



**HALF-YEAR FINANCIAL REPORT
OF THE ANSALDO STS GROUP
AT 30 JUNE 2008**

ANSALDO STS S.P.A.

Registered Office in Genoa, Via P. Mantovani 3-5

Paid-in Share Capital EUR 50 000,000

Register of Enterprises of Genoa – Tax Code 01371160662

Disclaimer

This Half-year Financial Report has been translated into English solely for the convenience of the international reader. In the event of conflict or inconsistency between the terms used in the Italian version of the report and the English version, the Italian version shall prevail, as the Italian version constitutes the official document.

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1 BOARDS AND COMMITTEES

BOARD OF DIRECTORS *(for the 2008 / 2010 three-year period)*

ALESSANDRO PANSA
Chairman

SANTE ROBERTI
Deputy Chairman

SERGIO DE LUCA
Chief Executive Officer

MAURIZIO CEREDA (1) (2)

GERLANDO GENUARDI (2)

GREGORIO GITTI (1)

FRANCESCO LALLI (2)

EUGENIO PINTO (1)

ATTILIO SALVETTI (1)

MARIO ORLANDO
Secretary of the Board of Directors

BOARD OF STATUTORY AUDITORS *(for the 2008/2010 three-year period)*

GIACINTO SARUBBI
Chairman

MASSIMO SCOTTON

FRANCESCA TRIPODI

ALTERNATE AUDITORS *(for the 2008/2010 three-year period)*

BRUNO BORGIA

PIETRO CERASOLI

INDEPENDENT AUDITORS *(for the 2006/2014 period)*

PRICEWATERHOUSECOOPERS S.p.A.

(1) Member of Internal Audit Committee
(2) Member of the Remuneration Committee

**INTERIM REPORT ON OPERATIONS
AT 30 JUNE 2008**

Ansaldo STS Group

2 REPORT ON OPERATIONS AT 30 JUNE 2008

2.1 Introduction

The Ansaldo STS Group reported net profit of EUR 31,113 thousand compared with EUR 28,359 thousand for the same period last year. Revenues at 30 June 2008 were EUR 502,561 thousand, compared with EUR 461,333 thousand at 30 June 2007. The Group's EBIT went from 9.93% at 30 June 2007 to 10.12% at 30 June 2008.

Orders at 30 June 2008 came to EUR 491,556 thousand compared with EUR 546,744 thousand at 30 June 2007. The decrease in the first half is mainly due to the Systems Business Unit, which had reported significant acquisitions in the prior year.

The value of backlog at 30 June 2008, equal to EUR 2,942 million, reflects the performance of acquisitions and rose by 18.3% from that for the first half of 2007, which amounted to EUR 2,448 million.

The above-mentioned figures, largely in line or higher than the 2006-2008 guidance issued during the IPO process, are the proof of a first half-year which can be considered very satisfactory, in terms of growth, profitability and financial solidity of the company. Moreover, the actions taken and the results achieved in the course of the year 2007 laid the ground for the prosecution of a positive trend for the company also in the near future. In particular, the huge volume of new orders acquired by the Systems Business Unit in the last 18 months brought the corresponding backlog to over EUR 1,750 million at 30 June 2008, equal to some 7 years of productive activity: this lays the foundations for a significant development of this business in the next three-year period.

With regard to the Signalling segment, and in line with the prior year, the first half of 2008 was characterized by a remarkable geographic expansion of the potential market, which has already obtained important results in terms of acquisition of new orders in countries and business segments of particular importance.

The solid knowledge already acquired (ERTMS and driverless ATC) and in course of further consolidation (CBTC) in the strategic technologies of the sector, the peculiar

geographic distribution at global level, and the additional efforts of commercial penetration in the new areas characterized by high growth rates (Central and Eastern Europe, Middle and Far East) confirm the favourable competitive position of the company and allow to look at the future with reasonable serenity.

In the period from 2 January to 30 June 2008, the official price of the stock passed from EUR 8.65 to EUR 9.47 with an increase of 9.5%. The increase in value materialized in an unfavourable financial market, showing the relevant strength over the reference indexes with countertrend performance.

In the same period, the Mibtel index reported loss of 22.72%, and the ALLSTAR reference index reported a 16.01% decrease.

The awareness of the defensive ability of the stock and the non-cyclic nature of the reference business, which is continuously growing, brought growth in the confidence of investors and reference shareholders, supported by the commercial performances and by the visibility of the Management strategies on the market.

The following should be noted:

- compared with the figures indicated in the group consolidated half-year report at 30 June 2007, figures for the first half of 2007 have been recalculated to reflect the change in the accounting principles applied to these financial statements. In particular, we report that, starting from the year 2007, the Company adopted the Equity Method principle (as permitted by IAS 19) in recognizing defined-benefit plans with consequent modification of the classification criteria of the single cost components related to these plans in the income statement and in the balance sheet.
- Please refer to paragraph 7.3 - 7.4 for the accounting principles adopted and the effects of this change on the comparative situations presented in the financial statements and explanatory notes to the half-year financial report;
- in the report at 31 March 2008, in order to align the information on the Balance Sheet with the requirements of IAS 1, direct tax receivables and direct tax payables have replaced Tax receivables and Tax payables, and indirect tax receivables and payables have been classified as Other assets and Other

liabilities, and the comparative figures presented have been adjusted accordingly.

Ansaldo STS S.p.A., the holding company, exercised the option to use the Consolidated Taxation Mechanism for the Group's Italian subsidiaries (Ansaldo Segnalamento Ferroviario S.p.A. and Ansaldo Trasporti Sistemi Ferroviari S.p.A.) for the 2007-2009 three-year period for IRES (corporate income tax). This option was exercised on 15 June 2007; its effects materialized from the first half-year report 2007.

2.2 Group key figures

| <i>(EUR 000)</i> | 30.06.2008 | 30.06.2007 | Change | 31.12.2007 |
|--|-------------------|-------------------|-------------------|-------------------|
| Orders | 491,556 | 546,744 | (55,188) | 1,532,452 |
| Backlog | 2,942,260 | 2,487,738 | 454,522 | 2,980,009 |
| Production revenues | 502,561 | 461,333 | 41,228 | 973,094 |
| EBIT | 50,837 | 45,824 | 5,013 | 100,294 |
| ROS | 10.12% | 9.93% | +0.19 p.p. | 10.31% |
| Net Profit (Loss) | 31,113 | 28,359 | 2,754 | 58,278 |
| Working capital | (185,216) | (237,163) | 51,947 | (216,689) |
| Net invested capital | 21,588 | (28,926) | 50,514 | (6,820) |
| Net financial position (credit) | (163,369) | (184,714) | 21,345 | (184,521) |
| Research and development | 21,765 | 23,995 | (2,230) | 41,236 |
| Workforce | 4,264 | 4,161 | 103 | 4,243 |

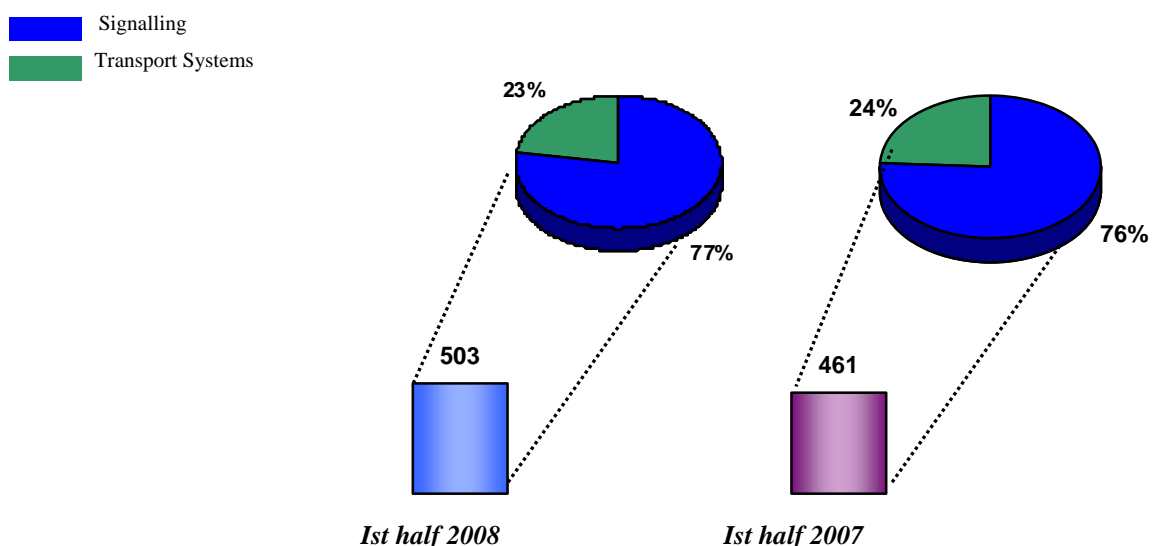
The first half 2008 ended with net consolidated profit of EUR 31,113 thousand, up from EUR 28,359 thousand in the first half 2007.

The increase of EUR 2,754 thousand stems from the rise in EBIT of EUR 5,013 thousand, partly off-set by the increase in net financial charges of EUR 1,819 thousand and greater taxes for the year of EUR 440 thousand.

In line with the Group development objectives, **production revenues** rose by 8.94% from EUR 461,333 thousand in the first half of 2007 to EUR 502,561 in the first half of 2008, with an increase, in absolute value, of EUR 41,228 thousand mainly attributable to the Signalling Business Unit in the periods compared:

- The Signalling Business Unit ended the first half-year with production revenues of EUR 387,561 thousand, less transactions with the Transport System Business Unit (EUR 388,703 thousand, including transactions with the Transport System Business Unit), up EUR 38,464 thousand from the same period of the prior year;
- The Transport System Business unit ended the period with production revenues of EUR 115,001 thousand (the amount is the same if we exclude the transactions with the Signalling Business Unit), up EUR 2,764 thousand from the same period of the prior year.

Production revenues by Business Unit 1st half 2008 - 2007 (EUR millions)



Operating profit (EBIT) at 30 June 2008 amounted to EUR 50,837 thousand, an increase of EUR 5,013 thousand from EUR 45,824 thousand for the same period of the year 2007. The profit margin was 10.12% in 2008 compared with 9.93% in 2007.

Therefore:

- Signalling ended the first half 2008 with operating profit of EUR 42,648 thousand, compared with EUR 40,561 thousand for the same period last year, an increase of EUR 2,087 thousand;
- Transport systems through 30 June 2008 showed an operating profit of EUR 12,414 thousand compared with Euro 12,596 thousand the same period last year, a decrease of EUR 182 thousand.

The signalling and the transport systems market is still marked by growth, even though in countries like Italy, some programmes for railway investments are nearing their normal end. The Group regularly updates and revises revenues from job orders: at 30 June 2008, due to the advanced state of completion of some contracts (HS Naples – Rome, CAR Florence, etc.), finishing costs for these job orders were updated and brought a positive effect on consolidated operating profit for the period.

EBIT and ROS 1st half 2008 - 1st half 2007 (EUR millions)

| | |
|----------------------|----------------------|
| 10.12 % | 9.93 % |
| 1st half 2008 | 1st half 2007 |

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

| Income Statement (EUR 000) | <i>For the 6 months ended 30 June</i> | | <i>31.12.2007</i> |
|---|---------------------------------------|------------------|-------------------|
| | <i>2008</i> | <i>2007</i> | |
| Revenues (*) | 502,561 | 461,333 | 973,094 |
| Production revenues | 502,561 | 461,333 | 973,094 |
| Purchases and staff costs (**) | (452,257) | (414,293) (****) | (860,787) |
| Amortization and depreciation | (4,959) | (4,616) | (10,355) |
| Writedowns | (58) | (78) | (594) |
| Reorganization costs | (1,383) | - | - |
| Other net operating revenues (costs) (***) | 1,852 | 584 | (2,017) |
| Change in work in progress, semi-finished and finished products | 5,081 | 2,894 | 953 |
| EBIT | 50,837 | 45,824 | 100,294 |
| Financial income (expense), net | (869) | 950 (****) | 3,566 |
| Income taxes | (18,855) | (18,415) | (45,582) |
| Net Profit (Loss) | 31,113 | 28,359 | 58,278 |
| <i>Group</i> | 31,070 | 28,305 | 58,172 |
| <i>Minority interests</i> | 43 | 54 | 106 |
| Earnings per share | | | |
| <i>Basic and Diluted</i> | 0.31 | 0.28 | 0.58 |

Notes for reconciling the reclassified Income Statement and the Income Statement:

(*) Includes "Revenues" and "Revenues from related parties".

(**) Includes "Costs from related parties", "Purchases", "Services" and "Cost of labour", less "Capitalized costs for internally produced assets".

(***) Includes the net amount of "Other operating income", "Other operating income from related parties", "Other operating costs" and "Other operating costs from related parties".

(****) H1 2007 items have been modified as a result of the IAS 19 restatement (ref § 7.4.1);

Balance Sheet

| <i>(EUR 000)</i> | <u>30.06.2008</u> | <u>31.12.2007</u> | <u>30.06.2007</u> |
|---|-------------------------|-------------------------|-------------------------|
| Non-current assets | 252,527 | 257,064 | 257,502 (**) |
| Non-current liabilities | (45,723) | (47,195) | (49,265) (**) |
| | <u>206,804</u> | <u>209,869</u> | <u>208,237</u> |
| Inventories | 104,094 | 98,305 | 104,166 |
| Work in progress | 208,610 | 151,895 | 127,099 |
| Trade receivables | 251,520 | 326,536 | 277,738 |
| Trade payables | (181,754) | (194,509) | (206,016) |
| Advances from customers | (472,979) | (506,802) | (461,781) |
| Provisions for short-term risks and charges | (26,186) | (26,215) | (22,245) |
| Other net assets (liabilities) (*) | (68,521) | (65,899) | (56,124) |
| Net working capital | <u>(185,216)</u> | <u>(216,689)</u> | <u>(237,163)</u> |
| Net invested capital | <u>21,588</u> | <u>(6,820)</u> | <u>(28,926)</u> |
| Group shareholders' equity | 184,532 | 177,315 | 155,446 (**) |
| Minority interests | 425 | 386 | 342 |
| Shareholders' equity | <u>184,957</u> | <u>177,701</u> | <u>155,788</u> |
| Net financial debt (liquidity) | <u>(163,369)</u> | <u>(184,521)</u> | <u>(184,714)</u> |

Notes for reconciling the reclassified Balance Sheet and the Balance Sheet:

(*) Includes "Direct tax receivables", other current receivables from related parties (carried under "Current receivables from related parties") and "Other current assets", less "Direct tax payables", other current payables from related parties (carried under "Current payables from related parties"), "Other current liabilities, except for financial receivables from related parties (carried under "Current receivables from related parties").

(**) H1 2007 items have been modified as a result of the IAS 19 restatement (ref § 7.4.1);

At 30 June 2008, consolidated **net invested capital** was EUR 21,588 thousand, compared with a negative figure of EUR 6,820 thousand at 31 December 2007; the difference of EUR 28,408 thousand is essentially attributable to the change in **working capital**, which went from EUR (216,689) thousand at 31 December 2007 to EUR (185,216) thousand at 30 June 2008, with a change of EUR 31,473 thousand. The change in working capital is due to the increase in inventories and work in progress less on-account billings, and to the decrease of trade payables, partially offset by a decrease in trade receivables.

The Group's **net liquidity position** (excess of financial receivables and liquid assets over financial debts) at 30 June 2008 was EUR 163,369 thousand, compared with a positive liquidity position of EUR 184,521 thousand at 31 December 2007: a decrease of EUR 21,152 thousand. Current operations are negative: the free operating cash flow (FOCF)

before strategic investments for the period shows cash flow used of EUR 1,435 thousand compared with cash flow generated of EUR 28,470 thousand at 30 June 2007. This is due to the decrease in working capital.

2.3 Financial situation

| <i>(EUR 000)</i> | <u>30.06.2008</u> | <u>31.12.2007</u> | <u>30.06.2007</u> |
|--|-------------------------|-------------------------|-------------------------|
| Short-term financial debts | 8,650 | 11,491 | 5,943 |
| Medium- and long-term financial debt | 6,677 | 4,371 | 8,153 |
| Cash and cash equivalents | <u>(70,477)</u> | <u>(63,385)</u> | <u>(42,313)</u> |
| BANK DEBT | <u>(55,150)</u> | <u>(47,523)</u> | <u>(28,217)</u> |
| Financial receivables from related parties | (112,111) | (140,705) | (156,673) |
| Other financial receivables | <u>-</u> | <u>-</u> | <u>-</u> |
| FINANCIAL RECEIVABLES | <u>(112,111)</u> | <u>(140,705)</u> | <u>(156,673)</u> |
| Financial payables to related parties | 3,892 | - | - |
| Other short-term financial debt | - | 1,110 | 133 |
| Other medium- and long-term financial debt | <u>-</u> | <u>2,597</u> | <u>43</u> |
| OTHER FINANCIAL DEBT | <u>3,892</u> | <u>3,707</u> | <u>176</u> |
| FINANCIAL DEBT (FINANCIAL RECEIVABLES), NET | <u>(163,369)</u> | <u>(184,521)</u> | <u>(184,714)</u> |

At 30 June 2008, the Ansaldo STS Group had a net financial creditor position of EUR 163,369 thousand.

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

- major collections for the Signalling Business Unit, due to: the Italian subsidiary ASF for the SCMT Wayside and the Milan-Bologna High Speed Railway projects of EUR 105,700 thousand; the Australian subsidiary for the ARTC, FMG, WCCL and KFW projects of EUR 70,300 thousand; the US subsidiary for the CTA Dearborn, DART – SE Extension, NY Chambers Street of EUR 14,800 thousand; the French subsidiary for the Shitai Line and Madrid Lerida projects of EUR 10,000 thousand;
- major collections for the Systems Business Unit from the Copenhagen projects of EUR 22,800 thousand and the MetroGenova, MetroBrescia and Roma project of EUR 36,100 thousand;

- payment of the dividends resolved by the Shareholders' Meeting of 1 April 2008 for EUR 19,992 thousand;
- payment of taxes, including IRES advances, in the amount of EUR 20,332 thousand;
- payments for investments in tangible assets and intangible assets in the amount of EUR 2,900 thousand;
- collection of financial income in the amount of EUR 1,467 thousand.

Cash and cash equivalents at 30 June 2008 came to EUR 70,477 thousand.

Cash flow statement at 30 June 2008 was broken down as follows:

| Cash Flow Statement (EUR 000) | <u>30.06.2008</u> | <u>31.12.2007</u> | <u>30.06.2007</u> |
|--|-------------------|-------------------|-------------------|
| Cash and cash equivalents - opening balance | <u>63,385</u> | <u>48,580</u> | <u>48,580</u> |
| Gross cash flow from operating activities | 48,453 | 112,295 | 42,792 |
| Change in working capital | (29,277) | (26,629) | 16,316 |
| Changes in other operating assets and liabilities | (14,368) | (40,982) | (22,298) |
| Cash flow from (used in) operations | <u>4,808</u> | <u>44,684</u> | <u>36,810</u> |
| Cash flow from (used in) ordinary investing activities | (6,243) | (17,788) | (8,340) |
| Free Operating cash flow | <u>(1,435)</u> | <u>26,896</u> | <u>28,470</u> |
| Strategic investments | - | (2,380) | (2,380) |
| Other changes in investing activities | - | 57 | - |
| Cash flow from (used in) investing activities | <u>(6,243)</u> | <u>(20,111)</u> | <u>(10,720)</u> |
| Dividends paid | (19,992) | - | - |
| Cash flow from (used in) financial activities | 29,153 | (8,878) | (32,624) |
| Cash flow from (for) financial activities | <u>9,161</u> | <u>(8,878)</u> | <u>(32,624)</u> |
| Foreign exchange translation differences | (634) | (890) | 267 |
| Cash and cash equivalents - closing balance | <u>70,477</u> | <u>63,385</u> | <u>42,313</u> |

The first half of 2008 ended with net increase of EUR 7,092 thousand in cash and cash equivalents.

The following are the main changes in cash flow:

- cash flow from operations stood at EUR 4,808 thousand, a decrease on the same period the preceding year by EUR 32,002 thousand, due to the decrease in working capital, as illustrated in the balance sheet section.
- Cash flow used in ordinary investing activities of EUR 6,243 thousand, due to investments in tangible and intangible assets for the period, down from the same period of the prior year of EUR 4,477 thousand (EUR 10,720 thousand at 30 June 2007); in the same period of the prior year the US subsidiary of the Signalling Business Unit acquired the RM Star business line (EUR 2,380 thousand) and implemented SAP activities;
- cash flow from financial activities of EUR 9,161 thousand from cash flow used in financial activities of EUR 32,624 thousand at 30 June 2007; the change is mainly due to the decrease of certain credit lines and to the payment of dividends of EUR 19,992 thousand.

2.4 Market conditions and business climate

Signalling Business Unit

Orders for the first half of 2008 amounted to EUR 430,223 thousand, an increase of EUR 52,922 thousand (EUR 377,301 thousand at 30 June 2007).

Below are described the significant events occurred in the period pertaining to the Signalling Business Unit:

ANSALDO SEGNALAMENTO FERROVIARIO S.p.A. (ASF)

The value of new orders obtained in 2007 by our Italian subsidiary of the Signalling Business Unit amounts to EUR 181.2 million, compared with EUR 121.8 million of the last period, notwithstanding the reduction in the investments from RFI and Trenitalia commenced in 2006.

Despite this, new orders from the domestic market amounted to EUR 107 million, a slight increase from the sale period of the prior year (EUR 100 million).

New orders acquired in the domestic market include:

- orders for variations and price revisions of the High-speed Rome-Naples, Milan-Bologna and Turin-Novara contracts for an overall amount of EUR 13.2 million;
- orders relating to the onboard subsystems of the SCMT project for a total of EUR 26.0 million, including:
 - the order from Trenitalia for the 6th Application Contract for the SCMT Master Agreement worth EUR 21.1 million;
 - an order from Firema for the SCMT on-board equipment for additional 17 TSR trains of FNM for an amount of EUR 3.9 million;
 - some alternative railway routes from Ferrovie del Gargano, Metrocampania (through ASTS) and Rail Traction in the amount of EUR 0.8 million;
- orders for alternative railway routes and reconfigurations to the Wayside SCMT in the amount of EUR 6.2 million;

- orders for ACC systems totalling EUR 28.3 million, including:
 - the order for the Rho ACC, worth EUR 14.0 million;
 - the order for phase 3 of the Pisa ACC, worth EUR 13.5 million;
- orders for service contracts for an overall amount of EUR 22.2 million, mostly (EUR 20.7 million) relating to assistance contracts for the 2008-2012 period in respect of the SCC systems of: Venice, Genoa and Naples junctions and Verona-Brennero, Adriatic and Tyrrhenian lines;
- a number of orders from AnsaldoBreda for a total of EUR 5.7 million.

The Italian subsidiary also obtained important orders abroad (EUR 74.5 million), acting on the markets where the company is responsible for development within the Ansaldo STS Group, and creating a diversification of business by geographical area.

These include:

- the order for the ERTMS level 2 on-board and wayside signalling system, for the Zhengzhou –XI'an line of some 450 km for an amount of EUR 48.3 million, introducing the Company to the important Chinese market;
- the order for the signalling system of Banlieu Sud in Tunis from SNCFT for a total amount of EUR 18.2 million, which strengthens long-terms collaboration relations between these railways and the Group companies;
- an order from Thales for Boe intended for Greece for a total amount of EUR 2.7 million;

Activities are continuing for the introduction to these markets:

- the Russian market, based on the ITARUS project and the understanding agreements between Finmeccanica and RZD;
- the Polish market, with an ongoing negotiation for an interlocking pilot project.

ANSALDO STS FRANCE

The commercial activity carried out by Ansaldo STS France in the first half of 2008 is substantially in line with the amounts of the prior year; the orders acquired during the period amounted to EUR 72 million.

For the other companies of North-Western Europe (UK, Sweden, Ireland), coordinated by Ansaldo STS France, the acquisitions less intercompany transactions amounted to EUR 41.2 million.

The significant orders of the period in the above-said region include:

- on-board systems (Bi standard ERTMS/TVM) for SNCF in France (EUR 25.4 million)
- on-board ATPs for Skånetrafiken/X61 trains in Sweden and for Angels Train in Norway (EUR 4 million)
- the ERTMS ESTER project in Sweden (EUR 26.2 million)
- the last tranche of the Madrid - Lerida line (Spain – EUR 6.3 million)
- activities on components (mainly interlock relays for SNCF/RATP – EUR 11.8 million).

With regard to the area where ASTS France operates, the French market is stable; no significant development is expected, except for offer requests for great projects (many under PPP) to be progressively published by RFF in the future (2008 – 2013).

The Iberian market is dynamic, with prospects for strong investments for both the new High Speed lines, and the renewal and extension of commuter lines and the underground systems.

The British market for the signalling and control systems on ordinary lines is always highly competitive, with stiff competition and continuous pressures on project costs and the compliance with delivery times requested by the major customers.

Recent discussions between the ASTS group and the Network Rail Board confirmed the significant opportunities for ASTS in the market of the major lines in the UK, including the possible participation in important projects such as Cross Rail.

Business opportunities are emerging with Regional Light Transport Operators and with London Underground; business development activities recently focussed on Glasgow Underground and Nottingham Transit.

The North-African Market is dynamic with significant potentials for investments in great projects of the infrastructure, but whose decisions often come when it is too late.

UNION SWITCH & SIGNAL INC.

In the first half of 2008 Union Switch & Signal posted orders of EUR 34.2 million. In the period at issue the contracts signed for extending Shanghai's line 2 accounted for a significant portion of this amount (EUR 15.8 million). These projects will be achieved together with Shanghai Railway Communications Company (SRC). Some contracts that were expected to be registered in the second quarter have been postponed and have to be signed yet.

The North American Market is experiencing a stagnation period.

The component business continues to be negatively affected by a reduction in the expenditure for Class 1 railways, which also affected the second quarter of 2008.

Among greater projects, our US subsidiary continues to focus on the PATH re-signalling project.

To balance this unfavourable period, the development for designing engineering services and small-sized systems is continuing. It was launched in the first quarter. The business is now formed by five engineers and is based in Jacksonville, Florida. The first orders might be recorded during the second half.

In the second half of 2008, expenditure for Class 1 railways will strongly increase, and this will bring significant orders for both railway component solutions (removal of railway posts, monitoring of the railway structural integrity, and monitoring of crossings in areas without signalling), and the Transportal, a newly-issued product. The Transportal Remote Monitoring device was successfully tested at BNSF in April and the results are now shared with all the Class 1 railways.

In the Chinese market, a strong increase of activity in the equipped undergrounds with CBTC systems is expected as a result of the collaboration with Insigma.

ANSALDO STS ASIA PACIFIC REGION

Once again, the activities of our Australian subsidiary **Ansaldo STS Australia**, leader of the Asia Pacific Region, are particularly relevant.

At 30 June 2008, acquisitions of EUR 107.8 million were recorded, up EUR 16.2 million from the prior year (EUR 91.6 million at 30 June 2007).

In detail:

- ARTC - ATMS pilot line – phase 1 for the laying of a second Antiene - St. Heliers railway line
- Queensland Rail – integration of the Broadlea-Wotonga line
- Hamersley Iron – on-board equipment of 30 locomotives
- TID Corp – laying of a fourth Kingsgrove – Revesby railway line

At the start of July, negotiations between MMC - Gamuda Joint Venture Sdn Bhd and the Joint Venture between our subsidiary and Balfour Beatty successfully ended for the contract for the extension of the technological works on 330 kms for the laying of a second railway line between Ipoh and Padang Besar in the north of Malaysia.

The relevant portion of EUR 135 million strengthens Ansaldo STS Australia as one of the main players of the Signalling Business Unit.

The Australian Market continues to expand thanks to the marked demand for raw materials (especially iron ores – from the North-Western – and coal – from the central and eastern coast and the North-East -) generated from the industrial development of China.

The long-term relations of Ansaldo STS Australia with Rio Tinto (North-West), ARTC (central-eastern coast) and Queensland Rail (North-East) continue to provide strong business opportunities for our Company in the long-lasting mining boom.

The Market of India is marked by the continuation, although at a slightly reduced pace, of the programme for strengthening the station systems from electric and mechanical interlocking to electronic interlocking.

From the start of this programme, ASTS obtained a relevant market share, with orders for more than 360 stations.

The Market in Malaysia is based on some strategically important opportunities that aim at strengthening the capacity on the main lines with mixed traffic (goods/passenger) and in commuting services in several key cities.

Moreover Ansaldo STS Australia is establishing local companies in Botswana (a 100%-owned subsidiary) and in South Africa (Joint Venture at 51%) to ease the acquisition of a relevant share of these developing markets in the South African region.

Systems Business Unit

The value of the orders obtained in the first half of 2008 amounted to EUR 62.0 million, compared with EUR 175.1 million in the same period last year.

The most important event is the completion of the financing of the T3 section of the Rome Underground (C Line) which, together with small alternative routes on the T5, T6 and T7 sections and Deposit bring to the company acquisitions for an overall amount of EUR 47.7 million (interest in the consortium company of EUR 30.7 million plus direct orders from MetroC of EUR 17.0 million).

In the last quarter reserves all doubts were put aside for the Florence Tramway line 1, together with small alternatives, for an overall amount of EUR 3.4 million.

With regard to the Metro Brescia contract, the customer partially accepted Reserve no. 5 with application of the closed price starting January 2004, with relevant recognition of expenses. This brought greater revenues of EUR 5.1 million than provided for by the original contract.

Another acquisition for the period within the Vesuvian business relates to the signing of the Application Deed in March between Consorzio San Giorgio Volla Due (licensee) and the Campania Region on the first lot of works to be made on the Madonna dei Flagelli station (Castellammare-Torre Annunziata line). The technological works given to the company amounted to EUR 2.6 million.

Finally, two Addendums were signed for the Alifana business (Piscinola-Central Aversa section) for the supply of TELOC 2500 on trains (MA100) of MetroCampania Nord-Est and the equipping of the Scampia station. The two works are worth EUR 0.7 million and EUR 0.9 million respectively.

The prior year the value of acquisitions mainly related to the first portion of works financed by the Line C Rome Underground of EUR 150.2 million, alternatives acquired through the Saturno Consortium for EUR 10.5 million, and to the supply of ATP equipment to be installed on the electric trains (MA100) of MetroCampania North-East for the Alifana business for EUR 6.9 million.

2.5 Business information

Orders acquired at 30 June 2008 came to a total of EUR 491,556 thousand compared with EUR 546,744 thousand in the first half of 2007, a decrease of EUR 55,188 thousand or 10.09%.

The orders acquired by the Signalling Business Unit came to EUR 430,223 thousand (EUR 429,591 thousand net of transactions with the Systems Business Unit), while Transport Systems won orders worth EUR 61,965 thousand, a decrease by EUR 113,158 thousand from the same period of the prior year (EUR 175,123 thousand at 30 June 2007).

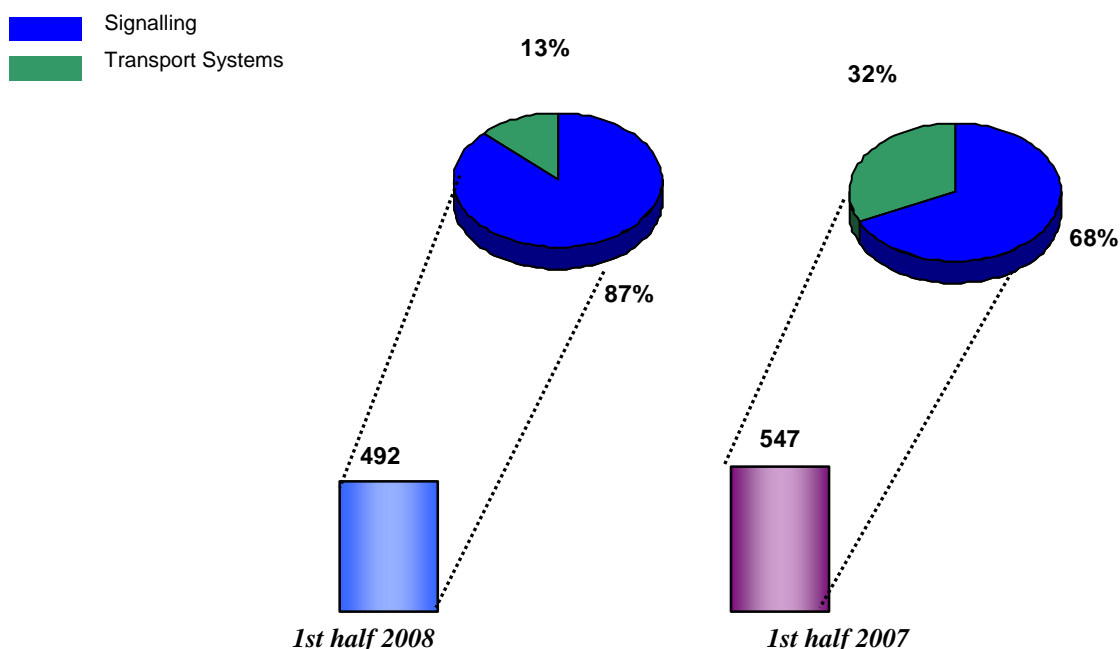
The main orders acquired by the Signalling Business Unit during the first half-year 2008, including orders acquired by the Transport System Business Unit, were on the following projects:

| Country | Project | Customer | Value (EUR millions) |
|----------------|--|-----------------|-----------------------------|
| China | ERTMS On Board & Wayside on Zhengxi line | MoR | 48.3 |
| Italy | Total components/ Service & Maintenance | Various | 27.3 |
| Sweden | ERTMS Lev 2 ("ESTER") | BV | 26.2 |
| United States | Total components/ Service & Maintenance | Various | 16.7 |
| France | On Board Bi - Standard Equipment | SNCF | 25.5 |
| Italy | ATC Onboard 6th Application Contract | Trenitalia | 21.1 |
| Tunisia | Electrification and Signalling Banlieue sud de Tunis | SNCFT | 18.2 |
| France | Total other components/ Service & Maintenance | Various | 16.5 |
| China | China: Shanghai Line 2 East Extension | Shentong | 15.8 |
| Italy | ACC Rho | RFI | 14.0 |
| Australia | ATMS Phase 2 | ARTC | 14.0 |
| Italy | ACC Pisa | RFI | 13.5 |
| UK | Cambrian Line Phase 2/3 - Transition Contract | Network Rail | 13.2 |
| France | Various Vital Relays (components) | ADIF | 11.8 |
| Italy | HSL MI - BO | CEPAV 1 | 11.7 |
| Australia | Various Rio Tinto Projects (no. 3 orders) | Rio Tinto | 9.8 |
| Australia | Various ARTC Projects (no. 9 orders) | ARTC | 9.4 |
| Australia | Goonyella - Broadlea Wotonga Implementation | Q R | 9.2 |
| Australia | ICSS Fitout - 30 Locomotives | Hammersley Iron | 9.1 |
| Australia | Clearsway 3 Kingsgrove to Revensby | TIDC | 9.1 |
| Spain | Liquidacion Madrid - Lerida | ADIF | 6.3 |
| Australia | Goonyella - Cappabella Yard | Q R | 4.7 |
| Sweden | ATP On Board (Sweden) | Sknetrafiken | 4.0 |
| Italy | ATC Onboard for TSR Trains | Firema | 3.9 |
| Australia | Communication Systems Factory Works | F M G | 3.5 |
| Italy | Eurobalises and BTM - 2 lots | Erga Ose | 2.7 |

The main orders acquired by the Transport Systems Business Unit during the first half of 2008 were on the following projects:

| Country | Project | Customer | Value (EUR millions) |
|----------------|---------------------------------|-------------------------|-----------------------------|
| Italy | Rome C Line | Metro Roma | 47.7 |
| Italy | Metro Brescia - variation order | Municipality of Brescia | 5.1 |
| Italy | Vesuviane - variation order | Circum Vesuviana | 2.6 |
| Italy | Alifana - variation order | Metro Campania | 1.6 |

Orders by Business Unit at 30 June 2008 - 2007 (EUR millions)



The order backlog at 30 June 2008 totalled EUR 2,942,260 thousand, an increase of EUR 454,522 thousand (or 18.27%) on the EUR 2,487,738 thousand figure at 30 June 2007.

