ANSALDO STS S.p.A.

FINANCIAL STATEMENTS

AT 31 DECEMBER 2006

CONTENTS

1 BOARDS AND COMMITTEES

BOARD OF DIRECTORS
(for the 2005- 2007 term)

ALESSANDRO PANSA
Chairman

SANTE ROBERTI
Deputy Chairman

GIOVANNI ROBERTO GAGLIARDI
Chief Executive Officer

SERGIO MARIA CARBONE (1)

MAURIZIO CEREDA (1) (2)

GABRIELE FALCIASECCA (2)

MAURO GIGANTE (2)

FRANCESCO LALLI

ATTILIO SALVETTI (1)

MARIO ORLANDO
Secretary of the Board of Directors

BOARD OF AUDITORS
(for the 2005-2007 term)

PAOLO COLOMBO
Chairman

ANTONIO ROSINA

FRANCESCA TRIPODI

ALTERNATE AUDITORS
(for the 2005-2007 term)

PIETRO CERASOLI

DOMENICO LUNEDEI

INDEPENDENT AUDITORS
(for the 2006-2011 term)

PRICEWATERHOUSECOOPERS S.p.A.

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

REPORT ON OPERATIONS AT 31 DECEMBER 2006

2 REPORT ON OPERATIONS AT 31 DECEMBER 2006

2.1 SIGNIFICANT EVENTS IN 2006 AND AFTER THE CLOSE OF THE YEAR

Shareholders,

Your Company closed 2006 with a net profit of EUR 18,189,000, a sharp improvement on the loss of EUR 2,490,000 in 2005. The year saw the consolidation of the strategies conceived in 2005, which involved a substantial change in the corporate mission.

In 2005, Ansaldo STS S.p.A. was selected by its sole shareholder Finmeccanica S.p.A. to serve as the vehicle for the Group's operations in signalling and traffic control systems and components for rail and metro systems (Signalling) and turnkey solutions for rail and metro transport systems (Transport Systems). To this end, on 21 November 2005 the Shareholders' Meeting approved the revocation of the liquidation status of the Company, which it had entered following the disposal of its previous operations.

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 had led to the listing of Ansaldo STS shares on the "Star" segment of 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.

Between 29 March 2006 (first day of trading) and 31 December 2006, the share price rose by 14.7% from €7.80 (its listing price) to €8.95. The stock then continued to perform well, thanks to the attention of analysts, positive news on the share and the intensive communications effort conducted by the Company to enhance market understanding of the Group's business strategies. In addition, in the first few months of 2006 your Company also incurred the non-recurrent costs of obtaining the listing, which had an impact on the results for the period.

In view of the strong performance and the increased liquidity of the Ansaldo Signal N.V., subsidiary, on 22 December 2006 the Supervisory Board of that company approved the distribution of a dividend of EUR 32,000,000 (Art. 37 of the Bylaws).

Your Company's activities during the year focused, on the one hand, on the industrial and financial management of the equity investments acquired in February 2006 and, on the other, on defining and implementing its own organisational structure in relation to its role as a listing holding company.

The Board of Directors approved the Company's full adoption of the new Corporate Governance Code issued by Borsa Italiana in March 2006. This involved a review of the existing corporate governance model and the adoption of a specific program of actions to support the initiative.

Your Company largely completed this program in 2006 and the remaining activities were concluded in early 2007. It will now be implemented and maintained in line with national regulations and international best practices in this field.

2.2 ANALYSIS OF THE PROFIT-AND-LOSS ACCOUNT AND BALANCE SHEET

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

The following profit-and-loss account reports performance in 2006, with comparative figures for 2005:

Profit and loss account *(EUR 000)*	**31 December 2006**	**31 December 2005**
Revenues	7,246	-
Changes in work in progress, semi-finished products and finished goods		
Value of production	**7,246**	-
Purchasing and staff costs	17,621	2,505
Amortisation and depreciation	1,707	15
Write-downs	-	-
Reorganisation costs	-	-

Other net operating revenues (costs)	1,246	12
EBIT	**(10,836)**	**(2,508)**
Financial income (charges), net	29,025	18
Income tax	-	-
Net profit (loss)	**18,189**	**(2,490)**

Revenues for the year came to EUR 7,246,000 and regard the service activities performed on behalf of subsidiaries.

Purchasing and staff costs break down as follows:

- Staff costs (29 employees as from 1 July 2006) of EUR 4,032,000 (including EUR 281,000 in respect of IPO costs)
- Purchasing and service costs of EUR 13,589,000, which include costs in respect of the listing of Ansaldo STS in the amount of EUR 5,503,000, the accrued charge for the year for use of the "Ansaldo" brand payable to Finmeccanica for 20 years in the amount of EUR 1,611,000 and the remainder in respect of corporate activities.

Other operating revenues (EUR 1,830,000) regard rental income received from subsidiaries for the property in Via Mantovani in Genoa.

Financial income and charges consist of:

- EUR 32,000,000 in respect of the dividend received from Ansaldo Signal N.V.
- EUR 2,845,000 in respect of interest income on the current account with Finmeccanica S.p.A.
- EUR 5,510,000 in interest expense on the current accounts with the subsidiaries Ansaldo Signal N.V. (ASNV) and Ansaldo Sistemi di Trasporto Ferroviario (ATSF)
- EUR 310,000 in respect of other interest, commissions and bank charges.

No taxes are reported as there was no taxable income in the period, nor were net deferred tax assets recognised in the absence of the reasonable certainty of future taxable income that would permit their recognition and in the absence, with specific reference to previous tax losses, of the requirements established in the applicable accounting standards.

The following table examines the balance sheet at 31 December 2006, with comparative figures for 2005:

Balance sheet *(EUR 000)*	**31.12.2006**	**31.12.2005**
Non-current assets	192,255	92,953
Non-current liabilities	377	-
	191,878	92,953
Inventory	-	-
Contract 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	**4,631**	**18,000**
Net invested capital	**196,509**	**110,953**
Group shareholders' equity	117,694	37,497
Minority interests		
Shareholders' equity	**117,694**	**37,497**
Financial debt (liquidity), net	**78,815**	**73,456**

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

Non-current liabilities regard the severance pay provision in respect of the 29 employees of Ansaldo STS as from 1 July 2006 (EUR 335,000) and seniority bonuses (EUR 42,000).

Trade receivables increased by EUR 9,222,000 and mainly regard receivables from subsidiaries.

Trade payables increased by EUR 2,642,000 and are chiefly related to transactions with suppliers as part of normal corporate activities.

Other net assets/liabilities decreased by EUR 19,949,000. The decline is essentially attributable to the collection of the VAT credit of EUR 19,155,000 in respect of the VAT position created in 2005 following the acquisition from Finmeccanica S.p.A. of the property in Via Mantovani 3/5, the headquarters of Ansaldo STS S.p.A., and the licence to use the "Ansaldo" brand.

As a result of the above developments, **net working capital** declined from EUR 18,000,000 in 2005 to EUR 4,631,000 in 2006, a drop of EUR 13,369,000. The increase in **net invested capital** is attributable to the acquisitions of the subsidiaries, as noted in the discussion of current assets.

Shareholders' equity rose from EUR 37,497,000 in 2005 to EUR 117,694,000 last year as a result of:

- a capital increase of EUR 10,000,000;
- a capital grant of EUR 50,169,000, of which EUR 2,490,000 to cover the loss for 2005.
- increased profit in the amount of EUR 32,000,000 as a result of the dividend received from Ansaldo Signal N.V.

2.3 FINANCIAL SITUATION

Net financial debt at 31 December 2006 is reported in the following table, with comparative figures for 31 December 2005:

(EUR 000)	**31.12.2006**	**31.12.2005**
Short-term financial debts	23	-
Medium- and long-term financial debt	-	-
Cash and cash equivalents	909	24
BANK DEBT	**886**	**24**
Financial receivables from related parties	132,128	-
Other financial receivables	-	-
FINANCIAL RECEIVABLES	**132,128**	**-**
Financial debt to related parties	211,829	-
Other short-term financial debt	-	73,480
Other medium- and long-term financial debt	-	-
OTHER FINANCIAL DEBT	**211,829**	**73,480**
FINANCIAL DEBT (FINANCIAL RECEIVABLES), NET	**78,815**	**73,456**

Ansaldo STS S.p.A. ended 2006 with a net financial debtor position of EUR 78,815,000, a slight deterioration on the EUR 73,456,000 the previous year (an increase of EUR 5,359,000).

Specifically:

- bank deposits rose from EUR 24,000 in 2005 to EUR 886,000 last year, an increase of EUR 862,000;
- financial receivables amounted to EUR 132,128,000 at 31 December 2006 and are entirely accounted for by receivables in respect of the majority shareholder Finmeccanica S.p.A.;
- other financial debt at 31 December 2006 totalled EUR 211,829,000, an increase of EUR 138,349,000 on 31 December 2005 (EUR 73,480,000). While the amount

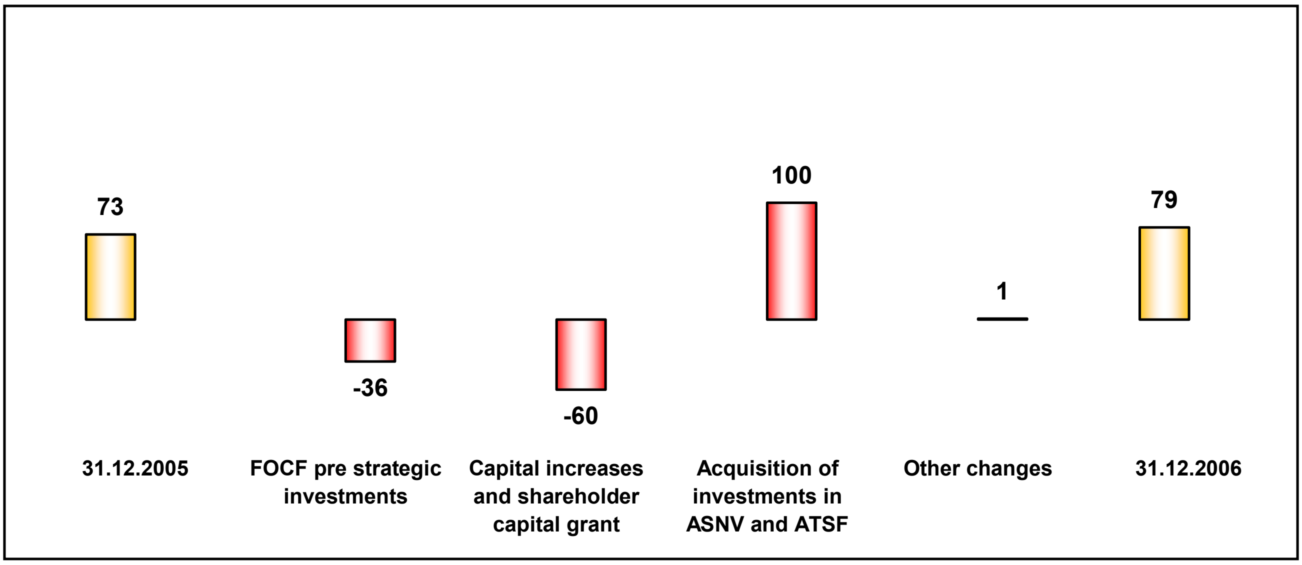
posted in 2005 regarded liabilities in respect of the sole shareholder Finmeccanica S.p.A., that at 31 December 2006 mainly consisted of payables due from the subsidiaries ASNV and ATSF.

The reclassified cash flow statement at 31 December 2006 is as follows, with comparative figures for the previous year:

(EUR 000)	**31.12.2006**		**31.12.2005**	
Opening balance cash and cash equivalents	24		4	
Cash flow from operations	(7,200)		(2,475)	
Change in working capital	15,219		2,552	
Change in other operating assets and liabilities, taxes and interest	(3,015)		(18,953)	
Cash flow from (for) operations	5,004		(18,876)	
Cash flow from (for) ordinary investing activities	(847)		(62,356)	
Dividend income	32,000		-	
Free operating cash flow before strategic investments		**36,157**		**(81,232)**
Strategic investments	(100,159)		-	
Change in other financial assets	(1,525)		(32,213)	
Cash flow from (for) investing activities	(70,531)		(94,569)	
Dividends paid	-		-	
Capital increases net of acquisitions of treasury stock	60,169		39,985	
Cash flow from financing activities	6,243		73,480	
Cash flow from (for) financing activities	66,412		113,465	
Foreign exchange translation differences	-		-	
Closing balance cash and cash equivalents	**909**		**24**	

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

- positive operating cash flow came to EUR 5,004,000, sharply up on December 2005 (negative cash flow of EUR 18,876,000), essentially attributable to the collection of the VAT credit of EUR 19,155,000 that arose in 2005 following the acquisition from Finmeccanica S.p.A. of the property in Via Mantovani 3/5, the headquarters of Ansaldo STS S.p.A., and the licence to use the "Ansaldo" brand.
- cash flow absorbed by investing activity amounted to EUR 70,531,000 (EUR 94,569,000 at 31 December 2005), the net result of the acquisition in February 2006 of the entire share capital of Ansaldo Trasporti Sistemi Ferroviari S.p.A. for EUR 38,213,000 and Ansaldo Signal N.V. for EUR 61,946,000 and the dividend of EUR 32,000,000 received from Ansaldo Signal N.V..
- cash flow generated by financing activities came to EUR 66,412,000 (EUR 113,465,000 at 31 December 2005), mainly attributable to the capital operations carried out by Finmeccanica S.p.A., which included a capital increase of EUR 10,000,000 and a capital contribution of EUR 50,169,000, of which EUR 2,490,000 were used to cover the loss for 2005.



2.4 REPORT ON THE COMPANY'S DIRECTION AND COORDINATION ACTIVITIES AND TRANSACTIONS WITH RELATED PARTIES

In accordance with the provisions of Article 2497 bis of the Civil Code, the Company is subject to direction and coordination by the parent company Finmeccanica S.p.A.. The principal data from the last financial statement approved by Finmeccanica S.p.A. is included in table no. 11.11.

Set out below is the data for transactions with related parties (a breakdown of these transactions by company can be found in Notes 6.10 and 6.24) for the 2006 financial period, with comparative figures for the previous year. In addition to the parent company Finmeccanica and the companies in which Ansaldo STS has direct and indirect equity investments, related parties include all related parties as defined under International Accounting Standards.

Relations with the parent company Finmeccanica S.p.A. refer principally to:

- current account: the current account (EUR 32,128,000 at 31 December 2006) is used to settle amounts of a commercial nature with Finmeccanica and with companies belonging to the Finmeccanica Group and is also used for the transfer of balances from bank current accounts. Financial transactions are currently settled at 1-month Euribor plus a spread of 1% for a negative balance and at the same rate minus a spread of 0.25% for a positive balance. During the year, a time deposit of variable maturity of between EUR 75,000,000 and EUR 130,000,000 (EUR 100,000,000 at 31 December 2006) was established on the basis of the best available market conditions (1-month Euribor – minus a spread of 0.05% for a positive balance). The table shows financial income and charges resulting from this relationship: income of EUR 2,845,000 and expense of EUR 262,000. The expense regards a loan from Finmeccanica that was repaid in February 2006;
- charges for services relating to general activities which Finmeccanica, as majority shareholder, organises on behalf of its subsidiaries (EUR 15,000);

- costs for the 2006 share of the payment by Finmeccanica for the right to use the "Ansaldo" brand over a 20-year period (EUR 1,611,000) and the corresponding current and non-current prepaid expense amounting to EUR 30,589,000.

