

4 ANALYSIS OF PROFIT AND LOSS ACCOUNT AND BALANCE SHEET OF THE HOLDING 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.

Detailed analysis of the performance of the various components of the profit and loss account and of the balance sheet should be made in light of the following:

- In February 2006, Ansaldo STS S.p.A. acquired from Finmeccanica the entire share capital of Ansaldo Trasporti Sistemi Ferroviari S.p.A. 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 led to the quotation of the Ansaldo STS shares 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 holding company, Ansaldo STS, bore the costs relative to the stock-market listing during the first half of 2006. These costs, which by definition are non-recurring, had an impact on the Ansaldo STS Group's results for the year of 2006.
- As already reported in detail, Ansaldo STS S.p.A., the holding company, exercised the option to use the Consolidated Taxation Mechanism for the Group's Italian subsidiaries (Ansaldo Segnalamento Ferroviario S.p.A. and Ansaldo Trasporti Sistemi Ferroviari S.p.A.) for the 2007-2009 three-year period for IRES (corporate income tax). By electing this option, it will be possible to compute a single IRES taxable income base for the Italian companies of the Group, through the algebraic sum of the taxable income (fully considered) of the holding/consolidating company and the consolidated/subsidiary companies (Italian subsidiaries only). The main financial benefits of using this mechanism are as follows:

- In the event one of the participating companies reports a tax loss, the use of the loss would 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, with consequent advantages, at least of a financial nature; economic benefits would also accrue if the company reporting the loss were to have no expectations of its use due to lack of expected taxable income in the five tax periods following that in which the tax loss arises;
- The dividends distributed among companies participating in the Consolidated Tax Mechanism are fully tax exempt, instead of being subject to the 5% tax provided under the ordinary rules;
- There is the possibility to transfer assets that generate a taxable capital gain within the consolidation area 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.

Profit and loss account

<i>(EUR 000)</i>	<i>For the six months ending 30 June</i>		<i>31 December 2006</i>
	<i>2007</i>	<i>2006</i>	
Revenues			
Revenues	6,396	-	7,246
Value of production	6,396	-	7,246
Purchases	(20)	(3)	(7)
Services costs	(8,793)	(7,806)	(13,582)
Staff costs	(5,318)	-	(4,032)
Amortisation, depreciation and impairment	(925)	(811)	(1,707)
Restructuring costs	-	-	-
Other operating revenues (costs)	1,313	(330)	1,246
EBIT	(7,347)	(8,950)	(10,836)
Net financial income (expense)	12,845	(1,259)	29,025
Income tax	2,930	-	-
Net profit	8,428	(10,209)	18,189

Revenues for the first half of 2007 amounted to EUR 6,396 thousand, and regard services carried out with respect to the subsidiaries.

The comparison between the first half of 2007 and the first half 2006 is not significant since the holding company, Ansaldo STS, incurred costs related to the stock-market listing in 2006; such costs, given their non-recurring nature, had an impact of EUR 6,614 thousand on the results of the first half 2006.

The costs for purchases and services amounted to EUR 8,813 thousand, and mainly regarded the following:

- EUR 2,591 thousand of costs related to IT governance and the project covering the integration of the Transport Systems Division and the Signalling Division;
- EUR 526 thousand of costs related to the new HS9 reporting system;
- EUR 348 thousand of services regarding the implementation of Law 262;
- EUR 210 thousand of services related to the definition of the Group's strategic plan;

- EUR 621 thousand of costs sustained by the Signalling Division for services regarding the management of the Via Mantovani palazzo;
- EUR 495 thousand of costs sustained by the Signalling Division for treasury activity;
- EUR 850 thousand of costs for the services of specialized personnel in relation to corporate communications and compliance with respect to stakeholders;
- EUR 799 thousand of costs representing the accrual for the period of the fees for the use of the "Ansaldo" brand granted under license by Finmeccanica for a 20-year period;
- EUR 300 thousand for participation in trade fairs and exhibitions.

Staff costs came to EUR 5,318 thousand, net of recoveries, and refer to 48 employees (20 executives, 11 middle managers and 17 clerical workers) on the Ansaldo STS S.p.A. payroll at 30 June 2007, and include EUR 485 thousand of accrued costs for the stock grant plan for the holding company.

Depreciation and amortisation charges mainly consist of the accrued depreciation (EUR 796 thousand) of the Via Mantovani building owned by the holding company, Ansaldo STS, and amortisation (EUR 129 thousand), mainly of software licenses.

