

4 ANALYSIS OF THE PROFIT AND LOSS STATEMENT AND THE BALANCE SHEET OF THE PARENT COMPANY

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

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

- In November 2005 Ansaldo STS SpA began operations following the decision of the sole shareholder, Finmeccanica, to revoke the liquidation status and convert Euroskyway Srl into a company limited by shares under the present name.
- In February 2006 Ansaldo STS SpA acquired from Finmeccanica the entire share capital of Ansaldo Trasporti Sistemi Ferroviari SpA and of Ansaldo Signal NV, itself the parent company of a group of 19 companies operating in the signalling sector in a number of countries.

The requisite financial resources were provided by Finmeccanica, partly through a capital increase and partly through a capital contribution.

- On 29 March 2006, the start of share trading marked the conclusion of the complex procedure begun in September 2005, which had brought Ansaldo STS shares to be quoted with a 'Star' rating on the MTAX market run by the Italian Stock Exchange. Finmeccanica offered 60 million of the company's shares, or 60% of its share capital, available to the market, retaining the remaining 40 million shares, or 40% of the share capital.

- The parent company, Ansaldo STS, has borne the costs relative to the stock exchange listing during the first half. These costs, which by definition are non-recurring, have had an impact on the Ansaldo STS Group's results for the period.

Profit and loss account

(EUR 000)	<i>31 December 2006</i>	<i>31 December 2005</i>
Revenues	7,246	-
Changes in work in progress, semi-finished products, finished products, and goods		
Value of production	7,246	-
Purchasing and staff costs	(17,621)	(2,505)
Amortization and depreciation	(1,707)	(15)
Write-downs	-	-
Reorganization costs	-	-
Other net operating (costs) revenues	1,246	12
(EBIT)	(10,836)	(2,508)
Financial income and expense, net	29,025	18
Income tax	-	-
Net Profit	18,189	(2,490)
NET PROFIT	18,189	(2,490)

Revenues for the year amounted to EUR 7,246,000 and relate to Service operations to the benefit of subsidiaries.

Purchasing and staff costs break down as follows:

- staff costs (29 people from 1 July 2006) EUR 4,032
- purchasing and service costs of EUR 13,589,000 include costs for the listing of Ansaldo STS, costs for the year for Finmeccanica's right to use the 'Ansaldo' trademark for 20 years; the remaining amount relates to costs for performing service, support and coordination activities of the parent company.

Other operating revenues came to EUR 1.830,000 and are due to the rental income received from its subsidiaries for the building it owns at Via Mantovani 3/5, Genoa 16151.

Financial income and expense break down as follows:

- EUR 32,000,000 of dividend collected from the subsidiary Ansaldo Signal N.V.
- EUR 2,845,000 of interest income on the current account held with Finmeccanica S.p.A.
- EUR 5,510,000 of interest expense accrued on current accounts held with subsidiaries Ansaldo Signal N.V. (ASNV) and Ansaldo Trasporti Sistemi Ferroviari S.p.A. (ATSF)
- EUR 310,000 of other interest, commission and bank expense.

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

The table below contains the balance sheet at 31 December 2006 compared with the year 2005:

Reclassified balance sheet

(EUR 000)	31 December 2006	31 December 2005
	<hr/>	<hr/>
Non-current assets	192,255	92,953
Non-current liabilities	<hr/> 377	<hr/> -
	<hr/> 191,878	<hr/> 92,953
Inventory	-	-
Work in progress	-	-
Trade receivables	9,470	248
Trade payables	5,455	2,813
Advances from customers	-	-
Short-term provisions for risks and charges	-	-
Other net current assets (liabilities)	616	20,565
Net working capital	<hr/> 4,631	<hr/> 18,000
Net invested capital	<hr/> 196,509	<hr/> 110,953
Group shareholders' equity	117,694	37,497
Minority interests	<hr/>	<hr/>
Shareholders' equity	<hr/> 117,694	<hr/> 37,497
Financial debt (liquidity), net	<hr/> 78,815	<hr/> 73,456

Non-current assets rose by EUR 99,302 essentially due to the purchase by Finmeccanica S.p.A. of the entire share capital of Ansaldo Trasporti Sistemi Ferroviari SpA on 24 February 2006 and of Ansaldo Signal N.V. for EUR 100,159,000.

