part relating to the time value in case of options, which is recognized under financial income and expense. If, on the other hand, the hedge does not prove effective, the variations in fair value of such instruments are immediately recognised in the profit and loss account as financial items, while the underlying is valued as if it were not hedged, and varies in accordance with exchange rate fluctuations.

Hedging transactions are carried out predominantly with the banking system. At 30 June 2006 the Group had contracts referring to various currencies in the following notional amounts:

	31 December 2005	30 June 2006
Euro	33,811	79,225
US dollar	34,250	55,663
Pound sterling	63	3,656
Danish krone		
Swedish krone	2,188	25,729
Yen		
Canadian dollar	36,644	32,474
Australian dollar	361	19,583

At 30 June 2006, the net fair value of derivative financial instruments was negative in the amount of about EUR 2 million.

Although the Group is also exposed to it, it does not hedge interest-rate risk.

TRANSACTIONS WITH RELATED PARTIES

In general, transactions with related companies are conducted at arm's length, as are interest-bearing receivables and payables, where these are not regulated by specific contractual conditions. The most important figures are as follows:

<i>(figures in EUR 000)</i>	Non-current receivables	Current financial receivables	Trade receivables	Other current receivables	Total
RECEIVABLE AT 30.06.2006					
<i>Subsidiaries</i>					
Alifana S.c.r.l.			30		30
Alifana Due S.c.r.l.			1,812		1,812
<i>Associated companies</i>					
I.M. Intermetro S.p.A.			411		411
Pegaso S.c.r.l.			180		180
<i>Other Group companies</i>					
Finmeccanica Sede	29,791	134,397	427	1,647	166,262
Mecfin			34	7	41
Elsag Spa				87	8
Selex Sistemi Integrati				6	76
Ansaldo Argentina			37		37
Ansaldo Breda			1,904		1,904
Total	29,791	134,397	4,835	1,738	170,761

(figures in EUR 000)

	Current financial payables	Trade payables	Other current payables	Total
PAYABLES AT 30.06.2006				
<i>Subsidiaries</i>				
Alifana S.c.r.l.		232		23 2
Alifana Due S.c.r.l.		35,752		35,75 2
<i>Associated companies</i>				
I.M. Intermetro S.p.A.		74,129		74,12 9
Pegaso S.c.r.l.		27		2 7
<i>Other Group companies</i>				
Finmeccanica Sede		721	135	85 6
Ansaldo Breda		14,424		14,42 4
Ansaldo Energia		8		8
Fata Logistic		412		41 2
Finmeccanica Finance SA		26		2 6
Elsag Gest		33		3 3
Elsag Spa		2,396		2,39 6
Ote spa		23		2 3
Orizzonte Sist Nav			17	1 7
Total	0	128,1 83	1 52	128,33 5

Second quarter 2006

(figures in EUR 000)

Income and revenues	Financial revenues	Purchases and expenses	Financial charges
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Other Group companies

Finmeccanica Sede	401	1,754	838	
Finmeccanica Finance			26	
Mecfin	44		18	
Ansaldo Argentina			0	
Ansaldo Breda	1,500		649	
Ansaldo Energia			-6	
Ansaldo Ricerche			12	
Selex	44		0	
Orizzonte Sist Nav			17	
Fata Logistic			362	
Ote Spa			20	
Elsag Gest			153	
Elsag Spa			3,736	
Total	1,989	1,754	5,825	0

Reports on operations by segment

SIGNALLING

EUR 000	Second quarter 2006	Second quarter 2005	First half 2006	First half 2005	31.12.2005
Orders	133,499	215,221	399,242	493,556	796,523
Backlog			1,257,280	1,253,356	1,223,402
Value of production	176,069	157,801	332,200	268,080	613,261
EBIT	17,304	16,965	32,257	22,395	63,904
ROS	9.8%	10.8%	9.7%	8.4%	10.4%
Working capital			(108,472)	(16,298)	(7,891)
Net invested capital			(35,053)	53,106	64,334
Research and Development	10,447	8,109	19,113	14,216	33,344
Headcount			3,481	3,179	3,304