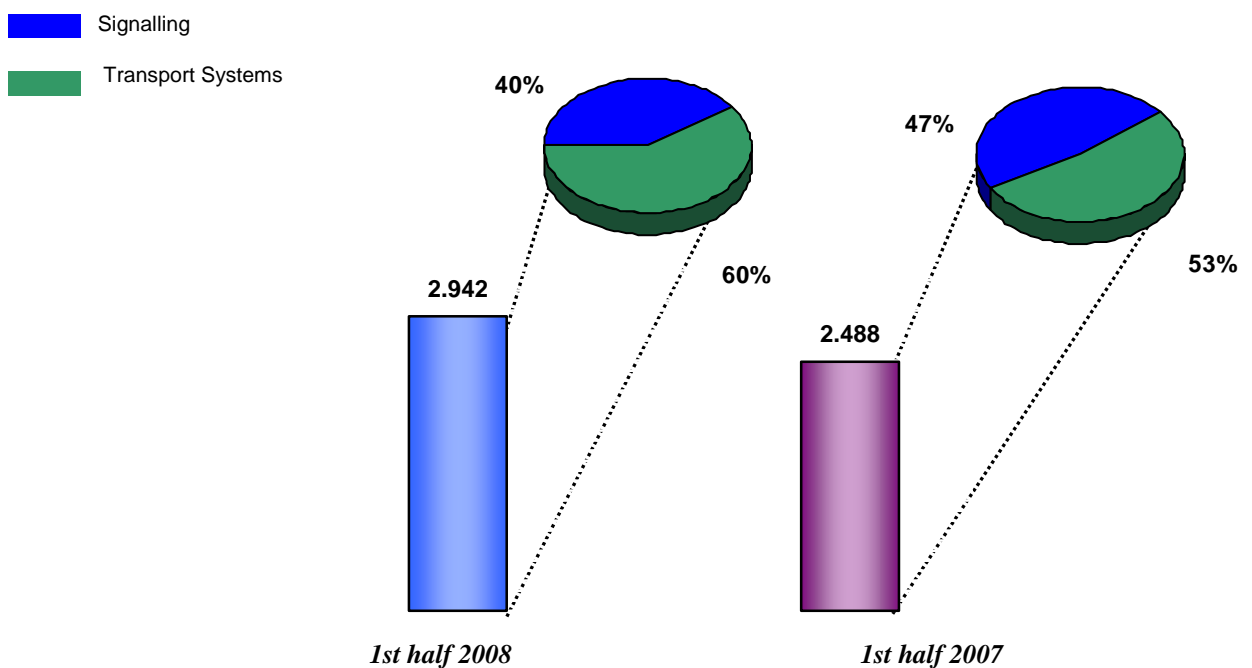
The order backlog of the Signalling Business Unit at 30 June 2008 amounted to EUR 1,409,021 thousand (EUR 1,185,424 thousand, less transactions with the Transport System Business Unit), of which EUR 733,884 thousand related to the Italian subsidiary ASF, EUR 252,053 thousand to the US subsidiary US&S, EUR 243,454 thousand to the French subsidiary Ansaldo STS France and EUR 151,594 thousand to the subsidiaries in the Asia/Pacific region.

The Transport Systems Business Unit's order backlog at 30 June 2008 came to EUR 1,756,836 thousand, chiefly relating to the following projects:

- High-speed trains (EUR 103,653 thousand)
- Copenhagen metro (EUR 100,140 thousand)
- Concessions relating to the building of the Naples, Rome, and Genoa metros (EUR 614,893 thousand)

- Brescia and Milan driverless metro (EUR 305,689 thousand)
- Rome C line metro (EUR 342,583 thousand)
- Thessaloniki (EUR 159,873 thousand)
- Alifana (EUR 115,951 thousand)
- Other (EUR 14,054 thousand)

Orders backlog at 30 June 2008 (EUR millions) by Business Unit



2.6 Research and development

The first half of 2008 immediately took the benefits of the additional efforts made in 2007 in the Group R&D segment. These efforts aimed at reaching an even greater collaboration between the respective R&D activities in the Signalling and the Transport System segments and the first implementation of the Product strategies issued by the Group Product Managers.

Thanks to these strategies the Group companies mostly put their R&D efforts on the products identified as strategic, and made them more competitive in cost and services

through specific update and upgrade programmes as required by the market and new versions of international standards.

A confirmation of the success of this strategy is the recent acquisitions of contracts with remarkable significance both strategically and economically not only in countries considered as domestic, but also in those considered as non-domestic considered as key to the Group.

Specifically, thanks to Group products in the High Speed Railway Line segment based on ERMTS level 2 technologies, the Group has recently acquired orders in line with Strategic Plans of the Group in several parts of the world:

- In Germany with DB a section of the High Speed Railway Line between Saarbrücken and Mannheim will be based on the Ansaldo STS technology of ERMTS Level 2. This contract is even more important since the German railway company (Deutsche Bahn) chose an Italian company over a local company as system supplier for their first High Speed line ever.
- In China the railway line Zhengzhou-Xi'an will be equipped with one of AnsaldoSTS products, of the ERTMS Level 2 type. It is very important that the Chinese Ministry of Transport determined to adopt this technology for all its High Speed lines and chose the products of the Ansaldo STS Group as the basis for their implementation.

The metropolitan segment benefited from the important results achieved by the R&D activities in the last period through the acquisition of a significant number of orders acquired in the domestic market and in the Chinese market.

These orders see a full and profitable consolidation and expansion of the metropolitan systems of the driverless type (Ansaldo STS installed the first driverless metro in the world), as well as of those based on the CBTC technology (Communication-Based Train Control). Thanks to this technology, fine-tuned by Ansaldo STS, the train speed is managed safely, and the amount of line equipment is reduced. Therefore, both the initial cost of the supplies and their maintenance are also reduced. The number of trains is also markedly increased, with the same infrastructure available.

In the meantime, in order to cash in on the emerging and innovative technologies, processes and methodologies currently existing or being developed with the best Italian

and European Universities, AnsaldoSTS signed, as a first stage, strategic collaboration agreements with the Turin and Naples Polytechnics, and with the University of Dresden in Germany.

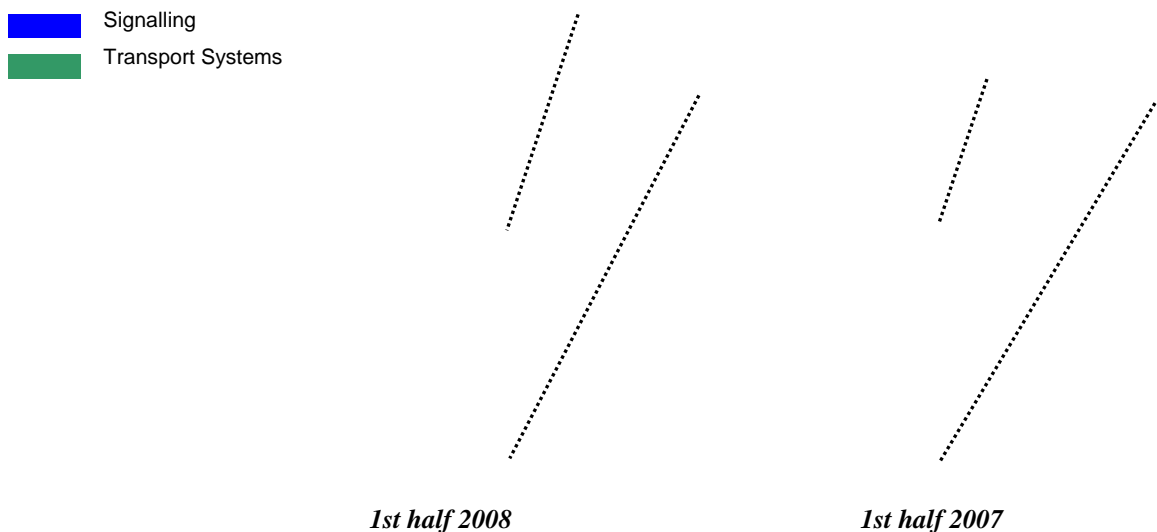
At 30 June 2008, **research and development spending** stood at EUR 21,765 thousand, compared with EUR 23,995 thousand at 30 June 2007, a decrease of about 9.29%.

The activities undertaken by the Signalling Business Unit, totalling EUR 19,819 thousand or 91% of total spending, related to the following companies (figures in EUR):

- Ansaldo Segnalamento Ferroviario SpA (ASF) : 3,693
- Ansaldo STS France : 7,348
- Union Switch & Signal Inc. (US&S) 2,240
- Other : 6,538

Spending by the Transport Systems amounted to EUR 1,174 thousand, an increase of EUR 15 thousand over 30 June 2007.

R&D spending at 30 June 2008-2007 by Business Unit (EUR thousands)



2.7 Personnel and Organization

2.7.1 Ansaldo STS Corporate Management

The top tier of the Company was not changed during the first half of 2008, and was confirmed by the Shareholders' Meeting and the Board of Directors' Meeting held on 1 April 2008. The Company's officers thus include:

- Chairman of the Board of Directors: Alessandro Pansa;
- Deputy Chairman of the Board of Directors: Sante Roberti;
- Chief Executive Officer: Sergio De Luca.

The top-level organization structure of Ansaldo STS was changed, as resolved by the Board of Directors with resolutions of 22 January and 12 May 2008.

With resolution dated 22 January 2008, the Board of Directors formed a new entity named "Processes, Quality and Systems", with the mission of identifying opportunities for improving processes with a view to increasing the overall group efficacy and efficiency, coordinating the implementation of adequate and effective total Business Quality management systems, coordinating and managing the information systems of Ansaldo STS and the subsidiaries organized under the laws of Italy. The responsibility for these activities, to be directly reported to the Chief Executive Officer, lies with Vice President Christian Andi. Regarding the activities associated with information technology, the Board of Directors qualified their actual allocation to the new entity upon the identification of the new head of the Internal Audit Function (Mr Andi, ad interim). At the same time, the "Human Resources & Process Improvement" Direction Unit, headed by the Senior Vice President Carlo Cremona, with the assistance of Vice President Francesco Romano as Deputy Chairman, took on the name of "Human Resources & Organization".

Later, on 12 May 2008, the Board of Directors vested Vice Chairman Mauro Giganti with the responsibility of the Internal Audit Function and, therefore, the IT activities were finally given to Vice President Christian Andi as part of the Processes, Quality and Systems Function.

Accordingly, the top level of the Company will be organized as follows:

- The following Functions will report to the Company's Chairman:

- Internal Audit, headed by Mauro Giganti, Vice President;
- Risk Management, headed by Antonio Manzi, Senior Vice President.
- The following report to the CEO:
 - General Secretary Direction, headed by Mario Orlando, General Counsel
 - Administration, Finance and Control Direction Unit, headed by CFO Jean Paul Giani;
 - Human Resources & Organization Direction Unit, headed by the Carlo Cremona, Senior Vice President, with the assistance of Francesco Romano, Vice President;
 - Business Development Direction Unit, headed by Emmanuel Viollet, Senior Vice President;

The General Secretary and the Directions are charged with planning and controlling all of the Group's activity. The corresponding Directions of the individual operating companies thus functionally report to the Directors of Ansaldo STS and directly report to the chief executive of their respective companies.

- The following functions also report to the Chief Executive Officer:
 - Processes, Quality and Systems, headed to Christian Andi, Vice President;
 - Investor Relations, headed by Andrea Razeto, Investor Relator;
 - Risk Management, headed by Antonio Manzi, Senior Vice President;
 - Industrial Competitiveness, headed up by Giuseppe Spezzi, Vice President.

The subsidiaries that, consistently with strategic needs for the Group International Development, were organized in a regional structure also report to the CEO.

On 1 May 2008 Alan E. Calegari was appointed new President and Chief Executive Officer of Union Switch & Signal Inc.

- The responsibility for guiding subsidiaries is as follows:
 - Ansaldo Trasporti Sistemi Ferroviari: Sergio De Luca;
 - Ansaldo Segnalamento Ferroviario: Sergio De Luca;

- Ansaldo STS France: Georges Dubot;
- Union Switch & Signal: Alan E. Calegari;
- Ansaldo STS Australia: Lyle Jackson.

In May 2008 trade union meetings were successfully held, as envisaged by Article 47 of law no. 428 dated 29 December 1990 for the merger by take-over of ASF ATSF in the Group Parent, as explained in more detail in section 2.11 below.

Under the organization standpoint, a Coordination Team for the Development Activities of the CBTC System was formed. Several companies of the Ansaldo STS Group cooperate to this team. The Team for the Development Activities is coordinated by Omar Rezzoug of Ansaldo STS France, while Leonardo Impagliazzo of Ansaldo Segnalamento Ferroviario is responsible for the coordination of the Team for V&V Activities, including the System Safety activity. The team has the objective of monitoring the system developments in order to increase the level of product knowledge and gain the necessary confidence on the compatibility of the development times with the application needs of the Ansaldo STS company.

These were also appointed:

- Roberto Zanardi as Head of the Prevention and Protection Service of Ansaldo STS for the Turin and Genoa offices, and Alfredo Tommasone for the Naples office. the heads of the Prevention and Protection Service report to Giuseppe Spezzi, who was appointed Employer for Security and Environment as resolved by the Board of Directors of ASTS of 31 July 2007;
- Security Manager of the Ansaldo STS Group, Carlo Cremona, with the objective of coordinating and addressing the company heads of the various Security units.

Regarding governance, these were revised in 2008:

- The internal Regulatory System of Ansaldo STS S.p.A., by defining an organized and consistent set of documents, useful to define responsibilities, roles, rules and

tasks to implement the “Model for the Organization, Management and Control pursuant to Legislative Decree no. 231 of 8 June 2001” and, more in general, the Company’s governance structure in compliance with the latest regulatory provisions for the Corporate Governance Code of Listed Companies, and with international best practices.

- The Travel Regulation for non-executive personnel, by revising the methods for calculating and recognizing the expenses incurred by the employee temporarily in an office other than that where it usually performs its services.

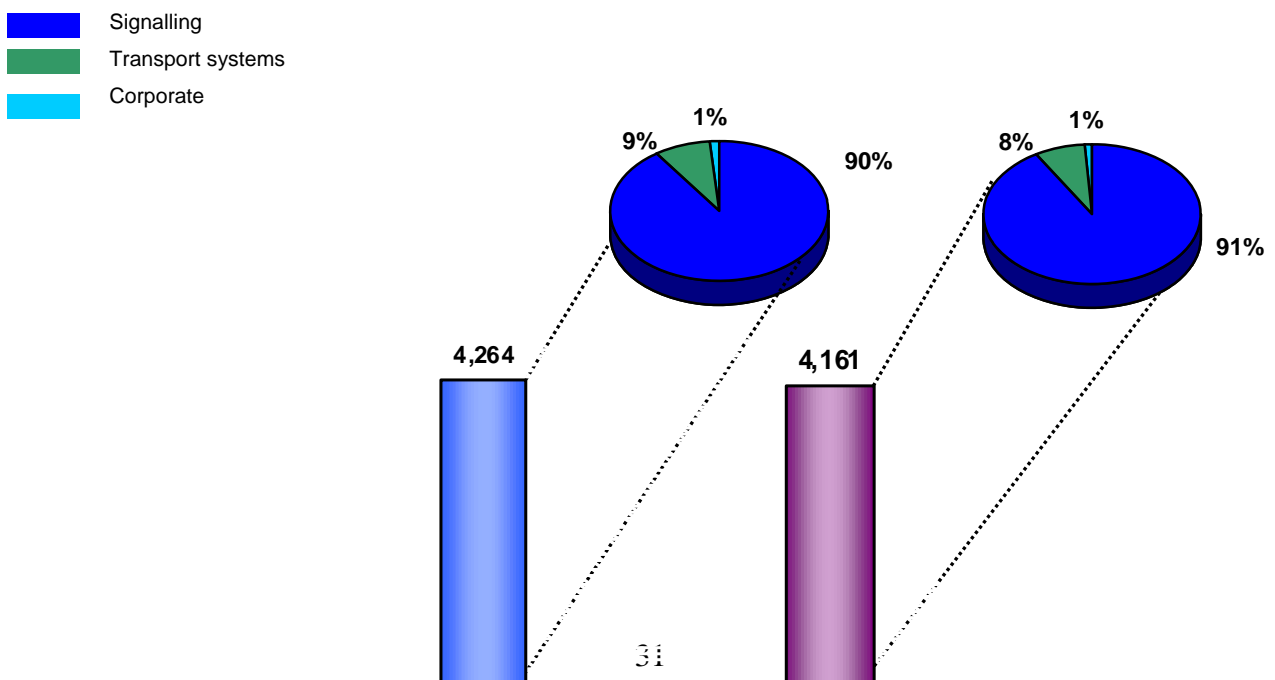
2.7.2 Workforce at 30 June 2008

The Group’s headcount at 30 June 2008 stood at 4,264, an increase of 103 or 2.47%, on the 4,161 of 30 June 2007.

By Business Unit, this broke down as follows:

- Signalling: 3,845, up 47 (1.3%) from June 2007;
- Transport Systems: 361, up 45 (14%) from June 2007;
- Other (Corporate): 58, up 10 (20.8%) from June 2007;

Headcount at 30 June 2008 - 2007 (number) by Business Unit



2.8 Security Policy Statement

‘Information pursuant to Legislative Decree no. 196 of 30 June 2003 (Personal data protection code).’

In accordance with the provisions of section 26 of the Technical Regulations for minimum security measures (Annex B to Legislative Decree no. 196 of 30 June 2003 (Personal Data Protection Code), the Security Policy Statement (DPS) was prepared in respect of personal data processing.

The DPS contains the information required to be given under Section 19 of said Technical Regulations and describes the security measures adopted by the Company in order to reduce to the minimum the risks of: destruction or loss, even by accident, of personal data; unauthorized access or unallowed processing; or processing that is non-compliant with the purposes of the collection.

2.9 Incentive plans

Ansaldo STS has developed and set the rules for:

- a medium-term stock grant incentive plan,
- a long-term cash incentive plan

The plans are part of an array of short-, medium- and long-term incentives that represent a significant component of total management compensation. The incentive plans are furthermore structured so as to tie significant portions of a manager's compensation to the achievement and improvement of financial parameters and to strategic objectives particularly important for the creation of value at a Group level.

2.9.1 Stock grant plan

All of the objectives for the assignment of the 2007 shares were reached.

The three objectives in relation to VAE, Orders and stock performance vis-à-vis the Mibtel for 2007 were all achieved.

Accordingly, as provided for by the plan rules, 100% of the shares originally intended for assignment will be assigned to those entitled.

In the second half of 2008 the participants will be notified of the results achieved and of the shares assigned, accordingly. The shares will be assigned, as envisaged, on 1 December 2008.

2.9.2 2006-2008 Cash incentive plan – Tranche 2007

The 2006-2008 cash plan for 2007 involves five executives of Ansaldo STS and its subsidiaries, who are considered key in the achievement of strategic and business/financial objectives.

The three-year plan provides for the payment of a cash sum, up to a RAL (annual gross remuneration), linked to the achievement of previously assigned objectives.

The objectives set for 2007 were all achieved.

The two objectives set, that for retained cash flow and the share performance vis-à-vis Mibtel, were fully achieved.

The plan also has thresholds, that are different for the various managers, that were all exceeded by all. Therefore, and in accordance with the plan regulation, in June 2008 the incentive portions accrued for the tranche 2007 were paid.

2.9.3 2007-2009 Cash incentive plan – Tranche 2007

The 2007-2009 cash plan for 2007 involves four executives of Ansaldo STS and its subsidiaries, who are considered key in the achievement of strategic and business/financial objectives.

The three-year plan provides for the payment of a cash sum, up to a RAL (annual gross remuneration), linked to the achievement of previously assigned objectives.

The objectives set for 2007 were all achieved.

The two objectives set, that for free operating cash flow and the share performance vis-à-vis Mibtel, were fully achieved.

The plan also has thresholds, that are different for the various managers, that were all exceeded by all. Therefore, and in accordance with the plan regulation, in June 2008 the incentive portions accrued for the tranche 2007 were paid.

2.10 Corporate governance and ownership structure of the company in compliance with Art. 123 bis of Legislative Decree no. 58 of 24 February 1998 and subsequent amendments (TUF)

The Ansaldo STS shares have been trading since 29 March 2006 on the STAR segment of the markets organized and managed by Borsa Italiana S.p.A..

On 19 December 2006 the Ansaldo STS S.p.A. Board of Directors adopted the Corporate Governance Code adopted by Borsa Italiana S.p.A. in March 2006 (C.A.). During 2007 the Company has completed the adjustments to the requirements of the C.A., as it believes that these recommendations will contribute significantly to the realization of the key points of the Company's corporate Governance policy. Specifically, the corporate governance system implemented has as its primary goal the creation of shareholder value, well aware of the relevance of disclosing the company decision-making process, and the need for an efficient internal control system.

With a view to the full compliance of the Corporate Governance with the most recent legislative and regulatory provisions, on 1 April 2008 the Shareholders' Meeting of Ansaldo STS S.p.A. changed the wording of some articles of the Company's by-laws in order to:

- Adjust the by-laws to the ruling of the Court of Cassation of 13 September 2007 no. 19160, regarding the articles of by-laws of another listed company, the chairmanship of the Meeting and the possibility for the retiring Board of Directors to present its own list but avoiding that – in the absence of the

chairman and the deputy chairman of the Board of Directors – a proxyholder of the Board of Directors may take the chair and that, on the other hand, the Board of Directors may present his/her own list of candidates as members of the board.

- coordinate some by-laws provisions with the changes brought to the TUF in 2007, as amended in light of the transposition of Directive 2004/109/EC (“Transparency Directive”), and Consob resolution no. 11971/99 and subsequent amendments and integrations (Issuers’ Regulation);
- ease the understanding of the procedure for the appointment of the Board of Statutory Auditors by rearranging the relevant provisions.

With the Shareholders’ meeting of Ansaldo STS, held on 1 April 2008, the office of the Board of Directors and of the Board of Statutory Auditors expired; the meeting appointed:

- The new Board of Directors in the persons of Alessandro Pansa (Chairman), Sante Roberti, Sergio De Luca, Maurizio Cereda, Gerlando Genuardi, Gregorio Gitti, Francesco Lalli, Eugenio Pinto and Attilio Salvetti. The Board will be in office for three years, therefore until the date of the Ordinary Shareholders’ Meeting for the approval of the financial statements for the year 2010.
- The new Board of Statutory Auditors in the persons of Giacinto Sarubbi (Chairman), Massimo Scotton and Francesca Tripodi; alternate auditors Bruno Borgia and Pietro Cerasoli were also appointed.

The new Board of Directors met on 1 April 2008 as well, and confirmed Sante Roberti as Deputy Chairman, Sergio De Luca as CEO and Mario Orlando, General Counsel of the Company, as Secretary of the Board. The Board also appointed the members of the Internal Control Committee (Gregorio Gitti – Chairman -, Maurizio Cereda, Eugenio Pinto and Attilio Salvetti), of the Remuneration Committee (Maurizio Cereda - Chairman-, Gerlando Genuardi and Francesco Lalli), and also appointed the executive in charge of the preparation of the corporate accounting documents as Jean Paul Giani, Chief Financial Officer of the Company.

Members Maurizio Cereda, Gerlando Genuardi, Gregorio Gitti, Eugenio Pinto and Attilio Salvetti certified that they meet the independence requirements of applicable laws

and the C.A.; at present, the Board of Directors of the Company includes five independent members out of nine.

Below are the main Corporate Governance instruments:

- By-laws
- Ethics Code
- Organization, Management and Control model pursuant to Legislative Decree no. 231/01
- Regulation of the Board of Directors
- Regulation of the Internal Audit Committee
- Regulation of the Remuneration Committee
- Guidelines and Principles for identifying significant transactions with Related Parties – Principles of conduct
- Regulation for managing Confidential Information and setting up a Register of persons who have access to that information
- Internal Dealing Code
- Meeting Regulations

For more details on corporate governance, see the "Report on Corporate Governance", which also contains the information required by Art. 123 bis of TUF, available on the Company's web site www.ansaldo-sts.com.

2.11 Significant events during the period and subsequent events

On 18 April 2008 the Board of Directors of the company approved the new Group company organization which envisages:

- the merger by take-over of the two subsidiaries Ansaldo Trasporti – Sistemi Ferroviari S.p.A. (ATSF) and Ansaldo Segnalamento Ferroviario S.p.A. (ASF) in the Group Parent Ansaldo STS S.p.A. (ASTS);

- the liquidation and dissolution of the Dutch sub-holding company Ansaldo Signal N.V.(ASNV), transferring to ASTS the equity investments and all the other existing assets and legal relations.

To that end, it must be pointed out that the Board of Directors of the Company had previously passed significant resolutions on the change of the group organization structure; specifically:

- On 19 December 2006 the merger of ATSF in ASF was authorized. This transaction should have been completed by the end of 2007. However, in order to help the awarding to ASF of an important tender bid on the German market, in December 2007 the transaction was suspended, with the intention to resume it after the contract was awarded. In the meantime, the integration of the two structures was completed. Now the two companies are legally separated entities but use the same staff structures through service contracts.
- On 19 December 2007 the dissolution of the Dutch sub-holding company ASNV was authorized, with conditions to be determined yet, in order to shorten and rationalize the current chain of control over subsidiaries and to reduce the costs connected with the Group company structure.
- Also on 19 December 2007 (i) the transfer of Ansaldo STS Australia PTY Ltd. (and, therefore, Ansaldo STS Malaysia SDN BHD, a wholly owned subsidiary of ASTS Australia) from Transcontrol Co. (in turn controlled by Union Switch & Signal Inc.) to Ansaldo STS S.p.A., and (ii) the transfer of Ansaldo STS Transportation System India Private Ltd. (India) from Ansaldo Signal N.V. to Ansaldo STS Australia PTY Ltd. were approved.. The reason for these transactions is the opportunity to focus the activities of the Asia Pacific region that are directly controlled by Ansaldo STS S.p.A. and the strong commercial and managerial interaction existing between these two Asia Pacific area companies, under which the Indian company operationally “reports” to the Australian company. These transfers were implemented on 1 January 2008.

Following these resolutions, the Board of Directors continued the work for the rationalization of the group structure, authorizing the two above-said transactions.

The merger by take-over of ATSF and ASF into ASTS will be completed by cancelling all the shares of Ansaldo Trasporti Sistemi Ferroviari and Ansaldo Segnalamento Ferroviario with no share capital increase by the merging company Ansaldo STS since it is a company wholly owned by it. The goal pursued with the merger is the rationalization of the operating activities performed by the group in Italy by concentrating in one single company, the simplification of the current chain of control over the subsidiaries and the decrease of the costs associated with the group's company structure.

The merger aims at implementing a more efficient shareholding structure within the group, an organized development of activities by focussing on the industrial and financial core business within the listed company "ANSALDO STS S.p.A.", consistently with the role and the industrial objectives pursued by the latter.

The expected effects of this transaction can be summarized as follows:

- overall growth in size and earnings, expansion in world markets and entry into new business segments (such as security and telecommunications in the railway sector), accessory to the activities performed today;
- achievement of greater volumes thanks to commercial synergies and the joint development of new products and systems;
- decrease in structure costs;
- simplification of financial flows.

The merger may bring these additional benefits:

- termination of all the service and supply contracts existing between the three companies, subsequently overcoming the issues connected with the agreements made among related parties and simplifying the relations among the business units;
- simplification of the group company structure with a view to ever-increasing transparency to the market;
- strengthening of the structure of the balance sheet and income statement of the company, increasing shareholders' equity and gearing for extraordinary transactions as well.

The operating integration between the two business units, Signalling and Transport Systems, in ASTS will help take these strategic opportunities:

- for Transport Systems, the more direct, immediate and visible access to safety technology. Owning this technology qualifies and is key to be a technological integrator, raises credibility, reputation, skills and, as a result, business opportunities;
- for Signalling, the increase in commercial efficiency in those market segments where signalling technology is increasingly managed through a technological integrator, both for the immediate availability of a powerful promotion and sale means, and for a better knowledge of the customer and its needs.

The proposed merger project was approved on 9 May 2008 by the Board of Directors of the companies to be merged and on 12 May 2008 by the Board of Directors of ASTS.

Later, on 20 June 2008, the Boards of Directors of ATSF, ASF and ASTS approved the merger by take-over of ASF and ATSF into ASTS. Since ASTS wholly owns ATSF and ASF, the merger was approved by the respective Boards of Directors in a simplified manner, as envisaged by Article 2505 of the Italian Civil Code.

The merger will have civil-law, accounting and tax effects from 1 January 2009, unless otherwise indicated in the deed of merger.

The Board of Directors of the company later authorized, on 8 May 2008, the liquidation and dissolution of the Dutch sub-holding company Ansaldo Signal N.V. and the subsequent transfer to ASTS of the equity investments held by ASNV, including the French Ansaldo STS France S.A. and the US Union Switch & Signal Inc.. The liquidation of ASNV was initiated on 16 June 2008. Mario Orlando, former Sole Managing Director of the company, was appointed as liquidator.

During the reporting period, the Board of Directors of Ansaldo STS S.p.A. also authorized the incorporation of two new companies in South Africa, in order to boost new business opportunities in Botswana, South Africa and adjoining countries. The new companies are Ansaldo STS Southern Africa, in Botswana, which will be wholly owned by Ansaldo STS Australia, and an Incorporated Joint Venture in South Africa which will be owned by Ansaldo STS Australia and a local partner. This solution was necessary to comply with local regulations.

In April 2008, during the rebranding of the group companies, as previously determined, a particularly complicated procedure was completed to change the company name of the Indian subsidiary to “Ansaldo STS Transportation Systems India Private Ltd.”

On 1 May 2008 Alan E. Calegari was appointed new President and Chief Executive Officer of Union Switch & Signal Inc. (US&S). Emmanuel Viollet, who was President and Chief Executive Officer of US&S in the last few months, will remain as Chairman of the Board of Directors as long as a new Business head is being identified.

In the reporting period, Ansaldo STS obtained:

- (i) through the subsidiary Ansaldo STS Sweden, a contract for the supply of railway signalling systems ERTMS (European Traffic Management System) to the Swedish National Railway Company, with an overall value of EUR 26.2 million. The contract relates to the development and modernization of the Swedish railway network and includes a master agreement to equip the country’s railway systems with ERTMS systems.
- (ii) through the subsidiary Union Switch & Signal Inc. (US&S), two contracts for the extension of Line 2 of the Shanghai underground, whose value is EUR 15.8 million.
- (iii) through the subsidiary Ansaldo Segnalamento Ferroviario, the equipment of 250 electric rolling stock with the SCMT system and 458 GSM-R radio systems to be installed on Trenitalia’s locomotives and electric trains. The overall amount of the contract amounts to EUR 122 million and the portion of Ansaldo STS, which is the agent of a Temporary Business Grouping with Ansaldo Breda and Alstom, amounts to EUR 21.1 million.
- (iv) also through the subsidiary Ansaldo Segnalamento Ferroviario, a contract with the railway company of the People’s Republic of China for the designing, construction and operation of signalling systems for the High Speed railway line Zhengzhou-Xi’an. It is one of the three major projects for high speed lines for which the Chinese railway companies determined to use the ERTMS (European Railway Traffic Management System) technology. The project, worth EUR 61.8 million, was awarded to a consortium formed by Ansaldo STS and the Chinese company

Beijing HollySys Co. Ltd. The value of the portion of Ansaldo STS is worth EUR 48.3 million.

