



**ANSALDO STS S.p.A.**

**FINANCIAL STATEMENTS**

**AT 31 DECEMBER 2007**

**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*

*These financial statements have 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 financial statements 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 2005/2007 three-year period)*

ALESSANDRO PANSA  
Chairman

SANTE ROBERTI  
Deputy Chairman

SERGIO DE LUCA  
Chief Executive Officer  
(co-opted on 14 June 2007)

SERGIO MARIA CARBONE (1)

MAURIZIO CEREDA (1) (2)

GABRIELE FALCIASECCA (2)

GERLANDO GENUARDI  
(co-opted on 27 September 07)

FRANCESCO LALLI (2)  
(since 27 September 07 also Member of  
Remuneration Committee)

ATTILIO SALVETTI (1)

GIOVANNI ROBERTO GAGLIARDI  
Chief Executive Officer  
(resigned on 14 June 07)

MAURO GIGANTE (3)  
(resigned on 27 September 07)

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MARIO ORLANDO  
Secretary of the Board of Directors

### **BOARD OF STATUTORY AUDITORS**

*(for the 2005/2007 three-year period)*

PAOLO COLOMBO  
Chairman

ANTONIO ROSINA

FRANCESCA TRIPODI

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### **ALTERNATE AUDITORS**

*(for the 2005/2007 three-year period)*

PIETRO CERASOLI

DOMENICO LUNEDEI

### **INDEPENDENT AUDITORS**

*(for the 2006/2014 period)*

PRICEWATERHOUSECOOPERS S.p.A.

- (1) Member of Internal Audit Committee  
(2) Member of Remuneration Committee  
(3) Up to 27 September 07 he was also Member of  
Remuneration Committee

**REPORT ON OPERATIONS AT 31 DECEMBER 2007**

## **2 REPORT ON OPERATIONS AT 31 DECEMBER 2007**

### **2.1 SIGNIFICANT EVENTS OCCURRED IN 2007 AND SUBSEQUENT TO THE CLOSING OF THE FINANCIAL YEAR**

Dear Shareholders,

your Company closed the financial year 2007 with a Net Profit of EUR 43,223 thousand improving strongly compared with the profit of EUR 18,189 thousand recorded in 2006.

In the course of the financial year 2007 your Company carried on its activity as holding of the Ansaldo STS Group, completing its own organizational structure and 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.

The first part of the year saw the successful conclusion of the process - started at the end of 2006 - of transition of the Corporate Governance system to the new Corporate Governance Code adopted by Borsa Italiana, formally adopted by the Company.

Moreover, the year was characterized by a rebranding operation, under which all the Group companies shall adopt the corporate name “Ansaldo STS” plus the related trademark, marked by the Finmeccanica Group’s “globe”.

This rebranding process, consistent with the strategies adopted by the Finmeccanica group, is directed to transmit the image of a single, co-ordinated and integrated company to customers, stakeholders and the external world. Moreover, the objective is that all the staff, on a world scale, will identify as integral part of the Ansaldo STS “family” and promote actively the name and the brand of the company, both at local and international level, in all the marketing and communication activities.

Consequently, all the Group companies starting from the month of July changed their corporate names adopting the Ansaldo STS name and trademark, followed by the name of the geographic region of reference. The companies temporarily excluded from the change of the corporate name, not of the trademark, are the two Italian companies, for which a concentration process, which will lead to the change of the name as well, is still being conducted, and the American subsidiary, Union Switch & Signal Inc., which will keep this name up to 31 December 2008, in order to better manage on that market the transition to the new corporate name.

The placing value of the stock was equal to EUR 7.80. In the period from 2 January to 28 December 2007, the official price of the stock passed from EUR 8.99 to EUR 8.62 with a decrease of 4.1%. The decrease in value materialized in the second semester of the year and in particular in the third quarter, in line with the variations of the market, affected by the crisis of the subprime sector, which had a negative impact on the level of investments relating to the shares of small and medium-sized listed companies in the Capital Goods sector. In the period under review, the Ansaldo STS stock kept a defensive position, supported by the commercial performances and by the visibility of the Management strategies on the market, reporting on an annual basis a decisively better performance (Ansaldo STS, annual average: -2.96%) than the MIBTEL index (annual average: -7.81%) and the ALLSTAR reference index (annual average: -7.58%).

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 of 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 in the course of 2008, 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 conclusion in the course of 2008 of the reorganization process of the STS Ansaldo Group through the incorporation of Ansaldo Signal N.V. into Ansaldo STS or the transfer of all the other equity investments held by Ansaldo Signal N.V. to Ansaldo STS and the subsequent closing-down of Ansaldo Signal N.V..
4. the finalization, always in the course of 2008, of the process of full integration of the two Italian operative companies.

In the light of the positive results and the growing liquidity of the subsidiaries Ansaldo Signal N.V. and Ansaldo Trasporti Sistemi Ferroviari S.p.A., the Board/Shareholders of these companies approved the distribution of dividends respectively on 31 July 2007 in the amount of EUR 36,000 thousand for Ansaldo Signal N.V. and on 19 March 2007 in the amount of EUR 14,241 thousand for Ansaldo Trasporti Sistemi Ferroviari S.p.A..

In order to concentrate the financial resources of the Group in the Holding, and as a result of the sale to Ansaldo Trasporti Sistemi Ferroviari S.p.A. of the subsidiary Ansaldo Segnalamento Ferroviario S.p.A., it was decided to reduce the shareholders' equity of Ansaldo Signal N.V. through the repayment of part of the share-premium reserve, occurred on 28 September 2007, for an overall amount of EUR 40,000 thousand.

Your Company, parent company of the Ansaldo STS Group, as a result of the Resolution of the Board of Directors of 17 June 2007, exercised for the 2007-2009 three-year period, as consolidating company, the option to use the Consolidated Taxation Mechanism with the Group's Italian companies (Ansaldo Segnalamento Ferroviario S.p.A. and Ansaldo Trasporti Sistemi Ferroviari S.p.A.) for IRES purposes (corporate income tax). Specifically, this mechanism allows companies to calculate a single IRES tax base for the Group's Italian

companies by summing the taxable incomes (fully considered) of the parent-consolidating company and the subsidiary-consolidated companies (the “Italian” subsidiaries only).

The main financial benefits of using the said mechanism in force upon the exercise of the option are briefly explained:

- in the event one of the participating companies reports a tax loss, its use shall not depend upon the subsequent generation of taxable income since the immediate transfer of the loss to the Group would allow quicker offsetting within the context of the consolidated results, thus creating clear financial advantages at a minimum to which is added economic benefits if the company – in the five tax periods following that in which the tax loss arises – has no expectations of its use due to lack of expected taxable income;
- dividends that are distributed among the companies participating in the Consolidated Tax Mechanism shall be fully tax exempt instead of subject to the 5% tax provided for under the ordinary rules;
- there is the possibility to transfer assets that generate a taxable capital gain within the scope of consolidation on a tax-deferred basis (for IRES purposes only);
- there is the possibility to transfer not just IRES credit carryforwards but also other tax credits (IRAP, VAT, social security contributions, etc.) to the Group thereby allowing their use and immediate receipt.

Although the 2008 Finance Law, intervening on the regulations relating to the “Consolidated Taxation Mechanism”, has partially modified the above-mentioned benefits, eliminating the full tax exemption of the dividends distributed by the subsidiaries as a result of resolutions adopted after 1 September 2007 (except for the distribution of profits realized in the financial year prior to the current year as of 31 December 2007) and the fiscal neutrality system in relation to the intra-group transfers starting from 1 January 2008, this mechanism remains still advantageous because it allows to offset the realized taxable income and the fiscal losses produced in every fiscal period by each company participating in the said Consolidated Tax Mechanism.

At 31 December 2007 the Company recorded deferred tax assets for EUR 2,975 thousand (zero at 31 December 2006) referable for EUR 2,111 thousand to the gain from consolidation deriving from the set-off of the tax loss generated by Ansaldo STS as a result of the tax decreases due to the tax exemption of the intercompany dividends, set-off made possible thanks to the participation of the company in the Consolidated Taxation Mechanism with the Group's Italian companies (Ansaldo Segnalamento Ferroviario S.p.A. and Ansaldo Trasporti Sistemi Ferroviari S.p.A.) and for EUR 952 thousand to net deferred tax assets, partially offset by the payable for the application of the IRAP (regional tax on business activities) equal to EUR 88 thousand.

It should be noted that following the approval of the 2008 Finance Law (Law No. 244 of 24 December 2007) the IRES and IRAP rates have been reduced with effect from 1 January 2008. In particular, the decrease went from 33% to 27.50% in relation to IRES and from 4.25% to 3.90% with reference to IRAP.

In the previous financial years no deferred taxes have been accounted for due to the lack of the required assumptions; accordingly, the change in the tax rate did not result in any reversal of taxes set aside in the previous years.

Starting from this current year, deferred tax assets on timing differences have been recognised as it is considered that these can be recovered. With regard to tax losses carried forward, no deferred tax asset has been set aside.

Moreover, it should be reported that, compared to the figures shown in the financial statements as at 31 December 2006, the figures relating to the financial year 2006 have been reclassified to reflect the change in the accounting principles applied in these financial statements. In particular, we report that, starting from the current financial year, the Company adopted the Equity Method principle (as permitted by IAS 19) in recognising the 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 6.4 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 financial statements.

## 2.2 ANALYSIS OF THE INCOME STATEMENT AND THE BALANCE SHEET

In order to provide complete information on the performance and financial position of Ansaldo STS, the following reclassification statements have been prepared.

Below is shown the reclassified statement relating to the 2007 Income Statement compared with the financial year 2006:

### Income Statement

(€ 000)	<u>31.12.2007</u>	<u>31.12.2006</u>	
Revenues (*)	14,000	7,246	
<b>Production Revenues</b>	<b>14,000</b>	<b>7,246</b>	
Costs for purchases and cost of labour (**)	(22,837)	(17,613)	(****)
Amortization and Depreciation	(1,863)	(1,707)	
Writedowns	-	-	
Other net operating income (costs) (***)	2,501	1,246	
Changes in work in progress, semi-finished products and finished goods	-	-	
<b>EBIT</b>	<b>(8,199)</b>	<b>(10,828)</b>	
Net financial income (costs)	48,447	29,017	(****)
Income taxes	2,975	-	
<b>Net Profit (Loss)</b>	<b>43,223</b>	<b>18,189</b>	

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

(\*) 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".

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

(\*\*\*\*) 2006 items have been modified as a result of the IAS 19 restatement (ref. § 6.4.1)

Revenues for the year amounted to EUR 14,000 thousand and relate to Service operations to the benefit of subsidiaries.

Costs for purchases and cost of labour break down as follows:

- Cost of labour (50 units at 31 December 2007) equal to EUR 8,124 thousand;

- Purchase and Purchase of services equal to EUR 14,713 thousand include the costs relating to the 2007 portion for the right to use the ‘Ansaldo’ trademark granted by Finmeccanica for 20 years (EUR 1,611 thousand); the remaining amount relates to costs for performing service and specific activities of the Holding.

Other net operating income came to EUR 2,501 thousand. Specifically:

- Other operating income (EUR 3,499 thousand) mainly refer to the rental income received from its subsidiaries for the building located in Via Mantovani, Genoa and to the invoices relating to the 2007 portion for the right to use the “Ansaldo” trademark;
- Other operating costs (EUR 998 thousand) refer for EUR 1,132 thousand to direct taxes and other operating charges represented by donations and association fees, net of EUR 134 thousand due to a recovery of costs from related parties.

Financial income and costs break down as follows:

- Dividends collected from the subsidiary Ansaldo Signal N.V. for EUR 36,000 thousand and from the subsidiary Ansaldo Trasporti Sistemi Ferroviari S.p.A. for EUR 14,241 thousand;
- Interest income on bank current accounts for EUR 75 thousand, net of interest expense for EUR 4 thousand;
- Interest income on the current account held with Finmeccanica S.p.A. for EUR 4,168 thousand and on the current account with Ansaldo Signal N.V. (ASNV) for EUR 368 thousand;
- Recovery of costs relating to commissions on sureties in favour of related parties for EUR 32 thousand;
- Interest expense accrued on current accounts held with subsidiaries Ansaldo Signal N.V. (ASNV) and Ansaldo Trasporti Sistemi Ferroviari (ATSF) for EUR 6,220 thousand;
- Commission and bank expense for a net negative value of EUR 185 thousand;

- Interest on Employee severance pay for EUR 28 thousand; this item has been classified starting from the current financial year under financial charges, as the Company has adopted the “Equity Method” principle in the recognition of defined-benefit plans.

The table below contains the Balance Sheet at 31 December 2007 compared with the financial year 2006:

(€ 000)	<u>31.12.2007</u>	<u>31.12.2006</u>
<b>Non-current assets</b>	159,572	192,255
<b>Non-current liabilities</b>	<u>(2,481)</u>	<u>(377)</u>
	<u>157,091</u>	<u>191,878</u>
Inventories	-	-
Contract work in progress	-	-
Trade receivables	7,181	9,470
Trade payables	(8,410)	(5,455)
Advances from customers	-	-
Provisions for short-term risks and charges	-	-
Other net current assets (liabilities) (*)	<u>(3,477)</u>	<u>616</u>
<b>Net working capital</b>	<u>(4,706)</u>	<u>4,631</u>
<b>Net invested capital</b>	<u>152,385</u>	<u>196,509</u>
<b>Shareholders' equity</b>	<u>161,882</u>	<u>117,694</u>
<b>Net financial debt (liquidity)</b>	<u>(9,497)</u>	<u>78,815</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 a decrease of EUR 32,683 thousand essentially due to the reduction in value of the equity investment in Ansaldo Signal N.V. as a result of the repayment of part of the share-premium reserve for a total of EUR 40,000 thousand.

Non-current liabilities include the provision for severance pay for the 50 employees of Ansaldo STS at 31 December 2007 (EUR 830 thousand), seniority bonuses (EUR 96 thousand) and payables for deferred taxes (EUR 1,555 thousand).

Trade receivables showed a decrease of EUR 2,289 thousand and exclusively relate to receivables from subsidiaries.

Trade payables rose by EUR 2,955 thousand and mainly relate to the recording made in the last months of the financial year with respect to contracts stipulated with third-party suppliers.

Other net assets/ (liabilities) showed an increase in liabilities of EUR 4,093 thousand, mainly due to the increase in:

- Taxes payable as a result of the adoption of the Consolidated Tax Mechanism;
- Payables to social security institutions and staff attributable to the increase in the units registered in the matricula-book at 31 December 2007.

As a result of the foregoing, **net working capital** passed from a positive EUR 4,631 thousand recorded in the financial year 2006 to a negative EUR 4,706 thousand in the financial year 2007, with a reduction of EUR 9,337 thousand; the decrease in **invested capital** is essentially due to the reduction in value of the equity investment in Ansaldo Signal N.V. as a result of the repayment of part of the share-premium reserve mentioned above.

**Shareholders' equity** went from EUR 117,694 thousand in the financial year 2006 to EUR 161,882 thousand with an increase of EUR 44,188 thousand attributable to the profit for the year equal to EUR 43,223 thousand and, for the remaining part, to the change in the reserve for Stock Grant and the actuarial reserves following the adoption of the Equity Method.

### **2.3 FINANCIAL SITUATION**

The financial position at 31 December 2007 is shown below and, in order to provide more complete information, is compared with the corresponding data at 31 December 2006:

<i>(€ 000)</i>	<u><i>31.12.2007</i></u>	<u><i>31.12.2006</i></u>
Short-term financial debts	38	23
Medium/long-term financial debts	-	-
Cash and cash equivalents	<u>(537)</u>	<u>(909)</u>
<b>BANK DEBT (LIQUIDITY)</b>	<b><u>(499)</u></b>	<b><u>(886)</u></b>
Financial receivables from related parties	(20,637)	(132,128)
Other financial receivables	-	-
<b>FINANCIAL RECEIVABLES</b>	<b><u>(20,637)</u></b>	<b><u>(132,128)</u></b>
Financial debts to related parties	11,639	211,829
Other short-term financial debts	-	-
Other medium/long-term financial debts	-	-
<b>OTHER FINANCIAL DEBTS</b>	<b><u>11,639</u></b>	<b><u>211,829</u></b>
<b>FINANCIAL DEBT (LIQUIDITY)</b>	<b><u>(9,497)</u></b>	<b><u>78,815</u></b>

Ansaldo STS S.p.A. closed the financial year 2007 with a net financial credit position of EUR 9,497 thousand reflecting a considerable improvement compared with the prior financial year, which showed a net financial debt of EUR 78,815 thousand (increase of EUR 88,312 thousand).

Specifically:

- The net credit position towards banks moves from EUR 886 thousand in the financial year 2006 to EUR 499 thousand in the financial year 2007, with a decrease of EUR 387 thousand;
- Financial receivables totalled EUR 20,637 thousand at 31 December 2007 and mainly refer to the subsidiary Ansaldo Signal N.V.; in the financial year 2006 these exclusively referred to the majority shareholder Finmeccanica S.p.A.
- Financial debts at 31 December 2007 totalled EUR 11,639 thousand with a net decrease equal to EUR 200,190 thousand compared with 31 December 2006 (EUR 211,829 thousand). Financial debts at 31 December 2007 exclusively refer to the subsidiary Ansaldo Trasporti Sistemi Ferroviari S.p.A.; a debt position towards the subsidiary Ansaldo Signal N.V. was also recorded in the financial year 2006.

Below is the reclassified cash flow statement at 31 December 2007 compared with the prior year:



<i>(€ 000)</i>	<u><i>31.12.2007</i></u>	<u><i>31.12.2006</i></u>
<b>Cash and cash equivalents – opening balance</b>	<b><u>909</u></b>	<b><u>24</u></b>
Gross cash flow from operating activities	(5,574)	(7,200)
Change in working capital	5,245	15,219
Changes in other operating assets and liabilities	<u>(646)</u>	<u>(3,015)</u>
<b>Cash flow from (used in) operating activities</b>	<b><u>(975)</u></b>	<b><u>5,004</u></b>
Cash flow from (used in) ordinary investing activities	(542)	(847)
Share-premium reserve repayment	40,000	
Dividends received	50,241	32,000
<b>Free Operating cash-flow</b>	<b><u>88,724</u></b>	<b><u>36,157</u></b>
Strategic investments	-	(100,159)
Other changes in investing activities	<u>(845)</u>	<u>(1,525)</u>
<b>Cash flow from (used in) investing activities</b>	<b><u>88,854</u></b>	<b><u>(70,531)</u></b>
Dividends paid	-	-
Capital increases, net of the purchase of treasury shares	-	60,169
Cash flow from financial activities	<u>(88,251)</u>	<u>6,243</u>
<b>Cash flow from (used in) financial activities</b>	<b><u>(88,251)</u></b>	<b><u>66,412</u></b>
<b>Foreign exchange translation differences</b>	<b>-</b>	<b>-</b>
<b>Cash and cash equivalents - closing balance</b>	<b><u>537</u></b>	<b><u>909</u></b>

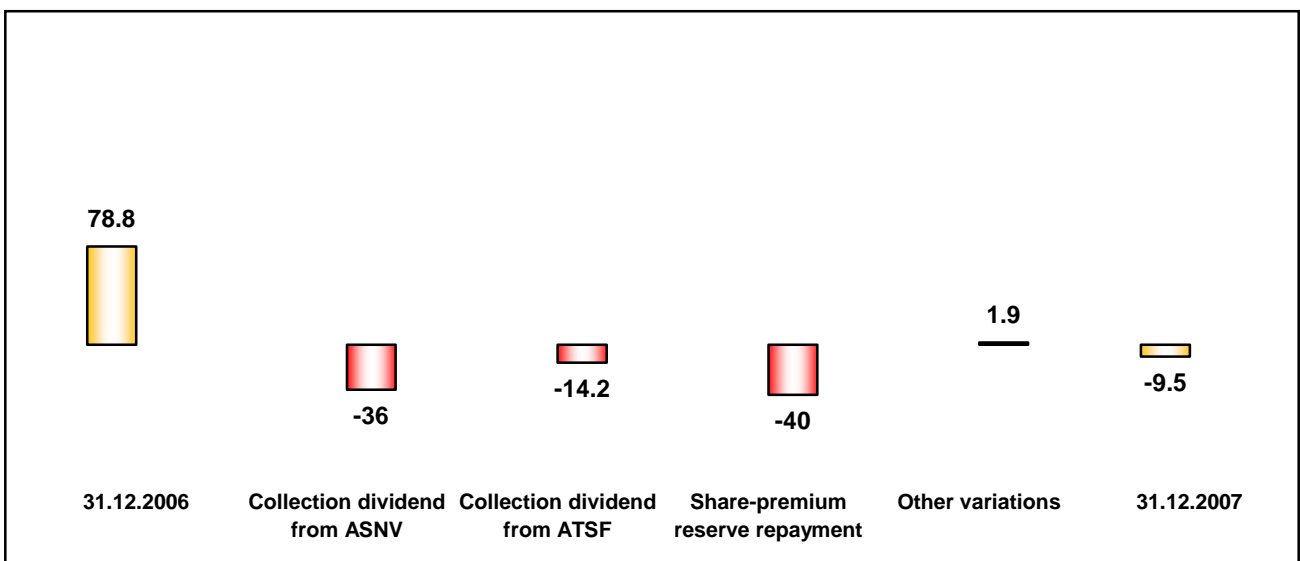
The financial year 2007 ended with a net decrease in cash and cash equivalents of EUR 372 thousand, due to the following factors:

- Cash flow from operating activities moves from cash flow generated for EUR 5,004 thousand to cash flow used for EUR 975 thousand, with a negative change of EUR 5,979 thousand, substantially due to the evolution of the working capital.
- Cash flow from investing activities moves from cash flow used for EUR 70,531 thousand to cash flow generated for EUR 88,854 thousand. The positive change of EUR 159,385 thousand is mainly due to the repayment of part of the share-premium reserve for EUR 40,000, to higher dividends collected from the subsidiaries Ansaldo Signal N.V. and Ansaldo Trasporti Sistemi Ferroviari S.p.A. (EUR 50,241 thousand) and especially to lower strategic investments. It should be reported, in fact, that the strategic investments for the financial year 2006 were relative to the acquisition by the ultimate parent company Finmeccanica S.p.A. of the equity investments in

Ansaldo Signal N.V. and Ansaldo Trasporti Sistemi Ferroviari S.p.A., functional to the listing of the Group on the Stock Exchange occurred in March 2006.