(The figures in the above table include transactions with other segments)

The signalling division designs and builds railway and urban railway signalling components and systems worldwide. Its operations are co-ordinated by its parent company, Ansaldo Signal NV, and is run on a local level by its subsidiaries: Union Switch & Signal (US&S), based in Delaware, with branches in Pittsburgh, Pennsylvania, and Batesburg, South Carolina; Ansaldo Segnalamento Ferroviario Spa, an Italian company with offices in Genoa, Naples, Tito, and Turin; and CSEE Transport, a French company with offices in Paris and Riom.

Ansaldo Signal also has subsidiaries in Sweden (Ansaldo Signal Sweden AB), in Finland (Ansaldo Signal Finland OY), Australia (Union Switch & Signal Pty Ltd), Ireland (Ansaldo Signal Ireland Ltd), United Kingdom (Ansaldo Signal UK Ltd), Spain (Ansaldo Signal Espana S.A.), India (Union Switch & Signal PVT Ltd), and Malaysia (Union Switch & Signal Sdn Bhd).

The Group also has a large number of long-standing collaboration agreements with organisations in other countries, especially in China, Korea, and Brazil.

Most of the Group's work is carried out in Italy, the USA, and France which account for about 90% of the division's revenue.

The main projects the division is working (or has worked) on, either carrying them out in their entirety or doing part of the work, include:

- Installation of computerised interlocking systems at the stations of Roma Termini, Manchester South, and the Sandbach-Wilmslow link (United Kingdom),
- Building the automatic signalling systems for the driverless metros of Copenhagen and Brescia, for the New York and Los Angeles (Green Line) subways, and the metros of Shanghai (Line 2) and Tianjin/Binhai (China),
- Installation of the electronic equipment for the Milan metro's Line 3, and complete signalling systems for the railways of Rawang Ipoh (Malaysia) and Hammersley Iron (Australia),
- Installing signalling systems on high-speed trains on French (TGV) lines, on the Madrid-Lerida line, Spain, the Seoul-Taegu line, Korea, and the Qinhuangdao-Shenyang line in China. In Italy the Group is working on the Milan-Bologna and Turin-Novara high-speed lines, supplying signalling systems via the Saturno consortium.

The Group intends to pursue a strategy of strengthening the signalling system's presence in the areas where it is already operating, and entering new markets, as well as consolidating its product portfolio and continuing to focus on business improvement.

Orders acquired in the second quarter of 2006 came to EUR 133,499,000.

The signalling division obtained important contracts during the first and second quarters of 2006. They are:

Country	Project	Customer	Value (EUR millions)
Netherlands	Eurocab HSA	Ansaldo Breda	11.8
Spain	Eurocab CAF	CAF	5.9
Spain	HSL-Perpignan - Figueras	IFP Cobra	7.9
Australia	CTC Line	ARTC	11.1
Australia	ICSS Ioso Futout x 10	Pilbara Iron	3.4
India	Gooty –Pullanpet – Doubling of line	Leighton Emrail	10.7
Other	Parts & Services	Various	51.4

Compared with June 2005, there has been a decline in what is still a considerable volume of orders (-19%), substantially due to the recording of a high number of SCMT orders in Italy in the first half of that year, which did not recur at the same levels in the first half of 2006, and to the decline in orders in the United States, which benefited in the first half of 2005 from the signing of the UP CAD X contract with Union Pacific.