In the first days of July 2008, Ansaldo STS was awarded through the subsidiary Ansaldo STS Malaysia, which is a party to a joint venture formed with “Balfour Beatty”, the project for the supply and entry into operation of signalling, telecommunications and electrification systems for the new 330km-long railway line linking Ipoh to Padang Besar in the North of Malaysia. The value of the contract for ASTS is worth EUR 135 million.

2.12 Atypical and/or unusual operations

In the first half of 2008, the Ansaldo STS Group did not take any positions or enter into transactions resulting from atypical and/or unusual operations.

3 PERFORMANCE BY SEGMENT

3.1 Signalling

| <i>(EUR 000)</i> | 30.06.2008 | 30.06.2007 | Change | 31.12.2007 |
|----------------------|-------------------|-------------------|-------------------|-------------------|
| Orders | 430,223 | 377,301 | 52,922 | 822,328 |
| Order backlog | 1,409,021 | 1,313,579 | 95,442 | 1,389,818 |
| Production revenues | 388,703 | 355,471 | 33,232 | 750,093 |
| EBIT | 42,648 | 40,561 | 2,087 | 86,507 |
| ROS | 10.97% | 11.41% | -0.44 p.p. | 11.53% |
| Working capital | (53,943) | (86,802) | 32,859 | (68,659) |
| Net invested capital | 28,763 | (10,079) | 38,842 | 11,152 |
| R&D | 19,819 | 22,399 | (2,580) | 37,835 |
| Workforce (no.) | 3,845 | 3,797 | 48 | 3,866 |

(The figures in this table include transactions with other segments).

The Signalling Business Unit operates at an international level, designing and building railway and urban railway signalling components and systems worldwide mainly through four companies: the Italian company Ansaldo Segnalamento Ferroviario S.p.A. with offices in Genoa, Naples, Turin, and Tito; the American subsidiary Union Switch&Signal, with branches in Pittsburgh (Pennsylvania) and Batesburg (South Carolina); Ansaldo STS France, a French company with offices in Paris and Riom; and the Australian company Ansaldo STS Australia based in Eagle Farm (Australia).

The Group also has small and medium-sized companies in Germany, Sweden, Finland, Ireland, the United Kingdom, Spain, China, India and Malaysia. The Group also has a large number of long-standing collaboration agreements with organizations in other countries, especially in Korea, Brazil, South Africa and Botswana. Most of the Group's work is carried out by companies headquartered in Italy, the USA, and France, which together account for about 79% of the Business Unit's revenue.

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

- Installation of computerized interlocking systems at the stations of Rome Termini, Manchester South, and the Sandbach-Winslow 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),
- the installation of the equipment 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 sections, supplying signalling systems via the Saturno consortium.

The **orders acquired** at 30 June 2008 came to EUR 430,223 thousand.

The Signalling Business Unit achieved results in its business during the first half of 2008, which are essentially reflected in the procurement of the following key orders:

| Country | Project | Customer | Value (EUR millions) |
|---------------|--|----------------|----------------------|
| China | ERTMS On Board & Wayside on Zhengxi line | MoR | 48.3 |
| Italy | Total components/ Service & Maintenance | Various | 27.3 |
| Sweden | ERTMS Lev 2 ("ESTER") | BV | 26.2 |
| United States | Total components/ Service & Maintenance | Various | 16.7 |
| France | On Board Bi - Standard Equipment | SNCF | 25.5 |
| Italy | ATC Onboard 6th Application Contract | Trenitalia | 21.1 |
| Tunisia | Electrification and Signalling Banlieue sud de Tunis | SNCFT | 18.2 |
| France | Total other components/ Service & Maintenance | Various | 16.5 |
| China | China: Shanghai Line 2 East Extension | Shentong | 15.8 |
| Italy | ACC Rho | RFI | 14.0 |
| Australia | ATMS Phase 2 | ARTC | 14.0 |
| Italy | ACC Pisa (Variation) | RFI | 13.5 |
| UK | Cambrian Line Phase 2/3 - Transition Contract | Network Rail | 13.2 |
| France | Various Vital Relays (components) | ADIF | 11.8 |
| Italy | HSL MI – BO (Variation) | CEPAV 1 | 11.7 |
| Australia | Various Rio Tinto Projects (no. 3 orders) | Rio Tinto | 9.8 |
| Australia | Various ARTC Projects 5 | ARTC | 9.4 |
| Australia | Goonyella - Broadlea Wotonga Implementation | Q R | 9.2 |
| Australia | ICSS Fitout - 30 Locomotives | Hamersley Iron | 9.1 |
| Australia | Clearway 3 Kingsgrove to Revensby | TIDC | 9.1 |
| Spain | Liquidacion Madrid - Lerida | ADIF | 6.3 |
| Australia | Goonyella - Cappabella Yard | Q R | 4.7 |
| Sweden | ATP On Board (Sweden) | Skansetrafiken | 4.0 |
| Italy | ATC Onboard for TSR Trains | Firema | 3.9 |
| Australia | Communication Systems Factory Works | F M G | 3.5 |
| Italy | Eurobalises and BTM - 2 lots | Erga Ose | 2.7 |

Compared with June 2007, the volume of new orders rose (14.03%) mainly due to the companies in the Asia/Pacific area and to the Italian subsidiary Ansaldo Segnalamento Ferroviario S.p.A.

The **order backlog** at 30 June 2008 stood at EUR 1,409,021 thousand (net of transactions with the Transport Systems Business Unit).

Of this total, 52.08% of the order backlog relates to the Italian subsidiary Ansaldo Segnalamento Ferroviario and breaks down as follows:

- SCMT On-board for EUR 230,440 thousand
- ACS for EUR 118,155 thousand.

- High-speed trains for EUR 124,026 thousand
- SCMT Ground for EUR 110,816 thousand
- Metro for EUR 60,912 thousand
- SCC for EUR 46,969 thousand
- Maintenance & Service for EUR 40,364 thousand
- Other for EUR 2,202 thousand

Production revenues at 30 June 2008 stood at EUR 388,703 thousand, an increase of EUR 33,232 thousand, (+9.35%) on the same period the previous year.

The main events during the period were:

ANSALDO SEGNALAMENTO FERROVIARIO S.p.A. (ASF)

HIGH-SPEED RAILWAYS

Production mostly developed on the contracts for the Milan – Bologna, Rome – Naples, Bologna – Florence, Turin – Milan lines, with a 39% increase from the same volume of the first half of 2007.

In the first half of 2008 business operations continued on the two sections Rome – Naples and Turin – Novara, with good results of system reliability and regularity overall. Commissioning activities continued for the equipment of the Milan - Bologna High-Speed Line. A special effort was put into field tests for the certification of the RBC new generation and the new Computerized Central Equipment (Multi-station), products which are being relied upon very much in terms of potential market (both domestic and non-domestic).

The activities linked to the Milan – Bologna section are in fact the greatest commitment for the current year, since pre-operations are scheduled for October in order to start operations by the end of the year.

Pending the definition by contracting entities of the tender format to be used for the new high speed lines, any activity of ASF on the preliminary engineering and the relevant budget is suspended.

Arbitration proceedings are under way between TAV and the various General Contractors to recognize the costs borne and the damages incurred for the failure to award these sections, with the involvement of Saturno.

With regard to the Paris - Ostfrankreich - Sudwestdeutschland (POS) North project in Germany, during the period activities were developed with Working Teams together with the customer mostly for the definition of the detailed engineering of the system.

Sub-supply orders have also been negotiated with the major German partners.

Field installations are expected to be incurred during the year.

WAYSIDE SCMT

Production for the period developed on existing contracts and mainly relates to the completion of works and reconfiguration works on systems that have already been implemented and activated. The overall decrease from the corresponding volume of the first half of 2007 was 14%. In the half-year activities started for the introduction of SCMT technology in the Circumvesuviana railway operated under concession, following the acquisition of a contract for the testing of the ground sub-system.

The programme for the installation of the Train Speed Control System on the railway network was completed as the last kilometres were equipped with the installations during the prior year.

The activity for the definition of the Addendums to individual contracts continues. These contracts will define the final amount of the works to be done and the final amount of works, in pursuance of the original contractual provisions.

ON-BOARD SCMT/ERMTS

The significant reduction in production recorded in the first half of 2008 as compared with 2007 was markedly offset by the production recorded in the second quarter, which is close to the amounts recorded in 2007. Production in the first half 2008 stood at EUR 29 million, down 9.0% from the first half of 2007.

On an operational level, both the installations on the rolling stock and the specific activities for the development of job orders continue with good results. The installations specifically benefit from the issuance of the authorization to install the onboard

equipment by RFI in respect of the E402B rolling stock, which permits the fitting out of a significant amount of rolling stock.

The Company is fully committed to the development and validation of the ERTMS system, in particular a new software version whose functions will be suitable to the Milan – Bologna High Speed line; at the same time this version will bring more advanced services to the junctions between High Speed lines and traditional lines. A second important development on the SCMT technology is the on-board SSC/SCMT BL3 system, which Trenitalia intends to adopt on its own diesel rolling stock starting from the last months of the present year.

ACS

Production mostly developed on the Rogoredo, Mestre, Pisa contracts and the contracts for the recent acquisitions of Rebaudengo, Pero and Rho, a 21% overall increase from the corresponding volume of the first half of 2007. Activities started for the contracts acquired in Romania and Tunisia. Significant amounts are expected in connection with the latter during the year.

The main activities performed during the half-year relate to Venice Mestre and Rogoredo, for which the first stage and an important equipment reconfiguration for the Milan by-pass railway line.

Activities for the contracts for Rebaudengo and the Rho/Pero Double Frog continue, and the designing and implementing activities for the Pisa ACC continue at a marked pace. Its activation is expected during the year, together with the activities necessary to complete the works for the Naples Junction and the Messina – Patti line.

LARGE NETWORK SCC

Production was developed mostly on the contracts for the Palermo junction, the Bologna – Brennero line, the Tyrrhenian line, the Adriatic line, the Genoa, Naples and Venice junctions. The main activities performed relate to the Palermo contract, whose new control room was activated during the period, and works were developed to activate the second section envisaged for the second half of the year. The volumes of the original contracts are naturally decreasing. Negotiations are under way to define Addendums necessary for the regularization of variations, sections and charges (orders relating to Venice, Genoa, Naples and the Adriatic line).

ANSALDO STS FRANCE

CTRL SECTION II

After commercial operations opened up to the new St. Pancras station in November 2007, with the latest activities performed during the first half of 2008, the contract can be considered as successfully terminated, with revenues of more than EUR 89 million.

CHINA ON BOARD ATP

In accordance with the commitments undertaken by Ansaldo STS France with MOR and notwithstanding the scarcity of test sites built, thirty trains have been put into service so far, and of these, twenty-seven are ready to be put into service, using the new Chinese standard CTCS.

Actions are still under way to make for the delay in payment due to recent technical problems. The project is currently 84% completed; the next important milestone, relating to the software upgrading, was postponed and is projected for the end of July/start of August 2008.

SPANISH HIGH-SPEED LINE

The ERTMS Level 1 wayside system was put into service starting in May 2006, demonstrating a high rate of reliability, leading to an increase of speed from 250 to 280 Km/h, with a letter of satisfaction sent by the customer. Starting in May 2007, the speed of 300 Km/h was achieved.

With regard to ERTMS Level 2, after the completion of the test phase in June 2006, the final safety case was achieved in June 2007.

The expected replacement of 700 double buoys with the V9 single buoys was postponed due to installation problems. Controls on these buoys are expected to be completed by the end of July 2008.

The project is currently 96% completed.

Finally, negotiations for the financial settlement of a few contract items being disputed with the customer (Liquidacion) have been successfully completed, and the stipulation of the related contract change is expected in December of 2008.

SHITAI CHINA

In November 2007 ASTS France acquired from the Chinese Ministry of Railways a contract for the supply of railway signalling systems for a new line in the northern part of the country. The contract, of the overall value of some EUR 31 million, relates to the designing and installation of the new system of the CTCS (Chinese Train Control System) 2 type, thanks to which passenger trains can be controlled up to 300 Km/h on the new Shijazhuang – Taijuan line, which is 190 km long, and to the previously existing railway line in the area.

The contract is currently 18% completed.

Commercial operations are expected to commence in July 2009.

UNION SWITCH & SIGNAL INC.

UP CADX

The project, which is highly 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 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.

With regard to the development of the OTP and the preparation of the FAT, despite all the actions started to comply with the June 2008 deadline (involvement of additional resources selected by other projects, additional tests on possible problems in order to optimize corrective measures), the FAT is expected to be reached in three subsequent stages, in July, September and November 2008.

The process to define a “Core CAD X” and a “Full CAD X” version has been agreed upon with the customer, as required by the Management of US&S. The reason for that is the speeding up of the implementation of the elements that are mostly required by the

system planned on the customer site. As of today, 92% of requirements have been classified as Core, with early delivery as compared with the remaining 8%.

As to system maintenance activities, a high level of stability is shown in 2008 as well.

CTA DEARBORN

On this project, US&S is a subcontractor of Aldridge Electric Inc. (AE). The contract calls for the design, supply and testing of a new automatic train control system and an optional communication system to replace the system currently installed on Chicago's Blue Line/Dearborn-Congress from the Forest Park Terminal to the Jefferson Park station on the O'Hare Service/Kennedy Line.

This project involves wayside equipment for 22 miles of line, which is expected to be completed in September 2009.

With regard to the work status, it should be noted that 15 out of the 24 foreseen locations were completed, of which 10 are currently operating. With regard to the contractual section relating to the Block 37, after the customer considered the possibility of cancelling it after delays from civil builders, it was decided to replace the supplier for the new tunnel, but a new date of completion has not been determined. The relevant materials have already been prepared and will be available for delivery in the third/fourth quarter.

Overall, the project is currently 85% completed and is on target with regard to the supply of materials and circuit designing, even if delays in payments by the prime contractor are adversely affecting the project cash flow.

NYCT CHAMBERS STREET

On this project, US&S is a subcontractor of RWKS Comstock. The supply relates to the modernization of the signalling system of three interlockings and the construction of station equipment in Chambers Street, World Trade Center and Canal Street on the NYC Eighth Avenue line.

The work is expected to be completed by April 2010. The contractual value for US&S is US\$ 15.9 million; the project is currently 73% completed.

Circuit designing was completed for Chambers Street station and for the other two stations. In general the project is being completed as planned; the factory inspection was completed and the equipment was sent to LKC on 5 March 2008.

Circuit designing for Canal Street was completed in March 2008.

Ground equipment is being completed as planned.

For training activities, financial discussions were completed with CTC&S, and US&S reviewed the aim of the supply for training, manuals and the final offer by CTC&S: to that end a sub-supply contract was signed with CTC&S in the reporting period.

US&S and LKC currently disagree on who is responsible for the delay in the “factory inspection & testing” of the first relays room (WTC). Delays were caused by delays in the approval and issuance of the relevant procedures by the customer NYCT. LKC is expecting a compensation for damages by the customer, even if US&S believes that they did not suffer any damage because of NYCT.

EBIT at 30 June 2008 came to EUR 42,648 thousand, an increase on EUR 40,561 thousand at 30 June 2007 of EUR 2,087 thousand or 5.15%. ROS stood at 10.97% from 11.41% in the first half of 2007.

The increase in EBIT is mostly attributable to the French subsidiary Ansaldo STS France and to Ansaldo STS UK. This offsets the decrease attributable to the US subsidiary US&S and includes greater R&D costs associated with CBTC.

The paragraphs below relate to company figures and, as a result, include transactions among companies of the Signalling Business Unit.

With regard to the contribution margin, the following should be reported:

- the Italian subsidiary Ansaldo Segnalamento Ferroviario showed a reduction in volumes of some EUR 4 million from June 2007 (-3%), mainly due to the fact that the weighty investment plans made by FS in the previous years, now in course of completion, have not been fully replaced by alternative national investments; also, the international recent acquisitions, since the remarkable commercial effort made in 2007 and continued in the first half of 2008 on the foreign market, are starting to generate significant production volumes. average profitability for the period showed a considerable improvement compared with

the previous financial year, mainly due to the positive effect of the job-orders for wayside SCMT, in course of completion with contribution margins above expectations;

- on the contrary, the French subsidiary Ansaldo STS France showed an increase in volumes of some EUR 7 million compared with June 2007 (+10%), fairly distributed among the job-orders of Systems and those of Components & Services, together with an increase in the average profitability for the period due to a favourable mix, in particular greater production of components with higher profitability;
- the US subsidiary US&S showed production volumes in local currency slightly above those for the same period of the previous financial year (some US\$ 3 million, equal to 3%), substantially due to a quite favourable trend of orders for components. Average profitability for the period decreased compared with June 2007, due to a mix effect on the job-orders of systems together with a few downward revisions of the entire life estimates for certain job-orders;
- the Asia/Pacific area subsidiaries showed a significant increase in production volumes (+ AUS\$ 49 million, equal to +46%), mainly due to greater activities in Australia on the North West projects (“FMG Infrastructure”), ARTC and QR Alliance, together with greater deliveries of materials on the KfW and Gooty projects in India. On the contrary, average profitability for the period slightly decreased from June 2007, mainly due to the impact on the margin of components for some invoice delays which are expected to be recovered in the first months of the second half-year.

As regards other structure costs, the rise over June 2007 is mostly due to the increase in offer and commercial operations in general, to the growth of the Asia/Pacific region companies, which obviously affects administrative costs.

Working capital at 30 June 2008 is a negative EUR 53,943 thousand, with an increase of EUR 14,716 thousand from 31 December 2007 (a negative EUR 68,659 thousand). This is mainly due to the increase in inventories and work in progress less advances of EUR 58,195 thousand, the decrease in trade receivables and other liabilities for EUR 23,514 thousand, partially offset by the decrease in trade payables and provisions for

EUR 66,993 thousand. The growth in working capital is mainly attributable to the French subsidiary (EUR 13,965 thousand), the US subsidiary (EUR 6,266 thousand), the Italian subsidiary (EUR 3,592 thousand), partially offset by the decrease posted by the other subsidiaries of the Signalling Business Unit.

Net invested capital at 30 June 2008 is equal to EUR 28,763 thousand compared with EUR 11,152 thousand at 31 December 2007, with an increase of EUR 17,611 thousand; this change is referable to the variation in working capital (increase of EUR 14,715 thousand) and the increase in net assets/liabilities (increase of EUR 2,896 thousand) as a result of the changes occurred in this financial year in the defined-benefit plans (severance pay and other obligations towards employees) due to the new regulations on Employee severance pay and to the change in the accounting principles, in particular the adoption of the Equity Method.

Research and development spending at 30 June 2008 stood at EUR 19,819 thousand, compared with EUR 22,399 thousand at 30 June 2007.

The **workforce** at 30 June 2008 was of 3,845, up by 48 on the figure at 30 June 2007.

The increase is largely due to the subsidiaries in the Asia/Pacific area, where workforce is greater with 193 employees as a result of the present and future increase of activities, to the increase of 29 employees in the French, British and Swedish subsidiaries, while reductions were made in the Italian subsidiary (74 employees) and in the American subsidiary (97 employees), and other reductions (4) in minor subsidiaries. The reduction by the Italian subsidiary is also the result of the transfer of many employees to the Group Parent Ansaldo STS S.p.A. and the System Business Unit.

3.2 Transport Systems

| <i>(EUR 000)</i> | 30.06.2008 | 30.06.2007 | Change | 31.12.2007 |
|----------------------|-------------------|-------------------|---------------|-------------------|
| Orders | 61,965 | 175,123 | (113,158) | 802,728 |
| Order backlog | 1,756,836 | 1,311,005 | 445,831 | 1,809,872 |
| Production revenues | 115,001 | 112,248 | 2,753 | 241,438 |
| EBIT | 12,414 | 12,596 | (182) | 21,986 |
| ROS | 10.79% | 11.22% | -0.43 p.p. | 9.11% |
| Working capital | (120,245) | (138,136) | 17,891 | (143,324) |
| Net invested capital | (2,623) | (94,784) | 92,161 | (20,841) |
| R&D | 1,174 | 1,159 | 15 | 2,276 |
| Workforce (no.) | 361 | 316 | 45 | 327 |

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

The Transport Systems Business Unit, consisting of Ansaldo Trasporti Sistemi Ferroviari SpA, designs and builds integrated Transport Systems, namely studies, designs and plans how to integrate the activities of designing and building the equipment that goes into 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 Business Units separately, according to specific customer needs.

The main projects the Transport Systems Business Unit is working, or has worked, on include:

- the driverless metros of Copenhagen, Brescia and Thessaloniki;
- Naples metro line 1, and Rome metro lines A, B, and C;
- light metro systems at Genoa and Naples line 6 (on these two projects the Group is acting as concessionaire, and is thus responsible for the 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);

Finally, in Italy, the Business Unit 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 consortium.

Orders acquired at 30 June 2008 amounted to EUR 61,965 thousand, with a decrease of EUR 113,158 thousand from 30 June 2007 (EUR 175,123 thousand). They break down as follows:

| Country | Project | Customer | Value (EUR millions) |
|---------|---------------------------------|-------------------------|----------------------|
| Italy | Rome C Line | Metro Roma | 47.7 |
| Italy | Metro Brescia - variation order | Municipality of Brescia | 5.1 |
| Italy | Vesuviane - variation order | Circum Vesuviana | 2.6 |
| Italy | Alifana - variation order | Metro Campania | 1.6 |

The **order backlog** at 30 June 2008 totalled EUR 1,756,836 thousand from EUR 1,311,005 thousand at 30 June 2007, a 34.01% increase.

This related to the following projects:

- High-speed trains (EUR 103,653 thousand)
- Copenhagen metro (EUR 100,140 thousand)
- Concessions relating to the building of the Naples, Rome, and Genoa metros (EUR 614,893 thousand)
- Brescia and Milan driverless metro (EUR 305,689 thousand)
- Rome C line metro (EUR 342,583 thousand)
- Thessaloniki (EUR 159,873 thousand)
- Alifana (EUR 115,951 thousand)
- Other minor (EUR 14,054 thousand)

Production revenues at 30 June 2008 amounted to EUR 115,001 thousand from EUR 112,248 thousand at 30 June 2007.

This came from the contracts relating to high-speed train lines, Rome Metro Line C, Copenhagen, Metrogenova, Alifana, Line 6 of the Naples metro, and MetroBrescia.

The most significant production activities are as follows:

HIGH SPEED RAILWAYS (PRODUCTION REVENUE EUR 22.8 MILLION)

Regarding the Rome – Naples section, for the works performed through the Saturno consortium, the preliminary design for Operational Lot 2 was approved by the customer, and the construction design is being prepared. For the Novara – Milan section activities are expected to be completed by the end of 2008. For the Milan – Bologna section, the assembly stage is completed; activities for the three historical sub-stations continue and were boosted. Finally, works on the Bologna – Florence section are at an advanced stage of completion.

Regarding the works made through the Iricav Uno Consortium and the consortium company Pegaso, activities continue for the second-stage works on the anti-noise barriers for Operational Lot 1 of the Rome –Naples section, already in service.

Regarding Operational I Lot 2, all switches were supplied and works for the laying of trucks started.

In particular, the Amicable Settlement required by the Consortium was not reached. The Consortium started Arbitration Proceeding accordingly; at the same time, the parties are trying to find an agreement to define a New Working Programme to be shared.

METROGENOVA (PRODUCTION REVENUE EUR 22.0 MILLION)

The activities carried out in the first half of 2008 mainly refer to the civil works of the De Ferrari-Brignole section. After a suspension in March, excavations to the Brignole shaft were resumed in May (future line ventilation shaft) and 50% of the works were completed with the performance of two more orders for rods, and the excavation is expected to be completed in November 2008.

Three excavations fronts are currently opened.

Final budgets were prepared for the S.Giorgio – Sarzano and the Sarzano – De Ferrari sections.

Activities with the Municipality of Genoa continue in respect of an addendum (Lot 1) to be made in the second half of 2008 for the new Dinegro Depot.

ALIFANA REGIONAL LINE (PRODUCTION REVENUE EUR 5.6 MILLION)

The construction of the Giugliano-Aversa Centro line (which is not subject to delivery of areas by the Grantor) is practically completed, in terms of both line installations and trucks. Installations at the Aversa Centro and Ippodromo stations are essentially completed. The Giugliano station is at an advanced stage of completion. External installations will be completed within the next month of September because of a number of variations requested by the Grantor. The Giugliano sub-station was activated.

The Mugnano – Giugliano sub-section is being completed.

NAPLES METRO LINE 6 (PRODUCTION REVENUE EUR 4.3 MILLION)

Working activities increased on the various sites of the Mergellina – Municipio section during the first half of the year.

In addition to the preliminary works for the future Arco Mirelli and S.Pasquale stations, the first works also started on the Chiaia station; in particular in this area, where Santa Maria degli Angeli square is, trees and the obelisk were removed. After these removals, the station bed is being dug up so that the first works can commence for the detouring of sub-services and the removal of some tanks found underground.

With regard to the other sites, the site of the S.Pasquale station is being finally built, after the new traffic plan was approved, with traffic detoured next to Villa Pignatelli. At the moment activities are under way for the removal of the remaining subservices at the side of Villa Comunale and of trees and fences. Works are under way necessary to take into the site the equipment needed for the pre-consolidation of land and the curbs necessary for the station diaphragms.

Likewise, for the Arco Mirelli station the first stage of the site-building was completed following the new traffic plan for Piazza della Repubblica. In this quarter all the preliminary activities for the removal of sub-services and surface obstacles, except for the “*Scugnizzo*”, for which surveys started in June and were made by the company in charge with its removal. At the moment, equipment is expected to arrive in order to start the first works (preconsolidations and curbs). In the Mergellina site, works for the enlargement of the shield laying-out shaft, because the new bearing structures were

completed during the latest months and the controlled demolition of the old bulkheads is being carried out.

METRO BRESCIA (PRODUCTION REVENUE EUR 5.2 MILLION)

Regarding the works of the company, the development of construction designing is continuing. Tests started on the ATC sub-system, and continued on the electrical supply systems, depot equipment, the third-rail sub-system and the telecommunications sub-system.

Assembling activities are under way for the Electric Sub-Station, the third rail (supports and the supply bar), telecommunications and signalling.

Regarding the civil works to be carried out by the partner, the shield tunnel boring machine will arrive soon at the San Faustino station, and has already passed through the most sensitive area of the old town where ancient buildings are located. Along the entire line, work continues on relocating sub-systems and building the line and stations. The viaduct structures have been completed and finishing touches are put in the depot area.

Regarding the rolling stock for which AnsaldoBreda is responsible, the main supply activities continue and woodworks are under way on carriages at the Reggio Calabria plant, where the first interim carriage was tested and the first carriages will be tested in July. These three carriages are expected to arrive at the Naples plant by the end of July to be fitted out.

COPENHAGEN (PRODUCTION REVENUE EUR 31.0 MILLION)

Production during the period was almost exclusively marked by activities relating to the operation & maintenance of the system.

ROME METRO LINE C (PRODUCTION REVENUE EUR 11.4 MILLION)

Civilian works on sections T4 - T5 continued, and works on the T6a section and the Depot started. The first boring machine excavated a liner in the tunnel. A second boring machine will be assembled within the year.

In the same period the customer approved the Detailed Engineering of sections T6a - T7 – Depot, and an agreement was signed for the definition of a new contractual general programme for the first operational section, with a number of variations connected with the new programme.

Archaeological surveys for sections T3 and T2, and the final engineering of section T3 to the Coliseum are continuing.

THESSALONIKI METRO (PRODUCTION REVENUE EUR 1.2 MILLION)

Regarding ATSF activities, the submission of the General Final Design 2 (GFD2) was completed and the Customer is carrying on the revision of the designing documents for the various electrical and mechanical systems. Due to delays in this latter revision process, due to the undersize of the customer's structure, the approval of GFD 2 was postponed from December 2007 to November 2008. Procurement activities continue, specifically manufacturing processes have commenced with suppliers for the Signalling and Telecommunications systems. Factory testing for Lot 1 is expected in the last quarter of 2008.

As part of the shareholders' structure (AIASA JV), which includes ATSF, the holding company AEGEK (Greek company that builds a part of the civilian works) signed a preliminary agreement with a local entrepreneurial group in June, to be finalized in July, for the transfer of a significant amount of shares.

EBIT at 30 June 2008 amounted to EUR 12,414 thousand (10.79% thousand of revenues) and is substantially in line with the same period of the prior year (EUR 12,596 thousand, 11.22% of revenues).

Working capital relative to the Transport Systems Business Unit at 30 June 2008 is a negative EUR 120,245 thousand, an increase of EUR 23,079 thousand from 31 December 2007 (negative EUR 143,324 thousand). This change is due to growth in work in progress, less advances from customers for greater production than invoices, which was partially mitigated by trade receivables and the increase in sundry liabilities.

Net invested capital at 30 June 2008 is a negative EUR 2,623 thousand, with a net increase of EUR 18,218 thousand from 31 December 2007 (a negative EUR 20,841 thousand). This change is mainly due to the change in working capital and the decrease in non-current assets as a result of the reduction of a part of the advance to Thessaloniki Metro for the award of the project.

R&D spending stood at EUR 1,174 thousand at 30 June 2008, an increase (up EUR 15 thousand) on the same period the previous year (EUR 1,159 thousand).

The workforce at 30 June 2008 was of 361, up by 45 on the figure at 30 June 2007. The changes are as follows:

- Entries: 53, of which 41 from Ansaldo Segnalamento Ferroviario and 12 from the external market.
- Terminations: 19, of which 2 transferred to the Group Parent Ansaldo STS S.p.A., 2 transferred to ASF, 9 resigned voluntarily and 6 resigned with incentives.

4 RISK FACTORS (ARTICLE 154-TER TUF)

In order to comply with the provisions of Legislative Decree no. 58 of 24 February 1998, namely Article 154-ter on the description of the main risks and uncertainties for the remaining six months of the year, notwithstanding the risks typical and inherent in the Group companies business, at the reporting date no particular risks and/or uncertainties can be expected that may impact significantly on the balance sheet and income statement of the Ansaldo STS Group.

For the purposes of a better disclosure, these are the main risks that have come up in the appraisal and analysis conducted by the Group Management:

- *Risks connected with relevant contracts lasting several years*

The Group activity mostly depend on contracts lasting several years of a significant amount which at 30 June 2008 account for 81% of Group revenues. At the same date, some 90% of the value of the Order Backlog for works yet to be completed relates to relevant contracts lasting several years.

Any interruption or cancellation of one or more acquired relevant contracts lasting several years may adversely affect business and the economic and financial condition of the Group companies.

- *Risks connected with customers*

Most of the Group revenues are generated from contracts signed with great customers, i.e. governments, public entities, and public and private managers of national railway and underground infrastructures, whose activity mostly depend on public spending programmes.

The ability of great customers to call for tender bids for these contracts, or obtain the financing of additional lots of concessions already awarded fully or partly depend on the availability of public funds allocated by the relevant national, regional and local government authorities. These provisions are allocated through government spending programmes that, even if approved, are subject to revisions and cancellations.

In the event that (i) demand from great customers reduced, or (ii) the funds for estimated public projects were reduced or brought to zero and, accordingly, projects cancelled, or (iii) in the case payments from these customers are delayed, the group believes that this could adversely affecte the business and the economic and financial condition of the Group.

- *Risks connected with the need for financing a high level of current assets*

To perform contracts Group Companies require the financing of a high level of current assets.

The Group generally finances current assets by sums paid by the customer as advance and payment related with the state of progress of works. Therefore, delays or

interruption of these payments, or the worsening of payment conditions may adversely affect the methods for financing current assets of the Group, with subsequent negative effects on the economic and financial condition of the Group.

- *Risks connected with disputes*

At the reporting date, there are some pending legal and arbitration proceedings involving some of the Group companies.

Even if the group believes that the amounts allocated as costs of each contract to cover pending or potential disputes to the provision for disputes are sufficient, it cannot be ruled out that in case these proceedings have an unfavourable outcome beyond present expectations, this may adversely affect the economic and financial condition of the Group.

Moreover, the group believes that some disputes on the awarding of contracts to the Group companies may cause delays in the performance of contracts with negative effects on activities and the economic and financial condition of the Group.

- *Risks connected with customer or third party liability for defects in the products offered*

Designing and construction defects in the Group products may originate both a civil and a criminal liability to its own customers or third parties. To that end, in order to protect themselves against this risk, Group companies generally provide for specific reserves in contract costs and take out specific insurance policies to cover the damages, if any, caused to customers and/or third parties.

The group believes that, in case of harmful events not covered by insurance policies or in the case that, if covered, these damages exceed the limit of liability, this may adversely affect the business and the economic and financial condition of the Group.

- *Risks connected with the high level of competitiveness in markets where the Group operates*

The Signalling and Transport System markets, where the Group operates, are marked by a high level of competition mostly among a limited number of great international

industrial groups with size and financial resources that are significantly greater than those of the Group. These markets are also marked by rapid technological development. The group believes that one of the key factors to face competitors is the launch of new products anticipating the developments of market demand.

The Group policy envisages constant investments in R&D activities, aiming at offering innovative products with high technology. However, in the future the Group may not be able to carry on this investment and innovation policy, but its competitors may, on the other hand, introduce the innovative products required by the market. Moreover, the group believes that the entry of new operators accompanied by price pressures may worsen the Group's market position. Each of these factors might adversely affect the business and the economic and financial condition of the Group.

