

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

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

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

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

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

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

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

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

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

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

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

Income Statement

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

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

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

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

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

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

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

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

Purchase and cost of labour break down as follows:

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

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

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

Financial income and costs break down as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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