ASF continues to receive sizable orders for SCMT train control systems (on-board and wayside) and CSEE still benefits from the contract to supply on-board equipment to Ansaldo Breda for the Netherlands' railway, from the contract related to the Perpignan-Figueras tract of the Spain high-speed railway and from the signing of a contract for the extension of Caracas metro, along with other minor systems contracts and a healthy volume of components contracts. During the period, US&S reported the Dearborn Congress contract for the Chicago elevated train line, the supply of track circuits for the Montreal and Washington metros, along with a good volume of orders for components. PTY has profited from purchases related to seven ARTC projects. Finally, PVT signed the Ghaziabad Kanpur contract, the largest signalling contract ever awarded by the Indian railways.

The **order backlog** at 30 June 2006 stood at EUR 1,257,280,000.

Of this, 51% related to the Italian subsidiary Ansaldo Segnalamento Ferroviario, and was chiefly made up of the SCMT wayside and onboard projects, interlocking projects on the new contracts for Rogoredo, Mestre, and Pisa, and work on the Novara-Milan and Milan-Bologna high speed lines.

Value of production at 30 June 2006 stood at EUR 176,069,000, an increase of EUR 18,268, or 12%, on the same period the previous year.

- 59% of this increase, or EUR 10,765,000 was generated by subsidiaries. The Asia/Pacific area subsidiaries (Union Switch & Signal PTY, Union Switch & Signal Malaysia and Union Switch & Signal Pvt) related to the following projects O'Donnell Griffin – Southern for EUR 1,638,000, Botswana Railways – Safeworking System for EUR 1,402,000, ARTC for EUR 1,846,00 and IRPMU-ERTMS – South and IRPMU-ERTMS North India for EUR 5,879,000.
- EUR 7,984,000 was generated by the US subsidiary thanks to the following projects: UP CAD X for EUR 2,550,000, Charlotte Area Transit for EUR 3,423,000 and Chicago Transit for EUR 2,358,000.
- EUR 1,679,000 was generated by the French subsidiary, CSEE, related to the increase in its components maintenance business.

The most significant production activities for the quarter are as follows:

ANSALDO SEGNALAMENTO FERROVIARIO SpA (ASF)

HIGH-SPEED RAILWAYS:

The greatest commitment of resources and production capacity was dedicated to the Milan – Bologna line, which the company expects to generate a substantial volume of supply and installation work for the year. Based upon the experienced gained on the sections already in operation, the company is conducting a technical assessment with RFI and Saturno leading to a significant overhaul of the project with modifications being made to the original contract and timetables, which will experience significant delays in work and invoicing for the year. It has been confirmed for this quarter, too, that the ASF systems installed on lines now in operation (Rome – Naples and Turin - Novara) are performing well.

Additionally, work continues which should lead to the issuance, within the next few months, of authorisation to install the onboard equipment by the certifying body, which is scheduled for this year. Design work for the Milan - Genoa and the Milan – Verona lines, a preliminary step to the signing of the supplemental agreements between the general contractors and TAV, is also being carried out.

SCMT WAYSIDE

With the completion of last year's work, which involved the fitting out of over 1,250 km of line, this year there has been a drop in commitments (about 900 km) since the SCMT wayside project is coming to an end. As a result, production over the next few quarters is expected to fall.

The installation and activation of the systems is continuing in accordance with the plan agreed upon with the customer, RFI, and the state of progress of work to June 2006 is in line with the customer's expectations. The first half of the year saw the completion of preliminary work that will enable the opening of major lines located in the districts of Verona, Genoa, Milan and Reggio Calabria in the second half. In addition, work continues on reconfiguring the numerous apparatuses located in the various RFI districts involved in the implementation of the SCMT systems over the last few years, following modifications made to the railway infrastructure or the technical specifications.

SCMT ON-BOARD

The "Acceleration Plan" developed and implemented by Trenitalia to increase the rolling stock to be outfitted each month (with significant time savings in equipping trains at the depots) is moving forward swiftly. The company is pursuing this project through a Temporary Business Grouping with AnsaldoBreda. The number of machines released rose from 112 in the first quarter to 140 in the second, for a total of 252 since the start of the year. Although these are significant figures, they are below expectations since the Temporary Grouping's potential output was affected by the smaller number of machines made available by the Regional Transport Division.