- Cash flow from financial activities moves from cash flow generated for EUR 66,412 thousand to cash flow used for EUR 88,251 thousand with a change of EUR 154,663 thousand due to the capital paid-in by Finmeccanica S.p.A. received in the financial year 2006 and to the change in the financial position, which moved from a debt position to a credit position at the end of 2007.

***Evolution of the financial position (values in EUR millions):***



## **2.4 MANAGEMENT OF FINANCIAL RISKS**

Ansaldo STS S.p.A. mainly carries out the activity of strategic planning: the centralized management of Group treasury is currently assigned to the subsidiary Ansaldo Signal N.V.

It should be noted that Ansaldo STS S.p.A. did not make use of financial derivative instruments in the financial year 2007 or in the past years.

For further details and information, please refer to paragraph 9 in section “Financial statements and explanatory notes to the annual report at 31 December 2007”.

## **2.5 INFORMATION ON MANAGEMENT AND CO-ORDINATION ACTIVITIES AND RELATED PARTY TRANSACTIONS**

In compliance with the provisions set forth in Art. 2497 bis of the Italian Civil Code, we specify that the Company is subject to the management and co-ordination activities by Finmeccanica S.p.A.. The highlights relative to the latest financial statements approved by Finmeccanica S.p.A. are reported in the detailed statement No. 12.

Below are provided the figures of the relationships with related parties (the break-down of these relationships detailed by Company is reported in tables on page 22) relative to the financial year 2007 and to the previous financial year. In addition to the parent company Finmeccanica and to the companies in which Ansaldo STS has direct and indirect interests, related parties include all the related parties as established by the International Accounting Standards.

The relationships with Finmeccanica S.p.A. mainly refer to:

- Current account: the current account (credit balance of EUR 283 thousand at 31 December 2007) is utilized to settle the transactions of commercial nature with Finmeccanica and with the companies belonging to the Finmeccanica group and is also used for the transit of the current account balances. In the course of the financial year the fixed-term deposit placed with Finmeccanica, which in the year generated financial income, was also closed. The table shows the financial income deriving from these transactions, equal to EUR 4,168 thousand;

- Charges for performances and services rendered by Finmeccanica (EUR 201 thousand);
- Costs relating to the financial year 2007 portion for the use of the “Ansaldo” trademark granted by Finmeccanica for twenty years (EUR 1,611 thousand) and relating to the current and non-current prepaid expense of EUR 27,368 thousand.

The relationships with the subsidiaries Ansaldo Signal N.V., Ansaldo Trasporti Sistemi Ferroviari S.p.A. and other Group companies refer to:

#### Relationships of financial nature

- Ansaldo Trasporti Sistemi Ferroviari S.p.A.: current account, with a debit balance of EUR 11,639 thousand at 31 December 2007. It is used by ATSF to settle the transactions of commercial nature with the parent company Ansaldo STS, with the companies belonging to the Ansaldo STS Group and to the Finmeccanica Group. In the course of the financial year the fixed-term deposit placed with the subsidiary Ansaldo Trasporti Sistemi Ferroviari S.p.A., which in the year generated financial income, was also closed. The financial income and costs shown in the table derive from these relationships.
- Ansaldo Signal N.V.: current account, with a credit balance of EUR 20,354 thousand at 31 December 2007. It is used by ASNV to settle the transactions of commercial nature with the parent company Ansaldo STS, with the companies belonging to the Ansaldo STS Group and to the Finmeccanica Group and is also used for the transit of current account balances. In the course of the financial year the fixed-term deposit placed with the subsidiary Ansaldo Trasporti Sistemi Ferroviari S.p.A., which in the year generated financial income, was also closed. The financial income and costs shown in the table derive from these relationships.

Relationships of commercial nature: (Ansaldo Trasporti Sistemi Ferroviari S.p.A., Ansaldo Signal N.V. and other Group companies) mainly refer to:

- Charges for the services rendered by the parent company Ansaldo STS in relation to the “General Service Agreement” (Revenues for EUR 14,000 thousand).
- Rental of the building located in Genoa, Via Mantovani 3/5, owned by Ansaldo STS since 28 December 2005, which hosts the offices and production units of Ansaldo Trasporti Sistemi Ferroviari S.p.A. and Ansaldo Segnalamento Ferroviario S.p.A., controlled by Ansaldo Trasporti Sistemi Ferroviari S.p.A.. (Other revenues for EUR 1,741 thousand).
- Recharge of the 2007 portion for the right to use the “Ansaldo” trademark and the “Globe” trademark (Other revenues for EUR 1,755 thousand).
- Charges for treasury services rendered by Ansaldo Signal N.V. (Costs for EUR 850 thousand).
- Fees for the management and use of general services of the Genoa headquarters, costs for HR services, charges for seconded personnel, net of recoveries for insurance costs, exhibitions, fairs (Costs for EUR 103 thousand) charged by the Italian subsidiary Ansaldo Trasporti Sistemi Ferroviari S.p.A. (Ansaldo Segnalamento Ferroviario S.p.A.).
- Costs relating to directors’ emoluments and personnel of Ansaldo Trasporti Sistemi Ferroviari S.p.A. net of recoveries for exhibitions and fairs and for group insurance conventions, equal to a positive value which is deducted from the total costs from subsidiaries for EUR 514 thousand.
- Recovery of costs for exhibitions and fairs, and for group insurance conventions in respect of other group subsidiaries for EUR 985 thousand.
- Recovery of costs for other operating charges from the subsidiaries Ansaldo Segnalamento Ferroviario S.p.A (EUR 63 thousand) and Ansaldo Trasporti Sistemi Ferroviari S.p.A. (EUR 76 thousand).

With regard to the relationships with other Group companies (as detailed in the following table), these mainly refer to commercial activities:

- For ITC supplies in the case of Elsag Datamat S.p.A. (costs for EUR 417 thousand);
- Charges for seconded personnel by SO.GE.PA for EUR 19 thousand;

- Charges for the development and maintenance of software, maintenance on third-party assets, rental of building with related services, press review rendered by Finmeccanica Group Service S.p.A. for EUR 315 thousand.

**Financial year 2007**

<i>(EUR 000)</i>	<b>Parent companies</b>	<b>Subsidiaries</b>	<b>Associated companies</b>	<b>Other related parties</b>	<b>Total</b>
<b>Non-current receivables</b>	-	-	-	-	-
Financial	-	-	-	-	-
Other	-	-	-	-	-
<b>Current receivables</b>	<b>283</b>	<b>36,076</b>	-	<b>273</b>	<b>36,632</b>
Financial	283	20,354	-	-	20,637
Commercial	-	7,178	-	3	7,181
Other	-	8,544	-	270	8,814
<b>Non-current payables</b>	-	-	-	-	-
Financial	-	-	-	-	-
Other	-	-	-	-	-
<b>Current payables</b>	<b>202</b>	<b>20,894</b>	-	<b>502</b>	<b>21,598</b>
Financial	-	11,639	-	-	11,639
Commercial	67	489	-	502	1,058
Other	135	8,766	-	-	8,901
	<b>Parent companies</b>	<b>Subsidiaries</b>	<b>Associated companies</b>	<b>Other related parties</b>	<b>Total</b>
Revenues	-	14,000	-	-	14,000
Other operating income	-	3,497	-	-	3,497
Costs	1,812	(546)	-	758	2,024
Other operating costs	-	(138)	-	4	(134)
Dividends	-	50,241	-	-	50,241
Financial income	4,168	400	-	-	4,568
Financial costs	-	6,220	-	-	6,220

**Financial year 2006**

<i>(EUR 000)</i>	<b>Parent companies</b>	<b>Subsidiaries</b>	<b>Associated companies</b>	<b>Other related parties</b>	<b>Total</b>
<b>Non-current receivables</b>	-	-	-	-	-
Financial	-	-	-	-	-
Other	-	-	-	-	-
<b>Current receivables</b>	<b>132,128</b>	<b>10,220</b>	-	-	<b>142,348</b>
Financial	132,128	-	-	-	132,128
Commercial	-	9,470	-	-	9,470
Other	-	750	-	-	750
<b>Non-current payables</b>	-	-	-	-	-
Financial	-	-	-	-	-
Other	-	-	-	-	-
<b>Current payables</b>	<b>230</b>	<b>212,813</b>	-	<b>49</b>	<b>213,092</b>
Financial	-	211,829	-	-	211,829
Commercial	-	496	-	49	545
Other	230	488	-	-	718

	<b>Parent companies</b>	<b>Subsidiaries</b>	<b>Associated companies</b>	<b>Other related parties</b>	<b>Total</b>
Revenues	-	7,246	-	-	7,246
Other operating income	-	1,830	-	-	1,830
Costs	1,626	799	-	256	2,681
Other operating costs	-	(5)	-	-	(5)
Dividends	-	32,000	-	-	32,000
Financial income	2,845	5,510	-	-	8,355
Financial costs	262	-	-	-	262

**2.6 PERFORMANCE FOR THE YEAR**

The activities carried out by your Company throughout the financial year 2007 mainly focused on the industrial and financial management of the equity investments acquired in February 2006 and on the improvement of its organizational structure in relation to the role of industrial holding listed on the Stock Exchange.

Specifically, a process of greater interaction of the organizational structure of your Company with the staff structures of the two Italian subsidiaries started with the aim to catch all the possible operating synergies, contain the structuring costs at Group level and ensure the maximum co-ordination and timeliness in the performance of the activities. This action directed to a progressive concentration and centralization of specific functions and activities will continue in 2008, also involving the foreign subsidiaries and focusing on more complex and strategic subjects, such as research and development and industrial production. The final objective is to guarantee the maximum efficiency and effectiveness of the Group in relation to activities of common interest, avoiding duplications of roles and efforts and reducing the related costs.

Great attention has been paid to the management and co-ordination activities of the subsidiaries, with particular reference to the American company Union Switch & Signal Inc., whose CEO sent in his resignations in June 2007. This forced your Company to assign important resources to the Management of that company, and to start a careful process for identifying the new CEO, whose appointment is expected in the course of 2008.

Moreover, during the year, the Board of Directors:

- in consideration of the resignations presented in June 2007 by Giovanni Roberto Gagliardi, appointed Sergio De Luca, already CEO of the two Italian subsidiaries Ansaldo Segnalamento Ferroviario S.p.A. and Ansaldo Trasporti – Sistemi Ferroviari S.p.A., as CEO of Ansaldo STS S.p.A. as well;
- co-opted as director Gerlando Genuardi, which took place of the resigning director Mauro Gigante;
- appointed the Director Francesco Lalli as Member of the Remuneration Committee always in the place of the resigning director Mauro Gigante;
- supplemented the Company's operating structure with the definition of a few further top level functions, which however has not brought to significant changes in the organizational set-up.

The activities of the Internal Audit Committee and of the Remuneration Committee have been regularly performed in the course of 2007.



The Internal Audit Committee, with the support of the person in charge of the Internal Control and of the person responsible for the Risk Management function, has mainly directed its activity towards the identification and determination of the map of the corporate risks and the assessment of the adequacy, effectiveness and real functioning of the internal control system, with particular reference to the verification of the trend of the main multi-year job-orders being executed by the Group operating companies.

The Remuneration Committee, with the support of the Human Resources & Organization Direction, has supported the Board of Directors in assessing the criteria adopted for the remuneration of the executives with strategic responsibilities, in particular examining the stock grant and incentive plans, ensuring the correct application and management of these plans and defining all the pay elements of the CEO.

## **2.7 RESEARCH AND DEVELOPMENT**

The year 2007 saw an important action of consolidation and reorganization of the Ansaldo STS Group product portfolio in line with the strategic objectives of structural growth and geographic expansion. Accordingly, all the Group companies will be given a complete and homogeneous offer of solutions and products which are highly-sophisticated and suitable for being applied in the several geographic markets and in the different market segments.

Moreover, in the course of 2007, Ansaldo STS S.p.A. acquired within its staff new resources called Product Managers, with responsibilities which have been assigned so as to cover all the products and systems included in the portfolio of the Group itself. The Product Managers are therefore responsible for identifying the strategic lines at global level of their products and subsequently for the real effectiveness and efficiency of the same from a technological point of view and in terms of costs and performances.

Ansaldo STS S.p.A. therefore:

- identifies the technical and financial strategies of all the products included in the Group's portfolio;

- ensure the correct and timely implementation of the product strategies identified by the Products Managers, through the co-ordination of the R&D functions of the other companies of the Ansaldo STS S.p.A. Group;
- co-ordinates the correct approach and monitors the consequent implementation of the “Group Technology License Programs”, directed to guarantee the maximum technological synergy among the Group companies, in collaboration with the Human Resources & Organization Direction, determining the criteria of the “licence price policy” for the technological platforms available within the Group in accordance with market criteria and principles which are correct from a fiscal point of view;
- establishes strategic guidelines for the protection of the “Intellectual Property” and guarantees the correct and timely management of the same within the companies belonging to the Group.

## **2.8 PERSONNEL AND ORGANIZATION**

The consolidation of the integration and internationalization processes, started in 2006 with the formation of the Corporate Ansaldo STS S.p.A., has been the main objective of the organizational strategy carried out by the Human Resources & Organization Direction during the year 2007. In the course of the year, the actions taken allowed to:

- a) enhance the corporate structure of the Corporate through the formation of new organizational units as well as through the rationalization of a few functions already existing;
- b) consolidate the international importance of the Group encouraging, through specific projects of intercompany mobility of the human resources, a greater integration among the Group companies.

At 31 December 2007 the workforce of Ansaldo STS was of 50 units, broken down as follows:

- executives 18
- middle managers 15
- clerical workers 17

There was an increase of 21 units compared with 31 December 2006, due for 15 units to the concentration in Corporate of staff structures which also operate for subsidiary companies.

As part of the definition of the top tier of Ansaldo STS's corporate office, on 14 June 2007, the board of directors appointed Sergio De Luca as the chief executive officer to take the place of Giovanni Roberto Gagliardi who resigned for personal reasons.

The Company's officers thus include:

- Chairman of the Board of Directors: Alessandro Pansa;
- Vice-Chairman of the Board of Directors: Sante Roberti;
- CEO: Sergio De Luca.

On 29 January 2007 and 22 March 2007, the Ansaldo STS boards of directors passed resolutions approving certain changes to the top level of the Company's organizational structure.

The resolution passed by the board on 29 January 2007 requires the risk management and project control areas, both headed by Antonio Manzi, senior vice president, to report respectively to the chief executive officer and the chairman of the board of directors.

As a result of the resolution passed by the board on 22 March 2007, the Human Resources & Process Improvement Unit” (today “Human Resource & Organization”) is headed by Carlo Cremona, senior vice president, assisted by his deputy, Francesco Romano, vice president. This structure, formed by the resources coming from the Staff units of Ansaldo Trasporti Sistemi Ferroviari and Ansaldo Segnalamento Ferroviario, in addition to the resources already existing in ASTS, operates in an integrate manner assuring both planning, coordination and control activities (typical of the corporate) and more operating activities (relative to the two Italian companies).

In addition, the “Industrial Competitiveness” function was set up for the purpose of improving the efficiency and productivity of the industrial system and will report to the chief executive officer.

The function is being headed up by Giuseppe Spezzi, vice president, who continued to be responsible for the “Supply Chain Management” function of Ansaldo Segnalamento Ferroviario.

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 Christian Andi, vice president
  - Risk Management and Project Control (limited to Risk Management activity), headed by Antonio Manzi, senior vice president
- The following directions and functions will report to the Company's chief executive:
  - General Secretary Direction, headed by Mario Orlando, General Counsel
  - Administration, Finance and Control Direction Unit, headed by Jean Paul Giani, Chief Financial Officer
  - Human Resources & Organization Direction, headed by Carlo Cremona, senior vice president, assisted by Francesco Romano, vice president
  - Business Development Direction, 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 Directions of Ansaldo STS and directly report to the chief executive of their respective companies.

- The following functions also report to the chief executive officer:
  - Investor Relations, headed up by Andrea Razeto, investor relations manager
  - Risk Management and Project Control (limited to Risk Management activity), headed up by Antonio Manzi, senior vice president

- Industrial Competitiveness, headed up by Giuseppe Spezzi, vice president.

The operating companies are also assigned to report directly to the chief executive officer.

Organizational changes include the creation of an Intellectual Property Rights (IPR) Management Committee, and the appointment of Daniele Bozzolo, as the IPR manager for the Ansaldo STS Group. The IPR manager is responsible for decisions regarding the protection and management of intellectual property rights in the overall interest of the Ansaldo STS Group.

The financial year 2007 saw the continuation of a plan to implement a system of Group Directives and corporate procedures aimed at governing the organizational, administrative and accounting structure of the Ansaldo STS Group and of the Corporate. In particular:

- the directives have the purpose of defining a governance model within the ASTS Group, by specifying the policies, strategies and conduct in general for governing relationships between the corporate office and the subsidiary companies and between the subsidiary companies themselves;
- the procedures have the objective of specifying and describing the means and responsibility for the execution of certain activities and operational processes within Ansaldo STS S.p.A..

Such procedures/directives have been prepared, and their underlying principles have been identified, by taking into account the fact that Ansaldo STS and its subsidiaries are subject to the management and coordination of Finmeccanica S.p.A., and thus, by evidencing, when necessary, the ratification of the principles previously established by Finmeccanica. All of the procedures have been adopted by taking into account the organization, management and control model provided by Legislative Decree no. 231 of 8 June 2001.

Developments on the governance front in the first half of 2007 regarded the definition of:

- the means for interacting with the press, and the media in general, for the dissemination of "Privileged Information", as defined by the directive entitled "*Procedures for the management of privileged information and for the institution of the register of persons*

*having access to privileged information"*, concerning Ansaldo STS and the Group companies, so as to ensure compliance with prevailing laws and regulations on the subject, in order to protect investors and the Group's image ("*Press Release*" directive);

- the means for changing the names and trademarks of the subsidiary companies which have taken on the "Ansaldo STS" name, supplemented by the indication of the geographic areas of reference, and the management and spreading of company information to third parties ("*Corporate Identity and Communication Management*" directive);

In terms of procedures, some 15 documents have been issued in 2007 in relation to "Information Technology"; the documents cover the operational implementation of the provisions contained in the related directives, so as to standardize the development, implementation and monitoring of IT processes within each company of the Ansaldo ASTS Group.

## **2.9 MAIN PROJECTS**

Within the process of expansion and further internationalization of Ansaldo STS, the project called "Columbus" represents an organized and structured response to the challenges issued by the internationalization processes for the management of businesses and for the administration of the human resources with a high reputation. By means of the world network of the operating companies, Ansaldo STS can offer its own resources a structured pathway of job and cultural enrichment, ensuring at the same time an internal development of the key skills through the knowledge sharing among the countries and a greater integration of the group human resources which now operate in a common international context. The project, started in the second half of 2007, provides the definition of a work plan for the resources detected, to be developed in the Group companies present in geographic areas other than the one to which the companies in question belong. The work plan is defined in terms of objectives and duration and during the entire execution of the project the detected resources are accompanied by a tutor of the host company and a tutor of the company of origin.

In support of the development of the business on the worldwide market, the company in the course of 2007 also invested in foreign countries where the main tenders are currently being invited. To this purpose, agreements and/or understandings are being stipulated with prestigious Engineering faculties of the nations in which remarkable commercial offers have been presented. The understandings are directed to both create partnerships for the development of technologies to be used on local markets, and identify the most talented persons trained in the said universities. Moreover, a few young people coming from the Finmeccanica Master Fink® have been included in the company. These resources, selected among those coming from foreign countries, where Ansaldo STS is involved in market operations, have been immediately included in business development related projects, which concern their country of origin.

The attention to the international scenarios is accompanied by the commitment that Ansaldo STS continues to have on the main national social problems. In particular, the safety at the workplace, as everybody knows, has been repeatedly at the centre of the political and cultural debate in Italy because of the considerable increase in accidents at work recorded in the year. In order to spread more and more the culture of accident prevention, Ansaldo STS has become the promoter together with the subsidiary Ansaldo Segnalamento Ferroviario S.p.A. of an initiative called “Safety Project: 365 Safety Days”, believing that it can contribute to transmit to the companies suppliers of the Group the positive data relating to the accidents at work in ASTS, which over the past years stood at values close to zero. After the meeting “365 Safety Days - Safety: an added value, a common objective”, held on 12 October 2007 at the Unione degli Industriali di Napoli, in the presence of many political, academic, entrepreneurial and administrative authorities, specific training sessions with the companies suppliers of the group have been developed; these are directed to share a common culture of and for the safety, starting from the requirements provided for by the law and by the good practice that Ansaldo STS has been consolidating.

## **2.10 SECURITY POLICY STATEMENT**

**"Information pursuant to Legislative Decree no. 196 of 30 June 2003 (Personal Data Protection Code)"**

In accordance with the provisions set forth in paragraph 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 paragraph 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.

## **2.11 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.



### **2.11.1 2006-2007 STOCK GRANT PLAN**

A review has been conducted to verify the achievement of the objectives to which the 2006-2007 stock grant plan had been linked for the year 2006.

Of the three objectives set, management achieved the one in relation to VAE and the one in relation to the order target. The objective in relation to the share performance vis-à-vis Mibtel was not achieved.

Accordingly, as provided by the plan rules, the persons participating in the plan have been entitled the assignment of 75% of the shares initially contemplated.

Moreover, the Remuneration Committee approved an amendment of Art. 8 of the regulation which provides that the actual delivery of the shares to the plan beneficiaries shall be put forward for fiscal reasons to the month of December of the year in which the shares are assigned, instead of 1 January of the subsequent year. Accordingly, the Company delivered 75% of the assignable shares on 3 December 2007, equal to 148,090 shares.

### **2.11.2 2006-2008 CASH INCENTIVE PLAN**

The 2006-2008 “Long Term Incentive Plan” involves seven executives of Ansaldo STS and its subsidiaries, who are considered key in the achievement of strategic and 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.

From the review conducted to verify the achievement of the objectives assigned in 2006 it emerged that of the two objectives set, the one related to retained cash flow was fully achieved, while the objective in relation to the share performance vis-à-vis Mibtel was not achieved, as in the case of the stock grant plan.