Transactions with the subsidiaries Ansaldo Signal N.V. and Ansaldo Trasporti Sistemi Ferroviari S.p.A. refer to the following:

<u>Financial transactions</u>

- <u>Ansaldo Trasporti Sistemi Ferroviari S.p.A.</u>: current account with a negative balance of EUR 22,040,000 at 31 December 2006. The account is used by ATSF to settle amounts of a commercial nature with the parent company ASTS, with companies belonging to the Ansaldo STS Group and the Finmeccanica Group and it is also used as a cash pooling account to transfer balances from bank current accounts. Financial transactions are currently settled at 1-month Euribor plus a spread of 1% for a negative balance and at the same rate minus a spread of 0.25% for a positive balance. During the financial period, a time deposit of variable maturity of between EUR 125,000,000 and EUR 130,000,000 at 31 December 2006 was established on the basis of the best available market conditions (1-month Euribor – minus a spread of 0.05% for a positive balance). The charges reported in the table result from these financial transactions.

- <u>Ansaldo Signal N.V.:</u> current account with a negative balance of EUR 19,193,000 at 31 December 2006. It is used by ASNV to settle amounts of a commercial nature with the parent company ASTS and with companies belonging to the Ansaldo STS Group and the Finmeccanica Group and it is also used as a cash pooling account to transfer balances from bank current accounts. Financial transactions are currently settled at 1-month Euribor plus a spread of 1% for a negative balance and at the same rate minus a spread of 0.25% for a positive balance. During the financial period a time deposit of variable maturity of between EUR 40,000,000 and 95,000,000 (EUR 40,000,000 at 31 December 2006) was established on the basis of the best available market conditions (1-month Euribor – minus a spread of 0.05% for a positive balance). The charges reported in the table result from these financial transactions and also include financial charges relating to commissions on loans. Financial income shows the amount of the dividend received in December from Ansaldo Signal N.V. of EUR 32,000,000.

Commercial transactions: (Ansaldo Trasporti Sistemi Ferroviari S.p.A. and Ansaldo Signal N.V.)

- charges for services provided by the parent company Ansaldo STS in relation to the "General Service Agreement" (Revenues of EUR 7,246,000).
- leasing charge for the property in Genoa, Via Mantovani 3/5, owned by Ansaldo STS, which houses offices and production units both for Ansaldo Trasporti Sistemi Ferroviari and Ansaldo Segnalamento Ferroviario, a subsidiary of Ansaldo Signal N.V. The leasing of this property results from its transfer on 28 December 2005 from Finmeccanica to Ansaldo STS (other revenues of EUR 1,830,000);
- costs for the provision of treasury services by Ansaldo Signal N.V., net of sums received in relation to insurance and exhibitions conducted from 1 July 2006 onwards for the parent company Ansaldo STS (EUR 169,000);
- charge for the management and use of shared services at the Genoa headquarters, for which costs are borne by the Italian subsidiary of Ansaldo Signal N.V. (Ansaldo Segnalamento Ferroviario S.p.A.) and charged on a pro-rata basis in relation to use of such services by Ansaldo STS (EUR 174,000);
- charges for staff seconded from Ansaldo Signal N.V. to Ansaldo STS (EUR 375,000);
- costs for fees paid to directors and staff of Ansaldo Trasporti Sistemi Ferroviari S.p.A. net of amounts received for exhibitions and trade fairs (EUR 81,000).

Transactions with other related parties refer principally to commercial activities:

- provision of ITC services for Elsag (costs amounting to EUR 139,000);
- charges for staff seconded from SO.GE.PA, Orizzonte and Ansaldo Industria amounting to EUR 23,000;
- charges for the development and maintenance of software by Mecfin totalling EUR 94,000.

EUR 000	**Parent companies**	**Subsidiaries**	**Associated companies**	**Other related parties**	**Total**
Non-current receivables					
financial	-	-	-	-	-
other	-	-	-	-	-
Current receivables	**132,128**	**10,220**	**-**	**-**	**142,348**
financial	132,128	-	-	-	132,128
trade	-	9,470	-	-	9,470
others	-	750	-	-	750
Non-current payables					
financial	-	-	-	-	-
other	-	-	-	-	-
Current payables	**230**	**212,813**	**-**	**49**	**213,092**
financial		211,829	-	-	211,829
trade		496	-	49	545
other	230	488	-		718

	Parent companies	**Subsidiaries**	**Associated companies**	**Other related parties**	**Total**
Revenues	-	7,246	-	-	7,246
Other operating revenues	-	1,830	-	-	1,830
Costs	1,626	799	-	256	2,681
Financial income	2,845	32,000	-	-	34,845
Financial charges	262	5,510	-	-	5,772

2.5 REPORT ON OPERATIONS

As expected, the Company's activities over the course of the financial period concentrated both on the industrial and financial management of equity investments acquired in February 2006 and on defining and implementing its own organisational structure in relation to its role as an industrial holding company listed on the stock exchange.

In this respect the Board of Directors took the following steps:

- defined the operational structure of the Company by appointing the Chief Executive Officer and defining top-level functions;
- specified the composition and tasks of the internal committees within the Board of Directors (Internal Audit Committee and Remuneration Committee)
- approved the Compliance Programme pursuant to Legislative Decree 231/01, appointing the Supervisory Board;
- defined the Group's operational structure, on two principles: "regionalisation", namely the definition of the geographical areas in which the four main Group companies operate, and the "internationalisation" of the systems business, now currently pursued essentially on the domestic market, through the signalling business network;
- defined a system of directives and procedures (which will be completed in 2007) which established internal rules for the Group and the company in order to guarantee effective and efficient processes and activities for the management of the business.

With regard to business management, the Company has strengthened its own leadership capacity in relation to its subsidiaries, particularly in the areas of business development of both Signalling and Transport Systems.

It has also worked to create a structure for the strategic coordination of product development in order to achieve a sufficient level of coordination for the Group's research and development activities.

2.6 RESEARCH AND DEVELOPMENT

- During 2006, in line with the objectives of Ansaldo STS, the process of rationalising and coordinating research and development activities (R&D) continued through the organisation of production plans and policies, in order to maximise their efficiency. This was achieved in particular by ensuring correct and timely implementation through the coordination of the research and development units of the other companies in the Ansaldo STS Spa Group.

- Ansaldo STS Spa coordinates:
  - the "Group Technology Transfer Programs", including the transfer of know-how in collaboration with the Human Resources & Business Improvement department, defining the criteria for the transfer price policy for products available internally in the Group in accordance with market criteria and tax rules;
  - the management and protection of Intellectual Property Rights, in collaboration with the Secretariat-General for legal affairs, the Human Resources & Business Improvement department for training and public relations activities and with the Administration, Finance and Control department for the valuation of the patent portfolio.

2.7 STAFF AND ORGANIZATION

As mentioned in the introduction to this report, from an organisational perspective 2006 saw the unfolding of the major repercussions of the decision to list Ansaldo STS on the Italian stock exchange, particularly with reference to:

a) the creation of the Ansaldo STS S.p.A. Corporate function and its operations;
b) the integration of the Signalling and Systems business units, currently represented respectively by Ansaldo Signal NV (ASNV) and its subsidiaries and Ansaldo Trasporti Sistemi Ferroviari S.p.A. (ATSF).

At 31 December 2006 Ansaldo STS employed 29 people, divided as follows:

- senior management 13
- junior management 4

- office staff 12

The following persons were appointed to the corporate bodies and the top positions of Ansaldo STS Corporate:

- Chairman of the Board of Directors: Alessandro Pansa (appointed by the Shareholders' Meeting on 21 November 2005)
- Deputy Chairman of the Board of Directors, Sante Roberti (appointed by the Board of Directors on 24 February 2006)
- Chief Executive Officer: Giovanni Roberto Gagliardi (appointed by the Board of Directors on 9 February 2006)

On 9 February 2006 and 24 October 2006 the Board of Directors of Ansaldo STS also approved the top-level organisational structure of the new company, arranged as follows:

- The Internal Audit unit, headed by Deputy Chairman Christian Andi
- The following report to the CEO:
    - The Secretariat-General, headed by General Secretary Mario Orlando and the following departments:
    - Administration, Finance and Control, headed by CFO Jean Paul Giani;
    - Human Resources & Business Improvement, headed by the Senior Vice President Fabio Storti;
    - Business Development, headed by Senior Vice President Emmanuel Viollet.

  The Secretariat-General and the departments direct and control all Group activities, communicating with the corresponding departments of the individual subsidiaries, which therefore coordinate with the Secretariat-General and the departments of Ansaldo STS and report to the CEO of each company to which they belong.
- The following departments report to the Chief Executive Officer:
    - Investor Relations, headed by Andrea Razeto;
    - Risk Management, headed by Vice President Antonio Manzi;

- The companies operating in the signalling sector through Ansaldo Signal N.V. and the company Ansaldo Trasporti Sistemi Ferroviari S.p.A. also report to the CEO.

With the creation of the top-level organisational structure (and the next phase of implementation with the identification of second-level departments and responsibilities) emphasis has been placed on certain aspects tied to the pursuit of three primary objectives:

(i) leveraging the best employees and skills in the Ansaldo STS Group companies;

(ii) ensuring that each of these companies maintains a degree of organisational independence to permit it to manage its own business and its own specific circumstances;

(iii) at the same time, initiate the integration of companies that will be controlled by Ansaldo STS, which will lead to identifying and developing those synergies for increasing business and improving Group profitability through the creation of an appropriate corporate governance system.

The staff given the responsibilities listed above were drawn from ASNV and ATSF (except for one person transferred from Finmeccanica), with no external hires. This confirms the Group's decision to invest and develop existing resources.

In this regard, and once again with reference to the three objectives mentioned above, the organisational measures subsequently taken organised the Secretariat-General and the departments into the following organisational entities:

- Secretariat General: Legal and Corporate Affairs, Public Relations, Tax and General Services
- Administration, Finance and Control: Administration and Consolidation, Management Control, Finance and Treasury, Information Technology and Project Financing;
- Human Resources & Business Improvement: People Management & Organisational Development, Business Improvement, Budget and Planning and HR Reporting.
- Business Development: Product Development, Marketing and three Product Managers (CBTC, ERTMS and Systems).

The second-level managers also came from ASNV and ATSF, as well as Finmeccanica subsidiaries or associated companies. The corresponding employment relationships, which had initially involved Finmeccanica, ASNV, ATSF or other Group companies, were transferred during the period to Ansaldo STS.

Finally, two Group committees were set up: the Marketing and Sales Committee and the Research and Development Committee, tasked with working to achieve the desired levels of strategic effectiveness and operational efficiency.

Under the supervision and inspection of the Internal Audit Committee, Ansaldo STS continues to implement a system of Group directives and internal procedures aimed at regulating and implementing the restructuring of organisational, administrative and accounting procedures of Ansaldo STS itself and the companies within the Group. In total this system consists of 48 documents, of which more than half were approved and issued during 2006, with the remaining documents due to be issued in the first half of 2007.

The directives and procedures adopted and being drawn up aim to define a corporate governance model within the ASTS Group. In particular:

- the directives aim to regulate relations between Ansaldo STS and its subsidiaries and to define policies, corporate strategies and guidelines for relations between Ansaldo STS Corporate and the subsidiaries and between the subsidiaries themselves;
- the procedures aim to specify and describe the means and responsibilities for the fulfilment of specific activities and operational processes within Ansaldo STS S.p.A.

One of the main concerns in drawing up these procedures and directives, and therefore in identifying the principles behind them, was the fact that Ansaldo STS and its subsidiaries are subject to direction and coordination by Finmeccanica S.p.A., and therefore when necessary they implement the pre-established principles of Finmeccanica. All procedures were adopted in light of the Compliance Programme pursuant to Legislative Decree 231 of 8 June 2001".

From an organisational perspective, various areas were covered by these provisions, including fundamental aspects such as the directive "*Management of organisational documents*" and the procedure "*Management of procedures*". Furthermore, in order to ensure compliance with legislation regarding the handling of privileged information, Ansaldo STS adopted the directive "*Procedure for the management of privileged information and for the introduction of a register of those authorised to access such information*". The auditing process was also addressed with the directive "*Internal audit process*".

The Company also deemed it advisable to regulate certain fundamental aspects of the organisation of the companies within the ASTS Group in order to guarantee the uniformity of the main internal organisational processes and to improve monitoring of their operations. In particular, a directive was adopted on "*Operations of the Board of Directors of subsidiaries*" aimed at regulating the formation and operations of the Boards of Directors of subsidiaries. The Human Resources area then drew up rules for certain aspects relating to the managers (directives entitled "*Organisational Changes*", "*Management Appointment and Removal*" and "*Global Reward Management*", and procedures entitled "*Staff Selection and Recruitment*" and "*Management of Promotions and Pay Rises*").

Regarding the governance of markets and products, Ansaldo STS decided to regulate important aspects such as strategic planning, commercial offers, the purchasing cycle, risk management, disputes, the management of intellectual property and the concession of licenses for technology owned by companies from the Ansaldo STS group.

Eight directives were issued regarding information technology, while a directive was adopted for the accounting and administrative system, entitled "Intercompany Process Management", which seeks to enable subsidiaries of Ansaldo STS to adopt a common reconciliation methodology for commercial and financial items. A "Treasury" directive was also adopted, which aims to initiate the centralisation of treasury activities under the coordination of ASTS Finance and Treasury (FIT). It also sets out the guidelines which the ASTS Group must follow in the areas of loans, investments and liquidity management, the issue of direct and indirect guarantees, the management of foreign exchange/interest rate risk and relations with banks. The operation of FIT is governed by the "Treasury Management" procedure.

2.8 SECURITY POLICY STATEMENT

"Information provided pursuant to Legislative Decree 196 of 30 June 2003 (Protection of personal data)"

Pursuant to Section 26 of the Technical Regulations on minimum date security measures, which constitutes Annex B to Legislative Decree 196 of 30 June 2003 ("Personal Data Protection Code"), the Security Policy Statement on the handling of personal information has been drafted.

The Security Policy Statement contains the information referred to in Section 19 of the Technical Regulations and describes the security measures adopted by the Company with the aim of minimising the risk of even accidental destruction or loss of personal data, unauthorised access, unauthorised handling of information or use for any purpose other than that for which it was gathered.

2.9 INCENTIVE PLANS

The Ansaldo STS Group has adopted:

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

The two plans are part of a complex system of short-term (management by objectives or "MBO") and medium/long-term incentives that form a component of the overall remuneration paid to the new Group's management. In addition, the systems of incentives are, in turn, based upon the attainment of complementary performance targets relating to the most important economic, financial and commercial factors for creating the value of the Group.