LARGE NETWORK SCC (7 contracts)

Work on the contracts for the original command and control system (SCC) lines and junctions (excluding Palermo and the CTC) is now well under way and negotiations are being conducted concerning numerous changes and claims in relation to all the contracts.

During the year, the company was hindered by the difficulties that the State Railways had in carrying out the preparations necessary to enable us to install the systems (especially the Secure Commands system).

As to the Palermo SCC (which represents the major undertaking for this year), work slowed considerably in the first half of the year due to delays in receiving approvals. The construction of the civil works related to the Central Station building were only begun recently, and it is likely that there will be problems in completing the project as scheduled.

CSEE TRANSPORT

CTRL SECTION II

At the end of June 2006, 97-98% of the signalling and the designing of the RBC, including the FAT, were completed on time. In general, the contract is progressing as scheduled and currently 79% of the work has been completed.

The Installation – Test & Commissioning activities were completed at the stations of Wennington, Dagenham and Ebbsfleet, are under way at Stratford, and are yet to be begun at St. Pancras.

TGV EST SEI

The signalling studies have been completed and development is progressing as planned. The control tables were created and the parameterisation was performed for all 37 SEI. As of this writing, 35 SEI sets have been delivered and installed onsite with the

remaining 2 awaiting rooms to become available. Finally, delivery of 37 sets of track circuits was completed in March 2006. In general, activity planning was updated to take into account modifications of the parameters due to changes in signalling standards.

SPANISH HIGH-SPEED LINE

Following the signing of the provisional site acceptance in September 2005 and the modification of the transponders, the ERTMS Level 1 wayside system was placed into service starting in May 2006, demonstrating a high rate of reliability.

The test phase for the ERTMS Level 2 was finally completed in June 2006. The security apparatus was scheduled to be completed by the end of July 2006. The equipment cannot enter service until Siemens delivers the high-speed ICE train.

Finally, negotiations for the “Liquidacion” continue and are expected to be successfully concluded by November or December of 2006.

UNION SWITCH & SIGNAL INC.

UP CADX:

The project, which is vitally important for the US subsidiary US&S, involves the development and installation of a “Next Generation Computer Aided Dispatch (CAD) System” and an “Optimizing Traffic Planner (OTP) System”. These systems must be installed among all 33,000 miles of the Union Pacific’s North American railway network. The contract also covers maintenance of the CAD system through 2021.

The OTP architecture specifications were completed using version 1.0 as planned. The customer was fully satisfied and made a payment for reaching the relative milestone.

As to the specifications for the OTP system requirements, version 1.0 was used and was submitted to Union Pacific for approval. After making the modifications requested by the customer and incorporating them into a new document, it was resubmitted to the customer for final approval on 22 June 2006.

The document containing the specifications for the CAD-X architecture and the analysis of the system requirements was presented to the customer in June 2006. Technical discussions with Union Pacific to resolve open problems related to the architecture are

under way. Further releases of the architectural design have been planned together with analysis of the design system, which is still under way.

This design activity is scheduled to be completed by June 2007.

CHARLOTTE

On this project, US&S is a subcontractor of the Mass-Aldridge Joint Venture (MAJV). The contract involves the supply of a completely integrated system, including wayside signalling, on-board ATP and TWC equipment, the central office and all the communications systems. The on-board equipment is to be installed on 16 new LRV locomotives supplied by Siemens and on 4 other existing locomotives. The central office and all communications and related equipment will be designed and supplied by the A&IS business unit of US&S.

The sub-supply contract between Mass Electric Construction and US&S was signed in December 2005.

As to scheduling, the Charlotte Authority publicly announced, without any modifications being made to the contract, a delay of about six to eight months due to problems with civil works and notified US&S at the same time to perform its work in accordance with the deadlines set in the original contract without delays. However, this will be difficult to do considering that the Joint Venture's schedule already reflects a delay of between one to three and a half months. Formal communication on the modification/postponement of the dates is not expected before the end of 2006.