5 ANALYSIS OF THE INCOME STATEMENT AND THE BALANCE SHEET OF THE PARENT COMPANY

In order to provide information on the performance and financial position of Ansaldo STS S.p.A., financial statements have been drawn up in accordance with IFRSs, which the Parent company adopted starting as of 1 January 2006.

Ansaldo STS S.p.A. closed the first half of 2008 with a net profit of EUR 10,811 thousand, improving compared with the profit of EUR 8,428 thousand recorded in the first half of 2007.

In the course of the first six months of 2008 Ansaldo STS S.p.A. carried on its activity as holding of the Ansaldo STS Group, providing all the subsidiaries with the required assistance in its typical activities: financial co-ordination, development of Group information systems, legal and corporate co-ordination, human resources management policy, risk management, audit, external relations.

At the end of 2007 it was decided to start a corporate reorganization of the Group, in order to shorten and rationalize the current control chain on the foreign subsidiaries and to reduce the related costs connected with the Group's corporate structure.

This reorganization, partly already made and partly to be made, provides the transfer of all the equity investments so far held by Ansaldo Signal N.V. to Ansaldo STS and the closing-down of the Dutch sub-holding. The operation consists of four phases:

1. the transfer, occurred on 1 January 2008, of Ansaldo STS Australia PTY Ltd. (and therefore of Ansaldo STS Malaysia SDN BHD, 100% controlled by ASTS Australia) from Transcontrol Co. (in turn controlled by Union Switch & Signal Inc.) to Ansaldo STS S.p.A.;
2. the transfer, occurred on 1 January 2008, of Union Switch & Signal PVT Ltd. (India) from Ansaldo Signal N.V. to Ansaldo STS Australia PTY Ltd.. The reason for the transfer of the Indian company to the Australian company is attributable to the strong commercial and operational interaction between the two companies in the Asia/Pacific area, in the scope of which the Indian company reports from an operational point of view to the Australian company;
3. the liquidation and winding-up of the Dutch sub-holding company Ansaldo Signal N.V. (ASNV) with the transfer to ASTS S.p.A. of the equity investments and all the other assets and outstanding legal obligations;
4. the finalization, always in the course of 2008, of the process of full integration of the two Italian operative companies; the merger will have legal, accounting and tax effective date as from 1 January 2009, unless otherwise specified in the merger deed.

On 18 March, the Shareholders' Meeting of the subsidiary Ansaldo Trasporti Sistemi Ferroviari S.p.A. approved the distribution of a dividend of EUR 14,544 thousand, while no dividends were distributed by the subsidiary Ansaldo Signal N.V. which had already distributed an interim dividend in the course of the financial year 2007.

At 30 June 2008 Ansaldo STS S.p.A. recorded net deferred tax assets for EUR 806 thousand (EUR 2,975 thousand at 31 December 2007) referable for EUR 775 thousand to the gain from consolidation deriving from the use of the Consolidated Taxation Mechanism with the Group's Italian subsidiaries (Ansaldo Segnalamento Ferroviario S.p.A. and Ansaldo Trasporti Sistemi Ferroviari S.p.A.) for the purposes of the IRES

(corporate income tax) application opted by the Company as the Group parent company; for EUR 96 thousand to deferred tax assets for IRES purposes, net of EUR 65 thousand due to the application of IRAP (regional tax on business activities).

The Company adopted the “equity method” starting from the financial statements as at 31 December 2007: the comparative periods presented – in application of the retrospective method, whose application is required by IAS 8 – have been re-elaborated to reflect the effects of the new principle. Moreover, the application of the new principle entailed the need to include the “Statements Of Recognised Income and Expense” (SORIE) (§ 5.4) among the financial statements. Lastly, on occasion of the re-elaboration of the overall treatment of the defined-benefit plans, the Company modified the criteria for classifying the single cost components in the income statement, including the cost components which are close to the expiry date of the liability among financial costs and no longer in cost of labour.

Income Statement

| <i>(EUR 000)</i> | <i>For the six months ended 30 June</i> | | | <i>31.12.2007</i> |
|--|---|----------------|----------|-------------------|
| | <i>2008</i> | <i>2007</i> | | |
| Revenues (****) | 8,380 | 6,396 | | 14,000 |
| Production Revenues | 8,380 | 6,396 | | 14,000 |
| Costs for purchases and cost of labour (*****) | (11,935) | (13,269) | (*) (**) | (22,837) |
| Amortization and Depreciation | (937) | (925) | | (1,863) |
| Writedowns | - | - | | - |
| Other net operating income (costs) (***) | 268 | 465 | (**) | 2,501 |
| EBIT | (4,224) | (7,333) | | (8,199) |
| Net Financial income (costs) | 14,229 | 12,831 | (*) | 48,447 |
| Income taxes | 806 | 2,930 | | 2,975 |
| Net Profit (Loss) | 10,811 | 8,428 | | 43,223 |

Notes for reconciling the reclassified income statement and the income statement:

(*) *The items relating to the first half of 2007 have been modified as a result of the restatement due to the application of IAS 19*

(**) *The items relating to the first half of 2007 have been modified as a result of reclassifications.*

(***) *Includes the net amount of “Other operating income”, “Other operating income from related parties”, “Other operating costs” and “Other operating costs from related parties”.*

(****) *Includes “Revenues” and “Revenues from related parties”.*

*(*****)Includes “Costs from related parties”, “Purchase”, “Purchase of services” and “Cost of labour”, net of “Capitalized costs for internally produced assets”.*

Revenues for the first half of 2008 amounted to EUR 8,380 thousand with an increase of EUR 1,984 thousand compared with the same period of the financial year 2007 (EUR 6,396 thousand). Revenues of the Parent company Ansaldo STS relate to Service operations to the benefit of subsidiaries.

Purchase and cost of labour break down as follows:

- Cost of labour (58 units at 30 June 2008) equal to EUR 4,868 thousand;
- Purchase and Purchase of services from third parties, equal to EUR 6,390 thousand, include costs for the period of the Finmeccanica’s right to use the ‘Ansaldo’ trademark for 20 years (EUR 803 thousand); the remaining amount relates to costs for performing service and specific activities of the Holding.
- Purchase and Purchase of services from related parties equal to EUR 677 thousand.

Other net operating income came to EUR 268 thousand; specifically:

- Other operating income (EUR 924 thousand) mainly refer to the rental income received from its subsidiaries for the building it owns at Via Mantovani, Genoa;
- Other operating costs (EUR 656 thousand) refer for EUR 662 thousand to direct taxes and other operating charges represented by donations and association fees, net of EUR 6 thousand due to a recovery of costs from related parties.

Financial income and costs break down as follows:

- Dividends collected from the subsidiary Ansaldo Trasporti Sistemi Ferroviari S.p.A. (ATSF) for EUR 14,544 thousand;
- Interest income on bank current accounts for EUR 27 thousand, and interest expense for EUR 13 thousand;
- Interest expense on the current account held with Finmeccanica S.p.A. for EUR 29 thousand, and interest income for EUR 4 thousand;
- Interest income on the current account held with Ansaldo Signal N.V. (ASNV) for EUR 134 thousand;

- Recovery of costs relating to commissions on sureties in favour of related parties for EUR 12 thousand;
- Interest expense accrued on current accounts held with the subsidiaries Ansaldo Signal N.V. (ASNV) and Ansaldo Trasporti Sistemi Ferroviari (ATSF) for EUR 324 thousand;
- Commission and bank expense for a net negative value of EUR 108 thousand;
- Interest on Severance pay provision for EUR 18 thousand.

The table below contains the balance sheet at 30 June 2008 compared with the financial year 2007:

| Balance Sheet (EUR 000) | <u>30.06.2008</u> | <u>31.12.2007</u> | <u>30.06.2007</u> |
|--|-------------------|-------------------|-------------------|
| Non-current assets | 184,884 | 159,572 | 204,672 |
| Non-current liabilities | (2,440) | (2,481) | (2,782) |
| | <u>182,444</u> | <u>157,091</u> | <u>201,890</u> |
| Trade receivables | 5,035 | 7,181 | 5,715 |
| Trade payables | (8,270) | (8,410) | (7,510) |
| Provisions for risks and charges | (14) | - | - |
| Other net current assets (liabilities) (*) | (7,771) | (3,477) | (10,429) |
| Net working capital | <u>(11,020)</u> | <u>(4,706)</u> | <u>(12,224)</u> |
| Net invested capital | <u>171,424</u> | <u>152,385</u> | <u>189,666</u> |
| Group's shareholders' equity | 153,841 | 161,882 | 127,961 |
| Minority interests | - | - | - |
| Total shareholders' equity | <u>153,841</u> | <u>161,882</u> | <u>127,961</u> |
| Net financial debt (liquidity) | <u>17,583</u> | <u>(9,497)</u> | <u>61,705</u> |

Notes for reconciling the reclassified balance sheet and the balance sheet:

(*) Includes "Tax receivables", other current receivables from related parties (included under item "Current receivables from related parties") and "Other current assets", net of "Taxes payable", of other current payables to related parties (included under item "Current payables to related parties"), "Other current liabilities" except for financial receivables from related parties (included under item "Current receivables from related parties").

Non-current assets showed an increase of EUR 25,312 thousand attributable to the rise in value of the equity investments due to the purchase of Ansaldo STS Australia PTY Ltd for a total of EUR 25,584 thousand.

Non-current liabilities include the provision for severance pay for the 58 employees of Ansaldo STS at 30 June 2008 (EUR 904 thousand), seniority bonuses (EUR 150 thousand) and payables for deferred taxes (EUR 1,386 thousand).

Trade receivables showed a decrease of EUR 2,146 thousand and exclusively relate to receivables from subsidiaries.

Trade payables decreased by EUR 140 thousand and mainly relate to contracts stipulated with third-party suppliers.

Other net assets/(liabilities) showed an increase in liabilities of EUR 4,294 thousand, mainly due to the decrease in Other receivables from subsidiaries as a result of the adoption of the Consolidated Taxation Mechanism and to the increase in Payables to social security institutions and staff attributable to the increase in the units registered in the matricula-book at 30 June 2008 and in Payables to employees.

As a result of the foregoing, **net working capital** passed from a negative EUR 4,706 thousand at 31 December 2007 to a negative EUR 11,020 thousand at 30 June 2008, attributable to the decrease in trade receivables (greater collections of subsidiaries) and to the decrease in current assets mainly referable to relationships with the Italian subsidiaries following the adoption of the Consolidated Taxation Mechanism.

At 30 June 2008, **invested capital** was equal to EUR 171,424 thousand increasing by EUR 19,039 thousand compared with 31 December 2007 (EUR 152,385 thousand at 31 December 2007). As already mentioned, this change is attributable to both the rise in working capital and the increase in equity investments as a result of the acquisition occurred on 1 January 2008 of the subsidiary Ansaldo STS Australia PTY Ltd from Transcontrol Corporation, in turn controlled by Union Switch and Signal Inc., American company of the Signalling Business Unit.

Shareholders' equity went from EUR 161,882 thousand at 31 December 2007 to EUR 153,841 thousand with a decrease of EUR 8,041 thousand, made up by as follows:

- Distribution of the first dividend EUR -19,992 thousand
- Profit for the period EUR +10,811 thousand
- Change in other reserves EUR +1,140 thousand (stock grant plan, IAS 19)

Below is the reclassified cash flow statement at 30 June 2008 compared with the prior year:

| <i>(EUR 000)</i> | <u>30.06.2008</u> | <u>31.12.2007</u> | <u>30.06.2007</u> |
|---|-------------------|-------------------|-------------------|
| Cash and cash equivalents – opening balance | 537 | 909 | 909 |
| Gross cash flow from operating activities | (2,975) | (5,574) | (4,504) |
| Change in working capital | 2,005 | 5,245 | 5,810 |
| Changes in other operating assets and liabilities | 5,240 | (646) | 3,122 |
| Cash flow from (used in) operating activities | 4,270 | (975) | 4,428 |
| Cash flow from (used in) ordinary investing activities | (52) | (542) | (159) |
| Share-premium reserve repayment | - | 40,000 | - |
| Dividends received | 14,544 | 50,241 | 14,241 |
| Free Operating Cash-Flow | 18,762 | 88,724 | 18,510 |
| Strategic investments | (25,584) | - | - |
| Other changes in investing activities | (870) | (845) | (1,354) |
| Cash flow from (used in) investing activities | (11,962) | 88,854 | 12,728 |
| Dividends paid | (19,992) | - | - |
| Capital increases, net of the purchase of treasury shares | - | - | - |
| Cash flow from financial activities | 27,298 | (88,251) | (18,006) |
| Cash flow from (used in) financial activities | 7,306 | (88,251) | (18,006) |
| Foreign exchange translation differences | - | - | - |
| Cash and cash equivalents – closing balance | 151 | 537 | 59 |

The first half of 2008 ended with a net decrease in cash and cash equivalents of EUR 386 thousand, due to the following factors:

- Cash flow from operating activities is equal to EUR 4,270 thousand and shows a change of EUR 5,245 thousand over December 2007 (EUR 975 thousand of cash flow used), mainly due to the increase in working capital, as mentioned in the previous paragraphs.
- Cash flow from investing activities moves from cash flow used for EUR 88,854 thousand to cash flow generated for EUR 11,962 thousand. The change is equal to EUR 100,816 thousand and is mainly due to the acquisition occurred on 1 January 2008 of Ansaldo STS Australia PTY Ltd from the American subsidiary

Transcontrol Corporation for EUR 25,584 thousand, to the decrease in the dividends collected by Ansaldo STS in the period under review, equal to EUR 14,544 thousand at 30 June 2008 compared with the dividends collected in the financial year 2007 for EUR 50,241 thousand; moreover, it should be reported that in the financial year 2007 Ansaldo STS had benefited from the repayment of part of the share-premium reserve from Ansaldo Signal N.V. for EUR 40,000 thousand.

- Cash flow from financial activities moves from cash flow used for EUR 88,251 thousand to cash flow generated for EUR 7,306 thousand with a change of EUR 95,557 thousand attributable to the above-mentioned events and to the change in the financial position, which moved from a credit position to a debt position.

Free operating cash flow (FOCF) before strategic investments amounted to EUR 18,762 thousand in the period under review and is composed of as follows:

- Cash flow from operating activities EUR 4,270 thousand
- Ordinary investments EUR 52 thousand
- Dividends received EUR 14,544 thousand

5.1 Income Statement

| Income Statement (€) | For the six months ended 30 June | | | 31.12.2007 |
|--|-------------------------------------|----------------|------|----------------|
| | 2008 | 2007 | | |
| Revenues | - | - | | - |
| Revenues from related parties | 8,380 | 6,396 | | 14,000 |
| Other operating income | 1 | - | | 2 |
| Other operating income from related parties | 923 | 871 | (**) | 3,497 |
| Purchase | (20) | (20) | | (36) |
| Purchase of services | (6,370) | (6,231) | (**) | (12,654) |
| Costs from related parties (net of recoveries) | (671) | (1,714) | | (2,023) |
| Cost of labour | (4,868) | (5,304) | (*) | (8,124) |
| Amortization, depreciation and write-downs | (937) | (925) | | (1,863) |
| Other operating costs | (662) | (406) | | (1,132) |
| Other operating costs from related parties | - | - | | 134 |
| EBIT | (4,224) | (7,333) | | (8,199) |
| Financial income | 27 | 18 | (**) | 75 |
| Financial income from related parties | 14,694 | 17,286 | (**) | 54,809 |
| Financial costs | (139) | (78) | (*) | (217) |
| Financial costs from related parties | (353) | (4,395) | | (6,220) |
| Profit (Loss) before taxes | 10,005 | 5,498 | | 40,248 |
| Income taxes | 806 | 2,930 | | 2,975 |
| Net Profit | 10,811 | 8,428 | | 43,223 |
| Earnings per share | | | | |
| <i>Basic and Diluted</i> | 0.11 | 0.08 | | 0.43 |

(*) The items relating to the first half of 2007 have been modified as a result of the IAS 19 restatement;

(**) The items relating to the first half of 2007 have been modified as a result of reclassifications.

5.2 Balance Sheet

Balance Sheet

(€)

| | <u>30.06.2008</u> | <u>31.12.2007</u> | <u>30.06.2007</u> |
|--|-----------------------|-----------------------|-----------------------|
| Non-current assets | | | |
| Intangible Assets | 227 | 336 | 430 |
| Tangible Assets | 371 | 359 | 320 |
| Real-estate property | 58,421 | 59,208 | 59,990 |
| Equity investments | 88,981 | 62,527 | 103,036 |
| Deferred taxes | 10,228 | 9,641 | 12,657 |
| Other assets | 26,656 | 27,501 | 28,239 |
| | <u>184,884</u> | <u>159,572</u> | <u>204,672</u> |
| Current assets | | | |
| Current receivables from related parties | 7,953 | 36,632 | 170,006 |
| Receivables for direct taxes | 1,089 | 94 | 279 |
| Other current assets | 2,515 | 1,768 | 1,758 |
| Cash and cash equivalents | 151 | 537 | 59 |
| | <u>11,708</u> | <u>39,031</u> | <u>172,102</u> |
| Total assets | <u>196,592</u> | <u>198,603</u> | <u>376,774</u> |
| Shareholders' equity | | | |
| Share capital | 49,668 | 49,668 | 49,950 |
| Reserves | 54,996 | 51,726 | 52,303 |
| Retained earnings (accumulated losses) carried forward | 49,177 | 60,488 | 25,708 |
| | <u>153,841</u> | <u>161,882</u> | <u>127,961</u> |
| Total shareholders' equity | <u>153,841</u> | <u>161,882</u> | <u>127,961</u> |
| Non-current liabilities | | | |
| Severance pay and other employee liabilities | 904 | 831 | 728 |
| Deferred taxes | 1,386 | 1,555 | 1,959 |
| Other liabilities | 150 | 96 | 95 |
| | <u>2,440</u> | <u>2,482</u> | <u>2,782</u> |
| Current liabilities | | | |
| Trade payables | 7,418 | 7,352 | 6,345 |
| Current payables to related parties | 27,759 | 21,598 | 230,299 |
| Short-term financial payables | 168 | 38 | 805 |
| Payables for direct taxes | - | 2,066 | 3,732 |
| Provisions for risks and charges | 14 | - | - |
| Other current liabilities | 4,952 | 3,185 | 4,849 |
| | <u>40,311</u> | <u>34,239</u> | <u>246,030</u> |
| Total liabilities | <u>42,751</u> | <u>36,721</u> | <u>248,812</u> |
| Total liabilities and shareholders' equity | <u>196,592</u> | <u>198,603</u> | <u>376,773</u> |

(*The items relating to the first half of 2007 have been modified as a result of reclassifications)

5.3 Cash Flow Statement

Cash Flow Statement

(€)

| | <u>30.06.2008</u> | <u>31.12.2007</u> | <u>30.06.2007</u> |
|--|------------------------|------------------------|------------------------|
| <i>Cash flow from operating activities:</i> | | | |
| Gross cash flow from operating activities | (2,975) | (5,574) | (4,504) |
| Change in working capital | 2,005 | 5,245 | 5,810 |
| Changes in other operating assets and liabilities | 5,240 | (646) | - |
| Financial costs paid | - | - | - |
| Income tax paid | - | - | 3,122 |
| Cash flow from (used in) operations | <u>4,270</u> | <u>(975)</u> | <u>4,428</u> |
| <i>Cash flow from investing activities:</i> | | | |
| Company acquisitions, net of cash acquired | - | - | - |
| Investments in tangible and intangible fixed assets | (52) | (260) | (159) |
| Sale of tangible and intangible fixed assets | - | - | - |
| Share-premium reserve repayment | - | 40,000 | - |
| Sale of equity investments | - | - | - |
| Dividends received | 14,544 | 50,241 | 14,241 |
| Purchases of treasury shares | - | (282) | - |
| Other investments | (26,454) | (845) | (1,354) |
| Cash flow from (used in) investing activities | <u>(11,962)</u> | <u>88,854</u> | <u>12,728</u> |
| <i>Cash flow from financial activities:</i> | | | |
| Net change in other financial debts | 5,786 | (88,020) | (18,006) |
| Capital increases | - | - | - |
| Dividends paid out | (19,992) | - | - |
| Change in reserves | 23 | (231) | - |
| Net change in other financial activities | 21,489 | - | - |
| Cash flow from (used in) financial activities | <u>7,306</u> | <u>(88,251)</u> | <u>(18,006)</u> |
| Net decrease in cash and cash equivalents | (386) | (372) | 850 |
| Foreign exchange translation differences | - | - | - |
| Cash and cash equivalents - opening balance | 537 | 909 | 909 |
| Cash and cash equivalents – closing balance | <u>151</u> | <u>537</u> | <u>59</u> |

5.4 S.O.R.I.E. - Statement of recognised income and expenses

| (€) | <u>30.06.2008</u> | <u>30.06.2007</u> |
|---|----------------------|---------------------|
| Reserves of income (expense) recognised in equity | | |
| - Actuarial gains (losses) related to defined-benefit plans | 32 | - |
| Tax effect on expense/(income) recognised in equity | (9) | - |
| Income/(expense) directly recognised in equity | <u>23</u> | <u>-</u> |
| Profit for the year | <u>10,811</u> | <u>8,428</u> |
| Total gains/(losses) recognized in equity | <u>10,834</u> | <u>8,428</u> |

Genoa, 28 July 2008

On behalf of the Board of Directors

The Chairman

Alessandro Pansa

**Condensed consolidated interim financial statements and
explanatory notes at 30 June 2008.**

6 FINANCIAL STATEMENTS

6.1 Income Statement

| (EUR 000) | Note | For the six months ended 30 June | | 31.12.2007 |
|---|-------|-------------------------------------|---------------|----------------|
| | | 2008 | 2007 | |
| Revenues | 10.02 | 441,244 | 412,926 | 857,982 |
| Revenues from related parties | 10.02 | 61,317 | 48,407 | 115,112 |
| Other operating income | 10.03 | 6,240 | 6,304 | 12,186 |
| Other operating income from related parties | 10.03 | 199 | 1,350 | 1,867 |
| Purchase | 10.04 | (115,654) | (119,300) | (221,259) |
| Purchase of services | 10.04 | (183,715) | (148,766) | (338,669) |
| Costs from related parties (net of recoveries) | 10.04 | (20,807) | (18,855) | (50,651) |
| Cost of labour | 10.05 | (133,702) | (127,539) | (250,666) |
| Amortization, depreciation and write-downs | 10.06 | (5,017) | (4,694) | (10,949) |
| Other operating costs | 10.07 | (4,587) | (7,070) | (16,066) |
| Other operating costs from related parties | 10.07 | - | - | (4) |
| Changes in inventories of work in progress, semi-finished and finished goods | | 5,081 | 2,894 | 953 |
| (-) Capitalized costs for internally produced assets | 10.08 | 238 | 167 | 458 |
| EBIT | | 50,837 | 45,824 | 100,294 |
| Financial income | 10.09 | 5,022 | 3,404 | 5,506 |
| Financial income from related parties | 10.09 | 2,198 | 3,045 | 6,302 |
| Financial costs | 10.09 | (7,961) | (5,413) | (8,159) |
| Financial costs from related parties | 10.09 | (105) | (86) | (173) |
| Effects of valuation of equity investments accounted for using equity method | 10.10 | (23) | - | 90 |
| Profit (Loss) before taxes | | 49,968 | 46,774 | 103,860 |
| Income taxes | 10.11 | (18,855) | (18,415) | (45,582) |
| Net Profit (Loss) | | 31,113 | 28,359 | 58,278 |
| <i>Group</i> | | 31,070 | 28,305 | 58,172 |
| <i>Minority interests</i> | | 43 | 54 | 106 |
| Earnings per share | | | | |
| <i>Basic and Diluted</i> | 11 | 0.31 | 0.28 | 0.58 |

(*)The items relating to the first half of 2007 have been modified as a result of the IAS 19 restatement (ref § 7.4.1).

6.2 Balance Sheet

| <i>(EUR 000)</i> | <i>Note</i> | <i>30.06.2008</i> | <i>31.12.2007</i> | <i>30.06.2007</i> |
|--|-------------|--------------------------|--------------------------|--------------------------|
| <i>Non-current assets</i> | | | | |
| Intangible Assets | 9.2 | 48,050 | 47,987 | 49,241 |
| Tangible Assets | 9.3 | 94,506 | 94,208 | 91,188 |
| Equity investments | 9.4 | 28,959 | 29,071 | 28,949 |
| Receivables | 9.5 | 10,212 | 15,153 | 15,902 |
| Deferred taxes | 10.11 | 43,780 | 42,590 | 43,463 (*) |
| Other assets | 9.5 | 27,020 | 28,055 | 28,759 |
| | | <u>252,527</u> | <u>257,064</u> | <u>257,502</u> |
| <i>Current assets</i> | | | | |
| Inventories | 9.6 | 104,094 | 98,305 | 104,166 |
| Contract work in progress | 9.7 | 208,610 | 151,895 | 127,099 |
| Trade receivables | 9.8 | 210,399 | 269,851 | 259,225 |
| Current receivables from related parties | 9.1 | 153,858 | 199,743 | 175,205 |
| Receivables for direct taxes (**) | 9.9 | 6,278 | 4,155 (**) | 5,052 (**) |
| Derivatives | 9.22 | 195 | 211 | 191 |
| Other current assets (**) | 9.10 | 26,050 | 24,297 (**) | 32,005 (**) |
| Cash and cash equivalents | 9.11 | 70,477 | 63,385 | 42,313 |
| | | <u>779,961</u> | <u>811,842</u> | <u>745,256</u> |
| <i>Total assets</i> | | <u>1,032,488</u> | <u>1,068,906</u> | <u>1,002,758</u> |
| <i>Shareholders' equity</i> | | | | |
| Share capital | 9.12 | 49,668 | 49,668 | 49,950 |
| Reserves | 9.13÷9.15 | 134,864 | 127,647 | 105,496 (*) |
| <i>Group's shareholders' equity</i> | | <u>184,532</u> | <u>177,315</u> | <u>155,446</u> |
| <i>Minority interests</i> | 9.16 | 425 | 386 | 342 |
| <i>Total shareholders' equity</i> | | <u>184,957</u> | <u>177,701</u> | <u>155,788</u> |
| <i>Non-current liabilities</i> | | | | |
| Financial debt | 9.17 | 6,677 | 6,968 | 8,196 |
| Severance pay and other employee liabilities | 9.19 | 30,013 | 31,314 | 32,877 (*) |
| Deferred taxes | 10.11 | 6,947 | 6,654 | 7,265 |
| Other liabilities | 9.20 | 8,763 | 9,227 | 9,123 |
| | | <u>52,400</u> | <u>54,163</u> | <u>57,461</u> |
| <i>Current liabilities</i> | | | | |
| Advances from customers | 9.7 | 472,979 | 506,802 | 461,781 |
| Trade payables | 9.21 | 166,585 | 174,725 | 191,173 |
| Current payables to related parties | 9.1 | 23,867 | 24,590 | 19,661 |
| Short-term financial payables | 9.17 | 8,650 | 12,601 | 6,076 |
| Payables for direct taxes (**) | 9.9 | 5,995 | 7,827 (**) | 8,307 (**) |
| Provisions for risks and charges | 9.18 | 26,186 | 26,215 | 22,245 |
| Derivatives | 9.22 | 15,805 | 9,982 | 4,172 |
| Other current liabilities (**) | 9.20 | 75,064 | 74,300 (**) | 76,094 (**) |
| | | <u>795,131</u> | <u>837,042</u> | <u>789,509</u> |
| <i>Total liabilities</i> | | <u>847,531</u> | <u>891,205</u> | <u>846,970</u> |
| <i>Total liabilities and shareholders' equity</i> | | <u>1,032,488</u> | <u>1,068,906</u> | <u>1,002,758</u> |

(*)The items relating to the first half of 2007 have been modified as a result of the IAS 19 restatement (rif § 7.4.1).

(**) The items at 30 June 2007 and at 31 December 2007 have been modified as a result of the new classification ex IAS1 (ref. § 7.4.2)

6.3 Cash flow Statement

| Cash Flow Statement (EUR 000) | <u>30.06.2008</u> | <u>31.12.2007</u> | <u>30.06.2007</u> |
|---|-----------------------|------------------------|------------------------|
| <i>Cash flow from operating activities:</i> | | | |
| Gross cash flow from operating activities | 48,453 | 112,295 | 42,792 |
| Change in working capital | (29,277) | (26,629) | 16,316 |
| Changes in other operating assets and liabilities, taxes and interest | (14,368) | (40,982) | (22,298) |
| Cash flow from (used in) operating activities | <u>4,808</u> | <u>44,684</u> | <u>36,810</u> |
| <i>Cash flow from investing activities:</i> | | | |
| Company acquisitions, net of cash acquired | - | (683) | (371) |
| Investments in tangible and intangible fixed assets | (6,407) | (17,430) | (8,327) |
| Sale of tangible and intangible fixed assets | 19 | 325 | 19 |
| Dividends received | - | 339 | 339 |
| Other investments | 145 | (2,662) | (2,380) |
| Cash flow from (used in) investing activities | <u>(6,243)</u> | <u>(20,111)</u> | <u>(10,720)</u> |
| <i>Cash flow from financial activities:</i> | | | |
| Net change in other financial activities | 29,153 | (8,878) | (32,624) |
| Capital increases | - | - | - |
| Dividends paid | (19,992) | - | - |
| Cash flow from (used in) financial activities | <u>9,161</u> | <u>(8,878)</u> | <u>(32,624)</u> |
| Net increase (decrease) in cash and cash equivalents | 7,726 | 15,695 | (6,534) |
| Foreign exchange translation differences | (634) | (890) | 267 |
| Cash and cash equivalents – opening balance | 63,385 | 48,580 | 48,580 |
| Cash and cash equivalents – closing balance | <u>70,477</u> | <u>63,385</u> | <u>42,313</u> |

6.4 S.O.R.I.E. – “Statement of recognised income and expenses”

| <i>(EUR 000)</i> | <u>30.06.2008</u> | <u>30.06.2007</u> |
|---|-----------------------------|-----------------------------|
| Reserves of income (expense) recognised in equity | | |
| - Actuarial gains (losses) related to defined-benefit plans | 634 | (573) |
| - Changes in cash-flow hedge | (6,512) | (3,062) |
| Tax effect on expense/(income) recognised in equity | 2,439 | 1,333 |
| Foreign exchange translation differences | (382) | 1,035 |
| Income/(expense) recognised in equity | <u>(3,821)</u> | <u>(1,267)</u> |
| Profit for the year | <u>31,113</u> | <u>28,359</u> |
| Total income and expense for the year | <u><u>27,292</u></u> | <u><u>27,092</u></u> |

7 NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AT 30 JUNE 2008

7.1 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 29 March 2006. Ansaldo STS S.p.A. is a subsidiary of Finmeccanica S.p.A., whose headquarters are at Piazza Monte Grappa 4, Rome, listed on the Italian stock exchange (S&P/MIB), which manages and co-ordinates the activities of Ansaldo STS.

The Ansaldo STS Group is a major player in the signalling and rail transport systems market segments. Ansaldo STS S.p.A., as parent company, carries out the functions of business and strategic management, coordinating the operations of its subsidiaries (which together are known as the “Ansaldo STS Group” or “the Group”), which operate in the signalling and rail transport systems sectors.

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 reorganization of the entire Transport Systems Business Unit, 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 reorganization, 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. Since 29 March 2006 Ansaldo STS was listed on the stock exchange.

Finmeccanica placed on the market 60 million shares of the company, equal to 60% of its share capital, at EUR 7.80 per share, retaining the remaining 40 million, equal to 40% of the share capital.

Upon the acquisition of stakes in Ansaldo Signal NV and in Ansaldo Trasporti Sistemi Ferroviari S.p.A. (24 February 2006), all the companies operating worldwide in the Signalling sector were headed by Ansaldo Signal NV, while the Transport Systems activities were centred on Ansaldo Trasporti Sistemi Ferroviari S.p.A..

Subsequently Ansaldo STS S.p.A., with the aim to create better synergy and co-ordination between the two divisions, started a Group's reorganization process according to which all the companies that operate in the Signalling sector should form an internal Transport Systems Business Unit using the know-how, skills and experience of Ansaldo Trasporti Sistemi Ferroviari S.p.A..

Moreover, a process for the corporate reorganization of the Group was put into action in order to (i) reduce and rationalize the current control chain of the subsidiaries and (ii) reduce the costs connected with the Group's corporate structure.

In the Asia/Pacific area, the reallocation of a few equity investments in Group companies was finalized in consideration of the ever-increasing importance that those markets are assuming for the Group and of the close industrial and commercial interaction among these companies. Consequently, since 1 January 2008, Ansaldo STS Australia PTY, which is responsible for the management of the Asia/Pacific region, has been controlling the Indian and Malaysian operating companies and has been put under

the direct control of the Group parent Ansaldo STS S.p.A. It was furthermore decided to establish two companies, Ansaldo STS Southern Africa (Botswana) and Ansaldo STS – InfraDEV South Africa, which, under the control of Ansaldo STS Australia PTY, will operate on the expanding markets of Southern Africa.

In Italy, the two companies which operate in the two different business units (Signalling and Transport Systems) will merge (following the resolution of 18 April 2008), *ex art.* 2505 of the Italian Civil Code, into the listed parent company, through incorporation of Ansaldo Segnalamento Ferroviario S.p.A. and of Ansaldo Trasporti Sistemi Ferroviari S.p.A. into Ansaldo STS S.p.A. The merger through incorporation will have legal, accounting and tax effective date as from 1 January 2009, unless otherwise specified in the merger deed.