Non-current liabilities include the provision for severance pay for the 29 employees transferred to Ansaldo STS from 1 July 2006 (EUR 335,000) and seniority bonuses (EUR 42,000).

Trade receivables rose by EUR 9,222,000 and mainly relate to receivables from Companies of the Finmeccanica Group.

Trade payables rose by EUR 2,642,000 and mainly relate to transactions with third-party suppliers for costs regarding the ordinary business of the parent company.

Other net assets/liabilities fell by EUR 19,494,000. This decrease is essentially attributable to the receipt of VAT credit of EUR 19,155,000 relating to VAT positions arising during 2005 following acquisition from Finmeccanica SpA of the office premises at Via Mantovani 3/5, present headquarters of Ansaldo STS SpA, and of the licence for the use of the 'Ansaldo' brand.

As a result of the foregoing, **net working capital** fell from EUR 18,000,000 in 2005 to EUR 4,631,000 in 2006, a decrease of EUR 13,369,000; growth in **invested capital** is essentially due to the acquisition of investees, as reported under the section dealing with current assets.

Shareholders' equity came to EUR 37,497,000 in 2005 from EUR 117,694,000, due to:

- a capital increase of EUR 10,000,000
- a capital contribution of EUR 50,169,000, of which EUR 2,490,000 is allocated to cover losses from 2005.
- a greater result for the year, due to the dividend of EUR 32,000,000 collected from the subsidiary Ansaldo Signal N.V.

Below is the reclassified cash flow statement at 31 December 2006 compared with the prior year:

(EUR 000)	31-Dec-2006	31-Dec-2005
Opening balance cash and cash equivalents	<u>24</u>	<u>4</u>
Gross cash flow from operations	(7,200)	(2,475)
Change in working capital	15,219	2,552
Changes in other operating assets and liabilities, taxes, and interest	<u>(3,015)</u>	<u>(18,953)</u>
Cash flow from (for) operations	<u>5,004</u>	<u>(18,876)</u>
Cash flow from (for) ordinary investing activities	(847)	(62,356)
Dividends received	32,000	-
Free operating cash flow before strategic investments	<u>36,157</u>	<u>(81,232)</u>
Strategic investments	(100,159)	-
Changes in other financial assets	<u>(1,525)</u>	<u>(32,213)</u>
Cash flow from (for) investing activities	<u>(70,531)</u>	<u>(94,569)</u>
Dividends paid	-	-
Capital increases less purchase of treasury shares	60,169	39,985
Cash flow from financing activities	<u>6,243</u>	<u>73,480</u>
Cash flow from (for) financing activities	<u>66,412</u>	<u>113,465</u>
Closing balance cash and cash equivalents	<u><u>909</u></u>	<u><u>24</u></u>

The year 2006 ended with a net increase in cash and cash equivalents of EUR 885,000, due to the following factors:

- cash flow from operations of EUR 5,004,000, a sharp increase over December 2005 (negative EUR 18,876,000) essentially attributable to VAT credits of EUR 19,155,000 relating the VAT positions created in 2005 as a result of the acquisition of Ansaldo STS S.p.A.'s current office premises at Via Mantovani 3/5 in Genoa and of the license for the use of the 'Ansaldo' brand from Finmeccanica SpA;
- cash flow used for investing activities came to a negative EUR 70,531,000 (EUR 94,569,000 at 31 December 2005), essentially due to the purchase of the entire share capital of Ansaldo Trasporti Sistemi Ferroviari SpA in February 2006 for EUR 38,213,000 and of Ansaldo Signal N.V. for EUR 61,946,000 and the collection of the dividend from the subsidiary Ansaldo Signal N.V. for EUR 32,000,000;

- cash flow from financing activities was EUR 66,412,000 (EUR 113,465,000 at 31 December 2005) mainly due to the capital operations carried out by Finmeccanica SpA in the following manner:

a capital increase of EUR 10,000,000

a capital contribution of EUR 50,169,000, of which EUR 2,490,000 is allocated to cover losses from 2005.