With regard to engineering activities, work on the communications hardware and the office was completed, reviewed and orally approved by the customer in April 2006. The review of the critical design of the interlocking was completed and accepted, with comments, in March 2006. The final designs of nine of the ten signal houses were submitted to the customer, which approved seven of them. Approval of the three remaining designs as well as review and final approval by the Charlotte Authority are expected by the end of July.

Finally, as to the manufacture and supplying of materials, all 20 sets of ATP and TWC equipment were delivered at the end of March 2006 and 17 of the 18 crossing cases were built and delivered, with the final one to be finished and shipped in July 2006. The

first central instrument house is currently undergoing testing at the factory and will undergo testing at the customer at the end of July 2006, while two additional units will also be completed by the end of July. Finally, the first communication house is set to be delivered by the end of July.

LIRR M7

The original M7 project involved the design and supply of 96 sets of Automatic Train Control (ATC) equipment, along with training, documentation and test equipment. The original contract also included a fixed-price options for the supply of additional equipment. To date, US&S has exercised these options for a total of 490 units, with options for a further 64 units still outstanding.

During the second quarter of 2006, 30 sets of equipment were delivered on schedule for a total of 52 during the first half of 2006. Forty-four sets still need to be delivered.

The contract provides for a price adjustment based upon the periodic performance of certain government indices. Based upon this performance, US&S calculated an adjustment in price amounting to \$2.6 million, of which \$2.3 million were recognised in respect of the project after formal acceptance by Bombardier. The price adjustment resulted in a corresponding increase in the project's margin for the period.

EBIT for the second quarter came to EUR 17,304,000, an increase on the same period of 2005 (EUR 16,965,000) of EUR 339,000 or 2%.

This increase is due to the percentage growth in gross margin (calculated on the value of production), which improved slightly compared with the same period the previous year: from 22.6.9% to 23.9%. This effect was moderated by growth in overhead costs (+23%) compared with the same period the previous year.

This growth is chiefly attributable to Ansaldo Segnalamento Ferroviario, thanks to increased profitability of the SCMT Wayside business and to CSEE's service and maintenance contract on the Madrid-Lerida line.

Working capital at 30 June 2006 was a negative EUR 108,472,000, an increase of EUR 100,581,000 on the negative EUR 7,891,000 at 31 December 2005. This is due

essentially to the change in trade receivables (-EUR 95,683,000), attributable to the Italian subsidiary of the signalling division, Ansaldo Segnalamento Ferroviario Spa, which typically has a high volume of invoicing during the last two or three months of the year, thus boosting revenues in the first three months of the following year.

Net invested capital at 30 June 2006 was negative EUR 35,053,000 compared with a positive EUR 64,334,000, an improvement of EUR 99,387,000 that was essentially due to the above-mentioned change in working capital.

Research and development spending at 30 June 2006 stood at EUR 19,113,000, compared with EUR 14,216,000 at 30 June 2005.

The main projects were:

- ERTMS lev 2– RBC (EUR 1,653,000) and Caraibi (EUR 1,275,000) for Ansaldo Segnalamento Ferroviario
- Ouragan (EUR 1,851,00), on-board product line (EUR 2,101,000), and track-side engineering (EUR 1,436,000) for the French subsidiary CSEE Transport
- On-board activities (including CBTC and Next-Generation Cab) for EUR 998,000, Microlok II and III S/W and H/W (EUR 831,000) and OPT (EUR 710,000).

The **headcount** at 30 June 2006 stood at 3,481, up by 302 on the same period last year, and up by 177 on the figure at 31 December 2005.