The incentive portions accrued were paid in the second semester of 2007, in accordance with the plan regulations, being surpassed the access thresholds provided for by the plan.

## 2.12 SHARES GRANTED TO DIRECTORS

Within the programme of purchase of treasury stocks to serve the stock grant plan authorized by the Shareholders' Meeting on 22 May 2007 and implemented by the Board of Directors of the Company on 12 November 2007, Ansaldo STS S.p.A. purchased in the period from 19 November 2007 through 21 November 2007 No 148,090 ordinary shares of Ansaldo STS S.p.A. (corresponding to 0.148% of the share capital). On 3 December 2007 effective delivery was made of the shares awarded for the year 2006; of the 148,090 total shares assignable, 109,305 shares were transferred into individual deposit securities specified by the beneficiaries, while the remaining 38,785 shares were withheld, as requested by the beneficiaries, to cover tax and social-security obligations arising under the said Plan.

Name and Surname	Company	Number of shares held at the end of the prior year	Number of shares purchased	Number of shares sold	Number of shares held at the end of the current financial year
Sergio De Luca	Ansaldo STS	-	-	-	3,898 <sup>1</sup>
Sante Roberti	Ansaldo STS	-	-	-	3,367 <sup>1</sup>
Giovanni R. Gagliardi <sup>2</sup>	Ansaldo STS	-	-	-	10,878 <sup>1</sup>

## 2.13 COMPANY ESTABLISHMENTS

Situation at 31 December 2007:

<b>GENOA</b>	<b>VIA MANTOVANI 3/5 - 16151</b>	<b>Registered office</b>
<b>NAPLES</b>	<b>VIA ARGINE 425 - 80147</b>	<b>Local Unit</b>
<b>TURIN</b>	<b>VIA VOLVERA 50 - 10045</b>	<b>Local Unit</b>
<b>ROME</b>	<b>VIA DEGLI SCIALOIA 20/22 - 00100</b>	<b>Local Unit</b>

<sup>1</sup> Assigned without consideration in compliance with the 2006-2007 Stock Grant Plan

<sup>2</sup> In charge up to 14 June 2007.

**2.14 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.

Before and after such date, the meeting of the shareholders and the Company's board of directors passed, in relation to the respective powers, various resolutions connected with, and consequent to, the decision to list the shares.

In this context, with a view to the then upcoming stock-market listing, the board of directors, in a meeting held on 12 December 2005, passed a resolution approving the Company's adoption of the *Corporate Governance* system set forth in the then-applicable Corporate Governance Code for Listed Companies adopted by Borsa Italiana S.p.A. in 2002.

Thereafter, in March 2006 the *Corporate Governance* Committee of Borsa Italiana S.p.A. prepared a new version of the Corporate Governance Code for Listed Companies, which is a further development of the preceding code.

On 19 December 2006 the Ansaldo STS S.p.A. board of directors formally stated that it would adopt the new Corporate Governance Code adopted by Borsa Italiana, and at the same time approved a policy statement named "*Reception by ANSALDO STS of the recommendations of the new version of the corporate governance code for listed companies*", indicating the actions proposed and the related timing in order to ensure that the Company would make the transition to the new code in 2007.

Since the adoption of the new code, the Company has been operating in compliance with the recommendations contained therein, as it believes that this will contribute significantly to the realization of the key points of the Company's corporate *Governance policy*.

Consistently with the provisions of the aforementioned policy document and with a view toward incorporating the most recent legislative and regulatory provisions into the Company's *Governance* system, the shareholders decided at a meeting held on 22 May 2007:

- (i) to adjust the by-laws of the Company to (a) the new provisions of TUF (Consolidated Financial Act), as amended by the Savings Law and Legislative Decree no. 303 of 29 December 2006 and by subsequent CONSOB regulations and (b) the provisions of the new Corporate Governance Code;
- (ii) to extend the mandate for the audit engagement conferred to PricewaterhouseCoopers S.p.A. for the 2006-2011 period pursuant to Article 159 of Legislative Decree no. 58 of 24 February 1998 (Consolidated Financial Act) and Article 8 of Legislative Decree no. 303 of 29 December 2006, to the years of 2012, 2013 and 2014;
- (iii) to approve an Ansaldo STS stock grant plan (*stock grant plan*) for the Company's key managers, approving the purchase and the granting of the shares to serve the plan.

On 14 June 2007, the Company's board of directors, pursuant to Article 2365, Paragraph 2 of the Civil Code and the provisions of the by-laws, modified Article 27 of the Company's by-laws so as to ensure their conformity with the provisions of Article 148, Paragraph 2 of the Consolidated Financial Act, as implemented by the Issuer Regulations on the basis of amendments made with the CONSOB Resolution no. 15915/2007 in effect as of 16 May 2007.

Also on 14 June 2007, the Ansaldo STS S.p.A. board of directors appointed Jean Paul Giani, the Company's CFO, as the executive in charge of the preparation of the corporate accounting documents, pursuant to Article 154-bis of the Consolidated Financial Act. In accordance with the provisions of Paragraph 2 of said Article 154-bis, Giani has certified that the First-half Report at 30 June 2007 and the Quarterly Reports of Ansaldo STS S.p.A. relative to the 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> quarter of 2007 correspond with the results in the accounting books and records.

Moreover, during the meetings held on 14 June 2007 and 27 September 2007, the board of directors appointed respectively, in compliance with Art. 2386 of the Italian Civil Code, Sergio De Luca as the chief executive officer of the Company to take the place of Giovanni Roberto Gagliardi and Gerlando Genuardi to take place of the resigning director Mauro Gigante. Since Gerlando Genuardi has certified to comply with the independent

requirements as established by the regulations in force and by the board of directors, the Board of Directors of the Company is presently composed of five independent directors out of nine members.

The Company's main *Governance* instruments are summarized hereunder:

- By-laws
- Ethics code
- Organization, Management and Control Model referenced in 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 Privileged 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](http://www.ansaldo-sts.com).

### **3 OUTLOOK**

In the course of 2008, your Company will continue to carry out activities directed to guarantee a co-ordinated and synergic management of the Group business, with particular reference to the development of the "systems" on the international markets and to the commercial penetration towards markets where the presence of your Company so far has been less strong.

Particular attention will be paid to the identification and pursuit of opportunities of acquisitions and alliances which can increase the ability to compete of the Group in terms of range of products and systemic solutions and of markets considered attackable.

Lastly, of particular importance will be also the activity relative to the constant refinement of the Group Corporate Governance, with reference not only to the national regulatory provisions, but also to the international best practice, with the aim to ensure efficiency, transparency and information to the stakeholders of Ansaldo STS.

#### **4 PROPOSALS TO BE VOTED ON BY THE SHAREHOLDERS**

Dear Shareholders,

the 2007 financial statements, which we submit to your approval, showed a Net Profit of EUR 43,222,519.53.

The proposal we submit to your approval provides, after the allocation to Legal Reserve, the distribution of a dividend of EUR 0.20, gross of withholdings, for each of 99,961,215 shares conferring the right to a dividend of a nominal value of EUR 0.50. The total amount of the dividend, whose distribution is proposed, is therefore equal to EUR 19,992,243.00; this amount corresponds to some 40% of the share capital, to some 46% of the 2007 profit of Ansaldo STS S.p.A. and to some 34% of the 2007 consolidated profit of the Group, which totalled EUR 58,172,010.41.

Consequently, we propose that the Net Profit be allocated as follows:

- EUR 2,161,125.98, corresponding to 5% of the profit itself, to Legal Reserve;
- EUR 19,992,243.00 be allocated to the shareholders through the payment of a dividend of EUR 0.20, gross of withholdings, for each share conferring the right to a dividend, with the exclusion from the calculation of 38,785 shares owned by the Company, with detachment date of the coupons 7 April 2008 and payment from 10 April 2008;
- EUR 21,069,150.55 carried forward.

The amount of the dividend proposed, the first distributed by ANSALDO STS after being listed on the Stock Exchange, is consistent with the cash flow generated in the financial year 2007 from the ordinary activities.

The allocation to reserves of the remaining portion is directed to a further strengthening of the capital resources of the Company and to support a dividend policy focused on the continuity of remuneration to the shareholders.

If you approve the above proposal, we invite you to approve the following resolution:

*“The ordinary shareholders’ meeting of Ansaldo STS S.p.A. dated 31 March / 1 April 2008*

- *having seen the Directors’ Report;*
- *having seen the Board of Auditors’ Report;*
- *having seen the financial statements as at 31 December 2007;*
- *taking due note of the Report of PricewaterhouseCoopers S.p.A*

*resolves*

- *to approve the Directors’ Report and Financial statements at 31 December 2007;*
- *to approve the proposal prepared by the Board of Directors to allocate the Net Profit of EUR 43,222,519.53 as follows:*
  - *EUR 2,161,125.98, corresponding to 5% of the profit itself, to Legal Reserve;*
  - *EUR 19,992,243.00 be allocated to the shareholders through the payment of a dividend of EUR 0.20, gross of withholdings, for each share conferring the right to a dividend, with the exclusion from the calculation of 38,785 shares owned by the Company, with detachment date of the coupons 7 April 2008 and payment from 10 April 2008;*
  - *EUR 21,069,150.55 carried forward.*

Rome, 13 March 2008

On behalf of the Board of Directors  
The Chairman  
Alessandro Pansa

**ACCOUNTING STATEMENTS AND NOTES  
TO THE FINANCIAL STATEMENTS AT 31 DECEMBER  
2007**



## 5 ACCOUNTING STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2007

### 5.1 INCOME STATEMENT

<b>Income Statement</b>			
(€)	<i>Notes</i>	<b>2007</b>	<b>2006</b>
Revenues		-	-
Revenues from related parties	6.23	14,000,430	7,245,456
Other operating income	6.24	1,999	3,583
Other operating income from related parties	6.22	3,497,097	1,830,230
Purchase	6.25	(36,194)	(7,268)
Purchase of services	6.25	(12,653,820)	(10,901,133)
Costs from related parties (less recoveries)	6.22	(2,023,859)	(2,680,562)
Cost of labour	6.26	(8,123,768)	(4,024,092) (*)
Amortization, depreciation and writedowns	6.27	(1,863,020)	(1,705,477)
Other operating costs	6.24	(1,132,018)	(592,573) (**)
Other operating costs from related parties	6.22	134,332	5,221 (**)
Changes in inventories of work in progress, semi-finished and finished goods		-	-
(-) Capitalised costs for internally produced assets		-	-
<b>EBIT</b>		<b>(8,198,821)</b>	<b>(10,826,615)</b>
Financial income	6.28	74,727	56,139
Financial income from related parties	6.22	54,809,384	34,844,881
Financial costs	6.28	(217,095)	(112,673) (*)
Financial costs from related parties	6.22	(6,220,424)	(5,771,975)
Effects of valuation of equity investments accounted for using equity method		-	-
<b>Profit (Loss) before taxes</b>		<b>40,247,771</b>	<b>18,189,757</b>
Income taxes	6.29	2,974,749	-
<b>Net Profit (Loss)</b>		<b>43,222,520</b>	<b>18,189,757</b>
<b>Earnings per share</b>			
<i>Basic and Diluted</i>		0.43	0.18

(\*) 2006 items have been modified as a result of the IAS 19 restatement (ref § 6.4.1);

(\*\*)2006 items have been modified as a result of reclassifications made to amounts pertaining to related parties (ref § 6.4.2).

## 5.2 BALANCE SHEET

(€)	Notes	<u>31.12.2007</u>	<u>31.12. 2006</u>
<b><i>Non-current assets</i></b>			
Intangible Assets	6.7	335,817	444,028
Tangible Assets	6.8	359,041	278,740
Investment properties	6.9	59,208,436	60,783,550
Equity investments	6.10	62,526,627	101,681,666
Deferred taxes	6.29	9,641,294	-
Other assets	6.12	27,501,285	29,066,624
		<u>159,572,500</u>	<u>192,254,608</u>
<b><i>Current assets</i></b>			
Current receivables from related parties	6.11	36,631,609	142,347,601
Tax receivables	6.13	93,609	580,167
Other assets	6.14	1,768,387	2,410,138
Cash and cash equivalents	6.15	536,813	908,911
		<u>39,030,418</u>	<u>146,246,817</u>
<b><i>Total Assets</i></b>		<b>198,602,918</b>	<b>338,501,425</b>
<b><i>Shareholders' equity</i></b>			
Share capital	6.16	49,667,916	49,950,000
Reserves	6.16	51,726,377	49,554,525
Retained earnings/(losses) carried forward	6.16	60,487,338	18,189,757
<b><i>Total Shareholders' Equity</i></b>		<b>161,881,631</b>	<b>117,694,282</b>
<b><i>Non-current liabilities</i></b>			
Severance pay and other employee liabilities	6.18	830,566	334,701
Deferred taxes	6.29	1,554,912	-
Other non-current liabilities	6.19	95,975	41,723
		<u>2,481,453</u>	<u>376,424</u>
<b><i>Current liabilities</i></b>			
Trade payables	6.20	7,352,481	4,909,847
Current payables to related parties	6.11	21,598,154	213,092,476
Financial debts	6.17	37,868	23,000
Tax payables	6.13	2,066,023	290,706
Other current liabilities	6.19	3,185,308	2,114,690
		<u>34,239,834</u>	<u>220,430,719</u>
<b><i>Total Liabilities</i></b>		<b>36,721,287</b>	<b>220,807,143</b>
<b><i>Total liabilities and shareholders' equity</i></b>		<b>198,602,918</b>	<b>338,501,425</b>

### 5.3 CASH FLOW STATEMENT

(€)		<u>31.12.2007</u>	<u>31.12.2006</u>
<i>Cash flow from operating activities:</i>			
Gross cash flow from operating activities	8	(5,573,646)	(7,200,150)
Change in working capital	8	5,244,678	15,218,889
Changes in other operating assets and liabilities	8	(645,940)	(3,015,355)
<b>Cash flow from (used in) operations</b>		<b><u>(974,908)</u></b>	<b><u>5,003,384</u></b>
<i>Cash flow from investing activities:</i>			
Company acquisitions, net of cash acquired		-	(100,159,000)
Investments in tangible assets and intangible assets		(259,990)	(846,737)
Share-premium reserve repayment	2.3	40,000,000	-
Dividends received	6.28	50,241,000	32,000,000
Purchase of treasury shares		(282,084)	-
Other investments		(844,861)	(1,525,366)
<b>Cash flow from (used in) investing activities</b>		<b><u>88,854,065</u></b>	<b><u>(70,531,103)</u></b>
<i>Cash flow from financial activities:</i>			
Net change in other financial debts		(88,020,620)	6,243,784
Capital increases		-	57,678,625
Loss coverage		-	2,490,375
Change in reserves		(230,635)	-
Net change in other financial activities		-	-
<b>Cash flow from financial activities</b>		<b><u>(88,251,255)</u></b>	<b><u>66,412,784</u></b>
Net decrease in cash and cash equivalents		(372,098)	885,065
Cash and cash equivalents at 1 January		908,911	23,846
<b>Cash and cash equivalents at period-end</b>	6.15	<b><u><u>536,813</u></u></b>	<b><u><u>908,911</u></u></b>

The year 2007 ended with a net increase in cash and cash equivalents of EUR 372 thousand, due to the following factors:

- Cash flow from operating activities moves from cash flow generated for EUR 5,004 thousand to cash flow used for EUR 975 thousand, with a negative change of EUR 5,979 thousand, substantially due to the evolution of the working capital.
- Cash flow from investing activities moves from cash flow used for EUR 70,531 thousand to cash flow generated for EUR 88,854 thousand. The positive change of EUR 159,385 thousand is mainly due to the repayment of part of the share-premium reserve for EUR 40,000 thousand, to higher dividends collected from the subsidiaries

Ansaldo Signal N.V. and Ansaldo Trasporti Sistemi Ferroviari S.p.A. (EUR 50,241 thousand) and especially to lower strategic investments. It should be reported, in fact, that the strategic investments for the financial year 2006 were relative to the acquisition by the ultimate parent company Finmeccanica S.p.A. of the equity investments in Ansaldo Signal N.V. and Ansaldo Trasporti Sistemi Ferroviari S.p.A., functional to the listing of the Group on the Stock Exchange occurred in March 2006.

- Cash flow from financial activities moves from cash flow generated for EUR 66,412 thousand to cash flow used for EUR 88,251 thousand with a change of EUR 154,663 thousand due to the capital paid in by Finmeccanica S.p.A. received in the financial year 2006 and to the change in the financial position, which moved from a debt position to a credit position at the end of 2007.

#### **5.4 S.O.R.I.E. - STATEMENT OF RECOGNISED INCOME AND EXPENSE**

(€)	<u>31.12.2007</u>	<u>31.12.2006</u>
Reserves of income (expense) recognised in equity		
- Actuarial gains (losses) related to defined-benefit plans	(15,450)	-
Tax effect on expense/(income) recognised in equity	4,249	-
Income/(expense) recognised in equity	<u>(11,201)</u>	<u>-</u>
Profit (loss) for the year	<u>43,222,520</u>	<u>18,189,757</u>
<b>Total gains/(losses) recognised in equity</b>	<b><u>43,211,319</u></b>	<b><u>18,189,757</u></b>

## **6 NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2007**

### **6.1 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 coordinates the activities of Ansaldo STS.

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 Railway 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 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 S.p.A., and to change its company purpose, 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 S.p.A.. From 29 March 2006 Ansaldo STS was listed on the stock exchange.

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

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 (which is due to finish at the end of 2008), according to which all the companies operating in the Signalling sector have formed internally a Transport Systems Business Unit as well, by using the know-how, skills and experience of Ansaldo Trasporti Sistemi Ferroviari S.p.A.

In Italy, the two companies which operate in the two different business units will merge through incorporation of Ansaldo Segnalamento Ferroviario S.p.A. into Ansaldo Trasporti Sistemi Ferroviari S.p.A., which already holds the entire parcel of stocks of it.

As a result of this complex reorganization, the Dutch sub-holding Ansaldo Signal NV will close down its activity and all the main group companies will be directly controlled by 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.

## **6.2 BASIS OF PREPARATION**

The financial statements of Ansaldo STS S.p.A. at 31 December 2007 have been prepared in accordance with the International Accounting Standards IAS/IFRS (hereinafter IFRS) endorsed by the European Union, supplemented with the related interpretations (Standing Interpretations Committee – SIC and International Financial Reporting Interpretations Committee – IFRIC) issued by the International Accounting Standard Board (IASB).

The IFRSs used for the preparation of the financial statements presented have been supplemented with the IFRIC interpretations in force at the date of preparation of the financial statements themselves. More specifically, the standards used are those approved by the European Union and contained in EU Regulations nos. 1725/2003, 707/2004, 2236/2004, 2237/2004, 2238/2004, 2086/2004, 211/2005, 1751/2005, 1864/2005, 1910/2005, 2106/2005, 108/2006, 708/2006, 1329/2006, 610/2007 and 611/2007.

With regard to the accounting statements, these changes have been made compared with 31 December 2007. Figures at 31 December 2006 have been reclassified for comparative purposes:

- the inclusion at 31 December 2007 of the statements of recognised income and expenses (profit or loss for the year and each item of income and expenses for the year which, as required by other Standards or other Interpretations, is charged directly to equity, and the total amount of these items
- the Income Statement includes “Other operating costs from related parties”, which were previously recognised as “Other operating costs”.
- Based on instructions and clarifications received from the parent company, dividends from related parties were reclassified as “Financial income”.

The effects of changes in the accounting policies above are presented in Section 5 “Effects of changes in the accounting standards adopted”, in which the Balance Sheet and the Income Statement of the financial statements at 31 December 2006 are reconciled with those, reclassified, presented for comparison in these financial statements.

The general standard adopted in the preparation of these accounts is the cost method, except for financial instruments, for which IAS 39 requires - to the extent of financial assets – or permits measurement at fair value.

All figures are in thousands of euros unless otherwise indicated.

These financial statements have been prepared in accordance with IFRSs and were audited by independent auditors PricewaterhouseCoopers S.p.A.



## **6.3 ACCOUNTING STANDARDS ADOPTED**

### **6.3.1 TRANSLATION OF ITEMS IN FOREIGN CURRENCY**

Items denominated in a currency other than the functional currency, whether monetary (cash and cash equivalents, assets and liabilities to be collected or paid with amounts of money that are already set or determinable, etc.) or non-monetary (advances to suppliers of goods and/or services, goodwill, intangible assets, etc.) are originally recognised at the exchange rate ruling at the date of the transaction. Monetary items are later translated into the functional currency at the exchange rate ruling at the reporting date, any translation differences are taken to the income statement. Non-monetary items are maintained at the exchange rate ruling at the date of the transaction, except where the reference exchange rate is persistently unfavourable. If this is the case, exchange differences are taken to the income statement.

### **6.3.2 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 items are entered at 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 expense accrued during and as a result of development of intangible fixed assets are charged to the income statement. Amortization begins when the asset is ready for use and is expensed out on a straight-line basis over its estimated useful life. In the year when the intangible asset is recognised for the first time, amortization is calculated on the actual use of the asset.

### Software costs

The costs related to the development and maintenance of software programs are recognised as costs when incurred. Costs that are directly connected with the production of unique, identifiable software controlled by the Group that generate future financial benefits over a period exceeding one year are entered as intangible assets. Direct costs include the costs related to employees who develop the software as well as any appropriate share of the general costs. 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.

### **6.3.3 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, in addition to any charges relating to dismantling 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 expense relating to the construction of tangible fixed 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 year 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 fixed assets entered is depreciated on a straight-line basis from the date when the asset is available and ready for use, in accordance with its estimated useful life.

The depreciation periods used are as follows:

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

The useful life and residual value of tangible fixed assets are reviewed annually and updated, where applicable, at the end of every year. Land is not subject to depreciation.

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

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

Civil buildings are measured at cost under IAS 40.

#### **6.3.4 INVESTMENT PROPERTIES**

Those investments that can generate cash flows, regardless of the company business, are carried under ‘Investment properties’; they are valued at purchase or construction cost plus any related charges, net accumulated depreciation and impairment, if any. The useful life estimated by the Company for the various classes of investment properties is the same that is used for tangible assets.