2.9.1 STOCK GRANT PLAN

Prior to Finmeccanica's disposal of 60% of its Ansaldo STS shares, 4 executives of Ansaldo STS (including Chief Executive Officer Giovanni Roberto Gagliardi) and 37 executives at other companies now controlled by Ansaldo STS participated in an incentive and loyalty-rewarding plan for the 2005-2007 period which is based on the awarding of free ordinary shares of Finmeccanica S.p.A.. Finmeccanica's plan regulations establish that executives of companies that are not subsidiaries pursuant to Article 2359 (1) of the Italian Civil Code may no longer participate in the Finmeccanica plan.

It was clear that, once the Company's shares became listed, the goal of offering incentives and rewarding the loyalty of these employees could only be effectively pursued through a stock incentive plan based on Ansaldo STS shares (it being understood that these employees took part in the aforementioned Finmeccanica Plan for 2005 on a pro rata basis). Therefore, the Board of Directors approved a Stock Grant Plan for the 2006-2007 period based on this principle.

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.

Basically, the Plan envisages awarding shares of the Company 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.

This free grant of shares is considered compensation for the Company and the grantee and is fully subject to ordinary taxation and contribution obligations (with a cost equal to 40% of the fair value of the share at the date of granting); the grantee is also subject to marginal taxation. The adoption of a stock grant system rather than a stock option system allows the Company to limit considerably the number of shares allocated to service the Plan and to therefore reduce the dilutive effect felt by shareholders created in implementing the Plan.

The shares will be granted to Plan participants subject to the verification of the attainment of the targets (which were specified in detail by the Board of Directors in the Rules delivered to the individual participants), set over the course of the two-year period, with the shares being gradually made freely available. In order to boost the retention function of the Plan, the disposal of the shares granted in conjunction with the verification of the targets attained is deferred into the period following that in which the shares are awarded.
The shares allocated to service the Plan – estimated at a maximum of 1 (one) million and awarded to each individual taking into account the conventional price agreed upon for implementing the Finmeccanica Plan, to be converted using the unit price per share of Ansaldo STS set at the time the shares were listed – may come from among shares that have already been issued and repurchased on the market pursuant to Article 2357 et seq. of the Civil Code to then be freely transferred to the grantee, or they may be bonus shares that the Company must issue in accordance with Article 2349 of the Civil Code, with a portion of profits or reserves formed using profits to be set aside for this purpose. However, if the requirements are not satisfied at the time the Shareholders' Meeting is called upon to adopt the necessary authorising resolutions pursuant to Articles 2357 and/or 2349 of the Civil Code to fully implement the Plan (specifically, due to the lack of all or a portion of distributable profits or available reserves as reported in the duly-approved financial statements), the portion of the shares to be granted to the grantee that cannot be covered by said profits or reserves shall be distributed instead in a cash amount equivalent to the value of the shares to which the person would have had a right using the mechanisms provided for by the Plan.
In 2006 one executive left the company and on 19 December 2006 the Remuneration Committee approved the proposal of the Ansaldo STS CEO to include other participants, bringing the total number at the end of the year to 50, of whom 5 are Ansaldo STS employees.
As regards these 5 employees, the Plan provides for the granting of a maximum of 115,868 shares in the two-year period, of which the first instalment (38,623 shares) has already be recognised pursuant to IFRS 2 and IFRIC 11.

2.9.2 CASH INCENTIVE PLAN

Prior to Finmeccanica's disposal of 60% of its Ansaldo STS shares, 2 executives of Ansaldo STS (including Chief Executive Officer Gagliardi) participated in a incentive and loyalty-reward plan set up by Finmeccanica for the 2005-2007 period. The Plan called for the payment of a cash amount tied to the attainment of certain market, financial and operational targets for Ansaldo STS's subsidiaries and for Finmeccanica S.p.A.

It was clear that, once the Company's shares became listed, the goal of offering incentives and rewarding the loyalty of these employees could only be effectively pursued using targets that refer entirely to Ansaldo STS (it being understood that these employees took part in the aforementioned Finmeccanica Plan for 2005 on a pro rata basis). Therefore, the Company prepared guidelines for the new Cash Incentive Plan for the 2006-2008 three-year period, which obviously replaces the Finmeccanica plan, with the goal of stimulating the joint achievement of results among the highest levels of management with the first three-year business cycle of the new Group. Basically, the Plan provides for the payment to these employees of a cash amount (Long Term Incentive Plan Cash – LTIP) that is tied to the attainment of specific market, financial and operational targets, specifically the annual performance of Ansaldo STS stock compared with the performance of the Mibtel index and the performance of Retained Cash Flow in relation to the Business Plan. The incentive plan envisages an accumulation mechanism that is substantially similar to that provided for under the Stock Grant Plan with regard to the Retained Cash Flow target only.

The Plan provides for the lump-sum payment of a cash amount equal, at most, to the annual gross compensation (AGC) of each participant. Payment is made following the approval of the Ansaldo STS Group's financial statements for the years to which the LTIP refers and is tied to attaining the specified targets.

2.10 EQUITY INVESTMENTS OF DIRECTORS, STATUTORY AUDITORS AND GENERAL MANAGERS

At 31 December 2006 no Ansaldo STS S.p.A. shares had been delivered to Directors, Statutory Auditors or General Managers.

The Stock Grant Plan of Ansaldo STS S.p.A. provides for the granting of Company shares as from 2007.

2.11 COMPANY ESTABLISHMENTS

Situation at 31 December 2006:

GENOA	**VIA MANTOVANI 3/5 16151**	**Registered office**

2.12 CORPORATE GOVERNANCE

As of 29 March 2006, Ansaldo STS shares are listed in the Star segment of the stock exchange organised and operated by Borsa Italiana.

Prior to and following that date, the Shareholders' Meeting and the Board of Directors of the Company, in their respective spheres of authority, adopted resolutions connected with and resulting from the decision to list the company.

Within this context, the Board of Directors, at its meeting of 12 December 2005 in view of the imminent listing of its shares, decided that the Company would adopt the corporate governance system set forth in the then applicable Corporate Governance Code for listed companies adopted by Borsa Italiana in 2002.

In March 2006 the Corporate Governance Committee of Borsa Italiana S.p.A. drafted a new version of the Corporate Governance Code for listed companies, developing further the previous edition.

On 19 December 2006 the Board of Directors of Ansaldo STS S.p.A. formally adopted the new Corporate Governance Code for listed companies, approving a planning document entitled "*Implementation of the recommendations in the new edition of the Corporate Governance Code for listed companies within ANSALDO STS* ", which sets out the proposed actions and timetable for the Company to complete the process of implementing the new Code in 2007.

In the months following the formal adoption of the Code, the Company began to operate in compliance with the recommendations contained therein, as the recommendations are felt to make a decisive contribution to achieving the Company's corporate governance goals.

In compliance with the provisions of the planning document and with a view to ensuring complete adjustment of the Company's governance mechanisms, on 22 March the Company called an extraordinary Shareholders Meeting 2007, to be held at the same time as the meeting to approve the financial statements for 2006, to amend the Bylaws as necessary to ensure continued compliance with the provisions of (i) the Savings Protection Law following the amendments introduced with Legislative Decree 303 of 29 December 2006 and the planned Consob regulations; and (ii) the Corporate Governance Code.

The following list reports the Company's primary governance instruments:

- Bylaws
- Code of Ethics
- Compliance Programme pursuant to the provisions of Legislative Decree 231/01
- Rules on the operation of the Board of Directors
- Rules of the Internal Audit Committee
- Rules of the Remuneration Committee
- Rules for identifying significant transactions with related parties – rules of conduct
- Rules for managing and handling privileged information and creation of the register of persons with access to such information
- Rules on Internal Dealing
- Rules governing the Shareholders' Meeting

For more information on the Company's governance arrangements, please see the Report on Corporate Governance.

3 OUTLOOK

In 2007 your Company will continue its activities to ensure the coordinated and synergistic management of the Group's business, with a specific focus on the development of systems in international markets.

In addition, special attention will also be devoted to identifying and pursuing opportunities for acquisitions and alliances that can enhance the Group's competitive capacity in contendable markets.

The continuous updating and development of the Group's corporate governance arrangements will also play a central role, not only to ensure compliance with the directives and measures adopted by Consob and Borsa Italiana, but also and above all to ensure efficiency, transparency and disclosure to Ansaldo STS stakeholders.

4 PROPOSALS TO THE SHAREHOLDERS' MEETING

Shareholders,

The proposal that we submit for your approval does not envisage the distribution of dividends from profit for 2006.

This decision, which was notified to you at the time of the listing of your Company on the stock exchange, was prompted by the advisability of Ansaldo STS retaining the financial resources it will need to finance its growth strategy, which will involved targeted acquisitions and alliances in the European, American and Asian-Pacific markets.

Accordingly, we have formulated the following proposal for the allocation of net profit.

Shareholders,

The 2006 financial statements show a net profit of EUR 18,189,757, which we propose to allocate as follows:

- EUR 909,488, equal to 5 % of net profit, to the legal reserve;
- EUR 17,280,269 to be retained.

If you concur with the above proposal, we recommend approving the following resolution:

"The ordinary shareholders' meeting of Ansaldo STS S.p.A. of 21/22 May 2007

- *considering the Report of the Board of Directors;*
- *considering the Report of the Board of Auditors;*
- *having examined the financial statements at 31 December 2006;*
- *noting the Report of PricewaterhouseCoopers S.p.A.;*

resolves

- *to approve the Report of the Board of Directors and the financial statements at 31 December 2006;*
- *to approve the proposal of the Board of Directors to allocated the net profit of EUR 18,189,757 as follows:*
    - *EUR 909,488, equal to 5 % of net profit, to the legal reserve;*
    - *EUR 17,280,269 to be retained."*

Genoa, 22 March 2007

On behalf of the Board of Directors
The Chairman
Alessandro Pansa

ACCOUNTING STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2006

5 ACCOUNTING STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2006

5.1 PROFIT AND LOSS ACCOUNT

(Euro units)	*Note*	31 December 2006	31 December 2005
Revenues	6.25	-	-
Revenues from related parties	6.24	7,245,456	-
Changes in work in progress, semi-finished products, finished products, and goods		-	-
Other operating revenues	6.26	3,583	10,000
Other operating revenues from related parties	6.24	1,830,230	18,156
Purchases	6.27	(7,268)	-
Service costs	6.27	(10,901,133)	(2,187,624)
Costs from related parties	6.24	(2,680,562)	(316,914)
Staff costs	6.28	(4,032,364)	-
Amortization, depreciation and write-downs	6.29	(1,705,477)	(15,381)
Other operating costs	6.26	(587,352)	(16,598)
(-) Capitalised costs for internally produced assets			
(EBIT)		**(10,834,887)**	**(2,508,361)**
Financial income	6.30	56,139	-
Financial income from related parties	6.24	34,844,881	31,488
Financial expense	6.30	(104,401)	(194)
Financial expense to related parties	6.24	(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	7		
Basic		0.18	-
Diluted		0.18	-

5.2 BALANCE SHEET

(Euro units)	Note	31 December 2006	31 December 2005
Non-current assets			
Reclassification of intangible assets	6.6	444,028	-
Tangible fixed assets	6.7	278,740	-
Investment property	6.8	60,783,550	62,362,357
Equity investments	6.9	101,681,666	-
Other assets	6.11	29,066,624	30,589,774
		192,254,608	92,952,131
Current assets			
Current receivables from related parties	6.10	142,347,601	247,826
Tax receivables	6.12	580,167	19,155,722
Other current assets	6.13	2,410,138	1,649,988
Cash and cash equivalents	6.14	908,911	23,846
		146,246,817	21,077,382
Total Assets		**338,501,425**	**114,029,513**
Shareholders' equity			
Share capital	6.16	49,950,000	39,950,000
Reserves	6.18	49,554,525	36,526
Net profit for current year	6.17	18,189,757	(2,490,375)
Total shareholders' equity	6.15	117,694,282	37,496,151
Non-current liabilities			
Severance pay and other liabilities towards staff	6.20	334,701	
Other liabilities	6.21	41,723	-
		376,424	-
Current liabilities			
Advances from customers		-	-
Current payables to related parties	6.10	213,092,476	73,784,920
Trade payables	6.22	4,909,847	2,513,468
Short-term receivables	6.19	23,000	-
Taxes payable	6.12	290,706	-
Other liabilities	6.21	2,114,690	234,974
		220,430,719	76,533,362
Total liabilities		220,807,144	76,533,362
Total liabilities and shareholders' equity		**338,501,425**	**114,029,513**

5.3 CASH FLOW

(Euro units)	31-Dec-2006	31-Dec-2005
Cash flow from operations		
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	5,003,384	(18,876,971)
Cash flow from investing activities		
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	(70,531,103)	(94,569,000)
Cash flow from financing activities		
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	66,412,784	113,465,527
Net decrease in cash and cash equivalents	885,065	19,556
Foreign exchange translation differences	-	-
Cash and cash equivalents at 1 January	23,846	4,290
Cash and cash equivalents at period-end	**908,911**	**23,846**

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 was 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 licence for the use of the 'Ansaldo' brand;

- cash flow used for investing activities came to EUR 70,531,000 (EUR 94,569,000 at 31 December 2005), due to the purchase of the entire share capital of Ansaldo Trasporti Sistemi Ferroviari SpA in February 2006 for EUR 38,213,000, 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 and a capital contribution of EUR 50,169,000, of which EUR 2,490,000 is allocated to cover losses from 2005.

5.4 CHANGES IN SHAREHOLDERS' EQUITY

(EUR 000)	Share capital	Retained earnings/losses carried forward	Other reserves	Total shareholders' equity
Shareholders' equity at 31 December 2004	**10**	**(9)**		**1**
Fair Value adjustments to assets available for sale and recognition in profit and loss account	-	-	-	-
Fair Value adjustments to 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 to assets available for sale and recognition in the profit and loss account	-	-	-	-
Fair Value adjustments to 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	-	-	-	-
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**

6 NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER 2006

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 19 March 2006. Ansaldo STS SpA is a subsidiary of Finmeccanica SpA, whose headquarters are at Piazza Monte Grappa 4, Rome, is listed on the Italian stock exchange (S&P/MIB), and directs and coordinates the activities of Ansaldo STS.

Ansaldo STS SpA is the parent company, carrying out the functions of business and strategic management, co-ordinating the operations of its subsidiaries (which together are known as 'Ansaldo STS Group' or 'the Group') that are active in Signalling and Railway Transport Systems. 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 reorganisation of the entire transport division, 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), later renamed EuroSkyway Srl in 1997. In April 2005 the company was put into liquidation.

Following Finmeccanica's strategic decision in the second half of 2005 to list its signalling and transport systems companies on the stock exchange (having previously put in place a unitary management structure to enhance their business and commercial synergies), the EuroSkyway Srl shareholders' meeting, through its sole shareholder, Finmeccanica, decided at the end of 2005 to revoke the company's state of liquidation and transform it into a company limited by shares, to change its own name to Ansaldo STS SpA, and to change its company purpose, focusing on signalling and transport systems for railways and urban rail systems.