The increase is attributable to the growth in business at the signalling division, as already described in the notes relating to value of production. Virtually all the companies in the signalling division were involved: the figure rose by 59 at Ansaldo Segnalamento Ferroviario due to hiring in the vital areas of RAMS engineering and development and in planning and logistics, 143 were hired at US&S PTY and US&S PVT as a result of the marked growth in contracts in the Asia-Pacific region, and a further 92 were hired at US&S Inc.

TRANSPORT SYSTEMS

EUR 000	Second quarter 2006	Second quarter 2005	First half 2006	First half 2005	31.12.2005
Orders	296,667	195,566	425,264	200,102	240,080
Order backlog			1,260,698	1,042,526	950,050
Value of production	61,376	57,293	116,359	114,728	252,691
EBIT	7,422	6,323	12,259	11,118	18,404
ROS	12.1%	11.0%	10.5%	9.7%	7.3%
Working capital			(166,063)	(122,385)	(133,674)
Net invested capital			(127,965)	(113,201)	(126,014)
R&D	434	479	874	815	1,386
Headcount			327	316	318

(Figures in the table above include transactions with other segments)

The transport systems division studies, designs and plans how to integrate the activities of designing and building the technological equipment that goes to make up a system—that is, the track, signalling, power supply, telecommunications, and vehicles (whether for inter-city or urban railways) as well as any other technological works which, collectively, constitute an integrated transport system. The final product—an integrated transport system, whether an inter-city line or an urban one—is then delivered as a “turnkey” project to the customer. However, the Group can also offer the expertise of

the signalling or transport systems division separately, according to specific customer needs.

The main projects the transport systems division is working, or has worked, on include:

- The driverless metros of Copenhagen and Brescia,
- Naples metro line 1, and Rome metro lines A and B,
- Light metro systems at Genoa and Naples line 6 (on these two projects the Group is acting as concessionaire, and is thus responsible for completion of the whole project including civilian works) and Lima,
- Tram systems at Florence, Sassari, Birmingham (Midland Metro), Manchester (Metrolink), and Dublin (lines A, B, C),
- STREAM, Trieste,
- Parts of the electronic rail systems of line 1 of the Milan metro.

Finally, in Italy, the division is working on high-speed rail lines, through the IRICAV UNO consortium (responsible for the Rome-Naples section), and the IRICAV DUE consortium (responsible for the Verona-Padua section), and Saturno.

The Group intends to implement a strategy for consolidating the division's leadership in Italy and developing markets where its presence could be improved, as well as consolidating its product portfolio and continuing to focus on business improvement.

In the latter part of February, the company saw the initiatives that it had begun in previous years came to fruition, confirming its position as a leading player in the transport systems segment.

Most notably:

- the Temporary Business Grouping to which the company belongs, together with Astaldi Spa (agent), Vianini Lavori and Consorzio Cooperative Costruzioni, won the contract for Line C on the Rome metro.

Ansaldo Trasporti Sistemi Ferroviari will supply the automatic train control (ATC), designed by Ansaldo Signal, systems engineering, and part of the electronic rail equipment, worth (including the part that has not yet been funded) more than EUR 400 million. The fact that this contract—one of the most eagerly awaited and significant projects in the Italian capital, and the second biggest infrastructure job in Italy at present—was secured demonstrates the quality of Italian technology in the public transport works sector, and represents a further development in its experience of driverless metro systems.

- Award of the contract for line 5 of the Milan metro.

The company and AnsaldoBreda are part of the Temporary Grouping, including Astaldi as the lead company and agent and Torno, Alstom Trasporti, and Azienda Trasporti Municipalizzata (ATM), which will build the new line on the Milan metro, worth a total of EUR 502 million.

Ansaldo Trasporti Sistemi Ferroviari will supply automatic train control (ATC), designed by Ansaldo Signal, systems engineering, and part of the electronic equipment.

- Award of the contract for the completely automatic, driverless metro system in Thessaloniki, Greece.

Ansaldo Trasporti Sistemi Ferroviari will supply the technical system, and AnsaldoBreda will supply vehicles. The share of Ansaldo Trasporti Sistemi Ferroviari of this contract is approximately EUR 170 million.