Other operating revenues, net, amounted to EUR 1,313 thousand and include:

- Rental income received from subsidiaries with reference to the building located at Via Mantovani 3/5, Genoa (EUR 871 thousand);
- Income derived from the chargeback to the subsidiaries of the costs related to the brand, on the basis of revenue production (EUR 848 thousand);
- Indirect taxes, duties and other operating charges (EUR 406 thousand).

Financial income (expense) include:

- EUR 14,241 thousand of dividends received from the subsidiary, Ansaldo Trasporti Sistemi Ferroviari.
- EUR 3,045 thousand for interest earned on the current account maintained with Finmeccanica S.p.A.
- EUR 4,395 thousand of interest expense accrued on current accounts maintained with the subsidiaries, Ansaldo Signal N.V. (ASNV) and Ansaldo Trasporti Sistemi Ferroviari S.p.A. (ATSF)

- EUR 47 thousand of other interest, commissions and bank expenses.

As a result of the election of the consolidated national income tax return, the consolidating company, Ansaldo STS, accrued gains on the IRES consolidation of EUR 1,610 thousand and deferred tax assets of EUR 1,294 thousand for the first half of 2007.

The table below contains the balance sheet at 30 June 2007, compared with that at 31 December 2006:

Reclassified balance sheet

<i>(EUR 000)</i>	<u>30/06/2007</u>	<u>31/12/2006</u>	<u>30/06/2006</u>
Non-current assets	204,672	192,255	192,030
Non-current liabilities	(2,782)	(377)	-
	<u>201,890</u>	<u>191,878</u>	<u>192,030</u>
Trade receivables	5,715	9,470	350
Trade payables	(7,510)	(5,455)	(4,476)
Provisions for risks and charges	-	-	(1,200)
Other assets (liabilities), net	(10,429)	616	1,835
Net working capital	<u>(12,224)</u>	<u>4,631</u>	<u>(3,491)</u>
Net invested capital	<u>189,666</u>	<u>196,509</u>	<u>188,539</u>
Shareholders' equity	127,961	117,694	87,457
Shareholders' equity	<u>127,961</u>	<u>117,694</u>	<u>87,457</u>
Financial debt (liquidity), net	<u>61,705</u>	<u>78,815</u>	<u>101,082</u>

The non-current assets increased by EUR 12,417 thousand mainly due to the accrual of the deferred tax asset positions of the subsidiaries, Ansaldo Segnalamento Ferroviario S.p.A. and Ansaldo Trasporti Sistemi Ferroviari S.p.A., pursuant to the Consolidated Taxation Mechanism.

The non-current liabilities include the provision for severance pay (EUR 728 thousand) for the 48 employees on Ansaldo STS's payroll at 30 June 2007, seniority bonuses (EUR 95 thousand) and deferred taxes (EUR 1,959 thousand) mainly booked as a result of the accrual of the deferred tax asset positions of the subsidiaries, Ansaldo Segnalamento

Ferrovionario S.p.A. and Ansaldo Trasporti Sistemi Ferroviari S.p.A., pursuant to the Consolidated Taxation Mechanism.

Trade receivables of EUR 5,715 thousand are mainly due from companies of the Ansaldo STS Group, and reflect a decrease of EUR 3,755 thousand compared with 31 December 2006.

Trade payables increased by EUR 2,055 thousand and relate primarily to relationships with third-party suppliers for costs regarding the normal activities carried out by the corporate office.

Net other liabilities of EUR 10,429 thousand reflect a change with respect to the net other assets of EUR 616 thousand reported at 31 December 2006. The increase in the net liability position of EUR 11,045 thousand mainly refers to the payables (EUR 11,337 thousand) and receivables (EUR 7,321 thousand) generated with the Italian subsidiary companies, Ansaldo Segnalamento Ferroviario S.p.A. and Ansaldo Trasporti Sistemi Ferroviari S.p.A., pursuant to the Consolidated Taxation Mechanism; payables to staff and social security institutions (EUR 3,874 thousand); taxes payable net of the related credits (EUR 4,026 thousand); and receivables for a portion of the prepayment for use of the brand (EUR 1,610 thousand).