In the scope of this corporate reorganization, on 16 June 2008 the Dutch *sub-holding* Ansaldo Signal N.V. was put into liquidation; all the equity investments held by Ansaldo Signal N.V. will be transferred to Ansaldo STS S.p.A.

As already said, Ansaldo STS S.p.A. operates through two business units: Signalling and Transport Systems.

The “Signalling” Business Unit – whose reference main operating companies are Ansaldo Segnalamento Ferroviario S.p.A (Italy), Ansaldo STS France (France), Ansaldo STS Australia (Asia/Pacific) and Union Switch & Signal (Americas) – designs and builds signalling systems, subsystems and components.

The “Transport Systems” Business Unit – currently centred on Ansaldo Trasporti Sistemi Ferroviari S.p.A., but being developed in all the group companies designs and builds integrated transport systems, of which signalling is an essential part. In more detail, this activity 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 Business Units separately, according to specific customer needs.

7.2 Basis of preparation

The half-year report of the Ansaldo STS Group at 30 June 2008 has been prepared in compliance with Art. 154-ter “Financial relationships” of Legislative Decree n.58/1998 – TUF and subsequent integrations and amendments, as provided for by IAS 34 “Interim Financial Reporting”, in accordance with the IASs/IFRSs endorsed by the European Commission at 30 June 2008 and supplemented with the related interpretations issued by the International Accounting Standard Board (“IASB”).

The explanatory notes, in accordance with IAS 34, are reported in abridged form and do not include all the information required for the preparation of the annual report, being referred exclusively to those components, which by amount, composition or variations result to be fundamental to the comprehension of the financial position of the Group. Therefore, this half-year report should be read together with the 2007 consolidated annual report.

The accounting standards and criteria used in the preparation of this half-year report are the same as used in the preparation of the consolidated annual report at 31 December 2007 and of the half-year report at 30 June 2007, except for what described in Note 7.4.1 relating to the analysis of the adjustments made to the single items of the comparative situations presented.

All figures are in thousands of euros unless otherwise indicated.

This consolidated half-year report at 30 June 2008 was subject to a limited audit by PricewaterhouseCoopers S.p.A.

7.3 Accounting standards adopted

Consolidation method

For the purposes of consolidation, the accounts of the companies controlled, directly or indirectly, by Ansaldo STS, prepared in accordance with the IFRS as used by the Ansaldo STS Group, were used. 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 review of the current values of assets and liabilities acquired, it is entered in the income statement;
- 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 costs 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 income statement. The amount entered is the difference between the sale price and the corresponding shareholding sold.

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 manner in which 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 recognized in the accounts of the company surviving the merger, using the figures in the accounts of the controlling company. Therefore, the carrying values of the businesses reflect the figures of the three above-mentioned companies that appear in Finmeccanica's accounts at the date of acquisition. In calculating these figures, the following accounting operations were carried out:

- derecognition of goodwill of EUR 12,687 thousand in 2001 relating to the transfer of the "Systems" business concern 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 ultimate parent company, Finmeccanica.

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), except for cases in which the company at the moment of consolidation is considered not operating. 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 income statement 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 specific provision, 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 income statement 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 rules 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 these financial statements;
- Costs and revenues are translated using the average exchange rate during the period;
- The "translation reserve" covers exchange rate differences generated by both the translation of operating results at an exchange rate different from the closing and/or purchase 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 cash flow statement, 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 and balances in currencies other than the euro at 30 June 2008 and 2007 were as follows:

| | At 30.06.2008 | At 30.06.2007 | 6-month average at 30.06.2008 | 6-month average at 30.06.2007 |
|------|--------------------------|--------------------------|--|--|
| US\$ | 1.5764 | 1.3505 | 1.5309 | 1.3419 |
| CAD | 1.5942 | 1.4245 | 1.5403 | 1.4293 |
| GBP | 0.7922 | 0.6740 | 0.7753 | 0.6756 |
| HK\$ | 12.2943 | 10.5570 | 11.9364 | 10.4854 |
| SEK | 9.4703 | 9.2525 | 9.3753 | 9.3290 |
| AU\$ | 1.6371 | 1.5885 | 1.6545 | 1.5930 |
| INR | 67.7974 | 55.0150 | 62.0814 | 54.4888 |
| MYR | 5.1510 | 4.6630 | 4.9276 | 4.6238 |
| BRL | 2.5112 | 2.5970 | 2.5949 | 2.5954 |
| CNY | 10.8051 | 10.2820 | 10.7190 | 10.2439 |
| BWP | 10.3380 | 8.3659 | 9.8409 | 8.2235 |
| VEB | 3,385.00 | 2,899.93 | 3,262.73 | 2,882.40 |

Scope of consolidation

Below is a list of the companies included in the scope of consolidation and the relevant Group ownership percentage (direct or indirect):

List of companies consolidated on a line-by-line basis

| COMPANY | DIRECT/ IN DIRECT CONTROL | REGISTERED OFFICE | SHARE CAPITAL (/000) | CURRENCY | SHARE OWNED % |
|--|---------------------------------|------------------------------|----------------------------|----------|---------------------|
| ANSALDO TRASPORTI SISTEMI FERROVIARI SPA | Direct | Naples (Italy) | 30,300 | EURO | 100 |
| ANSALDO SIGNAL N.V. | Direct | Amsterdam (Netherlands) | 100 | EURO | 100 |
| ANSALDO STS AUSTRALIA PTY LTD | Direct | Eagle Farm (Australia) | 5.026 | \$AUS | 100 |
| ANSALDO SEGNALAMENTO FERROVIARIO SPA | Indirect | Tito Scalo (Italy) | 45,240 | EURO | 100 |
| ANSALDO STS SWEDEN AB | Indirect | Solna (Sweden) | 4,000 | SEK | 100 |
| ANSALDO STS FINLAND OY | Indirect | Helsinki (Finland) | 10 | EURO | 100 |
| ANSALDO STS UK LTD | Indirect | London (GB) | 1,000 | GBP | 100 |
| ANSALDO STS IRELAND LTD | Indirect | Tralee (Ireland) | 100 | EURO | 100 |
| ACELEC S.A. | Indirect | Les Ulis (France) | 168 | EURO | 100 |
| ANSALDO STS ESPANA S.A. | Indirect | Madrid (Spain) | 1,500 | EURO | 100 |
| ANSALDO STS BEIJING LTD | Indirect | Beijing (China) | 837 | EURO | 80 |
| ANSALDO STS HONG KONG LTD | Indirect | Hong Kong (China) | 100 | \$ HK | 100 |
| ANSALDO STS FRANCE S.A. | Indirect | Les Ulis (France) | 5,000 | EURO | 100 |
| TRANSCONTROL CORPORATION | Indirect | Greenville (Delaware USA) | 1 | \$ | 100 |
| ANSALDO STS MALAYSIA SDN BHD | Indirect | Kuala Lumpur (Malaysia) | 3000 | RM | 100 |
| UNION SWITCH & SIGNAL INC. CANADA | Indirect | Kingstone (Canada) | 0 | \$CAN | 100 |
| UNION SWITCH & SIGNAL INC. (USA) | Indirect | Wilmington (Delaware USA) | 0.1 | \$ | 100 |
| UNION SWITCH & SIGNAL INT.CO | Indirect | Wilmington (Delaware USA) | 1 | \$ | 100 |
| UNION SWITCH & SIGNAL INT.PROJECTS CO. | Indirect | Wilmington (Delaware USA) | 25 | \$ | 100 |
| ANSALDO STS TRANSPORTATION SYSTEMS | Indirect | Bangalore (India) | 12,915 | RUPEE | 100 |
| ANSALDO STS DEUTSCHLAND GMBH | Indirect | Berlin (Germany) | 26 | EURO | 100 |

List of companies accounted for using the equity method

| COMPANY | DIRECT/ INDIRECT CONTROL | REGISTERED OFFICE | SHARE CAPITAL (/000) | CURRENCY | SHARE OWNED % |
|------------------------|--------------------------------|----------------------|----------------------------|----------|---------------------|
| ECOSEN C.A. | Indirect | Caracas (Venezuela) | 500,000 | BS | 48.00 |
| Alifana S.c.a.r.l. | Indirect | Naples (Italy) | 26 | EURO | 65.85 |
| Alifana due S.c.a.r.l. | Indirect | Naples (Italy) | 26 | EURO | 53.34 |
| Pegaso S.c.r.l. | Indirect | Rome (Italy) | 260 | EURO | 46.87 |
| Metro 5 S.p.A. | Indirect | Milan (Italy) | 25,000 | EURO | 24.60 |

List of companies accounted for at cost

| COMPANY | DIRECT/ INDIRECT CONTROL | REGISTERED OFFICE | SHARE CAPITAL (/000) | CURRENCY | SHARE OWNED % |
|------------------------------------|--------------------------------|----------------------|----------------------------|----------|---------------------|
| I.M. Intermetro S.p.A. | Indirect | Rome (Italy) | 2,461 | EURO | 16.67 |
| Società Tram di Firenze S.p.A. | Indirect | Florence (Italy) | 7,000 | EURO | 3.80 |
| Metro C S.c.p.A. | Indirect | Rome (Italy) | 150,000 | EURO | 14.00 |
| Cadic Gombert S.A. | Indirect | Brussels (Belgium) | 992 | EURO | 4.38 |
| Union Switch & Signal Inc. Chile | Indirect | Santiago (Chile) | 45,000 | PESO C. | 68.00 |
| International Metro Service S.r.l. | Indirect | Milan (Italy) | 700 | EURO | 49.00 |

Summary of accounting policies and measurement criteria

The Group's condensed consolidated interim financial statements have 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 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 assets are charged to the income statement.

Charges incurred for routine and/or regular maintenance and repair are directly entered in the income statement for the period when they were incurred. Capitalization of the costs relating to expansion, modernization, 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 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 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 income statement for the year in question.

Civil 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 realized.

Intangible 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 amortization and any loss of value. Any interest charges accrued during and as a result of development of intangible assets are charged to the income statement. Amortization 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.

(i) Goodwill

Goodwill posted under intangible assets relates to business combinations and represents the difference between the cost of acquisition of a company or a going concern and the algebraic sum of the values assigned, based on the values at the date of purchase, to each asset and liability of that company or going concern. Since goodwill has an indefinite useful life, it is not subject to amortization, and is tested for impairment at least annually, except where the market and management indicators indicated by the Group show that goodwill should be tested for impairment in interim accounts as well. 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.

(ii) Licenses and similar rights

For licenses and similar rights amortization 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.

Licenses that are acquired and relate to software are capitalized on the basis of the costs sustained in acquiring them. Amortization is calculated on a straight-line basis over their expected useful life of 3 years.

(iii) Software costs

The costs related to the development and maintenance of software programs are recognized 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. Amortization 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.

(iv) Research and development costs

Research costs are entered in the income statement for the period in which they are incurred.

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. Development costs are capitalized only when the four conditions listed above are met and are amortized 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 recognized 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 assets.

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

Impairments of assets

At the date of each set of accounts, tangible and intangible 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 income statement. 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 income statement 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 income statement, 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 organized 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 amortized 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. Impairment losses are entered in the income statement. If in succeeding years the reasons for previous write-downs no longer apply, the value of such assets is restored up to the value they would have had if the amortized cost had been applied and the asset had not been written down.

Investments available for sale: these are non-derivative financial instruments that are designated as such, 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 income statement 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 amortized cost, using the effective interest rate method. 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 uses derivatives contracts to hedge exchange rate risk.

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 ("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 hedge accounting are entered as financial income or costs. 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. For the purpose of recognising derivatives qualifying for hedge accounting, documentation is kept for each instrument that demonstrates the hedge relationship and the purpose of the hedge, including the risk management objectives, the hedging strategy and the methods used for verifying the "effectiveness" of the hedge. The "effectiveness" of each hedge is 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 specific equity reserve, the "cash flow hedge reserve". The reserve is reversed to the income statement when the economic effects of the risk hedged materialize. The economic effects of the release of the reserve are recognized 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 recognized under financial income and costs.

If during the life of a derivative financial instrument the expected cash flows being hedged are no longer considered highly likely to materialize, the portion of the cash flow hedge reserve relating to that instrument is immediately reversed to the income statement as financial income or costs. Conversely, if the derivative instrument is sold, or no longer qualifies as an "effective" hedge, the cash flow hedge reserve recognized until then is kept as an equity component and is reversed to the income statement

according to the classification criterion described above as the effects of the underlying assets materialize.

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.

Inventories

Inventories are valued at the lower of cost or production cost and net realizable 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 realizable 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.

Contract work in progress

Contract 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 period 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). Cash and cash equivalents are recognised at fair value.

Shareholders' equity

Share capital

The share capital is represented by capital subscribed and paid-up. Costs closely connected with the issue of shares are classified so as to decrease share capital, net of deferred taxes, if any, if they are directly attributable to capital transactions.

Treasury stock

Treasury stock is deducted from share capital. Gains or losses on the purchase, sale, issue or cancellation of own shares are not recognized in the income statement.

Retained earnings/(losses) carried forward

These include earnings and losses for the period and the previous years in respect of the portion that has not been distributed nor accrued to a reserve (in the case of profits) or that is to be made good (in the case of losses). This also includes transfers from other equity reserves when the underlying obligation is discharged, as well as the effects of the recognition of changes in accounting standards and material errors.

Other reserves

These also include the fair value reserve in respect of items accounted for at fair value through equity, the cash flow hedge reserve regarding the recognition of the effective portion of hedges and the stock option /grant reserve in respect of the recognition of defined-benefit plans as holdings of capital.

Employee benefits

Post-employment benefits plans

The Company uses a variety of retirement or supplementary pension that may be classified as follows:

- *Defined-contribution plans* in which the company pays a set amount to a separate entity (e.g. a fund) and has no legal or constructive obligation to pay additional contributions in the event the appointed entity has insufficient assets to pay the benefits relating to the service rendered during the period of employment. The company only recognises the contribution to the plan once the employees have rendered their services in exchange for these contributions;
- *Defined-benefit plans* in which the company is required to provide agreed benefits for current and former employees and to assume the actuarial and investments risks related to the plan. Therefore, the cost of the plan cannot be determined based on the contributions owed in exchange for work, but rather is recalculated based on demographic, statistical assumptions and on the salaries dynamics. The “projected unit credit” method is used.

The Company recognises the defined-benefit plans applying the so-called “equity method”, which consists in the recognition of actuarial gains and losses related to all plans directly in the equity as they occur.

With reference to the classification of the costs related to the defined-benefit plans, the costs for rendering service (current and past), as well as the costs relating to the curtailment recognition (where applicable) are recorded in the item “Cost of labour”. On the contrary, interest costs, net of the expected return on the plan assets, are recorded under “financial costs”.

Other long-term benefits and post-employment benefits

The Company grant employees with other benefits (such as seniority bonuses after a given period of service with the company) that, in some cases, continue to be provided after retirement (for example, medical care). These receive the same accounting treatment as defined-benefit plans, using the “projected unit credit method” and any actuarial gains and losses are recognised both immediately and in full as they occur.

Benefits payable for the termination of employment and incentive plans

Termination benefits are recognised as liabilities and expenses when the enterprise is demonstrably committed to terminating the employment of an employee or group of employees before the normal retirement date or to providing termination benefits as a result of an offer made in order to encourage voluntary redundancy. The benefits payable to employees for the termination of employment do not bring any future economic benefit to the enterprise and are therefore recognised immediately as expenses.

Equity compensation benefits

The Company compensates its top managers through stock grant plans as well. In these cases, the theoretical benefit of the persons concerned is charged to the income statements for the years of the plan through an equity reserve. This benefit is quantified by measuring the fair value of the awarded instrument also through financial valuation

techniques, including market conditions, if necessary, and adjusting the number of rights that are expected to be awarded at each reporting date or interim reporting date.

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 income statement.

Revenue recognition

Revenue is recognized 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 of completion.

Grants

If there is a formal document of attribution, grants are recognized on the basis of the matching principle, in direct correlation with the costs incurred. Operating grants are entered in the income statement as a direct reduction of the charge to which they refer. Capital grants are entered in the income statement in direct correlation to the depreciation process to which the goods or projects refer, and are deducted from depreciation itself.

Costs

Costs are recorded in compliance with the matching and accruals principle.

Financial income and costs

Interest income and expense are recognised on the accrual basis of accounting using the effective interest method, i.e. using the interest rate through which all the inflows and outflows (including any income, unamortized discounts, commissions, etc.) of a given transaction are made financially equivalent. Financial costs are not charged as an asset.

Dividends

These are recognised when the shareholders' right to receive payment is established; this normally happens when the shareholders' meeting authorises the distribution of dividends. Distribution of dividends is thus entered as an asset in the period in which it is approved by the shareholders' meeting.

Taxes

Income taxes are recognised based on estimated taxable income in accordance with applicable provisions, taking into account applicable exemptions, if any, and the relevant Tax receivables.

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 recognized 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 realized or cancelled out.

Current and deferred taxes are entered in the income statement, 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.

Transactions with related parties

Related party transactions are made at arm's length.

Critical accounting estimates and assumptions

Described below are the accounting principles that demand greater judgement 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 the consolidated annual report:

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 income statement are a function both of the progress on a particular contract and of the operating margins that are expected to be recognized 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 consolidated half-year 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 income statement. Most importantly, this test 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 consolidated half-year 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 consolidated half-year accounts are drawn up.

7.4 Effects of the changes in the accounting principles adopted

7.4.1 Adoption of the Equity Method in the recognition of the defined-benefit plans

Up to the financial statements ended 31 December 2006, the Ansaldo STS Group applied the so-called “corridor approach” in recognising actuarial gains and losses related to “Defined-benefit plans”. This method makes it possible to dilute the effects of changes in a few valuation parameters over a number of financial years, amortizing these components only when fixed quantitative parameters are overcome and in a period equal to the remaining useful life of the participants in the provision. Moreover, these components, together with the effects resulting as the expiry date of the liability comes closer and the effects of the financial assets in service of the pension plans, were classified as components of the item “cost of labour”.

Starting from the consolidated financial statements as at 31 December 2007, the Group had adopted the method set forth in IAS19, as reviewed in 2006, in the recognition of actuarial gains and losses, known as “*equity method*”. As a result of this option, the value of the liability recorded in the financial statements is aligned with that resulting from the actuarial valuation of the same, with full and prompt recognition of the

actuarial gains and losses in the period in which they emerge, with direct counterpart in a specific reserve of the shareholders' equity ("reserve for actuarial gains (losses) in equity") with the following information benefits:

- The value of the liability recorded in the financial statements is now aligned with that resulting from the actuarial valuations, without any deferred recognition of the effects of the variations in estimates, demographic, actuarial and financial parameters;
- The entire amount of these effects is recorded immediately and in full, without however affect the income statement, in the specific reserve of the shareholders' equity already mentioned;
- The income statement no longer includes actuarial components only, reflected according to dynamics not connected with the actual value of the liability.

Moreover, interest costs as the expiry date of the liability comes closer are now more properly classified among financial income and costs.

As provided by IAS 8 "*Accounting policies, changes in accounting estimates and errors*", the Group applied the method retrospectively, also modifying the comparative data presented: therefore, the comparative income statement and balance sheet have been modified to take into account the effects deriving from the adoption of the new principle.

7.4.2 Reclassification of receivables/payables for indirect taxes among "other assets", "other liabilities"

As to the Balance Sheet, in order to comply with the information required by IAS 1, the items "tax receivables" and "tax payables" have been replaced by the items "Receivables for direct taxes" and "Payables for direct taxes", with the resulting reclassification of the amounts relating to receivables/payables for indirect taxes among "Other assets" and "Other liabilities" respectively.

Below are summarised the effects on the comparative Balance Sheet as at 31 December 2007 and 30 June 2007 and on the Income Statement as at 30 June 2007 of the above-mentioned changes:

Balance Sheet

| <i>(EUR 000)</i> | <u>31.12.2007</u> | <i>IAS 1</i> <i>reclassifications</i> | <u>31.12.2007</u> <u>"Restated"</u> |
|--|-------------------------|--|--|
| <i>Non-current assets</i> | | | |
| Intangible Assets | 47,987 | | 47,987 |
| Tangible Assets | 94,208 | | 94,208 |
| Equity investments | 29,071 | | 29,071 |
| Receivables | 15,153 | | 15,153 |
| Deferred taxes | 42,590 | | 42,590 |
| Other assets | 28,055 | | 28,055 |
| | <u>257,064</u> | <u>-</u> | <u>257,064</u> |
| <i>Current assets</i> | | | |
| Inventories | 98,305 | | 98,305 |
| Contract work in progress | 151,895 | | 151,895 |
| Trade receivables | 269,851 | | 269,851 |
| Current receivables from related parties | 199,743 | | 199,743 |
| Receivables for direct taxes | 10,835 | (6,680) | 4,155 |
| Derivatives | 211 | | 211 |
| Other current assets | 17,617 | 6,680 | 24,297 |
| Cash and cash equivalents | 63,385 | | 63,385 |
| | <u>811,842</u> | <u>-</u> | <u>811,842</u> |
| <i>Total assets</i> | <u>1,068,906</u> | <u>-</u> | <u>1,068,906</u> |
| <i>Shareholders' equity</i> | | | |
| Share capital | 49,668 | | 49,668 |
| Reserves | 127,647 | | 127,647 |
| <i>Group's shareholders' equity</i> | <u>177,315</u> | <u>-</u> | <u>177,315</u> |
| <i>Minority interests</i> | 386 | | 386 |
| <i>Total shareholders' equity</i> | <u>177,701</u> | <u>-</u> | <u>177,701</u> |
| <i>Non-current liabilities</i> | | | |
| Financial debt | 6,968 | | 6,968 |
| Severance pay and other employee liabilities | 31,314 | | 31,314 |
| Deferred taxes | 6,654 | | 6,654 |
| Other liabilities | 9,227 | | 9,227 |
| | <u>54,163</u> | <u>-</u> | <u>54,163</u> |
| <i>Current liabilities</i> | | | |
| Advances from customers | 506,802 | | 506,802 |
| Trade payables | 174,725 | | 174,725 |
| Current payables to related parties | 24,590 | | 24,590 |
| Short-term financial payables | 12,601 | | 12,601 |
| Payables for direct taxes | 17,169 | (9,342) | 7,827 |
| Provisions for risks and charges | 26,215 | | 26,215 |
| Derivatives | 9,982 | | 9,982 |
| Other current liabilities | 64,958 | 9,342 | 74,300 |
| | <u>837,042</u> | <u>-</u> | <u>837,042</u> |
| <i>Total liabilities</i> | <u>891,205</u> | <u>-</u> | <u>891,205</u> |
| <i>Total liabilities and shareholders' equity</i> | <u>1,068,906</u> | <u>-</u> | <u>1,068,906</u> |

Balance Sheet

| <i>(EUR 000)</i> | 30.06.2007 | <i>Effect due to the adoption of the "Equity Method" IAS 19</i> | <i>IAS 1 reclassifications</i> | 30.06.2007 "Restated" |
|---|-------------------|---|------------------------------------|----------------------------------|
| Non-current assets | | | | |
| Intangible Assets | 49,241 | | | 49,241 |
| Tangible Assets | 91,188 | | | 91,188 |
| Equity investments | 28,949 | | | 28,949 |
| Receivables | 15,902 | | | 15,902 |
| Non-current receivables from related parties | - | | | - |
| Deferred taxes | 43,253 | 210 | | 43,463 |
| Other assets | 28,759 | | | 28,759 |
| | <u>257,292</u> | <u>210</u> | <u>-</u> | <u>257,502</u> |
| Current assets | | | | |
| Inventories | 104,166 | | | 104,166 |
| Contract work in progress | 127,099 | | | 127,099 |
| Trade receivables | 259,225 | | | 259,225 |
| Current receivables from related parties | 175,205 | | | 175,205 |
| Receivables for direct taxes | 10,918 | | (5,866) | 5,052 |
| Financial receivables | - | | | - |
| Derivatives | 191 | | | 191 |
| Other current assets | 26,139 | | 5,866 | 32,005 |
| Cash and cash equivalents | 42,313 | | | 42,313 |
| | <u>745,256</u> | <u>-</u> | <u>-</u> | <u>745,256</u> |
| Total assets | 1,002,548 | 210 | - | 1,002,758 |
| Shareholders' equity | | | | |
| Share capital | 49,950 | | | 49,950 |
| Reserves | 105,859 | (363) | | 105,496 |
| Group's shareholders' equity | 155,809 | (363) | - | 155,446 |
| Minority interests | 342 | | | 342 |
| Total shareholders' equity | 156,151 | (363) | - | 155,788 |
| Non-current liabilities | | | | |
| Non-current payables to related parties | - | | | - |
| Financial debt | 8,196 | | | 8,196 |
| Severance pay and other employee liabilities | 32,304 | 573 | | 32,877 |
| Provisions for risks and charges | - | | | - |
| Deferred taxes | 7,265 | | | 7,265 |
| Other liabilities | 9,123 | | | 9,123 |
| | <u>56,888</u> | <u>573</u> | <u>-</u> | <u>57,461</u> |
| Current liabilities | | | | |
| Advances from customers | 461,781 | | | 461,781 |
| Trade payables | 191,173 | | | 191,173 |
| Current payables to related parties | 19,661 | | | 19,661 |
| Short-term financial payables | 6,076 | | | 6,076 |
| Payables for direct taxes | 14,129 | | (5,822) | 8,307 |
| Provisions for risks and charges | 22,245 | | | 22,245 |
| Derivatives | 4,172 | | | 4,172 |
| Other current liabilities | 70,272 | | 5,822 | 76,094 |
| | <u>789,509</u> | <u>-</u> | <u>-</u> | <u>789,509</u> |
| Total liabilities | 846,397 | 573 | - | 846,970 |
| Total liabilities and shareholders' equity | 1,002,548 | 210 | - | 1,002,758 |

| Income Statement <i>(EUR 000)</i> | 30.06.2007 | <i>Effect due to the adoption of the "Equity Method" IAS 19</i> | 30.06.2007 "Restated" |
|--|-------------------|---|----------------------------------|
| Revenues | 412,926 | | 412,926 |
| Revenues from related parties | 48,407 | | 48,407 |
| Other operating income | 6,304 | | 6,304 |
| Other operating income from related parties | 1,350 | | 1,350 |
| Purchase | (119,300) | | (119,300) |
| Purchase of services | (148,766) | | (148,766) |
| Costs from related parties (net of recoveries) | (18,855) | | (18,855) |
| Cost of labour | (128,523) | 984 | (127,539) |
| Amortization, depreciation and write-downs | (4,694) | | (4,694) |
| Other operating costs | (7,070) | | (7,070) |
| Other operating costs from related parties | - | | - |
| Changes in inventories of work in progress, semi-finished and finished goods | 2,894 | | 2,894 |
| (-) Capitalized costs for internally produced assets | 167 | | 167 |
| EBIT | 44,840 | 984 | 45,824 |
| Financial income | 3,404 | | 3,404 |
| Financial income from related parties | 3,045 | | 3,045 |
| Financial costs | (4,429) | (984) | (5,413) |
| Financial costs from related parties | (86) | | (86) |
| Profit (Loss) before taxes | 46,774 | - | 46,774 |
| Income taxes | (18,415) | | (18,415) |
| Net Profit | 28,359 | - | 28,359 |
| <i>Group</i> | 28,305 | | 28,305 |
| <i>Minority interests</i> | 54 | | 54 |
| Earnings per share <i>Basic and Diluted</i> | 0,28 | | 0,28 |

8 SEGMENT REPORTING

8.1 Primary segment

The Group operates in two transport-related segments (railway and urban): signalling through the **Signalling Business Unit** and transport systems through the **Transport Systems Business Unit**.

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

The results of the business units at 30 June 2008, compared with those for the same period of the previous year, are as follows:

| <i>(EUR 000)</i> | Half-year report at 30 June 2008 | | | | |
|--|---|--|-------------------------|---------------------|---------------|
| | <i>Signalling Business Unit</i> | <i>Transport Systems Business Unit</i> | <i>Other operations</i> | <i>Eliminations</i> | <i>Total</i> |
| Revenues | 341,527 | 100,296 | - | (579) | 441,244 |
| Revenues from related parties | 47,176 | 14,705 | 8,380 | (8,943) | 61,317 |
| Other operating income | 5,784 | 455 | 1 | - | 6,240 |
| Other operating income from related parties | 146 | 2,564 | 923 | (3,434) | 199 |
| Purchase | (107,201) | (8,433) | (20) | - | (115,654) |
| Purchase of services | (109,208) | (68,117) | (6,370) | (20) | (183,715) |
| Costs from related parties (net of recoveries) | (20,504) | (13,423) | (677) | 13,797 | (20,807) |
| Cost of labour | (113,022) | (14,997) | (4,868) | (815) | (133,702) |
| Amortization, depreciation and write-downs | (3,738) | (342) | (937) | - | (5,017) |
| Other operating costs | (3,631) | (294) | (662) | - | (4,587) |
| Other operating costs from related parties | - | - | 6 | (6) | - |
| Changes in inventories of work in progress, semi-finished and finished goods | 5,081 | - | - | - | 5,081 |
| (-) Capitalized costs for internally produced assets | 238 | - | - | - | 238 |
| EBIT | 42,648 | 12,414 | (4,224) | (0) | 50,837 |
| Financial income | 4,281 | 714 | 27 | - | 5,022 |
| Financial income from related parties | 2,341 | 24,469 | 14,694 | (39,306) | 2,198 |
| Financial costs | (7,574) | (280) | (139) | 32 | (7,961) |
| Financial costs from related parties | (976) | (15) | (353) | 1,239 | (105) |
| Effects of valuation of equity investments accounted for using equity method | (23) | - | - | - | (23) |
| Profit (Loss) before taxes | 40,697 | 37,302 | 10,005 | (38,035) | 49,968 |
| Income taxes | (14,295) | (5,366) | 806 | - | (18,855) |
| Net Profit (Loss) | 26,402 | 31,936 | 10,811 | (38,035) | 31,113 |
| <i>Group</i> | 26,359 | 31,936 | 10,811 | (38,035) | 31,070 |
| <i>Minority interests</i> | 43 | - | - | - | 43 |
| <i>Capital expenditure</i> | 5,970 | 385 | 52 | - | 6,407 |

| <i>(EUR 000)</i> | Half-year report at 30 June 2007 | | | | |
|--|---|--|-------------------------|---------------------|---------------|
| | <i>Signalling Business Unit</i> | <i>Transport Systems Business Unit</i> | <i>Other operations</i> | <i>Eliminations</i> | <i>Total</i> |
| Revenues | 306,226 | 100,242 | - | 6,458 | 412,926 |
| Revenues from related parties | 49,245 | 12,006 | 6,396 | (19,240) | 48,407 |
| Other operating income | 5,411 | 893 | - | - | 6,304 |
| Other operating income from related parties | 433 | 1,029 | 1,719 | (1,831) | 1,350 |
| Purchase | (112,631) | (6,857) | (20) | 208 | (119,300) |
| Purchase of services | (81,321) | (60,366) | (7,079) | - | (148,766) |
| Costs from related parties (net of recoveries) | (14,065) | (18,235) | (1,714) | 15,159 | (18,855) |
| Cost of labour | (106,845) | (14,636) | (5,304) | (754) | (127,539) |
| Amortization, depreciation and write-downs | (3,435) | (334) | (925) | - | (4,694) |
| Other operating costs | (5,518) | (1,146) | (406) | - | (7,070) |
| Other operating costs from related parties | - | - | - | - | - |
| Changes in inventories of work in progress, semi-finished and finished goods | 2,894 | - | - | - | 2,894 |
| (-) Capitalized costs for internally produced assets | 167 | - | - | - | 167 |
| EBIT | 40,561 | 12,596 | (7,333) | - | 45,824 |
| Financial income | 1,590 | 557 | 357 | 900 | 3,404 |
| Financial income from related parties | 1,660 | 3,074 | 16,947 | (18,636) | 3,045 |
| Financial costs | (3,937) | (478) | (79) | (919) | (5,413) |
| Financial costs from related parties | (93) | (13) | (4,395) | 4,415 | (86) |
| Profit (Loss) before taxes | 39,781 | 15,736 | 5,497 | (14,240) | 46,774 |
| Income taxes | (14,699) | (6,646) | 2,930 | - | (18,415) |
| Net Profit (Loss) | 25,082 | 9,090 | 8,427 | (14,240) | 28,359 |
| <i>Group</i> | 25,029 | 9,089 | 8,427 | (14,240) | 28,305 |
| <i>Minority interests</i> | 54 | - | - | - | 54 |
| <i>Capital expenditure</i> | 7,782 | 387 | 158 | - | 8,327 |

The segment assets and liabilities at 30 June 2008, at 31 December 2007 and at 30 June 2007 are as follows:

(EUR 000)

| | 30 June 2008 | | | |
|--------------------------|---------------------------------|--|-------------------------|--------------|
| | <i>Signalling Business Unit</i> | <i>Transport Systems Business Unit</i> | <i>Other operations</i> | <i>Total</i> |
| Total assets | 590,349 | 263,913 | 178,226 | 1,032,488 |
| Total liabilities | 581,535 | 230,921 | 35,075 | 847,531 |

(EUR 000)

| | 31 December 2007 | | | |
|--------------------------|---------------------------------|--|-------------------------|--------------|
| | <i>Signalling Business Unit</i> | <i>Transport Systems Business Unit</i> | <i>Other operations</i> | <i>Total</i> |
| Total assets | 639,254 | 277,814 | 151,838 | 1,068,906 |
| Total liabilities | 628,504 | 262,056 | 645 | 891,205 |

(EUR 000)

| | 30 June 2007 | | | |
|--------------------------|---------------------------------|--|-------------------------|--------------|
| | <i>Signalling Business Unit</i> | <i>Transport Systems Business Unit</i> | <i>Other operations</i> | <i>Total</i> |
| Total assets | 438,053 | 212,716 | 351,989 | 1,002,758 |
| Total liabilities | 410,000 | 202,251 | 234,719 | 846,970 |