### **6.3.5 IMPAIRMENT OF TANGIBLE ASSETS AND INTANGIBLE ASSETS**

Assets with indefinite useful lives are not depreciated but are tested for impairment at least annually to check whether the reported amount can be recovered (impairment test).

For assets that are depreciated or amortised, an assessment is made to determine whether there is any indication of a loss in value. If so, the recoverable value of the asset is estimated, with any excess being recognised in the income statement.

If the reasons for such writedowns should cease to obtain, the asset's book value is restored within the limits of its net book value; the writeback is also taken to the income statement. Under no circumstances, however, is the value of goodwill that has been written down restored to its previous level.

### **6.3.6 EQUITY INVESTMENTS**

The company classifies its equity investments as follows:

- "subsidiaries" in which the owner of the interest has the power to determine the financial and operating decisions and to receive the related benefits;
- "associated companies" in which the owner of the interest exercises significant influence (which is assumed to exist when owner can exercise at least 20% of the votes in the ordinary shareholders' meeting). This also includes companies subject to joint control (joint ventures);
- "parent companies", when the company held holds shares in its own parent;
- "other companies" and "consortia" that do not fall under any of the categories above.

Equity investments due to be sold and those purchased for the sole purpose of being sold within twelve months are classified separately under "assets held for sale".

Investments in subsidiaries (including those subject to joint control), associates and other companies, with the exception of those that are held for sale, are recognised at the cost of purchase or start-up.

The cost value is maintained in subsequent financial statements except in the event of a loss of value, or any writeback, following a change in its economic use or capital transactions. Equity investments held for sale are carried at the lower of cost and fair value net of sales costs.

A list of investee companies is contained in these Notes. With regard to subsidiaries, the figures contained are taken from the respective financial statements at 31 December 2007 approved by the Board of Directors; in the case of associates and other companies, the carrying amounts of the investments have been compared with the shareholders' equity of the investees, as appearing in the latest financial statements available.

### **6.3.7 RECEIVABLES AND FINANCIAL ASSETS**

The company classifies its financial assets into the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables;
- financial assets held to maturity;
- financial assets available for sale.

Management classifies assets at the time they are first recognised.

Starting with these financial statements, the company has adopted IFRS 7 "Financial instruments: Disclosures", which requires disclosing information contained in the relevant section in the Report on Operations.

#### **FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

This category includes financial assets acquired for the purpose of short-term trading transactions, or designated for this use by management, as well as derivatives, which are discussed in the next section. The fair value of these instruments is determined with reference to their end-of-period bid price. For unlisted instruments, the fair value is calculated using commonly adopted valuation techniques. Changes in the fair value of instruments in this category are recognised immediately in the income statement.

The classification of assets as current or non-current reflects management's expectations regarding their trading. Current assets include those that are planned to be sold within 12 months or those designated as held for trading purposes.

#### **LOANS AND RECEIVABLES**

This category includes non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are measured at their amortised cost using the effective interest method. Should objective evidence of impairment emerge, the value of the asset is reduced to the value obtained by discounting the expected cash flows from the asset. The loss ascertained in the impairment test is recognised in profit or loss. If the reasons for the writedown should cease to obtain, the value of the asset is restored up to the amortised cost value it would have if no impairment had been recognised. Loans and receivables are posted under current assets except for the portion falling due beyond 12 months, which is carried under non-current assets.

#### **FINANCIAL ASSETS HELD TO MATURITY**

These are non-derivative assets with fixed maturities that the company has the intention and ability to hold to maturity. They are measured at their amortised cost using the effective interest method. Those maturing within 12 months are carried as current assets. Should objective evidence of impairment emerge, the value of the asset is reduced to the value obtained by discounting the expected cash flows from the asset. The loss ascertained in the impairment test is recognised in profit or loss. If the reasons for the writedown should cease to obtain in future periods, the value of the asset is restored up to the amortised cost value it would have if no impairment had been recognised.

#### **FINANCIAL ASSETS AVAILABLE FOR SALE**

This category encompasses non-derivative financial assets specifically designated as available for sale or are not classified in any of the previous items.

They are recognised at fair value, which is calculated with reference to their market price at the reporting date or using financial valuation techniques and models. Changes in value are recognised in a specific equity item ("Reserve for assets available for sale"). The reserve is taken to the income statement only when the financial asset is effectively sold or, in cases of a loss of value, when it become evident that the impairment in value already recognised in equity is unrecoverable. Classification as current or non-current depends on the intentions of management and the effective marketability of the asset itself. Assets that are expected to be sold within 12 months are carried under current assets.

Should objective evidence of impairment emerge, the value of the asset is reduced to the value obtained by discounting the expected cash flows from the asset: reductions in value previously recognised in equity are reversed to profit or loss. If the reasons for the writedown should cease to obtain, the value of the asset is restored.

#### **6.3.8 FINANCIAL LIABILITIES**

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

### **6.3.9 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 stated at fair value.

### **6.3.10 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.

#### **OTHER RESERVES**

Other reserves include legal reserve, reserves linked to subsidised loans, other reserves required by law and the stock grant reserve for the recognition of defined-benefit plans as equity compensation.

#### **TREASURY SHARES**

They are shown so as to decrease the share capital. No gains or losses from the purchase, sale, issue or cancellation of treasury shares have been recognised in the income statement.

#### **RETAINED EARNINGS/(LOSSES) CARRIED FORWARD**

These include net profits or losses for the year 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.

### **6.3.11 PAYABLES AND OTHER LIABILITIES**

Payables and other liabilities are originally recognised at fair value, less transaction costs. They are subsequently valued at their amortised cost using the effective interest rate method.

Payables and other liabilities are defined as current liabilities unless the Company has the contractual right to settle its debts at least 12 months after the reporting date.

Starting with these financial statements, the company has adopted IFRS 7 “Financial instruments: Disclosures”, which requires disclosing information contained in the relevant section in the Report on Operations.

### **6.3.12 DEFERRED TAXES**

Deferred taxes are calculated based on temporary differences between the value of the assets and liabilities included in the company’s financial statements and the value attributed to those assets/liabilities for tax purposes. Deferred tax assets and liabilities are valued using the rate applying when the temporary differences reverse. Deferred tax assets are calculated to the extent that taxable income is considered to be likely, in the years when the relevant temporary differences reverse, and is at least equal to the amount of the differences to be reversed.

### **6.3.13 EMPLOYEE BENEFITS**

#### **POST-EMPLOYMENT BENEFITS**

The company uses several types of pension and supplementary benefit plans, which can be classified as follows:

- *Defined contribution plans* in which the company pays fixed amounts to a distinct entity (e.g. a fund) but has no legal or constructive obligation to make further payments if the fund does not have sufficient assets to pay the benefits accrued by employees during their period of employment with the company. The company recognises the contributions to the plan only if employees rendered their services to the company specifically in exchange for these contributions;
- *Defined benefit plans* in which the company undertakes to provide agreed benefits for current and former employees and incur the actuarial and investment risks associated with the plan. The cost of the plan is therefore not determined by the amount of the contributions payable in the financial period but, rather, is redetermined with reference to demographic, statistical, actuarial and economic and financial assumptions. The methodology used is the projected unit credit method. The "trattamento di fine rapporto" referred to in Article 2120 of the Italian Civil Code belongs to this category.

The Company recognises defined-benefit plans using the equity method, under which the actuarial gains and losses of all plans are directly recognised in equity in the year they are realised.

With regard to the recognition of the costs related to defined-benefit plans, past and present service cost are recognised under "Cost of labour". On the contrary, interest costs, net of the expected return on plan assets, are recognised as financial interest expense.

#### **OTHER LONG-TERM BENEFITS AND POST-EMPLOYMENT BENEFITS**

The Company grants 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 net 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 uses stock grant plans as part of its compensation of senior management as defined by the parent company and relating to shares of the parent company. In these cases, the theoretical benefit attributable to the recipients is charged to the income statement in the financial periods for which the plan is operative with a contra-item in an equity reserve. The benefit is quantified by measuring the fair value of the assigned instrument using financial valuation techniques that take account of market conditions and, at the date of each annual or interim report, an updated estimate of the number of instruments expected to be distributed.

#### **6.3.14 PROVISIONS FOR SHORT-TERM RISKS AND CHARGES**

Provisions for short-term risks and charges cover certain or probable losses and charges whose timing or amount was uncertain at the reporting date.

The provision is recognised only when a current obligation (legal or constructive) exists as a result of past events and it is probable that an outflow of economic resources will be required to settle the obligation. The amount accrued reflects the best current estimate of the cost of fulfilling the obligation. The interest rate used to determine the present value of the liability reflects current market rates and includes the additional effects relating to the specific risk associated with each liability.

Risks for which the emergence of a liability is merely a possibility are reported in the section in the notes on commitments and risks and no provision is recognised.

### **6.3.15 LEASING**

#### **FINANCE LEASE CONTRACTS WHERE THE COMPANY IS A LESSEE**

At the date on which a lease is first recognised, the company records a non-current asset and a financial liability at the lower of the fair value of the asset and the present value of the minimum lease payments at the date of the inception of the lease, using the implicit interest rate in the lease or the incremental borrowing rate. Subsequently, an amount equal to the depreciation expense for the asset and the finance charge separated from principal component of the lease payment made in the period is recognised in the income statement.

#### **FINANCE LEASE CONTRACTS WHERE THE COMPANY IS A LESSOR**

At the date on which a lease is first recognised, the value of the leased asset is eliminated from the balance sheet and a receivable equal to the net investment in the lease is recognised. The net investment is the sum of the minimum payments plus the residual unguaranteed value discounted at the interest rate implicit in the lease contract. Subsequently, financial income is recognised in the income statement for the duration of the

contract in an amount providing a constant periodic rate of return on the lessor's net investment.

The unsecured residual value is reviewed periodically for possible impairment.

#### **OPERATING LEASES**

Receipts and payments in respect of contracts qualifying as operating leases are recognised in the income statement over the duration of the contract.

#### **6.3.16 REVENUE RECOGNITION**

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

#### **6.3.17 GRANTS**

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

### **6.3.18 COSTS**

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

### **6.3.19 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, unamortised discounts, commissions, etc.) of a given transaction are made financially equivalent. Financial costs are not charged as an asset.

### **6.3.20 DIVIDENDS**

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

### **6.3.21 INCOME 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 credits. Deferred tax assets, including tax loss carryforwards, for the portion that is not offset by deferred tax liabilities, are recognised to the extent that it is probable that there will be future taxable income against which they can be applied.

Deferred taxes are assessed using tax rates that will be applicable to the years in which temporary differences will be realised or cancelled out.

Current and deferred taxes are entered in the 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.

### **6.3.22 TRANSACTIONS WITH RELATED PARTIES**

Related party transactions are made at arm's length.

### **6.3.23 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS**

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

#### **WRITEDOWN OF FIXED ASSETS**

In accordance with the accounting standards applied by the Company, fixed assets are tested for impairment, which must be recorded via a writedown, 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 Company and in the market, as well as on experience. Moreover, if it is established that an impairment may have occurred, the Company 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 statutory financial statements are drawn up.

## **6.4 EFFECTS OF CHANGES IN THE ACCOUNTING STANDARDS ADOPTED**

### **6.4.1 ADOPTION OF THE EQUITY METHOD IN THE RECOGNITION OF THE DEFINED-BENEFIT PLANS**

Up to the financial statements ended 31 December 2006, the Company recognised actuarial gains and losses related to defined-benefit plans in accordance with the corridor method. Starting from 1 January 2006, the updated version of IAS 19 allows the recognition of these actuarial components directly and in full in equity, net of the related deferred tax effect (“equity option”). As a result of this treatment, actuarial gains and losses are no longer reflected in the income statement in the subsequent years. This method appears to be more suitable to the need to reflect in the financial statements the actual value of the liability as compared with the corridor approach, preserving at the same time the income statement from the recognition of the fluctuation of the actuarial components, which are highly volatile.

Therefore the Group adopted the “equity option” starting from the current financial statements: the comparative periods presented have been, in application of the retrospective method, whose application is required by IAS 8, 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) 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 charges and no longer in cost of labour.



#### 6.4.2 RECLASSIFICATION OF PROFIT AND LOSS AMOUNTS FROM THIRD PARTIES TO RELATED PARTIES

It should be noted that the 2006 income statement has been reclassified in the following items:

- other operating costs – for recoveries that had been originally recognised as being from minority interests, but relate to subsidiaries Ansaldo Signal N.V. and Ansaldo Trasporti Sistemi Ferroviari S.p.A. instead (EUR 6 thousand).

These changes have an impact on the Income Statement only. The relevant comparative income statement is the following:

##### Income Statement

(€)	<b>2006</b>	<i>Effect of changes</i>	<i>Reclassifications from related parties</i>	<b>2006 "Restated"</b>
Revenues	-			-
Revenues from related parties	7,245,456			7,245,456
Other operating income	3,583			3,583
Other operating income from related parties	1,830,230			1,830,230
Purchase	(7,268)			(7,268)
Purchase of services	(10,901,133)			(10,901,133)
Costs from related parties (less recoveries)	(2,680,562)			(2,680,562)
Cost of labour	(4,032,364)	<b>8,272</b>		(4,024,092)
Amortization, depreciation and writedowns	(1,705,477)			(1,705,477)
Other operating costs	(587,352)		<b>(5,221)</b>	(592,573)
Other operating costs from related parties	-		<b>5,221</b>	5,221
Changes in inventories of work in progress, semi-finished and finished goods	-			-
(-) Capitalised costs for internally produced assets	-			-
<b>EBIT</b>	<b>(10,834,887)</b>	<b>8,272</b>	<b>-</b>	<b>(10,826,615)</b>
Financial income	56,139			56,139
Financial income from related parties	34,844,881			34,844,881
Financial costs	(104,401)	<b>(8,272)</b>		(112,673)
Financial costs from related parties	(5,771,975)			(5,771,975)
Effects of valuation of equity investments accounted for using equity method	-			-
<b>Profit (Loss) before taxes</b>	<b>18,189,757</b>	<b>-</b>	<b>-</b>	<b>18,189,757</b>
Income taxes	-			-
<b>Net Profit (Loss)</b>	<b>18,189,757</b>	<b>-</b>	<b>-</b>	<b>18,189,757</b>
<b>Earnings per share</b>				
<i>Basic and Diluted</i>	0.18			0.18

## **6.5 EFFECTS OF THE REFORM OF SEVERANCE PAY LEGISLATION (2007 FINANCE LAW AND ENABLING ACTS)**

With regard to the severance pay, that is recognised as a defined-benefit plan at 31 December 2006, Law no. 296 of 27 December 2006 ('Finance Law 2007') and subsequent Decrees and Regulations issued in 2007 introduced, as part of the reform of the social security system, significant changes as to where to allocate the severance pay provision.

Specifically, the employee may choose to put the new accruals to the severance pay provision in supplementary pension schemes of his choice, or to keep them at the company (for companies with less than 50 employees), or to transfer them to the INPS (for companies with more than 50 employees).

This reform had no effects on Ansaldo STS S.p.A., since it does not have more than 50 employees at 31 December 2007.

## **6.6 SEGMENT REPORTING**

Segment reporting is not significant at the reporting date since the core business of the Company includes guiding, control and supporting activities to the benefit of companies of the Ansaldo STS Group. Below is a breakdown of revenues by geographic area.

### **Revenues by geographic area**

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

<i>(EUR 000)</i>	<u>31.12.2007</u>	<u>31.12.2006</u>
Italy	6,995	3,900
Rest of Western Europe	2,381	1,200
North America	2,372	1,269
Asia/Pacific	2,252	877
Other	-	-
	<u>14,000</u>	<u>7,246</u>

Geographically, assets break down as follows:

<i>(EUR 000)</i>	<u><b>31.12.2007</b></u>	<u><b>31.12.2006</b></u>
Italy	148,902	271,265
Rest of Western Europe	45,017	64,946
North America	1,986	1,305
Asia/Pacific	2,698	986
Other	-	-
	<u><b>198,603</b></u>	<u><b>338,502</b></u>

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

<i>(EUR 000)</i>	<u><b>31.12.2007</b></u>	<u><b>31.12.2006</b></u>
Italy	260	847
Rest of Western Europe	-	-
North America	-	-
Asia/Pacific	-	-
Other	-	-
	<u><b>260</b></u>	<u><b>847</b></u>

## 6.7 INTANGIBLE ASSETS

<i>(EUR 000)</i>	Goodwill	Development costs	Patent and similar rights	Concessions, licences and trademarks	Other	Total
<i>1 January 2006</i>						
Cost	-	-	-	-	-	-
Amortization and writedowns	-	-	-	-	-	-
<b>Book value</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Investments	-	-	-	-	543	543
Sales	-	-	-	-	-	-
Amortization	-	-	-	-	(102)	(102)
Increases due to business combinations	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-
Other changes	-	-	-	-	3	3
<i>31 December 2006 breaking down as follows:</i>						
Cost	-	-	-	-	546	546
Amortization and writedowns	-	-	-	-	(102)	(102)
<b>Book value</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>444</b>	<b>444</b>
Investments	-	-	-	-	106	106
Sales	-	-	-	-	-	-
Amortization	-	-	-	-	(214)	(214)
Increases due to business combinations	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-
Other changes	-	-	-	-	-	-
<i>31 December 2007 breaking down as follows:</i>						
Cost	-	-	-	-	652	652
Amortization and writedowns	-	-	-	-	(316)	(316)
<b>Book value</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>336</b>	<b>336</b>

Purchases for the period were EUR 106 thousand and exclusively relate to ‘software applications’ that are necessary to the performance of company operations.

These are assets with a definite useful life that are amortised over 3 years.

## 6.8 TANGIBLE ASSETS

<i>(EUR 000)</i>	<b>Land and buildings</b>	<b>Plant and machinery</b>	<b>Equipment</b>	<b>Other</b>	<b>Total</b>
<i>1 January 2006</i>					
Cost	-	-	-	-	-
Revaluations	-	-	-	-	-
Depreciation and writedowns	-	-	-	-	-
<b>Book value</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Investments	-	-	4	291	295
Sales	-	-	-	-	-
Amortization	-	-	(1)	(15)	(16)
Increases due to business combinations	-	-	-	-	-
Reclassifications	-	-	-	-	-
Other changes	-	-	-	-	-
<i>31 December 2006 breaking down as follows:</i>					
Cost	-	-	4	291	295
Revaluations	-	-	-	-	-
Depreciation and writedowns	-	-	(1)	(15)	(16)
<b>Book value</b>	<b>-</b>	<b>-</b>	<b>3</b>	<b>276</b>	<b>279</b>
Investments	-	-	4	134	138
Sales	-	-	-	-	-
Amortization	-	-	(1)	(56)	(57)
Increases due to business combinations	-	-	-	-	-
Reclassifications	-	-	-	-	-
Other changes	-	-	-	(1)	(1)
<i>31 December 2007 breaking down as follows:</i>					
Cost	-	-	8	425	138
Revaluations	-	-	-	-	-
Depreciation and writedowns	-	-	(2)	(72)	(58)
<b>Book value</b>	<b>-</b>	<b>-</b>	<b>6</b>	<b>353</b>	<b>359</b>

Purchases for the year relate to:

- Equipment of EUR 4,000 thousand to purchase electronic office equipment.
- Other assets of EUR 134 thousand due to the purchase of furniture, fittings, electronic equipment and signs.

## 6.9 INVESTMENT PROPERTIES

<i>(EUR 000)</i>	<b>Land and buildings</b>	<b>Other assets</b>	<b>Total</b>
<i>1 January 2006</i>			
Cost	62,378	-	62,378
Revaluations	-	-	-
Depreciation and writedowns	(15)	-	(15)
<b>Book value</b>	<b>62,363</b>	<b>-</b>	<b>62,363</b>
Investments	9	-	9
Sales	-	-	-
Depreciation	(1,589)	-	(1,589)
Reclassifications	-	-	-
Other changes	-	-	-
<i>31 December 2006 breaking down as follows:</i>			
Cost	62,387	-	62,387
Revaluations	-	-	-
Depreciation and writedowns	(1,604)	-	(1,604)
<b>Book value</b>	<b>60,783</b>	<b>-</b>	<b>60,783</b>
Investments	16	-	16
Sales	-	-	-
Depreciation	(1,591)	-	(1,591)
Reclassifications	-	-	-
Other changes	-	-	-
<i>31 December 2007 breaking down as follows:</i>			
Cost	62,403	-	62,403
Revaluations	-	-	-
Depreciation and writedowns	(3,195)	-	(3,195)
<b>Book value</b>	<b>59,208</b>	<b>-</b>	<b>59,208</b>

Investment property includes the value of the premises owned by Ansaldo STS S.p.A. and 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.

Most of the property is leased to the subsidiaries Ansaldo Trasporti Sistemi Ferroviari and Ansaldo Segnalamento Ferroviario, whose secondary offices are in Via Mantovani 3/5: the relevant rental fees are recognised under ‘Other operating income’.

The value recognised as investment property is the purchase cost, as stated in the appraisal report prepared before it was sold by Finmeccanica S.p.A.

The investment is depreciated on a straight-line basis over a useful life of 33 years.

In accordance with IAS, the component approach was applied to the above amount based on an expert appraisal, and therefore the amount of EUR 9,353 thousand was reclassified among the item 'Land'. During the year, this figure rose by EUR 16 thousand due to activities for the upgrading of hydraulic plants and the creation of new workstations.

## 6.10 EQUITY INVESTMENTS

<i>(EUR 000)</i>	<u>31.12.2007</u>	<u>31.12.2006</u>
<i>Opening balance</i>	101,682	-
Acquisitions/subscriptions and capital increases	-	100,159
Revaluations/writedowns	-	-
Repayment of share premium reserve	(40,000)	-
Sales	-	-
Other changes	845	1,523
<b><i>Closing balance</i></b>	<b><u>62,527</u></b>	<b><u>101,682</u></b>

Equity investments totalled EUR 65,527 thousand and relate to Ansaldo Trasporti Sistemi Ferroviari S.p.A. and Ansaldo Signal N.V.

During the year the investment in Ansaldo Signal N.V. decreased by EUR 40,000 thousand due to the repayment of a part of the share premium reserve. Also, the values of the equity investments were aligned following the 2006 delivery and the 2007 assignment of the shares envisaged in the "Stock Grant Plan" of Ansaldo STS S.p.A., which brought a net increase of EUR 845 thousand (EUR 1,523 thousand at 31 December 2006), of which a decrease of EUR 22 thousand was due to Ansaldo Signal N.V. and an increase of EUR 867 thousand was due to Ansaldo Trasporti Sistemi Ferroviari S.p.A..