To complete the above reorganisation, in February 2006 Ansaldo STS, as already stated, acquired from Finmeccanica the entire share capital of Ansaldo Signal NV and Ansaldo Trasporti Sistemi Ferroviari SpA. 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.

In organizational terms, Ansaldo STS SpA operates through two business divisions: Ansaldo Signal N.V. (‘Signalling Division’), and Ansaldo Trasporti-Sistemi Ferroviari SpA (‘Transport Systems Division’).

The Signalling Division designs and builds signalling systems, subsystems and components, whereas the Transport Systems Division designs and builds integrated transport systems, of which signalling is an essential part. Moreover, the transport systems division 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 division separately, according to specific customer needs.

6.2 BASIS OF PREPARATION AND ACCOUNTING STANDARDS ADOPTED

In compliance with the option envisaged in Legislative Decree no. 38 of 28 February 2005, the Ansaldo STS's accounts at 31 December 2006 are the first drawn up in accordance with the new IAS/IFRSs (hereafter IFRSs), endorsed by the European Commission, and the interpretations of the IFRSs by the Standing Interpretations Committee ("SIC") and the International Financial Reporting Interpretations Committee ("IFRIC") issued by the International Accounting Standard Board ("IASB").

The financial statements 2006 were prepared in accordance with IASs/IFRSs issued by the International Accounting Standard Board (IASB) and IFRS 1 '*First-time adoption of International Financial Reporting Standards'*, as endorsed at the reporting date. 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 and 108/2006.

The accounting policies adopted until the preparation of the financial statements for the year ended 31 December 2005 were compliant with the provisions of the Italian Civil Code, interpreted and complemented, where necessary, by the Accounting Principles issued by the Italian Accounting Profession (C.N.D.C.R.) and the interpretation document OIC 1 '*I principali effetti della Riforma del Diritto Societario sulla redazione del bilancio di esercizio*' (Main effects of the Corporate Law Reform on the preparation of statutory financial statements) prepared by *Organismo Italiano di Contabilità* (OIC, the Italian Standard Setter). As an IFRS first-time adopter for the financial statements 2006, for comparison purposes the Company had to change figures for 2005 to reflect the changes, if any, due to the introduction of the new accounting standards. The Appendix contains reconciliations and the description of the effects of the transition from Italian GAAP to IFRSs.

The IFRSs used in the preparation of these financial statements have been complemented with the IFRIC interpretations existing at the reporting date.

The general standard adopted in the preparation of these accounts is the cost method, except for derivative instruments and certain financial assets, 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.

In preparing these financial statements, management made use of estimates.

6.3 ACCOUNTING STANDARDS ADOPTED

Summary of accounting policies and measurement criteria

These financial statements have been prepared in euros, which is the functional currency of Ansaldo STS S.p.A..

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 profit and loss account. 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 profit and loss account.

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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 profit and loss account. 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 profit and loss account.

Tangible fixed assets

These are valued at cost or production cost, net of accumulated depreciation and any impairment. The cost includes every charge directly incurred in using them, as well as any charges relating to decommissioning or removal that will be sustained as a result of contractual obligations that demand that the asset be returned to its original state. Any interest expense relating to the construction of tangible fixed assets are charged to the profit and loss account.

Charges incurred for routine and/or regular maintenance and repair are directly entered in the profit and loss account for the year when they were incurred. Capitalisation of the costs relating to expansion, modernisation, 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 profit and loss account for the year in question.

Civil buildings are measured at cost under IAS 40.

Reclassification of 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 amortisation and any loss of value. Any interest charges accrued during and as a result of development of intangible fixed assets are charged to the profit and loss account. Amortisation begins when the asset is ready for use and is expensed out on a straight-line basis over its estimated useful life.

Software costs

The costs related to the development and maintenance of software programs are recognized as costs when incurred. Costs that are directly connected with the production of unique, identifiable software controlled by the Company 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.

Leased assets

Assets held via finance leases, through which the risks and benefits pertaining to ownership are essentially transferred to the Company, are recognised as assets belonging to the Company at their current value or at the present value of the minimum payments owed to the lessor, whichever is lower. The corresponding liability towards the lessor is entered in the accounts as a financial debt. These goods are depreciated in accordance with the methods and criteria applicable to tangible fixed assets.
Leases in which the lessor essentially retains the risks and benefits incidental to ownership of the assets are recognized as operating leases. The costs relating to operating leases are entered on a straight-line basis in the profit and loss account throughout the leasing contract's duration.

Impairments of assets

At the date of each set of accounts, tangible and intangible fixed assets with a fixed lifespan are analysed, so as to establish whether there are any indications, whether from within the

Company or from outside sources, of a value impairment. In the event that such indications are identified, the recoverable value of such assets is estimated, and any fall in value entered in the profit and loss account. An asset's recoverable value is the greater of two figures: either its fair value minus sales costs, or its value in use, where the latter is the present value of future cash, that is expected to flow from an asset or a cash-generating unit. In determining its value in use, expected future cash flow is discounted to present value using a pre-tax discount rate that reflects the current market value of the cost of money relating to the period of the investment and to the asset's specific risks. For an asset that does not generate independent cash flow, the value is calculated in relation to the cash-generating unit to which such asset belongs. An asset is written down via a charge to the profit and loss account if the book value of such asset, or of the cash-generating unit of which it is a part, is greater than the recoverable value. If the conditions for a previous write-down no longer apply, the asset's accounting value is reinstated by an entry in the profit and loss account, provided that such reinstated value does not exceed the net book value that the asset would have had if it had not been written down and depreciation had been applied.

Financial instruments

These include financial assets and liabilities whose classification is determined when they are first entered in the accounts according to the purpose for which they were acquired. Acquisitions and sales of financial instruments are entered in the accounts on the date of the transaction, or on the date on when the Company committed itself to buying or selling the assets.

Financial assets

Financial assets are classified, when first entered into the accounts, in one of the following categories, and valued as explained below:

Loans and receivables: these financial instruments chiefly relate to trade receivables, are non-derivative, are not listed on an organized exchange and do not yield fixed or foreseeable payments. They are reported as current assets, with the exception of those due beyond 12 months after the reporting date, which are classified as non-current assets.

Such assets are valued at amortized cost on the basis of the effective interest rate method. If there has been objective evidence of loss of value, the asset is written down so as to equal the discounted value of future income. Losses of value are entered in the profit and loss account. If in succeeding years the reasons for previous write-downs no longer apply, the value of such assets is restored to what it would have been if the amortised cost had been applied and the asset had not been written down.

Investments available for sale: these are non-derivative financial instruments that are a category to themselves, and fit in none of the above categories. Such instruments are reported at fair value, and the gains or losses from valuation are charged to an equity reserve and are reversed to profit and loss account only when the financial asset is effectively sold or, in the event of cumulative negative change, when it is clear that the loss of value already entered in the equity reserve cannot be recovered. Whether such assets are classified as current or non-current depends on strategic choices regarding the length of time the asset is owned and on whether it can be traded; assets that are expected to be sold within 12 months of the date of the accounts are reported as current.

Financial assets are removed from the balance sheet when the right to receive cash flow from an instrument expires and the Group has effectively transferred all the risks and benefits relating to the instrument, as well as control over it.

Financial liabilities

These relate to financing, trade payables, and other obligations to pay; they are valued at amortized cost, using the 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.

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.

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.

Retained earnings/(losses) carried forward

These include earnings and 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 include transfers from other equity reserves when the underlying obligation is discharged, as well as the effects of the recognition of changes in accounting standards and material errors.

Other reserves

These also include the fair value reserve in respect of items accounted for at fair value through equity and the stock option /grant reserve in respect of the recognition of defined-benefit plans as stock-holding.

Employee benefits

The Company has several types of defined-benefit and defined-contribution pension plans, in line with local conditions and practices in the countries where it operates. Payments to defined-contribution plans during the year are recognized in the profit and loss account.

Defined-benefit pension plans, including severance pay owed to employees in compliance with Article 2120 of the Civil Code are based on the length of service and the salary an employee earns over a given period. The liability representing benefits due to employees is recognized in the accounts on the basis of its actuarial value.

The recognition of defined-benefit plans requires the use of actuarial techniques to estimate the amount of benefits employees have earned in exchange for the work they have done during this and prior periods as well as the discounting to present value of such benefits to determine the current value of the Company's pension commitments. The present value of the Company's commitments is established by an outside consultant using the projected unit credit method. This considers every year of service by company staff as an additional credit unit; the actuarial liability must therefore be quantified on the basis only of pension benefits earned as at the valuation date. Therefore, the total liability is normally adjusted on the basis of the years of service completed at the valuing date and the total pension benefits earned at the time they are to be paid. Moreover, this method also takes into consideration future cost increases, for whatever reason (inflation, promotion, contract renewal, etc.) until the end of employment.

The cost of defined-benefit plans for the year, which is recognised in the profit and loss account under staff costs, is equal to the sum of the average present value of benefits earned by employees for work carried out during the year and of the annual interest accrued on the present value of the Company's commitments as at the beginning of the year. Such interest is calculated using the discount rate for determining the present value of future disbursements adopted at the end of the previous year. The annual discount rate used for these calculations is assumed to be equal to the market rate at the end of the period for zero coupon bonds with an expiry date equal to the average residual life of the liability.

Actuarial gains and losses, defined as the difference between the book value of liabilities and the present value of the Company's commitments at the end of the period, due to the change in the actuarial assumptions used previously, are entered in the accounts using the 'corridor' method, that is, only when they exceed 10% of the present value of the Company's commitments at the end of the preceding period. In these circumstances, the excess over the 10% is entered in the profit and loss account in line with the residual average working life of employees starting from the following year.

Equity compensation benefits

The Company compensates its top managers through stock grant plans as well. in these cases, the theoretical benefit of the persons concerned is charged to the profit and loss accounts for the years of the plan through an equity reserve. This benefit is quantified by measuring the fair value of the awarded instrument also through financial valuation techniques, including market conditions, if necessary, and adjusting the number of rights that are expected to be awarded at each reporting date or interim reporting date.

Provisions for risks and charges

These are entered as a result of losses and charges of a particular type. These are either certain or probable but cannot, at the reporting date, be quantified, and/or their timing cannot be foreseen.

These are entered only when there is a current obligation (legal or implicit) for future cash outlays as a result of past events and it is likely that such outlays will be demanded in fulfilment of the obligation. The provision made represents the best estimate of the present value of the expenditure required to meet the obligation. The discount rate used in setting the present value of the liability reflects current market values and includes the further effects of the specific risk associated with each liability.

Risks for which a liability is only a possibility are mentioned in the relevant information section on commitments and risks. No provision is made for these.

Translation of accounting entries in currencies other than the euro

Transactions in foreign currency are translated into euros using the exchange rates prevailing on the date they were made. Gains and losses on foreign exchange transactions and resulting from the translation at end-of-year exchange rates of foreign-denominated assets and liabilities are entered in the profit and loss account.

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 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.

Grants

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

Costs

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

Financial income and expense

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 expense is not charged as an asset.

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.

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 and liabilities are calculated on the temporary differences between the amounts reported in the financial statements and the amounts recognised for tax purposes. Deferred tax liabilities are not recognised if it can be proved that their payment is unlikely, while deferred tax assets are recognised to the extent that it is probable that there will be future taxable income against which they can be applied.

Transactions with related parties

Related party transactions are made at arm's length.

New IFRSs and IFRIC interpretations

Over the last few months, IASB and IFRIC have issued new standards and interpretations. Despite the fact that currently these standards and interpretations are not yet mandatory or have not yet been adopted by the European Union, the Company has nevertheless considered their effects, indicating the potential impact of these standards and interpretations on its balance sheet and profit and loss account:

IFRS – IFRIC Interpretation		Effects on the Company
IFRS 6 Amendment	Exploration for and evaluation of mineral resources	Not applicable to the Company
IAS 19 Amendment	Employee benefits	The Company plans to apply these modifications starting from 1 January 2007
IAS 39 Amendments	Financial instruments	No significant effects are expected
IFRS 4 Amendment	Insurance contracts	Not applicable to Group
IFRS 7	Disclosures and modifications to IAS 1 – Presentation of financial statements	Applying the standard obviously requires greater disclosure with regard to financial instruments and capital
IFRIC 4	Determining whether an arrangement contains a lease	No significant effects are expected
IFRIC 5	Rights to interests arising from decommissioning, restoration and environmental funds	Not applicable to the Company
SIC 12 Amendment	Consolidation - special purpose entities	No significant effects are expected
IFRIC 6	Liabilities arising from participating in a specific market - waste electrical and electronic equipment	Not applicable to the Company
IFRIC 7	Applying the restatement approach under IAS 29. Financial reporting in hyperinflationary economies	Not applicable to the Company
IFRIC 8	Scope of IFRS 2	No significant effects are expected
IFRIC 9	Revaluation of embedded derivatives	No significant effects are expected

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:

Write-down 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 write-down, when there are indicators that point to difficulties in recovering their net book value. Establishing whether such indicators exist demands that directors make subjective judgments based upon information available within the 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.

Deferred taxes: they are entered in the accounts on the basis of the expectation of taxable income in future years. The estimation of the expected taxable income, for the entering of deferred taxes into the accounts, depends on factors that may change over time and have a considerable effect on the extent to which deferred tax assets may be recoverable.

6.4 SIGNIFICANT NON-RECURRENT EVENTS AND TRANSACTIONS

The parent company, Ansaldo STS, has borne the costs relative to the stock exchange listing during the first months of 2006. These costs, which by definition are non-recurring, have had an impact on Ansaldo STS's results for the period. Listing costs came to EUR 5,784,000.

6.5 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):

	31 December 2006	31 December 2005
Italy	3,900	-
Rest of Western Europe	1,200	-
North America	1,269	-
Asia/Pacific	877	-

Others	-	-
Total	**7,246**	**-**

Geographically, assets break down as follows:

	31 December 2006	31 December 2005
Italy	271,265	114,030
Rest of Western Europe	64,946	-
North America	1,305	-
Asia/Pacific	986	-
Others	-	-
Total	**338,502**	**114,030**

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

	31 December 2006	31 December 2005
Italy	847	62,378
Rest of Western Europe	-	-
North America	-	-
Asia / Pacific	-	-
Others	-	-
Total	**847**	**62,378**

6.6 RECLASSIFICATION OF INTANGIBLE ASSETS

(EUR 000)	Goodwill	Development costs	Patent and similar rights	Concessions, licences and trademarks	Other	Total
1 January 2005	-	-	-	-	-	-
Cost	-	-	-	-	-	-
Amortization and write-downs	-	-	-	-	-	-
Balance at 31 December 2005	-	-	-	-	-	-
Investments	-	-	-	-	-	-
Sales	-	-	-	-	-	-
Amortization	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-
Other changes	-	-	-	-	-	-
31 December 2005 breaking down as follows:	-	-	-	-	-	-
Cost	-	-	-	-	-	-
Amortization and write-downs	-	-	-	-	-	-
Balance at 31 December 2005	-	-	-	-	-	-
Investments	-	-	-	-	543	543
Sales	-	-	-	-	-	-
Amortization	-	-	-	-	102	102
Reclassifications	-	-	-	-	-	-
Other changes	-	-	-	-	3	3
31 December 2006 breaking down as follows:	-	-	-	-	**444**	**444**
Cost	-	-	-	-	546	546
Amortization and write-downs	-	-	-	-	102	102
Balance at 31 December 2006	-	-	-	-	**444**	**444**

Purchases for the period were EUR 543,000 and exclusively relate to 'software applications' that are necessary to the performance of company operations.