An Italian-Greek joint venture, consisting of the Greek civil engineering company AEGEK and the Italian companies Impregilo and Seli and, for the technological side, of Ansaldo Trasporti Sistemi Ferroviari and AnsaldoBreda—with design input from Metropolitana Metro—has won the contract for building this driverless metro in the city of Thessaloniki, the capital of Macedonia and the second biggest Greek city, as well as the second most important in economic terms. Ansaldo Trasporti Sistemi Ferroviari,

will supply the technological systems and Ansaldo Breda the vehicles, for an amount to be paid to ATSF of about EUR 170,000,000.

During 2005 this Group had presented its technical and business proposals, in competition with other leading international companies, to carry out this project, which also has EU financing.

After careful consideration of the various bids by the commission running the project, the Italian-Greek bid won both for its technical and its business merit, and the customer, Attiko Metro, confirmed the award of the contract.

The award to the temporary groupings to which the company belongs of the contracts for Rome metro's line C, Milan metro's line 5, Thessaloniki, and Brescia (this last being already under way) is confirmation of the Company's ability to excel both on the domestic market and internationally.

The works will benefit from Ansaldo's previous experience gained on the Copenhagen driverless metro, using technology and automatic signalling equipment from Union Switch & Signal and trains supplied by Ansaldo Breda. The Copenhagen metro has been working smoothly and very reliably for more than four years.

Regarding the Copenhagen metro, in March it was agreed with the customer to exercise its option to receive operation and maintenance services from the company for three more years. The contract is worth approximately EUR 126 million.

Orders acquired during the second quarter of 2006 included the formalisation of the individual orders/contracts described above, worth a total of EUR 296,667,000, specifically.

- Thessaloniki project, EUR 166,000,000
- Milan project, EUR 118,000,000
- Changes to the high-speed rail lines and Alifana projects, EUR 12,000,000.

During the same period of last year, orders acquired came to a total of EUR 195,566,000.

These developments confirm the effectiveness of the strategies adopted both at a company and at a Group level, and demonstrate our leadership in transport systems in Italy.

On the Rome project, which is still to be formalised given the complex nature of the contract issues involved with both the customers and the partners, at the beginning of April the company running the project was formed. It will be awarded the work by the customer. As specified in the tender documents, it has a share capital of EUR 150 million, in which the company has a 14% stake.

The **order backlog** at 30 June 2006 came to EUR 1,260,698,000 (EUR 1,042,526,000 at 30 June 2005, and EUR 950,050,000 at 31 December 2005).

This related chiefly to the following projects:

- High-speed rail lines
- The Copenhagen metro
- The metros of Naples, Rome, and Genoa
- The Brescia and Milan driverless metros
- The Alifana

The **value of production** for the second quarter of 2006 came to EUR 61,376,000 (EUR 57,293,000 in the second quarter of 2005). This came from the contracts relating to high-speed train lines, Copenhagen, MetroGenova, Alifana, Line 6, and MetroBrescia.

The main events during the quarter were:

High-speed train lines

On 6 February the Turin-Novara line began commercial operation in conjunction with the start of the Winter Olympics in Turin. ATSF, through the Saturno consortium, which builds technological works, designed and built part of the power supply system. A provisional final testing certificate was issued in the second quarter for Operational Lot 1 of the Rome-Naples line, which was opened on 10 December 2005. Supply of track infrastructure began on Operational Lot 2 (Gricignano-Naples lines).

Metrogenova

On 3 April the station of Sarzano/S.Agostino was opened, bringing into operation the entire S.Giorgio-De Ferrari section. At present, the metro covers a total distance of 5.8 km, with 7 stations.

Currently, work is concentrated on the De Ferrari-Brignole section. Preparatory work is under way, prior to digging the service shaft for the work site of Acquasola/Corvetto, from where the tunnel will be dug. Over the last quarter, the project experienced delays due to the discovery of archaeological finds that has put a halt to activity at the Acquasola and Piazza Brignole work sites.