9 NOTES TO THE BALANCE SHEET

9.1 Transactions with related parties

In general, transactions with related parties are conducted at arm's length. Interest-bearing receivables and payables that are not governed by specific contractual conditions are treated in the same manner. The most important figures are as follows:

| <i>RECEIVABLES AT 30.06.2008</i> | Non-current financial receivables | Other non-current receivables | Current financial receivables | Trade receivables | Other current receivables | Total |
|------------------------------------|-----------------------------------|-------------------------------|-------------------------------|-------------------|---------------------------|---------|
| <i>(EUR 000)</i> | | | | | | |
| Parent company | | | | | | |
| Finmeccanica S.p.A. | - | - | 1 | 245 | - | 246 |
| Subsidiaries | | | | | | |
| Alifana S.c.r.l. | - | - | - | 95 | - | 95 |
| Alifana Due S.c.r.l. | - | - | - | 901 | - | 901 |
| Associated companies | | | | | | |
| I.M. Intermetro S.p.A. | - | - | - | 442 | - | 442 |
| Metro 5 S.p.A. | - | - | - | 5,187 | 19 | 5,206 |
| Ecosen sa | - | - | - | 6 | - | 6 |
| Pegaso S.c.r.l. | - | - | - | 154 | - | 154 |
| Consortia | | | | | | |
| Cons. Saturno | - | - | - | 26,472 | 332 | 26,804 |
| Cons. Ascosa quattro | - | - | - | 357 | - | 357 |
| Cons. Ferroviario Vesuviano | - | - | - | 2,733 | - | 2,733 |
| Cons. Ferrov. SanGiorgio Volla | - | - | - | 1,421 | - | 1,421 |
| Cons. Ferrov. SanGiorgio Volla Due | - | - | - | 441 | - | 441 |
| Other Group companies | | | | | | |
| Ansaldo Breda | - | - | - | 2,627 | 35 | 2,662 |
| Ansaldo Energia S.p.A. | - | - | - | 1 | - | 1 |
| Finmeccanica Finance | - | - | 112,110 | - | - | 112,110 |
| Elsag Datamat S.p.A. | - | - | - | - | 240 | 240 |
| Ansaldo Argentina S.A. | - | - | - | 37 | - | 37 |
| Orizzonte Sistemi Navali | - | - | - | - | - | - |
| Fata Logistic | - | - | - | - | - | - |
| Oto Melara S.p.A. | - | - | - | 1 | - | 1 |
| Selex Communications S.p.A. | - | - | - | 1 | - | 1 |
| Total | - | - | 112,111 | 41,121 | 626 | 153,858 |

| RECEIVABLES AT 31.12.2007 | Non-current financial receivables | Other non-current receivables | Current financial receivables | Trade receivables | Other current receivables | Total |
|------------------------------------|--|--------------------------------------|--------------------------------------|--------------------------|----------------------------------|----------------|
| <i>(EUR 000)</i> | | | | | | |
| Parent company | | | | | | |
| Finmeccanica S.p.A. | - | - | 283 | 205 | - | 488 |
| Subsidiaries | | | | | | |
| Alifana S.c.r.l. | - | - | - | 123 | - | 123 |
| Alifana Due S.c.r.l. | - | - | - | 136 | - | 136 |
| Associated companies | | | | | | |
| I.M. Intermetro S.p.A. | - | - | - | 455 | 2,084 | 2,084 |
| Metro 5 S.p.A. | - | - | - | 6,759 | - | 6,759 |
| Pegaso S.c.r.l. | - | - | - | 116 | - | 116 |
| Consortia | | | | | | |
| Cons. Saturno | - | - | - | 41,780 | - | 41,780 |
| Cons. Ascosa quattro | - | - | - | 342 | - | 342 |
| Cons. Ferroviario Vesuviano | - | - | - | 2,544 | - | 2,544 |
| Cons. Ferrov. SanGiorgio Volla | - | - | - | 1,422 | - | 1,422 |
| Cons. Ferrov. SanGiorgio Volla Due | - | - | - | 748 | - | 748 |
| Other Group companies | | | | | | |
| Ansaldo Breda | - | - | - | 1,785 | 23 | 1,808 |
| Finmeccanica Finance | - | - | 140,422 | - | - | 140,422 |
| Elsag Datamat S.p.A. | - | - | - | 230 | 239 | 469 |
| Ansaldo Argentina S.A. | - | - | - | 37 | - | 37 |
| Selex Communication S.p.A. | - | - | - | 2 | - | 2 |
| Orizzonte Sistemi Navali | - | - | - | - | 3 | 3 |
| Fata S.p.A. | - | - | - | - | 4 | 4 |
| Ansaldo Energia S.p.A. | - | - | - | 1 | - | 1 |
| Total | - | - | 140,705 | 56,685 | 2,353 | 199,743 |

PAYABLES AT 30.06.2008

| | Non-current financial debt | Other non- current payables | Short- term financial payables | Trade payables | Other current payables | Total |
|-------------------------------------|----------------------------------|--------------------------------------|---|-------------------|------------------------------|---------------|
| <i>(EUR 000)</i> | | | | | | |
| <u>Parent company</u> | | | | | | |
| Finmeccanica S.p.A. | - | - | 3,892 | 55 | 135 | 4,082 |
| <u>Subsidiaries</u> | | | | | | |
| Alifana S.c.r.l. | - | - | - | - | 3 | 3 |
| Alifana Due S.c.r.l. | - | - | - | 2,521 | - | 2,521 |
| <u>Associated companies</u> | | | | | | |
| I.M. Intermetro S.p.A. | - | - | - | 2 | - | 2 |
| Metro 5 S.p.A. | - | - | - | 216 | 4,612 | 4,828 |
| Pegaso S.c.r.l. | - | - | - | 3,973 | - | 3,973 |
| Ecosen | - | - | - | 271 | - | 271 |
| <u>Consortia</u> | | | | | | |
| Cons. Saturno | - | - | - | - | - | - |
| Cons. Ascosa quattro | - | - | - | 42 | 8 | 50 |
| Team | - | - | - | 189 | 5 | 194 |
| Cons. Ferrov. SanGiorgio Volla Due | - | - | - | 16 | 12 | 28 |
| Cons. Ferroviario Vesuviano | - | - | - | 148 | 8 | 156 |
| Cons. Ferrov. SanGiorgio Volla | - | - | - | 131 | 8 | 139 |
| Cesit | - | - | - | 79 | - | 79 |
| Cons. Filobus Vesuvio | - | - | - | - | 1 | 1 |
| <u>Other Group companies</u> | | | | | | |
| Finmeccanica Group service | - | - | - | 130 | - | 130 |
| Ansaldo Breda | - | - | - | 4,491 | - | 4,491 |
| Finmeccanica Finance | - | - | - | - | 14 | 14 |
| Hr Gest S.p.A. | - | - | - | 134 | - | 134 |
| Elsag Datamat S.p.A. | - | - | - | 892 | - | 892 |
| Selex Communication S.p.A. | - | - | - | 1,445 | - | 1,445 |
| Fata Logistic | - | - | - | 378 | - | 378 |
| Altre | - | - | - | 56 | - | 56 |
| Total | - | - | 3,892 | 15,169 | 4,806 | 23,867 |

| <i>PAYABLES AT 31.12.2007</i> | Non-current financial debt | Other non- current payables | Short- term financial payables | Trade payables | Other current payables | Total |
|-------------------------------------|---|--|---|---------------------------|---------------------------------------|---------------|
| <i>(EUR 000)</i> | | | | | | |
| <u>Parent company</u> | | | | | | |
| Finmeccanica S.p.A. | - | - | - | 84 | 135 | 219 |
| <u>Subsidiaries</u> | | | | | | |
| Alifana S.c.r.l. | - | - | - | 488 | 3 | 491 |
| Alifana Due S.c.r.l. | - | - | - | 799 | - | 799 |
| <u>Associated companies</u> | | | | | | |
| I.M. Intermetro S.p.A. | - | - | - | 1 | - | 1 |
| Metro 5 S.p.A. | - | - | - | 76 | 4,613 | 4,689 |
| Pegaso S.c.r.l. | - | - | - | 2,569 | - | 2,569 |
| <u>Consortia</u> | | | | | | |
| Cons. Saturno | - | - | - | 482 | - | 482 |
| Cons. Ascosa quattro | - | - | - | 77 | 8 | 85 |
| Team | - | - | - | 32 | 5 | 37 |
| Cons. Ferrov. SanGiorgio Volla Due | - | - | - | 161 | 11 | 172 |
| Cons. Ferroviario Vesuviano | - | - | - | 203 | 8 | 211 |
| Cons. Ferrov. SanGiorgio Volla | - | - | - | 201 | 8 | 209 |
| Cesit | - | - | - | - | - | - |
| Cons. Filobus Vesuvio | - | - | - | - | 1 | 1 |
| <u>Other Group companies</u> | | | | | | |
| Finmeccanica Group service | - | - | - | 86 | - | 86 |
| Ansaldo Energia S.p.A. | - | - | - | 120 | - | 120 |
| Ansaldo Breda | - | - | - | 4,665 | - | 4,665 |
| Finmeccanica Finance | - | - | - | - | 14 | 14 |
| Elsag Datamat S.p.A. | - | - | - | 3,437 | - | 3,437 |
| Selex Communication S.p.A. | - | - | - | 5,476 | - | 5,476 |
| Selex Sistemi Integrati S.p.A. | - | - | - | 80 | - | 80 |
| Fata Logistic | - | - | - | 401 | - | 401 |
| Hr Gest S.p.A. | - | - | - | 290 | - | 290 |
| Altre | - | - | - | 56 | - | 56 |
| Total | - | - | - | 19,784 | 4,806 | 24,590 |

9.2 Intangible Assets

| <i>(EUR 000)</i> | Goodwill | Patents & similar rights | Concessions, licences and trademarks | Assets under development | Other | Total |
|---|-----------------|-------------------------------------|---|---------------------------------|--------------|---------------|
| <i>Balance at 31 December 2007</i> | 38,636 | 14 | 211 | 400 | 8,726 | 47,987 |
| Changes in the scope of consolidation | - | - | - | - | 2 | 2 |
| Acquisitions | - | - | 10 | 710 | 932 | 1,652 |
| Capitalizations | - | - | - | 15 | - | 15 |
| Sales | - | - | - | - | (3) | (3) |
| Amortization and writedowns | - | (3) | (63) | - | (1,147) | (1,213) |
| Opening/closing foreign exchange rate differences | (17) | - | - | - | (377) | (394) |
| Reclassifications | - | 94 | - | (146) | 56 | 4 |
| <i>Balance at 30 June 2008</i> | 38,619 | 105 | 158 | 979 | 8,189 | 48,050 |

Investments for the period came to EUR 1,667 thousand and regarded the Signalling Business Unit for EUR 1,513 thousand and the Transport Systems Business Unit for EUR 154 thousand.

With regard to the Signalling Business Unit, intangible assets are composed of as follows:

- Ansaldo Segnalamento Ferroviario, for the replacement of the PDM (DISA) with the new system PDM/PLM (Teamcenter) (EUR 666 thousand).
- Ansaldo STS Australia PTY and related subsidiaries, mainly for long-term costs linked to software development projects (EUR 326 thousand).
- Ansaldo STS France mainly for the purchases of software licences (EUR 304 thousand).
- Union Switch & Signal Inc. mainly relating to SAP implementation activities (EUR 217 thousand).

The Transport Systems Business Unit showed an increase of EUR 154 thousand mainly due to the purchase of a software package from third parties in support of the design and

planning activities of engineering lines for the development of the internal process of cost planning and control.

Amortization for the period amounted to EUR 1,213 thousand and foreign exchange rate differences are equal to a negative EUR 394 thousand.

With regard to goodwill, included in the equity investments acquired on 24 February 2006 (as reported above), the breakdown by sector is as follows:

| | <u>30.06.2008</u> | <u>31.12.2007</u> |
|-------------------|-------------------|-------------------|
| Signalling | 38,619 | 38,636 |
| Transport systems | - | - |
| | <u>38,619</u> | <u>38,636</u> |

The *impairment test*, in application of the Group procedures, is carried out upon the preparation of the Annual Report.

The test is conducted on the individual cash generating units (CGUs) by comparing the carrying amount with the greater of the value in use of the CGU and amount recoverable by sale. In particular, the value in use is measured by discounting the cash flows of the five-year plans approved by management and projected beyond the explicit time horizon covered by the plan using growth rates of no greater than those forecast for the market in which the given CGU operates.

In the course of the first six months, the market and management indicators identified by the Group did not show the need for conducting the *impairment test* on the goodwill posted.

The variation between the two periods is attributable to the foreign exchange rate differences produced on the goodwill of the American subsidiary Union Switch & Signal Inc.

9.3 Tangible Assets

| <i>(EUR 000)</i> | Land and buildings | Plant and machinery | Equipment | Assets under development | Other | Total |
|---|--------------------|---------------------|--------------|--------------------------|---------------|---------------|
| Balance at 31 December 2007 | 70,552 | 5,416 | 4,106 | 3,689 | 10,445 | 94,208 |
| Change in the scope of consolidation | - | - | - | - | 4 | 4 |
| Acquisitions | 22 | 284 | 794 | 1,902 | 1,515 | 4,517 |
| Capitalizations | - | - | - | 223 | - | 223 |
| Sales | 1 | - | (2) | - | (25) | (26) |
| Depreciation and writedowns | (1,127) | (659) | (700) | - | (1,260) | (3,746) |
| Opening/closing foreign exchange rate differences | (179) | (98) | (33) | (151) | (213) | (674) |
| New entries | - | - | - | - | 4 | 4 |
| Reclassifications | 157 | 177 | 229 | (755) | 188 | (4) |
| Balance at 30 June 2008 | 69,426 | 5,120 | 4,394 | 4,908 | 10,658 | 94,506 |

Tangible assets include the value of the premises owned by the parent company Ansaldo STS, located at Via Mantovani 3/5-16151 in Genoa and purchased in December 2005 from its parent company Finmeccanica S.p.A. for EUR 62,378 thousand.

In accordance with IAS 16, the component approach was applied to the above amount and therefore the amount of EUR 9,353 thousand was reclassified among the item “Land”.

Investments for the period came to EUR 4,740 thousand and regarded the Signalling Business Unit for EUR 4,457 thousand, the Transport Systems Business Unit for EUR 231 thousand and Ansaldo STS holding for EUR 52 thousand.

With regard to the Signalling Business Unit, tangible assets can be broken down by company thusly:

- EUR 1,624 thousand – Ansaldo Segnalamento Ferroviario S.p.A. (Italy): mainly relative to the progress of the Turin canteen project and to the instrumentation acquired for the Tito factory and the Naples engineerings.
- EUR 1,272 thousand – Ansaldo STS France: mainly relating to the purchase of furniture, fittings and equipment for technical labs.

- EUR 971 thousand – Union Switch & Signal Inc. (USA): mainly relative to the maintenance of the plants of the Batesburg factory.
- EUR 492 thousand – Asia/Pacific region companies (Australia, India, Malaysia): mainly attributable to the expansion and reorganization of the sites to support the growth of production and personnel.
- EUR 98 thousand – other European companies (Ansaldo STS Sweden, Ansaldo STS U.K. and Ansaldo STS Ireland) and Ansaldo Signal N.V.

9.4 Equity investments

Equity investments at cost:

(EUR 000)

| | |
|--|----------------------|
| <i>Balance at 31 December 2007</i> | <u>22,553</u> |
| Change in scope of consolidation | (419) |
| Acquisitions/subscriptions and capital increases | - |
| Revaluations/writedowns | - |
| Disposals | - |
| <i>Balance at 30 June 2008</i> | <u>22,134</u> |
| Equity investments at equity: | <u>6,825</u> |
| Total equity investments | <u>28,959</u> |

List of equity investments with values in thousands of euros:

| Name | Ownership % | Total assets | Total liabilities | | Currency | Value |
|---|-------------|--------------|-------------------|---|----------|---------------|
| Metro C S.c.p.A. | 14.00% | 224,537 | 75,019 | | Euro | 21,000 |
| Metro 5 S.p.A. (**) | 24.60% | 32,521 | 7,524 | * | Euro | 6,148 |
| I.M. Intermetro S.p.A. | 16.67% | 1,531,728 | 1,522,258 | | Euro | 523 |
| Tram di Firenze | 3.80% | 25,191 | 18,603 | | Euro | 266 |
| Ecosen (**) | 48.00% | 4,939,754 | 3,857,786 | * | VeB | 181 |
| Pegaso S.c.r.l. (**) | 46.87% | 13,229 | 12,969 | | Euro | 122 |
| Iricav uno | 17.44% | 3,315,903 | 3,315,383 | * | Euro | 91 |
| Iricav 2 | 15.00% | 63,599 | 63,083 | * | Euro | 77 |
| Cons. ferroviario vesuviano | 25.00% | 198,435 | 198,280 | | Euro | 39 |
| S. Giorgio Volla 2 | 40.00% | 8,326 | 8,254 | | Euro | 29 |
| Cris | 1.00% | 5,516 | 3,080 | | Euro | 24 |
| S. Giorgio Volla | 25.00% | 6,112 | 6,040 | | Euro | 18 |
| Alifana S.c.r.l. (**) | 65.85% | 1,736 | 1,710 | | Euro | 17 |
| Ascosa Quattro | 25.00% | 108,647 | 108,590 | | Euro | 14 |
| Siit | 2.30% | 935 | 338 | | Euro | 14 |
| Alifana Due S.c.r.l. (**) | 53.34% | 3,257 | 3,232 | | Euro | 13 |
| Saturno | 33.34% | 1,858,993 | 1,858,962 | | Euro | 11 |
| Cons. T.e.a.m. | 22.22% | 137 | 91 | | Euro | 10 |
| Cesit | 15.28% | 207 | 138 | | Euro | 10 |
| Isict | 9.09% | 306 | 265 | | Euro | 2 |
| Cons. Train | 3.76% | 29,539 | 29,426 | | Euro | 4 |
| Cosila | 0.90% | 178 | 64 | | Euro | 1 |
| Filobus Vesuvio | 1.00% | 955 | 703 | | Euro | 1 |
| International Metro Service S.r.l. (**) | 49.00% | 5086 | 4383 | | Euro | 344 |
| Total | | | | | | 28,959 |

N.B: data relates to assets and liabilities for 2007

() data refers to financial year 2006*

*(**) Investments at equity*

Equity investments at 30 June 2008 amounted to EUR 28,959 thousand, of which EUR 6,825 thousand valued with the net equity method and EUR 22,134 thousand valued at cost.

The equity investments valued at cost showed a negative variation of EUR 419 thousand as a result of the different consolidation method of the following shareholdings:

- Ansaldo STS Deutschland GMBH, which is consolidated on a line-by-line basis being entirely held and already operating;
- International Metro Service, which is consolidated using the net equity method.

The value of the investments consolidated using the net equity method showed an increase of EUR 307 thousand referable to the transfer of International Metro Service for EUR 344 thousand partially offset by the negative value deriving from the adjustments of the period for EUR 37 thousand.

9.5 Receivables and other non-current assets

| <i>(EUR 000)</i> | <u>30.06.2008</u> | <u>31.12.2007</u> |
|--|----------------------|----------------------|
| Loans to third parties | - | - |
| Receivables from employees | 4 | - |
| Security deposits | 1,306 | 1,385 |
| Receivables for finance lease sales | - | - |
| Personal Income Tax receivables on severance pay | 662 | 724 |
| Other | 8,240 | 13,044 |
| Non-current receivables | <u>10,212</u> | <u>15,153</u> |
| Financial accrued income - non-current portion | 364 | 583 |
| Other accrued income | 26,656 | 27,472 |
| Other non-current assets | - | - |
| Other non-current assets | <u>27,020</u> | <u>28,055</u> |

Non-current receivables at 30 June 2008 came to EUR 10,212 thousand. These refer to the Signalling Business Unit for EUR 7,599 thousand, specifically to the American subsidiary Union Switch & Signal in relation to the “Pittsburgh facilities lease” receivable (EUR 5,885 thousand) and to the Transport Systems Business Unit for EUR 2,613 thousand in relation to the advance paid to the Thessaloniki metro - assignee of the relative contract (EUR 2,176 thousand).

Other non-current assets amounted to EUR 27,020 thousand and mainly refer to the non-current portion of the long-term costs incurred to purchase the right to use the “Ansaldo” trademark for 20 years.

Specifically, on 27 December 2005, Ansaldo STS S.p.A. entered into a licensing agreement with Finmeccanica to use the “Ansaldo” trademark under which the

Company is known in the market. This agreement gives the Company exclusive use of the trademark up to 27 December 2025 in the sectors the Group does business, in exchange for an up-front payment of EUR 32,213 thousand.

9.6 Inventories

| <i>(EUR 000)</i> | <u>30.06.2008</u> | <u>31.12.2007</u> |
|--|-----------------------|----------------------|
| Raw materials, ancillary goods and consumables | 44,212 | 42,426 |
| Work in progress and semi-finished products | 22,302 | 19,383 |
| Finished products and goods | 10,301 | 9,195 |
| Advances to suppliers | 27,279 | 27,301 |
| Total | <u>104,094</u> | <u>98,305</u> |

Inventories are stated net of writedown provisions totalling EUR 5,333 thousand (EUR 5,815 thousand at 31 December 2007).

9.7 Contract work in progress and advances from customers

| <i>(EUR 000)</i> | <u>30.06.2008</u> | <u>31.12.2007</u> |
|--------------------------------------|-----------------------|-----------------------|
| Advances from customers | (13,398) | (19,713) |
| Invoices of instalments | (805,576) | (551,995) |
| Work in progress (gross) | 1,027,584 | 723,603 |
| Work in progress (net) | <u>208,610</u> | <u>151,895</u> |
| Advances from customers | 76,527 | 82,275 |
| Invoices of instalments | 3,466,135 | 3,585,304 |
| Work in progress | (3,069,683) | (3,160,777) |
| Advances from customers (net) | <u>472,979</u> | <u>506,802</u> |

Work in progress is recognised as an asset if a contract-by-contract analysis reveals that the gross value of the work in progress is higher than the advances from customers. It is

recognised as a liability if the advances from customers exceed the value of the related work in progress. The amount corresponding to any advances not received as of the end of the accounting period is recognised among customer receivables.

9.8 Trade and financial receivables

| <i>(EUR 000)</i> | 30.06.2008 | | 31.12.2007 | |
|---|----------------|----------------|----------------|----------------|
| | Trade | Financial | Trade | Financial |
| Receivables from customers | 210,399 | - | 269,851 | - |
| Total receivables from customers | 210,399 | - | 269,851 | - |
| Receivables from related parties | 41,121 | 112,111 | 56,685 | 140,705 |
| Total | 251,520 | 112,111 | 326,536 | 140,705 |

Trade receivables from third parties came to EUR 210,399 thousand at 30 June 2008 and decreased by EUR 59,452 thousand over 31 December 2007 (EUR 269,851 thousand).

The Signalling Business Unit recorded a decrease in trade receivables from third parties of EUR 51,566 thousand, mainly attributable to the subsidiary Ansaldo Segnalamento Ferroviario S.p.A. for collections occurred in the semester in relation to receivables recorded in the last months of 2007.

The Transport Systems Business Unit reported a decrease of EUR 7,886 thousand.

Trade receivables from related parties showed a reduction of EUR 15,564 thousand mainly due to the collections occurred in the semester of receivables towards the Saturno Consortium.

With regard to CONSOB communication no. DAC/RM/97003369 of 9 April 1997, the Group reports that during the first half of 2008 it did not assign any recourse and non-recourse receivables.

9.9 Receivables and payables for direct taxes

| <i>(EUR 000)</i> | 30.06.2008 | | 31.12.2007 | |
|------------------|---------------------|---------------------|---------------------|---------------------|
| | <u>Assets</u> | <u>Liabilities</u> | <u>Assets</u> | <u>Liabilities</u> |
| For direct taxes | 6,278 | 5,995 | 4,155 | 7,827 |
| Total | <u>6,278</u> | <u>5,995</u> | <u>4,155</u> | <u>7,827</u> |

Payables for direct taxes, net of tax prepayments made by the Italian subsidiaries, came to EUR 5,995 thousand at 30 June 2008 with a decrease of EUR 1,832 thousand compared with 31 December 2007 (EUR 7,827 thousand).

Payables for direct taxes are mainly referable to the foreign subsidiaries of the Signalling Business Unit.

Tax receivables relating to IRES (corporate income tax) totalled EUR 1,137 thousand, while those for IRAP (regional tax on business activities) amounted to EUR 74 thousand.

Receivables for direct taxes came to EUR 6,278 thousand at 30 June 2008 compared with EUR 4,155 thousand at 31 December 2007, with an increase of EUR 2,123 thousand, and are essentially referable to the foreign subsidiaries of the Signalling Business Unit and mainly to the French subsidiary and the Australian subsidiary as a result of the advance payment of taxes.

9.10 Other current assets

| <i>(EUR 000)</i> | <u>30.06.2008</u> | <u>31.12.2007</u> |
|---|----------------------|----------------------|
| Current portion of prepaid expenses | 6,333 | 7,168 |
| Research subsidies | 3,046 | 2,981 |
| Receivables from employees | 677 | 603 |
| Receivables from social security institutions | 1,230 | 891 |
| Receivables for security deposits | 267 | - |
| Receivables for indirect taxes and other amounts due from tax authorities | 5,326 | 6,680 |
| Other | 9,171 | 5,974 |
| Total other assets | <u>26,050</u> | <u>24,297</u> |
| Other assets from related parties | 626 | 2,353 |
| Total | <u>26,676</u> | <u>26,650</u> |

Other current assets from third parties at 30 June 2008 came to EUR 26,050 thousand with an increase of EUR 1,753 thousand compared with the figures as at 31 December 2007 (EUR 24,297 thousand); this change is primarily attributable to the increase of EUR 3,197 thousand in “Other assets” due to greater receivables from local entities of the foreign subsidiaries of the Signalling Business Unit, particularly the French subsidiary for subsidies directed to research activities.

Other assets from related parties decreased by EUR 1,727 thousand; this change is mainly due to the collection in the period of an advance granted to the associated company Int. Metro Service S.p.A. acquired in the financial year 2007.

9.11 Cash and cash equivalents

| <i>(EUR 000)</i> | <u>30.06.2008</u> | <u>31.12.2007</u> |
|------------------|----------------------|----------------------|
| Cash | 11,620 | 49 |
| Bank deposits | <u>58,857</u> | <u>63,336</u> |
| Total | <u>70,477</u> | <u>63,385</u> |

The balance of cash and cash equivalents at 30 June 2008 was equal to EUR 70,477 thousand of which EUR 36,826 thousand attributable to the Transport Systems Business Unit, EUR 33,500 thousand to the Signalling Business Unit and EUR 151 thousand to the Group parent Ansaldo STS SpA.

Cash and cash equivalents rose by EUR 7,092 thousand compared with 31 December 2007. For comments on the variations, please refer to paragraph 2.3 relative to the financial position of the Group.

9.12 Share capital

| | Number of shares | Par value | Treasury shares | Total |
|---|-----------------------------|------------------------------|----------------------------|------------------------------|
| Shares in circulation | 100,000,000 | €50,000,000.00 | - | €50,000,000.00 |
| Charges for share capital increase in 2005 | - | - | - | -€50,000.00 |
| Buy-back of own shares, net of shares sold | - | - | -282,080 | -€282,080.00 |
| 31 December 2007 | <u>100,000,000</u> | <u>€50,000,000.00</u> | <u>-€282,080.00</u> | <u>€49,667,920.00</u> |
| 30 June 2008 | <u>100,000,000</u> | <u>€50,000,000.00</u> | <u>-€282,080.00</u> | <u>€49,667,920.00</u> |

The share capital of EUR 50,000,000.00 is fully paid-up and divided into 100,000,000 ordinary shares with a par value of EUR 0.50 each.

Share capital decreased by EUR 50 thousand due to expenses attributable to the capital increase in 2005.

The amount relating to treasury shares refers to the 38,785 shares held by the Group Parent Ansaldo STS, at the instructions of the beneficiaries, to meet their tax obligations in its capacity as tax collection agent for Italian employees who are beneficiaries of the Stock Grant Plan.

9.13 Changes in shareholders' equity

The following table shows the changes in shareholders' equity:

| <i>(EUR 000)</i> | Share capital | Retained earnings/ losses carried forward | Other reserves | Total Group's shareholders' equity | Minority interests | Total shareholders' equity |
|---|----------------------|--|-----------------------|---|---------------------------|-----------------------------------|
| Shareholders' equity at 1 January 2007 | 49,950 | 98,125 | (23,976) | 124,099 | 360 | 124,459 |
| Change in consolidation reserves | - | - | (101) | (101) | (64) | (165) |
| Foreign exchange translation differences | - | - | (1,850) | (1,850) | (16) | (1,866) |
| Income (expense) recognised directly in equity | - | - | (9,245) | (9,245) | - | (9,245) |
| Profit at 31 December 2007 | - | 58,172 | - | 58,172 | 106 | 58,278 |
| Net change in the reserve for stock grant plans | - | - | 1,668 | 1,668 | - | 1,668 |
| Actuarial profit related to defined-benefit plans | - | 1,743 | - | 1,743 | - | 1,743 |
| Allocation of the period result to legal reserve | - | (909) | 909 | - | - | - |
| Deferred taxes recorded in equity | - | 895 | 2,216 | 3,111 | - | 3,111 |
| Net change in treasury shares | (282) | - | - | (282) | - | (282) |
| Shareholders' equity at 31 December 2007 | 49,668 | 158,026 | (30,379) | 177,315 | 386 | 177,701 |
| Shareholders' equity at 1 January 2008 | 49,668 | 158,026 | (30,379) | 177,315 | 386 | 177,701 |
| Change in consolidation reserves | - | - | (1,158) | (1,158) | (1) | (1,159) |
| Foreign exchange translation differences | - | - | (380) | (380) | (3) | (383) |
| Income (expense) recognised directly in equity | - | - | (6,512) | (6,512) | - | (6,512) |
| Profit at 30 June 2008 | - | 31,070 | - | 31,070 | 43 | 31,113 |
| Dividends | - | (19,992) | - | (19,992) | - | (19,992) |
| Net change in the reserve for stock grant plans | - | - | 1,116 | 1,116 | - | 1,116 |
| Actuarial profit related to defined-benefit plans | - | 634 | - | 634 | - | 634 |
| Reclassifications | - | (477) | 477 | - | - | - |
| Allocation of the period result to legal reserve | - | (2,161) | 2,161 | - | - | - |
| Deferred taxes recorded in equity | - | - | 2,439 | 2,439 | - | 2,439 |
| Net change in treasury shares | - | - | - | - | - | - |
| Shareholders' equity at 30 June 2008 | 49,668 | 167,100 | (32,236) | 184,532 | 425 | 184,957 |

9.14 Retained earnings /(losses) carried forward

Retained earnings/ (Losses) carried forward:

(EUR 000)

| | | |
|--|------------------------------------|----------------|
| | Balance at 31 December 2007 | 158,026 |
| Allocation of the period result to legal reserve | | (2,161) |
| Actuarial profit (loss) related to defined-benefit plans | | 157 |
| Net profit for the period | | 31,070 |
| Distribution of dividends | | (19,992) |
| | Balance at 30 June 2008 | 167,100 |

Retained earnings/(losses) carried forward at 30 June 2008 totalled EUR 167,100 thousand with an increase of EUR 9,074 thousand, mainly attributable to the result accrued in the period for EUR 31,070 thousand and to the distribution of dividends for EUR 19,992 thousand.

9.15 Other reserves

| | Legal reserve | Cash flow-hedge reserve | Stock grant reserve | Reserve for deferred taxes relating to items posted to shareholders' equity | Translation reserve | Other | Total |
|---|---------------|-------------------------|---------------------|---|---------------------|----------------|-----------------|
| (EUR 000) | | | | | | | |
| 31 December 2007 | 909 | (10,496) | 3,507 | 3,762 | (20,073) | (7,988) | (30,379) |
| Change in the scope of consolidation | - | 3 | - | (1) | 3 | (424) | (419) |
| Charge to income statement | - | - | - | - | (380) | - | (380) |
| Net change in the reserve for stock grant plans | - | - | - | - | - | - | - |
| Translation differences | - | - | - | - | - | - | - |
| Valuations posted to shareholders' equity | - | (6,512) | - | 2,439 | - | - | (4,073) |
| Other changes | 2,161 | - | 1,116 | - | - | (262) | 3,015 |
| 30 June 2008 | 3,070 | (17,005) | 4,623 | 6,200 | (20,450) | (8,674) | (32,236) |

Legal reserve

The legal reserve amounted in the period to EUR 3,070 thousand with an increase of EUR 2,161 thousand equal to 5% of the net profit realized by Ansaldo STS S.p.A. in the financial year 2007 and allocated to legal reserve as decided by the Shareholders' Meeting in the course of approving the 2007 financial statements.

Cash flow hedge reserve

This reserve includes the *fair value* of derivatives used by the Group to hedge its exposure to currency or interest rate risk, net of the effect of deferred taxes, until the moment in which the underlying position is recognised in the income statement. When this condition is met, the reserve is recognised in the income statement to offset the economic effects of the hedged transaction.

Stock grant reserve

The stock grant reserve came to EUR 4,623 thousand, an increase of EUR 1,116 thousand over the preceding year.

The stock grant reserve is composed of as follows:

- EUR 507 thousand – reserve created at the end of the financial year 2007 following the delivery of shares, whose value had been set aside in the financial year 2006.
- EUR 3,000 thousand – allocation of the Stock Grant plan relative to 2007, which provides the delivery of shares in December 2008.
- EUR 1,116 thousand – allocations relating to the first six months of the financial year 2008 of the Stock Grant plan, which provides the delivery of shares in December 2009.