As a result of the foregoing, **net working capital** changed from EUR 4,631 thousand at 31 December 2006 to a negative balance of EUR 12,224 thousand at the end of first half of 2007, showing an improvement of EUR 16,855 thousand compared with the previous year end. The change mainly reflects the application of the Consolidated Taxation Mechanism; **invested capital** decreased by EUR 6,843 thousand, also for the effect of the events outlined above.

Shareholders' equity went from EUR 117,694 thousand at 31 December 2006 to EUR 127,961 thousand as a result of:

- Increased earnings for the period for the effect of the dividend from the subsidiary, Ansaldo Trasporti Sistemi Ferroviari S.p.A. (EUR 14,241 thousand);

- Reserves booked by the holding company for the Ansaldo STS stock grant plan (EUR 485 thousand)
- Reserves for the adjustment of the value of equity investments held (EUR 1,354 thousand).

The reclassified cash flow statement at 30 June 2007 is presented below, and compared with the cash flow statement at 31 December 2006:

<i>(EUR 000)</i>	<u>30/06/2007</u>	<u>31/12/2006</u>	<u>30/06/2006</u>
Opening balance of cash and cash equivalents	909	24	24
Gross cash flow from operations	(4,504)	(7,200)	(9,457)
Change in working capital	5,810	15,219	1,698
Changes in other operating assets and liabilities	3,122	(3,015)	19,195
Cash flow generated (used) by operations	<u>4,428</u>	<u>5,004</u>	<u>11,436</u>
Cash flow from (for) ordinary investment activity	(159)	(847)	(528)
Dividends received	14,241	32,000	-
Free operating cash flow	<u>18,510</u>	<u>36,157</u>	<u>10,908</u>
Strategic investments	-	(100,159)	(100,159)
Change in other financial assets	(1,354)	(1,525)	-
Cash flow generated (used) by investment activity	<u>12,728</u>	<u>(70,531)</u>	<u>(100,687)</u>
Dividends paid	-	-	-
Capital increases	-	60,169	60,169
Cash flow from (for) financing activity	(18,006)	6,243	29,706
Cash flow generated (used) by financing activity	<u>(18,006)</u>	<u>66,412</u>	<u>89,875</u>
Foreign-exchange translation difference	-	-	-
Closing balance of cash and cash equivalents	<u>59</u>	<u>909</u>	<u>648</u>

The first half of 2007 ended with a decrease in cash and cash equivalents of EUR 850 thousand, attributable to the following factors:

- Positive cash flow from operations of EUR 4,428 thousand, a figure that is essentially in line with that as of December 2006, and includes the effects of the application of the Consolidated Taxation Mechanism;
- Cash flow generated by ordinary investment activity in the amount of EUR 12,728 thousand (EUR 70,531 thousand at 31 December 2006), mainly as a result of the receipt of EUR 14,241 thousand of dividends from the subsidiary, Ansaldo Trasporti Sistemi Ferroviari S.p.A.;
- Cash flow used by financing activity in the amount of EUR 18,006 thousand (EUR 66,412 thousand at 31 December 2006) attributable to changes in the current account maintained with Finmeccanica.

4.1 Profit and loss account

Profit and loss account	<i>For the 6 months ended 30 June</i>		<i>31 December</i>
	<i>2007</i>	<i>2006</i>	<i>2006</i>
<i>(EUR 000)</i>			
Revenues from related parties	6,396	-	7,246
Other operating revenues from related parties	1,719	946	1,830
Other operating revenues	-	3	4
Purchases	(20)	(3)	(7)
Service costs	(7,079)	(7,645)	(10,901)
Costs from related parties (less recoveries)	(1,714)	(161)	(2,681)
Staff costs	(5,318)	-	(4,032)
Amortisation, depreciation and impairment	(925)	(811)	(1,707)
Other operating costs	(406)	(1,279)	(588)
(EBIT)	(7,347)	(8,950)	(10,836)
Financial income	14,259	7	56
Financial income from related parties	3,045	1,102	34,845
Financial expense	(64)	(1)	(104)
Financial expense to related parties	(4,395)	(2,367)	(5,772)
Profit (loss) before taxes	5,498	(10,209)	18,189
Income tax	2,930	-	-
Net profit (loss)	8,428	(10,209)	18,189