### List of equity investments at 31 December 2007

<i>Company Name</i>	<i>% ownership</i>	<i>Value of equity investment</i>	<i>Total assets</i>	<i>Total liabilities</i>
<i>(EUR 000)</i>				
<b><i>Subsidiaries and associates</i></b>				
Ansaldo Signal NV	100%	23,153	759,631	649,816
Ansaldo Trasporti-Sistemi Ferroviari S.p.A.	100%	39,374	363,785	308,652
<b><i>Total investments</i></b>		<b><u>62,527</u></b>		

Appendices 11.1 and 11.2 contain a list of investees with the information required to be given under the Italian Civil Code.

## **6.11 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. Amounts are reported below:

### **RECEIVABLES AT 31 DEC 2007**

	<b>Non-current financial receivables</b>	<b>Other non-current receivables</b>	<b>Current financial receivables</b>	<b>Trade receivables</b>	<b>Other current receivables</b>	<b>Total</b>
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(EUR 000)

#### **Parent Companies**

Finmeccanica S.p.A.	-	-	283	-	-	283
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#### **Subsidiaries**

Ansaldo Signal NV	-	-	20,354	-	-	20,354
Ansaldo Segnalamento Ferroviario S.p.A.	-	-	-	1,454	5,458	6,912
Ansaldo STS Sweden AB	-	-	-	9	6	15
Ansaldo STS Ireland Ltd	-	-	-	53	2	55
Ansaldo STS UK Ltd	-	-	-	161	6	167
Union Switch and Signal Inc	-	-	-	1,235	748	1,983
Union Switch and Signal Int. Co.	-	-	-	-	4	4
Ansaldo STS France S.A.	-	-	-	759	504	1,263
Ansaldo STS Australia Pty Ltd	-	-	-	1,431	195	1,626
Union Switch and Signal Private Ltd	-	-	-	1,012	61	1,073
Ansaldo Trasporti-Sistemi Ferroviari S.p.A.	-	-	-	1,064	1,560	2,624

#### **Other Group companies**

Ansaldo Energia S.p.A.	-	-	-	1	-	1
Ansaldo Breda S.p.A.	-	-	-	-	23	23
Elsag Datamat S.p.A.	-	-	-	-	240	240
Orizzonte Sistemi Navali S.p.A.	-	-	-	-	3	3
Selex Communications S.p.A.	-	-	-	2	-	2
Fata S.p.A.	-	-	-	-	4	4

<b>Total</b>	-	-	<b>20,637</b>	<b>7,181</b>	<b>8,814</b>	<b>36,632</b>
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**PAYABLES AT 31 DEC 2007**

	Non-current financial debts	Other long-term debt	Current borrowings	Trade payables	Other current payables	Total
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(EUR 000)

**Parent Companies**

Finmeccanica S.p.A.	-	-	-	67	135	202
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**Subsidiaries**

Ansaldo Segnalamento Ferroviario S.p.A.	-	-	-	302	5,410	5,712
Ansaldo STS UK Ltd	-	-	-	20	-	20
Union Switch and Signal Inc	-	-	-	27	-	27
Ansaldo STS France S.A.	-	-	-	115	-	115
Ansaldo Trasporti-Sistemi Ferroviari S.p.A.	-	-	11,639	25	3,356	15,020

**Associated companies**

Ansaldo Energia S.p.A.	-	-	-	120	-	120
Elsag Datamat S.p.A.	-	-	-	289	-	289
Finmeccanica Group Service S.p.A.	-	-	-	86	-	86
HR Gest S.p.A.	-	-	-	7	-	7

<b>Total</b>	-	-	<b>11,639</b>	<b>1,058</b>	<b>8,901</b>	<b>21,598</b>
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**RECEIVABLES AT 31  
DEC 2006**

	Non- current financial receivables	Other non- current receivables	Current financial receivables	Trade receivables	Other current receivables	Total
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(EUR 000)

**Parent Companies**

Finmeccanica S.p.A.	-	-	132,128	-	-	132,128
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**Subsidiaries**

Ansaldo Signal NV	-	-	-	7,600	677	8,277
Ansaldo Trasp. Sist.Ferrov.	-	-	-	1,870	73	1,943

<b>Total</b>	-	-	<b>132,128</b>	<b>9,470</b>	<b>750</b>	<b>142,348</b>
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**PAYABLES AT 31 DEC  
2006**

	Non-current financial debts	Other long-term debt	Current borrowings	Trade payables	Other current payables	Total
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(EUR 000)

**Parent Companies**

Finmeccanica S.p.A.	-	-	-	-	230	230
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**Subsidiaries**

Ansaldo Signal NV	-	-	59,789	496	336	60,621
Ansaldo Trasp. Sist.Ferrov.	-	-	152,040	-	152	152,192

**Associated companies**

Ansaldo Industria	-	-	-	3	-	3
Elsag Datamat S.p.A.	-	-	-	42	-	42
So.Ge.Pa.	-	-	-	4	-	4

<b>Total</b>	-	-	<b>211,829</b>	<b>545</b>	<b>718</b>	<b>213,092</b>
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Receivables from and payables to the parent company Finmeccanica S.p.A. mainly relate to:

- Current accounts: the current account (a positive EUR 283 thousand at 31 December 2007) is used to offset trade receivables and payables with the parent company Finmeccanica and the enterprises of the Finmeccanica group and is also used for the transit of balances of bank accounts. During the year a term deposit was closed with the parent company Finmeccanica. The deposit generated financial income during the year.
- Charges for services rendered by Finmeccanica.

Receivables and payables with subsidiaries Ansaldo Signal N.V. and Ansaldo Trasporti Sistemi Ferroviari S.p.A. relate to:

**Financial receivables and payables**

- Ansaldo Trasporti Sistemi Ferroviari S.p.A.: current account, a negative balance of EUR 11,639 thousand at 31 December 2007. It is used by ATSF to offset trade receivables and payables with the parent company ASTS, the enterprises of the Ansaldo STS group and of the Finmeccanica group. During the year a term deposit was closed with the subsidiary Ansaldo Trasporti Sistemi Ferroviari S.p.A.. The deposit generated financial costs during the year.

- Ansaldo Signal N.V.: the current account, a positive balance of EUR 20,354 thousand at 31 December 2007. It is used by ASNV to offset trade receivables and payables with the parent company ASTS, the enterprises of the Ansaldo STS group and of the Finmeccanica group, and is also used for the transit of balances of bank accounts. During the year a term deposit was closed with the subsidiary Ansaldo Signal N.V.. The deposit generated financial costs during the year.

#### Trade receivables and payables

Trade receivables and other current receivables in relation with:

- services performed by the parent company Ansaldo STS in connection with the ‘General Service Agreement’;
- invoices for the license to use the "Ansaldo" brand and the “Globo” brand pertaining to the year;
- rental fee for the property located in Genoa, Via Mantovani 3/5, owned by Ansaldo STS where the offices and production units of Ansaldo Trasporti Sistemi Ferroviari and Ansaldo Segnalamento Ferroviario - a subsidiary of Ansaldo Trasporti Sistemi Ferroviari S.p.A. - are located;
- recharge of the portion pertaining to the year of the insurance costs incurred by the parent company Ansaldo STS S.p.A. in favour of the Group companies;
- recharge of the portion pertaining to the year of staff seconded at the subsidiaries Ansaldo Signal N.V. and Ansaldo Trasporti Sistemi Ferroviari S.p.A.

Trade payables and other current payables for:

- Amount for the management and use of the common services in the Genoa offices, and costs for HR services charged over by the Italian subsidiary of Ansaldo Trasporti Sistemi Ferroviari S.p.A. (Ansaldo Segnalamento Ferroviario S.p.A.).
- Staff seconded charged over by companies of the Ansaldo Signal N.V. group;
- Treasury service costs charged over by Ansaldo Signal N.V.;
- Costs for compensation of directors and staff of Ansaldo Trasporti Sistemi Ferroviari S.p.A.

Receivables from and payables to Associated Companies mainly relate to commercial activities:

- Provision of ITC services charged over by Elsag Datamat S.p.A.;
- staff seconded charged over by Orizzonte Sistemi Navali;
- recovery of costs for staff of Ansaldo STS S.p.A. with board offices at Ansaldo Breda;
- cost of labour charged over by Ansaldo Energia S.p.A.
- costs of software development and maintenance, maintenance on leased assets, property leases with relevant services, press clippings from Finmeccanica Group Service S.p.A..

Other sundry receivables and payables:

- Current payables to subsidiaries Ansaldo Segnalamento Ferroviario S.p.A. and Ansaldo Trasporti Sistemi Ferroviari S.p.A. following the transfer of the relevant deferred and current tax assets due to the consolidated taxation mechanism, specifically EUR 5,410 thousand of deferred tax assets from Ansaldo Segnalamento Ferroviario S.p.A., EUR 3,275 thousand of deferred tax assets and EUR 51 thousand of current taxes from Ansaldo Trasporti Sistemi Ferroviari S.p.A.

- Current receivables to subsidiaries Ansaldo Segnalamento Ferroviario S.p.A. and Ansaldo Trasporti Sistemi Ferroviari S.p.A. following the transfer of the relevant deferred and current tax assets due to the consolidated taxation mechanism, specifically EUR 734 thousand of deferred tax assets and EUR 3,811 thousand of current taxes from Ansaldo Segnalamento Ferroviario S.p.A., EUR 821 thousand of deferred taxes from Ansaldo Trasporti Sistemi Ferroviari S.p.A.

## 6.12 RECEIVABLES AND OTHER NON-CURRENT ASSETS

<i>(EUR 000)</i>	<u>31.12.2007</u>	<u>31.12.2006</u>
Loans to third parties	-	-
Guarantee deposits	-	-
Receivables for sales under finance leases	-	-
Other	-	-
<b>Non-current receivables</b>	<u>-</u>	<u>-</u>
Financial prepaid expenses – non-current amount	29	88
Other prepaid expenses - Finmeccanica	27,368	28,979
Other prepaid expenses – Finmeccanica Group Services	104	-
Other non-current assets	-	-
<b>Other non-current assets</b>	<u>27,501</u>	<u>29,067</u>

On 27 December 2005, Ansaldo STS S.p.A. entered into a licensing agreement with Finmeccanica to use the "Ansaldo" brand under which the Company is known in the market. Under the agreement, in exchange for an up-front payment of EUR 32,213 thousand, the Company has exclusive use of the brand in the sectors it does business for the next 20 years. Other non-current assets decreased by EUR 1,566 thousand. The change is due to the inclusion in the income statement of the above-said prepaid expense for the year (EUR 1,611 thousand), the decrease in prepaid expenses for credit lines commissions (EUR 59 thousand) and, up from the prior year, the new prepaid expenses to Finmeccanica Group Services for a lease contract (EUR 104 thousand).

Changes for the year and a breakdown of assets by maturity, by foreign currency and by geographical area are provided in Appendix 11 to these Notes.

### 6.13 TAX RECEIVABLES AND PAYABLES

(EUR 000)	31.12.2007		31.12.2006	
	Receivables	Payables	Receivables	Payables
Direct taxes	-	1,702	-	-
Indirect taxes	94	-	565	285
Other taxes	-	364	15	6
	<b>94</b>	<b>2,066</b>	<b>580</b>	<b>291</b>

Tax receivables at 31 December 2007 amounted to EUR 94 thousand and fully refer to the VAT receivable. They fell by EUR 486 thousand compared with 2006. The change is due to the performance of ordinary operations.

Tax payables at 31 December 2007 amounted to EUR 2,066 thousand, up EUR 1,775 thousand compared with 2006; this change is mainly due to the consolidated taxation mechanism adopted for the IRES tax by Ansaldo STS S.p.A. as consolidating company with the Italian companies Ansaldo Segnalamento Ferroviario S.p.A. and Ansaldo Trasporti Sistemi Ferroviari S.p.A.. Under the consolidated taxation mechanism, the Parent Company pays the total amount of the IRES tax due, which brought a liability of EUR 1,614 thousand. The liability originates from the current taxes due transferred from Ansaldo Segnalamento Ferroviario S.p.A. (EUR 3,811 thousand), less the current tax receivables transferred from Ansaldo Trasporti Sistemi Ferroviari S.p.A. (EUR 51 thousand), the Ansaldo STS S.p.A.'s income from consolidation following the tax loss for the year (EUR 2,110 thousand) and withholding taxes (EUR 34 thousand).

Additional payables for direct taxes of EUR 88 thousand relate to the current IRAP of Ansaldo STS S.p.A.

Other taxes of EUR 364 thousand fully relate to payables for withholdings on income from employment, similar and self-employed work.

Changes for the year and a breakdown of assets by maturity in foreign currency and by geographical area are provided in Appendix 11 to these Notes.

## 6.14 OTHER CURRENT ASSETS

<i>(EUR 000)</i>	<u>31.12.2007</u>	<u>31.12.2006</u>
Prepaid expenses - current portion	1,724	2,368
Equity investments	-	-
Derivatives	-	-
Receivables for contributions	-	-
Receivables from employees and social security	23	41
Other assets	21	1
	<u>1,768</u>	<u>2,410</u>

Prepaid expenses relate to the annual portion of the costs incurred to purchase the licence to use the “Ansaldo” brand (EUR 1,611 thousand), rental fees and maintenance costs (EUR 52 thousand) and financial costs (EUR 61 thousand).

Receivables from employees and social security institutions mainly relate to the advance of amounts due.

Changes for the year and a breakdown of assets by maturity in foreign currency and by geographical area are provided in Appendix 11 to these Notes.

## 6.15 CASH AND CASH EQUIVALENTS

<i>(EUR 000)</i>	<u>31.12.2007</u>	<u>31.12.2006</u>
Cash	3	1
Bank deposits	534	908
	<u>537</u>	<u>909</u>

Cash and cash equivalents fell by EUR 372 thousand.

The amount of bank deposits at 31 December 2007 was EUR 534 thousand and breaks down as follows:

- San Paolo Imi – Genoa: 414
- Monte dei Paschi di Siena: 78
- San Paolo Imi – Rome: 24
- Banca Santander: 9
- ING Bank N.V.: 6
- BNL: 3

## 6.16 SHAREHOLDERS' EQUITY

Shareholders' equity at 31 December 2007 amounted to EUR 161,882 thousand, a net increase of EUR 44,188 thousand.

A breakdown of shareholders' equity with regard to the availability and possible distribution of reserves is provided in Appendix 11.6 to these Notes.

### Share capital

	<u>No. of shares</u>	<u>Par value</u>	<u>Treasury shares</u>	<u>Total</u>
Outstanding shares	100,000,000	€ 50,000,000.00	-	€ 50,000,000.00
Expenses for share capital increase in 2005	-	-	-	(€ 50,000.00)
<b>31 December 2006</b>	<b>100,000,000</b>	<b>€50,000,000.00</b>		<b>€49,950,000.00</b>
Shares subscribed during the period				
Repurchase of treasury shares, less shares sold			(€ 282,084.00)	(€ 282,084.00)
<b>31 December 2007</b>	<b>100,000,000</b>	<b>€50,000,000.00</b>	<b>(€282,084.00)</b>	<b>€49,667,916</b>

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 Euro 0.50 each.

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



The amount of treasury shares relates to 38,785 shares held by the Parent Company Ansaldo STS upon indication of the assignees, to address tax obligations as substitute tax for the Italian employees who are stock grant plan participants.

The share capital is held by:

- Finmeccanica S.p.A. 40.06%
- UBS AG 2.75%
- Banca Popolare di Milano 2.25%
- Altrinsic Global Advisors LLC 2.09%
- FMR LLC 2.07%
- Fidelity International Limited 2.04%
- Gandhara Advisors Europe LLP 2.01%
- Other shareholders < 2%: 49.48%

## Other reserves

<i>(EUR 000)</i>	Share capital	Retained earnings/(losses) carried forward	Reserve for stock grant plans	Other reserves	Total Shareholders' Equity
<b>Shareholders' equity at 1 January 2006</b>	<b>39,950</b>	<b>(2,490)</b>	<b>-</b>	<b>37</b>	<b>37,497</b>
Fair value adjustment of assets available for sale and recognition in the income statement	-	-	-	-	-
Fair Value adjustments to cash-flow hedge instruments	-	-	-	-	-
Recognition of cash-flow hedge reserve to the income statement	-	-	-	-	-
Repurchase of treasury shares	-	-	-	-	-
Translation differences	-	-	-	-	-
Net changes in the reserve for the Stock Grant plan	-	-	1,839	-	1,839
	39,950	(2,490)	1,839	37	39,336
Dividends	-	-	-	-	-
Subscribed capital for loss coverage	-	-	-	-	-
Subscribed capital for share capital increase	-	2,490	-	-	2,490
Capital increases	10,000	-	-	47,679	57,679
Net Profit (Loss) at 31 December 2006	-	18,189	-	-	18,189
<b>Shareholders' equity at 31 December 2006</b>	<b>49,950</b>	<b>18,189</b>	<b>1,839</b>	<b>47,716</b>	<b>117,694</b>
Fair value adjustment of assets available for sale and recognition in the income statement	-	-	-	-	-
Fair Value adjustments to cash-flow hedge instruments	-	-	-	-	-
Recognition of cash-flow hedge reserve to the income statement	-	-	-	-	-
Repurchase of treasury shares, net of the amount sold	(282)	-	-	-	(282)
Translation differences	-	-	-	-	-
Change in reserves for Ansaldo STS S.p.A. SGP	-	-	316	-	316
Change in reserves for SGPs of other companies	-	-	845	-	845
Change in reserve from delivery of SGP shares	-	-	(20)	-	(20)
Changes in the reserve for the stock grant plan of prior years	-	-	117	-	117
Other changes	-	(909)	-	909	-
	49,668	17,280	3,097	48,625	118,670
Actuarial loss of defined-benefit plans	-	(15)	-	-	(15)
Dividends	-	-	-	-	-
Subscribed capital for loss coverage	-	-	-	-	-
Subscribed capital for share capital increase	-	-	-	-	-
Deferred taxes	-	-	-	4	4
Capital increases	-	-	-	-	-
Net Profit (Loss) at 31 December 2007	-	43,223	-	-	43,223
<b>Shareholders' equity at 31 December 2007</b>	<b>49,668</b>	<b>60,488</b>	<b>3,097</b>	<b>48,629</b>	<b>161,882</b>

On 22 May 2007, the Shareholders' meeting of Ansaldo STS S.p.A. resolved that the Net Profit 2006 of EUR 18,189 thousand be allocated as reported below:

- EUR 909 thousand, amounting to 5% of Net Profit, to the legal reserve;
- EUR 17,280 thousand to be carried forward.

### **Reserve for stock grant plans**

This reserve at 31 December 2007 came to EUR 3,097 thousand and breaks down as follows:

- Assignment – EUR 3,000 thousand attributable to:
  - EUR 633 thousand Ansaldo STS S.p.A.;
  - EUR 1,161 thousand Ansaldo Trasporti Sistemi Ferroviari S.p.A.;
  - EUR 1,207 thousand Ansaldo Signal N. V. and its subsidiaries.
- Delivery of EUR 97 thousand includes a negative EUR 20 thousand following a “price effect” due to the difference between the assignment price 2006 and the delivery price for the shares 2007 and EUR 117 thousand due to the shares delivered having been only 75% of those assigned in 2006 because not all the objectives have been reached, and this determined a partial use of the reserve accrued in 2006.

The reserve for stock grant plans was formed in 2006 following approval by the Board of Directors of Ansaldo STS of the 'Stock Grant Plan' (SGP) that was approved on 2006 October 24 by the 'Remunerations Committee' of Ansaldo STS.

The Plan is directed at an estimated maximum of 60 persons (split between strategic resources, key resources, and high-potential managers) of Ansaldo STS and its subsidiaries and is based on the awarding of shares of the Company, subject to verification of the attainment of set targets, based upon the general criteria laid down by the Board of Directors and endorsed by the Remunerations Committee.

Basically, the Plan envisages awarding shares of the Company (Stock Grant Plan – 'SGP') upon the attainment of certain targets - specifically tied to EVA, the order backlog and the performance of the Company's stock in relation to the performance of the Mibtel index - during the period considered, with an accumulation mechanism that makes it possible to recover any shares not awarded mid-term at the end of the two-year period.

## 6.17 FINANCIAL DEBTS

<i>(EUR 000)</i>	<u>31.12.2007</u>			<u>31.12.2006</u>		
	Current	Non-current	Total	Current	Non-current	Total
Bonds	-	-	-	-	-	-
Bank payables	38	-	38	23	-	23
Finance lease payables	-	-	-	-	-	-
Payables to factors for non-recourse assignments	-	-	-	-	-	-
Other financial debts	-	-	-	-	-	-
	<b>38</b>	<b>-</b>	<b>38</b>	<b>23</b>	<b>-</b>	<b>23</b>

Borrowings from third parties were EUR 38 thousand and relate to bank payables.

Changes in short-term borrowings are as follows:

<i>(EUR 000)</i>	<u>31.12.2006</u>	<u>New positions</u>	<u>Repayments</u>	<u>Changes in scope of consolidation</u>	<u>Other changes</u>	<u>31.12.2007</u>
Bonds	-	-	-	-	-	-
Bank payables	23	-	-	-	15	<b>38</b>
Finance lease payables	-	-	-	-	-	-
Payables to factors for non-recourse assignments	-	-	-	-	-	-
Other financial debts	-	-	-	-	-	-
	<b>23</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15</b>	<b>38</b>

### Bank payables

Bank payables at 31 December 2007 came to EUR 38 thousand and relate to the current accounts held by Ansaldo STS with Banca Nazionale del Lavoro in Rome, Banco di Brescia and Banca di Roma.