Reserve for deferred taxes relating to items posted to shareholders' equity

The reserve for deferred taxes relating to items posted to shareholders' equity came to EUR 6,200 thousand and was created to recognise the deferred tax assets arising from

actuarial gains/losses resulting from the adoption of the equity method for defined-benefit plans and from cash flow hedges.

Translation reserve

This reserve is used to recognise the exchange rate differences resulting from the translation of the financial statements of consolidated companies. The most significant amounts were the result of the consolidation of the US subsidiary of the Signalling Business Unit, Union Switch & Signal Inc.

Other reserves

Other reserves relate to the consolidation reserve and the capital grant received on 23 February 2006 from the Parent Company Finmeccanica S.p.A..

9.16 Minority interests

Minority interests: (EUR 000)

| | |
|--|-------------------|
| <i>Balance at 31 December 2007</i> | <u><u>386</u></u> |
| Change in scope of consolidation | - |
| Profits attributable to minority interests | 43 |
| Consolidation reserve attributable to minority interests | (1) |
| Translation reserve attributable to minority interests | (3) |
| <i>Balance at 30 June 2008</i> | <u><u>425</u></u> |

This refers to the minority interest equal to 20% of Ansaldo STS Beijing Ltd. having its registered office in Beijing (China), held by the French subsidiary Ansaldo STS France (Signalling Business Unit).

9.17 Financial payables

| (EUR 000) | 30.06.2008 | | | 31.12.2007 | | |
|--------------------------|--------------|--------------|---------------|---------------|--------------|---------------|
| | Current | Non-current | Total | Current | Non-current | Total |
| Bank payables | 8,290 | 4,101 | 12,391 | 11,491 | 3,697 | 15,188 |
| Finance lease payables | 4 | 33 | 37 | 8 | 32 | 40 |
| Other financial payables | 356 | 2,543 | 2,899 | 1,102 | 3,239 | 4,341 |
| Total | 8,650 | 6,677 | 15,327 | 12,601 | 6,968 | 19,569 |

Changes during the period were as follows:

| (EUR 000) | 31.12.2007 | New positions | Repayments | Change in scope of consolidation | Other changes | 30.06.2008 |
|--------------------------|---------------|---------------|----------------|----------------------------------|----------------|---------------|
| Bank payables | 15,188 | - | (1,846) | 86 | (1,037) | 12,391 |
| Finance lease payables | 40 | - | (4) | - | 1 | 37 |
| Other financial payables | 4,341 | 781 | (2,188) | 1 | (36) | 2,899 |
| Total | 19,569 | 781 | (4,038) | 87 | (1,072) | 15,327 |

Bank payables

Bank payables, equal to EUR 12,391 thousand, refer for EUR 8,230 thousand to the Signalling Business Unit and for EUR 4,161 thousand to the Transport Systems Business Unit.

With regard to the Signalling Business Unit, these mainly refer to the short-term exposure for EUR 4,507 thousand of the Indian subsidiary of the Asia/Pacific region, for EUR 1,917 thousand of the American subsidiary, for EUR 1,476 thousand of the Italian subsidiary ASF for facilitated financing relating to research programmes.

With regard to the Transport Systems Business Unit, these refer to facilitated financing for research activities as well.

Finance lease payables

The payables regard the tangible assets held by the Group under finance lease contracts. The amount at 30 June 2008 was EUR 37 thousand, compared with EUR 40 thousand at

31 December 2007 and refers to the finance lease of automobiles by the Signalling Business Unit's Australian subsidiary, Ansaldo STS Australia.

Due to other lenders

This item showed a variation of EUR 1,442 thousand mainly due to reclassifications for EUR 2,034 thousand transferred to bank payables relative to the financing provided by San Paolo IMI and erroneously recorded in the previous financial year, new positions for EUR 781 thousand and repayments for EUR 171 thousand.

9.18 Provisions for risks and charges and contingent current liabilities

| <i>(EUR 000)</i> | Penalties | Product Warranties | Labour disputes | Provision for taxes | Contractual risks and charges | Disputes with third parties | Provision for restructuring | Other | Total |
|------------------------------------|-----------|--------------------|-----------------|---------------------|-------------------------------|-----------------------------|-----------------------------|--------------|---------------|
| Balance at 31 December 2007 | 87 | 13,284 | 394 | 1,517 | 7,893 | 893 | - | 2,147 | 26,215 |
| Reclassifications | - | - | - | - | - | - | - | - | - |
| Allocations | - | 617 | 200 | 305 | - | - | 1,210 | 230 | 2,562 |
| Reversals | - | (434) | - | (5) | (1,083) | - | - | - | (1,522) |
| Uses | - | (186) | (100) | (519) | (113) | - | - | - | (918) |
| Other changes | - | (87) | 42 | - | (149) | - | (35) | 78 | (151) |
| Balance at 30 June 2008 | 87 | 13,194 | 536 | 1,298 | 6,548 | 893 | 1,175 | 2,455 | 26,186 |
| <i>Current</i> | 87 | 13,284 | 394 | 1,517 | 7,893 | 893 | - | 2,147 | 26,215 |
| <i>Non-current</i> | - | - | - | - | - | - | - | - | - |
| Balance at 31 December 2007 | 87 | 13,284 | 394 | 1,517 | 7,893 | 893 | - | 2,147 | 26,215 |
| <i>Current</i> | 87 | 13,194 | 536 | 1,298 | 6,548 | 893 | 1,175 | 2,455 | 26,186 |
| <i>Non-current</i> | - | - | - | - | - | - | - | - | - |
| Balance at 30 June 2008 | 87 | 13,194 | 536 | 1,298 | 6,548 | 893 | 1,175 | 2,455 | 26,186 |

The risk provisions at 30 June 2008 amounted to EUR 26,186 thousand decreasing by EUR 29 thousand compared with 31 December 2007.

This variation is mainly due to the Signalling Business Unit, which shows an increase of EUR 181 thousand made up by allocations for EUR 2,562 thousand, reversals for EUR 356 thousand, uses for EUR 918 thousand, and other changes, mainly due to exchange-rate differences, for EUR (107) thousand.

The said increase is partially offset by the negative variation for EUR 166 thousand of the Signalling Business Unit mainly generated by the reversals of the provision for labour disputes as a result of the payment of a few pending settlements.

In relation to the risk provisions, it should be noted that the companies of the Ansaldo STS Group work in sectors and markets where many disputes - both those initiated by the Group or those initiated by third parties against the Group - are resolved only after a considerable time-lag, especially where the party being dealt with is a government body. To the best of our current knowledge, the various disputes that could give rise to a liability on the part of the Group that are not covered by a specific provision can be resolved in a satisfactory manner without a significant impact on results.

Obviously, in accordance with the applicable accounting standards, provisions have been made for any quantifiable liability that is likely to arise.

As to litigation, the following is noted:

- Ansaldo STS S.p.A. is not directly involved in any litigation;
- none of the subsidiaries is involved in litigation that is so significant or risky as to require specific further disclosure other than that provided in the notes;
- for litigation in which a subsidiary is involved as a defendant and in which, on the basis of a prudent evaluation, an adverse outcome is likely, the relevant companies have established provisions to cover such eventuality.

Iricav Due Consortium /TAV- Treno Alta Velocità S.p.A.

Ansaldo Trasporti Sistemi Ferroviari S.p.A. is part of the IRICAV DUE Consortium (with a 15% interest); the consortium is the general contractor for the work of building the Verona-Padua high-speed railway section.

On 31 January 2007 the Council of Ministers of the Italian Government approved a law decree (converted into Law 40/2007) that establishes, inter alia, the revocation of the Concessions released to T.A.V. by the Ente Ferrovie dello Stato for the Milan-Verona, Verona-Padua and Milan-Genoa lines. The effects of the revocation extended to all agreements and contracts made with General Contractors on 15 October 1991 and 16 March 1992.

Said decree also establishes that, with respect to the termination of contract, the General Contractors will be entitled to compensation to the extent of the actual loss.

On 26 January 2007 the consortium initiated arbitration proceedings to assess TAV's failure to perform its obligations under the Convention of 15 October 1991. The Arbitration Panel, composed of three members, was formed in Rome on 16 May 2007.

Attempts at settlement having failed, on 14 November 2007 the Arbitration Panel gave the Parties deadlines for the filing of briefs and set the hearing to discuss the dispute for 1 April 2008.

Following the revocation of the Concession, on 6 April 2007 the Consortium served notice on the Ministry of Transportation, RFI S.p.A., T.A.V. S.p.A. and the Prime Minister's Office of an appeal filed to the Lazio Regional Administrative Court (TAR) in order to obtain: a) principally, that the orders of the Ministry of Transportation and RFI S.p.A. be cancelled – after suspension; b) secondly, that the orders challenged and/or the revocations ordered and/or made under Article 13, paragraph 8 *quinquiesdecies* et seq. of Law 40/2007 and all the relevant subsequent deeds be cancelled – after demanding a preliminary ruling from the Court of Justice of the European Communities; c) thirdly and subject to submission to the Constitutional Court, that the orders adopted be declared as constitutionally illegitimate; and d) at all events, that the Italian Government, the Ministry of Transportation and RFI S.p.A. be sentenced to pay damages.

In an order dated 12 July 2007, the Lazio TAR suspended the effectiveness of the orders with which RFI S.p.A. revoked the concession to TAV S.p.A. and with which TAV S.p.A. terminated contracts with the three General Contractors. The Lazio TAR also transferred the case to the European Court of Justice to verify, as requested by the appellant firms, the alleged incompatibility of the revocation of the concessions with European regulations.

The above order of the Lazio TAR was challenged by the Office of the Prime Minister and the Ministry of Transport and by TAV S.p.A. and RFI S.p.A.

With an order dated 10 October 2007, the Council of State:

- (i) affirmed the legitimacy of the submission of the evaluation of the compatibility of Art. 13 of Law no. 40 of 21 April 2007 with the provisions of Arts. 43, 46 and 59 of the EU Treaty to the European Court of Justice; thus the case on the merits before the Lazio TAR is currently suspended. The Advocate General of the European Court of Justice shall deposit its opinions on 11 September 2008;
- (ii) amended the order of the Lazio TAR, denying the motion for precautionary suspension of the effectiveness of the orders of revocation of the Convention of 15 October 1991.

Moreover, in April 2007 TAV S.p.A. sent the Consortium a letter containing a claim for the repayment of the advance granted and the related interest accrued up to the payment date (EUR 7,165,840) and for the delivery of all the project documents presented during the Convention period. This claim has been dropped (and not reiterated), pending the decision of the Court of Justice.

However, the effect of the repayment of the advances, if any, would have effects on cash flow only and not on earnings, since they have been recorded as payables to the customer.

9.19 Severance pay and other employee liabilities

The amount and the changes in the severance pay provision and the defined-benefit pension plans are reported below:

| <i>(EUR 000)</i> | <u>30.06.2008</u> | <u>31.12.2007</u> |
|--------------------------------|----------------------|----------------------|
| Severance pay provision | 21,532 | 22,463 |
| Defined-benefit pension plans | 7,696 | 8,010 |
| Other provisions for personnel | 785 | 841 |
| Total | <u>30,013</u> | <u>31,314</u> |

| <i>(EUR 000)</i> | Severance pay obligations | | Defined-benefit plans | |
|---------------------------------------|----------------------------------|----------------------|------------------------------|---------------------|
| | <u>30.06.2008</u> | <u>31.12.2007</u> | <u>30.06.2008</u> | <u>31.12.2007</u> |
| Present value of obligations | 22,463 | 22,463 | 8,851 | 8,851 |
| Fair value of the plan's assets | (803) | - | 136 | - |
| Unrecognised actuarial gains/(losses) | (128) | - | (506) | - |
| Total | <u>21,532</u> | <u>22,463</u> | <u>8,481</u> | <u>8,851</u> |

| <i>(EUR 000)</i> | Severance pay provision | Defined-benefit plans |
|--------------------------------------|--------------------------------|------------------------------|
| Balance at 31 December 2007 | <u>22,463</u> | <u>8,851</u> |
| Change in the scope of consolidation | - | - |
| Costs for the period | 493 | 362 |
| Contributions paid | (1,309) | (170) |
| Other movements | 13 | (56) |
| Actuarial gains/(losses) in equity | (128) | (506) |
| Balance at 30 June 2008 | <u>21,532</u> | <u>8,481</u> |

The amount recognised in the income statement breaks down as follows:

| <i>(EUR 000)</i> | Severance pay provision | | Defined-benefit plans | |
|---|--------------------------------|---------------------|------------------------------|-------------------|
| | <u>30.06.2008</u> | <u>30.06.2007</u> | <u>30.06.2008</u> | <u>30.06.2007</u> |
| Costs for services | 48 | 59 | 171 | (24) |
| Interest costs | 445 | 801 | 191 | 183 |
| Curtailement effect | - | 1,846 | - | - |
| Actuarial gains/(losses) recognised during the period | (128) | 8 | (506) | - |
| Total | <u>365</u> | <u>2,714</u> | <u>(144)</u> | <u>159</u> |

The main actuarial assumptions are as follows:

| | Severance pay provision | | Defined-benefits plans | |
|--------------------------|--------------------------------|-------------------|-------------------------------|-------------------|
| | <u>30.06.2008</u> | <u>30.06.2007</u> | <u>30.06.2008</u> | <u>30.06.2007</u> |
| Discount rate (annual) | 4.47% | 3.53% - 3.50% | 4.47% | 4.16% |
| Rate of salary increases | 2.27% | 2.6% - 5.4% | 2.27% | 1.59% - 4.19% |
| Rate of turnover | 3.35% | 2.93% - 3.88% | 3.35% | - |

The severance pay provision (trattamento di fine rapporto) in Italy calls for the payment of the entitlement accumulated by employees until the time they leave the company under Art. 2120 of the Italian Civil Code. Law no. 296 of 27 December 2006 (“2007 Finance Act”) and subsequent Decrees and Regulations issued in early 2007, as part of the reform of the supplementary pension system, significantly changed the working of this institute, providing for (in case of companies with more than 50 employees) the transfer of the severance pay accrued after the date of the Reform to the supplementary pension schemes or to the treasury fund managed by INPS.

In line with the recognition of this effect, the Group decided to modify the recognition criteria for actuarial gains/losses, as largely explained in paragraph 2.5.1 “Adoption of the Equity Method”, thus abandoning the corridor method under which actuarial gains/losses were recognised in the income statement in compliance with the specific regulations and over a longer period in favour of the equity method under which the actuarial components are recognised directly and entirely in shareholders’ equity, net of the related deferred tax effect.

In reviewing the overall treatment of defined-benefit plans, changes were also made to the criteria for presenting interest costs, which were no longer recognised under cost of labour, but rather under financial costs since 1 January 2006. As provided by IAS 8 “Accounting policies, changes in accounting estimates and errors”, the Group applied the method retrospectively, also modifying the comparative data presented.

9.20 Other current and non-current liabilities

| <i>(EUR 000)</i> | <i>30.06.2008</i> | | <i>31.12.2007</i> | |
|--|-------------------|--------------|-------------------|--------------|
| | Current | Non-current | Current | Non-current |
| Due to employees | 33,672 | 4,187 | 25,915 | 3,979 |
| Deferred income | 280 | - | 1,689 | - |
| Payables for indirect taxes and other amounts due to tax authorities | 4,675 | - | 9,342 | - |
| Payables to social security institutions | 14,745 | - | 13,476 | - |
| Other payables to other third parties | 21,692 | 4,576 | 23,878 | 5,248 |
| Total other liabilities to third parties | 75,064 | 8,763 | 74,300 | 9,227 |
| Other liabilities to related parties | 4,806 | - | 4,806 | - |
| Total | 79,870 | 8,763 | 79,106 | 9,227 |

Other current and non-current liabilities towards third parties came to EUR 83,827 thousand, an increase of EUR 300 thousand (EUR 83,527 thousand at 31 December 2007). This change is mainly ascribable to:

- an increase of “due to employees” for EUR 7,965 thousand (attributable to the Signalling Business Unit for EUR 4,953 thousand, to the Transport Systems Business Unit for EUR 2,402 thousand and to the Group parent Ansaldo STS S.p.A. for EUR 5,164 thousand) for amounts owing accrued during the period;
- the consequent increase of payables to social security institutions for EUR 1,269 thousand;
- the reduction in payables for indirect taxes for EUR 4,667 thousand (attributable for EUR 3,406 thousand to the Signalling Business Unit, for EUR 897 thousand to the Transport Systems Business Unit and for EUR 364 thousand to the parent company Ansaldo STS S.p.A.);
- the decrease in other payables for EUR 2,858 thousand mainly generated by lower payables for research subsidies of the Signalling Business Unit;
- the reduction in deferred income for EUR 1,409 thousand entirely referable to the Signalling Business Unit.

9.21 Trade payables

| <i>(EUR 000)</i> | <u>30.06.2008</u> | <u>31.12.2007</u> |
|-------------------------------|-----------------------|-----------------------|
| Due to suppliers | 166,585 | 174,725 |
| Total due to suppliers | <u>166,585</u> | <u>174,725</u> |
| Due to related parties | 15,169 | 19,784 |
| Total | <u>181,754</u> | <u>194,509</u> |

Trade payables to third parties decreased by EUR 8,140 thousand mainly attributable to the Signalling Business Unit, specifically the Italian subsidiary Ansaldo Segnalamento Ferroviario S.p.A. due to recognitions made in the final months of the year.

Trade payables to related parties fell by EUR 4,615 thousand due to lower payables towards Selex Communications and Elsas Datamat.

9.22 Derivatives

The table below details the asset and liability positions related to derivative instruments.

| <i>(EUR 000)</i> | <u>30.06.2008</u> | | <u>31.12.2007</u> | |
|--|-------------------|----------------------|-------------------|---------------------|
| | <u>Assets</u> | <u>Liabilities</u> | <u>Assets</u> | <u>Liabilities</u> |
| Forward instruments and cross-currency swaps | 195 | 15,805 | 211 | 9,982 |
| Total | <u>195</u> | <u>15,805</u> | <u>211</u> | <u>9,982</u> |

Derivatives

In general, the Group uses derivative instruments as part of hedging strategies to mitigate the risk of variations in the fair value of assets or liabilities recognised or arising from contractually-defined obligations (fair value hedge) or the risk of expected cash flow variations relating to contractually-defined or highly probably operations (cash flow hedge).

The effectiveness of hedging operations is recorded at the start of the operation and regularly thereafter (at a minimum on the date of publication of the annual or interim financial statements) and is measured by comparing the changes in fair value of the hedging instrument with those of the underlying (dollar offset ratio) or, in the case of more complex instruments, through a statistical analysis based on variation of risk.

Fair Value Hedge

The changes in the value of derivatives identified as fair value hedges and that meet the requirements for being identified as such, are recognised in the income statement, as are changes in the fair value of the underlying assets or liabilities attributable to the risk neutralised through the use of hedging.

Cash Flow Hedge

The variations in the fair value of derivatives identified and qualifying as cash flow hedges are recognised, to the extent of the effective portion, in a special equity reserve (the “cash flow hedge reserve”). This reserve is reversed to the income statement when the economic effects of the underlying materialise. The changes in fair value relating to the ineffective portion are immediately recognised in the income statement for the period. If the instrument is sold or no longer qualifies as an effective hedge against the relevant risk or if the underlying operation is not longer considered highly probably, the relative portion of the “cash flow hedge reserve” is immediately reversed to the income statement.

Determination of fair value

At 30 June 2008, the Ansaldo STS Group did not hold listed derivative instruments. The fair value of non-listed derivative instruments is measured with reference to the financial valuation techniques. Specifically, the fair value of currency swaps and forwards is calculated based on the market exchange rate at the reference date and the rate differentials between the relevant currencies. The fair value of swaps is calculated by discounting future cash flows using market parameters.

Hedging transactions are carried out predominantly with the banking system. At 30 June 2008, the Group had contracts referring to various currencies in the following notional amounts:

| <i>(EUR 000)</i> | <i>30.06.2008</i> | <i>31.12.2007</i> |
|-------------------|-------------------|-------------------|
| Euro | 150,503 | 102,683 |
| US dollar | 75,234 | 69,653 |
| GBP | 4,190 | 7,109 |
| Swedish krona | 37,444 | 41,510 |
| Canadian dollar | 18,939 | 23,016 |
| Australian dollar | 19,738 | 35,262 |
| Hong Kong dollar | 6,495 | N.A. |

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

9.23 Guarantees and other commitments

Lease

The Group holds a number of operating leases for the purposes of acquiring the use of tangible assets. The minimum future payments are as follows:

| <i>(EUR 000)</i> | <u><i>Operating leases</i></u> | <u><i>Finance leases</i></u> |
|-------------------|------------------------------------|------------------------------|
| Within 1 year | 8,234 | 4 |
| 2 to 5 years | 16,871 | 33 |
| More than 5 years | 11,002 | - |
| | <u>36,107</u> | <u>37</u> |

Guarantees

At 30 June 2008, the Group had the following outstanding guarantees:

| Direct guarantees and indemnities issued by third parties on behalf of the Group in favour of customers and other third parties | Signalling Business Unit | Transport Systems Business Unit | Total |
|---|---------------------------------|--|--------------------------|
| <i>(EUR 000)</i> | | | |
| Personal guarantees issued by Finmeccanica (Parent Company Guarantees) and Finmeccanica Finance S.A. (advance payment bonds, performance bonds, retention money bonds) in favour of customers | 466.42 | 89,009.90 | 89,476.32 |
| Personal guarantees issued by Ansaldo STS and Ansaldo Signal NV (Parent Company Guarantees), in favour of customers | 123,737.25 | 1,377.82 | 125,115.07 |
| Sureties and bonds (advance payment bonds, performance bonds, bid bonds, retention bonds) issued by credit institutions or insurance companies in favour of customers | 423,652.81 | 547,155.40 | 970,808.21 |
| <i>of which: counter-guaranteed by Finmeccanica</i> | <i>61,024.54</i> | <i>183,488.60</i> | <i>244,513.14</i> |
| <i>of which: counter-guaranteed by Ansaldo STS</i> | <i>46,617.70</i> | <i>60,190.80</i> | <i>106,808.50</i> |
| Direct guarantees and indemnities by Finmeccanica and Ansaldo STS, credit institutions or insurance companies in favour of other third parties for non-contractual guarantees | 14,361.62 | 7,973.20 | 22,334.82 |
| <i>of which: issued or counter-guaranteed by Finmeccanica</i> | <i>3,088.51</i> | <i>7,973.20</i> | <i>11,061.71</i> |
| <i>of which: issued or counter-guaranteed by Ansaldo STS</i> | <i>-</i> | <i>-</i> | <i>-</i> |
| Total | 562,218.10 | 645,516.32 | 1,207,734.42 |

10 NOTES TO THE INCOME STATEMENT

10.1 Transactions with related parties

Below are all transactions with related parties of the Group for the first half of 2008 and 2007:

| <u>30 June 2008</u> | Revenues | Other operating income | Costs | Financial income | Financial costs | Other operating costs |
|------------------------------------|---------------|------------------------|---------------|------------------|-----------------|-----------------------|
| (EUR 000) | | | | | | |
| <u>Parent Company</u> | | | | | | |
| Finmeccanica S.p.A. | - | - | 873 | 4 | 105 | - |
| <u>Subsidiaries</u> | | | | | | |
| Alifana S.c.r.l. | - | - | 488 | - | - | - |
| Alifana Due S.c.r.l. | 1,553 | - | 3,694 | - | - | - |
| <u>Associated companies</u> | | | | | | |
| I.M. Intermetro S.p.A. | 328 | - | - | - | - | - |
| Metro 5 | 2,390 | 41 | 445 | - | - | - |
| Pegaso S.c.r.l. | 111 | - | 3,235 | - | - | - |
| <u>Consortia</u> | | | | | | |
| Saturno | 49,012 | - | 2,434 | - | - | - |
| Ascosa quattro | 43 | - | - | - | - | - |
| Team | 16 | - | - | - | - | - |
| Cons. Ferrov. SanGiorgio Volla Due | 1,285 | - | 30 | - | - | - |
| Cons. Ferroviario Vesuviano | 1,245 | - | - | - | - | - |
| Cesit | - | - | 81 | - | - | - |
| Cons. Ferrov. SanGiorgio Volla | 132 | - | - | - | - | - |
| <u>Other Group companies</u> | | | | | | |
| Ansaldo Energia | - | 3 | - | - | - | - |
| Ansaldo Breda | 5,202 | 12 | 1,738 | - | - | - |
| Fata Logistic | - | - | 954 | - | - | - |
| Finmeccanica Finance | - | - | 28 | 2,194 | - | - |
| Finmeccanica Group Service | - | - | 291 | - | - | - |
| Elsag Datamat | - | 142 | 3,281 | - | - | - |
| HR Gest | - | - | 245 | - | - | - |
| Selex Communication | - | - | 2,989 | - | - | - |
| Sogepa | - | - | - | - | - | - |
| Electron Italia S.r.l. | - | - | 1 | - | - | - |
| Selex Sistemi integrati Ltd | - | - | - | - | - | - |
| Metro S.p.a. | - | - | - | - | - | - |
| Oto Melara S.p.A. | - | 1 | - | - | - | - |
| Total | 61,317 | 199 | 20,807 | 2,198 | 105 | - |

30 June 2007

(EUR 000)

| | Revenues | Other operating income | Costs | Financial income | Financial costs | Other operating costs |
|-------------------------------------|-----------------|-------------------------------|---------------|-------------------------|------------------------|------------------------------|
| <u>Parent Company</u> | | | | | | |
| Finmeccanica S.p.A. | - | - | 952 | 3,045 | 86 | - |
| <u>Subsidiaries</u> | | | | | | |
| Alifana S.c.r.l. | - | - | 72 | - | - | - |
| Alifana Due S.c.r.l. | 2,877 | - | 4,239 | - | - | - |
| <u>Associated companies</u> | | | | | | |
| I.M. Intermetro S.p.A. | 127 | - | - | - | - | - |
| Metro 5 S.p.A. | 484 | - | (43) | - | - | - |
| Pegaso S.c.r.l. | 130 | - | 2,143 | - | - | - |
| <u>Consortia</u> | | | | | | |
| Saturno | 37,352 | - | 1,394 | - | - | - |
| Ascosa quattro | 115 | - | 41 | - | - | - |
| Team | 37 | - | 26 | - | - | - |
| Cons. Ferrov. SanGiorgio Volla Due | 66 | 853 | - | - | - | - |
| Cons. Ferroviario Vesuviano | 873 | - | - | - | - | - |
| Cesit | - | - | 14 | - | - | - |
| Cons. Ferrov. SanGiorgio Volla | 166 | - | - | - | - | - |
| <u>Other Group companies</u> | | | | | | |
| Mecfin | - | 56 | 144 | - | - | - |
| Ansaldo Energia | - | - | (1) | - | - | - |
| Ansaldo Breda | 5,546 | 71 | 1,994 | - | - | - |
| Fata Logistic | - | 1 | 937 | - | - | - |
| Finmeccanica Finance | - | - | 42 | - | - | - |
| Elsag Spa | - | 247 | 3,327 | - | - | - |
| Elsag Gest | - | - | - | - | - | - |
| Ote Spa | - | - | 3,555 | - | - | - |
| Sogepa | - | - | 19 | - | - | - |
| Electron Italia S.r.l. | 634 | - | - | - | - | - |
| Selex sistemi integrati Ltd | - | 122 | - | - | - | - |
| Total | 48,407 | 1,350 | 18,855 | 3,045 | 86 | - |

10.2 Revenues

| | <u>30.06.2008</u> | <u>30.06.2007</u> |
|--------------------------------------|-------------------|-------------------|
| <i>(EUR 000)</i> | | |
| Revenues from sales | 226,039 | 387,548 |
| Revenues from services | 20,716 | 134,555 |
| | <u>246,755</u> | <u>522,103</u> |
| Change in work in progress | 194,489 | (109,177) |
| Revenues from third parties | <u>441,244</u> | <u>412,926</u> |
| Revenues from related parties | <u>61,317</u> | <u>48,407</u> |
| Total revenues | <u>502,561</u> | <u>461,333</u> |

Revenues from third parties amounted to EUR 441,244 thousand at 30 June 2008 over EUR 412,926 thousand at 30 June 2007, with an increase of EUR 28,318 thousand (+6.86%).

Revenues from related parties increased by EUR 12,910 thousand over the previous period.

10.3 Other operating income

| | <u>30.06.2008</u> | <u>30.06.2007</u> |
|--|-------------------|-------------------|
| <i>(EUR 000)</i> | | |
| Grants for research and development | 445 | 820 |
| Gains on disposal of tangible and intangible assets | 10 | 17 |
| Reversal of provision for doubtful accounts | 1 | - |
| Reversal of provisions for risks and charges | 1,517 | 2,549 |
| Insurance reimbursements | 1,706 | 2 |
| Royalties | 1,188 | 1,960 |
| Financial income and foreign-exchange gains on operating items | 373 | 138 |
| Other operating income | 1,000 | 818 |
| Other income from third parties | <u>6,240</u> | <u>6,304</u> |
| Other income from related parties | <u>199</u> | <u>1,350</u> |
| Total | <u>6,439</u> | <u>7,654</u> |

Other income from third parties fell by EUR 64 thousand as show in the table above.

Other income from related parties decreased by EUR 1,151 thousand compared with the previous year mainly due to income of miscellaneous nature recorded at June 2007 towards the SanGiorgio Volla Due Consortium.

10.4 Purchase and purchase of services

| <i>(EUR 000)</i> | <u>30.06.2008</u> | <u>30.06.2007</u> |
|---|------------------------------|------------------------------|
| Materials | 118,454 | 129,276 |
| Change in inventories | (2,800) | (9,973) |
| Services | 176,420 | 142,631 |
| Rent and operating leases | <u>7,295</u> | <u>6,132</u> |
| Total purchase and purchase of services from third parties | <u>299,369</u> | <u>268,066</u> |
| Total purchase and purchase of services from related parties | <u>20,807</u> | <u>18,855</u> |
| Total purchase and purchase of services | <u><u>320,176</u></u> | <u><u>286,921</u></u> |

Purchase and purchase of services from third parties increased by EUR 31,303 thousand (+11.67%) over 2007 due to higher service, rental and leasing costs incurred by the Group during the period by both units equal to EUR 34,952 thousand. Purchases of raw materials fell by EUR 3,649 thousand largely attributable to the Signalling Business Unit, specifically the Italian subsidiary Ansaldo Segnalamento Ferroviario S.p.A., due to lower volumes of production.

It should also be noted that the increase in Purchase and purchase of services from related parties came to EUR 1,952 thousand as a result of higher purchasing costs by Cons. Pegaso, Alifana Due and Elsag Datamat.

10.5 Cost of labour

| <i>(EUR 000)</i> | <u>30.06.2008</u> | <u>30.06.2007</u> |
|--|-----------------------|-----------------------|
| Payroll | 100,947 | 89,002 |
| Costs for stock grant plans | 1,116 | 1,839 |
| Pension and social security | 26,036 | 26,153 |
| Severance pay provision costs | 48 | 1,913 |
| Costs relating to other defined-benefit plans | 171 | (24) |
| Costs relating to defined-contribution plans | 1,059 | 2,184 |
| Restructuring costs and other incentive departures | 1,383 | - |
| Other costs | 3,242 | 6,608 |
| Recharge of the cost of labour | <u>(300)</u> | <u>(136)</u> |
| Total cost of labour | <u>133,702</u> | <u>127,539</u> |

The workforce at 30 June 2008 came to 4,264, an increase of 103 over the 4,161 units reported in the previous year and is broken down as follows:

- Signalling Business Unit: 3,845 employees
- Transport Systems Business Unit: 361 employees
- Other activity (Corporate): 58 employees

Cost of labour at 30 June 2008 came to EUR 133,702 thousand, compared with EUR 127,539 thousand for the same period of 2007; the increase of EUR 6,163 thousand is due to the increase in the average size of the Group workforce, which went from 4037 employees in 2007 to 4218 employees in 2008.

The average cost per employee for 2008, equal to EUR 63.4 thousand, is in line with that recorded in the previous year (EUR 63.2 thousand). This alignment is partly due to the existing cost containment policies and partly to the shifting of the Group's workforce towards countries with lower labour costs.

The cost of the stock grants is recognised in the year in which the services are rendered, therefore it regards the shares relating to the 2008 targets which will be delivered in December 2009 following verification that these targets have been achieved.

This cost is calculated on the basis of the estimated number of shares to be granted and the fair value at the date of approval by the Shareholders' Meeting on 1 April 2008; it came to EUR 8.60 per share.

The severance pay provision costs and the costs for the other defined-benefit plans relate only to purchase of services since, as a result of the adoption of the equity method, interest costs are now classified under "net financial costs".

As shown in the table relative to the cost of labour, we should report that the restructuring costs recorded at 30 June 2008 refer to the "Reorganization Plan" carried out by the American subsidiary Union Switch & Signal Inc of the Signalling Business Unit, which aims at a rationalization of the production structure in the Batesburg factory.