4.2 Balance sheet

<i>(EUR 000)</i>	30-Jun-2007	31-Dec-2006	30-Jun-2006
<i>Non-current assets</i>			
Intangible assets	430	444	484
Property, plant and equipment	60,309	61,062	61,596
Equity investments	103,036	101,682	100,159
Deferred taxes	12,657		
Other assets	28,239	29,067	29,791
	<u>204,671</u>	<u>192,255</u>	<u>192,030</u>
<i>Current assets</i>			
Current receivables from related parties	170,006	142,348	134,747
Tax receivables	279	580	816
Other assets	1,758	2,410	1,647
Cash and cash equivalents	59	909	648
	<u>172,102</u>	<u>146,247</u>	<u>137,858</u>
<i>Total Assets</i>	<u>376,773</u>	<u>338,502</u>	<u>329,888</u>
<i>Shareholders' equity</i>			
Share capital	49,950	49,950	49,950
Other reserves	78,011	67,744	37,507
<i>Total shareholders' equity</i>	<u>127,961</u>	<u>117,694</u>	<u>87,457</u>
<i>Non-current liabilities</i>			
Severance pay and other liabilities towards staff	728	335	-
Deferred taxes	1,959	-	-
Other liabilities	95	42	-
	<u>2,782</u>	<u>377</u>	<u>-</u>
<i>Current liabilities</i>			
Trade payables	6,345	4,910	4,192
Current payables to related parties	230,299	213,092	236,627
Financial payables	805	23	-
Taxes payable	4,305	291	62
Provisions for risks and charges	-	-	1,200
Other liabilities	4,276	2,115	350
	<u>246,030</u>	<u>220,431</u>	<u>242,431</u>
<i>Total liabilities</i>	<u>248,812</u>	<u>220,808</u>	<u>242,431</u>
<i>Total liabilities and shareholders' equity</i>	<u>376,773</u>	<u>338,502</u>	<u>329,888</u>

4.3 Cash flow

(EUR 000)	<i>For the 6 months ended 30 June</i>		<i>31 December</i>
	<i>2007</i>	<i>2006</i>	<i>2006</i>
<i>Cash flow from operations</i>			
Gross cash flow from operations	(4,504)	(9,457)	(7,200)
Change in working capital	5,810	1,698	15,219
Change in other assets and liabilities, taxes and interest	3,122	19,195	(3,015)
Cash flow from (for) operations	4,428	11,436	5,004
<i>Cash flow from investing activities</i>			
Company acquisitions, net of cash acquired	-	(100,159)	(100,159)
Investments in property, plant and equipment and intangible assets	(159)	(528)	(847)
Sale of property, plant and equipment and intangible assets	-	-	-
Dividends received	14,241	-	32,000
Other investments	(1,354)	-	(1,525)
Cash flow from (for) investing activities	12,728	(100,687)	(70,531)
<i>Cash flow from financing activities</i>			
Net change in other financial debts	(18,006)	29,706	6,243
Capital increases	-	57,679	57,679
Loss coverage	-	2,490	2,490
Cash flow from (for) financing activities	(18,006)	89,875	66,412
Net decrease in cash and cash equivalents	850	624	885
Foreign exchange translation differences	-	-	-
Cash and cash equivalents at 1 January	909	24	24
Cash and cash equivalents at period-end	59	648	909

4.4 Changes in shareholders' equity

Shareholders' equity	Share capital	Consolidated retained earnings and reserves	Other reserves	Total shareholders' equity
Shareholders' equity at 31 December 2005	39,950	(2,490)	37	37,497
Net changes in the reserve for the Stock Grant plan	-		1,839	1,839
Net profit at 30 June 2006		18,189		18,189
Capital increases / coverage of loss	10,000	2,490	47,679	60,169
Shareholders' equity at 31 December 2006	49,950	18,189	49,555	117,694
Shareholders' equity at 31 December 2006	49,950	18,189	49,555	117,694
Net changes in the reserve for the Stock Grant plan	-	-	1,839	1,839
Net profit at 30 June 2007		8,428		8,428
Capital increases / coverage of loss	-	-	-	-
Shareholders' equity at 30 June 2007	49,950	26,617	51,394	127,961

4.5 Reconciliation of profit and shareholders' equity of Ansaldo STS SpA with that of the Ansaldo STS Group at 30 June 2007

	Shareholders' equity	Profit for the period
The financial statements of Ansaldo STS SpA at 30 June	127,961	8,428
<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 	38,538 (10,690) 342	19,877 - 54
The consolidated financial statements of Ansaldo STS Group at 30 June 2007	156,151	28,359

Rome , 27 September 2007

On behalf of the Board of Directors

The Chairman

Alessandro Pansa