4.1 Profit and loss account

(Euro units)	<u>31 December 2006</u>	<u>31 December 2005</u>
Revenues	-	-
Revenues from related parties	7,245,456	-
Changes in work in progress, semi-finished products, finished products, and goods	-	-
Other operating revenues	3,583	10,000
Other operating revenues from related parties	1,830,230	18,156
Purchases	(7,268)	-
Service costs	(10,901,133)	(2,187,624)

Costs from related parties	(2,680,562)	(316,914)
Staff costs	(4,032,364)	
Amortization, depreciation and write-downs	(1,705,477)	(15,381)
Other operating costs	(587,352)	(16,598)
(-) Capitalised costs for internally produced assets		
(EBIT)	(10,834,887)	(2,508,361)
Financial income	56,139	-
Financial income from related parties	34,844,881	31,488
Financial expense	(104,401)	(194)
Financial expense from related parties	(5,771,975)	(13,308)
Profit (loss) before taxes	18,189,757	(2,490,375)
Income tax	-	-
Net profit (loss)	18,189,757	(2,490,375)
Earnings per share		
<i>Basic</i>	0.18	-
<i>Diluted</i>	0.18	-

4.2 Balance sheet

(Euro units)	<u>31 December 2006</u>	<u>31 December 2005</u>
<i>Non-current assets</i>		
Intangible fixed assets	444,028	-
Tangible fixed assets	278,740	-
Investment property	60,783,550	62,362,357
Equity investments	101,681,666	-
Other assets	29,066,624	30,589,774
	<u>192,254,608</u>	<u>92,952,131</u>
<i>Current assets</i>		
Current receivables from related parties	142,347,601	247,826
Tax receivables	580,167	19,155,722
Other current assets	2,410,138	1,649,988
Cash and cash equivalents	908,911	23,846
	<u>146,246,817</u>	<u>21,077,382</u>
Total Assets	<u>338,501,424</u>	<u>114,029,513</u>
<i>Shareholders' equity</i>		
Share capital	49,950,000	39,950,000
Reserves	49,554,525	36,526
Net profit for current year	18,189,757	(2,490,375)
Total shareholders' equity	<u>117,694,282</u>	<u>37,496,151</u>
<i>Non-current liabilities</i>		
Severance pay and other liabilities towards staff	334,701	-
Other liabilities	41,723	-
	<u>376,424</u>	<u>-</u>
<i>Current liabilities</i>		
Current payables to related parties	213,092,476	73,784,920
Trade payables	4,909,847	2,513,468
Short-term receivables	23,000	-
Taxes payable	290,706	-
Other liabilities	2,114,690	234,974
	<u>220,430,718</u>	<u>76,533,362</u>
Total liabilities	<u>220,807,143</u>	<u>76,533,362</u>
Total liabilities and shareholders' equity	<u>338,501,424</u>	<u>114,029,513</u>