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

6.7 TANGIBLE FIXED ASSETS

(EUR 000)	Land and buildings	Plant and machinery	Equipment	Other	Total
1 January 2005					

Cost	-	-	-	-	-
Revaluations	-	-	-	-	-
Depreciation and write-downs	-	-	-	-	-
Balance at 31 December 2005	**-**	**-**	**-**	**-**	**-**
	-	-	-	-	-
Investments	-	-	-	-	-
Sales	-	-	-	-	-
Depreciation	-	-	-	-	-
Reclassifications	-	-	-	-	-
Other changes	-	-	-	-	-
31 December 2005 breaking down as follows:	-	-	-	-	-
Cost	-	-	-	-	-
Revaluations	-	-	-	-	-
Depreciation and write-downs	-	-	-	-	-
Balance at 31 December 2005					
	-	-	-	-	-
Investments	-	-	4	291	295
Sales	-	-	-	-	-
Depreciation	-	-	1	15	16
Reclassifications	-	-	-	-	-
Other changes	-	-	-	-	-
31 December 2006 breaking down as follows:	-	-	-	-	-
Cost	-	-	4	291	295
Revaluations	-	-	-	-	-
Depreciation and write-downs	-	-	1	15	16
Balance at 31 December 2006	**-**	**-**	**3**	**276**	**279**

Purchases for the year relate to:

- Equipment of EUR 4,000 due to the purchase of a postal meter and equipment for the use of digital TV.
- Other assets of EUR 291,000 due to the purchase of furniture, fittings and electronic equipment for the new offices of Ansaldo STS .

6.8 INVESTMENT PROPERTY

(EUR 000)	Land and buildings	Other assets	Total
1 January 2005			
Cost	-	-	-
Revaluations	-	-	-
Depreciation and write-downs	-	-	-
Balance at 31 December 2005	**-**	**-**	**-**
Investments	62,378	-	-
Sales	-	-	-
Depreciation	15	-	-
Reclassifications	-	-	-
Other changes	-	-	-
31 December 2005 breaking down as follows:	-	-	-
Cost	62,378	-	-
Revaluations	-	-	-
Depreciation and write-downs	15	-	-
Balance at 31 December 2005	**62,363**	**-**	**62,363**
	-	-	-
Investments	9	-	9
Sales	-	-	-
Depreciation	1,589	-	1,589
Reclassifications	-	-	-
Other changes	-	-	-
31 December 2006 breaking down as follows:	**-**	**-**	**-**
Cost	62,387	-	62,387
Revaluations	-	-	-
Depreciation and write-downs	1,604.00	-	1,604.00
Balance at 31 December 2006	**60,783**	**-**	**60,783**

Investment property includes the value of the premises owned by Ansaldo STS 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 62,378,000.

Most of the property is leased to the subsidiaries Ansaldo Trasporti Sistemi Ferroviari and Ansaldo Segnalamento Ferroviario (a subsidiary of Ansaldo Signal N.V.), whose secondary offices are in Via Mantovani 3/5: the relevant rental fees are recognised under 'Other operating revenues'.

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 16, the component approach was applied to the above amount based on an expert appraisal, and therefore the amount of EUR 9,353,000 was reclassified among the item ‘Land’. During the year, this figure rose by EUR 9,000 due to activities for the upgrading of the electrical system, following the creation of new workstations.

6.9 EQUITY INVESTMENTS

(EUR 000)	31 December 2006	31 December 2005
Opening balance	-	-
Acquisitions/subscriptions and capital increases	100,159	-
Revaluations/write-downs	-	-
Sales	-	-
Other changes (stock grant)	1,523	-
Closing balance	**101,682**	**-**

Equity investments came to EUR 100,159,000 and were acquired in February 2006 from the parent company Finmeccanica for the following amounts: Ansaldo Trasporti Sistemi Ferroviari S.p.A. for EUR 38,213,000 and Ansaldo Signal N.V. for EUR 61,946,000.

During the year, following the issue and subsequent recognition for the year 2006 of the ‘Stock Grant Plan’ of Ansaldo STS SpA, the figures of equity investments rose by EUR 1,523,000, of which EUR 294,000 is attributable to Ansaldo Trasporti Sistemi Ferroviari SpA and EUR 1,229,000 to Ansaldo Signal N.V..

List of equity investments at 31 December 2006

Name	% ownership	Value of equity investment	*Total assets*	*Total liabilities*
Subsidiaries and associates				
Ansaldo Signal NV	100	63,175	571,205	504,370
Ansaldo Trasporti Sistemi Ferroviari Spa	100	38,507	399,307	345,184
Total investments		101,682		

The Appendix contains a list of investees with the information required to be given under the Italian Civil Code.

6.10 RECEIVABLES FROM AND PAYABLES TO 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:

(EUR 000) *Receivables at 31 Dec 2006*	**Non-current financial receivables**	**Other non-current receivables**	**Current financial receivables**	**Trade receivables**	**Other current receivables**	**Total**
Parent Companies						
Finmeccanica SpA	-	-	132,128	-	-	132,128
Subsidiaries						
Ansaldo Signal NV	-	-	-	7,600	677	8,277
Ansaldo Trasp. Sist.Ferroviari	-	-	-	1,870	73	1,943
TOTAL	-	-	132,128	9,470	750	142,348

(EUR 000) *Payables at 31 Dec 2006*	**Non-current financial payables**	**Other long-term debt**	**Current borrowings**	**Trade payables**	**Other current payables**	**Total**
Parent Companies						
Finmeccanica SpA	-	-	-	-	230	230
Subsidiaries						
Ansaldo Signal NV	-		59,789	496	336	60,621
Ansaldo Trasp. Sist.Ferroviari	-		152,040		152	152,192
Related concerns						
Ansaldo Industria	-	-	-	3	-	3
Elsag	-	-	-	42	-	42
So.Ge.Pa.	-	-	-	4	-	4
TOTAL	-	-	211,829	545	718	213,092

(EUR 000) Receivables at 31 Dec 2006	Non-current financial receivables	Other non-current receivables	Current financial receivables	Trade receivables	Other current receivables	Total
Parent Companies						
Finmeccanica SpA	-	-	-	-	-	-
Related concerns						
Ansaldo Signal NV	-	-	-	209	-	209
Ansaldo Trasp. Sist.Ferroviari	-	-	-	39	-	39
TOTAL	-	-	-	248	-	248

(EUR 000) Payables at 31 Dec 2006	Non-current financial payables	Other long-term debt	Current borrowings	Trade payables	Other current payables	Total
Parent Companies						
Finmeccanica SpA	-	-	73,480	1	3	73,484
Related concerns						
Ansaldo Trasp. Sist.Ferroviari	-	-	-	-	1	1
Mecfin	-	-	-	300	-	300
TOTAL	-	-	73,480	301	4	73,785

Receivables from and payables to the parent company Finmeccanica S.p.A. mainly relate to:

- Current accounts: the current account (EUR 32,128,000 at 31 December 2006) 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. Financial receivables and payables are currently settled at the one-month Euribor rate plus a 1% spread in the case of negative balance and at the same rate less a 0.25% spread in the case of a positive balance. During the year a term-deposit was established in a variable amount ranging from EUR 75,000,000 to EUR 130,000,000 (EUR 100,000,000 at 31 December 2006) and with variable duration at the best market conditions (one-month Euribor rate – less a 0.05% spread in the case of a positive balance). The table shows financial income and expense from this term deposit: income of EUR 2,845,000 and expense of EUR 262,000 resulting from a loan from Finmeccanica paid off in February 2006.
- Charges for services connected with activities of general interest promoted by Finmeccanica, as majority shareholder, to subsidiaries (EUR 15,000);
- costs pertaining to the year 2006 for the licence to use the ‘Ansaldo’ brand for 20 years (EUR 1,611,000) from Finmeccanica and relevant current and non-current deferred expense of EUR 30,589,000.

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

Financial receivables and payables

- Ansaldo Trasporti Sistemi Ferroviari SpA : the current account (a negative balance of EUR 22,040,000 at 31 December 2006) 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, and is also used as cash pooling account for the transit of balances of bank accounts. Financial receivables and payables are currently settled at the one-month Euribor rate plus a 1% spread in the case of negative balance and at the same rate less a 0.25% spread in the case of a positive balance. During the year a term-deposit was established in a variable amount ranging from EUR 125,000,000 to EUR 130,000,000 at 31 December 2006 and with variable duration at the best market conditions (one-month Euribor rate – less a 0.05% spread in the case of a positive balance). The expense shown in the table relate to these financial transactions.

- Ansaldo Signal N.V.: the current account (a negative balance of EUR 19,193,000 at 31 December 2006) 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 as cash pooling account for the transit of balances of bank accounts. Financial receivables and payables are currently settled at the one-month Euribor rate plus a 1% spread in the case of negative balance and at the same rate less a 0.25% spread in the case of a positive balance. During the year a term-deposit was established in a variable amount ranging from EUR 40,000,000 to EUR 95,000,000 (EUR 40,000 at 31 December 2006) and with variable duration at the best market conditions (one-month Euribor rate – less a 0.05% spread in the case of a positive balance). The expense shown in the table relate to these financial transactions and also include financial expense from bank commissions. Financial income include the dividend of EUR 32,000,000 collected by Ansaldo Signal N.V. in December.

Trade receivables and payables (Ansaldo Trasporti Sistemi Ferroviari SpA and Ansaldo Signal N.V.)

Trade receivables and other current receivables in relation with:

- services performed by the parent company Ansaldo STS in connection with the 'General Service Agreement';
- 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 Signal N.V. - are located. The property was leased after being sold on 28 December 2005 by Finmeccanica to Ansaldo STS. Costs for treasury services from Ansaldo Signal N.V., less recoveries for insurance and exhibition from 1 July 2006 for the parent company Ansaldo STS.

Trade payables and other current payables in relation with:

- consideration for the management and use of the common services at the Genoa offices, whose costs are borne by the Italian subsidiary of Ansaldo Signal N.V. (Ansaldo Segnalamento Ferroviario S.p.A.) and charged pro-rata based on the use of such services by Ansaldo STS;
- Charges for personnel seconded from Ansaldo Signal N.V. to Ansaldo STS;
- Costs for Directors' fees and remuneration of staff of Ansaldo Trasporti Sistemi Ferroviari S.p.A., less recoveries for exhibitions and fairs.

Receivables from and payables to Related Parties mainly relate to commercial operations:

- ITC supplies in the case of Elsag;
- Charges for staff seconded from SO.GE.PA, Orizzonte and Ansaldo Industria.

6.11 RECEIVABLES AND OTHER NON-CURRENT ASSETS

	31-Dec-2006	31-Dec-2005
Loans to third parties	-	-
Security deposits	-	-
Receivables for finance lease sales	-	-
Others	-	-
Non-current receivables	**-**	**-**
Financial prepaid expenses – non-current portion	88	-
Other prepaid expenses to Finmeccanica	28,979	30,590
Other non-current assets		
Other non-current assets	**29,067**	**30,590**

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. The agreement gives the Company exclusive use of the brand for the next 20 years in the sectors the Group does business, in exchange for an up-front payment of EUR 32,213,000. The decrease of EUR 1,611,000 between 31 December 2006 and 31 December 2005 is due to the recognition of the above said prepaid expenses in the profit and loss account and the increase of EUR 88,000 is due to new prepaid expenses for commissions on credit facilities. Changes for the year and a breakdown of assets by maturity, foreign currency and geographic area are shown in the appendices in Section 11.

6.12 TAX RECEIVABLES AND PAYABLES

	31-Dec-2006		31-Dec-2005	
	Receivables	Payables	Receivables	Payables
Direct taxes	-	-	-	-
Indirect taxes	565	-	19,155	-
Other taxes	15	-	-	-
	580	-	19,155	-

Tax receivables of EUR 580,000 at 31 December 2006 fell by EUR 18,575,000. 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.

Changes for the year and a breakdown of assets by maturity, foreign currency and geographic area are shown in the appendices in Section 11.

6.13 OTHER CURRENT ASSETS

	31-Dec-2006	31-Dec-2005
Prepaid expenses – current portion	2,368	1,650
Equity investments	-	-
Derivatives	-	-
Grant receivables	-	-
Receivable from employees and social security institutions	41	-
Other assets	1	-
	2,410	1,650

Prepaid expenses mainly refers to the current portion of costs incurred in purchasing the licence to use the 'Ansaldo' brand (EUR 1,610,000), insurance (EUR 577,000), fees and maintenance (EUR 120,000) and financial charges (EUR 61,000).

Receivables from employees and social security institutions relate to advances for travels.

Changes for the year and a breakdown of assets by maturity, foreign currency and geographic area are shown in the appendices in Section 11.

6.14 CASH AND CASH EQUIVALENTS

	31-Dec-2006	31-Dec-2005
Cash	1	-
Bank deposits	908	24
	909	24

Cash and cash equivalents rose by EUR 885,000.

The item at 31 December 2006 was EUR 908,000 and breaks down as follows:

- San Paolo Imi – Genoa EUR 873,000;
- San Paolo Imi – Rome EUR 24,000;
- Ing direct EUR 10,000;
- BNL EUR 1,000.

6.15 SHAREHOLDERS' EQUITY

Shareholders' equity at 31 December 2006 stood at EUR 117,694,000, a net increase of EUR 80,197,000.

A breakdown of shareholders' equity, including cash and cash equivalents and distributable funds, is shown in appendix 11.6 to these Notes.

6.16 SHARE CAPITAL

	Number of ordinary shares	Par value	Treasury shares	Total
Outstanding shares	80,000,000.00	40,000,000.00	-	40,000,000.00
Charges for capital increase	-	-	-	(50,000.00)
Balance at 31 December 2005	**80,000,000.00**	**40,000,000.00**	**-**	**39,950,000.00**
Shares subscribed in the period	20,000,000.00	10,000,000.00	-	10,000,000.00
Repurchase of treasury shares, less those sold	-	-	-	-
Balance at 31 December 2006	**100,000,000.00**	**50,000,000.00**	**-**	**49,950,000.00**

On 24 February 2006, the parent company, Finmeccanica SpA, subscribed a capital increase in the amount of EUR 10,000,000.

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 50,000 due to expenses attributable to the capital increase in 2005. There are no treasury shares.