### Financial debt

The following financial information is provided in accordance with the format required under Consob Notice DEM/6064293 of 28 July 2006:

<i>(EUR 000)</i>	<u>31.12.2007</u>	<u>31.12.2006</u>
Cash	3	1
Bank deposits	534	908
Securities held for trading	-	-
<b>LIQUIDITY</b>	<b>537</b>	<b>909</b>
<b>CURRENT FINANCIAL RECEIVABLES</b>	<b>20,637</b>	<b>132,128</b>
Current borrowings	38	23
Current portion of non-current debt	-	-
Other short-term financial debts	11,639	211,829
<b>CURRENT FINANCIAL DEBT</b>	<b>11,677</b>	<b>211,852</b>
<b>NET CURRENT FINANCIAL DEBT (FINANCIAL RECEIVABLES)</b>	<b>(9,497)</b>	<b>78,815</b>
Long-term bank debt	-	-
Bonds issued	-	-
Other long-term debts	-	-
<b>NON-CURRENT FINANCIAL DEBT</b>	<b>-</b>	<b>-</b>
<b>NET FINANCIAL DEBT</b>	<b>(9,497)</b>	<b>78,815</b>

## **6.18 SEVERANCE PAY AND OTHER EMPLOYEE LIABILITIES**

<i>(EUR 000)</i>	<u>31.12.2007</u>	<u>31.12.2006</u>
Severance obligations	831	335
Defined-benefit pension plans	-	-
Other provisions for personnel	-	-
	<b>831</b>	<b>335</b>
GBP area	-	-
Euro area	831	335
Other	-	-
	<b>831</b>	<b>335</b>

The statutory severance pay obligation (*trattamento di fine rapporto*) in Italy calls for the payment of the entitlement accumulated by employees until the time they leave the company.

The amount is determined under Article 2120 of the Italian Civil Code. Law no. 296 of 27 December 2006 and subsequent Decrees and Regulations issued in the first months of 2007, as part of the complementary social security reform, altered significantly the functioning of the social security system: the severance pay accrued after the date of the reform can be transferred to a treasury fund managed by INPS (the Italian Social Security Institution).

At the same time as this effect was recognised, in accordance with the accounting standards, the company deemed it was appropriate to change the method of recognition for actuarial gains/losses, as explained in more detail in Section 6.4 “Adoption of the Equity Method in the recognition of defined-benefit plans”. The corridor approach was abandoned, based on which such actuarial gains/losses are recognised in the income statement under specific rules and over more years. The equity method was adopted, based on which actuarial gains/losses are directly and fully recognised in equity, less the relevant deferred taxes. The change in the accounting standard adopted by the company involved the restatement of the income statement at 31 December 2006. The reconciliation between this and the financial statements of the prior year is presented in Section 6.4.

When the overall treatment of defined-benefit plans was reviewed, the method of recognition of interest cost was changed as well. Starting from 1 January 2006, interest cost is no longer recognised as cost of labour, and is recorded as financial costs, as explained in section 6.4 “Adoption of the Equity Method in the recognition of defined-benefit plans”, with a presentation of the effect of restating the income statement at 31 December 2006.

Below is a breakdown of severance pay provision:

<i>(EUR 000)</i>	<b>Severance pay provision</b>	
	<b><u>31.12.2007</u></b>	<b><u>31.12.2006</u></b>
Present value of the obligations	831	335
Fair value of the plan's assets	-	-
Unrecognised actuarial loss (profit)	-	-
	<b><u>831</u></b>	<b><u>335</u></b>

Below are changes in the severance pay provision:

<i>31.12.2007</i>				
<i>(EUR 000)</i>	<b>Present value of the obligation</b>	<b>Present value of the asset</b>	<b>Unrecognised actuarial loss/profit</b>	<b>Net liability Defined-benefit plans</b>
<i>Opening balance</i>	335	-	-	-
Costs of benefits	102	-	-	-
Interest expense	28	-	-	-
Actuarial losses (profits) recognised in the period	15	-	-	-
Decreases for sales	(218)	-	-	-
Increases due to business combinations	-	-	-	-
Benefits paid	-	-	-	-
Other changes	569	-	-	-
<b><i>Closing balance</i></b>	<b>831</b>			
<i>31.12.2006</i>				
<i>(EUR 000)</i>	<b>Present value of the obligation</b>	<b>Present value of the asset</b>	<b>Unrecognised actuarial loss/profit</b>	<b>Net liability Defined-benefit plans</b>
<i>Opening balance</i>	-	-	-	-
Costs of benefits	82	-	-	-
Interest expense	8	-	-	-
Actuarial losses (profits) recognised in the period	-	-	-	-
Decreases for sales	(40)	-	-	-
Increases due to business combinations	-	-	-	-
Benefits paid	-	-	-	-
Other changes	285	-	-	-
<b><i>Closing balance</i></b>	<b>335</b>	-	-	-

‘Other changes’ includes the amount of the severance pay provisions transferred to Ansaldo STS S.p.A. in 2007 from the other companies of the Group.

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

<i>(EUR 000)</i>	<b>Severance pay provision</b>		<b>Defined-benefit plans</b>	
	<b><u>31.12.2007</u></b>	<b><u>31.12.2006</u></b>	<b><u>31.12.2007</u></b>	<b><u>31.12.2006</u></b>
Costs of benefits	102	82	-	-
Interest expense	28	8	-	-
Expected return of plan assets	-	-	-	-
Actuarial losses (profits) recognised in the period	-	-	-	-
<b>Total</b>	<b><u>130</u></b>	<b><u>90</u></b>	<b><u>-</u></b>	<b><u>-</u></b>

The main actuarial assumptions are as follows:

	<b>Severance obligations</b>	
	<b><u>31.12.2007</u></b>	<b><u>31.12.2006</u></b>
Discount rate (annual)	4.28%	3.56%
Expected returns on plan assets		
Rate of salary increases	3.25% - 3.89%	1.25% - 2.93%
Rate of turnover	1.00%	2.93% - 3.88%

## **6.19 OTHER CURRENT AND NON-CURRENT LIABILITIES**

<i>(EUR 000)</i>	<b><u>31.12.2007</u></b>		<b><u>31.12.2006</u></b>	
	<b><u>Current</u></b>	<b><u>Non-current</u></b>	<b><u>Current</u></b>	<b><u>Non-current</u></b>
Due to staff	1,576	96	1,093	42
Deferred income	-	-	-	-
Due to social security and pension institutions	1,165	-	801	-
Other payables	444	-	221	-
	<b><u>3,185</u></b>	<b><u>96</u></b>	<b><u>2,115</u></b>	<b><u>42</u></b>

Non-current liabilities at 31 December 2007 were EUR 96,000 thousand and relate to other long-term benefits (seniority bonuses to employees).



Current liabilities came to EUR 3,185 thousand, an increase of EUR 1,070 thousand from 31 December 2006 (EUR 2,115 thousand), mainly due to payables to staff and the relevant social security institutions.

A breakdown of liabilities due by foreign currency and geographic area is shown in the appendices in Section 11.

## **6.20 TRADE PAYABLES**

Trade payables to third suppliers at 31 December 2007 totalled EUR 7,352 thousand, an increase of EUR 2,442 thousand on the EUR 4,910 thousand figure at 31 December 2006, mainly due to the items entered in the last months of the year for contracts in force.

There are no trade payables with residual maturity after 2008.

A breakdown of liabilities due by foreign currency and geographic area is shown in the appendices in Section 11.

## **6.21 GUARANTEES AND OTHER COMMITMENTS**

### **Leasing**

The Company is a party to some lease contracts for plant and equipment. The non-cancellable minimum future payments of operating lease contracts and the commitments relating to contracts that can be qualified as finance leases are:

#### *Lessee*

<i>(EUR 000)</i>	<b>Operating leases</b>	<b>Finance leases</b>
Within 1 year	189	-
2 to 5 years	574	-
Over 5 years	-	-
	<b>763</b>	<b>-</b>

The amount includes the contract for the lease from Finmeccanica Group Service S.p.A. for the local unit in Rome of Ansaldo STS S.p.A. and the amount of the rent of the company fleet.

*Lessor*

<i>(EUR 000)</i>	<b>Operating leases</b>	<b>Finance leases</b>
Within 1 year	1,741	-
2 to 5 years	3,700	-
Over 5 years	-	-
	<b>5,441</b>	<b>-</b>

The amount includes the rental fees for the property located in via Mantovani 3/5, Genoa, as envisaged by the contract, applied to the subsidiaries Ansaldo Trasporti Sistemi Ferroviari S.p.A. and Ansaldo Segnalamento S.p.A.

**Guarantees**

At 31 December 2007, the Company had the following outstanding guarantees:

<i>(EUR 000)</i>	<u>31.12.2007</u>	<u>31.12.2006</u>
Bank guarantees to related parties	94,183	123,030
Bank guarantees to third parties	-	-
Sureties to third parties	-	-
Other unsecured guarantees given to third parties	49,480	-
Unsecured guarantees given	-	-
	<b>143,663</b>	<b>123,030</b>

Bank guarantees to related parties are basically given by Ansaldo STS S.p.A. to Ansaldo Trasporti Sistemi Ferroviari S.p.A. and some subsidiaries of Ansaldo Signal N.V.. These bank guarantees were counter-guaranteed by Ansaldo STS S.p.A..

## 6.22 TRANSACTIONS WITH RELATED PARTIES

Below are all revenues from related parties of the Company for the years 2007 and 2006:

### Year 2007

Revenues	Other operating income	Costs	Financial income (*)	Financial costs	Other operating costs
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(EUR 000)

### Parent Companies

Finmeccanica S.p.A.	-	-	1,812	4,168	-	-
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### Subsidiaries

Ansaldo Signal NV	-	-	850	36,368	2,504	-
Ansaldo Segnalamento Ferroviario S.p.A.	4,226	2,009	103	15	-	(63)
Ansaldo STS Sweden AB	184	24	(29)	-	-	-
Ansaldo STS Ireland Ltd	77	8	(8)	-	-	-
Ansaldo STS UK Ltd	179	25	(8)	-	-	-
Union Switch and Signal Inc	2,372	246	(650)	1	-	-
Union Switch and Signal Int.Co.	-	-	(4)	5	-	-
Ansaldo STS France S.A.	1,941	233	(56)	-	-	-
Ansaldo STS Australia PTY Ltd	1,690	179	(169)	1	-	-
Union Switch and Signal Private Ltd	562	55	(61)	-	-	-
Ansaldo Trasporti Sistemi Ferroviari S.p.A.	2,769	718	(514)	14,251	3,716	(75)

### Other Group companies

Ansaldo Energia S.p.A.	-	-	(3)	-	-	-
Elsag Datamat S.p.A.	-	-	417	-	-	-
Finmeccanica Group Service S.p.A.	-	-	311	-	-	4
Selex Communications S.p.A.	-	-	(1)	-	-	-
So.ge.pa. S.p.A.	-	-	19	-	-	-
HR Gest S.p.A.	-	-	15	-	-	-

<b>Total</b>	<b>14,000</b>	<b>3,497</b>	<b>2,024</b>	<b>54,809</b>	<b>6,220</b>	<b>(134)</b>
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(\*) of which dividends:

- EUR 36,000 thousand from ASNV
- EUR 14,241 thousand from ATSF

**Year 2006**

(EUR 000)

	Revenues	Other operating income	Costs	Financial income (*)	Financial costs	Other operating costs
<b><u>Parent Companies</u></b>						
Finmeccanica S.p.A.	-	-	1,626	2,845	262	-
<b><u>Subsidiaries</u></b>						
Ansaldo Signal NV	5,791	1,534	718	32,000	2,001	(4)
Ansaldo Trasporti Sistemi Ferr.	1,455	296	81	-	3,509	(1)
<b><u>Associated companies</u></b>						
Mecfin	-	-	94	-	-	-
Ansaldo Industria	-	-	3	-	-	-
Orizzonte Sistemi Navali	-	-	16	-	-	-
Elsag Datamat S.p.A.	-	-	139	-	-	-
So.ge.pa.	-	-	4	-	-	-
<b>Total</b>	<b>7,246</b>	<b>1,830</b>	<b>2,681</b>	<b>34,845</b>	<b>5,772</b>	<b>(5)</b>

(\*) of which dividends:

- EUR 32,000 thousand from ASNV

The major costs to related parties include:

- services rendered by the parent company Ansaldo STS in respect of the General Service Agreement (Revenues of EUR 14,000 thousand);
- rental fee for the property located in Genoa, Via Mantovani 3/5, owned by Ansaldo STS where the offices and production units of Ansaldo Trasporti Sistemi Ferroviari S.p.A. and Ansaldo Segnalamento Ferroviario S.p.A. - a subsidiary of Ansaldo Trasporti Sistemi Ferroviari S.p.A. - are located. This property was leased after being sold by Finmeccanica to Ansaldo STS on 28 December 2005 (other revenues of EUR 1,741 thousand);
- invoice for the license to use the "Ansaldo" brand and the "Globo" brand pertaining to the year (Resolution of the Board of Directors of 19 December 2007) (other revenues in the amount of EUR 1,755 thousand).
- services rendered by Finmeccanica (EUR 201 thousand);
- costs pertaining to the year 2007 for the licence to use the 'Ansaldo' brand for 20 years (EUR 1,611 thousand) from Finmeccanica and relevant current and non-current deferred expense of EUR 27,368 thousand.

- amount for the management and use of the common services in the Genoa offices charged over by the Italian subsidiary of Ansaldo Trasporti Sistemi Ferroviari S.p.A. (Ansaldo Segnalamento Ferroviario S.p.A.), costs for HR services, costs for staff seconded charged over by Ansaldo Segnalamento Ferroviario S.p.A., less recoveries for insurance costs, exhibitions and fairs (costs of EUR 103 thousand).
- costs for Directors' fees and remuneration of staff of Ansaldo Trasporti Sistemi Ferroviari S.p.A., less recoveries for exhibitions and fairs (EUR 514 thousand).
- recovery of costs for other operating costs from the subsidiaries Ansaldo Segnalamento Ferroviario S.p.A (EUR 63 thousand) and Ansaldo Trasporti Sistemi Ferroviari S.p.A. (EUR 75 thousand).
- treasury service costs from Ansaldo Signal N.V. (EUR 850 thousand).
- ITC supplies in the case of Elsag Datamat S.p.A. (EUR 417 thousand);
- charges for staff seconded from SO.GE.PA (EUR 19 thousand);
- costs of software development and maintenance, maintenance on leased assets, property leases with relevant services, press clippings from Finmeccanica Group Service S.p.A. (EUR 311 thousand).
- dividends collected by the subsidiaries Ansaldo Trasporti Sistemi Ferroviari S.p.A. for EUR 36,000 thousand and Ansaldo Signal N.V. for EUR 14,241 thousand;
- financial income of EUR 4,168 thousand from the current accounts mentioned above held with the parent company Finmeccanica and EUR 368 thousand with the subsidiary Ansaldo Signal N.V.;
- financial income for the recovery of commissions on financial bank guarantees relating to the subsidiaries Ansaldo Trasporti Sistemi Ferroviari S.p.A. and other companies of the Ansaldo Signal Group (EUR 32 thousand);
- financial costs on the above current account positions with subsidiaries Ansaldo Signal N.V. and Ansaldo Trasporti Sistemi Ferroviari S.p.A. (EUR 6,220 thousand).

## 6.23 REVENUES

<i>(EUR 000)</i>	<u>2007</u>	<u>2006</u>
Revenues from sales	-	-
Revenues from services	-	-
	-	-
Change in contract work in progress	-	-
<b>Revenues from sales</b>	-	-
<b>Revenues from services to related parties</b>	<b>14,000</b>	<b>7,246</b>
<b>Total revenues</b>	<b>14,000</b>	<b>7,246</b>

These include the cost of services rendered by the parent company Ansaldo STS S.p.A. in respect of the General Service Agreement (see breakdown in Section 6.22).

## 6.24 OTHER OPERATING INCOME AND COSTS

<i>(EUR 000)</i>	<u>2007</u>		<u>2006</u>	
	<u>Revenues</u>	<u>Costs</u>	<u>Revenues</u>	<u>Costs</u>
Grants for research and development costs	-	-	-	-
Gains on sale of tangible and intangible fixed assets	-	-	-	-
Allocations/Reversals to provisions for risks and charges	-	-	-	-
Reversal of impairment of receivables	-	-	-	-
Exchange rate differences on operating items	1	2	-	-
Adjustment of receivables and payables in foreign currency to the year-end exchange rate	-	-	-	-
Indirect taxes	-	217	-	180
Other operating income/costs	1	913	3	407
<b>Other operating income/costs from/to third parties</b>	<b>2</b>	<b>1,132</b>	<b>3</b>	<b>587</b>
<b>Other operating income/costs from/to related parties</b>	<b>3,497</b>	<b>(134)</b>	<b>1,830</b>	<b>(5)</b>
<b>Total</b>	<b>3,499</b>	<b>998</b>	<b>1,833</b>	<b>582</b>

Other net operating costs to third parties at 31 December 2007 came to EUR 1,130 thousand, up EUR 546 thousand from the year 2006 (EUR 584 thousand).

The change is mainly attributable to:

- Gifts of EUR 374 thousand;
- Donations to the Fondazione Carlo Felice in Genoa of EUR 361 thousand;
- Indirect taxes of EUR 217 thousand;
- Books, newspapers, magazines and sundry of EUR 178 thousand.

## 6.25 PURCHASES AND SERVICES COSTS

<i>(EUR 000)</i>	<u>2007</u>	<u>2006</u>
Materials	36	7
Materials purchased from related parties	-	-
Change in inventory	-	-
Services	12,488	10,879
Rent and operating leases	35	21
Rental fees	131	1
<b>Purchases and services costs from third parties</b>	<b><u>12,690</u></b>	<b><u>10,908</u></b>
<b>Purchases and services costs from related parties</b>	<b><u>2,024</u></b>	<b><u>2,681</u></b>
<b>Total purchases and services costs</b>	<b><u><u>14,714</u></u></b>	<b><u><u>13,589</u></u></b>

Purchases and services costs from third parties at 31 December 2007 came to EUR 12,690 thousand, up EUR 1,782 thousand from 31 December 2006 (EUR 10,908 thousand). This is due to the normal operating costs of Ansaldo STS.

Services purchased from related parties are commented on in Section 6.22.

## 6.26 COST OF LABOUR

<i>(EUR 000)</i>	<u>2007</u>	<u>2006</u>
Payroll	6,364	2,628
Costs of stock grant plans	633	316
Pension and social security expenses	1,679	957
Severance pay provision costs	102	82
Costs relating to other defined-benefit plans	-	-
Costs relating to defined-contribution plans	-	-
Disputes with employees	-	-
Reorganization costs	-	-
Recovery of cost of labour	(1,129)	-
Other costs	475	41
<b>Total cost of labour</b>	<b><u>8,124</u></b>	<b><u>4,024</u></b>

Cost of labour of Ansaldo STS was EUR 8,124 thousand and relate to the costs of the 50 Units headed by Ansaldo STS at 31 December 2007. The increase in cost of labour from 2006 of EUR 4,100 thousand is due to the increase in the units where the company staff is employed.

The average workforce at 31 December 2007 stood at 45, up by 14 on the figure at 31 December 2006.

Below is a breakdown of average workforce by category:

	<u>2007</u>	<u>2006</u>	<u>Changes</u>
Executives	18	6	12
Middle managers	11	2	9
White-collar workers	16	6	10
Blue-collar workers	-	-	-
<b>Total</b>	<b><u>45</u></b>	<b><u>14</u></b>	

The cost of labour of Ansaldo STS includes costs and expenses for the year 2007 of EUR 633 thousand in respect of the Stock Grant Plan of Ansaldo STS that was approved by the Board of Directors and the Remuneration Committee.



## 6.27 AMORTIZATION, DEPRECIATION AND WRITEDOWNS

<i>(EUR 000)</i>	<u>2007</u>	<u>2006</u>
Amortisation/Depreciation:		
- intangible assets	214	102
- tangible assets	1,649	1,605
	<u>1,863</u>	<u>1,707</u>
Writedowns:		
- operating receivables	-	-
- other assets	-	-
	<u>-</u>	<u>-</u>
<b>Total amortization, depreciation and writedowns</b>	<u>1,863</u>	<u>1,707</u>

Amortization exclusively relates to ‘software applications’ that are necessary to the performance of company operations.

These are assets with definite useful lives, to be amortised over 3 years.

Depreciation is mainly attributable to the property owned by Ansaldo STS located in Via Mantovani 3/5 (EUR 1,591 thousand).

The investment is depreciated on a straight-line basis over a useful life of 33 years.

## 6.28 FINANCIAL INCOME AND COSTS

(EUR 000)	2007			2006		
	Income	Costs	Net	Income	Costs	Net
Income from equity investments and securities	-	-	-	-	-	-
Discounting of receivables, payables and provisions	-	-	-	-	-	-
Interest and commissions	75	190	(115)	56	105	(49)
Interest on severance pay	-	28	(28)	-	8	(8)
Exchange rate differences	-	-	-	-	-	-
Income from fair value measurement recognised in profit and loss	-	-	-	-	-	-
Value adjustments to equity investments	-	-	-	-	-	-
Other financial income (costs)	-	-	-	-	-	-
Swap and forex options	-	-	-	-	-	-
Interest rate swaps	-	-	-	-	-	-
<b>Total net financial income and costs</b>	<b>75</b>	<b>218</b>	<b>(143)</b>	<b>56</b>	<b>113</b>	<b>(57)</b>
Dividends	50,241	-	50,241	32,000	-	32,000
Interest and other financial income (costs)	4,568	6,220	-	2,845	5,772	-
<b>Total financial income / (costs) from related parties</b>	<b>54,809</b>	<b>6,220</b>	<b>48,589</b>	<b>34,845</b>	<b>5,772</b>	<b>29,073</b>
<b>Total</b>	<b>54,884</b>	<b>6,438</b>	<b>48,446</b>	<b>34,901</b>	<b>5,885</b>	<b>29,016</b>

Financial income from third parties at 31 December 2007 came to EUR 75 thousand, an increase of EUR 19 thousand over the previous year and relate to income from bank transactions.

Financial costs to third parties came to EUR 218 thousand, an increase of EUR 105 thousand over the previous year, broken down as follows:

- financial costs of EUR 28 thousand relating to interest on severance pay;
- other expenses from banks (EUR 190 thousand).

Financial income from related parties relates to:

- contracts of current account with the parent company Finmeccanica of EUR 4,168 thousand, with the subsidiaries Ansaldo Signal N.V. and Ansaldo Trasporti Sistemi Ferroviari S.p.A. in the amount of EUR 400 thousand and other items.