4.3 Cash flow

(Euro units)	<u>31-Dec-2006</u>	<u>31-Dec-2005</u>
<i>Cash flow from operations</i>		
Gross cash flow from operations	(7,200,150)	(2,474,994)
Change in working capital	15,218,889	2,552,321
Changes in other operating assets and liabilities, taxes, and interest	(3,015,355)	(18,954,298)
Financial expense paid	-	-
Income tax paid	-	-
Cash flow from (for) operations	<u>5,003,384</u>	<u>(18,876,971)</u>
<i>Cash flow from investing activities</i>		
Company acquisitions, net of cash acquired	(100,159,000)	-
Investments in tangible and intangible fixed assets	(846,737)	(62,378,000)
Sale of tangible and intangible fixed assets	-	-
Dividends received	32,000,000	-
Other investments	(1,525,366)	(32,191,000)
Cash flow from (for) investing activities	<u>(70,531,103)</u>	<u>(94,569,000)</u>
<i>Cash flow from financing activities</i>		
Net change in other financial debts	6,243,784	73,480,388
Capital increases	57,678,625	39,985,139
Loss coverage	2,490,375	-
Dividends paid out	-	-
Net change in other financing activities	-	-
Cash flow from (for) financing activities	<u>66,412,784</u>	<u>113,465,527</u>
Net decrease in cash and cash equivalents	885,065	19,556
Cash and cash equivalents at 1 January	23,846	4,290
Cash and cash equivalents at period-end	<u><u>908,911</u></u>	<u><u>23,846</u></u>

Figures in the illustrative section of the cash flow are in thousands of euros for ease of reading.

The year 2006 ended with a net increase in cash and cash equivalents of EUR 885,000, due to the following factors:

- cash flow from operations of EUR 5,004,000, a sharp increase over December 2005 (EUR 18,876,000) essentially attributable to VAT credits of EUR 19,155,000 relating the VAT positions created in 2005 as a result of the acquisition of Ansaldo STS S.p.A.'s current office premises at Via Mantovani

3/5 in Genoa and of the license for the use of the 'Ansaldo' brand from Finmeccanica SpA;

- cash flow used for investing activities came to a negative EUR 70,53,000 (EUR 94,569,000 at 31 December 2005), essentially due to the purchase of the entire share capital of Ansaldo Trasporti Sistemi Ferroviari SpA in February 2006 for EUR 38,213,000 and of Ansaldo Signal N.V. for EUR 61,946,000 and the collection of the dividend from the subsidiary Ansaldo Signal N.V. for EUR 32,000;
- cash flow from financing activities was EUR 66,412,000 (EUR 113,465,000 at 31 December 2005) mainly due to the capital operations carried out by Finmeccanica SpA in the following manner:

- a capital increase of EUR 10,000,000

- a capital contribution of EUR 50,169,000, of which EUR 2,490,000 is allocated to cover losses from 2005.

4.4 Changes in shareholders' equity

(EUR 000)

	Share capital	Retained earnings/losses carried forward	Other reserves	Total Parent Company's equity
Shareholders' equity at 1 January 2005	10	(9)		1
Fair value adjustments of assets available for sale and recognition in profit and loss account	-	-	-	-
Fair Value adjustments of cash-flow hedge instruments	-	-	-	-
Recognition in profit and loss account of Cash Flow Hedge reserve	-	-	-	-
Repurchase of treasury shares	-	-	-	-
Net change in reserve for stock option/grant plans	-	-	-	-
Translation differences	-	-	-	-
Subscribed capital for loss coverage	-	9	37	46
Dividends	-	-	-	-
Capital increases	39,990	-	-	39,990
Change in scope of consolidation and other minor items	-	-	-	-
Charges related to capital increases	(50)	-	-	(50)
Net profit (loss) 31 December 2005	-	(2,490)	-	(2,490)
	-	-	-	-
	-	-	-	-
Shareholders' equity at 31 December 2005	39,950	(2,490)	37	37,497
Fair Value adjustments of assets available for sale and recognition in profit and loss account	-	-	-	-
Fair Value adjustments of cash-flow hedge instruments	-	-	-	-
Recognition in profit and loss account of Cash Flow Hedge reserve	-	-	-	-
Repurchase of treasury shares	-	-	-	-
Net change in reserve for stock grant plans	-	-	1,839	1,839
Translation differences	-	-	-	-
Increases	-	-	-	-
Dividends	-	-	-	-
Capital increase contributions	-	2,490	-	2,490
Capital increases	10,000	-	47,679	57,679
Change in scope of consolidation and other minor items	-	-	-	-
Net profit (loss) 31 December 2006	-	18,189	-	18,189
	-	-	-	-
Shareholders' equity at 31 December 2006	49,950	18,189	49,555	117,694