The share capital is held by:

- Finmeccanica SpA 40%
- CAAM Società di Gestione del Risparmio S.p.A. 2.270%
- BIPIEMME Gestioni Società di Gestione del Risparmio S.p.A. 2%

6.17 RETAINED EARNINGS AND RESERVES

	31-Dec-2006	31-Dec-2005

31 December 2005	**(2,490)**	**-**
Dividends paid	-	-
Surcharge on capital increases	-	-
Reclassification from reserve for stock option plans		
-		-
Loss coverage	2,490	-
Other changes	-	-
Net profit (loss) for the year	18,189	(2,490)
31 December 2006	**18,189**	**(2,490)**

On 24 February 2006, Ansaldo STS's Shareholders' Meeting voted to fully cover the losses that arose in 2005 (EUR 2,490,000) using a corresponding amount of the capital contribution described previously paid by Finmeccanica SpA into the intercompany current account, which as a result decreased to EUR 47,679,000.

6.18 OTHER RESERVES

	Other reserves	Reserve for assets available for sale	Cash flow hedge reserve	Reserve for stock option/grant plans	Total
Balance at 31 December 2005	**37**	-	-	-	**37**
Stock grant plans:	-	-	-	1,839	1,839
- Value of services rendered	-	-	-	-	
- Issue of new shares	-	-	-	-	
Non-interest-bearing convertible loans	47,679	-	-	-	47,679
Fair value adjustments:	-	-	-	-	-
Reversal to the profit and loss account	-	-	-	-	-
Translation differences	-	-	-	-	-
Balance at 31 December 2006	**47,716**		**-**	**1,839**	**49,555**

Reserve for stock grant plans

This reserve at 31 December 2006 came to EUR 1,839,000 and breaks down as follows:

- EUR 316,000 Ansaldo STS SpA;
- EUR 294,000 Ansaldo Trasporti Sistemi Ferroviari SpA;
- EUR 1,229,000 Ansaldo Signal N. V. and its subsidiaries;

and was formed during the year following approval by the Board of Directors of Ansaldo STS of the 'Stock Grant Plan' (SGP) that was approved on 24 October 2006 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.

6.19 SHORT-TERM RECEIVABLES

	31-Dec-2006			31-Dec-2005		
	Current	Non-current	Total	Current	Non-current	Total
Bonds	-	-	-	-	-	-
Bank payables	23	-	-	-	-	-
Finance lease payables	-	-	-	-	-	-
Payables to factors for non-recourse assignments	-	-	-	-	-	-
	23	**-**	**-**	**-**	**-**	**-**

Borrowings from third parties were EUR 23,000 and relate to bank payables.

Changes in short-term borrowings are as follows:

	31-Dec-2005	**New positions**	**Repayments**	**Changes in scope of consolidation**	**Other changes**	**31-Dec-2006**
Bonds	-	-	-	-	-	-
Bank payables	-	-	-	-	23	23
Finance lease payables	-	-	-	-	-	-
Payables to factors for non-recourse assignments	-	-	-	-	-	-
Other financial payables	-	-	-	-	-	-
	-	**-**	**-**	**-**	**23**	**23**

Bank payables

Bank payables at 31 December 2006 came to EUR 23,000 and relate to commission expense on the current accounts held by Ansaldo STS with Banca Nazionale del Lavoro in Rome.

Financial debt

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

	31 December 2006	**31 December 2005**
Cash	1	-
Bank deposits	908	24
Securities held for trading	-	-
LIQUIDITY	909	24
CURRENT FINANCIAL RECEIVABLES	**132,128**	**-**
Current borrowings	23	
Current portion of long-term debt	-	-
Other short-term financial debt	211,829	73,480
CURRENT FINANCIAL DEBT	**211,852**	**73,480**
CURRENT FINANCIAL DEBT (FINANCIAL RECEIVABLES), NET	**78,815**	**73,456**
Long-term bank debt	-	-
Bonds issued	-	-
Other long-term debt	-	-
NON-CURRENT FINANCIAL DEBT	**-**	**-**
FINANCIAL DEBT, NET	**78,815**	**73,456**

6.20 SEVERANCE PAY AND OTHER LIABILITIES TOWARDS STAFF

	31 December 2006	31 December 2005
Severance obligations	335	-
Defined-benefit pension plans	-	-
Other provisions for personnel	-	-
	335	-
GBP area	-	-
Euro area	335	-
Other	-	-
	335	-

The statutory severance pay obligation calls for the payment of the entitlement accumulated by employees until the time they leave the company, determined under Article 2120 of the Italian Civil Code applying a divisor of 13.5 on the fixed items of remuneration.

Starting from 1 January 2007 the Finance Law and the relevant implementation decrees have introduced relevant changes in the regulation of the severance pay, such as the employee choosing where to allocate his own severance pay provision. Specifically, the employee may choose to put the new accruals to the severance pay provision in pension schemes of his choice or to keep them at the company. In the latter case, the company will set the accruals to a treasury account held with INPS. At present, any possible assumption for actuarial changes in the calculation of the severance pay provision at 31 December 2006 is premature, due to the uncertainty in the interpretation of the recent legislation above, the possible different interpretations of recognition of the severance pay provision under IAS 19, the resulting changes in the actuarial calculation of the severance pay provision, and the impossibility of estimating the employees' choices on severance pay provision (every employee must choose within 30 June 2007).

Below is a breakdown of severance pay provision:

	Severance obligations	
	31 December 2006	31 December 2005
Present value of the obligations	335	-
Fair value of the plan's assets	-	-
Unrecognized actuarial loss/profit	-	-
Liabilities recognised	**335**	**-**

Below are changes in the severance pay provision:

	31-Dec-2006			
	Present value of the obligation	Present value of the asset	Unrecognized actuarial loss/profit	Net liability Defined-benefit plans
Balance at 31 December 2005				
Costs of benefits paid	82	-	-	82
Interest expense	8	-	-	8
Actuarial losses (profits)	-	-	-	-
Decreases for sales	-	-	-	-
Increases due to business combinations	-	-	-	-
Benefits paid	40	-	-	40
Other changes	285	-	-	285
		-	-	
Balance at 31 December 2006	**335**	**-**	**-**	**335**

	31-Dec-2005			
	Present value of the obligation	Present value of the asset	Unrecognized actuarial loss/profit	Net liability Defined-benefit plans
Balance at 31 December 2004				
Costs of benefits paid	-	-	-	-
Interest expense	-	-	-	-
Actuarial losses (profits)	-	-	-	-
Decreases for sales	-	-	-	-
Increases due to business combinations	-	-	-	-
Benefits paid	-	-	-	-
Other changes	-	-	-	-
Balance at 31 December 2005	-	-	-	-

‘Other changes’ includes the amount of the severance pay provisions transferred to Ansaldo STS SpA on 1 July 2006 from the other companies of the Group.

The amount recognized in the profit and loss account breaks down as follows:

	Severance obligations	
	31-Dec-2006	31-Dec-2005
Costs of benefits paid	82	-
Interest expense	8	-
Expected return of plan assets	-	-
Actuarial losses (profits) recognised in the period	-	-
Total cost	**90**	**-**

The main actuarial assumptions are as follows:

	Severance obligations	
	31 December 2006	31 December 2005
Discount rate	3.56%	-
Rate of salary increases	1.25% - 2.93%	-
Rate of turnover	2.93% - 3.88%	-

6.21 OTHER CURRENT AND NON-CURRENT LIABILITIES

	Non-current		Current	
(EUR 000)	31 December 2006	31 December 2005	31 December 2006	31 December 2005
Due to staff	42	-	1,093	-
Deferred income	-	-	-	230
Due to social security institutions	-	-	801	-
Other payables	-	-	221	5
	42	-	2,115	235

Non-current liabilities at 31 December 2006 were EUR 42,000 and relate to other long-term benefits (seniority bonuses to employees).

The main actuarial assumptions are as follows:

	Long-term benefits	
	31 December 2006	**31 December 2005**
Discount rate	3.56%	-
Rate of salary increases	1.25% - 2.93%	-
Rate of turnover	2.93% - 3.88%	-

Current liabilities came to EUR 2,115,000, an increase of EUR 1,879,000 from 31 December 2005 (EUR 236,000), 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.

6.22 TRADE PAYABLES

Trade payables to third suppliers at 31 December 2006 totalled EUR 4,910,000, an increase of EUR 2,398,000 on the EUR 2,512,000 figure at 31 December 2005.
There are no trade payables with residual maturity after 2007.

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

6.23 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:

(EUR 000)	Operating leases	Finance leases
Within 1 year	1,857	-
2 to 5 years	7,279	-
More than 5 years	-	-
	9,136	-

Guarantees

At 31 December 2006, the Company had the following outstanding guarantees:

(EUR 000)	**31 December 2006**	**31 December 2005**
Bank guarantees to related parties	123,030	-
Bank guarantees to third parties	-	-
Sureties to third parties	-	-
Other unsecured guarantees given to third parties	-	-
Unsecured guarantees given	-	-
	123,030	**-**

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

6.24 TRANSACTIONS WITH RELATED PARTIES (COSTS AND REVENUES)

Below are all revenues from related parties of the Company for the years 2006 and 2005:

(EUR 000) **31-Dec-2006**	**Revenues**	**Other operating revenues**	**Costs**	**Financial income**	**Financial expense**
Parent Companies					
Finmeccanica SpA	-	-	1,626	2,845	262
Subsidiaries					
Ansaldo Signal NV	5,791	1,534	718	32,000	2,001
Ansaldo Trasporti Sistemi Ferroviari SpA	1,455	296	81	-	3,509
Related concerns					
Mecfin	-	-	94	-	-
Ansaldo Industria	-	-	3	-	-
Orizzonte Sistemi Navali	-	-	16	-	-
Elsag	-	-	139	-	-
So.ge.pa.	-	-	4	-	-
TOTAL	**7,246**	**1,830**	**2,681**	**34,845**	**5,772**

(EUR 000) **31-Dec-2005**	**Revenues**	**Other operating revenues**	**Costs**	**Financial income**	**Financial expense**
Parent Companies					
Finmeccanica SpA	-	-	5	31	13
Related concerns					
Ansaldo Signal NV	-	15	-	-	-
Ansaldo Trasporti Sistemi Ferroviari SpA	-	3	1	-	-
Mecfin	-	-	300	-	-
Sogeli	-	-	5	-	-
So.ge.pa.	-	-	5	-	-
Alcatel Alenia	-	-	1	-	-
TOTAL	**-**	**18**	**317**	**31**	**13**

Costs to related parties include:

- Services rendered by the parent company Ansaldo STS in respect of the General Service Agreement (Revenues of EUR 7,246,000);

- Rental fee for the property located in Genoa, Via Mantovani 3/5, owned by Ansaldo STS where the secondary offices of Ansaldo Trasporti Sistemi Ferroviari and Ansaldo Signal N.V. are located. This property was leased after being sold by Finmeccanica to Ansaldo STS on 28 December 2005 (other revenues of EUR 1,830,000);
- Charges for services connected with activities of general interest promoted by Finmeccanica, as majority shareholder, to subsidiaries (EUR 15,000);
- costs for the year 2006 for the licence to use the 'Ansaldo' brand from Finmeccanica for a period of 20 years (EUR 1,611,000);
- Costs for treasury services from Ansaldo Signal N.V., less recoveries for insurance and exhibition from 1 July 2006 for the parent company Ansaldo STS (EUR 169,000);
- consideration for the management and use of the common services at the Genoa offices, whose costs are borne by the Italian subsidiary of Ansaldo Signal N.V. (Ansaldo Segnalamento Ferroviario S.p.A.) and charged pro-rata based on the use of such services by Ansaldo STS (EUR 174,000);
- Charges for personnel seconded from Ansaldo Signal N.V. to Ansaldo STS (EUR 375,000);
- Costs for Directors' fees and remuneration of staff of Ansaldo Trasporti Sistemi Ferroviari S.p.A., less recoveries for exhibitions and fairs (EUR 81,000);
- ITC supplies in the case of Elsag (costs of EUR 139,000);
- Charges for staff seconded from SO.GE.PA, Orizzonte and Ansaldo Industria (EUR 23,000);
- Software development and maintenance costs of Mecfin (EUR 94,000);
- Dividend of EUR 32,000 from Ansaldo Signal;
- Financial income of EUR 2,845,000 from the current accounts mentioned above held with the parent company Finmeccanica;
- Financial expense of EUR 5,772,000 on the above-said current account positions held with the subsidiaries Ansaldo Signal and Ansaldo Trasporti Sistemi Ferroviari, and financial expense of EUR 262,000 on the current accounts held with the parent

company Finmeccanica in respect of a loan of EUR 50,000,000 that was paid off in February 2006.

6.25 REVENUES

	31 December 2006	31 December 2005
Revenues from sales	-	-
Revenues from services	-	-
Revenues from services to related parties	7,246	18
Change in contract work in progress	-	-
Total revenues	**7,246**	**18**

These include the cost of services rendered by the parent company Ansaldo STS in respect of the General Service Agreement (see breakdown above).

6.26 OTHER OPERATING REVENUES AND COSTS

	31 December 2006		31 December 2005	
	Revenues	Costs	Revenues	Costs
Grants for research and development costs	-	-	-	-
Other operating grants	-	-	-	-
Gains on sale of tangible and intangible fixed assets	-	-	10	10
Allocations/Reversals to provisions for risks and charges	-	-	-	-
Reversal of impairment of receivables	-	-	-	-
Exchange rate differences on operating items	-	-	-	-
Adjustment of receivables and payables in foreign currency to the year-end exchange rate	-	-	-	-
Insurance reimbursements	-	-	-	-
Restructuring costs	-	-	-	-
Indirect taxes	-	180	-	-
Other operating revenues/costs	3	407	-	6
	3	**587**	**10**	**16**

Other net operating costs at 31 December 2006 came to EUR 584,000, up EUR 578,000 from the year 2005 (EUR 6,000).

The change is mainly attributable to:

- Donations to the Fondazione Carlo Felice in Genoa of EUR 310,000;

- Indirect taxes of EUR 180,000;
- Gifts of EUR 85,000;
- Books, newspapers, magazines and sundry of EUR 3,000.

6.27 PURCHASES AND SERVICE COSTS

	31 December 2006	31 December 2005
Materials	7	-
Materials purchased from related parties	-	-
Change in inventory	-	-
Services	10,879	2,188
Services and other services purchased from related parties	2,681	317
Rent and operating leases	21	-
Rental fees	1	-
Total purchasing and service costs	**13,589**	**2,505**

Purchasing and service costs from third parties at 31 December 2006 came to EUR 13,589,000, up EUR 11,084,000 from 31 December 2005 (EUR 2,505,000). The increase is due to non-recurring costs of EUR 5,503,000 incurred by Ansaldo STS for the listing on the Italian Stock Exchange (STAR segment); the remaining amount relates to ordinary operating costs of Ansaldo STS.

Services purchased from related parties are commented on in Section 6.24.

6.28 STAFF COSTS

	31 December 2006	31 December 2005
Payroll	2,628	-
Costs of stock option/grant plans	316	-
Pension and social security expenses	957	-
Severance pay provision costs	90	-
Costs relating to other defined-benefit plans	-	-
Costs relating to defined-contribution plans	-	-
Disputes with employees	-	-
Restructuring costs	-	-
Other costs	41	-
Total staff costs	**4,032**	-

Staff costs of Ansaldo STS were EUR 4,032,000 and relate to the costs of the 29 Units headed by Ansaldo STS starting 1 July 2006.