10.6 Amortization, depreciation and writedowns

| <i>(EUR 000)</i> | <u>30.06.2008</u> | <u>30.06.2007</u> |
|--|---------------------|---------------------|
| Amortization and Depreciation | | |
| - Amortization of intangible assets | 1,213 | 662 |
| - Depreciation of tangible assets | 3,746 | 3,954 |
| | <u>4,959</u> | <u>4,616</u> |
| Writedowns: | | |
| - operating receivables | 58 | 78 |
| - other assets | - | - |
| | <u>58</u> | <u>78</u> |
| Total amortization, depreciation and writedowns | <u>5,017</u> | <u>4,694</u> |

Amortization and Depreciation increased in the period by EUR 343 thousand compared with the corresponding period in the previous financial year. This is mainly attributable to the Signalling Business Unit with an increase of EUR 303 thousand as a result of the greater amortization linked to the introduction of the SAP system by the American subsidiary Union Switch & Signal. Amortization and Depreciation for the period came

to EUR 4,959 thousand (EUR 4,616 thousand in the same 2007 period) and are described more fully in the sections relating to tangible and intangible assets.

Writedowns, equal to EUR 58 thousand, refer to trade receivables and are ascribable to the Signalling Business Unit.

10.7 Other operating costs

| <i>(EUR 000)</i> | <u>30.06.2008</u> | <u>30.06.2007</u> |
|--|---------------------|---------------------|
| Allocations to provisions for risks and charges | 847 | 3,126 |
| Losses on disposal of receivables | 432 | - |
| Association dues | - | 347 |
| Capital loss on the disposal of tangible and intangible assets | 20 | 12 |
| Foreign exchange charges on realization of operating items | 15 | - |
| Exchange rate alignment on operating items | 195 | - |
| Interest and other operating costs | 25 | 401 |
| Indirect taxes | 2,153 | 1,742 |
| Other operating costs | 900 | 1,442 |
| Total other operating costs from third parties | <u>4,587</u> | <u>7,070</u> |
| Total other operating costs from related parties | <u>-</u> | <u>-</u> |
| Total other operating costs | <u>4,587</u> | <u>7,070</u> |

Other operating costs from third parties decreased by EUR 2,483 thousand from EUR 7,070 thousand at 30 June 2007 to EUR 4,587 thousand at 30 June 2008.

The largest source of this change is attributable to the lower provisions by the Signalling Business Unit for guarantees given and contractual obligations.

10.8 Capitalized costs for internally produced assets

| <i>(EUR 000)</i> | <u>30.06.2008</u> | <u>30.06.2007</u> |
|--|-------------------|-------------------|
| Capitalized costs for internally produced assets | <u>238</u> | <u>167</u> |

Capitalized costs relate to the Signalling Business Unit and are primarily attributable to the French subsidiary Ansaldo STS France concerning the costs for internally produced tangible and intangible assets (staff, materials, services).

10.9 Net financial income/(costs)

| <i>(EUR 000)</i> | <i>30.06.2008</i> | | | <i>30.06.2007</i> | | |
|--|-------------------|--------------|----------------|-------------------|--------------|----------------|
| | Income | Costs | Net | Income | Costs | Net |
| Dividends | - | - | - | 339 | - | 339 |
| Interest and commissions | 1,345 | 1,437 | (92) | 835 | 1,091 | (256) |
| Exchange-rate differences | 2,337 | 4,804 | (2,467) | 2,193 | 3,010 | (817) |
| Income from fair-value measurement recognised in income statement | 1,240 | 8 | 1,232 | 12 | 44 | (32) |
| Interest on severance pay provision | - | 445 | (445) | - | 984 | (984) |
| Interest on other defined-benefit plans | - | 191 | (191) | - | - | - |
| Other financial income (costs) | 100 | 1,076 | (976) | 25 | 284 | (259) |
| Total financial income (costs) from third parties | 5,022 | 7,961 | (2,939) | 3,404 | 5,413 | (2,009) |
| Total financial income (costs) from related parties | 2,198 | 105 | 2,093 | 3,045 | 86 | 2,959 |
| Effect of valuation of equity investments with the net equity method | - | 23 | (23) | - | - | - |
| Total financial income (costs) | 7,220 | 8,089 | (869) | 6,449 | 5,499 | 950 |

Financial costs totalled EUR 869 thousand at 30 June 2008 compared with financial income of EUR 950 thousand recorded at 30 June 2007. The variation of EUR 1,819 thousand is mainly ascribable to the increase in financial costs as a result of the recording of the exchange-rate differences of the Indian subsidiary of the Asia/Pacific region (Signalling Business Unit).

As the data in the table shows, as a result of the adoption of the equity method in recognising defined-benefit plans, interest costs are now classified under net financial income (costs) and no longer under cost of labour.

10.10 Effect of valuations using the equity method

The effect of valuations using the equity method (EUR 23 thousand) relates to Ecosen C.A., the Venezuelan subsidiary of Ansaldo STS France, belonging to the Signalling Business Unit, for EUR 22 thousand, the revaluation of Int. Metro Service for EUR 1 thousand and the writedown of Metro 5 S.p.A. for EUR 2 thousand.

10.11 Income taxes

Income taxes break down as follows:

| <i>(EUR 000)</i> | <u>30.06.2008</u> | <u>30.06.2007</u> |
|--------------------------------------|----------------------|----------------------|
| IRES (corporate income tax) | 13,235 | 18,282 |
| IRAP (regional tax on productivity) | 2,955 | 4,203 |
| Gains from consolidation | (776) | (1,610) |
| Other income tax (foreign companies) | 2,260 | 280 |
| Taxes relating to previous years | 331 | 2 |
| Provisions for disputes over taxes | 300 | 80 |
| Net deferred taxes | 550 | (2,822) |
| Total | <u>18,855</u> | <u>18,415</u> |

Income taxes showed an increase of EUR 440 thousand mainly attributable to higher taxes due by Ansaldo STS France, French subsidiary of the Signalling Business Unit for EUR 2,975 thousand.

The increase in taxes recorded on the foreign company was on the other hand offset by the positive effects deriving from the application of the new tax rates fixed in Italy by the 2008 Finance Law, and by the gains from consolidation (EUR 776 thousand) recorded by the Group parent Ansaldo STS S.p.A. as a result of the election to use the Consolidated Taxation Mechanism for the Group's Italian subsidiaries (Ansaldo Segnalamento Ferroviario S.p.A. and Ansaldo Trasporti e Sistemi Ferroviari S.p.A.) which made it possible to offset the profits generated by the Italian subsidiaries with the tax losses generated in the first semester of 2008 by Ansaldo STS S.p.A.

This tax loss arises from the fact that, although the Group Parent ended the period with a significant before-tax profit (EUR 10,005 thousand), the dividends received from the subsidiary Ansaldo Trasporti e Sistemi Ferroviari S.p.A. (EUR 14,544 thousand) have been 95% untaxed, in accordance with Art. 89 of TUIR.

As already said, we took into consideration the new tax rates fixed by the 2008 Finance Law (Law 244/2007), which reduced the corporate income tax (IRES) rate from 33% to 27.5% and the regional business tax (IRAP) rate from 4.25% to 3.9%.

We also report that the subsidiary ASF availed itself of the opportunity (introduced by 2008 Finance Law as well) to recognize for tax purposes the “extra-accounting” deductions made in prior years in the EC Form (pursuant to Art. 109, paragraph 4, letter b) of TUIR).

This operation concerned exclusively the accelerated depreciation and the depreciation calculated on a monthly basis (in fact, it was not considered advantageous to recognize for tax purposes the extra-accounting deductions relating to severance pay provision, provision for doubtful accounts and goodwill, since the reversal of these items is not easily placeable in specific time periods).

The overall “freed-up” amount is equal to EUR 3,328 thousand and resulted in the payment (in three annual instalments, the first thereof – equal to 40% of the overall amount – was due on 16 June 2008) of the substitute tax at 12%, for a total amount of EUR 399 thousand.

The recognition for tax purposes of the accelerated depreciation and the depreciation on a monthly basis, deducted in prior years declarations, also resulted in the reversal of deferred taxes for EUR 1,053 thousand.

Below is the analysis of the difference between the theoretical tax rate and the effective tax rate:

| <i>(EUR 000)</i> | <u>30.06.2008</u> | | <u>30.06.2007</u> | | |
|---|----------------------|---------------|----------------------|---------------|--------------|
| | <u>Amount</u> | <u>%</u> | <u>Amount</u> | <u>%</u> | |
| Result before taxes | 49,968 | | 46,774 | | |
| Tax calculated at the applicable tax rate | 13,741 | 27.5% | 15,435 | 33.0% | |
| Permanent differences | 3,425 | 942 | (3,328) | (919) | -2.0% |
| | 53,393 | 14,683 | 43,446 | 14,516 | 31.0% |
| IRAP and other taxes calculated on a basis other than the result before taxes | 3,541 | 7.1% | 3,817 | 8.2% | |
| Prior years' taxes | 331 | 0.7% | 2 | 0.0% | |
| Provisions for disputes over taxes | 300 | 0.6% | 80 | 0.2% | |
| Total effective taxes carried to income statement | <u>18,855</u> | 37.7% | <u>18,415</u> | 39.4% | |

The effective tax rate decreased from 39.4% in the first half of 2007 to 37.7% in the first half of 2008.

It should be reported that the improvement of the above-mentioned tax rate is mainly due to the reduction of the IRES and IRAP tax rates on the Italian companies, following the modifications introduced by the 2008 Finance Law, as previously said.

Deferred taxes and the related receivables and payables at 31 December 2007 were generated by the following temporary differences:

| <i>(EUR 000)</i> | <u>Income Statement</u> | | <u>Balance Sheet</u> | |
|---|-------------------------|--------------------|----------------------|---------------------|
| | <u>Assets</u> | <u>Liabilities</u> | <u>Assets</u> | <u>Liabilities</u> |
| Severance pay provision, pension funds | 84 | - | 3,137 | 824 |
| Remuneration | 619 | - | 3,029 | - |
| Goodwill | - | 450 | - | 734 |
| Tangible and intangible assets | (71) | (995) | 1,202 | 1,106 |
| Provisions for risks and charges | (174) | - | 14,080 | - |
| Research subsidies | (9) | (11) | 31 | 44 |
| Inventories and work in progress | (306) | - | 1,074 | - |
| Cash Flow Hedge – defined-benefit plans | - | - | 6,507 | 631 |
| Past losses | (35) | - | 12,453 | - |
| Stock grants | 155 | - | 1,056 | - |
| Other | (384) | 984 | 1,211 | 3,608 |
| Total | <u>(121)</u> | <u>428</u> | <u>43,780</u> | <u>6,947</u> |

Deferred tax assets deriving from the recording of “Provisions for risks and charges” are mainly attributable to the Group parent Ansaldo STS (EUR 5,058 thousand) and to the subsidiaries Union Switch & Signal Inc. (EUR 5,409 thousand) and Ansaldo STS France (EUR 2,535 thousand).

With reference to the deferred tax assets recognized on “tax losses relative to previous years”, the same mainly derive from the American subsidiary Union Switch & Signal Inc. (for EUR 11,402 thousand) and from the subsidiaries of the Asia/Pacific region (EUR 1,051 thousand).

Deferred tax assets and liabilities include deferred taxes accounted for, with direct counterpart in equity, on derivative instruments recognised with the “cash-flow hedge” method and on actuarial losses/gains as a result of the adoption of the equity method for defined-benefit plans. The movement for the period of this equity item is as follows:

| | <u>31.12.2007</u> | <u>Reversal to the income statement</u> | <u>Fair value adjustments</u> | <u>Other changes</u> | <u>30.06.2008</u> |
|---|-------------------|---|-----------------------------------|--------------------------|-------------------|
| Deferred taxes recognised directly in equity | <u>3,762</u> | <u>-</u> | <u>2,439</u> | <u>(1)</u> | <u>6,200</u> |

11 EARNINGS PER SHARE

Earnings per share (EPS) are calculated:

- by dividing the net profit attributable to the holders of ordinary shares by the average number of ordinary shares for the period, less treasury shares (*basic EPS*);
- by dividing the net result by the average number of ordinary shares and the shares that potentially result from the exercise of all the options under stock option plans, less treasury shares (*diluted EPS*).

| <i>Basic EPS</i> | <u>30.06.2008</u> | <u>30.06.2007</u> |
|-----------------------------------|--------------------|--------------------|
| Average shares during the period | 99,991,750 | 100,000,000 |
| Net profit | 31,113 | 28,359 |
| Profit from continuing operations | - | - |
| <i>Basic EPS and diluted EPS</i> | <u><u>0.31</u></u> | <u><u>0.28</u></u> |

12 CASH FLOW FROM OPERATING ACTIVITIES

The cash flow from operating activities is shown in the table below:

| <i>(EUR 000)</i> | <u>30.06.2008</u> | <u>31.12.2007</u> | <u>30.06.2007</u> |
|--|----------------------|-----------------------|----------------------|
| Net profit | 31,113 | 58,278 | 28,359 |
| Effect of valuing equity investments with the equity method | 23 | (90) | - |
| Income taxes | 18,855 | 45,582 | 18,415 |
| Costs of severance pay provision and other benefits | 219 | 973 | 4,712 |
| Costs for stock grant plans | 1,262 | 3,000 | - |
| Capital gains (losses) on disposals of real estate assets | 10 | - | (5) |
| Net financial income | 846 | (3,137) | (1,934) |
| Dividends | - | (339) | - |
| Amortization, depreciation and write-downs | (4,614) | 10,949 | 4,695 |
| Allocations to provisions for risks | 739 | 4,524 | 1,976 |
| Allocations for writedowns of inventories and work in progress | - | (7,445) | (13,426) |
| Total | <u>48,453</u> | <u>112,295</u> | <u>42,792</u> |

Changes in working capital, net of the effects deriving from the acquisitions and disposals of consolidated companies and translation differences, break down as follows:

| <i>(EUR 000)</i> | <u>30.06.2008</u> | <u>31.12.2007</u> | <u>30.06.2007</u> |
|---|------------------------|------------------------|----------------------|
| Inventories | (7,272) | (18,844) | (8,822) |
| Contract work in progress and advances from customers | (80,914) | (32,470) | (56,132) |
| Trade receivables and payables | 58,909 | 24,685 | 81,270 |
| Total | <u>(29,277)</u> | <u>(26,629)</u> | <u>16,316</u> |

Changes in other operating assets and liabilities, net of the effects deriving from the acquisitions and disposals of consolidated companies and translation differences, break down as follows:

| <i>(EUR 000)</i> | <u>30.06.2008</u> | <u>31.12.2007</u> | <u>30.06.2007</u> |
|--|--------------------------|--------------------------|--------------------------|
| Payment of the provision for severance pay and other defined-benefit plans | (1,466) | (3,594) | (1,666) |
| Taxes paid | (20,332) | (54,539) | (29,339) |
| Changes in other operating items | 7,430 | 17,151 | 8,707 |
| Total | <u>(14,368)</u> | <u>(40,982)</u> | <u>(22,298)</u> |

For the comment relating to the change in cash flow, please refer to paragraph 2.3 relative to the Groups' financial position.

13 FINANCIAL RISKS MANAGEMENT

The Group is exposed to the following financial risks associated with its operations, specifically:

- market risks, related to exchange rate risk in respect of operations in areas using currencies other than the functional currency and to the risk of changes in interest rates;
- liquidity risks, relating to the availability of financial resources and access to the credit market;
- credit risks, arising in respect of normal commercial transactions or financing activities.

The Group specifically monitors each of these financial risks, with the objective of promptly minimising them using a variety of tools, including hedging derivatives. This section explains how the Ansaldo STS Group manages these risks based on internal directives.

Management of exchange rate risk

As indicated in the “Treasury Management” directive, the management of exchange risk by the Ansaldo STS Group focuses on the achievement of the following objectives:

- to limit potential losses due to adverse fluctuations in the exchange rate with regard to the functional currency for Ansaldo STS and its subsidiaries. In this case, the losses are defined in terms of cash flow rather than in accounting terms;
- to limit expected or actual costs connected with the execution of exchange rate risk management policies.

Exchange rate risk is hedged only if it could have a substantial impact on cash flows in the functional currency.

The costs and the risks connected with a hedging policy (hedge, no hedge, or partial hedge) must be financially and commercially acceptable.

The following instruments may be used to hedge exchange rate risk:

- Forward foreign exchange purchases and sales: exchange rate forwards are the most widely used instruments for cash flow hedges;
- Currency swaps/cross currency swaps: when cash flows occur earlier or later than expected, the forwards are moved up or postponed using currency swaps;
- Foreign currency funding/lending: foreign currency funding and lending may be used to partially alter the currency of costs to obtain a natural hedge.

Using funding and lending in foreign currency as a hedging instrument must always be aligned with the overall treasury management and with the overall financial position of Ansaldo STS (long and short term). Generally, the purchase and sale of foreign currency is used in the case of exotic currencies where the capital market is not considered liquid or where alternative hedging instruments are not available or are only available at high costs.

Hedging of exchange rate risk

There are three types of exchange rate risk:

1. Economic risk - represented by the impact that currency fluctuations may have on capital budgeting decisions (investments, location of plants, procurement markets).

2. Transaction risk - the possibility that exchange rates could change during the period between the time at which a commitment to collect or pay in foreign currency at a future date (setting price lists, establishing budgets, preparing orders, invoicing) arises and the time at which such collection or payment occurs, thereby having a positive or negative impact on the exchange rate delta.
3. Translation risk - this relates to the impact that the translation of dividends or the consolidation of recognised assets and liabilities has on the financial statements of multinational companies whenever the consolidation exchange rates change from period to period.

The Ansaldo STS Group hedges transaction risks in accordance with the “Treasury Management” directive, which provides for the systematic hedging of commercial flows resulting from the assumption of contractual commitments that are certain or highly probable as either buyer or seller, thereby ensuring current exchange rates at the date of acquisition of long-term contracts and neutralising the effects of exchange rate fluctuations.

Cash flow hedges

Hedges are established at the time commercial contracts are finalized using plain vanilla instruments (swap and forwards) qualifying for hedge accounting under IAS 39. These hedges are carried as cash flow hedges. Accordingly, the changes in fair value of the hedging derivatives are recognised in a specific cash flow hedge reserve once the effectiveness of the hedge is demonstrated.

Should the hedges prove to be ineffective, i.e. they do not exceed the effective range of between 80-125%, changes in the fair value of the hedging instruments are immediately recognised in the income statement as financial items and the cash flow hedge reserve accumulated up until the date of the last successful effectiveness test is reversed to the income statement.

Fair value hedges

A fair value hedge involves the hedging of an exposure to changes in the fair value of a recognised asset or liability, an irrevocable unrecognised commitment or an identified

portion of such asset, liability or irrevocable commitment, attributable to a specific risk and that could affect the income statement.

The Group hedges against changes in fair value with regard to the exchange rate risk for assets and liabilities.

Hedging transactions are mainly carried out with banks. At 30 June 2008, the Group had contracts regarding various currencies in the following notional amounts:

| <u>(local currency in thousands)</u> | <u>30.06.2008</u> | <u>31.12.2007</u> |
|--------------------------------------|-------------------|-------------------|
| Euro | 150,503 | 102,683 |
| US dollar | 75,234 | 69,653 |
| GBP | 4,190 | 7,109 |
| Swedish krona | 37,444 | 41,510 |
| Canadian dollar | 18,939 | 23,016 |
| Australian dollar | 19,738 | 35,262 |
| Hong Kong dollar | 6,459 | N.A. |

At 30 June 2008 the net fair value of financial derivative instruments was a negative EUR 14,250 thousand.

Management of liquidity risk

In order to support efficient management of liquidity and contribute to the growth in its businesses, the Ansaldo STS Group has established a set of tools to optimise the management of financial resources. This objective was achieved by centralising treasury operations (cash pooling contracts with the Group companies) and maintaining an active presence on financial markets to obtain adequate short and medium-term credit lines. Within this context, Ansaldo STS has obtained short and long-term credit lines for endorsement facilities and for cash sufficient to meet the Group's needs.

At 30 June 2008 the Group had a net financial credit position of EUR 163,369 thousand, compared with a net financial credit position of EUR 184,521 thousand at 31 December 2007.

Management of interest rate risk

The aforementioned directive states that the goal of the management of interest rate risk is to lessen the negative impact of changes in interest rates, which may affect the company's income statement, the balance sheet and the weighted average cost of capital. Interest rate risk management by Ansaldo STS is designed to achieve the following objectives:

- to stabilize the weighted average cost of capital;
- to minimize the weighted average cost of capital of Ansaldo STS over the medium to long term. To achieve this objective, interest rate risk management will focus on the impact of interest rates on debt funding and equity funding;
- to optimise the profit on financial investments within a general profit-risk trade-off;
- to limit the costs relating to the execution of interest rate risk management policies, including the direct costs tied to the use of specific instruments and indirect costs relating to the internal organisation needed to manage such risk.

In 2008, the Group managed this risk without the use of the derivatives due to the short-term maturities of the payables. Thus, at 30 June 2008, the Group had no open hedge positions to reduce interest rate risk.

Credit risk management

The Group is not exposed to significant credit risk, both as regards the counterparties of its commercial transactions and for financing and investing activities. Its primary customers are, in fact, government entities or off-shoots of such entities, concentrated in the euro area, the United States and Southeast Asia. The typical customer rating of the Ansaldo Group is therefore medium/high. Despite this, in the case of contracts with customers/counterparties with which the Group does not ordinarily do business, the customers' solvency is assessed at the time of the offer to highlight any future credit risks.

The nature of Ansaldo's customers means that collection times are longer (in some countries significantly longer) than in other businesses, creating significant outstanding past due positions.

14 SIGNIFICANT NON-RECURRENT EVENTS AND TRANSACTIONS

The Ansaldo STS Group did not record any significant non-recurrent events and transactions in the first half of 2008.

15 ATYPICAL AND/OR UNUSUAL OPERATIONS

The Ansaldo STS Group was not involved in any positions or transactions arising from atypical and/or unusual operations in the first half of 2008.

16 SUBSEQUENT EVENTS

It should be reported that on 7 July 2008 Ansaldo STS, through a joint venture established between the subsidiary Ansaldo STS Malaysia and “Balfour Beatty Rail Sdn Bhd”, received from “MMC-Gamuda joint venture Sdn Bhd” an “Acceptance letter” to develop a project directed to the supply and put into operation of signalling, telecommunication and electrification systems for the new railway line, 330 Km long, which connects Ipoh to Padang Besar in North Malaysia.

The value of the portion of the project attributable to Ansaldo STS exceeds EUR 135 million. The order, whose total amount for the joint-venture is equal to EUR 390 million, is considered the most important awarded so far in the area for the realization of infrastructures of this type.

Ansaldo STS will be responsible for the supply of the signalling and telecommunication systems.

With the acquisition of this order, Ansaldo STS expands its presence in the Asia/Pacific region characterized by the highest growth rate in the inter-city and urban railway sector. In the region, Ansaldo STS has already acquired important contracts in China, India, South Korea, Bangladesh, Australia and Malaysia.

It should be also pointed out that on 11 July 2008 Ansaldo STS, through a consortium established between the subsidiary Union Switch & Signal Inc and the Portuguese company Portuguese Energy and Telecommunication Group EFACEC, was awarded an order by Companhia Paulista de Trens Metropolitanos for the supply of the new signalling, command and control, and telecommunication systems for Lines 7 and 12 of the Brazilian Metro in San Paolo.

The total counter-value of the contract is of USD 120 million and the portion attributable to Ansaldo STS is of 30%, equal to some USD 36 million. The Brazilian engineering company Trends will also participate in the project.

Ansaldo STS will be engaged in the production, supply and test of the microprocessors that enable the operation of the new signalling and control system of the two lines in the San Paolo metro. The new equipment will adopt the MicroLok[®] II technology.

17 NET FINANCIAL POSITION

The following information is provided in accordance with Consob Notice DEM/60644293 of 28 July 2006.

| <i>(EUR 000)</i> | <u>30.06.2008</u> | <u>31.12.2007</u> |
|---|-------------------------|-------------------------|
| A. Cash | 11,620 | 49 |
| B. Other cash equivalents (including bank current accounts) | 58,857 | 63,336 |
| C. Securities held for trading | | - |
| D LIQUIDITY (A+B+C) | <u>70,477</u> | <u>63,385</u> |
| E CURRENT FINANCIAL RECEIVABLES | <u>112,111</u> | <u>140,705</u> |
| F Current bank loans | 8,290 | 11,491 |
| G. Current portion of non-current debt | | - |
| H Other current financial payables | 4,252 | 1,110 |
| I CURRENT FINANCIAL DEBT (F+G+H) | <u>12,542</u> | <u>12,601</u> |
| J NET CURRENT FINANCIAL DEBT (I-E-D) | <u>(170,046)</u> | <u>(191,489)</u> |
| K Non-current bank loans | 4,101 | 4,371 |
| L. Bonds issued | - | - |
| M Other non-current payables | 2,576 | 2,597 |
| N NON-CURRENT FINANCIAL DEBT (K+L+M) | <u>6,677</u> | <u>6,968</u> |
| O NET FINANCIAL DEBT (LIQUIDITY) (J+N) | <u><u>(163,369)</u></u> | <u><u>(184,521)</u></u> |

18 OUTLOOK

Thanks to the commercial success achieved by the Transport Systems Business Unit and the good performance of orders in the Signalling Business Unit in the second half of the financial year 2007, the Group's order backlog has expanded compared with the same period of the previous year.

This has laid the foundation to develop in the course of the second half of 2008 production volumes at least in line with, if not higher than, the strong performance posted in 2007. The programmes and initiatives to boost efficiency in order to increase profitability will continue.

The signalling and transport systems markets are still growing overall, although in certain countries, such as Italy, a number of rail investment programmes are coming to their natural end. The Group is continuing to pursue opportunities in high-growth countries with substantial capacity for infrastructure investment, such as China, India and Russia, as shown by the recent acquisitions.

This year will also be characterised by the search for opportunities in the transport systems business around the world. This will be supported by the systems experience of Ansaldo Trasporti Sistemi Ferroviari S.p.A. and the presence of the subsidiaries of our Signalling Business Unit in the various markets.

Particular attention is given to managing the complexity of certain US&S contracts, deemed strategic due to their technological content.

The Company's positive financial situation allows us to closely monitor happenings in the sector in order to search for and select any investment opportunities in support of growth, analysing possible acquisitions or equity investments in companies offering a

complementary presence in new markets of interest to Ansaldo or which have a product portfolio that would expand the Group's existing range of solutions.

Genoa, 28 July 2008

On behalf of the Board of Directors
The Chairman

Alessandro Pansa

19 APPENDIX: LIST OF RELEVANT EQUITY INVESTMENT UNDER ARTICLE 125 OF CONSOB RESOLUTION NO. 11971

| <i>Subsidiary (name and legal form)</i> | <i>Country</i> | <i>% of total</i> | <i>% Indirect control</i> | <i>% Direct control</i> | <i>Through</i> | <i>Type of ownership (see key)</i> |
|--|----------------|-------------------|---------------------------|-------------------------|--|------------------------------------|
| Alifana -Limited-liability consortium | Italy | 65.850% | 65.850% | | Ansaldo Trasporti–Sistemi Ferroviari S.p.A | 1 |
| Alifana due -Limited-liability consortium | Italy | 53.340% | 53.340% | | Ansaldo Trasporti–Sistemi Ferroviari S.p.A | 1 |
| Automatismes Contrôles et Etudes Electroniques Acelec S.A. | France | 99.999% | 99.994% | | Ansaldo STS France S.A. | 1 |
| | | | 0.004% | | Ansaldo STS France S.A. | 9 |
| | | | 0.001% | | Ansaldo STS Hong Kong Ltd. | 1 |
| Ansaldo Segnalamento Ferroviario S.p.A. | Italy | 100.000% | 100.000% | | Ansaldo Trasporti Sistemi Ferroviari | 1 |
| Ansaldo STS Espana S.A. | Spain | 100.000% | 100.000% | | Ansaldo STS France S.A. | 1 |
| Ansaldo STS Finland OY | Finland | 100.000% | 100.000% | | Ansaldo STS Sweden AB | 1 |
| Ansaldo STS Ireland Ltd. | Ireland | 100.000% | 99.999% | | Ansaldo Signal NV | 1 |
| | | | 0.001% | | Union Switch & Signal Inc. | 1 |
| Ansaldo Signal NV in liquidation | Holland | 100.000% | | 100.000% | | 1 |
| Ansaldo STS Sweden AB | Sweden | 100.000% | 100.000% | | Ansaldo Signal NV | 1 |
| Ansaldo STS UK Ltd. | England | 100.000% | 100.000% | | Ansaldo Signal NV | 1 |
| Ansaldo Trasporti – Sistemi Ferroviari S.p.A. | Italy | 100.000% | | 100.000% | | 1 |
| Ansaldo STS Deutschland GmbH | Germany | 100.000% | 100.000% | | Ansaldo Segnalamento Ferroviario S.p.A. | 1 |
| Ansaldo STS Beijing Ltd. | China | 80.000% | 80.000% | | Ansaldo STS France S.A. | 1 |
| Ansaldo STS France S.A. | France | 100.000% | 99.999% | | Ansaldo Signal NV | 1 |
| | | | 0.001% | | Ansaldo Signal NV | 9 |
| Ansaldo STS Hong Kong Ltd. | China | 100.000% | 99.999% | | Ansaldo STS France S.A. | 1 |
| | | | 0.001% | | Ansaldo STS France S.A. | 9 |
| Ecosen S.A. | Venezuela | 48.000% | 48.000% | | Ansaldo STS France S.A. | 1 |
| I.M. Intermetro S.p.A. | Italy | 16.666% | 16.666% | | Ansaldo Trasporti –Sistemi Ferroviari S.p.A. | 1 |
| International Metro Service S.r.l. | Italy | 49.000% | 49.000% | | Ansaldo Trasporti –Sistemi Ferroviari S.p.A. | 1 |

| <i>Subsidiary (name and legal form)</i> | <i>Country</i> | <i>% of total</i> | <i>% Indirect control</i> | <i>% Direct control</i> | <i>Through</i> | <i>Type of ownership (see key)</i> |
|---|------------------|-------------------|---------------------------|-------------------------|--|------------------------------------|
| Metro 5 S.p.A. | Italy | 24.600% | 24.600% | | Ansaldo Trasporti –Sistemi Ferroviari S.p.A. | 1 |
| Metro C. S.c.p.a.. | Italy | 14.000% | 14.000% | | Ansaldo Trasporti –Sistemi Ferroviari S.p.A. | 1 |
| Pegaso-Limited-liability consortium | Italy | 46.870% | 46.870% | | Ansaldo Trasporti –Sistemi Ferroviari S.p.A. | 1 |
| Transcontrol Corporation | USA | 100.000% | 100.000% | | Union Switch & Signal Inc. | 1 |
| Transit Safety Research Alliance (no profit corporation) | USA | 100.000% | 100.000% | | Union Switch & Signal Inc. | 1 |
| Union Switch & Signal Chile Ltda. | Chile | 68.000% | 67.000% | | Transcontrol Corporation | 1 |
| | | | 1.000% | | Union Switch & Signal International Co. | 1 |
| Union Switch & Signal Inc. | Delaware -USA | 100.000% | 100.000% | | Ansaldo Signal NV | 1 |
| Union Switch & Signal Inc. Canada | Ontario - Canada | 100.000% | 100.000% | | Union Switch & Signal Inc. | 1 |
| Union Switch & Signal International Co. | Delaware -USA | 100.000% | 100.000% | | Union Switch & Signal Inc. | 1 |
| Union Switch & Signal International Projects Co. | Delaware -USA | 100.000% | 100.000% | | Union Switch & Signal Inc. | 1 |
| Ansaldo STS Transportation Systems India Private Limited. | India | 100.000% | 99.9999% | | Ansaldo STS Australia PTY Ltd. | 1 |
| | | | | 0.0001% | | 1 |
| Ansaldo STS Australia PTY Ltd. | Australia | 100.000% | | 100.000% | | 1 |
| Ansaldo STS Malaysia SDN BHD | Malaysia | 100.000% | 100.000% | | Ansaldo STS Australia PTY Ltd. | 1 |

Key: Types of share ownership or voting rights

- 1 Owned
- 2 Securities lender
- 3 Securities borrower
- 4 Registered owner on behalf of third party
- 5 Asset management
- 6 Pledge
- 7 Usufruct
- 8 Deposit
- 9 Voting rights under contractual agreements

20 ATTESTATION OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS PURSUANT TO ART. 154-BIS PARAGRAPHS 2 AND 5 AND TO ART. 154-TER PARA. 4 OF LEGISLATIVE DECREE NO. 58 OF 24 FEBRUARY 1998 AND AMENDMENTS AND INTEGRATION THEREOF

1. The undersigned Sergio De Luca, Chairman, and Jean Paul Giani, the manager in charge of the preparation of the company accounting documents of ANSALDO STS S.p.A., certify, in accordance with Art. 154-*bis*, paragraphs 3 and 4 of Legislative Decree 58 of 24 February 1998 and amendments and integrations thereof:
 - the appropriateness of the financial statements with regard to the nature of the business and
 - the effective application of administrative and accounting procedures in preparing the abridged consolidated half-year report for the period running 1 January 2008 through 30 June 2008.
2. No significant issues have arisen in this regard.
3. It is also certified that the condensed consolidated interim financial statements:
 - a) correspond to the entries in the documents, books and accounting records;
 - b) are prepared in accordance with the International Accounting Standards recognised by the European Union, in accordance with Regulation (EC) 1602/2002, and, to our knowledge, provides a true and fair view of the performance and financial position of the issuer and all the companies included in the scope of consolidation.
4. We also certify that the interim Directors' report contains a reliable analysis of the information referred to in paragraph 4 of Art. 154-*ter* of Legislative Decree No. 58 of 24 February 1998 and amendments and integration thereof.
5. This attestation is made pursuant to and for the purposes of Art. 154-*bis*, paragraphs 2 and 5, of Legislative Decree no. 58 of 1998 and amendments and integrations thereof.

Genoa, 28 July 2008

Signature of the Chief Executive Officer

*Signature of the Manager in charge
of the preparation of company
accounting documents*

Sergio De Luca

Jean Paul Giani