4.5 Reconciliation of profit and shareholders' equity of Ansaldo STS SpA with that of the Ansaldo STS Group at 31 December 2006

	Shareholders' equity	Profit for the period
The financial statements of Ansaldo STS SpA at 31 December	117,694	18,189
<ul style="list-style-type: none"> • Shareholders' equity surplus in the annual financial statements including profit for the period, compared with the carrying value of the equity investments in consolidated entities • other adjustments • Minority interests 	18,915 (10,690) 360	24,945 0 73
The consolidated financial statements of Ansaldo STS Group at 31 December	126,279	43,207

On behalf of the Board of Directors

The Chairman

Alessandro Pansa

**Financial statements and explanatory notes to the consolidated annual
report at 31 December 2006**

5 FINANCIAL STATEMENTS

5.1 Profit and loss account

<i>(EUR 000)</i>	<i>Note</i>	12 months ended at 31 December 2006	12 months ended at 31 December 2005
Revenues	9.2	802,382	-
Revenues from related parties	9.1	8,048	-
Changes in work in progress, semi-finished products, finished products, and goods		300	-
Other operating revenues	9.3	12,607	10
Other operating revenues from related parties	9.2	939	18
Purchases	9.4	(221,691)	-
Service costs	9.4	(253,706)	(2,188)
Costs from related parties	9.1	(50,367)	(317)
Staff costs	9.5	(197,860)	-
Amortization, depreciation and write-downs	9.6	(9,691)	(15)
Other operating costs	9.7	(12,041)	(16)
(-) Capitalised costs for internally produced assets	9.8	222	-
		79,142	(2,508)
(EBIT)			
Financial income	9.9	4,837	-
Financial income from related parties	9.1	3,295	31
Financial expense	9.9	(5,183)	-
Financial expense from related parties	9.1	(481)	(13)
Effects of valuation with equity method	9.10	71	-
Profit (loss) before taxes		81,681	(2,490)
Income tax	9.11	(38,474)	-
Net profit (loss)		43,207	(2,490)
<i>Group</i>		43,124	(2,490)
<i>Minority interests</i>		83	-
Earnings per share			
<i>Basic</i>		0.43	n.a
<i>Diluted</i>		0.43	n.a

5.2 Balance sheet

<i>(EUR 000)</i>	<i>Note</i>	12 months ended at 31 December 2006	12 months ended at 31 December 2005
Non-current assets			
Intangible fixed assets	8.2	45,093	-
Tangible fixed assets	8.3	91,770	62,363
Equity investments	8.4	28,582	-
Non-current receivables	8.5	15,494	-
From related parties	8.1	-	-
Deferred taxes	9.11	39,975	-
Other assets	8.5	29,640	30,590
		<u>250,554</u>	<u>92,953</u>
Current assets			
Inventory	8.6	96,540	-
Work in progress	8.7	78,292	-
Trade receivables	8.8	266,522	-
From related parties	8.1	176,830	248
Tax receivables	8.9	7,698	19,155
Financial receivables	8.8	-	-
Other current assets	8.10-8.21	25,192	1,650
Cash and cash equivalents	8.11	48,580	24
		<u>699,654</u>	<u>21,077</u>
Total Assets		<u>950,208</u>	<u>114,030</u>
<i>(EUR 000)</i>		<i>31-Dec-06</i>	<i>31-Dec-05</i>
Shareholders' equity			
Share capital	8.12	49,950	39,950
Other reserves	8.13-8.14	76,329	(2,453)
Group shareholders' equity		<u>126,279</u>	<u>37,496</u>
Minority interests	8.15	360	-
Total shareholders' equity		<u>126,639</u>	<u>37,497</u>
Non-current liabilities			
To related parties	8.1	-	-
Short-term receivables	8.16	8,475	-
Severance pay and other staff provisions	8.18	30,612	-
Deferred taxes	9.11	7,337	-
Other liabilities	8.19	6,910	-
		<u>53,334</u>	<u>-</u>
Current liabilities			
Advances from customers	8.7	475,124	-
Trade payables	8.20	143,536	2,514
Current payables to related parties	8.1	27,682	73,784
Short-term payables	8.16	13,984	-
Taxes payable	8.9	23,114	-
Short-term provisions for risks	8.17	22,310	-
Other current liabilities	8.19-8.21	64,485	235
		<u>770,235</u>	<u>76,533</u>
Total liabilities		<u>823,569</u>	<u>76,533</u>
Total liabilities and shareholders' equity		<u>950,208</u>	<u>114,030</u>