The average workforce in place at 31 December 2006 is 14.

Below is a breakdown of average workforce by category:

	2006	2005	Changes
Executives	6	-	6
Middle managers	2	-	2
White-collar workers	6	-	6
Blue-collar workers	-	-	-
Total	**14**	**-**	**14**

Staff costs of Ansaldo STS relate to the period from 1 July to 31 December 2006, including costs and expenses for the year 2006 of EUR 316,000 in respect of the Stock Grant Plan of Ansaldo STS that was approved by the Board of Directors and the Remuneration Committee. Staff costs also include bonuses given to employees for their services, and non-recurring expenses for the company listing of EUR 281,000.

6.29 AMORTISATION, DEPRECIATION AND IMPAIRMENT

	31 December 2006	31 December 2005
Amortisation/depreciation:		
intangible assets	102	-
tangible assets	1,605	15
	1,707	**15**
Impairment:		
operating receivables	-	-
other assets	-	-
Total amortization, depreciation and impairment	**1,707**	**15**

Amortisation exclusively relate to 'software applications' that are necessary to the performance of company operations.

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

Depreciation is totally attributable to the property owned by Ansaldo STS located in Via Mantovani 3/5 (EUR 1,589,000).

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

6.30 FINANCIAL INCOME AND EXPENSE

	31 December 2006			31 December 2005		
	Income	Expense	Net	Income	Expense	Net
Dividends	32,000	-	32,000	-	-	-
Income from equity investments and securities	-	-	-	-	-	-
Discounting of receivables, payables and provisions	-	-	-	-	-	-
Interest and commissions	-	-	-	-	-	-
Exchange rate differences	-	-	-	-	-	-
Income from fair value measurement recognized in profit and loss	-	-	-	-	-	-
Value adjustments to equity investments	-	-	-	-	-	-
Other financial income (expense)	2,901	5,876	(2,975)	31	13	18
Swap and forex options	-	-	-	-	-	-
Interest rate swaps	-	-	-	-	-	-
Total	**34,901**	**5,876**	**29,025**	**31**	**13**	**18**

Financial income at 31 December 2006 came to EUR 34,901,000, an increase of EUR 34,870,000 over the previous year, broken down as follows:

- Dividends collected from the subsidiary Ansaldo Signal N.V. (EUR 32,000,000);
- Financial income of EUR 2,845,000 from current account positions held with the parent company Finmeccanica and other income from banks (EUR 56,000).

Financial expense came to EUR 5,876,000, an increase of EUR 5,863,000 over the previous year, broken down as follows:

- Financial expense on the current account positions with subsidiaries Ansaldo Signal and Ansaldo Trasporti Sistemi Ferroviari (EUR 5,772,000);
- Financial expense of EUR 262,000 on a loan of EUR 50,000,000 paid off in February 2006 with the parent company Finmeccanica;
- other expenses from banks (EUR 104,000).

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).

	31-Dec-2006	**31-Dec-2005**
Average shares during the period	100,000	-
Net Profit	18,189	-
Basic and diluted EPS	0.18	-

8 CASH FLOW FROM OPERATIONS

	31 December	
	2006	**2005**
Net profit (loss)	18,189	(2,490)
Amortisation, depreciation and write-downs	1,706	15
Income tax	-	-
Provisions	-	-
Costs of provision for severance pay	90	-
Gains on the sale of intangible assets and tangible fixed assets	-	-
Financial expense and income, other operating assets and liabilities	(27,186)	-
	(7,201)	**(2,475)**

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

	2006	**2005**
Inventory	-	-
Work in progress and advances from customers	-	-
Trade receivables and payables	15,219	2,552
Changes in working capital	15,219	2,552

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	(40)	-
Changes in provisions for risks	-	-
Changes in other operating items	(2,975)	(18,954)
	(3,015)	(18,954)

9 MANAGEMENT OF FINANCIAL RISKS

Financial risk factors

Ansaldo STS SpA 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 hedge certain risk exposures, 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). 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 risk

  - 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 transactions.

    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 is recognised as a 'highly probable' transaction.
For segment reporting purposes, each subsidiary proposes contracts for fair value hedge and/or cash flow hedge with the Group Treasury. At centralised level, similar contracts are entered into with companies external to the Group.
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.
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 a remarkable amount of financing activities.

	31 December 2006	
Counter-party	**Outstanding**	***Average Weighted Interest % current outstanding***
Finmeccanica	132,127,724.17	3.7226%
Ansaldo Signal NV	59,192,832.08	3.534%
Ansaldo Trasp. Sist. Ferroviari SpA	152,039,577.45	3.561%

- 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 and bank deposits, 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.

- 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.

10 COMPENSATION TO KEY MANAGEMENT PERSONNEL

Compensation due to persons in charge of the planning, direction and control of the Company, including executive and non-executive directors, is as follows:

	2006	2005
Compensation	1,735	9
Benefits subsequent to employment contract	-	-
Other long-term benefits	-	-
Indemnity for termination of employment contract	-	-
Stock grant	195	-
Total	**1,929**	**9**

Directors' fees amounted to EUR 1,929,000 and EUR 9,000 in 2006 and 2005 respectively. Statutory Auditors' fees amounted to EUR 80,000 and EUR 3,000 in 2006 and 2005 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.

Compensation for 2006 in respect of 'Stock Grant' relate to the countervalue of the Finmeccanica shares awarded in December 2006, based on the results achieved in 2005, to 'Key Management Personnel' of Ansaldo STS SpA and its subsidiaries, as envisaged in the 'Performance Share Plan 2005-2007' of the parent company. The listing on the Stock Exchange and the subsequent reduction of the Finmeccanica's equity investment in Ansaldo STS below 50% caused Group staff to leave the stock grant plan above, and to replace it with one of Ansaldo STS's named 'Stock Grant Plan'.

	2006 (no. of shares)
Rights at 1 January	-
New rights assigned	10,371
Rights exercised during the year	10,371
Rights forfeited during the year	
Rights at 31 December	-

On behalf of the Board of Directors
The Chairman
Alessandro Pansa

APPENDICES

11 APPENDICES

11.1 EQUITY INVESTMENTS

EQUITY INVESTMENTS	31-Dec-2005			Movements in the period		31-Dec-2006		
(Euro units)	Cost	Write-down	Book value	Transfers/Acquisitions of going concerns (a)	Other changes (d) (Stock grant)	Cost	Write-down	Book value
Equity investments in parent companies								
	-	-	-	-	-	-	-	-
Equity investments in subsidiaries								
Ansaldo Signal NV	-	-	-	61,946,000	1,228,885	63,174,885	-	63,174,885
Ansaldo Trasporti Sistemi Ferroviari Spa	-	-	-	38,213,000	293,781	38,506,781	-	38,506,781
	-	**-**	**-**	**100,159,000**	**1,522,666**	**101,681,666**	**-**	**101,681,666**
Equity investments in associates								
	-	-	-	-	-	-	-	-
Equity investments in jointly-controlled enterprises								
	-	-	-	-	-	-	-	-
	-	**-**	**-**	**100,159,000**	**1,522,666**	**101,681,666**	**-**	**101,681,666**

	Parent Companies	Subsidiaries	Associated companies	Joint Ventures	Consortia	Other enterprises
(a) Of which:						
Cost	-	100,159,000	-	-	-	-
Write-downs	-	-	-	-	-	-
	-	**100,159,000**	-	-	-	-
(b) Of which:						
Cost	-	-	-	-	-	-
Write-downs	-	-	-	-	-	-
	-	-	-	-	-	-
(c) Of which:						
Cost	-	-	-	-	-	-
Write-downs	-	-	-	-	-	-
	-	-	-	-	-	-
(d) Of which:						
Cost	-	1,522,666	-	-	-	-
Write-downs	-	-	-	-	-	-
	-	**1,522,666**	-	-	-	-

11.2 LIST OF EQUITY INVESTMENTS

(EUR 000)	Registered Office	Reporting date	Share capital	Currency	Shareholders' equity	Net profit (loss)	Ownership (%)	Equity	Book value
Equity investments in parent companies									
			-		-	-		-	-
Equity investments in subsidiaries									
Ansaldo Signal NV	Amsterdam	31-Dec-2006	100	Euro	93,960	32,156	100%	93,960	63,175
Ansaldo Trasporti Sistemi Ferroviari Spa	Naples	31-Dec-2006	30,300	Euro	54,123	15,616	100%	54,123	38,507
		31-Dec-2006	**30,400**	Euro	**148,083**	**47,772**	100%	**148,083**	**101,682**
Equity investments in associates									
			-		-	-		-	-
Equity investments in jointly-controlled enterprises									
			-		-	-		-	-
Consortia									
			-		-	-		-	-
Other enterprises									
			-		-	-		-	-
		31-Dec-2006	**30,400**	**Euro**	**148,083**	**47,772**	**100%**	**148,083**	**101,682**

11.3 ASSETS BROKEN DOWN BY MATURITY

(Euro units)	31-Dec-2006			31-Dec-2005		
	From 2 to 5 years	**After more than 5 years**	**Total**	**From 2 to 5 years**	**After more than 5 years**	**Total**
Non-current receivables from related parties						
Financial receivables	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-
	-	-	-	-	-	-
Receivables						
Financial receivables	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-
Other assets	8,187,500	20,879,124	29,066,624	8,100,000	22,489,774	30,589,774
Total non-current assets	**8,187,500**	**20,879,124**	**29,066,624**	**8,100,000**	**22,489,774**	**30,589,774**
Trade receivables	**-**	**-**	**-**	**-**	**-**	**-**
	-	-	-	-	-	-

11.4 ASSETS DENOMINATED IN FOREIGN CURRENCY

(Euro units)	31-Dec-2006			31-Dec-2005		
	Foreign currency	Euro	Total	Foreign currency	Euro	Total
Non-current receivables from related parties						
Financial receivables	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-
	-	-	-	-	-	-
Non-current financial assets at fair value	-	-	-	-	-	-
Non-current securities held to maturity	-	-	-	-	-	-
Receivables						
Financial receivables	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-
	-	-	-	-	-	-
Other non-current assets	**-**	29,066,624	29,066,624	-	30,589,774	30,589,774
Total non-current assets	**-**	**29,066,624**	**29,066,624**	**-**	**30,589,774**	**30,589,774**
From related parties	**-**	142,347,601	142,347,601	-	247,826	247,826
Financial receivables	-	132,127,724	132,127,724	-	-	-
Trade receivables	-	9,469,997	9,469,997	-	247,826	247,826
Other receivables	-	749,880	749,880	-	-	-
	-	**142,347,601**	**142,347,601**	**-**	**247,826**	**247,826**
Trade receivables	-	-	-	-	-	-
Current financial assets at fair value	-	-	-	-	-	-
Securities held to maturity	-	-	-	-	-	-
Financial receivables	-	-	-	-	-	-
Tax receivables	-	580,167	580,167	-	19,155,722	19,155,722
Other assets	-	2,410,138	2,410,138	-	1,649,988	1,649,988
Cash and cash equivalents	-	908,911	908,911	-	23,846	23,846
Total current assets	**-**	**146,246,817**	**146,246,817**	**-**	**21,077,382**	**21,077,382**

11.5 ASSETS BY GEOGRAPHIC AREA

(Euro units)	31-Dec-2006					31-Dec-2005	
	Italy	Western Europe	North America	Asia/Pacific	Total	Italy	Total
Non-current receivables from related parties							
Financial receivables	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
Non-current financial assets at fair value	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Non-current securities held to maturity	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Receivables							
Financial receivables	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
Other non-current assets	**29,066,624**	**-**	**-**	**-**	**29,066,624**	**30,589,774**	**30,589,774**
Total non-current assets	**29,066,624**	**-**	**-**	**-**	**29,066,624**	**30,589,774**	**30,589,774**
Current receivables from related parties	138,286,449	1,769,641	1,304,976	986,535	142,347,601	247,826	247,826
Financial receivables	132,127,724	-	-	-	132,127,724	-	-
Trade receivables	6,014,933	1,199,103	1,269,426	986,535	9,469,997	247,826	247,826
Other receivables	143,792	570,538	35,550	-	749,880	-	-
	138,286,449	**1,769,641**	**1,304,976**	**986,535**	**142,347,601**	**247,826**	**247,826**
Trade receivables	-	-	-	-	-	-	-
Current financial assets at fair value	-	-	-	-	-	-	-
Securities held to maturity	-	-	-	-	-	-	-
Financial receivables	-	-	-	-	-	-	-
Tax receivables	580,167	-	-	-	580,167	19,155,722	19,155,722
Other assets	1,833,046	577,092	-	-	2,410,138	1,649,988	1,649,988
Cash and cash equivalents	908,911	-	-	-	908,911	23,846	23,846
Total current assets	**141,028,406**	**2,346,733**	**1,304,976**	**986,535**	**146,246,817**	**21,077,382**	**21,077,382**

11.6 AVAILABLE AND DISTRIBUTABLE RESERVES

(EUR 000)				Summary of uses in three prior years	
Nature/description	Amount	Possibly used	Available	to cover losses	for other reasons
Share capital (*)	49,950	-	-	-	-
Capital reserves:					
Non-interest-bearing convertible loan	50,169	A,B,C	47,679	2,490	
Coverage of losses	37	B	-	37	-
Share premium reserve	-	-	-	-	-
Merger surplus	-	-	-	-	-
Retained earnings					
Legal reserve	-	-	-	-	-
Extraordinary reserve	-	-	-	-	-
Statutory reserve	-	-	-	-	-
Fair value reserve	-	-	-	-	-
Cash Flow Hedge reserve	-	-	-	-	-
Reserve for assets available for sale	-	-	-	-	-
Reserve for stock grant plans	1,839	A,B,C	-	-	-
Deferred taxes on items carried under Equity	-	-	-	-	-
Retained earnings	-	-	-	-	-
Total	**101,995**		-	-	-
Non-distributable					
Remaining non-distributable			**47,679**		

Key:
(*): less treasury shares
A: for share capital increase
B: to cover losses
C: to be distributed to shareholders

11.7 LIABILITIES BROKEN DOWN BY MATURITY

(Euro units)	31-Dec-2006			31-Dec-2005		
	From 2 to 5 years	**After more than 5 years**	**Total**	**From 2 to 5 years**	**After more than 5 years**	**Total**
Non-current payables to related parties						
Financial payables	-	-	-	-	-	-
Other payables	-	-	-	-	-	-
	-	-	-	-	-	-
Non-current financial payables	**-**	**-**	**-**	**-**	**-**	**-**
Other non-current liabilities	41,723	-	**-**	**-**	**-**	**-**
Total non-current liabilities	**41,723**	**-**	**-**	**-**	**-**	**-**
Trade payables	**-**	**-**	**-**	**-**	**-**	**-**
	-	-	-	-	-	-