- dividends collected by the subsidiaries Ansaldo Signal N.V. for EUR 36,000 thousand and Ansaldo Trasporti Sistemi Ferroviari S.p.A. for EUR 14,241 thousand.

Financial costs to related parties refer to the current account positions with subsidiaries Ansaldo Signal and Ansaldo Trasporti Sistemi Ferroviari (EUR 6,220 thousand).

## 6.29 INCOME TAXES

At 31 December 2007 the Company reported deferred tax assets of EUR 2,975 thousand (nil at 31 December 2006).

In detail, the entry represents the algebraic sum of:

<i>(EUR 000)</i>	<u>2007</u>	<u>2006</u>
IRES (corporate income tax)	-	-
IRAP (regional tax on productive activities)	88	-
Income from consolidated taxation mechanism	(2,111)	-
Net deferred tax assets	(952)	-
<b>Total</b>	<u><u>(2,975)</u></u>	<u><u>-</u></u>

The total amount already paid includes:

- EUR 2,111 thousand for the income from consolidated taxation mechanism deriving from the application for IRES purposes of the consolidated taxation mechanism with the Italian companies of the Group (Ansaldo Segnalamento Ferroviario S.p.A. and Ansaldo Trasporti Sistemi Ferroviari S.p.A.), for which the company opted as holding company of the Group. Specifically, this amount represents 33% of the tax loss of the company for the year ended at 31 December 2007. The tax loss is mainly due to the decrease relating to the tax reduction of the dividends received from Ansaldo Trasporti Sistemi Ferroviari S.p.A. (reduced by 100% because the company also adopts the consolidated taxation mechanism), and of the dividends received from Ansaldo Signal N.V. (reduced by 95% pursuant to Article 89 of the Income Tax Code);

- EUR 952 thousand of net deferred tax assets calculated as shown in the table below, of which EUR 916 thousand is for IRES tax and EUR 36 thousand for IRAP; specifically, the company has not considered appropriate to allocate deferred tax assets on past losses referred to the years 2004, 2005 and 2006;
- EUR 88 thousand for the IRAP due.

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

	<i>2007</i>		
(€)	<b>Taxable base</b>	<b>Tax</b>	<b>%</b>
<b>Result before taxes</b>	40,248	-	
Taxes calculated at the applicable tax rate	-	13,282	33%
Deferred tax assets not allocated in prior years and considered to be recoverable during the year	(1,844)	(609)	(1.51%)
Permanent differences	-	-	
- Non-deductible costs	766	253	0.63%
- dividends and other non-taxable income	(48,460)	(15,990)	(39.73%)
IRAP and other taxes calculated on a basis other than the pre-tax result	1,911	<u>88</u>	
<b>Total effective taxes carried to the income statement</b>		<b>(2,975)</b>	

Non-current assets in the Balance Sheet, under deferred taxes, include receivables from the tax office for the deferred tax assets transferred following the adoption of the consolidated taxation mechanism by Ansaldo Segnalamento Ferroviario (EUR 5,410 thousand) and Ansaldo Trasporti Sistemi Ferroviari (EUR 3,275 thousand) as described in Section 6.11 above, as well as the deferred tax assets recognised by the company.

These deferred tax assets amounted to EUR 956 thousand and include:

- IRES deferred tax assets through profit or loss: EUR 917 thousand
- IRAP deferred tax assets through profit or loss: EUR 35 thousand
- IRES deferred tax assets through asset and liability: EUR 4 thousand

Non-current liabilities in the Balance Sheet under deferred tax liabilities include the payables transferred following the adoption of the consolidated taxation mechanism by Ansaldo Segnalamento Ferroviario (EUR 734 thousand) and Ansaldo Trasporti Sistemi Ferroviari (EUR 821 thousand), as described in Section 6.11 above.

The company accrued deferred tax assets only.

IRES deferred tax assets have been calculated using the new 27.5% tax rate. For IRAP, since production revenues are realised in regions with different tax rates (Liguria and Piemonte 4.15%, Campania 5.25% in 2007), the new 3.9% nominal tax rate was raised to 4.24% based on the estimated effect of production revenues broken down by geographic area.

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

<i>(EUR 000)</i>	<b>Income Statement</b>		<b>Balance Sheet</b>	
	Assets	Liabilities	Assets	Liabilities
<i>Fair value</i> of derivatives through profit or loss	-	-	-	-
Inventory writedowns	-	-	-	-
Provisions for short-term risks and charges	-	-	3,351	-
Past losses	-	-	-	-
Severance pay provision, pension funds and seniority bonuses	19	-	56	-
Total carrying amount of assets	175	-	237	843
Taxes	-	-	-	-
Finance leases	-	-	-	-
Contributions	-	-	40	494
Staff costs	416	-	2,229	5
Stock grants	181	-	605	4
Other	161	-	3,123	209
Offsetting	-	-	-	-
Valuation Allowance	-	-	-	-
	<b>952</b>	<b>-</b>	<b>9,641</b>	<b>1,555</b>

Deferred tax assets include EUR 4 thousand for an adjustment to the severance pay made in relation with the equity method, as envisaged in IAS 19, whose contra-item was directly recognised in equity. The changes for the period for the equity item were as follows:

<i>(EUR 000)</i>	<u><i>31 December 2006</i></u>	<u><i>Transferred to the income statement</i></u>	<u><i>Fair value adjustments</i></u>	<u><i>Other changes</i></u>	<u><i>31 December 2007</i></u>
Deferred taxes recognised directly in equity	-			4	4
	<u><i>31 December 2005</i></u>	<u><i>Transferred to the income statement</i></u>	<u><i>Fair value adjustments</i></u>	<u><i>Other changes</i></u>	<u><i>31 December 2006</i></u>
Deferred taxes recognised directly in equity	-	-	-	-	-

## 7 EARNINGS PER SHARE

Earnings per share (EPS) are calculated:

- by dividing the Net Profit attributable to holders of ordinary shares by the average number of ordinary shares for the period, less treasury shares (basic EPS);
- by dividing 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><i>31.12.2007</i></u>	<u><i>31.12.2006</i></u>
Average shares during the period	99,991,750	100,000,000
Net Profit (Loss)	43,223	18,189
Result of continuing operations	-	-
<b><i>Basic and diluted EPS</i></b>	<b><u><u>0.43</u></u></b>	<b><u><u>0.18</u></u></b>

## 8 CASH FLOW FROM OPERATING ACTIVITIES

<i>(EUR 000)</i>	<i>For the twelve months at 31 December</i>	
	<i>2007</i>	<i>2006</i>
Net Profit (Loss)	43,223	18,189
Amortization, depreciation and writedowns	1,863	1,706
Income taxes	(2,975)	-
Costs of provision for severance pay	130	90
Costs of stock grant plans	633	316
Dividends	(50,241)	(32,000)
Financial costs and income, less adjustments for equity investments valued at cost, and other operating assets (liabilities)	1,793	4,499
	<b>(5,574)</b>	<b>(7,200)</b>

Changes in working capital, net of the effects of the acquisition and sale of companies and translation differences, break down as follows:

<i>(EUR 000)</i>	<i>2007</i>	<i>2006</i>
Inventories	-	-
Contract work in progress and advances from customers	-	-
Trade receivables and payables	5,245	15,219
<b>Changes in working capital</b>	<b>5,245</b>	<b>15,219</b>

Changes in operating assets and liabilities, net of the effects of the acquisition and sale of companies and translation differences, break down as follows:

Payment of the provision for severance pay and other defined-benefit plans	(218)	(40)
Changes in provisions for risks	-	-
Changes in other operating items	(428)	(2,976)
	<b>(646)</b>	<b>(3,016)</b>

## 9 MANAGEMENT OF FINANCIAL RISKS

### Financial risk factors

Ansaldo STS S.p.A. mainly has a strategic guidance role: at present the Group cash pooling management is duty of the subsidiary Ansaldo Signal NV. The main issues related to risk factors at Ansaldo STS Group level are illustrated below.

In its operations the Group is exposed to various financial risks: market risk (including currency risk, treasury flow and fair value interest rate risk, and price risk), credit risk, liquid asset risk and equity risk. The general programme for the Group risk management aims at managing the unpredictability of capital markets and intends to minimise the possible negative effects on the financial performance of the Group. To reduce risk exposure, the Group uses derivative financial instruments.

The management of financial risks is duty of the Central Treasury (Group Treasury) in accordance with directives approved by the Chief Executive Officer (CEO). Treasury operating activities still in 2007 are put in place by Ansaldo Signal N.V.. The Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the operating companies of the Group. The CEO issues written principles to be used as a basis for risk management in general, guidelines for specific areas, such as exchange rate risk, interest rate risk, credit risk, equity risk, the use of financial instruments, derivatives and non-derivatives, and investing excess liquid assets.

- Market risks

- Exchange rate risk

The Group operates at an international level, and is exposed to the exchange rate risk due to the different currencies, especially the US dollar. The exchange rate risk arises from present and future commercial transactions, assets and liabilities recognised and net investments in foreign markets.



The Board of Directors set out a directive requiring Group companies to manage the exchange rate risk associated with their functional currency. Therefore, Group companies must hedge all their exposure to the exchange rate risk through Group Treasury. To manage the exchange rate risk arising from the transactions above, Group entities use contracts with deferred performance entered into with the Group Treasury.

The line of conduct for the Group risk management is to hedge from 90% to 100% of estimated cash flows (mainly export sales and inventory purchases) in each of the most important foreign currencies throughout the duration of the estimated exposure. For hedge accounting purposes, some 95% of sales estimated in each of the most important currencies are recognised as a 'highly probable' transaction.

For segment reporting purposes, each subsidiary proposes contracts with the Group Treasury. These are fair value hedge and/or cash flow hedge contracts. At centralised level, similar contracts are entered into with companies external to the Group.

#### *Sensitivity analysis on exchange rates*

For the presentation of market risks, IFRS 7 requires that a sensitivity analysis show the effects of the assumed changes in the most relevant market variables on the income statement and the balance sheet.

The exchange rate risks originate from financial instruments denominated in a currency other than the functional currency.

A sensitivity analysis was carried out on financial instruments denominated in GBP at 31 December 2007, assuming an appreciation (depreciation) of the euro against the pound sterling in the range of +(-) 5%.

This analysis revealed that in the case of appreciation or depreciation of the euro against the pound sterling these would have been the effects on the financial statements of the Company:

<i>(EUR 000)</i>	+5% appreciation against the US dollar	- euro's against	-5% depreciation against the US dollar	- euro's against
Income Statement		0.89		-1.07
Cash Flow Reserve				
Translation reserve				

No transactions in foreign currency were recorded in 2006.

- Interest rate risk

The interest rate risk of the Group arises from its financing activities. Floating rate credit facilities expose the Group to the interest rate risk connected with the treasury flow. The Group analyses dynamically its interest rate risk exposure. Various scenarios are simulated, including refinancing, the renewal of existing positions, alternative loans and hedges.

Most of the interest rate risk is concentrated on the parent company Finmeccanica S.p.A., where the Group has some financing activities.

<i>31.12.2007</i>		
<b>Counter-party</b>	<b>Outstanding</b>	<b>Average Weighted Interest % current outstanding</b>
Finmeccanica	283,152.36	4.10%
Ansaldo Signal NV	20,354,138.43	4.10%
Ansaldo Trasp. Sist. Ferroviari S.p.A.	(11,638,941.08)	5.35%

*Sensitivity analysis on interest rates*

A sensitivity analysis was carried out on the assets and liabilities that are subject to the risk of fluctuation in the interest rates assuming that at 31 December 2007 rates had had a parallel and symmetric shift of +(-) 50 basis points.

The tables below show the effect that such assumption would have had on the company's financial statements at 31 December 2007, compared with 31 December 2006, considering that the assets and liabilities are exclusively generated by transactions with related parties:

<i>31.12.2007</i>		
<i>(EUR 000)</i>	+50 bps	-50 bps

Income Statement	47.47	-47.47
Reserves	-	-
<b>31.12.2006</b>		
<i>(EUR 000)</i>	+50 bps	-50 bps
Income Statement	-394.2	394.2
Reserves	-	-

- Credit risk

Credit risk is managed at Group level and at local level. Credit risk is connected with cash and cash equivalents, derivative financial instruments, deposits held with financing institutions, and credit exposure to the main customers (both held by the Government or not), including outstanding receivables due and commitment transactions. In the case of banks and financing institutions, only entities that obtained rating of at least 'BBB' by an independent agent can be accepted. If the counterparties were rated by an independent agent, that rating will be adopted. Otherwise, if no rating by an independent agent is available, the Group will check the creditworthiness of a counterparty, review such counterparty's financial condition, past experience and other factors. Individual risk limits are established based on an internal or external rating in accordance with the limits set forth in the directives. The use of credit limits will be regularly checked. Most of the relevant credit risk is concentrated, as stated above, on Finmeccanica S.p.A.

- Liquid assets risk

A prudent management of liquid assets risk requires (i) that sufficient cash and cash equivalents are maintained, (ii) the possibility to access sufficient financing, and (iii) the ability to settle market positions. Given the dynamic nature of the companies using them, the Group Treasury ensures the flexibility of funds, maintaining cash and cash equivalents below a given credit facility.

At 31 December 2007 net financial debt amounted to a credit position of EUR 9,497 thousand.

At 31 December 2006 net financial debt amounted to a debit position of EUR 78,815 thousand.

The improvement is mainly due to the repayment of a part of the share premium reserve of EUR 40,000 thousand by the subsidiary Ansaldo Signal N.V. and to the dividends collected by the subsidiaries Ansaldo Signal N.V. and Ansaldo Trasporti Sistemi Ferroviari S.p.A. in the amount of EUR 50,241 thousand.

- Equity risk

The Group manages equities with the purpose of protecting the Group continuity in order to ensure shareholder return and stakeholder advantages and to retain an optimal capital structure reducing capital cost.

Recognition and fair value of financial assets and liabilities

The table below gives a breakdown of Company assets by type of recognition. Liabilities are all recognised on the amortised cost method.

<i>31.12.2007</i>	<i>Fair value through profit or loss</i>	<i>Loans and receivables</i>	<i>Held to maturity</i>	<i>Available for sale</i>	<i>Total</i>	<i>Fair Value</i>
<i>Non-current assets</i>						
Non-current receivables from related parties	-	-	-	-	-	-
Financial assets at fair value	-	-	-	-	-	-
Receivables	-	-	-	-	-	-
<i>Current assets</i>						
Current receivables from related parties	-	36,632	-	-	36,632	36,632
Trade receivables	-	-	-	-	-	-
Financial assets at fair value	-	-	-	-	-	-
Financial receivables	-	-	-	-	-	-
Other current assets	-	1,768	-	-	1,768	1,768

<i>31.12.2007</i>	<i>Fair value through profit or loss</i>	<i>Amortised Cost</i>	<i>Total</i>	<i>Fair Value</i>
<i>Non-current liabilities</i>				
Non-current payables from related parties	-	-	-	-
Non-current financial debts	-	-	-	-
Other non-current liabilities	-	96	96	96
<i>Current liabilities</i>				
Current payables from related parties	-	21,598	21,598	21,598
Trade payables	-	7,352	7,352	7,352
Financial debts	-	38	38	38
Other current liabilities	-	3,185	3,185	3,185

<i>31.12.2006</i>	<i>Fair value through profit or loss</i>	<i>Loans and receivables</i>	<i>Held to maturity</i>	<i>Available for sale</i>	<i>Total</i>	<i>Fair Value</i>
<i>Non-current assets</i>						
Non-current receivables from related parties	-	-	-	-	-	-
Financial assets at fair value Receivables	-	-	-	-	-	-
<i>Current assets</i>						
Current receivables from related parties	-	142,348	-	-	142,348	142,348
Trade receivables	-	-	-	-	-	-
Financial assets at fair value	-	-	-	-	-	-
Financial receivables	-	-	-	-	-	-
Other current assets	-	2,410	-	-	2,410	2,410

<i>31.12.2006</i>	<i>Fair value through profit or loss</i>	<i>Amortised Cost</i>	<i>Total</i>	<i>Fair Value</i>
<i>Non-current liabilities</i>				
Non-current payables from related parties	-	-	-	-
Non-current financial debts	-	-	-	-
Other non-current liabilities	-	42	42	42
<i>Current liabilities</i>				
Current payables from related parties	-	213,092	213,092	213,092
Trade payables	-	4,910	4,910	4,910
Financial debts	-	23	23	23
Other current liabilities	-	2,115	2,115	2,115

## 10 REMUNERATION TO KEY MANAGEMENT PERSONNEL

Remuneration paid to persons who have power and responsibility over the planning, management and control of the Company, including executive and non-executive Directors, is as follows:

<i>(EUR 000)</i>	<u>31.12.2007</u>	<u>31.12.2006</u>
Remuneration	1,518	1,735
Post-employment benefits	81	-
Other long-term benefits	-	-
Severance indemnity	791	-
Stock grants	98	195
<b>Total</b>	<u><b>2,488</b></u>	<u><b>1,930</b></u>

Directors' fees amounted to EUR 2,488 thousand and EUR 1,930 thousand in 2007 and 2006 respectively. Statutory Auditors' fees amounted to EUR 80,000 thousand and EUR 3,000 thousand in 2007 and 2006 respectively.

These fees include emoluments and any other sum paid as compensation and social security for the office of Director or Statutory Auditor of the Company. Annual compensation to Directors and Statutory Auditors is broken down below:

- EUR 40 thousand to the Chairman of the Board of Directors;
- EUR 30 thousand to Directors;
- EUR 40 thousand to the Chairman of the Board of Statutory Auditors;
- EUR 20 thousand to the standing Statutory Auditors.

As to the stock grant plan, all of the objectives for the assignment of the 2006 shares were reached.

Of the three objectives assigned, the VAE objective and the order target were achieved. The objective of the stock performance in Mibtel was not achieved.

Accordingly, consistently with the plan rules, 75% of the shares originally intended for assignment were assigned to those entitled.

The Remuneration Committee also approved a change to Article 8 of the rules that provides that the actual assignment of the shares to the employees concerned can be anticipated from 1 January to the month of December of the prior year for fiscal reasons. Consistently, on 3 December 2007 the company assigned 75% of the total shares eligible for assignment, equal to 148,090 shares (the amount refers to all the staff being entitled).

	<i>2007</i>	<i>2006</i>
	<u>(no. of shares)</u>	<u>(no. of shares)</u>
Rights at 1 January	-	-
New rights assigned	14,776	10,371
Rights exercised during the year	14,776	10,371
Rights forfeited during the year	-	-
<b>Rights at 31 December</b>	<u>-</u>	<u>-</u>

## **11 SIGNIFICANT NON-RECURRENT EVENTS AND TRANSACTIONS**

During 2007 Ansaldo STS S.p.A. collected EUR 40,000 thousand from the subsidiary Ansaldo Signal N.V. for the repayment of the share premium reserve.

## **12 ATYPICAL AND/OR UNUSUAL OPERATIONS**

In the year 2007 Ansaldo STS S.p.A. did not take any positions or enter into transactions resulting from atypical and/or unusual operations.

## **13 SUBSEQUENT EVENTS**

At the end of 2007, the decision was made to proceed with a corporate reorganisation of the Group in order to shorten and rationalise the current chain of control over foreign subsidiaries and to reduce costs connected with the Group's structure.

This reorganisation, which has already been partly achieved and which will continue to be pursued in 2008, will involve the transfer of all equity investments currently held by Ansaldo Signal N.V. to Ansaldo STS and the winding up of the Dutch sub-holding company. The operation will be carried out in four stages:

1. the transfer on 1 January 2008 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.;
2. The transfer, also 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 transferring the Indian company to the Australian company is the strong commercial and managerial interaction existing between the two Asia Pacific area companies, under which the Indian company operationally “reports” to the Australian company;
3. the conclusion in 2008 of the Ansaldo STS Group reorganisation process through the merger of Ansaldo Signal N.V. into Ansaldo STS or the transfer of all the other equity investments held by Ansaldo Signal N.V. to Ansaldo STS and the subsequent winding up of Ansaldo Signal N.V..
4. the completion, again in 2008, of the process of fully integrating the two Italian operational companies.