5.3 Cash flow

<i>(EUR 000)</i>	<u><i>31-Dec-2006</i></u>	<u><i>31-Dec-2005</i></u>
<i>Cash flow from operations</i>		
Gross cash flow from operations	78,092	(2,475)
Change in working capital	(30,987)	(16,617)
Changes in other operating assets and liabilities, taxes, and interest	<u>(37,831)</u>	<u>-</u>
Cash flow from (for) operations	<u>9,274</u>	<u>(19,092)</u>
<i>Cash flow from investing activities</i>		
Company acquisitions, net of cash acquired	(58,639)	-
Investments in tangible and intangible fixed assets	(13,578)	(62,363)
Sale of tangible and intangible fixed assets	139	-
Dividends received	397	-
Other investments	<u>228</u>	<u>(31,998)</u>
Cash flow from (for) investing activities	<u>(71,453)</u>	<u>(94,361)</u>
<i>Cash flow from financing activities</i>		
Net change in other financial debts	50,240	73,480
Capital increases	60,169	39,994
Establishment of non-current debts	-	-
Dividends paid	<u>-</u>	<u>-</u>
Cash flow from (for) financing activities	<u>110,409</u>	<u>113,474</u>
Net decrease in cash and cash equivalents	48,230	21
Foreign exchange translation differences	326	-
Cash and cash equivalents at 1 January	<u>24</u>	<u>3</u>
Cash and cash equivalents at period-end	<u>48,580</u>	<u>24</u>

5.4 Changes in shareholders' equity

Shareholders' equity	Share capital	Retained earnings/losses carried forward	Other reserves	Total Group shareholders' equity	Minority interests	Total shareholders' equity
(EUR 000)						
Shareholders' equity at 31 December 2004		10	(9)	1	-	1
Foreign exchange translation differences						-
Income (expenses) recognized in equity						-
Net profit (loss) 31 December 2005		(2,490)		(2,490)	-	(2,490)
Dividends						-
Capital increases	39,950			39,950		39,950
Change in scope of consolidation and other minor items	-	10	46	36		36
Shareholders' equity at 31 December 2005	39,950	(2,490)	37	37,497	-	37,497
Shareholders' equity at 31 December 2005	39,950	(2,490)	37	37,497		37,497
Change in scope of consolidation and other minor items		58,289	(68,298)	(10,009)	306	(9,703)
Foreign exchange translation differences			(5,188)	(5,188)	(29)	(5,217)
Income (expenses) recognized in equity			(1,153)	(1,153)		(1,153)
Net profit (loss) 31 December 2006		43,124		43,124	83	43,207
Net changes in the reserve for Stock Grant plan			1,839	1,839		1,839
Capital increases/loss coverage	10,000	2,490	47,679	60,169		60,169
Shareholders' equity at 31 December 2006	49,950	101,413	(25,084)	126,279	360	126,639