11.8 LIABILITIES DENOMINATED IN FOREIGN CURRENCY

(Euro units)	31-Dec-2006			31-Dec-2005		
	Foreign currency	Euro	Total	Foreign currency	Euro	Total
Non-current payables to related parties						
Financial payables	-	-	-	-	-	-
Other payables	-	-	-	-	-	-
	-	-	-	-	-	-
Non-current financial payables	**-**	**-**	**-**	**-**	**-**	**-**
Other non-current liabilities	**-**	41,723	41,723	**-**	**-**	**-**
Total non-current liabilities	**-**	**41,723**	**41,723**	**-**	**-**	**-**
Current payables to related parties	**-**	213,092,476	213,092,476	-	73,784,920	73,784,920
Financial payables	-	211,828,896	211,828,896	-	73,480,388	73,480,388
Trade payables	-	544,620	544,620	-	300,399	300,399
Other payables	-	718,960	718,960	-	4,133	4,133
	-	**213,092,476**	**213,092,476**	**-**	**73,784,920**	**73,784,920**
Trade payables	-	4,909,847	4,909,847	-	2,513,468	2,513,468
Financial payables	-	23,000	23,000	-	-	-
Taxes payable	-	290,706	290,706	-	-	-
Other liabilities	-	2,114,690	2,114,690	-	234,974	234,974
Total current assets	**-**	**220,430,718**	**220,430,719**	**-**	**76,533,362**	**76,533,362**

11.9 LIABILITIES BY GEOGRAPHIC AREA

(Euro units)	31-Dec-2006					31-Dec-2005	
	Italy	Western Europe	North America	Asia/Pacific	Total	Italy	Total
Non-current payables to related parties							
Financial payables	-	-	-	-	-	-	-
Other payables	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
Non-current financial payables	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other non-current liabilities	41,723	-	-	-	41,723	-	-
Total non-current liabilities	**41,723**	**-**	**-**	**-**	**41,723**	**-**	**-**
Current payables to related parties	152,634,874	60,457,602	-	-	213,092,476	73,784,920	73,784,920
Financial payables	152,039,577	59,789,319	-	-	211,828,896	73,480,388	-
Trade payables	77,617	467,003	-	-	544,620	300,399	-
Other payables	517,680	201,280	-	-	718,960	4,133	-
	152,634,874	**60,457,602**	**-**	**-**	**213,092,476**	**73,784,920**	**73,784,920**
Trade payables	4,556,695	353,152	-	-	4,909,847	2,513,468	2,513,468
Financial payables	23,000	-	-	-	23,000	-	-
Taxes payable	290,706	-	-	-	290,706	-	-
Other liabilities	2,114,690	-	-	-	2,114,690	234,974	234,974
Total current assets	**159,619,965**	**60,810,754**	**-**	**-**	**220,430,719**	**76,533,362**	**76,533,362**

11.10 DIRECTORS' AND STATUTORY AUDITORS' FEES

(Euro units)

PERSON	OFFICE			Fees reported in 2006		Non-monetary benefits	Bonuses and other incentives
Name and Surname	Office	Date of appointment	Term of office				
Alessandro Pansa	Chairman of BoD	21-Nov-2005	Approval of FS 2007	40,000 (1)			
Sante Roberti (7)	Vice-Chairman of BoD	21-Nov-2005	Approval of FS 2007	30,000 (1)	(*)	99,626	265,335
G. Roberto Gagliardi (8)	Chief Executive Officer	21-Nov-2005	Approval of FS 2007	30,000 (1)	(*)	158,151	496,755
Mauro Gigante (2)	Director	21-Nov-2005	Approval of FS 2007	37,500 (2)			
Francesco Lalli	Director	21-Nov-2005	Approval of FS 2007	30,000 (1)			
Sergio Maria Carbone (3)	Director	24-Mar-2006	Approval of FS 2007	37,500 (3)			
Attilio Salvetti (4)	Director	24-Mar-2006	Approval of FS 2007	33,750 (4)			
Maurizio Cereda (1) (5)	Director	14-Jun-2006	Approval of FS 2007	35,000 (5)			
Gabriele Falciasecca (2) (6)	Director	14-Jun-2006	Approval of FS 2007	35,000 (6)			

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
(8) Appointed CEO on 9 Feb 2006

(1) 12-month fee
(2) 12 months BoD + 6 months RC
(3) 9 months BoD + Chairman ICC
(4) 9 months BoD + ICC
(5) 7 months BoD + 6 months Chairman of RC and ICC
(6) 7 months BoD + 6 months RC and Chairman of SB
(*) contributions included

11.11 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)

KEY FIGURES OF THE FINANCIAL STATEMENTS AT 31 DECEMBER 2005 OF THE COMPANY PERFORMING
DIRECTION AND COORDINATION ACTIVITIES:

FINMECCANICA SPA

BALANCE SHEET

ASSETS

NON-CURRENT ASSETS	7,635,020
CURRENT ASSETS	2,709,665
ACCRUED INCOME AND PREPAID EXPENSES	30,298
TOTAL ASSETS	**10,374,983**

LIABILITIES AND EQUITY

SHAREHOLDERS' EQUITY:	
- Share capital	1,860,520
- Reserves and profits (losses) carried forward	1,745,889
- Net profit for the year	228,259
	3,834,668
PROVISIONS FOR RISKS AND CHARGES	449,111
SEVERANCE PAY PROVISION	7,397
PAYABLES	4,415,435
ACCRUED LIABILITIES AND DEFERRED INCOME	1,668,372
TOTAL LIABILITIES AND EQUITY	**10,374,983**

GUARANTEES, COMMITMENTS AND OTHER RISKS	**20,157,976**

PROFIT AND LOSS ACCOUNT

VALUE OF PRODUCTION	163,462
PRODUCTION COSTS	(265,792)
FINANCIAL INCOME AND EXPENSE	271,938
VALUE ADJUSTMENTS TO FINANCIAL ASSETS	(139,141)
EXTRAORDINARY FINANCIAL INCOME AND EXPENSE	161,715
INCOME TAXES FOR THE YEAR	36,077
NET PROFIT FOR THE YEAR	**228,259**

Finmeccanica S.p.A. has prepared its financial statements 2005 in accordance with Italian GAAP.

FINMECCANICA SPA PREPARES CONSOLIDATED FINANCIAL STATEMENTS.

Finmeccanica SpA, 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 SpA 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 2005. For an adequate and complete understanding of the financial condition of Finmeccanica SpA at 31 December 2005, 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.

12 APPENDIX: THE TRANSITION TO IASs/IFRSs

These financial statements are the first IFRS financial statements prepared by Ansaldo STS S.p.A.. As such, it includes the reconciliations required by IFRS 1 and formerly audited. Specifically, as required in Consob notice DEM/6064313 of 28 July 2006, the reconciliations of the parent company Ansaldo STS SpA as envisaged in sections 39 and 40 of IFRS 1 for the periods:

- 1 January 2005 (balance sheet);
- 31 December 2005 (balance sheet and profit and loss account).

12.1 APPLICATION OF IFRS 1

The financial statements at 31 December 2006 are the first to be prepared in accordance with IFRSs.

The date of transition to IFRS is the one chosen by the Finmeccanica Group for IFRS adoption in its consolidated accounts (1 January 2004): starting from that date, the Company has prepared its financial statements to be included in the consolidated accounts of the holding company. Accordingly, at that date the Company has prepared its opening IFRS financial statements. The date of adoption of the IFRSs is 1 January 2005.

In preparing the opening IFRS balance sheet, the Company, in accordance with IFRS 1, applied all of the obligatory exceptions and some of the optional exemptions regarding retrospective application of IFRSs, which are detailed below.

The effects of IFRS adjustments on shareholders' equity

Notes	(EUR 000)	Shareholders' equity at 1 Jan 2005	Net profit/(loss) at 31 Dec 2005	Shareholders' equity at 31 Dec 2005
	ITALIAN GAAP	**1**	**(2,490)**	**37,547**
1	Cost adjustments for share capital increase	-	-	(50)
	IFRS	**1**	**(2,490)**	**37,497**

1 In pursuance of IAS 32, costs incurred for share capital increase (i.e. notarial fees) are deducted from equity.

Restatement of the opening balance sheet (at 1 January 2005) in accordance with IFRSs

Balance Sheet
(EUR 000)

Notes		Italian GAAP	Effects of transition to IFRSs	IFRS
	ASSETS			
	Non-current assets	-	-	-
	Current assets			
	Trade receivables	47	-	47
	Tax receivables	-	-	-
	Other current assets	9	-	9
	Cash and cash equivalents	4	-	4
	Total assets	**60**	**-**	**60**
	SHAREHOLDERS' EQUITY			
	Share capital	10	-	10
	Other reserves	(9)	-	(9)
	Total shareholders' equity	**1**	**-**	**1**
	LIABILITIES			
	Non-current liabilities	-	-	-
	Current liabilities			
	Trade payables	39	-	39
	Other current liabilities	20	-	20
	Total liabilities	**59**	**-**	**59**
	Total liabilities and equity	**60**	**-**	**60**

3 The reclassification relates to the recognition of the non-current portion of the costs incurred to purchase the licence to use the Ansaldo brand as a non-current asset.

Restatement of the balance sheet at 31 December 2005 in accordance with IFRSs

Balance Sheet
(EUR 000)

Notes		Italian GAAP	Effects of transition to IFRSs	IFRS
	ASSETS			
	Non-current assets			
1	Intangible assets	50	(50)	-
2	Tangible assets	62,362	(62,362)	-
2	Investment properties	-	62,362	62,362
3	Other non-current assets	-	30,590	30,590
		62,412	**30,540**	**92,952**
	Current assets			
	Trade receivables	248	-	248
	Tax receivables	19,156	-	19,156
	Cash and cash equivalents	24	-	24
3	Accrued income and prepaid expenses	32,240	(30,590)	1,650
		51,668	**(30,590)**	**21,078**
	Total assets	**114,080**	**(50)**	**114,030**
	SHAREHOLDERS' EQUITY			
1	Share capital	40,000	(50)	39,950
	Other reserves	(2,453)	-	(2,453)
	Total shareholders' equity	**37,547**	**(50)**	**37,497**
	LIABILITIES			
	Non-current liabilities	-	-	-
	Current liabilities			
	Trade payables	2,813	-	2,813
	Current borrowings	73,480	-	73,480
	Other current liabilities	240	-	240
	Total liabilities	**76,533**	**-**	**76,533**
	Total liabilities and equity	**114,080**	**(50)**	**114,030**

The notes to the adjustments in the reconciliation of Italian Gaap and IFRS Balance Sheet are provided below:

1 IAS 32 requires that the costs incurred to issue equity instruments are recognised to decrease equity: accordingly, the costs incurred to increase the share capital have been reclassified from intangible assets and deducted from share capital.

2 Under Italian GAAP, the premises located at Via Mantovani 3-5, Genoa, are used for rental purposes and therefore are accounted for in accordance with IAS 40. As a result, the value of the real estate was reclassified from tangible fixed assets to investment property.

3 The reclassification refers to the recognition of the non-current portion of costs incurred to purchase the license to use the Ansaldo brand under non-current assets.

Restatement of the profit and loss account for 2005 in accordance with IFRSs

(EUR 000)	Italian GAAP	Effects of transition to IFRS	IFRS
Revenues	-	-	-
Other operating revenues	28	-	28
Service costs	(2,491)	(13)	(2,504)
Amortization and depreciation	(28)	13	(15)
Other operating costs	(17)	-	(17)
Operating result	**(2,508)**	**-**	**(2,508)**
Financial income (expense), net	18	-	18
Other charges	-	-	-
Loss before taxes	**(2,490)**	**-**	**(2,490)**
Income tax	-	-	-
Net loss for the period	**(2,490)**	**-**	**(2,490)**

On behalf of the Board of Directors
The Chairman
Alessandro Pansa

13 REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING

14 INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS AT 31 DECEMBER 2006

15 APPENDIX: LIST OF SIGNIFICANT EQUITY INVESTMENTS PURSUANT TO ARTICLE 125 OF CONSOB RESOLUTION 11971

Subsidiary (name and legal form)	*Country*	*% of total*	*% Indirect control*	*% Direct control*	*Through*	*Type of ownership (see key)*
Alifana - limited liability consortium	Italy	65.850%	65.850%		Ansaldo Trasporti–Sistemi Ferroviari S.p.A	1
Alifana due - limited-liability consortium	Italy	53.340%	53.340%		Ansaldo Trasporti–Sistemi Ferroviari S.p.A	1
Automatismes Controles et Etudes Eletronique Acelec S.A.	France	99.999%	99.994%		CSEE Transport S.A.	1
			0.004%		CSEE Transport S.A.	9
			0.001%		CSEE Transport Hong Kong Ltd.	1
Ansaldo Segnalamento Ferroviario S.p.A.	Italy	100.000%	100.000%		Ansaldo Signal NV	1
Ansaldo Signal España S.A.	Spain	100.000%	100.000%		CSEE Transport S.A.	1
Ansaldo Signal Finland OY	Finland	100.000%	100.000%		Ansaldo Signal Sweden AB	1
Ansaldo Signal Ireland Ltd.	Ireland	100.000%	99.999%		Ansaldo Signal NV	1
			0.001%		Union Switch & Signal Inc.	1
Ansaldo Signal NV	Netherlands	100.000%		100.000%		1
Ansaldo Signal Sweden AB	Sweden	100.000%	100.000%		Ansaldo Signal NV	1
Ansaldo Signal UK Ltd.	United Kingdom	100.000%	100.000%		Ansaldo Signal NV	1
Ansaldo Trasporti – Sistemi Ferroviari S.p.A.	Italy	100.000%		100.000%		1
Beijing CS Signal Controlling System Co. Ltd.	China	80.000%	80.000%		CSEE Transport S.A.	1
CSEE Transport S.A.	France	100.000%	99.999%		Ansaldo Signal NV	1
			0.001%		Ansaldo Signal NV	9
CSEE Transport Hong Kong Ltd.	China	100.000%	99.999%		CSEE Transport S.A.	1
			0.001%		CSEE Transport S.A.	9
Ecosen S.A.	Venezuela	48.000%	48.000%		CSEE Transport S.A.	1
I.M. Intermetro S.p.A.	Italy	16.666%	16.666%		Ansaldo Trasporti–Sistemi Ferroviari S.p.A.	1
Metro 5 S.p.A.	Italy	24.600%	24.600%		Ansaldo Trasporti–Sistemi Ferroviari S.p.A.	1
Metro C. S.p.A.	Italy	14.000%	14.000%		Ansaldo Trasporti–Sistemi Ferroviari S.p.A.	1

Subsidiary (name and legal form)	*Country*	*% of total*	*% Indirect control*	*% Direct control*	*Through*	*Type of ownership (see key)*
Pegaso - limited liability	Italy	46.870%	46.870%		Ansaldo Trasporti–	1

consortium				Sistemi Ferroviari S.p.A.	
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%	99.9998%	Ansaldo Signal NV	1
			0.0002%	Transcontrol Corporation	1
Union Switch & Signal PTY Ltd.	Australia	100.000%	100.000%	Transcontrol Corporation	1
Union Switch & Signal (Malaysia) SDN BHD	Malaysia	100.000%	100.000%	Union Switch & Signal PTY Ltd.	1

Key: Types of share ownership or voting rights
1 Ownership
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 by contract