Alifana regional line

Installation of all the technological and civil line plant for Aversa Centro-Giugliano (about 5.2 km) is at an advanced stage. Adjustments to structural works at the Giugliano, Aversa Centro and Aversa Ippodromo stations were completed and the technological and civil line equipment is now being assembled. Assembly is also nearly 50% complete at the Giugliano substation.

Naples metro Line 6

Work continues on the Mostra-Mergellina sub-section, due to open to the public by the October, as reported in the most recent general works schedule which was revised following the partial suspension of work ordered by the Works Supervisor at the Mostra Station site, where work on constructing the link with the Cumana station could not proceed due to the lack of an agreement with SEPSA.

Following the completion of the intermediate stations of Augusto and Lala, the operations centre, and the three ventilation shafts, testing of the entire system continued including the six vehicles lowered to the site in March. Currently nearing completion are the exits from Mergellina onto Piazza Piedigrotta and work on adding finishing touches and installing systems equipment in the temporary workshop at the foot of the

Mostra Station, where testing will begin in July with the USTIF in preparation for bringing the line into service.

Metro Brescia

Design of the entire system is complete and all the main orders have been commissioned. Planning of the first deliveries of the electric power supply equipment and plant, to be supplied during the year, is under way.

Copenhagen

Design of signalling for phase 3 is complete and part of the equipment has been delivered. The order was placed for assembly of the signalling system and the initial installation work is under way.

Casalecchio-Vignola:

As agreed in May 2005, modifications have been made to rolling stock so that it be authorised to travel on the RFI network. Certification for type approval was obtained at the end of March, and the customer, ATC of Bologna, has signed certificates to the effect that contractual conditions have been met. Line tests are under way with the works team and the USTIF so that the vehicles can be brought into service.

EBIT for the second quarter 2006 was EUR 7,422,000 (12.1% of revenue), an increase on the EUR 6,323,000 posted for the same period last year (11% of revenue). This increase is chiefly attributable to lower R&D costs due to the completion of the amortisation of applied research in 2005.

Working capital at 30 June March was negative EUR 166,063,000, a change of EUR 32,389,000 compared with the EUR (133,674,000) figure at 31 December 2005, chiefly attributable to the volume of payments by the Genoa and Naples municipalities (some EUR 13,837,000), to an increase in current liabilities (EUR 20,362,000), and a payable for the remaining 75% to be paid for the purchase of equity interests in Metro C Spa – Rome and Metro 5 Spa - Milan.

Net invested capital at 30 June 2006 was negative EUR 127,965,000, an increase from the 31 December 2005 figure (which was negative EUR 126,014,000) of EUR 1,951,000. The change was due to the combined effect of the negative increase in working capital (as described above) offset by a EUR 21,000,000 rise in fixed assets following the purchase of a 14% stake in Metro C and EUR 6,150,000 for the purchase of a 24.6% interest in Metro 5 Milano.

R&D spending stood at EUR 874,000 at 30 June 2006, a slight increase (up EUR 59,000) on the same period the previous year (EUR 815,000).

The **headcount** at 30 June 2006 was 327, while the average for the period came to 311. This was an increase of 11 on the same period the previous year, and an increase of three on the figure at 31 December 2005.

Outlook

The situation of Ansaldo STS's core market remained positive in the first six months of 2006. The strong performance in both the signalling and transport systems businesses boosted the Group's order backlog, which has expanded with the execution of the contracts for the driverless metro system in Thessalonica (which took place in April) and Line 5 in Milan (June) and will grow even further with the contract for Line C in Rome, expected to be formalized in the coming months. Taking account of profit (net of listing costs) for the period, we confirm expectations for an improvement in economic and financial performance compared with the already positive results posted in 2005.

For the board of directors

Alessandro Pansa

Chairman