Rome, 13 March 2008

On behalf of the Board of Directors  
The Chairman  
**Alessandro Pansa**



## **APPENDICES**

## 14 APPENDICES

### 14.1 EQUITY INVESTMENTS

		31.12.2006							31.12.2007		
(€)		Cost	Writedown	Book value	Repayments of share premium reserve	Transfers/Ac- quisitions of going concerns (a)	Acq./Subscrip./ Capital grants	Other changes (d) (Stock grant)	Cost	Writedo wn	Book value
%											
31.12.2007	Equity investments in parent companies	-	-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-	-
	<b>Equity investments in subsidiaries</b>										
100%	Ansaldo Signal NV	63,174,885	-	63,174,885	(40,000,000)	-	-	(22,034)	(40,022,034)	-	63,152,851
100%	Ansaldo Trasporti Sistemi Ferroviari S.p.A.	38,506,781	-	38,506,781	-	-	-	866,995	866,995	-	39,373,776
		<b>101,681,666</b>	-	<b>101,681,666</b>	<b>(40,000,000)</b>	-	-	<b>844,961</b>	<b>(39,155,039)</b>	-	<b>102,526,627</b>
	<b>Equity investments in associates</b>										
		-	-	-	-	-	-	-	-	-	-
	<b>Equity investments in jointly-controlled enterprises</b>										
		-	-	-	-	-	-	-	-	-	-
	<b>Consortia</b>										
		-	-	-	-	-	-	-	-	-	-
	<b>Other Enterprises</b>										
		-	-	-	-	-	-	-	-	-	-
	<b>TOTAL INVESTMENTS</b>	<b>101,681,666</b>	-	<b>101,681,666</b>	-	-	-	<b>844,961</b>	<b>(39,155,039)</b>	-	<b>102,526,627</b>

	<b>Parent Companies</b>	<b>Subsidiaries</b>	<b>Associated companies</b>	<b>Joint Ventures</b>	<b>Consortia</b>
<b>(a) Of which:</b>					
Cost	-	(40,000,000)	-	-	-
Writedowns	-	-	-	-	-
		<b>(40,000,000)</b>	-	-	-
<b>(b) Of which:</b>					
Cost	-	-	-	-	-
Writedowns	-	-	-	-	-
	-	-	-	-	-
<b>(c) Of which:</b>					
Cost	-	-	-	-	-
Writedowns	-	-	-	-	-
	-	-	-	-	-
<b>(d) Of which:</b>					
Cost	-	844,961	-	-	-
Writedowns	-	-	-	-	-
	-	<b>844,961</b>	-	-	-

**14.2 LIST OF EQUITY INVESTMENTS WITH THE ADDITIONAL INFORMATION REQUIRED BY CONSOB  
(COMMUNICATION NO. DEM/6064293 OF 28 JULY 2006)**

<b>Amounts at 31 December 2007</b>									
<b>Company Name</b>	<b>Registered Office</b>	<b>Reporting date</b>	<b>Share capital</b>	<b>Currency</b>	<b>Shareholders' equity</b>	<b>Net Profit (Loss)</b>	<b>Ownership (%)</b>	<b>Equity reported in the financial statements</b>	<b>Book value</b>
<i>(EUR 000)</i>									
<b>Equity investments in parent companies</b>									<u>-</u>
<b>Equity investments in subsidiaries</b>									
Ansaldo Signal NV	Amsterdam	31.12.2007	100	Euro	57,320	39,359	100%	57,320	23,153
Ansaldo Trasporti Sistemi Ferroviari S.p.A.	Naples	31.12.2007	30,300	Euro	55,133	15,278	100%	55,133	39,374
									<u>62,527</u>
<b>Equity investments in associates</b>									<u>-</u>
<b>Equity investments in jointly-controlled enterprises</b>									
<b>Consortia</b>									<u>-</u>
<b>Other Enterprises</b>									<u>-</u>
<b>TOTAL INVESTMENTS</b>									<u><u>62,527</u></u>

### 14.3 ASSETS BROKEN DOWN BY MATURITY

(€)	31.12.2007			31.12.2006		
	Amounts falling due			Amounts falling due		
	From 2 to 5 years	After more than 5 years	Total	From 2 to 5 years	After more than 5 years	Total
<b>Non-current receivables from related parties</b>						
Financial receivables	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-
	-	-	-	-	-	-
<b>Receivables</b>						
Financial receivables	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-
	-	-	-	-	-	-
<b>Other current assets</b>	8,186,062	19,315,223	27,501,285	8,187,500	20,879,124	29,066,624
<b>Total non-current assets</b>	<b>8,186,062</b>	<b>19,315,223</b>	<b>27,501,285</b>	<b>8,187,500</b>	<b>20,879,124</b>	<b>29,066,624</b>
<b>Trade receivables</b>	-	-	-	-	-	-
	-	-	-	-	-	-

## 14.4 ASSETS DENOMINATED IN FOREIGN CURRENCY

(€)	31.12.2007			31.12.2006		
	Foreign currency	Euro	Total	Foreign currency	Euro	Total
<b>Non-current receivables from related parties</b>						
Financial receivables	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-
	-	-	-	-	-	-
<b>Non-current financial assets at fair value</b>	-	-	-	-	-	-
<b>Non-current securities held to maturity</b>	-	-	-	-	-	-
<b>Receivables</b>						
Financial receivables	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-
	-	-	-	-	-	-
<b>Other non-current assets</b>	-	27,501,285	27,501,285	-	29,066,624	29,066,624
<b>Total non-current assets</b>	-	<b>27,501,285</b>	<b>27,501,285</b>	-	<b>29,066,624</b>	<b>29,066,624</b>
<b>Current receivables from related parties</b>						
Financial receivables	-	20,637,291	20,637,291	-	132,127,724	132,127,724
Trade receivables	-	7,180,559	7,180,559	-	9,469,997	9,469,997
Other receivables	-	8,813,759	8,813,759	-	749,880	749,880
	-	<b>36,631,609</b>	<b>36,631,609</b>	-	<b>142,347,601</b>	<b>142,347,601</b>
<b>Trade receivables</b>	-	-	-	-	-	-
<b>Current financial assets at fair value</b>	-	-	-	-	-	-
<b>Securities held to maturity</b>	-	-	-	-	-	-
<b>Financial receivables</b>	-	-	-	-	-	-
<b>Tax receivables</b>	-	93,609	93,609	-	580,167	580,167
<b>Other current assets</b>	-	1,768,387	1,768,387	-	2,410,138	2,410,138
<b>Cash and cash equivalents</b>	-	536,813	536,813	-	908,911	908,911
<b>Total current assets</b>	-	<b>39,030,418</b>	<b>39,030,418</b>	-	<b>146,246,817</b>	<b>146,246,817</b>

## 14.5 ASSETS BY GEOGRAPHIC AREA

(€)	31.12.2007					31.12.2006				
	Italy	Western Europe	North America	Asia/Pacific	Total	Italy	Western Europe	North America	Asia/Pacific	Total
<b>Non-current receivables from related parties</b>										
Financial receivables	-	-	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
<b>Non-current financial assets at fair value</b>	-	-	-	-	-	-	-	-	-	-
<b>Non-current securities held to maturity</b>	-	-	-	-	-	-	-	-	-	-
<b>Receivables</b>										
Financial receivables	-	-	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
<b>Other non-current assets</b>	27,501,285	-	-	-	27,501,285	29,066,624	-	-	-	29,066,624
<b>Total non-current assets</b>	<b>27,501,285</b>	-	-	-	<b>27,501,285</b>	<b>29,066,624</b>	-	-	-	<b>29,066,624</b>
<b>Current receivables from related parties</b>										
Financial receivables	283,152	20,354,138	-	-	20,637,290	132,127,724	-	-	-	132,127,724
Trade receivables	2,520,962	981,471	1,234,487	2,443,639	7,180,559	6,014,933	1,199,103	1,269,426	986,535	9,469,997
Other receivables	7,288,820	518,669	751,433	254,838	8,813,760	143,792	570,538	35,550	-	749,880
	<b>10,092,934</b>	<b>21,854,278</b>	<b>1,985,920</b>	<b>2,698,477</b>	<b>36,631,609</b>	<b>138,286,449</b>	<b>1,769,641</b>	<b>1,304,976</b>	<b>986,535</b>	<b>142,347,601</b>
<b>Trade receivables</b>	-	-	-	-	-	-	-	-	-	-
<b>Current financial assets at fair value</b>	-	-	-	-	-	-	-	-	-	-
<b>Securities held to maturity</b>	-	-	-	-	-	-	-	-	-	-
<b>Financial receivables</b>	-	-	-	-	-	-	-	-	-	-
<b>Tax receivables</b>	93,609	-	-	-	93,609	580,167	-	-	-	580,167
<b>Other current assets</b>	1,767,442	945	-	-	1,768,387	1,833,046	577,092	-	-	2,410,138
<b>Cash and cash equivalents</b>	527,973	8,840	-	-	536,813	908,911	-	-	-	908,911
	-	-	-	-	-	-	-	-	-	-
<b>Total current assets</b>	<b>12,481,958</b>	<b>21,864,063</b>	<b>1,985,920</b>	<b>2,698,477</b>	<b>39,030,418</b>	<b>141,608,573</b>	<b>2,346,733</b>	<b>1,304,976</b>	<b>986,535</b>	<b>146,246,817</b>

## 14.6 AVAILABLE AND DISTRIBUTABLE RESERVES

(EUR 000)	Nature/description	Amount	Possibly used	Summary of uses in three prior years		
				Available	to cover losses	for other reasons
<b>Share capital (*):</b>						
	Outstanding shares	50,000	-	-	-	-
	Charges for capital increase in 2005	(50)	-	-	-	-
	Treasury shares	(282)	-	-	-	-
<b>Capital reserves:</b>						
	Non-interest-bearing convertible loan	50,169	A,B	47,679	2,490	-
	Coverage of losses	37	B	-	37	-
	Share premium reserve	-	-	-	-	-
	Merger surplus	-	-	-	-	-
<b>Retained earnings</b>						
	Legal reserve	909	B	-	-	-
	Extraordinary reserve	-	-	-	-	-
	Statutory reserve	-	-	-	-	-
	Fair value reserve	-	-	-	-	-
	Cash flow hedge reserve	-	-	-	-	-
	Reserve for assets available for sale	-	-	-	-	-
	Reserve for stock grant plans					
	- assignment	3,000	B	3,000	-	-
	- delivery	97	B	97	-	-
	Deferred taxes on items carried under Equity	4	-	-	-	-
	Retained earnings:					
	Treasury shares	282				
	Actuarial components of defined benefits	(15)				
	Retained earnings	16,983	A,B,C	16,983	-	-
	<b>Total</b>	<b>121,149</b>		<b>64,944</b>	<b>2,527</b>	
	Non-distributable			47,679		
	<b>Remaining non-distributable</b>			<b>16,983</b>		

**Key:**

(\*): less treasury shares

A: for share capital increase

B: to cover losses

C: to be distributed to shareholders



## 14.7 LIABILITIES BROKEN DOWN BY MATURITY

(€)	<b>31.12.2007</b>			<b>31.12.2006</b>		
	<b>Amounts falling due</b>			<b>Amounts falling due</b>		
	From 2 to 5 years	After more than 5 years	Total	From 2 to 5 years	After more than 5 years	Total
<b>Non-current payables to related parties</b>						
Financial debts	-	-	-	-	-	-
Other payables:	-	-	-	-	-	-
	-	-	-	-	-	-
<b>Non-current financial debts</b>	-	-	-	-	-	-
<b>Other non-current liabilities</b>	-	95,975	95,975	41,723	-	41,723
<b>Total non-current liabilities</b>	<b>-</b>	<b>95,975</b>	<b>95,975</b>	<b>41,723</b>	<b>-</b>	<b>41,723</b>
<b>Trade payables</b>	-	-	-	-	-	-
	-	-	-	-	-	-

## 14.8 LIABILITIES DENOMINATED IN FOREIGN CURRENCY

(€)	31.12.2007			31.12.2006		
	Foreign currency	Euro	Total	Foreign currency	Euro	Total
<b>Non-current payables to related parties</b>						
Financial debts	-	-	-	-	-	-
Other payables	-	-	-	-	-	-
	-	-	-	-	-	-
<b>Non-current financial debts</b>	-	-	-	-	-	-
<b>Other non-current liabilities</b>	-	95,975	95,975	-	41,723	41,723
<b>Total non-current liabilities</b>	<b>-</b>	<b>95,975</b>	<b>95,975</b>	<b>-</b>	<b>41,723</b>	<b>41,723</b>
<b>Current payables to related parties</b>						
Financial debts	-	11,638,941	11,638,941	-	211,828,896	211,828,896
Trade payables	19,637	1,038,776	1,058,413	-	544,620	544,620
Other payables	-	8,900,800	8,900,800	-	718,960	718,960
	<b>19,637</b>	<b>21,578,517</b>	<b>21,598,154</b>	<b>-</b>	<b>213,092,476</b>	<b>213,092,476</b>
<b>Trade payables</b>	-	7,352,481	7,352,481	-	4,909,847	4,909,847
<b>Financial debts</b>	-	37,868	37,868	-	23,000	23,000
<b>Tax payables</b>	-	2,066,023	2,066,023	-	290,706	290,706
<b>Other current liabilities</b>	-	3,185,308	3,185,308	-	2,114,690	2,114,690
<b>Total current assets</b>	<b>19,637</b>	<b>34,220,197</b>	<b>34,239,834</b>	<b>-</b>	<b>220,430,719</b>	<b>220,430,719</b>

## 14.9 LIABILITIES BY GEOGRAPHIC AREA

(€)	31.12.2007					31.12.2006				
	Italy	Western Europe	North America	Asia/Pacific	Total	Italy	Western Europe	North America	Asia/Pacific	Total
<b>Non-current payables to related parties</b>										
Financial debts	-	-	-	-	-	-	-	-	-	-
Other payables	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
<b>Non-current financial debts</b>	-	-	-	-	-	-	-	-	-	-
<b>Other non-current liabilities</b>	95,975	-	-	-	95,975	41,723	-	-	-	41,723
<b>Total non-current liabilities</b>	<b>95,975</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>95,975</b>	<b>41,723</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>41,723</b>
<b>Current payables to related parties</b>										
Financial debts	11,638,941	-	-	-	11,638,941	152,039,577	59,789,319	-	-	211,828,896
Trade payables	894,992	135,328	27,436	-	1,057,756	77,617	467,003	-	-	544,620
Other payables	8,901,457	-	-	-	8,901,457	517,680	201,280	-	-	718,960
	<b>21,435,390</b>	<b>135,328</b>	<b>27,436</b>	<b>-</b>	<b>21,598,154</b>	<b>152,634,874</b>	<b>60,457,602</b>	<b>-</b>	<b>-</b>	<b>213,092,476</b>
<b>Trade payables</b>	5,974,657	1,187,205	190,619	-	7,352,481	4,556,695	353,152	-	-	4,909,847
<b>Financial debt</b>	37,868	-	-	-	37,868	23,000	-	-	-	23,000
<b>Tax payables</b>	2,066,023	-	-	-	2,066,023	290,706	-	-	-	290,706
<b>Other current liabilities</b>	3,185,308	-	-	-	3,185,308	2,114,690	-	-	-	2,114,690
<b>Total current liabilities</b>	<b>32,699,246</b>	<b>1,322,533</b>	<b>218,055</b>	<b>-</b>	<b>34,239,834</b>	<b>159,619,965</b>	<b>60,810,754</b>	<b>-</b>	<b>-</b>	<b>220,430,719</b>

**14.10 REMUNERATION PAID TO DIRECTORS, STATUTORY AUDITORS, GENERAL MANAGERS AND MANAGERS WITH STRATEGIC RESPONSIBILITY (ARTICLE 78 OF CONSOB REGULATION NO. 11971/1999)**

(€)

PERSON	OFFICE			Compensations paid to the person in charge of the preparation of the financial statements in 2007		Non-monetary benefits	Bonuses and other incentives	Other remuneration	
	Name and Surname	Office	Date of appointment						
Alessandro Pansa	Chairman of BoD	21 Nov 2005	Approval of FS 2007	40,000 (1) (10)					
Sante Roberti (7)	Vice-Chairman of BoD	21 Nov 2005	Approval of FS 2007	30,000 (1) (*)				17,112 (***)	
Sergio De Luca	Chief Executive Officer	14 Jun 2007	Next Shareholders' Meeting	17,500 (8) (*)	71,447	235,096	957,656 (***)		
G. Roberto Gagliardi	Chief Executive Officer	21 Nov 2005	14 June 2007	12,500 (9) (*)	48,035	48,750	1,084,404		
Mauro Gigante (2)	Director	21 Nov 2005	27 September 2007	33,750 (2) (10)					
Francesco Lalli (8)	Director	21 Nov 2005	Approval of FS 2007	33,750 (7) (10)					
Sergio Maria Carbone (3)	Director	24 Mar 2006	Approval of FS 2007	50,000 (3)					
Attilio Salvetti (4)	Director	24 Mar 2006	Approval of FS 2007	45,000 (4)					
Maurizio Cereda (1) (5)	Director	14 Jun 2006	Approval of FS 2007	65,000 (5)					
Gabriele Falciasacca (2) (6)	Director	14 Jun 2006	Approval of FS 2007	65,000 (6)					
Gerlando Genuardi	Director	27 Sep 2007	Approval of FS 2007	7,500 (8)				1,250	
Paolo Colombo	Chairman of BoSA	21 Nov 2005	Approval of FS 2007	40,000 (1)					
Antonio Rosina	Statutory Auditor	21 Nov 2005	Approval of FS 2007	20,000 (1)					
Francesca Tripodi	Statutory Auditor	21 Nov 2005	Approval of FS 2007	20,000 (1)					

- (1) Chairman of the Remuneration Committee - appointed 27 Jun. 2006  
(2) Member of the Remuneration Committee - appointed 27 Jun. 2006  
(3) Chairman of the Internal Control Committee - appointed 24 Mar 2006  
(4) Member of the Internal Control Committee - appointed 24 Mar 2006  
(5) Member of the Internal Control Committee - appointed 27 Jun 2006  
(6) Chairman of Supervisory Body - appointed 27 Jun 2006  
(7) Appointed Vice-Chairman on 24 Feb 2006

- (1) 12-month fee (\*) contributions included  
(2) 9 months BoD + 9 months RC (\*\*\*) of which 11,000 from ATSF and 12,395 from ASF  
(3) 12 months BoD + Chairman ICC (\*\*\*) of which 16,500 from ATSF and 612 from ASF  
(4) 12 months BoD + ICC  
(5) 12 months BoD + +12 months Chairman of RC and ICC  
(6) 12 months BoD + 12 months RC and Chairman of SB  
(7) 12 months BoD + 3 months RC  
(8) Rounded-off for 7 months BoD; remuneration retroceded to Ansaldo STS S.p.A.  
(9) Rounded-off for 5 months BoD; remuneration retroceded to Ansaldo STS S.p.A.  
(10) Remuneration paid to Finmeccanica S.p.A.

**14.11 STOCK GRANTS ASSIGNED TO MEMBERS OF THE BOARD OF DIRECTORS, THE GENERAL MANAGERS AND MANAGERS WITH STRATEGIC RESPONSIBILITY**

(A)	(B)	Options held at the start of the year			Options assigned during the year			Options exercised during the year			Options expired during the year	Options held at the end of the year		
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)=1+4-7-10	(12)	(13)
Name and Surname	Office	Number of options	Average exercise price	Average expiration	Number of options	Average exercise price	Average expiration	Number of options	Average exercise price	Average market price at exercise	Number of options	Number of options	Average exercise price	Average expiration
Sergio De Luca	Chief Executive Officer	-	-	-	3,898	0	0	3,898	9,618	8,998	-	-	-	-
Roberto G. Gagliardi	Chief Executive Officer	-	-	-	10,878	0	0	10,878	9,618	8,998	-	-	-	-
Sante Roberti	Vice-Chairman of BoD	-	-	-	3,367	0	0	3,367	9,618	8,998	-	-	-	-

**15 KEY FIGURES OF THE LATEST FINANCIAL STATEMENTS APPROVED BY THE COMPANY  
PERFORMING DIRECTION AND COORDINATION ACTIVITIES (ARTICLE 2497-BIS OF THE ITALIAN  
CIVIL CODE)**

*(EUR 000)*

**FINMECCANICA S.p.A.**

**BALANCE SHEET**

**Assets**

Non-current assets	8,613,421
Current assets	3,063,722
Non-current assets held for sale	4,300
Total assets	<u><u><b>11,681,443</b></u></u>

**Liabilities**

Shareholders' equity	
- Share capital	1,858,340
- Reserves and profits (losses) carried forward	3,581,017
- Net Profit (Loss) for the year	719,236
	<u><u><b>6,158,593</b></u></u>

Non-current liabilities	1,849,886
Current liabilities	3,672,964
Liabilities directly correlated with assets held for sale	-
<b>Total liabilities</b>	<b>11,681,443</b>

### **INCOME STATEMENT**

Revenues	145,368
Costs	(236,969)
Financial income and costs	759,813
Income taxes for the year	58,424
Profit (loss) connected with discontinued operations	(7,400)
Net Profit (Loss) for the year	<b>719,236</b>

### **FINMECCANICA S.p.A. PREPARES CONSOLIDATED FINANCIAL STATEMENTS.**

Finmeccanica S.p.A., with registered offices in Piazza Montegrappa 4, Rome, a company listed on the Milan Stock Exchange, performs direction and coordination activities on the company. The key figures of the parent company Finmeccanica S.p.A. reported as required by Article 2497 bis of the Italian Civil Code have been taken from the financial statements of the company for the year ended 31 December 2006.

For an adequate and complete understanding of the financial condition of Finmeccanica S.p.A. at 31 December 2006, and the net result of the company for the year then ended, reference should be made to the financial statements, which, together with the independent auditors' report, are available in the form and the manners provided for by law.

## 16 INFORMATION PURSUANT TO ARTICLE 149-DUODECIIES OF THE CONSOB ISSUER REGULATION

This statement was prepared in accordance with Article 149-duodecies of the Consob Issuer regulation and reports the fees for the year 2007 for auditing services and for services other than auditing provided by the same auditing firm. No services were provided by entities belonging to the auditing firm's network.

*(EUR 000)*

	<b>Entity providing the service</b>	<b>To</b>	<b>Fees for the year 2007 for the engagement</b>
Auditing services	PricewaterhouseCoopers S.p.A.	Ansaldo STS S.p.A.	137
Certification services	PricewaterhouseCoopers S.p.A.	Ansaldo STS S.p.A.	-
Tax consulting services	PricewaterhouseCoopers S.p.A.	Ansaldo STS S.p.A.	-
Other services	PricewaterhouseCoopers S.p.A.	Ansaldo STS S.p.A.	10
			<hr/> <hr/> <b>147</b>



**17 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 company	Italy	65.850%	65.850%		Ansaldo Trasporti Sistemi Ferroviari S.p.A.	1
Alifana due - limited liability consortium company	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 España 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	The Netherlands	100.000%		100.000%		1
Ansaldo STS Sweden AB	Sweden	100.000%	100.000%		Ansaldo Signal NV	1
Ansaldo STS UK Ltd.	UK	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 company	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 (non-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
Union Switch & Signal Private Ltd.	India	100.000%	99.9999%		Ansaldo Signal NV	1
			0.0001%		Transcontrol Corporation	1
Ansaldo STS Australia PTY Ltd.	Australia	100.000%	100.000%		Transcontrol Corporation	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

**18 CERTIFICATION OF THE COMPANY FINANCIAL STATEMENTS PURSUANT TO ARTICLE 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AND SUBSEQUENT AMENDMENTS AND INTEGRATIONS**

1. The undersigned Sergio De Luca, Chief Executive Officer, 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:
  - 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 company financial statements for the period running 1 January 2007 through 31 December 2007.
2. No significant issues have arisen in this regard.
3. It is also certified that the financial statements:
  - a) correspond to the entries in the documents, books and accounting records;
  - b) were prepared in accordance with the International Accounting Standards recognised by the European Union, in accordance with Regulation (EC) 1602/2002, and, to our knowledge, provide a true and fair representation of the performance and financial position of the issuer.
4. This certification is made pursuant to and for the purposes of Art. 154-*bis*, paragraphs 2 and 5, of Legislative Decree no. 58 of 1998.

Rome, 13 March 2008

Signature of the Chief Executive Officer

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

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**Sergio De Luca**

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**Jean Paul Giani**